FIRST BANCORP /PR/
Form 10-K
March 14, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the Fiscal Year Ended December 31, 2015

or

[ ] **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 1-14793

FIRST BANCORP.

(Exact name of registrant as specified in its charter)

Puerto Rico	**66-0561882**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)
1519 Ponce de León Avenue, Stop 23 **Santurce, Puerto Rico** (Address of principal executive office)	**00908** (Zip Code)

Registrant’s telephone number, including area code:

(787) 729-8200

Securities registered pursuant to Section 12(b) of the Act:

Common Stock ($0.10 par value)	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

7.125% Noncumulative Perpetual Monthly Income Preferred Stock, Series A (CUSIP: 318672201);

8.35% Noncumulative Perpetual Monthly Income Preferred Stock, Series B (CUSIP: 318672300);

7.40% Noncumulative Perpetual Monthly Income Preferred Stock, Series C (CUSIP: 318672409);

7.25% Noncumulative Perpetual Monthly Income Preferred Stock, Series D (CUSIP: 318672508); and

7.00% Noncumulative Perpetual Monthly Income Preferred Stock, Series E (CUSIP: 318672607)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definite proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 o	Accelerated filer þ
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 30, 2015 (the last trading day of the registrant's most recently completed second fiscal quarter) was $609,349,743 based on the closing price of $4.82 per share of the registrant's common stock on the New York Stock Exchange on June 30, 2015. The registrant had no nonvoting common equity outstanding as of June 30, 2015. For the purposes of the foregoing calculation only, the registrant has defined affiliates to include (a) the executive officers named in Part III of this Annual Report on Form 10-K; (b) all directors of the registrant; and (c) each shareholder, including the registrant's employee benefit plans but excluding shareholders that file on Schedule 13G, known to the registrant to be the beneficial owner of 5% or more of the outstanding shares of common stock of the registrant as of June 30, 2015. The registrant's response to this item is not intended to be an admission that any person is an affiliate of the registrant for any purposes other than this response.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 215,207,992 shares as of March 4, 2016.

Documents incorporated by reference: Portions of the definitive proxy statement relating to the registrant's annual meeting of stockholders scheduled to be held on May 24, 2016 are incorporated by reference in this Form 10-K in response to items 10, 11, 12, 13 and 14 of Part III.

FIRST BANCORP.

2015 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

	PART I	
Item 1.	Business	5
Item 1A.	Risk Factors	27
Item 1B.	Unresolved Staff Comments	41
Item 2.	Properties	41
Item 3.	Legal Proceedings	41
Item 4.	Mine Safety Disclosures	42
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	42
Item 6.	Selected Financial Data	46
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	48
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	133
Item 8.	Financial Statements and Supplementary Data	134
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	236
Item 9A.	Controls and Procedures	236
Item 9B.	Other Information	236
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	237
Item 11.	Executive Compensation	237
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	237
Item 13.	Certain Relationships and Related Transactions, and Director Independence	237
Item 14.	Principal Accounting Fees and Services	237
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules	238
SIGNATURES		242

Forward Looking Statements

This Form 10-K contains forward-looking statements within the meaning of, and subject to the protections 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”), and are subject to the safe harbor created by such sections. When used in this Form 10-K 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 and 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.”

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 below in Item 1A. “Risk Factors,” and the following:

- 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;

- the ability of the Puerto Rico government or any of its public corporations or other instrumentalities to repay its respective debt obligations, including the effect of the recent payment defaults on 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;

- a decrease in demand for the Corporation’s products and services and lower revenues and earnings because of the continued recession in Puerto Rico;

- uncertainty as to the availability of certain funding sources, such as retail brokered certificates of deposit (“brokered CDs”);

- the Corporation’s reliance on brokered CDs to fund operations and provide liquidity;

- the risk of not being able to fulfill the Corporation’s cash obligations or resume paying dividends to the Corporation’s stockholders in the future due to the Corporation’s need to receive approval from the New York FED and the Federal Reserve Board to declare or pay any dividends and to take dividends or any other form of payment representing a reduction in capital from FirstBank or FirstBank’s failure to generate sufficient cash flow to make a dividend payment to the Corporation;

- the weakness of the real estate markets and of the consumer and commercial sectors and their impact on the credit quality of the Corporation’s loans and other assets, which has contributed and may continue to contribute to, among other things, high levels of non-performing assets, charge-offs and provisions for loan and lease losses and may subject the Corporation to further risk from loan defaults and foreclosures;

- the ability of FirstBank to realize the benefits of its deferred tax assets subject to the remaining valuation allowance;

- adverse changes in general economic conditions in Puerto Rico, the United States (“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, including the acquisition of loans and branches of Doral Bank as well as the assumption of deposits at the branches acquired from Doral during the first quarter of 2015;

- a need to recognize impairments on the Corporation's financial instruments, goodwill or other intangible assets relating to acquisitions;

- the risk that downgrades in the credit ratings of the Corporation's long-term senior debt will adversely affect the Corporation's ability to access necessary external funds;

- the impact on the Corporation's businesses, business practices and results of operations of a potential higher interest rate environment; and

- general competitive factors and industry consolidation.

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

Investors should refer to Item 1A. Risk Factors, in this Annual Report on Form 10-K, for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

PART I

First BanCorp., incorporated under the laws of the Commonwealth of Puerto Rico, is sometimes referred to in this Annual Report on Form 10-K as “the Corporation,” “we,” “our” or “the registrant.”

Item 1. Business

GENERAL

First BanCorp. is a publicly owned financial holding company that is subject to regulation, supervision and examination by the Federal Reserve Board. The Corporation was incorporated under the laws of the Commonwealth of Puerto Rico to serve as the bank holding company for FirstBank. The Corporation is a full service provider of financial services and products with operations in Puerto Rico, the United States and the USVI and BVI. As of December 31, 2015, the Corporation had total assets of $12.6 billion, total deposits of $9.3 billion and total stockholders’ equity of $1.7 billion.

The Corporation provides a wide range of financial services for retail, commercial and institutional clients. As of December 31, 2015, the Corporation controlled two wholly owned subsidiaries: FirstBank and FirstBank Insurance Agency, Inc. (“FirstBank Insurance Agency”). FirstBank is a Puerto Rico-chartered commercial bank, and FirstBank Insurance Agency is a Puerto Rico-chartered insurance agency.

FirstBank is subject to the supervision, examination and regulation of both the Office of the Commissioner of Financial Institutions (“OCIF”) and the FDIC. Deposits are insured through the FDIC Deposit Insurance Fund. In addition, within FirstBank, the Bank’s USVI operations are subject to regulation and examination by the United States Virgin Islands Banking Board; its BVI operations are subject to regulation by the British Virgin Islands Financial Services Commission; and its operations in the state of Florida are subject to regulation and examination by the Florida Office of Financial Regulation and the FDIC. The Consumer Financial Protection Bureau (“CFBP”) regulates FirstBank’s consumer financial products and services. FirstBank Insurance Agency is subject to the supervision, examination and regulation of the Office of the Insurance Commissioner of the Commonwealth of Puerto Rico and operates three offices in Puerto Rico, and two offices in the USVI and BVI.

FirstBank conducts its business through its main office located in San Juan, Puerto Rico, 51 banking branches in Puerto Rico as of December 31, 2015, 11 branches in the USVI and BVI, and 10 branches in the state of Florida (USA). As of December 31, 2015 FirstBank has 6 wholly owned subsidiaries with operations in Puerto Rico: First Federal Finance Corp. (d/b/a Money Express La Financiera), a finance company specializing in the origination of small loans with 27 offices in Puerto Rico; First Management of Puerto Rico, a domestic corporation, which holds tax-exempt assets; FirstBank Puerto Rico Securities Corp., a broker-dealer subsidiary engaged in municipal securities underwriting and selling for local Puerto Rico municipal bond issuers and other investment bearing activities, such as advisory services, capital raise efforts on behalf of clients and assist in financial transaction structuring; FirstBank Overseas Corporation, an international banking entity organized under the International Banking Entity Act of Puerto Rico; and two other companies that hold and operate certain particular other real estate owned properties. FirstBank had one active subsidiary with operations outside of Puerto Rico: First Express, a finance company specializing in the origination of small loans with 2 offices in the USVI.

On February 27, 2015, FirstBank acquired 10 Puerto Rico branches of Doral Bank through an alliance with Banco Popular of Puerto Rico (“Popular”), who was the successful lead bidder with the FDIC on the failed Doral Bank, as well as other co-bidders (the “Doral Bank transaction”). This transaction is described in more detail in “Significant Events Since the Beginning of 2015” below.

BUSINESS SEGMENTS

The Corporation has six reportable segments: Commercial and Corporate Banking; Consumer (Retail) Banking; Mortgage Banking; Treasury and Investments; United States Operations; and Virgin Islands Operations. These segments are described below as well as in Note 33, “Segment Information,” to the Corporation’s audited financial statements for the year ended December 31, 2015 included in Item 8 of this Form 10-K.

Commercial and Corporate Banking

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. FirstBank has developed expertise in a wide variety of industries. 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. A substantial portion of this portfolio is secured by the underlying value of the real estate collateral and the personal guarantees of the borrowers. This segment also includes the Corporation’s broker-dealer activities, which are primarily concentrated in the underwriting of municipal securities and financial advisory services.

Consumer (Retail) Banking

The Consumer (Retail) Banking segment consists of the Corporation’s consumer lending and deposit-taking activities conducted mainly through FirstBank’s branch network in Puerto Rico. Loans to consumers include auto, boat and personal loans, credit cards, and lines of credit. Deposit products include interest bearing and non-interest bearing checking and savings accounts, Individual Retirement Accounts (IRA) and retail certificates of deposit. Retail deposits gathered through each branch of FirstBank’s retail network serve as one of the funding sources for the lending and investment activities.

Mortgage Banking

These operations consist of the origination, sale, securitization and servicing of a variety of residential mortgage loan products and related hedging activities. Originations are sourced through different channels such as FirstBank branches and purchases from mortgage bankers, and in association with new project developers. The Mortgage Banking segment focuses on originating residential real estate loans, some of which conform to Federal Housing Administration (the “FHA”), Veterans Administration (the “VA”) and Rural Development (the “RD”) standards. Loans originated that meet the FHA’s standards qualify for the FHA’s insurance program whereas loans that meet the standards of the VA and RD are guaranteed by those respective federal agencies.

Mortgage loans that do not qualify under these programs are commonly referred to as conventional loans. Conventional real estate loans can be conforming or non-conforming. Conforming loans are residential real estate loans that meet the standards for sale under the Fannie Mae (“FNMA”) and Freddie Mac (“FHLMC”) programs whereas loans that do not meet the standards are referred to as non-conforming residential real estate loans. The Corporation’s strategy is to penetrate markets by providing customers with a variety of high quality mortgage products to serve their financial needs through a faster and simpler process and at competitive prices. The Mortgage Banking segment also acquires and sells mortgages in the secondary markets. Residential real estate conforming loans are sold to investors like FNMA and FHLMC. Most of the Corporation’s residential mortgage loan portfolio consists of fixed-rate, fully amortizing, full documentation loans. The Corporation obtained commitment authority to issue Government National Mortgage Association (“GNMA”) mortgage-backed securities and, under this program, the Corporation has been selling FHA/VA mortgage loans into the secondary market.

Treasury and Investments

The Treasury and Investments segment is responsible for the Corporation's treasury and investment management functions. The treasury function, which includes funding and liquidity management, lends funds to the Commercial and Corporate Banking, Mortgage Banking and Consumer (Retail) Banking segments to finance their respective lending activities and borrows from those segments and from the United States Operations segment. Funds not gathered by the different business units are obtained by the Treasury Division through wholesale channels, such as brokered deposits, advances from the Federal Home Loan Bank ("FHLB"), and repurchase agreements with investment securities, among others.

United States Operations

The United States Operations segment consists of all banking activities conducted by FirstBank on the United States mainland. FirstBank provides a wide range of banking services to individual and corporate customers primarily in southern Florida through 10 branches. FirstBank's success in attracting core deposits in Florida has enabled it to become less dependent on brokered CDs. The United States Operations segment offers an array of both retail and commercial banking products and services. Consumer banking products include checking, savings and money market accounts, retail certificates of deposit ("retail CDs"), internet banking services, residential mortgages, home equity loans, lines of credit, and automobile loans. Deposits gathered through FirstBank's branches in the United States also serve as one of the funding sources for lending and investment activities in Puerto Rico.

The commercial banking services include checking, savings and money market accounts, retail CDs, internet banking services, cash management services, remote data capture, and automated clearing house, or ACH, transactions. Loan products include the traditional commercial and industrial ("C&I") and commercial real estate products, such as lines of credit, term loans and construction loans.

Virgin Islands Operations

The Virgin Islands Operations segment consists of all banking activities conducted by FirstBank in the USVI and BVI, including retail and commercial banking services, with a total of 11 branches serving the islands in the USVI of St. Thomas, St. Croix, and St. John, and the island of Tortola in the BVI. The Virgin Islands Operations segment is driven by its consumer, commercial lending and deposit-taking activities.

Loans to consumers include auto, boat, lines of credit, and personal and residential mortgage loans. Deposit products include interest bearing and non-interest bearing checking and savings accounts, IRAs, and retail CDs. Retail deposits gathered through each branch serve as the funding sources for its own lending activities.

Employees

As of March 1, 2016, the Corporation and its subsidiaries employed 2,758 persons. None of its employees is represented by a collective bargaining group. The Corporation considers its employee relations to be good.

SIGNIFICANT EVENTS SINCE THE BEGINNING OF 2015

Acquisition of Certain Assets and Deposits of Doral Bank

On February 27, 2015, FirstBank acquired 10 Puerto Rico branches of Doral Bank, assumed $522.7 million in deposits related to such branches, acquired approximately $324.8 million in principal balance of loans, primarily residential mortgage loans, acquired $5.5 million of property, plant and equipment and received $217.7 million of cash, through an alliance with Popular, which was the successful lead bidder with the FDIC on the failed Doral Bank, as well as other co-bidders. This transaction solidified FirstBank as the second largest bank in Puerto Rico, enhanced FirstBank's presence in geographical areas in Puerto Rico with growth potential for deposits and mortgage originations (two of the main business strategies of FirstBank), and provides a stable source of low-cost deposits that are expected to support and enhance future growth activities.

Under the FDIC's bidding format, Popular was the lead bidder and party to the purchase and assumption agreement with the FDIC covering all assets and deposits to be acquired by Popular and its alliance co-bidders. Popular entered into back to back purchase assumption agreements with the alliance co-bidders, including FirstBank, for the transferred assets and deposits. There is no loss-share arrangement with the FDIC related to the acquired assets, meaning that FirstBank will assume all losses with respect to such assets, with no financial assistance from the FDIC.

The Corporation accounted for this transaction as a business combination. The application of the acquisition method of accounting resulted in a bargain purchase gain of $13.4 million, which is included in non-interest income in the Corporation's consolidated statement of income for year ended December 31, 2015, and a core deposit intangible of $5.8 million ($5.1 million as of December 31, 2015). During 2015, the Corporation incurred $4.6 million on

acquisition and conversion costs related to loans and deposit accounts acquired from Doral that are considered non-recurring in nature, and $3.6 million on interim servicing costs until the completion in May 2015 of the conversion to the FirstBank systems. These expenses are primarily included as part of professional fees in the consolidated statement of income.

Termination of Consent Order

During the second quarter of 2015, FirstBank was notified by the FDIC that, effective April 29, 2015, the Consent Order under which FirstBank had been operating since June 2, 2010 was terminated. Although the FDIC Order was terminated, First BanCorp. is still subject to the Written Agreement entered into with the FED.

Bulk sale of assets

On June 5, 2015, the Corporation completed the sale of commercial and construction loans with a book value of $147.5 million (principal balance of $196.5 million), comprised mostly of non-performing and adversely classified loans, as well as other real estate owned ("OREO") properties with a book value of $2.9 million in a cash transaction. The sale 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 this bulk sale.

Other-Than-Temporary Impairment on Puerto Rico Government Obligations

During 2015, the Corporation recorded $15.9 million in other-than-temporary impairment ("OTTI") charges on three Puerto Rico Government debt securities held by the Corporation as part of its available-for-sale securities portfolio, specifically bonds of the Government Development Bank for Puerto Rico ("GDB") and the Puerto Rico Public Buildings Authority. The credit-related impairment loss estimates were based on the probability of default and loss severity in the event of default in consideration of the latest available market-based evidence implied in current security valuations and information about the Puerto Rico Government's financial condition, including credit ratings, payment defaults on other bonds, and "clawback" measures implemented to redirect revenues pledged to support bonds from certain government agencies to service the general obligation debt. As of December 31, 2015, the Corporation owns Puerto Rico Government debt securities in the aggregate amortized cost of $49.7 million (net of the $15.9 million OTTI charges taken in 2015), recorded on its books at a fair value of $28.2 million.

Sale of Merchant Contracts and Alliance Agreement

Effective October 31, 2015, FirstBank entered into a long-term strategic marketing alliance with Evertec, Inc. ("Evertec") to which FirstBank sold its merchant contracts portfolio and related POS terminals. Evertec acquired FirstBank's merchant contracts and will continue to provide processing services, customer service and support operations to FirstBank's merchant locations. Merchant services will be marketed through FirstBank's branches and offices in Puerto Rico and the Virgin Islands. Under the 10-year marketing and referral agreement, FirstBank and Evertec will share, in accordance with agreed terms, revenues generated by the existing and incremental merchant contracts over the term of the agreement. The Corporation sold the merchant contracts for $10.0 million, recorded a gain on sale of $7.0 million in the fourth quarter of 2015 and deferred $3.0 million to be recognized into income over the marketing and referral agreement term.

Voluntary Early Retirement Incentive Program

During the fourth quarter of 2015, the Corporation offered and completed a voluntary early retirement program for certain employees. Results for the fourth quarter of 2015 included charges of $2.2 million related to the early retirement program expense. The estimated annual saving from this program is expected to be approximately $1.9 million for 2016.

Repurchase of Trust Preferred Securities

During the first quarter of 2016, the Corporation completed the repurchase of trust preferred securities that were being auctioned in a public sale at which the Corporation was invited to participate. The Corporation repurchased and cancelled $10 million in trust preferred securities of the FBP Statutory Trust II, resulting in a commensurate reduction in the related Floating Rate Junior Subordinated Debenture.

The Corporation's winning bid equated to 70% of the $10 million par value. The 30% discount, plus accrued interest, resulted in a pre-tax gain of approximately $4.2 million. As trust preferred securities no longer qualify for Tier 1 capital, the realized gain on the transaction contributed to an increase of approximately 5 basis points in the Common Equity Tier 1 and Tier 1 capital ratios, an increase of approximately 4 basis points in the Leverage capital ratio, and a decrease of approximately 6 basis points in the Total Regulatory capital ratio.

Puerto Rico Government Fiscal Situation, Government Actions and Exposure

A significant portion of the Corporation's financial activities and credit exposure is concentrated in Puerto Rico, which has endured a prolonged period of economic and fiscal challenges.

On June 28, 2015, the Governor of Puerto Rico and the GDB released a report by former World Bank Chief Economist and former Deputy Director of the International Monetary Fund, Dr. Anne Krueger, and economists Dr. Ranjit Teja and Dr. Andrew Wolfe (the "Krueger Report") that analyzes the full extent of the Commonwealth's fiscal condition including revenues, expenditures, deficits, and current and future obligations. It also makes recommendations for a five-year fiscal adjustment plan. The Krueger Report states that Puerto Rico faces an acute crisis in the face of faltering economic activity, fiscal solvency, debt sustainability, and institutional credibility.

On June 29, 2015, the Governor of Puerto Rico announced that the Government will seek alternatives to ensure that the aggregate debt burden of the Commonwealth is adjusted so it can be repaid on sustainable terms, while ensuring pension obligations are honored over the long term and essential services for the people of Puerto Rico are maintained, and issued an Executive Order to create the Puerto Rico Fiscal and Economic Recovery Working Group (the "Working Group"). After the announcement, the top three credit rating agencies, Moody's, S&P and Fitch downgraded the Puerto Rico issued bonds deeper into non-investment grade status.

The Working Group was created to consider necessary measures, including the measures recommended in the Krueger Report, to address the fiscal crisis of the Commonwealth and is responsible for the development of the Puerto Rico Fiscal and Economic Growth Plan (the "Plan"). The Plan, released in September 2015 and updated in January 2016, reviews the historical measures taken to increase taxes and reduce expenses, analyzes the current liquidity and fiscal position of Puerto Rico, recommends certain fiscal and economic reform and growth measures, including critical measures that require action by the U.S. Government, proposes to create a financial control board and new budgetary regulations, and identifies significant projected financing gaps (even assuming the implementation of the recommended fiscal reform and economic growth measures) absent significant debt relief. The updated Plan shows that General Fund revenues have decreased from a previous estimate of $9.46 billion for fiscal year 2016 to $9.21 billion; the estimated five-year projected financing gaps increase from approximately $14 billion to $16.1 billion, even with the inclusion of economic growth and the implementation of all the proposed measures in the Plan; and the ten-year projections estimate a $23.9 billion aggregate financing gap.

Moreover, on October 21, 2015, the U.S. Department of Treasury (the "U.S. Treasury) released its roadmap to address Puerto Rico's ongoing economic and fiscal crisis and to create a path to economic recovery. This roadmap was presented to Congress by U.S Treasury officials and laid out four immediate steps that U.S. Congress should take to address the crisis in Puerto Rico:

- Provide Puerto Rico with the necessary tools to restructure its financial liabilities in a fair and orderly manner under the supervision of a federal bankruptcy court.

- Enact strong fiscal oversight and help strengthen Puerto Rico's fiscal governance.

- Provide a long-term solution to Puerto Rico's historically inadequate Medicaid treatment.

- Reward work and support economic growth by providing access to an Earned Income Tax Credit.

In August and December 2015 as well as in January 2016, the Puerto Rico Government met its scheduled debt service payments for bonds that have constitutional guarantees such as the general obligation bonds and GDB bonds. In order to meet the January 2016 payment, the Puerto Rico Government implemented "clawback" measures to redirect revenues assigned to certain government agencies for the payment of the general obligation debt. Nevertheless, the Puerto Rico Government defaulted in August 2015 and January 2016 on the payment of bonds of certain agencies, specifically bonds of the Public Finance Corporation and the Infrastructure Finance Authority. Government officials disclosed that due to the lack of appropriated funds by the Legislature of Puerto Rico, as part of the current fiscal year 2016 budget, the debt service payment on these public corporations bonds were not made. These bonds are payable solely from budgetary appropriations pursuant to legislation adopted by the Legislature of Puerto Rico. The Legislature of Puerto Rico is not legally bound to appropriate funds for such payments.

Other measures adopted to deal with the Commonwealth's deteriorating liquidity position include the deferral of tax refunds and the stretching of payments to suppliers.

In February 2016, the Working Group released details of a comprehensive voluntary exchange proposal presented to advisors to the Commonwealth's creditors. Specifically, the restructuring proposal contemplates that creditors will exchange their existing securities for two new securities: a "Base Bond," with a fixed rate of interest and amortization schedule, and a "Growth Bond," which is payable only if the Commonwealth's revenues exceed certain levels. Under this proposal, the $49.2 billion of tax-supported debt would be exchanged into $26.5 billion of newly issued mandatorily payable Base Bonds and $22.7 billion of newly issued Growth Bonds. Interest payments on the Base Bonds would begin in January 2018, scaling up to 5% per annum by fiscal year 2021, when principal payments would begin. The Growth Bonds would be payable only to the extent the Commonwealth's revenues exceed its current baseline projections as a result of real economic growth in Puerto Rico. The proposal also seeks to lower the Commonwealth's debt service-to-revenue on tax-supported debt to approximately 15%, a level consistent with the debt limit contemplated by the Constitution of Puerto Rico, from the current ratio of 36%. The voluntary exchange offer is intended to restructure those payments to allow the Commonwealth to catch up with payments due to suppliers and taxpayers, and provides time for the Commonwealth to implement the measures of the Plan, stimulate real economic growth and, over the long term, make its tax-supported debt sustainable. In addition, the Commonwealth is instituting a fiscal control board to provide necessary oversight and ensure that the Commonwealth complies with the Plan and the terms of the exchange offer. Ultimate outcomes from the proposed exchange are uncertain at this time and may vary considerably from the initial proposal, particularly due to factors that are difficult to predict, such as U.S. federal actions to intervene in this matter and bondholders willingness to accept the proposed exchange levels.

The U.S. House of Representatives Speaker, Paul Ryan, has asked legislators to craft a proposal to address the Puerto Rico debt situation by March 31, 2016, which may include a federal control board that would manage its budgets and borrowings. On February 2, 2016, the U.S. House Committee on Natural Resources held a hearing to evaluate the need for a federal oversight authority for Puerto Rico.

As of December 31, 2015, the Corporation had $316.0 million of credit facilities, excluding investment securities, extended to the Puerto Rico Government, its municipalities and public corporations, of which $314.6 million was outstanding (book value of $311.0 million), compared to $308.0 million as of December 31, 2014. Approximately $199.5 million of the granted credit facilities outstanding consisted of loans to municipalities in Puerto Rico whose revenues are independent of the central government. The good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment. Approximately 88% of the Corporation's municipality exposure consists primarily of senior priority loans concentrated on five of the largest municipalities in Puerto Rico (San Juan, Carolina, Bayamon, Mayaguez and Guaynabo). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. Late in 2015, 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 the funds should be distributed by the GDB pursuant to the applicable law. In addition to municipalities, loans extended to the Puerto Rico Government include $18.9 million of loans to units of the Puerto Rico central government, and approximately $96.3 million ($92.6 million book value) of loans to public corporations, including a direct exposure to the Puerto Rico Electric Power Authority ("PREPA") with a book value of $71.1 million as of December 31, 2015. The PREPA credit facility was placed in non-accrual status in the first quarter of 2015 and interest payments are now recorded on a cost-recovery basis.

Furthermore, as of December 31, 2015, the Corporation had $129.4 million outstanding in financings to the hotel industry in Puerto Rico where the borrower and the operations of the underlying collateral are the primary sources of repayment and the Puerto Rico Tourism Development Fund (the "TDF") provides a secondary guarantee for payment performance, compared to $133.3 million as of December 31, 2014. The TDF is a subsidiary of the GDB that facilitates private sector financings to Puerto Rico's hotel industry. The TDF provides guarantees to financings and may provide direct loans. As a result of liquidity risk and uncertainty regarding the Puerto Rico government fiscal situation, the Corporation adversely classified this $129.4 million exposure during the third quarter of 2015. Since late 2012, the Corporation has received combined payments from the borrowers and TDF as guarantor sufficient to cover contractual payments on these loans, including collections of principal and interest from TDF of approximately $5.3 million in 2015 and $6.1 million in 2014. These loans were current and remained in accrual status as of December 31, 2015.

On March 1, 2016, the Working Group in an updated public presentation indicated that the Commonwealth expects to have insufficient liquidity to make upcoming debt service payments and that a substantial restructuring of the Commonwealth's existing debt is required to allow the Commonwealth to bring its fiscal accounts into balance, to give it time and the financial flexibility to implement structural reforms and growth initiatives so as to stimulate the Puerto Rican economy and thereby to make the restructured debt sustainable in the long term. We continue to monitor the Puerto Rico government fiscal and economic situation and its potential impact on the Corporation's financial condition, including its potential impact on our TDF-guaranteed exposure. Although TDF has continued to cover its contractually required payments as guarantor during the first quarter of 2016, we are currently assessing, together with our regulators, whether recent developments related to the Puerto Rico government fiscal situation introduce additional uncertainty regarding TDF's ability to honor its guarantee, which could require that some or all of our TDF-guaranteed exposure be placed in nonaccrual status. If we determine to treat some or all of such loans as nonaccrual, then the Corporation's asset quality metrics and capital ratios could be adversely impacted, we could be required to prospectively apply principal and interest payments received to the outstanding principal of the loans, and the affected loans would need to be individually evaluated for impairment with specific reserves allocated as deemed necessary. In the event these loans are individually evaluated for impairment, based on present appraised values and assumptions as to recovery rates on Puerto Rico government obligations, the required specific reserves are not expected to deviate materially from the general reserves associated with these loans as of December 31, 2015.

During 2015, the Corporation increased by approximately $35 million the general reserve for commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities), including a $19.2 million charge to the provision recorded in the fourth quarter related to increased qualitative reserve factors applied to these loans in light of recent events surrounding the Puerto Rico Government's fiscal situation. In addition, during 2015, the specific reserve allocated to the PREPA credit facility was increased by approximately $4.3 million. As of December 31, 2015 the total reserve coverage ratio (general and specific reserves) related to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities) was 19%.

In November 2015, PREPA entered into a restructuring support agreement with bondholders and bank creditors that provides a structured framework to implement certain economic agreements, including cuts to repayments of 15% for bondholders. The agreement also outlines other elements, including new governance standards, operational improvements, and a rate structure proposal and a capital plan. Under the economic terms of the agreement, fuel line

lenders will have the option to convert existing credit agreements into term loans with a fixed interest rate of 5.75% per annum, to be repaid over 6 years in accordance with an agreed upon schedule or exchange all or part of principal due under the existing credit agreements for new securitization bonds that will pay cash interest at a rate of 4.0% - 4.75% (depending on the credit rating) (“Option A Bonds”) or convertible capital appreciation securitization bonds that will accrete interest at a rate of 4.5% - 5.5% for the first five years and pay current interest in cash thereafter (“Option B bonds”). In February 2016, the Puerto Rico Government approved legislation to facilitate the implementation of the restructuring support agreement.

WEBSITE ACCESS TO REPORT

The Corporation makes available annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act, free of charge on or through its internet website at www.1firstbank.com (under “Investor Relations”), as soon as reasonably practicable after the Corporation electronically files such material with, or furnishes it to, the SEC.

The Corporation also makes available the Corporation’s corporate governance guidelines and principles, the charters of the audit, asset/liability, compensation and benefits, credit, compliance, risk, corporate governance and nominating committees and the codes of conduct and independence principles mentioned below, free of charge on or through its internet website at www.1firstbank.com (under “Investor Relations”):

- Code of Ethics for CEO and Senior Financial Officers

- Code of Ethics applicable to all employees

- Corporate Governance Standards

- Independence Principles for Directors

- Luxury Expenditure Policy

The corporate governance guidelines and principles and the aforementioned charters and codes may also be obtained free of charge by sending a written request to Mr. Lawrence Odell, Executive Vice President and General Counsel, PO Box 9146, San Juan, Puerto Rico 00908.

The public may read and copy any materials that First BanCorp. files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. In addition, the public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy, and information statements, and other information regarding issuers that file electronically with the SEC (www.sec.gov).

MARKET AREA AND COMPETITION

Puerto Rico, where the banking market is highly competitive, is the main geographic service area of the Corporation. As of December 31, 2015, the Corporation also had a presence in the state of Florida and in the USVI and BVI. Puerto Rico banks are subject to the same federal laws, regulations and supervision that apply to similar institutions in the United States mainland.

Competitors include other banks, insurance companies, mortgage banking companies, small loan companies, automobile financing companies, leasing companies, brokerage firms with retail operations, and credit unions in Puerto Rico, the Virgin Islands and the state of Florida. The Corporation's businesses compete with these other firms with respect to the range of products and services offered and the types of clients, customers and industries served.

The Corporation's ability to compete effectively depends on the relative performance of its products, the degree to which the features of its products appeal to customers, and the extent to which the Corporation meets clients' needs and expectations. The Corporation's ability to compete also depends on its ability to attract and retain professional and other personnel, and on its reputation.

The Corporation encounters intense competition in attracting and retaining deposits and in its consumer and commercial lending activities. The Corporation competes for loans with other financial institutions, some of which are larger and have greater resources available than those of the Corporation. Management believes that the Corporation

has been able to compete effectively for deposits and loans by offering a variety of account products and loans with competitive features, by pricing its products at competitive interest rates, by offering convenient branch locations, and by emphasizing the quality of its service. The Corporation's ability to originate loans depends primarily on the rates and fees charged and the service it provides to its borrowers in making prompt credit decisions. There can be no assurance that in the future the Corporation will be able to continue to increase its deposit base or originate loans in the manner or on the terms on which it has done so in the past.

SUPERVISION AND REGULATION

References herein to applicable statutes or regulations are brief summaries of portions thereof which do not purport to be complete and which are qualified in their entirety by reference to those statutes and regulations. Although most of the regulations required under the Dodd-Frank Wall Street Accountability and Consumer Protection Act of 2010 (the "Dodd-Frank Act") now have been adopted, numerous additional regulations and changes to regulations are anticipated as a result of the Dodd-Frank Act, and future legislation may increase the regulation and oversight of the Corporation and FirstBank. Any change in applicable laws or regulations may have a material adverse effect on the business of commercial banks and bank holding companies, including FirstBank and the Corporation.

Dodd-Frank Act

The Dodd-Frank Act significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes numerous provisions that have affected and will affect large and small financial institutions alike, including banks and bank holding companies and how they will be regulated in the future. As a result of the Dodd-Frank Act, there has been and will be in the future additional regulatory oversight and supervision of the Corporation and its subsidiaries.

The Dodd-Frank Act, among other things, imposes new capital requirements on bank holding companies; provides that a bank holding company must serve as a source of financial and managerial strength to each of its subsidiary banks and stand ready to commit resources to support each of them; changes the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than upon its deposit base, and permanently raises the current standard deposit insurance limit to $250,000; and expands the FDIC's authority to raise insurance premiums. The legislation also calls for the FDIC to raise the ratio of reserves to deposits from 1.15% to 1.35% for deposit insurance purposes by September 30, 2020 and to "offset the effect" of increased assessments on insured depository institutions with assets of less than $10 billion.

The Dodd-Frank Act establishes as an independent entity, within the Federal Reserve, the Consumer Financial Protection Bureau (the "CFPB"), which has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards, and contains provisions on mortgage-related matters such as steering incentives and determinations as to a borrower's ability to repay the principal amount and prepayment penalties.

The CFPB has had primary examination and enforcement authority over FirstBank and other banks with over $10 billion in assets with respect to consumer financial products and services since July 21, 2011.

The Dodd-Frank Act also limits interchange fees payable on debit card transactions. The Federal Reserve Board's current debit card interchange rule caps a debit card issuer's base fee at 21 cents per transaction and allows an additional 5 basis-point charge per transaction to help cover fraud losses. The debit card interchange rule has reduced our interchange fee revenue in line with industry-wide expectations since 2011.

The Dodd-Frank Act includes provisions that affect corporate governance and executive compensation at all publicly-traded companies and allows financial institutions to pay interest on business checking accounts. The legislation also restricts proprietary trading, places restrictions on the owning or sponsoring of hedge and private equity funds, and regulates the derivatives activities of banks and their affiliates.

Section 171 of the Dodd-Frank Act (the "Collins Amendment"), among other things, eliminates certain trust-preferred securities from Tier I capital. Preferred securities issued under the U.S. Treasury's Troubled Asset Relief Program ("TARP") are exempt from this treatment. Bank holding companies, such as the Corporation, were required to fully phase out these instruments from Tier 1 capital by January 1, 2016; however, these instruments may remain in Tier 2 capital until the instruments are redeemed or mature.

Regulatory Capital and Liquidity Coverage Developments. The federal banking agencies adopted new rules for U.S. banks that revise important aspects of the minimum regulatory capital requirements, the components of regulatory capital, and the risk-based capital treatment of bank assets and off-balance sheet exposures. The final rules, which applied to the Corporation and FirstBank as of January 1, 2015, generally are intended to align U.S. regulatory capital requirements with international regulatory capital standards adopted by the Basel Committee on Banking Supervision ("Basel Committee"), in particular the most recent international capital accord adopted in 2010 (and revised in 2011) known as "Basel III." The new rules increased the quantity and quality of capital required by, among other things, establishing a new minimum common equity capital requirements and an additional common equity Tier 1 capital conservation buffer. In addition, the final rules revise and harmonize the bank regulators' rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses that have been identified, by applying a variation of the Basel III "standardized approach" for the risk-weighting of bank assets and off-balance sheet exposures to all U.S. banking organizations other than large internationally active banks.

Consistent with Basel III and the Collins Amendment, the final rules also establish a more conservative standard for including an instrument such as trust-preferred securities as Tier 1 capital for bank holding companies with total

consolidated assets of $15 billion or more as of December 31, 2009. Bank holding companies such as the Corporation were required to fully phase out these instruments from Tier I capital by January 1, 2016, although qualifying trust preferred securities may be included as Tier 2 capital until the instruments are redeemed or mature. As of December 31, 2015, the Corporation had $220 million in trust preferred securities that are subject to the phase-out from Tier 1 capital under the final regulatory capital rules discussed above. During the first quarter of 2016, the Corporation repurchased $10.0 million in trust preferred securities that had been issued by FBP Statutory Trust II. This transaction is described in more detail in "Significant Events Since the Beginning of 2015" above for additional information.

These new regulatory capital requirements are discussed in further detail in "Regulation and Supervision – Bank and Bank Holding Company Regulatory Capital Requirements."

The final capital rules became effective for the Corporation and our subsidiary bank on a multi-year transitional basis starting on January 1, 2015, and in general will be fully effective as of January 1, 2019; the new general minimum regulatory capital requirements and the "standardized approach" for risk weighting of a banking organization's assets, however, fully apply to us as of January 1, 2015. The final rules have increased our regulatory capital requirements and require us to hold more capital against certain of our assets and off-balance sheet exposures. The Corporation's estimated pro-forma common equity Tier 1 ratio, Tier 1 capital ratio, total capital ratio, and the leverage ratio under the Basel III rules, giving effect as of December 31, 2015 to all the provisions that will be phased-in between January 1, 2015 and January 1, 2019, were 15.4%, 15.8%, 19.4%, and 11.7%, respectively. These ratios would exceed the fully phased-in minimum capital ratios under Basel III.

International Regulatory Capital and Liquidity Coverage Developments

International regulatory developments can affect the regulation and supervision of U.S. banking organizations, including the Corporation and FirstBank. Both the Basel Committee and the Financial Stability Board (established in April 2009 by the Group of Twenty ("G-20") Finance Ministers and Central Bank Governors to take action to strengthen regulation and supervision of the

financial system with greater international consistency, cooperation and transparency) including the adoption of Basel III and a commitment to raise capital standards and liquidity buffers within the banking system under Basel III.

In late 2014, the Basel Committee issued its final requirements for a Net Stable Funding Ratio (“NSFR”). The NSFR compares the amount of an institution’s available stable funding (“ASF”, the ratio’s numerator) to its required stable funding (“RSF”, the ratio’s denominator) to measure how the institution’s asset base is funded. ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. While the NSFR is intended to be applied to large, internationally active banks, at the discretion of national supervisors it can be applied to other banking organizations or classes of banking organizations. The U.S. federal banking agencies are expected to issue a proposal for implementation of the NSFR in the U.S. sometime in 2016.

Prudential Regulation Developments. U.S. banking organizations, including the Corporation and FirstBank, operate under the federal banking agencies’ rules and general supervisory guidance for stress testing practices applicable to banking organizations with more than $10 billion in total consolidated assets. These regulatory actions require bank holding companies with total consolidated assets of between $10 billion and $50 billion, consistent with the Dodd-Frank Act, to comply with annual company-run stress testing requirements, and outlines broad principles for a satisfactory stress testing framework, including principles related to governance, controls and use of results, and describes various stress testing approaches and how stress testing should be used at various levels within an organization.

Under these requirements, the Corporation is subject to two new stress testing rules that implement provisions of the Dodd-Frank Act, one issued by the Federal Reserve Board that applies to First BanCorp. on a consolidated basis and one issued by the FDIC that applies to the Bank. These Dodd-Frank Act stress tests are designed to require banking organizations to assess the potential impact of different economic scenarios on their earnings, losses, and capital over a set time period, with consideration given to certain relevant factors, including the organization's condition, risks, exposures, strategies, and activities. The Dodd-Frank Act stress tests require banking organizations with total consolidated assets of more than $10 billion but less than $50 billion, including the Corporation and the Bank, to conduct annual company-run stress tests using certain scenarios that the Federal Reserve Board publishes by February 15 of each year, report the results to their primary federal regulator and the Federal Reserve Board by July 31 of the same year, and publicly disclose a summary of the results by October 31 of that year.

The Federal Reserve Board and the other federal banking agencies have published final supervisory guidance describing their supervisory expectations for the Dodd-Frank Act stress tests to be conducted by financial institutions, including the Corporation and the Bank. The final guidance provides flexibility to accommodate different risk profiles, sizes, business lines, market areas, and complexity approaches for banking institutions in the $10 billion to $50 billion asset range, and provides examples of practices that would be consistent with supervisory expectations. This guidance now is fully applicable to the Corporation and the Bank. The final guidance also confirms that banking organizations with assets between $10 billion and $50 billion are not subject to the more extensive capital planning and stress-testing requirements that apply to bank holding companies with assets of at least $50 billion, including the Federal Reserve capital plan rule, the annual Comprehensive Capital Analysis and Review, the Dodd-Frank Act supervisory stress tests, and related data collections. Targeted changes to the Federal Reserve capital planning and stress-testing regulations most recently were made in November 2015, and are effective as of January 1, 2016. In addition, the federal banking agencies recently issued the economic scenarios (baseline, adverse and severely adverse) to be used by banking organizations with total consolidated assets of more than $10 billion for the 2016 company-run stress-tests under the Dodd-Frank Act.

The Federal Reserve's rules that govern the supervision and regulation of large U.S. bank holding companies and foreign banking organizations, as required by the Dodd-Frank Act, generally apply only to institutions with total consolidated assets of $50 billion or more, which would not affect the Corporation. The Federal Reserve's rules, however, require publicly traded U.S. bank holding companies with total consolidated assets of $10 billion or more, such as the Corporation, to establish enterprise-wide risk committees. These requirements complement the stress testing and resolution planning requirements for large bank holding companies that the Federal Reserve previously finalized. The current rules require the Corporation's risk management framework to be commensurate with the Corporation's structure, risk profile, complexity, activities and size, and must include policies and procedures establishing risk-management governance, risk-management policies, and risk control infrastructure for the Corporation's global operations and processes and systems for implementing and monitoring compliance with such policies and procedures. In addition, one independent director must chair the risk committee, with the banking organization determining the appropriate proportion of independent directors on the committee, based on its size, scope, and complexity, provided that it meets the minimum requirement of one independent director. Also, at least one director with risk-management experience must be appointed to the risk committee. The Corporation is in compliance with these new requirements.

Consumer Financial Protection Bureau. CFPB regulations issued over the past few years implement the Dodd-Frank Act amendments to the Equal Credit Opportunity Act, the Truth in Lending Act ("TILA"), and the Real Estate Settlement Procedures Act ("RESPA"). In general, among other changes, these regulations collectively: (i) require lenders to make a reasonable good faith determination of a prospective residential mortgage borrower's ability to repay based on specific underwriting criteria and set standards for mortgage lenders to determine whether a consumer has the ability to repay the mortgage, (ii) require stricter underwriting of "qualified mortgages," discussed below, that presumptively satisfy the ability to pay requirement (thereby providing

the lender a safe harbor from non-compliance claims), (iii) specify new limitations on loan originator compensation and establish criteria for the qualifications of, and registration or licensing of loan originators, (iv) further restrict certain high-cost mortgage loans by expanding the coverage of the Home Ownership and Equity Protections Act of 1994, (v) expand mandated loan escrow accounts for certain loans, (vi) revise existing appraisal requirements under the Equal Credit Opportunity Act and require provision of a free copy of all appraisals to applicants for first lien loans, (vii) establish new appraisal standards for most "higher-risk mortgages" under TILA, (viii) combine in a single, new form required loan disclosures under TILA and RESPA, (ix) define a "qualified mortgage for purposes of the Dodd frank Act, and (x) affords safe harbor legal protections for lenders making qualified loans that are not "higher priced."

The CFPB also has issued a final regulation setting forth new mortgage servicing rules that now apply to the Bank.

The regulations affect notices given to consumers as to delinquency, foreclosure alternatives, modification applications, interest rate adjustments and options for avoiding "force-placed" insurance. Servicers are prohibited from processing foreclosures when a loan modification is pending, and must wait until a loan is more than 120 days delinquent before initiating a foreclosure action.

The servicer must provide direct and ongoing access to its personnel, and provide prompt review of any loss mitigation application. Servicers must maintain accurate and accessible mortgage records for the life of a loan and until one year after the loan is paid off or transferred.

On December 15, 2014, the CFPB proposed further changes to these mortgage servicing rules. The proposed changes generally would clarify and amend provisions regarding force-placed insurance notices, policies and procedures, early intervention, loss mitigation requirements and periodic statement requirements under the CFPB mortgage servicing rules. The proposed amendments also would address proper compliance regarding certain servicing requirements when a consumer is a potential or confirmed successor in interest, is in bankruptcy, or sends a cease communication request under the Fair Debt Collection Practices Act. These new mortgage servicing standards are expected to add to our costs of conducting a mortgage servicing business.

Effective October 3, 2015, the CFPB rule that combines mortgage disclosures previously established by the TILA and the RESPA came to effect. Sections 1098 and 1100A of Dodd-Frank Act direct the Bureau to publish rules and forms that combine certain disclosures that consumers receive in connection with applying for and closing on a mortgage loan under the Truth in Lending Act and the Real Estate Settlement Procedures Act. Consistent with this requirement, the Bureau amended Regulation X (Real Estate Settlement Procedures Act) and Regulation Z (Truth in Lending) to establish new disclosure requirements and forms in Regulation Z for most closed-end consumer credit transactions secured by real property. In addition to combining the existing disclosure requirements and implementing new requirements imposed by the Dodd-Frank Act, the final rule provides extensive guidance regarding compliance with those requirements.

The Volcker Rule. This section of the Dodd-Frank Act, subject to important exceptions, generally prohibits a banking entity such as the Corporation or FirstBank from acquiring or retaining any ownership in, or acting as sponsor to, a hedge fund or private equity fund ("covered fund"). The Volcker Rule also prohibits these entities from engaging, for their own account, in short-form proprietary trading of certain securities, derivatives, commodity futures and options on these instruments.

Final regulations implementing the Volcker Rule have been adopted by the financial regulatory agencies and are now generally effective.

The Corporation and the Bank are not engaged in proprietary trading as defined in the Volcker Rule. In addition, a review of the Corporation's investments was undertaken to determine if any meet the Volcker Rule's definition of covered funds. Based on that review, the Corporation's investments are not considered covered funds under the Volcker Rule.

Future Legislation and Regulation. While the federal agencies have adopted regulations that implement many requirements of the Dodd-Frank Act, important regulatory actions (e.g., the adoption of rules regarding the compensation of financial institutions executives) that could have an impact on the Corporation and the Bank remain to be taken. Additional consumer protection laws may be enacted, and the FDIC, Federal Reserve and CFPB have adopted and will adopt in the future new regulations that have addressed or may address, among other things, banks' credit card, overdraft, collection, privacy and mortgage lending practices. Additional consumer protection regulatory activity is anticipated in the near future.

Such proposals and legislation, if finally adopted and implemented, would change banking laws and our operating environment and that of our subsidiaries in ways that could be substantial and unpredictable. We cannot determine whether such proposals and legislation will be adopted, or the ultimate effect that such proposals and legislation, if enacted, or regulations issued to implement the same, would have upon our financial condition or results of operations.

Bank Holding Company Activities and Other Limitations

The Corporation is registered and subject to regulation under the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act" or "BHC Act"). Under the provisions of the Bank Holding Company Act, a bank holding company must obtain Federal Reserve Board approval before it acquires direct or indirect ownership or control of more than 5% of the voting shares of another bank, or merges or consolidates with another bank holding company. The Federal Reserve Board also has authority under certain circumstances to issue cease and desist orders against bank holding companies and their non-bank subsidiaries. In addition, the Corporation is subject to ongoing regulation, supervision, and examination by the Federal Reserve Board, and is required to file with the Federal Reserve Board periodic and annual reports and other information concerning its own business operations and those of its subsidiaries.

A bank holding company is prohibited under the Bank Holding Company Act, with limited exceptions, from engaging, directly or indirectly, in any business unrelated to the businesses of banking or managing or controlling banks. One of the exceptions to these prohibitions permits ownership by a bank holding company of the shares of any corporation if the Federal Reserve Board, after due notice and opportunity for hearing, by regulation or order has determined that the activities of the corporation in question are so closely related to the businesses of banking or managing or controlling banks as to be a proper incident thereto.

The Bank Holding Company Act also permits a bank holding company to elect to become a financial holding company and engage in a broad range of activities that are financial in nature. The Corporation filed an election with the Federal Reserve Board and became a financial holding company under the Bank Holding Company Act. Financial holding companies may engage, directly or indirectly, in any activity that is determined to be (i) financial in nature, (ii) incidental to such financial activity, or (iii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. The Bank Holding Company Act specifically provides that the following activities have been determined to be "financial in nature": (a) lending, trust and other banking activities; (b) insurance activities; (c) financial or economic advice or services; (d) pooled investments; (e) securities underwriting and dealing; (f) domestic activities permitted for existing bank holding company; (g) foreign activities permitted for existing bank holding company; and (h) merchant banking activities.

A financial holding company that ceases to meet certain standards is subject to a variety of restrictions, depending on the circumstances, including precluding the undertaking of new activities or the acquisition of shares or control of other companies. Until compliance is restored, the Federal Reserve Board has broad discretion to impose appropriate limitations on the financial holding company's activities. If compliance is not restored within 180 days, the Federal Reserve Board may ultimately require the financial holding company to divest its depository institutions or, in the alternative, to discontinue or divest any activities that are permitted only to non-financial holding company bank holding companies. The Corporation and FirstBank must be well-capitalized and well-managed for regulatory purposes, and FirstBank must earn "satisfactory" or better ratings on its periodic Community Reinvestment Act (the "CRA") examinations to preserve the financial holding company status. By reason of, among other things, the Written Agreement, the Bank is not treated as "well-capitalized" and therefore is restricted in its ability to undertake new

financial activities.

The potential restrictions are different if the lapse pertains to the CRA. In that case, until all the subsidiary institutions are restored to at least a “satisfactory” CRA rating status, the financial holding company may not engage, directly or through a subsidiary, in any of the additional financial activities permissible under the Bank Holding Company Act or make additional acquisitions of companies engaged in the additional activities. However, completed acquisitions and additional activities and affiliations previously begun are left undisturbed, as the Bank Holding Company Act does not require divestiture for this type of situation.

Under provisions of the Dodd-Frank Act and Federal Reserve Board policy, a bank holding company such as the Corporation is expected to act as a source of financial and managerial strength to its banking subsidiaries and to commit support to them. This support may be required at times when, absent such policy, the bank holding company might not otherwise provide such support. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain capital of a subsidiary bank will be assumed by the bankruptcy trustee and be entitled to a priority of payment.

In addition, any capital loans by a bank holding company to any of its subsidiary banks must be subordinated in right of payment to deposits and to certain other indebtedness of such subsidiary bank. As of December 31, 2015, and the date hereof, FirstBank was and is the only depository institution subsidiary of the Corporation. The Dodd-Frank Act directs the Federal Reserve Board to adopt regulations adopting the statutory source-of-strength requirements, but implementing regulations have not yet been proposed.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act of 2002 (“SOX”) implemented a range of corporate governance and other measures to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of disclosures under the federal securities laws. In addition, SOX has established membership requirements and responsibilities for the audit committee, imposed restrictions on the relationship between the Corporation and our external auditors, imposed additional responsibilities for the external financial statements on our chief executive officer and chief financial officer, expanded the disclosure requirements for corporate insiders, required management to evaluate its

disclosure controls and procedures and its internal control over financial reporting, and required the auditors to issue a report on the internal control over financial reporting.

The Corporation includes in its annual report on Form 10-K its management's assessment regarding the effectiveness of the Corporation's internal control over financial reporting. The internal control report includes a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the Corporation; management's assessment as to the effectiveness of the Corporation's internal control over financial reporting based on management's evaluation, as of year-end; and the framework used by management as criteria for evaluating the effectiveness of the Corporation's internal control over financial reporting.

As of December 31, 2015, First BanCorp's management concluded that its internal control over financial reporting was effective. The Corporation's independent registered public accounting firm reached the same conclusion.

Emergency Economic Stabilization Act of 2008

Turmoil in the U.S. financial sector during 2008 resulted in the passage of the Emergency Economic Stabilization Act of 2008 (the "EESA") and the adoption of several programs by the U.S. Treasury, as well as several actions by the Federal Reserve Board. The EESA authorized the U.S. Treasury to access up to $700 billion to protect the U.S. economy and restore confidence and stability to the financial markets. One such program under the TARP was action by the U.S. Treasury to make significant investments in U.S. financial institutions through the Capital Purchase Program ("CPP"). The U.S. Treasury's stated purpose in implementing the CPP was to improve the capitalization of healthy institutions, which would improve the flow of credit to businesses and consumers, and boost the confidence of depositors, investors, and counterparties alike. All federal banking and thrift regulatory agencies encouraged eligible institutions to participate in the CPP.

The Corporation applied for, and the U.S. Treasury approved, a capital purchase in the amount of $400,000,000. The Corporation entered into a Letter Agreement, dated as of January 16, 2009, including the Securities Purchase Agreement Standard Terms (collectively the "Letter Agreement") with the U.S. Treasury, pursuant to which the Corporation issued and sold to the Treasury for an aggregate purchase price of $400,000,000 in cash (i) 400,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series F (the "Series F Preferred Stock"), and (ii) a warrant to purchase 389,483 shares of the Corporation's common stock at an exercise price of $154.05 per share, subject to certain anti-dilution and other adjustments (the "warrant"). The TARP transaction closed on January 16, 2009. On July 20, 2010, we exchanged the Series F Preferred Stock, plus accrued dividends on the Series F Preferred Stock, for 424,174 shares of a new series of preferred stock, fixed rate Cumulative Mandatorily Convertible Preferred Stock, Series G (the "Series G Preferred Stock"), and amended the warrant. On October 7, 2011, we exercised our right to convert the Series G Preferred Stock into 32,941,797 shares of common stock. As a result of the issuance of $525 million of common stock in October 2011, the warrant was adjusted to provide for the issuance of approximately 1,285,899 shares of common stock at an exercise price of $3.29 per share. On August 16, 2013, a secondary offering

of the Corporation's common stock was completed by certain of the Corporation's existing stockholders, which included the sale by the U.S. Treasury of 13 million shares in such secondary offering. In the fourth quarter of 2014, the U.S. Treasury sold an additional 4.4 million shares in accordance with its first pre-defined written trading plan. On March 9, 2015, the U.S. Treasury announced the sale of an additional 5 million shares of First BanCorp.'s common stock through its second pre-defined written trading plan. As of December 31, 2015, the U.S. Treasury owned approximately 4.8% of the Corporation's outstanding common stock, excluding the shares underlying the warrant.

Under the terms of the amended Letter Agreement with the U.S. Treasury dated as of July 7, 2010 (i) the Corporation amended its compensation, bonus, incentive and other benefit plans, arrangements and agreements (including severance and employment agreements) to the extent necessary to be in compliance with the executive compensation and corporate governance requirements of Section 111(b) of the EESA and applicable guidance or regulations issued by the U.S. Treasury on or prior to January 16, 2009 and (ii) each Senior Executive Officer, as defined in the amended Letter Agreement, executed a written waiver releasing the U.S. Treasury and the Corporation from any claims that such officers may otherwise have as a result of the Corporation's amendment of such arrangements and agreements to be in compliance with Section 111(b). Until such time as the U.S. Treasury ceases to own any debt or equity securities of the Corporation acquired pursuant to the amended Letter Agreement, the Corporation must remain in compliance with these requirements.

American Recovery and Reinvestment Act of 2009

On February 17, 2009, the Congress enacted the American Recovery and Reinvestment Act of 2009 ("ARRA"). The ARRA includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and domestic spending on education, health care, and infrastructure, including the energy sector.

The ARRA includes provisions relating to compensation paid by institutions that receive government assistance under TARP, including institutions that had already received such assistance, effectively amending the existing compensation and corporate governance requirements of Section 111(b) of the EESA. The provisions include restrictions on the amounts and forms of

compensation payable, provisions for possible reimbursement of previously paid compensation and a requirement that compensation be submitted to a non-binding “say on pay” shareholder vote.

The U.S. Treasury issued regulations implementing the compensation requirements under ARRA, which amended the requirements of EESA. The regulations made effective the compensation provisions of ARRA and include rules requiring: (i) review of prior compensation by a Special Master; (ii) restrictions on paying or accruing bonuses, retention awards or incentive compensation for certain employees; (iii) regular review of all employee compensation arrangements by the company’s senior risk officer and compensation committee to ensure that the arrangements do not encourage unnecessary and excessive risk-taking or manipulation of the reporting of earnings; (iv) recoupment of bonus payments based on materially inaccurate information; (v) the prohibition of severance or change in control payments for certain employees; (vi) the adoption of policies and procedures to avoid excessive luxury expenses; and (vii) the mandatory “say on pay” vote by shareholders. In addition, the regulations also introduced several additional requirements and restrictions, including: (i) Special Master review of ongoing compensation in certain situations; (ii) prohibition on tax gross-ups for certain employees; (iii) disclosure of perquisites; and (iv) disclosure regarding compensation consultants.

USA PATRIOT Act and Other Anti-Money Laundering Requirements.

As a regulated depository institution, FirstBank is subject to the Bank Secrecy Act, which imposes a variety of reporting and other requirements, including the requirement to file suspicious activity and currency transaction reports that are designed to assist in the detection and prevention of money laundering and other criminal activities. In addition, under Title III of the USA PATRIOT Act of 2001, also known as the International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001, all financial institutions are required to, among other things, identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions. Presently, only certain types of financial institutions (including banks, savings associations and money services businesses) are subject to final rules implementing the anti-money laundering program requirements of the USA PATRIOT Act.

Regulations implementing the Bank Secrecy Act and the USA PATRIOT Act are published and primarily enforced by the Financial Crimes Enforcement Network, a bureau of the U.S. Treasury. Failure of a financial institution to comply with the requirement of the Bank Secrecy Act or the USA PATRIOT Act could have serious legal and reputational consequences for the institution, including the possibility of regulatory enforcement or other legal action, including significant civil money penalties, against the Corporation or the Bank. The Corporation also is required to comply with federal economic and trade sanctions requirements enforced by the Office of Foreign Assets Control (“OFAC”), a bureau of the U.S. Treasury. The Corporation has adopted appropriate policies, procedures and controls to address compliance with the Bank Secrecy Act, USA PATRIOT Act and economic/trade sanctions requirements, and to implement banking agency, U.S. Treasury and OFAC regulations.

Community Reinvestment

The CRA encourages banks to help meet the credit needs of the local communities in which the banks offer their services, including low- and moderate-income individuals, consistent with safe and sound operation of the bank.

The CRA requires the federal supervisory agencies, as part of the general examination of supervised banks, to assess the bank's record of meeting the credit needs of its community, assign a performance rating, and take such record and rating into account in their evaluation of certain applications by such bank. The CRA also requires all institutions to make public disclosure of their CRA ratings. FirstBank received a "satisfactory" CRA rating in its most recent examination by the FDIC.

Failure to adequately serve the communities could result in the denial by the regulators to merge, consolidate or acquire new assets, as well as expand or relocate branches.

State Chartered Non-Member Bank and Banking Laws and Regulations in General

FirstBank is subject to regulation and examination by the OCIF, the CFPB and the FDIC, and is subject to comprehensive federal and state regulations dealing with a wide variety of subjects. The federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their businesses, their investments, their reserves against deposits, the timing and availability of deposited funds, and the nature and amount of and collateral for certain loans. In addition to the impact of regulations, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to influence the economy. Among the instruments used by the Federal Reserve Board to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate, and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. The monetary policies and regulations of the Federal Reserve Board have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our future business, earnings and growth cannot be predicted.

There are periodic examinations by the OCIF, the CFPB and the FDIC of FirstBank to test the Bank's conformance to safe and sound banking practices and compliance with various statutory and regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a banking institution can engage. The regulation and supervision by the FDIC are intended primarily for the protection of the FDIC's insurance fund and depositors. The regulatory structure also gives the regulatory authorities discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties. In general, these enforcement actions may be initiated for violations of laws and regulations and for engaging in unsafe or unsound practices. In addition, certain bank actions are required by statute and implementing regulations. Other actions or failure to act may provide the basis for enforcement action, including the filing of misleading or untimely reports with regulatory authorities.

Written Agreement

FirstBank was notified by the FDIC that the Consent Order under which the Bank had been operating since June 2, 2010 was terminated effective April 29, 2015. Although the Consent Order has been terminated, First BanCorp. is still subject to the Written Agreement that the Corporation entered into with the Federal Reserve Bank of New York on June 3, 2010.

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

The Corporation submitted its Capital Plan under the Written Agreement setting forth its plans for how to improve 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 December 31, 2015, 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.

Dividend Restrictions

The Federal Reserve's "Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies" (the "Supervisory Letter") discusses the ability of bank holding companies to declare dividends and to repurchase equity securities. The Supervisory Letter is generally consistent with prior Federal Reserve supervisory policies and guidance, although it places greater emphasis on discussions with the regulators prior to dividend declarations and redemption or repurchase decisions even when not explicitly required by the regulations. The Federal Reserve provides that the principles discussed in the letter are applicable to all bank holding companies, but are especially relevant for bank holding companies that are either experiencing financial difficulties and/or receiving public funds under the U.S. Treasury's TARP CPP. To that end, the Supervisory Letter specifically addresses the Federal Reserve's supervisory considerations for TARP participants.

The Federal Reserve Board has also issued a policy statement that, as a matter of prudent banking, a bank holding company should generally not maintain a given rate of cash dividends unless its net income available to common shareholders has been sufficient to fund fully the dividends and the prospective rate of earnings retention appears to be consistent with the organization's capital needs, asset quality, and overall financial condition. The Corporation is subject to certain restrictions generally imposed on Puerto Rico corporations with respect to the declaration and payment of dividends (i.e., that dividends may be paid out only from the Corporation's net assets in excess of capital or, in the absence of such excess, from the Corporation's net earnings for such fiscal year and/or the preceding fiscal year)

In prior years, the principal source of funds for the Corporation's parent holding company was dividends declared and paid by its subsidiary, FirstBank. Pursuant to the Written Agreement with the Federal Reserve, the Corporation cannot directly or indirectly take dividends or any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Federal Reserve. The ability of FirstBank to declare and pay dividends on its capital stock is regulated by the Puerto Rico Banking Law, the Federal Deposit Insurance Act (the "FDIA"), and FDIC regulations. In general terms, the Puerto Rico Banking Law provides that when the expenditures of a bank are greater than receipts, the excess of expenditures over receipts shall be charged against undistributed profits of the bank and the balance, if any, shall be charged against the required reserve fund of the bank. If the reserve fund is not sufficient to cover such balance in whole or in part, the outstanding amount must be charged against the bank's capital

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account. The Puerto Rico Banking Law provides that, until said capital has been restored to its original amount and the reserve fund to 20% of the original capital, the bank may not declare any dividends. In general terms, the FDIA and the FDIC regulations restrict the payment of dividends when a bank is undercapitalized, when a bank has failed to pay insurance assessments, or when there are safety and soundness concerns regarding such bank.

We suspended dividend payments on our common stock and preferred dividends commencing with the preferred dividend payments for the month of August 2009. Furthermore, so long as any shares of preferred stock remain outstanding and until we obtain the Federal Reserve's approval, we cannot declare, set apart or pay any dividends on shares of our common stock unless any accrued and unpaid dividends on our preferred stock for the twelve monthly dividend periods ending on the immediately preceding dividend payment date have been paid or are paid contemporaneously and the full monthly dividend on our preferred stock for the then current month has been or is contemporaneously declared and paid or declared and set apart for payment.

Limitations on Transactions with Affiliates and Insiders

Certain transactions between financial institutions such as FirstBank and its affiliates are governed by Sections 23A and 23B of the Federal Reserve Act and by Federal Reserve Regulation W. An affiliate of a financial institution in general is any corporation or entity that controls, is controlled by, or is under common control with the financial institution.

In a holding company context, the parent bank holding company and any companies that are controlled by such parent bank holding company are affiliates of the financial institution. Generally, Sections 23A and 23B of the Federal Reserve Act (i) limit the extent to which the financial institution or its subsidiaries may engage in "covered transactions" (defined below) with any one affiliate to an amount equal to 10% of such financial institution's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such financial institution's capital stock and surplus and (ii) require that all "covered transactions" be on terms substantially the same, or at least as favorable to the financial institution or affiliate, as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and other similar transactions. In addition, loans or other extensions of credit by the financial institution to the affiliate are required to be collateralized in accordance with the requirements set forth in Section 23A of the Federal Reserve Act. The Dodd-Frank Act added derivatives and securities lending and borrowing transactions to the list of "covered transactions" subject to Section 23A restrictions.

In addition, Sections 22(h) and (g) of the Federal Reserve Act, implemented through Regulation O, place restrictions on loans to executive officers, directors, and principal stockholders. Under Section 22(h) of the Federal Reserve Act, loans to a director, an executive officer, a greater than 10% stockholder of a financial institution, and certain related interests of these persons, may not exceed, together with all other outstanding loans to such persons and affiliated interests, the financial institution's loans to one borrower limit, generally equal to 15% of the institution's unimpaired capital and surplus. Section 22(h) of the Federal Reserve Act also requires that loans to directors, executive officers, and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons and also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a financial institution to insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore,

Section 22(g) of the Federal Reserve Act places additional restrictions on loans to executive officers.

Bank and Bank Holding Company Regulatory Capital Requirements

The Federal Reserve Board has adopted risk-based and leverage capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the Bank Holding Company Act. The Federal Reserve Board's historical risk-based capital guidelines were based upon the 1988 capital accord ("Basel I") of the Basel Committee. These historical requirements, however, which included a legacy simplified risk-weighting system for the calculations of risk-based assets, as well as lower leverage capital requirements, were superseded by new risk-based and leverage capital requirements that went into effect, on a multi-year transitional basis, on January 1, 2015. The FDIC has adopted substantively identical requirements that apply to insured banks under its regulation and supervision. These requirements are part of a revised regulatory capital framework for U.S. banking organizations (the "Basel III rules") adopted by the banking agencies that is based on international regulatory capital requirements adopted by the Basel Committee on Banking Supervision over the past several years.

The Basel III rules introduce new minimum capital ratios and capital conservation buffer requirements, change the composition of regulatory capital, require a number of new adjustments to and deductions from regulatory capital, and introduce a new "Standardized Approach" for the calculation of risk-weighted assets that replaced the risk-weighting requirements under prior U.S. regulatory capital rules. The new minimum regulatory capital requirements and the Standardized Approach for the calculation of risk-weighted assets became effective for the Corporation on January 1, 2015. The capital conservation buffer requirements, and the regulatory capital adjustments and deductions under the Basel III rules are being phased-in over several years ending on December 31, 2018.

The Basel III rules introduce a new and separate ratio of Common Equity Tier 1 capital ("CET1") to risk-weighted assets. CET1, a narrower subcomponent of total Tier 1 capital, generally consists of common stock and related surplus, retained earnings, accumulated other comprehensive income ("AOCI"), and qualifying minority interests. Certain banking organizations, however, including the Corporation and FirstBank, were allowed to make a one-time permanent election in early 2015 to continue to exclude AOCI items. The Corporation and FirstBank elected to permanently exclude capital in AOCI in order to avoid significant variations in the level of

capital depending upon the impact of interest rate fluctuations on the fair value of the securities portfolio. In addition, the Basel III rules require the Corporation to maintain an additional CET1 capital conservation buffer of 2.5%. The capital conservation buffer must be maintained 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. Under the fully phased-in rules, the Corporation will be required to maintain: (i) a minimum CET1 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. The phase-in of the capital conservation buffer began on January 1, 2016 with a first year requirement of 0.625% of additional CET1, which will be progressively increased over a four-year period, increasing by that same percentage amount on each subsequent January 1 until it reaches the fully phased-in 2.5% CET1 requirement on January 1, 2019.

In addition, the Basel III rules require a number of new deductions from and adjustments to CET1, including deductions from CET1 for certain intangible assets, and deferred tax assets dependent upon future taxable income; the four-year phase-in period for these adjustments generally began on January 1, 2015. Mortgage servicing assets and deferred tax assets attributable to temporary differences, among others, are required to be deducted to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

In addition, the Basel III rules require that certain non-qualifying capital instruments, including cumulative preferred stock and trust preferred securities ("TRuPs"), be excluded from Tier 1 capital. In general, banking organizations such as the Corporation began to phase out TRuPs from Tier 1 capital on January 1, 2015. The Corporation's TRuPs must be fully phased out from Tier 1 capital by January 1, 2016. However, the Corporation's TRuPs may continue to be included in Tier 2 capital until the instruments are redeemed or mature.

The Corporation and FirstBank compute risk weighted assets using the Standardized Approach required by the Basel III rules. The Standardized Approach for risk-weightings has expanded the risk-weighting categories from the four major risk-weighting categories under the previous regulatory capital rules (0%, 20%, 50%, and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets. In a number of cases, the Standardized Approach results in higher risk weights for a variety of asset categories. Specific changes to the risk-weightings of assets include, among other things: (i) applying a 150% risk weight instead of a 100% risk weight for high volatility commercial real estate acquisition, development and construction loans, (ii) assigning a 150% risk weight to exposures that are 90 days past due (other than qualifying residential mortgage exposures, which remain at an assigned risk-weighting of 100%), (iii) establishing a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable, in contrast to the 0% risk-weighting under the prior rules and (iv) requiring capital to be maintained against on-balance-sheet and off-balance-sheet exposures that result from certain cleared transactions, guarantees and credit derivatives, and collateralized transactions (such as repurchase agreement transactions).

Prompt Corrective Action. The Prompt Corrective Action ("PCA") provisions of the FDIA require the federal bank regulatory agencies to take prompt corrective action against any undercapitalized insured depository institution. The FDIA establishes five capital categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Well-capitalized insured depository institutions ("institutions") significantly exceed the required minimum level for each relevant capital measure. Adequately capitalized institutions include institutions that meet but do not significantly exceed the required minimum level for each relevant capital measure. Undercapitalized institutions consist of those that fail to meet the required minimum level for one or more relevant capital measures. Significantly undercapitalized institutions are those with capital levels significantly below the minimum requirements for any relevant capital measure. Critically undercapitalized institutions have minimal capital and are at serious risk for government seizure.

Under certain circumstances, a well-capitalized, adequately capitalized or undercapitalized institution may be treated as if the institution were in the next lower capital category. An institution is generally prohibited from making capital distributions (including paying dividends), or paying management fees to a holding company if the institution would thereafter be undercapitalized. Institutions that are adequately capitalized but not well-capitalized cannot accept, renew or roll over brokered CDs except with a waiver from the FDIC and are subject to restrictions on the interest rates that can be paid on such deposits. Undercapitalized institutions may not accept, renew or roll over brokered CDs.

The federal bank regulatory agencies are permitted or, in certain cases, required to take certain actions with respect to institutions falling within one of the three undercapitalized categories. Depending on the level of an institution's capital, the agency's corrective powers include, among other things:

- prohibiting the payment of principal and interest on subordinated debt;
- prohibiting the holding company from making distributions without prior regulatory approval;

- placing limits on asset growth and restrictions on activities;
- placing additional restrictions on transactions with affiliates;
- restricting the interest rate the institution may pay on deposits;
- prohibiting the institution from accepting deposits from correspondent banks; and
- in the most severe cases, appointing a conservator or receiver for the institution.

An institution that is undercapitalized is required to submit a capital restoration plan, and such a plan will not be accepted unless, among other things, the institution's holding company guarantees the plan up to a certain specified amount. Any such guarantee from an institution's holding company is entitled to a priority of payment in bankruptcy.

The banking agencies' Basel III rules, discussed above, revise the PCA requirements by (i) introducing a separate CET1 ratio requirement for each PCA capital category (other than critically undercapitalized) with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each PCA capital category with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the previous 6%); and (iii) eliminating the previous provision that allows a bank with a composite supervisory rating of 1 to have a 3% leverage ratio and still be adequately capitalized and maintaining the minimum leverage ratio for well-capitalized status at 5%. The Basel III rules do not change the total risk-based capital requirement (10% for well-capitalized status) for any PCA capital category. The new PCA requirements became effective on January 1, 2015.

A bank's capital category, as determined by applying the prompt corrective action provisions of the law, may not constitute an accurate representation of the overall financial condition or prospects of a bank, such as the Bank, and should be considered in conjunction with other available information regarding the financial condition and results of operations of the bank.

Set forth below are the Corporation's and FirstBank's capital ratios as of December 31, 2015 based on Federal Reserve and FDIC guidelines, respectively, and the capital ratios required to be attained and maintained under the FDIC Order:

		Banking Subsidiary	
	First BanCorp.	**FirstBank**	**Well-Capitalized Minimum**
As of December 31, 2015			
Total capital (Total capital to risk-weighted assets)	20.01%	19.73%	10.00%
Common Equity Tier 1 Capital (Common Equity			

Tier 1 capital to risk-weighted assets)			16.92%			16.35%		6.50%
Tier 1 capital ratio (Tier 1 capital								
to risk-weighted assets)			16.92%			18.45%		8.00%
Leverage ratio (1)			12.22%			13.33%		5.00%

(1) Tier 1 capital to average assets.

Deposit Insurance

The increase in deposit insurance coverage to up to $250,000 per customer, the FDIC's expanded authority to increase insurance premiums, as well as the increase in the number of bank failures after the 2008 financial crisis resulted in an increase in deposit insurance assessments for all banks, including FirstBank. The Dodd-Frank Act changes the requirements for the Deposit Insurance Fund by requiring that the designated reserve ratio for the Deposit Insurance Fund for any year may not be less than 1.35 percent of estimated insured deposits or the comparable percentage of the new deposit assessment base. In addition, the FDIC must take steps as necessary for the reserve ratio to reach 1.35 percent of estimated insured deposits by September 30, 2020. If the reserve ratio exceeds 1.5 percent, the FDIC must dividend to Deposit Insurance Fund members the amount above the amount necessary to maintain the Deposit Insurance Fund at 1.5 percent, but the FDIC Board of Directors may, in its sole discretion, suspend or limit the declaration of payment of dividends. The FDIC has adopted a Deposit Reserve Fund restoration plan that projects that the designated reserve ratio will reach 1.35 percent by the 2020 deadline. The FDIC has also adopted a final rule raising its industry target ratio of reserves to insured deposits to 2 percent, 65 basis points above the statutory minimum, but the FDIC does not project that goal to be met for several years.

The FDIC assessment rules currently define the assessment base for deposit insurance as required by the Dodd-Frank Act, specify assessment rates, implement the Dodd-Frank Act's Deposit Insurance Fund dividend provisions, and revises the risk-based assessment system for all large insured depository institutions (institutions with at least $10 billion in total assets), such as FirstBank. In October 2015, the FDIC proposed a rule to increase the Deposit Insurance Fund to the statutorily required minimum level of 1.35 percent. Among other things, the proposed rule would impose on banks with at least $10 billion in assets (which would include the Bank) a surcharge of 4.5 cents per $100 of their assessment base, after making certain adjustments. The FDIC has stated that it expects the reserve ratio probably would reach 1.35 percent after approximately two years of payments of the proposed surcharges.

FDIC Insolvency Authority

Under Puerto Rico banking laws (discussed below), the OCIF may appoint the FDIC as conservator or receiver of a failed or failing FDIC-insured Puerto Rican bank such as the Bank, and the FDIA authorizes the FDIC to accept such an appointment. In addition, the FDIC has broad authority under the FDIA to appoint itself as conservator or receiver of a failed or failing state bank, including a Puerto Rican bank. If the FDIC is appointed conservator or receiver of a bank upon the bank's insolvency or the occurrence of other events, the FDIC may sell or transfer some, part or all of a bank's assets and liabilities to another bank, or liquidate the bank and pay out insured depositors, as well as uninsured depositors and other creditors to the extent of the closed bank's available assets. As part of its insolvency authority, the FDIC has the authority, among other things, to take possession of and administer the receivership estate, pay out estate claims, and repudiate or disaffirm certain types of contracts to which the bank was a party if the FDIC believes such contract is burdensome and its disaffirmance will aid in the administration of the receivership. In resolving the estate of a failed bank, the FDIC as receiver will first satisfy its own administrative expenses, and the claims of holders of U.S. deposit liabilities also have priority over those of other general unsecured creditors.

Activities and Investments

The activities as “principal” and equity investments of FDIC-insured, state-chartered banks such as FirstBank are generally limited to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state-chartered bank generally may not directly or indirectly acquire or retain any equity investments of a type, or in an amount, that is not permissible for a national bank.

Federal Home Loan Bank System

FirstBank is a member of the Federal Home Loan Bank (“FHLB”) system. The FHLB system consists of twelve regional Federal Home Loan Banks governed and regulated by the Federal Housing Finance Agency. The Federal Home Loan Banks serve as reserve or credit facilities for member institutions within their assigned regions. They are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system, and they make loans (advances) to members in accordance with policies and procedures established by the FHLB system and the board of directors of each regional FHLB.

FirstBank is a member of the FHLB of New York and, as such, is required to acquire and hold shares of capital stock in the FHLB in an amount calculated in accordance with the requirements set forth in applicable laws and regulations. FirstBank is in compliance with the stock ownership requirements of the FHLB of New York. All loans, advances and other extensions of credit made by the FHLB to FirstBank are secured by a portion of FirstBank’s mortgage loan portfolio, certain other investments and the capital stock of the FHLB held by FirstBank.

Ownership and Control

Because of FirstBank’s status as an FDIC-insured bank, as defined in the Bank Holding Company Act, the Corporation, as the owner of FirstBank’s common stock, is subject to certain restrictions and disclosure obligations under various federal laws, including

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the Bank Holding Company Act and the Change in Bank Control Act (the "CBCA"). Regulations pursuant to the Bank Holding Company Act generally require prior Federal Reserve Board approval for an acquisition of control of an insured institution (as defined in the Act) or holding company thereof by any person (or persons acting in concert). Control is deemed to exist if, among other things, a person (or group of persons acting in concert) acquires 25% or more of any class of voting stock of an insured institution or holding company thereof. Under the CBCA, control is presumed to exist subject to rebuttal if a person (or group of persons acting in concert) acquires 10% or more of any class of voting stock and either (i) the corporation has registered securities under Section 12 of the Exchange Act, or (ii) no person (or group of persons acting in concert) will own, control or hold the power to vote a greater percentage of that class of voting securities immediately after the transaction. The concept of acting in concert is very broad and also is subject to certain rebuttable presumptions, including among others, that relatives, business partners, management officials, affiliates and others are presumed to be acting in concert with each other and their businesses. The regulations of the FDIC implementing the CBCA are generally similar to those described above.

The Puerto Rico Banking Law requires the approval of the OCIF for changes in control of a Puerto Rico bank. See "Puerto Rico Banking Law."

Standards for Safety and Soundness

The FDIA requires the FDIC and the other federal bank regulatory agencies to prescribe standards of safety and soundness, by regulations or guidelines, relating generally to operations and management, asset growth, asset quality, earnings, stock valuation, and compensation. The implementing regulations and guidelines of the FDIC and the other federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the regulations and guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The regulations and guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. Failure to comply with these standards can result in administrative enforcement or other adverse actions against the bank.

Brokered Deposits

FDIC regulations adopted under the FDIA govern the receipt of brokered deposits by banks. Well-capitalized institutions are not subject to limitations on brokered deposits, while adequately-capitalized institutions are able to accept, renew or rollover brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the interest paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits.

Puerto Rico Banking Law

As a commercial bank organized under the laws of the Commonwealth of Puerto Rico, FirstBank is subject to supervision, examination and regulation by the Commonwealth of Puerto Rico Commissioner of Financial Institutions ("Commissioner") pursuant to the Puerto Rico Banking Law of 1933, as amended (the "Banking Law").

The Banking Law contains various provisions relating to FirstBank and its affairs, including its incorporation and organization, the rights and responsibilities of its directors, officers and stockholders and its corporate powers, lending limitations, capital requirements, and investment requirements. In addition, the Commissioner is given extensive rule-making power and administrative discretion under the Banking Law.

The Banking Law authorizes Puerto Rico commercial banks to conduct certain financial and related activities directly or through subsidiaries, including the leasing of personal property and the operation of a small loan business.

The Banking Law requires every bank to maintain a legal reserve, which shall not be less than twenty percent (20%) of its demand liabilities, except government deposits (federal, state and municipal) that are secured by actual collateral. The reserve is required to be composed of any of the following securities or a combination thereof: (1) legal tender of the United States; (2) checks on banks or trust companies located in any part of Puerto Rico that are to be presented for collection during the day following the day on which they are received; (3) money deposited in other banks provided said deposits are authorized by the Commissioner and subject to immediate collection; (4) federal funds sold to any Federal Reserve Bank and securities purchased under agreements to resell executed by the bank with such funds that are subject to be repaid to the bank on or before the close of the next business day; and (5) any other asset that the Commissioner identifies from time to time.

Section 17 of the Banking Law permits Puerto Rico commercial banks to make loans to any one person, firm, partnership or corporation in an aggregate amount of up to fifteen percent (15%) of the sum of: (i) the bank’s paid-in capital; (ii) the bank’s reserve fund; (iii) 50% of the bank’s retained earnings, subject to certain limitations; and (iv) any other components that the Commissioner may determine from time to time. If such loans are secured by collateral worth at least twenty five percent (25%) more than the amount of the loan, the aggregate maximum amount may reach one third (33.33%) of the sum of the bank’s paid-in capital, reserve fund, 50% of retained earnings, subject to certain limitations, and such other components that the Commissioner may determine from

time to time. There are no restrictions under the Banking Law on the amount of loans that may be wholly secured by bonds, securities and other evidences of indebtedness of the Government of the United States, or of the Commonwealth of Puerto Rico, or by bonds, not in default, of municipalities or instrumentalities of the Commonwealth of Puerto Rico.

The Banking Law prohibits Puerto Rico commercial banks from making loans secured by their own stock, and from purchasing their own stock, unless such purchase is made pursuant to a stock repurchase program approved by the Commissioner or is necessary to prevent losses because of a debt previously contracted in good faith. The stock purchased by the Puerto Rico commercial bank must be sold by the bank in a public or private sale within one year from the date of purchase.

The Banking Law provides that no officer, director, agent or employee of a Puerto Rico commercial bank may serve as an officer, director, agent or employee of another Puerto Rico commercial bank, financial corporation, savings and loan association, trust corporation, corporation engaged in granting mortgage loans or any other institution engaged in the money lending business in Puerto Rico. This prohibition is not applicable to any such position with an affiliate of a Puerto Rico commercial bank.

The Banking Law requires that Puerto Rico commercial banks prepare each year a balance summary of their operations, and submit such balance summary for approval at a regular meeting of stockholders, together with an explanatory report thereon. The Banking Law also requires that at least ten percent (10%) of the yearly net income of a Puerto Rico commercial bank be credited annually to a reserve fund. This credit is required to be done every year until such reserve fund shall be equal to the total paid-in-capital of the bank.

The Banking Law also 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 no dividend shall be declared until said capital has been restored to its original amount and the amount in the reserve fund equals twenty percent (20%) of the original capital.

The Banking Law requires the prior approval of the Commissioner with respect to a transfer of capital stock of a bank that results in a change of control of the bank. Under the Banking Law, a change of control is presumed to occur if a person or a group of persons acting in concert, directly or indirectly, acquires more than 5% of the outstanding voting capital stock of the bank. The Commissioner has interpreted the restrictions of the Banking Law as applying to acquisitions of voting securities of entities controlling a bank, such as a bank holding company. Under the Banking Law, the determination of the Commissioner whether to approve a change of control filing is final and non-appealable.

The Finance Board, which is composed of the Commissioner, the Secretary of the Treasury, the Secretary of Commerce, the Secretary of Consumer Affairs, the President of the Economic Development Bank, the President of the Government Development Bank, and the President of the Planning Board, has the authority to regulate the maximum interest rates and finance charges that may be charged on loans to individuals and unincorporated businesses in Puerto Rico. The current regulations of the Finance Board provide that the applicable interest rate on loans to individuals and unincorporated businesses, including real estate development loans but excluding certain other personal and commercial loans secured by mortgages on real estate properties, is to be determined by free competition. Accordingly, the regulations do not set a maximum rate for charges on retail installment sales contracts, small loans, and credit card purchases and set aside previous regulations which regulated these maximum finance charges. Furthermore, there is no maximum rate set for installment sales contracts involving motor vehicles, commercial,

agricultural and industrial equipment, commercial electric appliances and insurance premiums.

International Banking Act of Puerto Rico ("IBE Act 52")

The business and operations of FirstBank International Branch ("FirstBank IBE" or the "IBE division of FirstBank") and FirstBank Overseas Corporation (the IBE subsidiary of FirstBank) are subject to supervision and regulation by the Commissioner. FirstBank and FirstBank Overseas Corporation were created under the IBE Act 52, 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. Under the IBE Act 52, certain sales, encumbrances, assignments, mergers, exchanges or transfers of shares, interests or participation(s) in the capital of an international banking entity (an "IBE") may not be initiated without the prior approval of the Commissioner. The IBE Act 52 and the regulations issued thereunder by the Commissioner (the "IBE Regulations") limit the business activities that may be carried out by an IBE. Such activities are limited in part to persons and assets located outside of Puerto Rico.

Pursuant to the IBE Act 52 and the IBE Regulations, each of FirstBank IBE and FirstBank Overseas Corporation must maintain locally books and records of all its transactions in the ordinary course of business. FirstBank IBE and FirstBank Overseas Corporation are also required thereunder to submit to the Commissioner quarterly and annual reports of their financial condition and results of operations, including annual audited financial statements.

The IBE Act 52 empowers the Commissioner to revoke or suspend, after notice and hearing, a license issued thereunder if, among other things, the IBE fails to comply with the IBE Act 52, the IBE Regulations or the terms of its license, or if the Commissioner finds that the business or affairs of the IBE are conducted in a manner that is not consistent with the public interest.

In 2012, the Puerto Rico Government approved Act Number 273 ("Act 273"). Act 273 replaces, prospectively, IBE Act 52 with the objective of improving the conditions for conducting international financial transactions in Puerto Rico. An IBE existing on the date of approval of Act 273, such as FirstBank IBE and FirstBank Overseas Corporation, can continue operating under IBE Act 52, or, it can voluntarily convert to an International Financial Entity ("IFE") under Act 273 so it may broaden its scope of Eligible IFE Activities, as defined below, and obtain a grant of tax exemption under Act 273.

IFEs are licensed by the Commissioner, and authorized to conduct certain Act 273 specified financial transactions ("Eligible IFE Activities"). Once licensed, an IFE can request a grant of tax exemption ("Tax Grant") from the Puerto Rico Department of Economic Development and Commerce, which will enumerate and secure the following tax benefits provided by Act 273 as contractual rights (i.e., regardless of future changes in Puerto Rico law) for a fifteen (15) year period:

(i) to the IFE:

- a fixed 4% Puerto Rico income tax rate on the net income derived by the IFE from its Eligible IFE Activities; and

- full property and municipal license tax exemptions on such activities.

(ii) to its shareholders:

- 6% income tax rate on distributions to Puerto Rico resident shareholders of earnings and profits derived from the Eligible IFE Activities; and

- full Puerto Rico income tax exemption on such distributions to non-Puerto Rico resident shareholders.

The primary purpose of IFEs is to attract Unites States and foreign investors to Puerto Rico. Consequently, Act 273 authorizes them to engage in traditional banking and financial transactions, principally with non-residents of Puerto Rico. Furthermore, the scope of Eligible IFE Activities encompasses a wider variety of transactions than those previously authorized to IBEs.

As of the date of the issuance of this Annual Report on Form 10-K, FirstBank IBE and FirstBank Overseas Corporation are operating under IBE Act 52.

Puerto Rico Income Taxes

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.

Under the 2011 PR Code, First BanCorp. is subject to a maximum statutory tax rate of 39%. The 2011 PR Code also includes an alternative minimum tax of 30% that applies if the Corporation's regular income tax liability is less than the alternative minimum tax requirements.

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 FirstBank IBE, and through the Bank's subsidiary, FirstBank Overseas Corporation, whose interest income and gain on sales is exempt from Puerto Rico income taxation.

During 2013, the Puerto Rico Government approved Act No. 40, which imposed a national gross receipts tax. The national gross receipts tax for financial institutions was computed on the basis of 1% of gross income net of allowable exclusions. Subject to certain limitations, a financial institution was able to claim a credit of 0.5% of its gross income against its regular income tax or the alternative minimum tax. However, on December 22, 2014, the Governor of Puerto Rico signed Act No. 238, which amended the 2011 PR Code. Act No. 238 clarified that the national gross receipts tax was not applicable to taxable years starting after December 31, 2014. Accordingly, the Corporation did not record a national gross receipts tax expense for 2015. During the year 2014, a $5.7 million gross receipts tax expense was included as part of "Taxes, other than income taxes" in the consolidated statement of income and a $2.9 million benefit related to this credit was recorded as a reduction to the provision for income taxes.

On May 28 and September 30, 2015, the Puerto Rico legislature approved Act 72-2015 and Act 159-2015, respectively, which enacted amendments to the 2011 PR Code. The amendments related to the income tax provision include changes to the alternative minimum tax computation, and changes to the use limitation on NOLs and capital losses for 2015 and future taxable years. The change in the tax law affected the Corporation's income tax computation by limiting the NOL deduction to 80% of taxable income, compared to a 90% limitation in prior years.

Act 72-2015 also introduced a value added tax (the "VAT") on consumption, effective April 1, 2016, to replace the current sales and use tax ("SUT"), and certain temporary changes on SUT for the transition into the VAT. The changes in SUT include, an increase in tax rate from 7% to 11.5%, effective July 1, 2015, and a new 4% SUT on business to business services, and professional services, with certain exceptions, effective October 1, 2015. That law included a measure that the Puerto Rico Treasury Secretary could postpone for 60 days the application of the VAT provisions. Early in March 2016, the Puerto Rico Secretary of the Treasury postponed until June 1, 2016 the implementation of the VAT. Once the VAT enters in force, the 4% SUT imposed on certain business to business services and professional services will change into a 10.5% VAT and most transactions already subject to the 11.5% SUT will remain at the same rate under the VAT. Act 159-2015 included additional exemptions to the 4% SUT and 10.5% VAT such as for certain legal services, intangibles and transportation services.

United States Income Taxes

The Corporation is also subject to federal income tax on its income from sources within the United States and on any item of income that is, or is considered to be, effectively connected with the active conduct of a trade or business within the United States. The U.S. Internal Revenue Code provides for tax exemption of any portfolio interest received by a foreign corporation from sources within the United States; therefore, the Corporation is not subject to federal income tax on certain U.S. investments that qualify under the term "portfolio interest."

Insurance Operations Regulation

FirstBank Insurance Agency is registered as an insurance agency with the Insurance Commissioner of Puerto Rico and is subject to regulations issued by the Insurance Commissioner relating to, among other things, the licensing of employees and sales and solicitation and advertising practices, and by the Federal Reserve as to certain consumer protection provisions mandated by the GLB Act and its implementing regulations.

Mortgage Banking Operations

In addition to FDIC and CFPB regulation, FirstBank is subject to the rules and regulations of the FHA, VA, FNMA, FHLMC, GNMA, and the U.S. Department of Housing and Urban Development (the "HUD") with respect to originating, processing, selling and servicing mortgage loans and the issuance and sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines that include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts, and, with respect to VA loans, fix maximum interest rates. Moreover, lenders such as FirstBank are required annually to submit audited financial statements to the FHA, VA, FNMA, FHLMC, GNMA and HUD and each regulatory entity has its own financial requirements. FirstBank's affairs are also subject to supervision and examination by the FHA, VA, FNMA, FHLMC, GNMA and HUD at all times to assure compliance with applicable regulations, policies and procedures. Mortgage origination activities are subject to, among other requirements, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act, and the Real Estate Settlement Procedures Act and the regulations promulgated thereunder that, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. FirstBank is licensed by the Commissioner under the Puerto Rico Mortgage Banking Law, and, as such, is subject to regulation by the Commissioner, with respect to, among other things, licensing requirements and the establishment of maximum origination fees on certain types of mortgage loan products.

Section 5 of the Puerto Rico Mortgage Banking Law requires the prior approval of the Commissioner for the acquisition of control of any mortgage banking institution licensed under such law. For purposes of the Puerto Rico Mortgage Banking Law, the term “control” means the power to direct or influence decisively, directly or indirectly, the management or policies of a mortgage banking institution. The Puerto Rico Mortgage Banking Law provides that a transaction that results in the holding of less than 10% of the outstanding voting securities of a mortgage banking institution shall not be considered a change in control.

Item 1A. Risk Factors

RISKS RELATING TO THE CORPORATION'S BUSINESS

We are operating under an agreement with our regulators.

We are subject to supervision and regulation by the Federal Reserve Board. We are a bank holding company and a financial holding company under the Bank Holding Company Act of 1956, as amended.

As a financial holding company, we are permitted to engage in a broader range of "financial" activities than those permitted to bank holding companies that are not financial holding companies. At this time, as a result of, among other things, the Written Agreement we entered into with the Federal Reserve Bank of New York on June 4, 2010, under the BHC Act, we currently are not able to engage in new financial activities, and we may not be able to acquire shares or control of other companies.

The Written Agreement, which is designed to enhance our ability to act as a source of strength to FirstBank, requires that we obtain prior Federal Reserve and/or New York FED (referred to jointly as the "Federal Reserve") approval before declaring or paying dividends, receiving dividends from FirstBank, making payments on subordinated debt or trust-preferred securities, incurring, increasing or guaranteeing debt (whether such debt is incurred, increased or guaranteed, directly or indirectly, by us or any of our non-banking subsidiaries) or purchasing or redeeming any capital stock. The Written Agreement also required us to submit to the Federal Reserve a capital plan and requires that we submit progress reports, comply with certain notice provisions prior to appointing new directors or senior executive officers and comply with certain payment restrictions on severance payments and indemnification restrictions.

We anticipate that we will need to continue to dedicate significant resources to our efforts to comply with the Written Agreement, which may increase operational costs or adversely affect the amount of time our management has to conduct our operations.

If we fail to comply with the Written Agreement, we may become subject to additional regulatory enforcement action and other adverse regulatory actions that might have a material and adverse effect on our operations.

Our high level of non-performing loans may adversely affect our future results from operations.

We continue to have a high level of non-performing loans as of December 31, 2015, although it decreased $127.6 million to $450.9 million as of December 31, 2015, or 22%, from $578.5 million as of December 31, 2014. Our non-performing loans represent approximately 5% of our $9.3 billion loan portfolio as of December 31, 2015. In addition, we have a high level of total non-performing assets, although our non-performing assets decreased $106.8 million to $609.9 million as of December 31, 2015, or 14.9%, from $716.8 million as of December 31, 2014. If we are unable to effectively maintain the quality of our loan portfolio, our financial condition and results of operations may be materially and adversely affected.

Certain funding sources may not be available to us and our funding sources may prove insufficient and/or costly to replace.

FirstBank relies primarily on customer deposits, the issuance of brokered CDs, and advances from the Federal Home Loan Bank to maintain its lending activities and to replace certain maturing liabilities. As of December 31, 2015, we had $2.1 billion in brokered CDs outstanding, representing approximately 22.5% of our total deposits, and a reduction of $789.6 million from the year ended December 31, 2014. Approximately $1.3 billion in brokered CDs mature over the next twelve months, and the average term to maturity of the retail brokered CDs outstanding as of December 31, 2015 was approximately 1.1 years. None of these CDs are callable at the Corporation's option.

Although FirstBank has historically been able to replace maturing deposits and advances, we may not be able to replace these funds in the future if our financial condition or general market conditions change. The use of brokered deposits has been particularly important for the funding of our operations. If we are unable to issue brokered deposits, or are unable to maintain access to other funding sources, our results of operations and liquidity would be adversely affected.

Alternate sources of funding may carry higher costs than sources currently utilized. If we are required to rely more heavily on more expensive funding sources, profitability would be adversely affected. We may determine to seek debt financing in the future to achieve our long-term business objectives. Any future debt financing by the Corporation requires the prior approval of the Federal Reserve, and the Federal Reserve may not approve such financing. Additional borrowings, if sought, may not be available to us, or if available, may not be on acceptable terms. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, our credit ratings and our credit capacity. In addition, the Bank may seek to sell loans as an additional source of liquidity. If additional financing sources are unavailable or are not available on acceptable terms, our profitability and future prospects could be adversely affected.

We depend on cash dividends from FirstBank to meet our cash obligations.

As a holding company, dividends from FirstBank have provided a substantial portion of our cash flow used to service the interest payments on our trust-preferred securities and other obligations. As outlined in the Written Agreement, we cannot receive any cash dividends from FirstBank without the prior written approval of the Federal Reserve. In addition, FirstBank is limited by law in its

ability to make dividend payments and other distributions to us based on its earnings and capital position. Our inability to receive approval from the Federal Reserve to receive dividends from FirstBank, or FirstBank's failure to generate sufficient cash flow to make dividend payments to us, may adversely affect our ability to meet all projected cash needs in the ordinary course of business and may have a detrimental impact on our financial condition.

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

If we do not obtain Federal Reserve approval to pay interest, principal or other sums on subordinated debentures or trust-preferred securities, a default under certain obligations may occur.

The Written Agreement provides that we cannot declare or pay any dividends or make any distributions of interest, principal or other sums on subordinated debentures or trust-preferred securities without prior written approval of the Federal Reserve. With respect to our outstanding subordinated debentures, we have elected to defer the interest payments that were due in quarterly periods since March 2012. The aggregate amount of payments deferred and accrued approximates $28.7 million as of December 31, 2015.

Under the indentures, we have the right, from time to time, and without causing an event of default, to defer payments of interest on the subordinated debentures by extending the interest payment period at any time and from time to time during the term of the subordinated debentures for up to twenty consecutive quarterly periods. We may continue to elect extension periods for future quarterly interest payments if the Federal Reserve advises us that it will not approve such future quarterly interest payments. Our inability to receive approval from the Federal Reserve to make distributions of interest, principal or other sums on our trust-preferred securities and subordinated debentures could result in a default under those obligations if we need to defer such payments for longer than twenty consecutive quarterly periods.

Credit quality may result in additional losses.

The quality of our credits has continued to be under pressure as a result of continued recessionary conditions in the markets we serve that have led to, among other things, high unemployment levels, low absorption rates for new residential construction projects and further declines in property values. Our business depends on the creditworthiness of our customers and counterparties and the value of the assets securing our loans or underlying our investments. When the credit quality of the customer base materially decreases or the risk profile of a market, industry or group of customers changes materially, our business, financial condition, allowance levels, asset impairments, liquidity, capital and results of operations are adversely affected.

We have a commercial and construction loan portfolio held for investment in the amount of $4.1 billion as of December 31, 2015. Due to their nature, these loans entail a higher credit risk than consumer and residential mortgage loans, since they are larger in size, concentrate more risk in a single borrower and are generally more sensitive to economic downturns. Furthermore, given the slowdown in the real estate market, the properties securing these loans may be difficult to dispose of if they are foreclosed. As of December 31, 2015, we had $243.0 million in nonperforming commercial and construction loans held for investment. During 2015, the Corporation increased the reserve for loan losses by approximately $39 million related to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities) and recorded other-than-temporary impairment charges of $15.9 million on Puerto Rico Government debt securities as a result of the Puerto Rico Government's fiscal situation. See "Risks Relating to the Business Environment and Our Industry – The Corporation's credit quality has been and in the future may be adversely affected by Puerto Rico's current economic condition." We may incur additional credit losses over the near term, either because of continued deterioration of the quality of the loans or because of sales of such loans, which would likely accelerate the recognition of losses. Any such losses would adversely impact our overall financial performance and results of operations.

Our allowance for loan and lease losses may not be adequate to cover actual losses, and we may be required to materially increase our allowance, which may adversely affect our capital, financial condition and results of operations.

We are subject to the risk of loss from loan defaults and foreclosures with respect to the loans we originate and purchase. We establish a provision for loan and lease losses, which leads to reductions in our income from operations, in order to maintain our allowance for inherent loan and lease losses at a level that our management deems to be appropriate based upon an assessment of the quality of the loan and lease portfolio. Management may fail to accurately estimate the level of inherent loan and lease losses or may have to increase our provision for loan and lease losses in the future as a result of new information regarding existing loans, future increases in non-performing loans, changes in economic and other conditions affecting borrowers or for other reasons beyond our control. In addition, bank regulatory agencies periodically review the adequacy of our allowance for loan and lease losses and may

require an increase in the provision for loan and lease losses or the recognition of additional classified loans and loan charge-offs, based on judgments different than those of management.

The level of the allowance reflects management's estimates based upon various assumptions and judgments as to specific credit risks, evaluation of industry concentrations, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan and lease losses inherently involves a high degree of subjectivity and requires management to make significant estimates and judgments regarding current credit risks and future trends, all of which may undergo material changes. If our estimates prove to be incorrect, our allowance for credit losses may not be sufficient to cover losses in our loan portfolio and our expense relating to the additional provision for credit losses could increase substantially.

Any such increases in our provision for loan and lease losses or any loan losses in excess of our provision for loan and lease losses would have an adverse effect on our future financial condition and results of operations. Given the difficulties facing some of our largest borrowers, these borrowers may fail to continue to repay their loans on a timely basis or we may not be able to assess accurately any risk of loss from the loans to these borrowers. Also, additional economic weakness, which has resulted in downgrades of Puerto Rico's general obligation debt to non-investment grade, among other consequences, could require additional increases in reserves.

Changes in collateral values of properties located in stagnant or distressed economies may require increased reserves.

Further deterioration of the value of real estate collateral securing our construction, commercial and residential mortgage loan portfolios would result in increased credit losses. As of December 31, 2015, approximately 2%, 17% and 36% of our loan portfolio consisted of construction, commercial mortgage and residential real estate loans, respectively.

A substantial part of our loan portfolio is located within the boundaries of the U.S. economy. Whether the collateral is located in Puerto Rico, the USVI, the BVI, or the U.S. mainland, the performance of our loan portfolio and the collateral value backing the transactions are dependent upon the performance of and conditions within each specific real estate market. Puerto Rico has been in an economic recession since 2006. Sustained weak economic conditions that have affected Puerto Rico over the last several years have resulted in declines in collateral values.

Construction and commercial loans, mostly secured by commercial and residential real estate properties, entail a higher credit risk than consumer and residential mortgage loans since they are larger in size, may have less collateral coverage, concentrate more risk in a single borrower and are generally more sensitive to economic downturns. As of December 31, 2015, commercial mortgage and construction real estate loans amounted to $1.7 billion or 18% of the total loan portfolio.

We measure the impairment of a loan based on the fair value of the collateral, if collateral dependent, which is generally obtained from appraisals. Updated appraisals are obtained when we determine that loans are impaired and are updated annually thereafter. In addition, appraisals are also obtained for certain residential mortgage loans on a spot basis based on specific characteristics such as delinquency levels, age of the appraisal and loan-to-value ratios. The appraised value of the collateral may decrease or we may not be able to recover collateral at its appraised value. A significant decline in collateral valuations for collateral dependent loans may require increases in our specific provision for loan losses and an increase in the general valuation allowance. Any such increase would have an adverse effect on our future financial condition and results of operations. During the year ended December 31, 2015, net charge-offs on construction, commercial mortgage and residential mortgage loan portfolios totaled $2.4 million, $49.6

million and $18.1 million, respectively.

The acquisition of certain assets and deposits of Doral Bank through an alliance with another financial institution could magnify certain of the Corporation's risks and could present new risks.

On February 27, 2015, the Corporation, through an alliance with another local financial institution that was the successful lead bidder with the FDIC on the failed Doral Bank, acquired certain assets and deposits of Doral Bank. The transaction magnifies certain of the risks the Corporation already faces that are described in these "Risk Factors" and presents new risks, including the following:

- risks associated with weak economic conditions in the economy and in the real estate market in Puerto Rico, which adversely affect real estate prices, the job market, consumer confidence and spending habits, which may affect, among other things, the continued status of the loans acquired as performing loans, charge-offs and provision expense;
- changes in interest rates and market liquidity, which may reduce interest margins;
- changes in market rates and prices that may adversely impact the value of financial assets and liabilities; and
- failure to realize the anticipated acquisition benefits in the amounts and within the time frames expected.

Interest rate shifts may reduce net interest income.

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest-earning assets and the interest paid by us on our interest-

bearing liabilities. Differences in the re-pricing structure of our assets and liabilities may result in changes in our profits when interest rates change.

Increases in interest rates may reduce the value of holdings of securities.

Fixed-rate securities acquired by us are generally subject to decreases in market value when interest rates rise, which may require recognition of a loss (e.g., the identification of an other-than-temporary impairment on our available-for-sale investment portfolio), thereby adversely affecting our results of operations. Market-related reductions in value also influence our ability to finance these securities. Furthermore, increases in interest rates may result in an extension of the expected average life of certain fixed-income securities, such as fixed-rate pass-through mortgage-backed securities. Such an extension could exacerbate the drop in market value related to shifts in interest rates.

Increases in interest rates may reduce demand for mortgage and other loans.

Higher interest rates increase the cost of mortgage and other loans to consumers and businesses and may reduce demand for such loans, which may negatively impact our profits by reducing the amount of loan interest income.

Accelerated prepayments may adversely affect net interest income.

In general, fixed-income portfolio yields would decrease if the re-investment of pre-payment amounts is at lower rates. Net interest income could also be affected by prepayments of mortgage-backed securities. Acceleration in the prepayments of mortgage-backed securities would lower yields on these securities, as the amortization of premiums paid upon the acquisition of these securities would accelerate. Conversely, acceleration in the prepayments of mortgage-backed securities would increase yields on securities purchased at a discount, as the accretion of the discount would accelerate. These risks are directly linked to future period market interest rate fluctuations. Also, net interest income in future periods might be affected by our investment in callable securities because decreases in interest rates might prompt the early redemption of such securities.

Changes in interest rates on loans and borrowings may adversely affect net interest income.

Basis risk is the risk of adverse consequences resulting from unequal changes in the difference, also referred to as the “spread” or basis, between the rates for two or more different instruments with the same maturity and occurs when market rates for different financial instruments or the indices used to price assets and liabilities change at different times or by different amounts. For example, the interest expense for liability instruments such as brokered CDs might not change by the same amount as interest income received from loans or investments. To the extent that the interest rates on loans and borrowings change at different rates and by different amounts, the margin between our LIBOR-based assets and the higher cost of the brokered CDs might be compressed and adversely affect net interest income.

If all or a significant portion of the unrealized losses in our investment securities portfolio on our consolidated balance sheet is determined to be other-than-temporarily impaired, we would recognize a material charge to our earnings and our capital ratios would be adversely affected.

For the years ended December 31, 2013, 2014, and 2015, we recognized a total of $0.2 million, $0.4 million and $16.5 million, respectively, in other-than-temporary impairments. The 2015 impairments were primarily related to Puerto Rico Government debt securities held by the Corporation, which may continue to be adversely affected by the Puerto Rico Government financial difficulties. See “Risks Relating to the Business Environment and Our Industry – The

Corporation's credit quality has been and in the future may be adversely affected by Puerto Rico's current economic condition." To the extent that any portion of the unrealized losses in our investment securities portfolio of $43.9 million as of December 31, 2015 is determined to be other-than-temporary and, in the case of debt securities, the loss is related to credit factors, we would recognize a charge to earnings in the quarter during which such determination is made and capital ratios could be adversely affected. Even if we do not determine that the unrealized losses associated with this portfolio require an impairment charge, increases in these unrealized losses adversely affect our tangible common equity ratio, which may adversely affect credit rating agency and investor sentiment towards us. Any negative perception also may adversely affect our ability to access the capital markets or might increase our cost of capital. Valuation and other-than-temporary impairment determinations will continue to be affected by external market factors including default rates, severity rates and macro-economic factors.

Downgrades in our credit ratings could further increase the cost of borrowing funds.

The Corporation's ability to access new non-deposit sources of funding, even if approved by the Federal Reserve, could be adversely affected by downgrades in our credit ratings. The Corporation's liquidity is to a certain extent contingent upon its ability to obtain external sources of funding to finance its operations. The Corporation's current credit ratings and any downgrades in such credit ratings can hinder the Corporation's access to new forms of external funding and/or cause external funding to be more expensive, which could in turn adversely affect results of operations. Also, changes in credit ratings may further affect the fair value of unsecured derivatives that consider the Corporation's own credit risk as part of the valuation.

Defective and repurchased loans may harm our business and financial condition.

In connection with the sale and securitization of loans, we are required to make a variety of customary representations and warranties relating to the loans sold or securitized. Our obligations with respect to these representations and warranties are generally outstanding for the life of the loan, and relate to, among other things:

- compliance with laws and regulations;
- underwriting standards;
- the accuracy of information in the loan documents and loan files; and
- the characteristics and enforceability of the loan

A loan that does not comply with these representations and warranties may take longer to sell, may impact our ability to obtain third party financing for the loan, and may not be saleable or may be saleable only at a significant discount. If such a loan is sold before we detect non-compliance, we may be obligated to repurchase the loan and bear any associated loss directly, or we may be obligated to indemnify the purchaser against any loss, either of which could reduce our cash available for operations and liquidity. Management believes that it has established controls to ensure that loans are originated in accordance with the secondary market's requirements, but mistakes may be made, or certain employees may deliberately violate our lending policies.

Our controls and procedures may fail or be circumvented, our risk management policies and procedures may be inadequate and operational risk could adversely affect our consolidated results of operations.

We may fail to identify and manage risks related to a variety of aspects of our business, including, but not limited to, operational risk, interest-rate risk, trading risk, fiduciary risk, legal and compliance risk, liquidity risk and credit risk. We have adopted and periodically improved various controls, procedures, policies and systems to monitor and manage risk. Any improvements to our controls, procedures, policies and systems, however, may not be adequate to identify and manage the risks in our various businesses. If our risk framework is ineffective, either because it fails to keep pace with changes in the financial markets or our businesses or for other reasons, we could incur losses or suffer reputational damage or find ourselves out of compliance with applicable regulatory mandates or expectations.

We may also be subject to disruptions from external events that are wholly or partially beyond our control, which could cause delays or disruptions to operational functions, including information processing and financial market settlement functions. In addition, our customers, vendors and counterparties could suffer from such events. Should these events affect us, or the customers, vendors or counterparties with which we conduct business, our consolidated results of operations could be negatively affected. When we record balance sheet reserves for probable loss contingencies related to operational losses, we may be unable to accurately estimate our potential exposure, and any reserves we establish to cover operational losses may not be sufficient to cover our actual financial exposure, which may have a material impact on our consolidated results of operations or financial condition for the periods in which we recognize the losses.

Cyber-attacks, system risks and data protection breaches could present significant reputational, legal and regulatory costs.

First BanCorp. is under continuous threat of cyber-attacks especially as we continue to expand customer services via the internet and other remote service channels. Three of the most significant cyber-attack risks that we face are e-fraud, denial-of-service and computer intrusion that might result in loss of sensitive customer data. Loss from e-fraud occurs when cybercriminals breach and extract funds from customer bank accounts. Denial-of-service disrupts services available to our customers through our on-line banking system. Computer intrusion attempts might result in the breach of sensitive customer data, such as account numbers and social security numbers, and any cyber-attacks could present significant reputational, legal and/or regulatory costs to the Corporation if successful. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity of the threats from

organized cybercriminals and hackers, and our plans to continue to provide electronic banking services to our customers.

If personal, non-public, confidential or proprietary information of our customers in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, the erroneous provision of information to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or the interception or other inappropriate use of such information by third parties.

We rely on other companies to perform key aspects of our business infrastructure.

Third parties perform key aspects of our business operations such as data processing, information security, recording and monitoring transactions, online banking interfaces and services, internet connections and network access. While we believe that we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, failure of a vendor to provide services for any reason or poor performance of services, or failure of a vendor to notify us of a reportable event, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third party vendor could also hurt our operations if those difficulties interfere with the vendor’s ability to serve us. Replacing these third party vendors could also create significant delay and expense. Accordingly, use of such third parties creates an inherent risk to our business operations.

Hurricanes and other weather-related events could cause a disruption in our operations or other consequences that could have an adverse impact on our results of operations.

Our operations are located in regions susceptible to hurricanes. Such weather events can cause disruption to our operations and could have a material adverse effect on our overall results of operations. We maintain hurricane insurance, including coverage for lost profits and extra expense; however, there is no insurance against the disruption to the markets that we serve that a catastrophic hurricane could produce. Further, a hurricane in any of our market areas could adversely impact the ability of borrowers to timely repay their loans and may adversely impact the value of any collateral held by us. The severity and impact of future hurricanes and other weather-related events are difficult to predict and may be exacerbated by global climate change. The effects of future hurricanes and other weather-related events could have an adverse effect on our business, financial condition or results of operations.

Competition for our executives and other key employees is intense, and we may not be able to attract and retain the highly skilled people we need to support our business.

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we engage can be intense, and we may not be able to hire people or retain them, particularly in light of uncertainty concerning compensation restrictions applicable to banks but not applicable to other financial services firms. The unexpected loss of services of one or more of our key personnel could adversely affect our business because of the loss of their skills, knowledge of our markets and years of industry experience and, in some cases, because of the difficulty of promptly finding qualified replacement employees. Similarly, the loss of our executives or other key employees, either individually or as a group, could result in a loss of customer confidence in our ability to execute banking transactions on their behalf.

Further increases in the FDIC deposit insurance premium or in FDIC required reserves may have a significant financial impact on us.

The FDIC insures deposits at FDIC-insured depository institutions up to certain limits. The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund (the “DIF”). In the event of a bank failure, the FDIC takes control of a failed bank and, if necessary, pays all insured deposits up to the statutory deposit insurance limits using the resources of the DIF. The FDIC is required by law to maintain adequate funding of the DIF, and the FDIC may increase premium assessments to maintain such funding.

The Dodd-Frank Act requires the FDIC to increase the DIF’s reserves against future losses, which will require institutions with assets greater than $10 billion, such as FirstBank, to bear an increased responsibility for funding the prescribed reserve to support the DIF. Since then, the FDIC addressed plans to bolster the DIF by increasing the required reserve ratio for the industry to 1.35 percent (ratio of reserves to insured deposits) by September 30, 2020, as required by the Dodd-Frank Act. The FDIC has also adopted a final rule raising its industry target ratio of reserves to insured deposits to 2 percent, 65 basis points above the statutory minimum, but the FDIC does not project that goal to be met for several years.

The FDIC’s revised rule on deposit insurance assessments implements a provision in the Dodd-Frank Act that changes the assessment base for deposit insurance premiums from one based on domestic deposits to one based on average consolidated total assets minus average Tier 1 capital. The rule changes the assessment rate schedules for insured depository institutions so that approximately the same amount of revenue would be collected under the new assessment base as would be collected under the previous rate schedule and the schedules previously proposed by the

FDIC. The rule also revises the risk-based assessment system for all large insured depository institutions (generally, institutions with at least $10 billion in total assets, such as FirstBank). Under the rule, the FDIC uses a scorecard method to calculate assessment rates for all such institutions.

The FDIC has proposed a rule to increase the DIF of the statutorily required minimum level of 1.35 percent. Among other things, the proposed rule would impose on banks with at least $10 billion in assets (which would include the Bank) a surcharge of 4.5 cents per $100 of their assessment base, after making certain adjustments. The FDIC has stated that it expects the reserve ratio probably would reach 1.35 percent after approximately two years of payments of the proposed surcharges.

The FDIC may further increase FirstBank's premiums or impose additional assessments or prepayment requirements in the future. The Dodd-Frank Act has removed the statutory cap for the reserve ratio, leaving the FDIC free to set this cap going forward.

Our businesses may be adversely affected by litigation.

From time to time, our customers, or the government on their behalf, may make claims and take legal action relating to our performance of fiduciary or contractual responsibilities. We may also face employment lawsuits or other legal claims. In any such claims or actions, demands for substantial monetary damages may be asserted against us resulting in financial liability or an adverse effect on our reputation among investors or on customer demand for our products and services. We may be unable to accurately estimate our exposure to litigation risk when we record balance sheet reserves for probable loss contingencies. As a result, reserves we establish to cover any settlements or judgments may not be sufficient to cover our actual financial exposure, which has occurred in the past and may again occur, resulting in a material adverse impact on our consolidated results of operations or financial condition.

In the ordinary course of our business, we are also subject to various regulatory, governmental and law enforcement inquiries, investigations and subpoenas. These may be directed generally to participants in the businesses in which we are involved or may be specifically directed at us. In regulatory enforcement matters, claims for disgorgement, the imposition of penalties and the imposition of other remedial sanctions are possible.

In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs, potential liabilities and the diversion of management’s attention and resources.

The resolution of legal actions or regulatory matters, if unfavorable, has had and could in the future have a material adverse effect on our consolidated results of operations for the quarter in which such actions or matters are resolved or a reserve is established.

Our businesses may be negatively affected by adverse publicity or other reputational harm.

Our relationships with many of our customers are predicated upon our reputation as a fiduciary and a service provider that adheres to the highest standards of ethics, service quality and regulatory compliance. Adverse publicity, regulatory actions, like the Written Agreement, litigation, operational failures, the failure to meet customer expectations and other issues with respect to one or more of our businesses could materially and adversely affect our reputation, or our ability to attract and retain customers or obtain sources of funding for the same or other businesses. Preserving and enhancing our reputation also depends on maintaining systems and procedures that address known risks and regulatory requirements, as well as our ability to identify and mitigate additional risks that arise due to changes in our businesses, the market places in which we operate, the regulatory environment and customer expectations. If we fail to promptly address matters that bear on our reputation, our reputation may be materially adversely affected and our business will suffer.

Changes in accounting standards issued by the Financial Accounting Standards Board may adversely affect our financial statements.

Our financial statements are subject to the application of U.S. Generally Accepted Accounting Principles (“GAAP”), which are periodically revised and expanded. Accordingly, from time to time, we are required to adopt new or revised accounting standards issued by the Financial Accounting Standards Board. Market conditions have prompted accounting standard setters to promulgate new requirements that further interpret or seek to revise accounting pronouncements related to financial instruments, structures or transactions as well as to revise standards to expand disclosures. The impact of accounting pronouncements that have been issued but not yet implemented is disclosed in footnotes to our financial statements, which are incorporated herein by reference. An assessment of proposed standards is not provided as such proposals are subject to change through the exposure process and, therefore, the effects on our financial statements cannot be meaningfully assessed. It is possible that future accounting standards that we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our balance sheet and results of operations.

Any impairment of our goodwill or amortizable intangible assets may adversely affect our operating results.

If our goodwill or amortizable intangible assets become impaired, we may be required to record a significant charge to earnings. Under GAAP, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Goodwill is tested for impairment at least annually. Factors that may be considered a change in circumstances, indicating that the carrying value of the goodwill or amortizable intangible assets may not be recoverable, include reduced future cash flow estimates and slower growth rates in the industry.

The goodwill impairment evaluation process requires us to make estimates and assumptions with regards to the fair value of our reporting units. Actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact our results of operations and the reporting unit where the goodwill is recorded. We conducted our most recent evaluation of goodwill during the fourth quarter of 2015.

The Step 1 evaluation of goodwill allocated to the Florida reporting unit under valuation approaches (market and discounted cash flow analyses) indicated that the fair value of the unit was above the carrying amount of its equity book value as of the valuation date (October 1), which meant that Step 2 was not undertaken. Goodwill with a carrying value of $28.1 million was not impaired as of December 31, 2015 or 2014, nor was any goodwill written off due to impairment during 2015, 2014, and 2013. If we are required to record a charge to earnings in our consolidated financial statements because an impairment of the goodwill or amortizable intangible assets is determined, our results of operations could be adversely affected.

Recognition of deferred tax assets is dependent upon the generation of future taxable income by the Bank.

As of December 31, 2015, the Corporation had a deferred tax asset of $311.3 million (net of a valuation allowance of $201.7 million), including $182.1 million associated with FirstBank's Net Operating Losses. Under Puerto Rico law, the Corporation and its subsidiaries, including FirstBank, are treated as separate taxable entities and are not entitled to file consolidated tax returns. To obtain the full benefit of the applicable deferred tax asset attributable to NOLs, FirstBank must have sufficient taxable income within the applicable carry forward period (7 years for taxable years beginning before January 1, 2005, 12 years for taxable years beginning after December 31, 2004 and before January 1, 2013, and 10 years for taxable years beginning after December 31, 2012). The Bank

incurred all of its NOLs on or after 2009. Accounting for income taxes requires that companies assess whether a valuation allowance should be recorded against their deferred tax asset based on an assessment of the amount of the deferred tax asset that is more likely than not to be realized.

The Corporation concluded that, as of December 31, 2015, it is more likely than not that FirstBank will generate sufficient taxable income within the applicable NOL carry-forward periods to realize a significant portion of its deferred tax assets. The Corporation recorded a partial reversal of its valuation allowance in the amount of $302.9 million in the fourth quarter of 2014. The Corporation's valuation allowance as of December 31, 2015 amounted to $201.7 million. Due to significant estimates utilized in determining the valuation allowance and the potential for changes in facts and circumstances, it is reasonably possible that, in the future, the Corporation will not be able to reverse the remaining valuation allowance or that the Corporation will need to increase its current deferred tax asset valuation allowance.

The Corporation's judgments regarding tax accounting policies and the resolution of tax disputes may impact the Corporation's earnings and cash flow.

Significant judgment is required in determining the Corporation's effective tax rate and in evaluating its tax positions. The Corporation provides for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement criteria prescribed by applicable GAAP.

Fluctuations in federal, state, local and foreign taxes or a change to uncertain tax positions, including related interest and penalties, may impact the Corporation's effective tax rate. When particular tax matters arise, a number of years may elapse before such matters are audited and finally resolved. In addition, tax positions may be challenged by the United States Internal Revenue Service ("IRS") and the tax authorities in the jurisdictions in which we operate and we may estimate and provide for potential liabilities that may arise out of tax audits to the extent that uncertain tax positions fail to meet the recognition standard under applicable GAAP. Unfavorable resolution of any tax matter could increase the effective tax rate and could result in a material increase in our tax expense. Resolution of a tax issue may require the use of cash in the year of resolution. Tax year 2012 is currently under examination by the IRS. If any issues addressed in this examination are resolved in a manner not consistent with the Corporation's expectations, the Corporation could be required to adjust its provision for income taxes in the period in which such resolution occurs.

We must respond to rapid technological changes, and these changes may be more difficult or expensive than anticipated.

If competitors introduce new products and services embodying new technologies, or if new industry standards and practices emerge, our existing product and service offerings, technology and systems may become obsolete. Further, if we fail to adopt or develop new technologies or to adapt our products and services to emerging industry standards, we may lose current and future customers, which could have a material adverse effect on our business, financial condition and results of operations. The financial services industry is changing rapidly and, in order to remain competitive, we must continue to enhance and improve the functionality and features of our products, services and technologies. These changes may be more difficult or expensive than we anticipate.

RISKS RELATING TO THE BUSINESS ENVIRONMENT AND OUR INDUSTRY

Continuation of the economic slowdown and decline in the real estate market in Puerto Rico could continue to harm our results of operations.

The residential mortgage loan origination business has historically been cyclical, enjoying periods of strong growth and profitability followed by periods of shrinking volumes and industry-wide losses. The market for residential mortgage loan originations has declined over the past few years and this trend may continue to reduce the level of mortgage loans we produce in the future and adversely affect our business. During periods of rising interest rates, the refinancing of many mortgage products tends to decrease as the economic incentives for borrowers to refinance their existing mortgage loans are reduced. In addition, the residential mortgage loan origination business is impacted by home values.

The actual rates of delinquencies, foreclosures and losses on loans have been higher during the economic slowdown. Rising unemployment, lower interest rates and declines in housing prices have had a negative effect on the ability of borrowers to repay their mortgage loans. Any sustained period of increased delinquencies, foreclosures or losses could continue to harm our ability to sell loans, the prices we receive for loans, the values of mortgage loans held for sale or residual interests in securitizations, which could continue to harm our financial condition and results of operations. In addition, any additional material decline in real estate values would further weaken the collateral loan-to-value ratios and increase the possibility of loss if a borrower defaults. In such event, we will be subject to the risk of loss on such real estate arising from borrower defaults to the extent not covered by third-party credit enhancement.

The Corporation's credit quality has been and in the future may be adversely affected by Puerto Rico's current economic condition.

A significant portion of our financial activities and credit exposure is concentrated in the Commonwealth of Puerto Rico, which has been in an economic recession since 2006. Based on the most recent information available, the main economic indicators suggest that the Puerto Rico economy remains weak. For fiscal years 2015 and 2016, the Puerto Rico Planning Board projects a continued economic contraction in the Commonwealth's real gross national product ("GNP") of 0.9% and 1.2%, respectively, while the Government Development Bank for

Puerto Rico economic activity index ("GDB-EAI") in December 2015 decreased 0.5% on a year-over-year basis. The GDB-EAI is a coincident index of economic activity for Puerto Rico made up of four indicators (payroll employment, electric power generation, cement sales and gasoline consumption). The seasonally adjusted unemployment rate in Puerto Rico was 12.2% in December 2015, which is higher than in any U.S. state. Puerto Rico lost over 60 thousand residents in 2014, a 30% increase from 2013, and the largest out-migration in at least 10 years, according to U.S. census data.

On June 29, 2015, the Governor of Puerto Rico announced that the Government will seek alternatives to ensure that the aggregate debt burden of the Commonwealth is adjusted so it can be repaid on sustainable terms, while ensuring pension obligations are honored over the long term and essential services for the people of Puerto Rico are maintained, and issued an Executive Order to create the Puerto Rico Fiscal and Economic Recovery Working Group. After the announcement, the top three credit rating agencies, Moody's, S&P and Fitch downgraded the Puerto Rico issued bonds deeper into non-investment grade status.

The Working Group was created to consider necessary measures, including the measures recommended in the Krueger Report, to address the fiscal crisis of the Commonwealth and is responsible for the development of the Puerto Rico Fiscal and Economic Growth Plan (the "Plan"). The Plan, released in September 2015 and updated in January 2016, reviews the historical measures taken to increase taxes and reduce expenses, analyzes the current liquidity and fiscal position of Puerto Rico, recommends certain fiscal and economic reform and growth measures, including critical measures that require action by the U.S. Government, proposes to create a financial control board and new budgetary regulations, and identifies significant projected financing gaps (even assuming the implementation of the recommended fiscal reform and economic growth measures) absent significant debt relief. The updated Plan shows that General Fund revenues have decreased from a previous estimate of $9.46 billion for fiscal year 2016 to $9.21 billion; the estimated five-year projected financing gaps increase from approximately $14 billion to $16.1 billion, even with the inclusion of economic growth and the implementation of all the proposed measures in the Plan; and the ten-years projections estimate a $23.9 billion aggregate financing gap.

The Commonwealth has adopted measures intended to raise additional revenue, including the increase in the sales and use tax ("SUT") and a value added tax ("VAT") to replace the central government's portion of the SUT, subject to certain conditions. It is uncertain how these measures will impact the consumer and commercial sector.

In August and December 2015 as well as in January 2016, the Puerto Rico Government met its scheduled debt payments for bonds that have constitutional guarantees such as the general obligation bonds and GDB bonds. In order to meet the January 2016 payment, the Puerto Rico Government implemented "clawback" measures to redirect revenues assigned to certain government agencies for the payment of the general obligation debt. Nevertheless, the Puerto Rico Government defaulted in August 2015 and January 2016 on the payment of bonds of certain agencies, specifically bonds of the Public Finance Corporation and the Infrastructure Finance Authority. Government officials disclosed that due to the lack of appropriated funds by the Legislature of Puerto Rico, as part of the current fiscal year 2016 budget, the debt service payment on these public corporations bonds were not made. These bonds are payable solely from budgetary appropriations pursuant to legislation adopted by the Legislature of Puerto Rico. The Legislature of Puerto Rico is not legally bound to appropriate funds for such payments.

Other measures adopted to deal with the Commonwealth's deteriorating liquidity position include the deferral of tax refunds and the stretching of payments to suppliers.

In February 2016, the Working Group released details of a comprehensive voluntary exchange proposal presented to advisors to the Commonwealth's creditors. In addition, the Commonwealth is instituting a fiscal control board to provide necessary oversight and ensure that the Commonwealth complies with the Plan and the terms of the exchange

offer. Ultimate outcomes from the proposed exchange are uncertain at this time, and may vary considerably from the initial proposal, particularly due to factors that are difficult to predict, such as U.S. federal actions to intervene in this matter and bondholders willingness to accept the proposed exchange levels.

The U.S. House of Representatives Speaker, Paul Ryan, has asked legislators to craft a proposal to address the Puerto Rico debt situation by March 31, 2016, which may include a federal control board that would manage its budgets and borrowings.

As of December 31, 2015, the Corporation had $316.0 million of credit facilities, excluding investment securities, extended to the Puerto Rico Government, its municipalities and public corporations, of which $314.6 million was outstanding (book value of $311.0 million), compared to $308.0 million as of December 31, 2014. Approximately $199.5 million of the granted credit facilities outstanding consisted of loans to municipalities in Puerto Rico whose revenues are independent of the central government. The good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment. In addition to municipalities, loans extended to the Puerto Rico Government include $18.9 million of loans to units of the Puerto Rico central government, and approximately $96.3 million ($92.6 million book value) of loans to public corporations, including a direct exposure to PREPA with a book value of $71.1 million as of December 31, 2015. The PREPA credit facility was placed in non-accrual status in the first quarter of 2015 and interest payments are now recorded on a cost-recovery basis.

Furthermore, as of December 31, 2015, the Corporation had $129.4 million outstanding in financings to the hotel industry in Puerto Rico where the borrower and the operations of the underlying collateral are the primary sources of repayment and the Puerto Rico

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Tourism Development Fund provides a secondary guarantee for payment performance, compared to $133.3 million as of December 31, 2014. The TDF is a subsidiary of the GDB that facilitates private-sector financings to Puerto Rico's hotel industry. As a result of liquidity risk and uncertainty regarding the Puerto Rico government fiscal situation, the Corporation adversely classified this $129.4 million exposure during the third quarter of 2015. Since late 2012, the Corporation has received combined payments from the borrowers and TDF as guarantor sufficient to cover contractual payments on these loans, including collections of principal and interest from TDF of approximately $5.3 million in 2015 and $6.1 million in 2014. These loans were current and remained in accrual status as of December 31, 2015.

On March 1, 2016, the Working Group in an updated public presentation indicated that the Commonwealth expects to have insufficient liquidity to make upcoming debt service payments and that a substantial restructuring of the Commonwealth's existing debt is required to allow the Commonwealth to bring its fiscal accounts into balance, to give it time and the financial flexibility to implement structural reforms and growth initiatives so as to stimulate the Puerto Rican economy and thereby to make the restructured debt sustainable in the long term. We continue to monitor the Puerto Rico government fiscal and economic situation and its potential impact on the Corporation's financial condition, including its potential impact on our TDF-guaranteed exposure. Although TDF has continued to cover its contractually required payments as guarantor during the first quarter of 2016, we are currently assessing, together with our regulators, whether recent developments related to the Puerto Rico government fiscal situation introduce additional uncertainty regarding TDF's ability to honor its guarantee, which could require that some or all of our TDF-guaranteed exposure be placed in nonaccrual status. If we determine to treat some or all of such loans as nonaccrual, then the Corporation's asset quality metrics and capital ratios could be adversely impacted, we could be required to prospectively apply principal and interest payments received to the outstanding principal of the loans, and the affected loans would need to be individually evaluated for impairment with specific reserves allocated as deemed necessary. In the event these loans are individually evaluated for impairment, based on present appraised values and assumptions as to recovery rates on Puerto Rico government obligations, the required specific reserves are not expected to deviate materially from the general reserves associated with these loans as of December 31, 2015. There can be no assurance that we would not be required to take additional reserves in future periods, which could impact our financial statements and results of operations.

During 2015, the Corporation increased by approximately $35 million the general reserve related to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities), including a $19.2 million charge to the provision recorded in the fourth quarter related to increased qualitative reserve factors applied to these loans in light of recent events surrounding the Puerto Rico Government's fiscal situation. In addition, during 2015, the specific reserve allocated to the PREPA credit facility was increased by approximately $4.3 million. As of December 31, 2015 the total reserve coverage ratio (general and specific reserves) related to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities) was 19%.

In November 2015, PREPA entered into a restructuring support agreement with bondholders and bank creditors that provides a structured framework to implement certain economic agreements, including cuts to repayments of 15% for bondholders. The agreement also outlines other elements, including new governance standards, operational improvements, and a rate structure proposal and a capital plan. Under the economic terms of the agreement, fuel line lenders will have the option to convert existing credit agreements into term loans with a fixed interest rate of 5.75% per annum, to be repaid over 6 years in accordance with an agreed upon schedule or exchange all or part of principal due under the existing credit agreements for new securitization bonds that will pay cash interest at a rate of 4.0% - 4.75% (depending on the credit rating) ("Option A Bonds") or convertible capital appreciation securitization bonds that will accrete interest at a rate of 4.5% - 5.5% for the first five years and pay current interest in cash thereafter ("Option B bonds"). In February 2016, the Puerto Rico Government approved legislation to facilitate the implementation of the

restructuring support agreement.

In addition, as of December 31, 2015, the Corporation held $49.7 million of obligations of the Puerto Rico Government as part of its available-for-sale investment securities portfolio (net of other-than-temporary credit impairment charges of $15.9 million) recorded on its books at a fair value of $28.2 million. During 2015, the Corporation recorded $15.9 million in OTTI charges on three Puerto Rico Government debt securities, specifically bonds of the GDB and the Puerto Rico Buildings Authority. A $12.9 million impairment charge was booked in the second quarter and an additional $3.0 million impairment was recorded in the fourth quarter. The credit-related impairment loss estimate is based on the probability of default and loss severity in the event of default in consideration of the latest available market-based evidence implied in current security valuations and information about the Puerto Rico Government's financial conditions, including credit ratings and the aforementioned payment defaults and "clawback" measures implemented. Given the uncertainty of the debt restructuring process outcomes, the Corporation cannot be certain that future impairment charges will not be required against these securities.

The decline in Puerto Rico's economy since 2006 has resulted in, among other things, a decline in our loan originations, an increase in the level of our non-performing assets, higher loan loss provisions and charge-offs, and an increase in the rate of foreclosure loss on mortgage loans, all of which adversely affected our profitability. Any further potential deterioration of economic activity could result in further adverse effects on our profitability and credit quality.

Difficult market conditions have affected the financial industry and may adversely affect us in the future.

Given that most of our business is in Puerto Rico and the United States and given the degree of interrelation between Puerto Rico's economy and that of the United States, we are exposed to downturns in the U.S. economy, including factors such as unemployment and underemployment levels in the United States and real estate valuations. The deterioration of these conditions could adversely

affect the credit performance of mortgage loans, credit default swaps and other derivatives, and result in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial banks and investment banks.

Despite improving labor markets in the U.S. in the past year, an elevated amount of underemployment and household debt, the prolonged low interest rate environment, along with a continued sluggish recovery in the consumer real estate market and certain commercial real estate market in the U.S., pose challenges for the U.S. economic performance and the financial services industry.

In particular, we may face the following risks:

- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite the loans become less predictive of future behaviors.

- The models used to estimate losses inherent in the credit exposure require difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of the borrowers to repay their loans, which may no longer be capable of accurate estimation and which may, in turn, impact the reliability of the models.

- Our ability to borrow from other financial institutions or to engage in sales of mortgage loans to third parties (including mortgage loan securitization transactions with government-sponsored entities and repurchase agreements) on favorable terms, or at all, could be adversely affected by further disruptions in the capital markets or other events, including deteriorating investor expectations.

- Competitive dynamics in the industry could change as a result of consolidation of financial services companies in connection with current market conditions.

- We expect to face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

- There may be downward pressure on our stock price.

The deterioration of economic conditions in the U.S. and disruptions in the financial markets could adversely affect our ability to access capital, our business, financial condition and results of operations and our ability to comply with the Written Agreement which could result in further regulatory enforcement actions.

The failure of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by future failures of financial institutions and the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to different industries and counterparties and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, investment companies and other institutional clients. In certain of these transactions, we are required to post collateral to secure the obligations to the counterparties. In the event of a bankruptcy or insolvency proceeding involving one of such counterparties, we may experience delays in recovering the assets posted as collateral, or we may incur a loss to the extent that the counterparty was holding collateral in excess of the obligation to such counterparty, such as the loss of our assets that we pledged to Lehman Brothers, Inc., which we have been trying to recover, so far unsuccessfully.

In addition, many of these transactions expose us to credit risk in the event of a default by our counterparty or client. In addition, the credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. Any losses resulting from our routine funding transactions may materially and adversely affect our financial condition and results of operations.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations.

We and our subsidiaries are subject to extensive regulation by multiple regulatory bodies. These regulations may affect the manner and terms of delivery of our services. If we do not comply with governmental regulations, we may be subject to fines, penalties, lawsuits or material restrictions on our businesses in the jurisdiction where the violation occurred, which may adversely affect our business operations. Changes in these regulations can significantly affect the services that we are asked to provide as well as our costs of compliance with such regulations. In addition, adverse publicity and damage to our reputation arising from the failure or perceived failure to comply with legal, regulatory or contractual requirements could affect our ability to attract and retain customers.

The financial crisis of 2008 resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. The U.S. government intervened on an unprecedented scale, responding by temporarily enhancing the liquidity support available to financial institutions, establishing a commercial paper funding facility, temporarily guaranteeing money market funds and certain types of debt issuances and increasing insurance on bank deposits.

These programs have subjected financial institutions, particularly those participating in TARP, to additional restrictions, oversight and costs. In addition, new proposals for legislation are periodically introduced in the U.S. Congress that could further substantially

increase regulation of the financial services industry, impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of interest rates, financial product offerings and disclosures, and have an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied.

In recent years, regulatory oversight and enforcement have increased substantially, imposing additional costs and increasing the potential risks associated with our operations. If these regulatory trends continue, they could adversely affect our business and, in turn, our consolidated results of operations.

We could be adversely affected by changes in tax laws and regulations or the interpretation of such laws and regulations.

The Corporation and its subsidiaries are subject to Puerto Rico income tax laws on their income from all sources. As Puerto Rico corporations, First BanCorp. and its subsidiaries are treated as foreign corporations for U.S. and USVI income tax purposes and are generally subject to U.S. and USVI income tax only on their income from sources within the U.S. and USVI or income effectively connected with the conduct of a trade or business in those regions. These tax laws are complex and subject to different interpretations. We must make judgments and interpretations about the application of these inherently complex tax laws when determining our provision for income taxes, our deferred tax assets and liabilities, and our valuation allowance.

In addition, legislative changes, particularly changes in tax laws, could adversely impact our results of operations.

Financial services legislation and regulatory reforms may have a significant impact on our business and results of operations and on our credit ratings.

The Corporation faces increased regulation and regulatory scrutiny as a result of, among other things, its participation in the Troubled Assets Relief Program. The U.S. Treasury acquired shares of Common Stock from the Corporation in October 2011 in exchange for shares of preferred stock that it owned because of the Corporation's issuance of preferred stock to U.S. Treasury in January 2009 pursuant to the TARP. In July 2010, the Corporation issued to U.S. Treasury a warrant, which amends, restates and replaces the original warrant that it issued to U.S. Treasury in January 2009 under the TARP. The Corporation's participation in the TARP also imposes limitations on the payments it may make to its senior leaders.

As discussed above, the Dodd-Frank Act significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes, and the regulations developed and to be developed thereunder include or will include, provisions affecting large and small financial institutions alike. In addition, U.S. banking organizations, including the Corporation and FirstBank, are subject to new and more stringent regulatory capital requirements that generally increase the amounts of capital that we need to hold.

As of December 31, 2015, the Corporation had $220 million in trust preferred securities that are now subject to the full phase-out from Tier 1 capital under the final regulatory capital rules discussed above.

Although First BanCorp. and FirstBank were able to meet well-capitalized capital ratios upon implementation of the requirements, and we expect they will continue to exceed the minimum requirements for well capitalized status under the new capital rules, we may not remain well capitalized. Moreover, for as long as we are subject to the provisions of the Written Agreement, we cannot be considered to be well-capitalized.

Additional regulatory proposals and legislation, if finally adopted, would change banking laws and our operating environment and that of our subsidiaries in substantial and unpredictable ways. The ultimate effect that such legislation, if enacted, or regulations would have upon our financial condition or results of operations may be adverse.

Rulemaking changes implemented by the CFPB will result in higher regulatory and compliance costs related to originating and servicing residential mortgage loans and may adversely affect our results of operations.

The Dodd-Frank Act significantly changed the regulation of single-family residential mortgage lending in the United States. Among other things, the law transferred rule-making and enforcement powers from a number of federal agencies to the CFPB, imposed new risk retention and recordkeeping requirements on lenders (such as the Bank) that sell single-family residential mortgage loans in the secondary market, required revision of disclosure documents, limited loan originator compensation and expanded recordkeeping and reporting requirements under other federal statutes.

New regulations implement the Dodd-Frank Act amendments to the Equal Credit Opportunity Act, the Truth in Lending Act, and the Real Estate Settlement Procedures Act. See “Regulation and Supervision – Consumer Financial Protection Bureau.”

Among other consequences of these numerous changes, the requirements relating to the evaluation of the borrower’s ability to repay the loan may result in reduced credit availability and higher borrowing costs to cover the costs of compliance. The ability of borrowers to raise new defenses in foreclosure proceedings on defaulted mortgage loans also may lead to increased foreclosure costs, extend foreclosure timeliness, and increase the severity of loan losses. Increased repurchase and indemnity requests with respect to mortgage loans sold into the secondary markets may also result.

These and other changes required by the Dodd-Frank Act have required substantial modifications to the entire mortgage lending and servicing industry. Their impact may involve changes to our operations and increased compliance costs in making single-family residential mortgage loans. Additional rulemaking affecting the residential mortgage business may occur, which may cause us to incur additional increased regulatory and compliance costs.

Compliance with stress testing requirements may be challenging.

The Corporation is currently subject to supervisory guidance for stress testing practices issued by the federal banking agencies in May 2012. This guidance outlines broad principles for a satisfactory stress testing framework and describes various stress testing approaches and how stress testing should be used at various levels within an organization. As previously discussed, the Corporation is also subject to two new stress testing rules that implement provisions of the Dodd-Frank Act, one issued by the Federal Reserve Board that applies to First BanCorp. on a consolidated basis and one issued by the FDIC that applies to the Bank.

Under the Dodd-Frank Act stress tests, the Corporation's first annual company-run stress testing was submitted to regulators in the first quarter of 2015. Public disclosure of the results for the severely adverse economic scenario was made during the second quarter of 2015 on the Corporation's website.

Future public disclosure of stress test results could result in reputational harm if the Corporation's results are worse than those of its competitors or otherwise indicate that the Corporation's risk profile is excessive or elevated. Furthermore, given that the Corporation will be subject to multiple stress testing requirements that are administered at different levels by more than one federal banking agency, and compliance with such requirements will be complicated, if the Corporation fails to fully comply with these requirements, it may be subject to regulatory action.

Monetary policies and regulations of the Federal Reserve Board could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve Board have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations may be adverse.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the Community Reinvestment Act or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new business lines. Private

parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

We face a risk of noncompliance and enforcement action related to the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and IRS. We are also subject to increased scrutiny of compliance with trade and economic sanctions requirements and rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO AN INVESTMENT IN THE CORPORATION'S COMMON AND PREFERRED STOCK

Sales in the public market of the approximately 44% of our outstanding shares of Common Stock that are held by a small group of large stockholders could adversely affect the trading price of our Common Stock.

The following stockholders own an aggregate of approximately 44.4% of our outstanding shares of common stock: funds affiliated with Thomas H. Lee Partners, L.P. ("THL"), which own approximately 19.46%, and funds managed by Oaktree Capital Management, L.P. ("Oaktree"), which own approximately 19.45%, and U.S. Treasury, which owns approximately 5.38%, including the shares of Common Stock issuable upon exercise of the Warrant. We have registered these securities for resale under the Securities Act of 1933 and are obligated to keep the prospectus, which is part of the resale registration statement filed with the SEC, current so that the securities can be sold in the public market at any time. The resale of the securities in the public market, or the perception that these sales might occur, could cause the market price of our Common Stock to decline.

Issuance of additional equity securities in the public markets and other capital management or business strategies that we may pursue could depress the market price of our Common Stock and could result in dilution of holders of our Common Stock, including purchasers of our Common Stock under the resale registration statement.

Generally, we are not restricted from issuing additional equity securities, including common stock. We may choose to sell additional equity securities, or we could be required in the future to identify, consider and pursue additional capital management strategies to bolster our capital position. We may issue equity securities (including convertible securities, preferred securities, and options and warrants on our common or preferred stock securities) in the future for a number of reasons, including to finance our operations and business strategy, adjust our leverage ratio, address regulatory capital concerns, restructure currently outstanding debt or equity securities or satisfy our obligations upon the exercise of outstanding options or warrants. Future issuances of our equity securities, including common stock, in any transaction that we may pursue may dilute the interests of our existing holders of our common stock and preferred stock and cause the market price of our common stock to decline.

The Corporation has outstanding a warrant held by the U.S. Treasury to purchase 1,285,899 shares of common stock. If the warrant is exercised, the issuance of shares of Common Stock would reduce our income per share, and further reduce the book value per share and voting power of our current common stockholders.

Additionally, THL and Oaktree have anti-dilution rights, which they acquired when they purchased shares of our common stock in the October 2011 $525 million capital raise. These rights have been, and will be in the future, triggered, subject to certain exceptions, upon our issuance of additional shares of common stock. In such a case, THL and Oaktree had, and will have, the right to acquire the amount of shares of common stock that will enable them to maintain their percentage ownership interest in the Corporation.

The market price of our common stock may continue to be subject to significant fluctuations and volatility.

The stock markets have frequently experienced high levels of volatility since 2008. These market fluctuations have adversely affected, and may continue to adversely affect, the trading price of our common stock. In addition, the market price of our common stock has been subject to significant fluctuations and volatility because of factors specifically related to our businesses and may continue to fluctuate or decline.

Factors that could cause fluctuations, volatility or a decline in the market price of our common stock, many of which could be beyond our control, include the following:

- uncertainties and developments related to the resolution of the Puerto Rico Government fiscal problems;
- our ability to continue to comply with the Written Agreement;
- any additional regulatory actions against us;
- changes or perceived changes in the condition, operations, results or prospects of our businesses and market assessments of these changes or perceived changes;
- announcements of strategic developments, acquisitions and other material events by us or our competitors, including any failures of banks;
- changes in governmental regulations or proposals, or new governmental regulations or proposals, affecting us;
- a continuing recession in the Puerto Rico market and a lack of growth in our other principal markets in the USVI, BVI and U.S.;
- the departure of key employees;
- changes in the credit, mortgage and real estate markets;
- operating results that vary from the expectations of management, securities analysts and investors;
- operating and stock price performance of companies that investors deem comparable to us; and
- the public perception of the banking industry and its safety and soundness.

In addition, the stock market in general, and the NYSE and the other trading markets for the securities of commercial banks and other financial services companies in particular, have experienced significant price and volume fluctuations that sometimes have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance or Puerto Rico's economic environment. In the

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past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs, potential liabilities and the diversion of management's attention and resources.

Our suspension of dividends may have adversely affected and may further adversely affect our stock price and could result in the expansion of our Board of Directors.

In consideration of the financial results reported for the second quarter ended June 30, 2009, we decided, as a matter of prudent fiscal management and following applicable Federal Reserve Board's guidance, to suspend the payment of dividends. Furthermore, our Written Agreement with the Federal Reserve Board precludes us from declaring any dividends without the prior approval of the Federal Reserve. We cannot anticipate if and when the payment of dividends might be reinstated.

This suspension may have adversely affected and may continue to adversely affect our stock price. Further, because dividends on our Series A through E Preferred Stock have not been paid since August 2009, the holders of the preferred stock have the right to appoint two additional members to our Board of Directors. Any member of the Board of Directors appointed by the holders of Series A through E Preferred Stock is required to vacate his or her office if the Corporation resumes the payment of dividends in full for twelve consecutive monthly dividend periods.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of March 1, 2016, First BanCorp owned the following three main offices located in Puerto Rico:

- Headquarters – Located at First Federal Building, 1519 Ponce de León Avenue, Santurce, Puerto Rico, a 16-story office building. Approximately 60% of the building, an underground three level parking garage and an adjacent parking lot are owned by the Corporation.

- Service Center – a building located on 1130 Muñoz Rivera Avenue, Hato Rey, Puerto Rico. These facilities accommodate branch operations, data processing and administrative and certain headquarter offices. The building houses 180,000 square feet of modern facilities, over 1,000 employees from operations, FirstMortgage and FirstBank

Insurance Agency headquarters and the customer service department. In addition, it has parking for 750 vehicles and 9 training rooms, including classrooms for training tellers and a computer room for interactive trainings, as well as a spacious cafeteria for employees and customers

- Consumer Lending Center – A three-story building with a three-level parking garage located at 876 Muñoz Rivera Avenue, Hato Rey, Puerto Rico. This facility is fully occupied by the Corporation.

The Corporation owns 21 branch and office premises and auto lots and leases 86 branch premises, loan and office centers and other facilities. In certain situations, financial services such as mortgage and, insurance businesses and commercial banking services are located in the same building. All of these premises are located in Puerto Rico, Florida and the USVI and BVI. Management believes that the Corporation's properties are well maintained and are suitable for the Corporation's business as presently conducted.

Item 3. Legal Proceedings

Reference is made to Note 30, "Regulatory Matters, Commitments and Contingencies," included in the Notes to Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference.

Item 4. Mine Safety Disclosure.

Not applicable.

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Information about Market and Holders

The Corporation's common stock is traded on the NYSE under the symbol FBP. On March 4, 2016, there were 435 holders of record of the Corporation's common stock, not including beneficial owners whose shares are held in the name of brokers or other nominees. The last sales price for the common stock on that date was $2.88.

Since August 2009, the Corporation has suspended the payment of common and preferred stock dividends. The Corporation has no current plans to resume dividend payments on the common or preferred stock. The common stock ranks junior to all series of preferred stock as to dividend rights and as to rights on liquidation, dissolution or winding up of the Corporation.

The following table sets forth, for the periods indicated, the per share high and low closing sales prices for the Corporation's common stock during such periods.

Quarter Ended	High	Low	Last	Dividends per Share
2015:				
Fourth Quarter Ended December 31, 2015	$ 4.49	$ 3.06	$ 3.25	$ -
Third Quarter Ended September 30, 2015	4.89	3.15	3.56	-
Second Quarter Ended June 30, 2015	6.74	4.82	4.82	-
First Quarter Ended March 31, 2015	6.74	5.27	6.20	-
2014:				

Fourth Quarter Ended December 31, 2014	$	5.89	$	4.56	$	5.87	$	-
Third Quarter Ended September 30, 2014		5.57		4.75		4.75		-
Second Quarter Ended June 30, 2014		5.66		4.87		5.44		-
First Quarter Ended March 31, 2014		6.04		4.42		5.44		-

On August 16, 2013, THL, Oaktree and the U.S. Treasury participated in a secondary offering of the Corporation's common stock. The U.S. Treasury sold 12 million shares of common stock, THL sold 8 million shares of common stock, and Oaktree sold 8 million shares of common stock. Subsequently, on September 11, 2013, the underwriters in the secondary offering exercised their option to purchase an additional 2.9 million shares of common stock from the selling stockholders (1,261,356 shares from the U.S. Treasury, 840,903 shares from THL and 840,904 shares from Oaktree). The Corporation did not receive any proceeds from the offering.

During the fourth quarter of 2014, the U.S. Treasury sold approximately 4.4 million shares of First BanCorp.'s common stock through its first pre-defined written trading plan. On March 9, 2015, the U.S. Treasury announced the sale of an additional 5 million shares of First BanCorp.'s common stock through its second pre-defined written trading plan.

As of March 4, 2016, each of THL and Oaktree owned 19.5% of the Corporation's outstanding common stock and the U.S. Treasury owned 4.8%, excluding the 1.3 million common shares underlying the warrant owned by the Treasury, which is exercisable for $3.29 per share.

Effective April 1, 2013, the Board 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. The Corporation issued 483,053 shares of common stock with a weighted average market value of $4.67 in 2015 as such additional salary amounts (2014 – 312,850 shares with a weighted average market value of $5.20). The Corporation withheld 149,463 shares from the common stock paid to the officers as additional compensation to cover employee payroll and income tax withholding liabilities in 2015 (2014 – 105,000 shares); 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 2015, the Corporation granted 1,013,495 shares of restricted stock to certain executive officers, other employees, and independent directors (2014 – 1,219,711 shares). The Corporation withheld in 2015 72,918 shares of restricted stock that vested during 2015 (2014 – 68,870 shares) to cover employee payroll and income tax withholding liabilities; these shares are also held as treasury shares.

As of December 31, 2015 and December 31, 2014, the Corporation had 962,430 and 740,049 shares held as treasury stock, respectively.

42

The Corporation has 50,000,000 authorized shares of preferred stock. First BanCorp has five outstanding series of nonconvertible, noncumulative preferred stock: 7.125% noncumulative perpetual monthly income preferred stock, Series A (liquidation preference $25 per share); 8.35% noncumulative perpetual monthly income preferred stock, Series B (liquidation preference $25 per share); 7.40% noncumulative perpetual monthly income preferred stock, Series C (liquidation preference $25 per share); 7.25% noncumulative perpetual monthly income preferred stock, Series D (liquidation preference $25 per share,); and 7.00% noncumulative perpetual monthly income preferred stock, Series E (liquidation preference $25 per share) (collectively the "Series A through E Preferred Stock"). Effective January 17, 2012, the Corporation delisted all of its outstanding series of preferred stock from the NYSE. The Corporation has not arranged for listing on another national securities exchange or for quotation of the Series A through E Preferred Stock in a quotation medium.

The Series A through E Preferred Stock rank on a parity with respect to dividend rights and rights upon liquidation, winding up or dissolution. Holders of each series of preferred stock are entitled to receive cash dividends, when, as and if declared by the board of directors of First BanCorp. out of funds legally available for dividends.

The terms of the Corporation's Series A through E Preferred Stock do not permit the Corporation to declare, set apart or pay any dividend or make any other distribution of assets on, or redeem, purchase, set apart or otherwise acquire shares of common stock or of any other class of stock of First BanCorp. ranking junior to the preferred stock, unless all accrued and unpaid dividends on the preferred stock and any parity stock for the twelve monthly dividend periods ending on the immediately preceding dividend payment date shall have been paid or are paid contemporaneously; the full monthly dividend on the preferred stock and any parity stock for the then current month has been or is contemporaneously declared and paid or declared and set apart for payment; and the Corporation has not defaulted in the payment of the redemption price of any shares of the preferred stock and any parity stock called for redemption. If the Corporation is unable to pay in full the dividends on the preferred stock and on any other shares of stock of equal rank as to the payment of dividends, all dividends declared upon the preferred stock and any such other shares of stock will be declared pro rata.

The Corporation may not issue shares ranking, as to dividend rights or rights on liquidation, winding up and dissolution, senior to the Series A through E Preferred Stock, except with the consent of the holders of at least two-thirds of the outstanding aggregate liquidation preference of such preferred stock.

2013 Exchange Offer

On February 14, 2013, the Corporation commenced an offer to issue up to 10,087,488 shares of its common stock, in exchange for (the "Exchange Offer") any and all of the issued and outstanding shares of its Series A through E Preferred Stock ($63 million in aggregate liquidation preference value). The Exchange Offer was terminated on April 9, 2013 given that the Corporation did not receive the consent required from holders of the Series A through E Preferred Stock to amend the certificates of designation of each series of the Series A through E Preferred Stock to delete the right to

designate two board members once the Corporation has not paid dividends on the Preferred Stock for a specified period (the Preferred Stock Amendment). The Preferred Stock Amendment was a condition to completion of the Exchange Offer. In addition, the related consent solicitation also terminated, and no consent fee became payable with respect to consents granted in favor of the Preferred Stock Amendment. All shares of the Series A through E Preferred Stock that were tendered were returned promptly to the tendering holders.

2014 Exchange

In 2014, the Corporation issued an aggregate of 4,597,121 shares of its common stock in exchange for an aggregate 1,077,726 shares of the Corporation's Series A through E Preferred Stock, having an aggregate liquidation value of $26.9 million. The shares of common stock were issued to holders of the Series A through E Preferred Stock in separate and unrelated transactions in reliance upon the exemption set forth in Section 3(a)(9) of the Securities Act, for securities exchanged by an issuer with existing security holders where no commission or other remuneration is paid or given directly or indirectly by the issuer for soliciting such exchange.

2015 Exchange

During the second quarter of 2015, the Corporation exchanged trust-preferred securities with a liquidation value of $5.3 million for 852,831 shares of the Corporation's common stock in reliance upon the exemption set forth in Section 3(a)(9) of the Securities Act.

Dividends

The Corporation had a policy of paying quarterly cash dividends on its outstanding shares of common stock subject to its earnings and financial condition. On July 30, 2009, after reporting a net loss for the quarter ended June 30, 2009, the Corporation announced that the Board of Directors resolved to suspend the payment of the common and preferred dividends, effective with the preferred dividend for the month of August 2009. The Corporation's ability to pay future dividends will necessarily depend upon its earnings and financial condition as well as its receipt of approval from the Federal Reserve to pay dividends. See the discussion under "Dividend Restrictions" under Item 1 for additional information concerning restrictions on the payment of dividends that apply to the Corporation and FirstBank.

The 2011 PR Code requires the withholding of income tax from dividend income sourced within Puerto Rico to be received by any individual, resident of Puerto Rico or not, trusts and estates and by non-resident custodians, partnerships, and corporations.

Resident U.S. Citizens

A special tax of 15% will be imposed on any eligible dividends paid to individuals, special partnerships, trusts, and estates to be applied to all distributions unless the taxpayer specifically elects otherwise. Once this election is made it is irrevocable. However, the taxpayer can elect to include in gross income the eligible distributions received and take a credit for the amount of tax withheld. If the taxpayer does not make this election on the tax return, then he can exclude from gross income the distributions received and reported without claiming the credit for the tax withheld.

Nonresident U.S. Citizens

Nonresident U.S. citizens have the right to certain exemptions when a Withholding Tax Exemption Certificate (Form 2732) is properly completed and filed with the Corporation. The Corporation, as withholding agent, is authorized to withhold a tax of 15% only from the excess of the income paid over the applicable tax-exempt amount.

U.S. Corporations and Partnerships

Corporations and partnerships not organized under Puerto Rico laws that have not engaged in a trade or business in Puerto Rico during the taxable year in which the dividend, if any, is paid are subject to the 10% dividend tax withholding. Corporations or partnerships not organized under the laws of Puerto Rico that have engaged in a trade or business in Puerto Rico are not subject to the 10% withholding, but they must declare any dividend as gross income on their Puerto Rico income tax return.

Securities authorized for issuance under equity compensation plans

The following table summarizes equity compensation plans approved by security holders and equity compensation plans that were not approved by security holders as of December 31, 2015:

Plan category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, warrants and rights		(b) Weighted Average Exercise Price of Outstanding Options, warrants and rights		(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))	
Equity compensation plans						
approved by stockholders	69,848	(1)	$	160.30	3,478,442	(2)
Equity compensation plans						
not approved by stockholders	N/A			N/A	N/A	
Total	69,848		$	160.30	3,478,442	

(1) Stock options granted under the 1997 stock option plan, which expired on January 21, 2007. All outstanding awards under the stock option plan continue in full force and effect, subject to their original terms and the shares of common stock underlying the options are subject to adjustments for stock splits, reorganization and other similar events.

(2) Securities available for future issuance under the First BanCorp. 2008 Omnibus Incentive Plan (the "Omnibus Plan"), which was initially approved by stockholders on April 29, 2008 and amended with stockholder approval on December 9, 2011 to increase the number of shares reserved for issuance under the Omnibus Plan. The Omnibus Plan provides for equity-based compensation incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, and other stock-based awards. As amended, this plan provides for the issuance of up to 8,169,807 shares of common stock, subject to adjustments for stock splits, reorganization and other similar events. As of December 31, 2015, 3,478,442 shares of Common Stock were available for future issuance under the Omnibus Plan.

Purchase of equity securities by the issuer and affiliated purchasers

The following table provides information relating to the Corporation's purchases of shares of its common stock in the three-month period ended December 31, 2015.

Period	Total number of shares purchased (1)		Average Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans Or Programs	Maximum Number of Shares That May Yet be Purchased Under These Plans or Programs
October, 2015	15,317	$	3.80	-	-
November, 2015	14,189		4.10	-	-
December, 2015	11,226		3.22	-	-
Total	40,732	$	3.75	-	-

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

STOCK PERFORMANCE GRAPH

The following Performance Graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act or the Exchange Act, except to the extent that First BanCorp. specifically incorporates this information by reference, and shall not otherwise be deemed filed under these Acts.

The graph below compares the cumulative total stockholder return of First BanCorp. during the measurement period with the cumulative total return, assuming reinvestment of dividends, of the S&P 500 Index and the S&P Supercom Banks Index (the “Peer Group”). The Performance Graph assumes that $100 was invested on December 31, 2010 in each of First BanCorp. common stock, the S&P 500 Index and the Peer Group. The comparisons in this table are set

forth in response to SEC disclosure requirements, and are therefore not intended to forecast or be indicative of future performance of First BanCorp.'s common stock.

The cumulative total stockholder return was obtained by dividing (i) the cumulative amount of dividends per share, assuming dividend reinvestment since the measurement point, December 31, 2010 plus (ii) the change in the per share price since the measurement date, by the share price at the measurement date.

Item 6. Selected Financial Data

The following table sets forth certain selected consolidated financial data for each of the five years in the period ended December 31, 2015. This information should be read in conjunction with the audited consolidated financial statements and the related notes thereto.

SELECTED FINANCIAL DATA					
	Year Ended December 31,				
(In thousands, except for per share and financial ratios)	**2015**	**2014**	**2013**	**2012**	**2011**
Condensed Income Statements:					
Total interest income	$ 605,569	$ 633,949	$ 645,788	$ 637,777	$ 659,615
Total interest expense	103,303	115,876	130,843	176,072	266,103
Net interest income	502,266	518,073	514,945	461,705	393,512
Provision for loan and lease losses	172,045	109,530	243,751	120,499	236,349
Non-interest income (loss)	81,325	61,348	(15,489)	49,391	107,981
Non-interest expenses	383,830	378,253	415,028	354,883	338,054
Income (loss) before income taxes	27,716	91,638	(159,323)	35,714	(72,910)
Income tax (expense) benefit	(6,419)	300,649	(5,164)	(5,932)	(9,322)
Net income (loss)	21,297	392,287	(164,487)	29,782	(82,232)
Net income (loss) attributable to common					
stockholders - basic	21,297	393,946	(164,487)	29,782	173,226
Net income (loss) attributable to common					
stockholders - diluted	21,297	393,946	(164,487)	29,782	195,763
Per Common Share					

Results:					
Net earnings (loss) per common share -					
basic	$ 0.10	$ 1.89	$ (0.80)	$ 0.15	$ 2.69
Net earnings (loss) per common share -					
diluted	$ 0.10	$ 1.87	$ (0.80)	$ 0.14	$ 2.18
Cash dividends declared	-	-	-	-	-
Average shares outstanding	211,457	208,752	205,542	205,366	64,466
Average shares outstanding diluted	212,971	210,540	205,542	205,828	89,658
Book value per common share	$ 7.71	$ 7.68	$ 5.57	$ 6.89	$ 6.73
Tangible book value per common share (1)	$ 7.47	$ 7.45	$ 5.30	$ 6.60	$ 6.54
Balance Sheet Data:					
Total loans, including loans held for sale	$ 9,309,734	$ 9,339,392	$ 9,712,139	$ 10,139,508	$ 10,575,214
Allowance for loan and lease losses	240,710	222,395	285,858	435,414	493,917
Money market and investment securities	2,138,037	2,008,380	2,208,342	1,986,669	2,200,888
Intangible assets	50,583	49,907	54,866	60,944	39,787
Deferred tax asset, net	311,263	313,045	7,644	4,867	5,442
Total assets	12,573,019	12,727,835	12,656,925	13,099,741	13,127,275
Deposits	9,338,124	9,483,945	9,879,924	9,864,546	9,907,754
Borrowings	1,381,492	1,456,959	1,431,959	1,640,399	1,622,741
Total preferred equity	36,104	36,104	63,047	63,047	63,047
Total common equity	1,685,779	1,653,990	1,231,547	1,393,546	1,361,899
Accumulated other comprehensive (loss) income,					
net of tax	(27,749)	(18,351)	(78,736)	28,430	19,198
Total equity	1,694,134	1,671,743	1,215,858	1,485,023	1,444,144

46

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Selected Financial Ratios (In Percent):					
Profitability:					
Return on Average Assets	0.17	3.10	(1.28)	0.23	(0.57)
Return on Average Total Equity	1.26	30.25	(12.39)	2.04	(7.31)
Return on Average Common Equity	1.29	31.38	(13.01)	2.14	(13.38)
Average Total Equity to Average Total Assets	13.23	10.25	10.36	11.24	7.83
Interest Rate Spread (2)	4.09	4.16	4.01	3.41	2.59
Interest Rate Margin (2)	4.30	4.34	4.21	3.68	2.86
Tangible common equity ratio (1)	12.84	12.51	8.71	10.44	10.25
Dividend payout ratio	-	-	-	-	-
Efficiency ratio (3)	65.77	65.28	83.10	69.44	67.41
Asset Quality:					
Allowance for loan and lease losses to loans held for investment	2.60	2.40	2.97	4.33	4.68
Net charge-offs to average loans (4)	1.65	1.81	4.01	1.74	2.68
Provision for loan and lease losses to net charge-offs	1.12 x	0.63 x	0.69 x	0.67 x	0.80 x
Non-performing assets to total assets (4)	4.85	5.63	5.73	9.45	10.19
Non-performing loans held for investment to total loans held for investment (4)	4.77	5.66	5.14	9.70	10.78
Allowance to total non-performing loans held for investment	54.36	42.45	57.69	44.63	43.39
Allowance to total non-performing loans held for					
	87.92	64.80	85.56	65.78	61.73

investment, excluding residential real estate loans					
Other Information:					
Common stock price: End of period	$ 3.25	$ 5.87	$ 6.19	$ 4.58	$ 3.49

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(1) Non-GAAP financial measures. Refer to "Capital" below for additional information about the components and a reconciliation of these measures.

(2) On a tax-equivalent basis and excluding the changes in fair value of derivative instruments (see "Net Interest Income" below for a reconciliation of these non-GAAP financial measures).

(3) Non-interest expenses to the sum of net interest income and non-interest income. The denominator includes non-recurring income and changes in the fair value of derivative instruments.

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

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations relates to the accompanying consolidated audited financial statements of First BanCorp. and should be read in conjunction with such financial statements and the notes thereto. It presents various non-GAAP financial measures. Refer to “Basis of Presentation” below for information about why the non-GAAP financial measures are being presented.

Description of Business

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

Puerto Rico Economic Environment

A significant portion of our financial activities and credit exposure is concentrated in the Commonwealth of Puerto Rico, which has been in an economic recession since 2006. Based on the most recent information available, the main economic indicators suggest that the Puerto Rico economy remains weak. For fiscal years 2015 and 2016, the Puerto Rico Planning Board projects a continued economic contraction in the Commonwealth’s real gross national product (“GNP”) of 0.9% and 1.2%, respectively, while the GDB economic activity index (“GDB-EAI”) in December 2015 decreased 0.5% on a year-over-year basis. The GDB-EAI is a coincident index of economic activity for Puerto Rico made up of four indicators (payroll employment, electric power generation, cement sales and gasoline consumption). The seasonally adjusted unemployment rate in Puerto Rico was 12.2% in December 2015, which is higher than in any U.S. state. Puerto Rico lost over 60 thousand residents in 2014, a 30% increase from 2013, and the largest out-migration in at least 10 years, according to U.S. census data.

Based on information published by the Puerto Rico Government, preliminary General Fund net revenues for the fiscal year ended June 30, 2015 were $8.961 billion, a decrease of $76.0 million when compared to the prior fiscal year and $604.1 million less than the original estimate for the year. The Government’s most recent projection is that it will close fiscal year 2015 with a budget deficit in the range of $531 million to $566 million, an amount that, when adjusted for actual tax refunds paid in this fiscal year in excess of the reserve included in the budget for fiscal year 2015, increases the deficit to a range of $705 million to $740 million. Preliminary General Fund net revenues for the first six months of fiscal year 2016 were $3.9 billion, an increase of $140.3 million year-over-year and a decrease of $21.5 million compared to estimates included in the original budget for fiscal year 2016. The original revenue estimates were recently revised to approximately $9.2 billion, a $508 million reduction.

On June 28, 2015, the Governor of Puerto Rico and the GDB released a report by former World Bank Chief Economist and former Deputy Director of the International Monetary Fund, Dr. Anne Krueger, and economists Dr. Ranjit Teja and Dr. Andrew Wolfe (the "Krueger Report") that analyzes the full extent of the Commonwealth's fiscal condition including revenues, expenditures, deficits, and current and future obligations. It also makes recommendations for a five-year fiscal adjustment plan. The Krueger Report states that Puerto Rico faces an acute crisis in the face of faltering economic activity, fiscal solvency, debt sustainability, and institutional credibility.

On June 29, 2015, the Governor of Puerto Rico announced that the Government will seek alternatives to ensure that the aggregate debt burden of the Commonwealth is adjusted so it can be repaid on sustainable terms, while ensuring pension obligations are honored over the long term and essential services for the people of Puerto Rico are maintained, and issued an Executive Order to create the Puerto Rico Fiscal and Economic Recovery Working Group (the "Working Group"). After the announcement, the top three credit rating agencies, Moody's, S&P and Fitch downgraded the Puerto Rico issued bonds deeper into non-investment grade status.

The Working Group was created to consider necessary measures, including the measures recommended in the Krueger Report, to address the fiscal crisis of the Commonwealth and is responsible for the development of the Puerto Rico Fiscal and Economic Growth Plan (the "Plan"). The Plan, released in September 2015 and updated in January 2016, reviews the historical measures taken to increase taxes and reduce expenses, analyzes the current liquidity and fiscal position of Puerto Rico, recommends certain fiscal and economic reform and growth measures, including critical measures that require action by the U.S. Government, proposes to create a financial control board and new budgetary regulations, and identifies significant projected financing gaps (even assuming the implementation of the recommended fiscal reform and economic growth measures) absent significant debt relief. The updated Plan shows that General Fund revenues have decreased from a previous estimate of $9.46 billion for fiscal year 2016 to $9.21 billion; the estimated five-year projected financing gaps increase from approximately $14 billion to $16.1 billion, even with the inclusion of economic growth and the implementation of all the proposed measures in the Plan; and the ten-year projections estimate a $23.9 billion aggregate financing gap.

Moreover, on October 21, 2015, the U.S. Treasury released its roadmap to address Puerto Rico's ongoing economic and fiscal crisis and to create a path to economic recovery. This roadmap was presented to Congress by U.S Treasury officials and laid out four immediate steps that U.S. Congress should take to address the crisis in Puerto Rico:

- Provide Puerto Rico with the necessary tools to restructure its financial liabilities in a fair and orderly manner under the supervision of a federal bankruptcy court.

- Enact strong fiscal oversight and help strengthen Puerto Rico's fiscal governance.

- Provide a long-term solution to Puerto Rico's historically inadequate Medicaid treatment.

- Reward work and support economic growth by providing access to an Earned Income Tax Credit.

In August and December 2015 as well as in January 2016, the Puerto Rico Government met its scheduled debt service payments for bonds that have constitutional guarantees such as the general obligation bonds and GDB bonds. In order to meet the January 2016 payment, the Puerto Rico Government implemented "clawback" measures to redirect revenues assigned to certain government agencies for the payment of the general obligation debt. Nevertheless, the Puerto Rico Government defaulted in August 2015 and January 2016 on the payment of bonds of certain agencies, specifically bonds of the Public Finance Corporation and the Infrastructure Finance Authority. Government officials disclosed that due to the lack of appropriated funds by the Legislature of Puerto Rico, as part of the current fiscal year 2016 budget, the debt service payment on these public corporations bonds were not made. These bonds are payable solely from budgetary appropriations pursuant to legislation adopted by the Legislature of Puerto Rico. The Legislature of Puerto Rico is not legally bound to appropriate funds for such payments.

Other measures adopted to deal with the Commonwealth's deteriorating liquidity position include the deferral of tax refunds and the stretching of payments to suppliers.

In February 2016, the Working Group released details of a comprehensive voluntary exchange proposal presented to advisors to the Commonwealth's creditors. Specifically, the restructuring proposal contemplates that creditors will exchange their existing securities for two new securities: a "Base Bond," with a fixed rate of interest and amortization schedule, and a "Growth Bond," which is payable only if the Commonwealth's revenues exceed certain levels. Under this proposal, the $49.2 billion of tax-supported debt would be exchanged into $26.5 billion of newly issued mandatorily payable Base Bonds and $22.7 billion of newly issued Growth Bonds. Interest payments on the Base Bonds would begin in January 2018, scaling up to 5% per annum by fiscal year 2021, when principal payments would begin. The Growth Bonds would be payable only to the extent the Commonwealth's revenues exceed its current baseline projections as a result of real economic growth in Puerto Rico. The proposal also seeks to lower the Commonwealth's debt service-to-revenue on tax-supported debt to approximately 15%, a level consistent with the debt limit contemplated by the Constitution of Puerto Rico, from the current ratio of 36%. The voluntary exchange offer is intended to restructure those payments to allow the Commonwealth to catch up with its payments due to suppliers and taxpayers, and provides time for the Commonwealth to implement the measures of the Plan, stimulate real economic growth and, over the long term, make its tax-supported debt sustainable. In addition, the Commonwealth is instituting a fiscal control board to provide necessary oversight and ensure that the Commonwealth complies with the Plan and the terms of the exchange offer. Ultimate outcomes from the proposed exchange are uncertain at this time, and may vary considerably from the initial proposal, particularly due to factors that are difficult to predict, such as U.S. federal actions to intervene in this matter and bondholders willingness to accept the proposed exchange levels.

The U.S. House of Representatives Speaker, Paul Ryan, has asked legislators to craft a proposal to address the Puerto Rico debt situation by March 31, 2016, which may include a federal control board that would manage its budgets and borrowings. On February 2, 2016, the U.S. House Committee on Natural Resources held a hearing to evaluate the need for a federal oversight authority for Puerto Rico.

Exposure to Puerto Rico Government

Loans Held For Investment

As of December 31, 2015, the Corporation had $316.0 million of credit facilities, excluding investment securities, extended to the Puerto Rico Government, its municipalities and public corporations, of which $314.6 million was outstanding (book value of $311.0 million), compared to $308.0 million as of December 31, 2014. Approximately $199.5 million of the granted credit facilities outstanding consisted of loans to municipalities in Puerto Rico whose revenues are independent of the central government. The good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment. Approximately 88% of the Corporation’s municipality exposure consists primarily of senior priority loans concentrated on five of the largest municipalities in Puerto Rico (San Juan, Carolina, Bayamon, Mayaguez and Guaynabo). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. Late in 2015, GDB and the Municipal Revenue Collection Center (CRIM) signed a deed of trust. Through this deed, GDB, as fiduciary, is bound to keep the CRIM funds separate from any other deposits and the funds should be distributed by the GDB pursuant to the applicable law. In addition to municipalities, loans extended to the Puerto Rico Government include $18.9 million of loans to units of the Puerto Rico central government, and approximately $96.3 million ($92.6 million book value) of loans to public corporations, including a direct exposure to the Puerto Rico Electric Power Authority (“PREPA”) with a book value of $71.1 million as of December 31, 2015. The

PREPA credit facility was placed in non-accrual status in the first quarter of 2015 and interest payments are now recorded on a cost-recovery basis.

Furthermore, as of December 31, 2015, the Corporation had $129.4 million outstanding in financings to the hotel industry in Puerto Rico where the borrower and the operations of the underlying collateral are the primary sources of repayment and the Puerto Rico Tourism Development Fund provides a secondary guarantee for payment performance, compared to $133.3 million as of December 31, 2014. The TDF is a subsidiary of the GDB that facilitates private sector financings to Puerto Rico’s hotel industry. The TDF provides guarantees to financings and may provide direct loans. As a result of liquidity risk and uncertainty regarding the Puerto Rico government fiscal situation, the Corporation adversely classified this $129.4 million exposure during the third quarter of 2015. Since late 2012, the Corporation has received combined payments from the borrowers and TDF as guarantor sufficient to cover contractual payments on these loans, including collections of principal and interest from TDF of approximately $5.3 million in 2015 and $6.1 million in 2014. These loans were current and remained in accrual status as of December 31, 2015.

On March 1, 2016, the Working Group in an updated public presentation indicated that the Commonwealth expects to have insufficient liquidity to make upcoming debt service payments and that a substantial restructuring of the Commonwealth’s existing debt is required to allow the Commonwealth to bring its fiscal accounts into balance, to give it time and the financial flexibility to implement structural reforms and growth initiatives so as to stimulate the Puerto Rican economy and thereby to make the restructured debt sustainable in the long term. We continue to monitor the Puerto Rico government fiscal and economic situation and its potential impact on the Corporation's financial condition, including its potential impact on our TDF-guaranteed exposure. Although TDF has continued to cover its contractually required payments as guarantor during the first quarter of 2016, we are currently assessing, together with our regulators, whether recent developments related to the Puerto Rico government fiscal situation introduce additional uncertainty regarding TDF's ability to honor its guarantee, which could require that some or all of our TDF-guaranteed exposure be placed in nonaccrual status. If we determine to treat some or all of such loans as nonaccrual, then the Corporation’s asset quality metrics and capital ratios could be adversely impacted, we could be required to prospectively apply principal and interest payments received to the outstanding principal of the loans, and the affected loans would need to be individually evaluated for impairment with specific reserves allocated as deemed necessary. In the event these loans are individually evaluated for impairment, based on present appraised values and assumptions as to recovery rates on Puerto Rico government obligations, the required specific reserves are not expected to deviate materially from the general reserves associated with these loans as of December 31, 2015.

During 2015, the Corporation increased by approximately $35 million the general reserve for commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities), including a $19.2 million charge to the provision recorded in the fourth quarter related to increased qualitative reserve factors applied to these loans in light of recent events surrounding the Puerto Rico Government’s fiscal situation. In addition, during 2015, the specific reserve allocated to the PREPA credit facility was increased by approximately $4.3 million. As of December 31, 2015, the total reserve coverage ratio (general and specific reserves) related to loans commercial extended to or guaranteed by the Puerto Rico Government (excluding municipalities) was 19%.

In November 2015, PREPA entered into a restructuring support agreement with bondholders and bank creditors that provides a structured framework to implement certain economic agreements, including cuts to repayments of 15% for bondholders. The agreement also outlines other elements, including new governance standards, operational improvements, and a rate structure proposal and a capital plan. Under the economic terms of the agreement, fuel line lenders will have the option to convert existing credit agreements into term loans with a fixed interest rate of 5.75% per annum, to be repaid over 6 years in accordance with an agreed upon schedule or exchange all or part of principal due under the existing credit agreements for new securitization bonds that will pay cash interest at a rate of 4.0% - 4.75% (depending on the credit rating) ("Option A Bonds") or convertible capital appreciation securitization bonds that will accrete interest at a rate of 4.5% - 5.5% for the first five years and pay current interest in cash thereafter ("Option B bonds"). In February 2016, the Puerto Rico Government approved legislation to facilitate the implementation of the restructuring support agreement.

As of December 31, 2015, the Corporation also had $124.6 million in indirect exposure to residential mortgage loans to individual borrowers 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, as of June 30, 2014, the Puerto Rico Housing Finance Authority mortgage loans insurance program covered loans aggregating to approximately $546 million. The regulations adopted by the Puerto Rico Housing Finance Authority, requires the establishment of adequate reserves to guarantee the solvency of the mortgage loans insurance fund. As of June 30 2014, the Puerto Rico Housing Finance Authority had restricted net position for such purposes of approximately $72.5 million.

Investment Securities

As of December 31, 2015, the Corporation held $49.7 million of obligations of the Puerto Rico Government as part of its available-for-sale investment securities portfolio (net of other-than-temporary credit impairment charges of $15.9 million) recorded on its books at a fair value of $28.2 million. During 2015, the Corporation recorded $15.9 million in OTTI charges on three Puerto Rico

Government debt securities, specifically bonds of the GDB and the Puerto Rico Buildings Authority. A $12.9 million impairment charge was booked in the second quarter and an additional $3.0 million impairment was recorded in the fourth quarter. The credit-related impairment loss estimate is based on the probability of default and loss severity in the event of default in consideration of the latest available market-based evidence implied in current security valuations and information about the Puerto Rico Government's financial conditions, including credit ratings and the aforementioned payment defaults and "clawback" measures implemented. Given the uncertainty of the debt restructuring process outcomes, the Corporation cannot be certain that future impairments charges will not be required against these securities.

Deposits

As of December 31, 2015, the Corporation had $390.4 million of public sector deposits in Puerto Rico, compared to $227.4 million as of December 31, 2014. Approximately 45% is from municipalities and municipal agencies in Puerto Rico and 55% is from public corporations and the central government and agencies in Puerto Rico.

Overview of Results of Operations

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

Net income for the year ended December 31, 2015 amounted to $21.3 million, or $0.10 per diluted share, compared to net income of $392.3 million, or $1.87 per diluted share, for 2014 and net loss of $164.5 million, $0.80 per diluted share, for 2013. The Corporation's financial results for 2015 were impacted by the following significant items: (i) a $48.7 million pre-tax loss on a bulk sale of assets, mostly comprised of non-performing and adversely classified commercial loans, including transaction expenses, (ii) OTTI charges on Puerto Rico Government debt securities amounting to $15.9 million, (iii) a $13.4 million bargain purchase gain on assets acquired and deposits assumed from Doral Bank (the "Doral Bank transaction"), (iv) a $7.0 million gain on the sale of the Corporation's merchant contracts, (v) pre-tax costs of approximately $4.6 million related to the conversion of loan and deposit accounts acquired from Doral Bank to the FirstBank systems, and (vi) pre-tax costs of $2.2 million related to a voluntary early retirement

program.

Net income for 2014 includes a $302.9 million, $1.44 per diluted share, income tax benefit associated with the partial reversal of the valuation allowance recorded against the deferred tax assets of the Corporation’s banking subsidiary, FirstBank.

The results for 2013 were negatively impacted by two significant items: (i) an aggregate pre-tax loss of $140.8 million on two separate bulk sales of adversely classified and non-performing assets and valuation adjustments to certain loans transferred to held for sale, and (ii) a $66.6 million loss related to the write-off of assets pledged as collateral to Lehman Brothers, Inc. (“Lehman”) together with an additional $2.5 million for a loss contingency of attorneys’ fees awarded to the counterparty related to this matter.

The following table reconciles for the years ended December 31, 2015, 2014 and 2013 the reported pre-tax income to adjusted pre-tax income, a non-GAAP financial measure that excludes the significant items mentioned above that affected comparability:

	December 31,							
	2015			2014				2013
(In thousands)								
Pre-tax income as reported (GAAP)	$	27,716		$	91,638		$	(159,323)
Exclude significant items:								
Gain on sale of merchant contracts		(7,000)			-			-
Other than temporary impairment charges on Puerto Rico								
Government securities		15,889			-			-
Voluntary early retirement program expenses		2,238			-			
Loss on bulk sales of assets, including transaction costs		48,667			-			140,842
Bargain purchase gain on assets acquired and liabilities assumed								
from Doral Bank		(13,443)			-			-
Acquisition and conversion costs of loans and deposits assumed								
from Doral Bank		4,646			-			-
Write-off collateral pledged to Lehman and related contingency								
for attorneys' fees		-			-			69,074
Adjusted pre-tax income, excluding items affecting comparability								
(Non-GAAP)	$	78,713		$	91,638		$	50,593

51

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

• Net interest income for the year ended December 31, 2015 was $502.3 million compared to $518.1 million and $514.9 million for the years ended December 31, 2014 and 2013, respectively. The decrease for 2015 compared to 2014 was primarily driven by: (i) a $30.2 million decrease in interest income on commercial and construction loans, including a decrease of approximately $24.5 million attributable to a $594.2 million decline in the average volume of these portfolios and the adverse impact of $3.8 million in interest payments received in 2015 from the credit facility to PREPA, accounted for on a cost-recovery basis since May 2015, (ii) a $20.4 million decrease in interest income on consumer loans, including a decrease of approximately $16.2 million related to a $148.0 million decrease in the average volume of such loans and a $3.8 million adverse variance due to the fact that the remaining discount on the credit card portfolio acquired in 2012 was fully accreted into income in the first half of 2014, and (iii) a $7.6 million decrease in interest income on mortgage-backed securities ("MBS"), including a decrease of approximately $4.6 million attributable to a $180.0 million decline in the average volume of MBS and a $3.0 million decrease related to lower yields reflecting, among other things, the gradual reinvestment of MBS prepayments in lower-yielding investments given the low interest rate environment.

These variances were partially offset by: (i) a $28.6 million increase in the interest income on residential mortgage loans primarily related to the acquisition of several loan portfolios from Doral Financial and Doral Bank completed in the second and fourth quarter of 2014, respectively, as well as the most recent acquisition from Doral Bank in February 2015, (ii) an $8.9 million decrease in interest expense on deposits, including a decrease of $5.0 million in interest expense on brokered CDs primarily related to a $670.5 million decrease in the average volume of brokered CDs, and a $3.9 million decrease in interest expense on non-brokered interest-bearing deposits mainly due to lower deposit pricing that resulted in an 8 basis points reduction in the average cost of such deposits, and (iii) a $4.6 million decrease in interest expense on repurchase agreements mainly related to the restructuring of $400 million of repurchase agreements early in 2015 and the interest income earned on reverse repurchase agreements entered into in 2015 that qualifies for offsetting accounting. The net interest margin decreased 5 basis points to 4.15% for the year ended December 31, 2015 compared to the same period in 2014.

The increase for 2014 compared to 2013 was driven by a 12 basis points reduction in the average cost of funding, or a decrease of approximately $13.1 million in interest expense, achieved through lower deposit pricing, improved deposit mix, and the maturity of high-cost borrowings. In addition, net interest income and margin were favorably impacted by an increase of $8.7 million in interest income attributable to acquisitions of residential mortgage loans from Doral Financial and Doral Bank completed in 2014 and a $3.1 million increase in prepayment penalties collected on commercial loans. Prepayment penalties in 2014 include $2.5 million paid by a borrower to compensate for the economic loss sustained by the Corporation in the early termination of an interest rate swap agreement that provided an economic hedge of the cash flows associated with a commercial mortgage loan paid off in the fourth quarter of 2014. These variances were partially offset by lower yields on consumer loans and a decrease in the average volume of commercial and construction loans.

- The provision for loan and lease losses for 2015 was $172.0 million compared to $109.5 million and $243.8 million for 2014 and 2013, respectively. The provision for the year ended December 31, 2015 includes a charge of $46.9 million associated with the bulk sale of assets completed during the second quarter of 2015. Excluding the impact of the bulk sale of assets, the provision for loan and lease losses increased by $15.6 million to $125.1 million for 2015 compared to the same period in 2014 reflecting, among other things, (i) a $35 million increase in the general reserve for commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities), reflecting the migration of certain loans to adverse classification categories and a $19.2 million charge to the provision related to qualitative factor adjustments that stressed the historical loss rates applied to these loans, and (ii) a $12.9 million increase in the provision for residential mortgage loans reflecting higher reserve requirements for loans in late stage of delinquencies and the establishment of a $4.0 million reserve for purchased-credit impaired loans acquired in May 2014. These variances were partially offset by a $32.8 million decrease in the provision for consumer loans that reflects improvements in charge-off rates, declining loss severity rates on auto loans and the overall decrease in the size of this portfolio. As of December 31, 2015, the total reserve coverage ratio (general and specific reserves) related to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities) was 19%.

On June 5, 2015, the Corporation completed the sale of commercial and construction loans with a book value of $147.5 million (principal balance of $196.5 million), comprised mostly of non-performing and adversely classified loans, as well as OREO properties with a book value of $2.9 million in a cash transaction. The sale 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 this bulk sale. The following table shows the impact of the bulk sale on net charge-offs and the provision for loan and lease losses for the year ended December 31, 2015 on a GAAP basis as well as on a non-GAAP basis excluding the impact of the bulk sale of assets:

(Dollars in thousands) **Year ended December 31, 2015**		As Reported (GAAP)		Bulk Sale Transaction Impact	Excluding Bulk Sale Transaction (Non-GAAP)	
Total net charge-offs	**$**	**153,730**	**$**	**61,435**	**92,295**	
Total net charge-offs to average loans		1.65%			1.00	%
Commercial mortgage	$	49,567	$	37,590	11,977	
Commercial mortgage loans net charge-offs to average loans		3.12%			0.77	%
Commercial and Industrial	$	29,528	$	20,570	8,958	
Commercial and Industrial loans net charge-offs to average loans		1.23%			0.38	%
Construction	$	2,412	$	3,275	(863)	
Construction loans net charge-offs to average loans		1.42%			(0.52)	%
Provision for loan and lease losses	**$**	**172,045**	**$**	**46,947**	**125,098**	

The provision for the year ended December 31, 2013 also includes a charge of $132.0 million related to two bulk sales of adversely classified and non-performing assets and the transfer of certain construction and commercial loans to held for sale in the first half of 2013. The provision for loan and lease losses for 2014 decreased by $2.2 million as compared to the provision for loan and lease losses for 2013, adjusted to exclude the impact of the bulk sales of assets and transfer of certain commercial loans to held for sale in 2013, mainly as a result of higher recoveries in the United States region, a decrease in the size of the construction and commercial portfolios, and an improved residential mortgage loan portfolio composition following the sale of non-performing residential assets in 2013, partially offset by an increase in the provision for consumer loans.

The Corporation completed two bulk sales of assets in the first half of 2013, including: (i) a bulk sale of non-performing residential mortgage loans with a book value of $203.8 million and OREO properties with a book value of $19.2 million, completed in the second quarter of 2013, and (ii) a bulk sale of adversely classified assets, mainly commercial and construction loans, with a book value of $211.4 million and OREO properties with a book value of $6.3 million, completed in the first quarter of 2013. In addition, during the first quarter of 2013, the Corporation transferred to held for sale non-performing loans with an aggregate book value of $181.6 million. The following table shows the impact of the bulk sales on net charge-offs and the provision for loan and lease losses for the year ended December 31, 2013 on a GAAP basis as well as on a non-GAAP basis excluding the impact of the bulk sales of assets:

(Dollars in thousands)								
Year ended December 31, 2013		As Reported (GAAP)		Bulk Sales Transaction Impact		Loans Transferred To Held For Sale Impact		Excluding Bulk Sales Impact and Loans Transferred to Held for Sale (Non-GAAP)
Total net charge-offs	$	**393,307**	$	**196,491**	$	**35,953**	$	**160,863**
Total net charge-offs to average loans		4.01%						1.68%
Residential mortgage		127,999		98,972		-		29,027
Residential mortgage loans net charge-offs to average loans		4.77%						1.13%
Commercial mortgage		62,602		40,057		14,553		7,992
Commercial mortgage loans net charge-offs to average loans		3.44%						0.45%
Commercial and Industrial		105,213		44,678		-		60,535
Commercial and Industrial loans net charge-offs to average loans		3.52%						2.04%
Construction		41,247		12,784		21,400		7,063
Construction loans net charge-offs to average loans		15.11%						2.91%
Provision for loan and lease losses	$	**243,751**	$	**126,780**	$	**5,222**	$	**111,749**

Net charge-offs totaled $153.7 million for the year ended December 31, 2015, or 1.65% of average loans, including $61.4 million of net charge-offs related to the bulk sale of assets in 2015. Net charge-offs for the year ended December 31, 2014 totaled $173.0 million or 1.81% of average loans, including $6.9 million of charge-offs resulting from the difference between the fair value of mortgage loans acquired from Doral Financial Corporation in the second quarter of 2014 of $226.0 million, and the book value of the secured borrowing that such institution owed to FirstBank. Net charge-offs that exclude from net charge-offs for 2015 the impact of the bulk sale of assets and, for 2014, the impact of charge-offs resulting from the loans acquired in satisfaction of a secured borrowing are non-GAAP financial measures. Non-GAAP adjusted net charge-offs for 2015 amounted to $92.3 million, or 1.00% of average loans, a decrease of $73.8 million compared to non-GAAP adjusted net charge-offs for 2014, mainly reflected in the commercial and industrial and consumer loan portfolios. Refer to "Basis of Presentation" below for additional information about these non-GAAP financial measures. Also refer to the discussions under "Provision for loan and lease losses" and "Risk Management" below for an analysis of the allowance for loan and lease losses and non-performing assets and related ratios.

- The Corporation recorded non-interest income of $81.3 million for the year ended December 31, 2015 compared to non-interest income of $61.3 million and non-interest loss of $15.5 million for the years ended December 31, 2014 and 2013, respectively. Non-interest income for 2015 includes significant unusual items such as OTTI charges of $15.9 million on Puerto Rico Government debt securities, a $13.4 million bargain purchase gain related to assets acquired and deposits assumed from Doral Bank ("Doral") in the first quarter of 2015, and the $7.0 million gain realized on the sale of merchant contracts completed in the fourth quarter of 2015. Excluding the aforementioned significant items, non-interest income increased by $15.4 million to $76.8 million for 2015 compared to $61.3 million for 2014. The increase was primarily related to: (i) the $7.3 million equity in loss of unconsolidated entity recognized in the first half of 2014 related to the Bank's investment in CPG/GS PR NPL, LLC ("CPG/GS") as the value of the investment in this unconsolidated entity became zero in the second quarter of 2014, (ii) a $3.6 million increase in service charges on deposits primarily associated with the deposits assumed from Doral in late February 2015 as well as the implementation of new service and transactional fees on certain products beginning in the fourth quarter of 2015, (iii) a $2.5 million increase in revenues from the mortgage banking business, and (iv) an increase of $1.3 million in merchant-related income despite the sale of merchant contracts completed early in the fourth quarter of 2015. Refer to "Non-interest income" below for additional information.

The non-interest loss of $15.5 million for the year ended December 31, 2013 includes the $66.6 million loss related to the write-off of assets pledged as collateral to Lehman. Non-interest income for 2014 increased by $10.3 million as compared to non-interest income for 2013, excluding the Lehman collateral write-off. The increase in 2014, as compared to 2013, mainly reflects a $9.4 million decrease in losses related to the Bank's investment in CPG/GS. The increase in adjusted non-interest income was also attributable to a $0.9 million increase in insurance commission income, net of reserves and the impact in 2013 of a $1.5 million charge related to lower of cost or market adjustments on commercial and construction loans held for sale. These variances were partially offset by a $2.1 million decrease in revenues from mortgage banking activities driven by a decline in the volume of sales and securitizations.

- Non-interest expenses for 2015 were $383.8 million compared to $378.3 million and $415.0 million for 2014 and 2013, respectively. Non-interest expenses for 2015 include significant unusual items such as $4.6 million of acquisition and conversion costs related to assets acquired and deposits assumed from Doral Bank, $1.2 million of expenses and losses related to the bulk sale of assets and costs of $2.2 million related to a voluntary early retirement program. Excluding the aforementioned significant items, non-interest expenses decreased by $2.5 million to $375.8 million for 2015 compared to $378.3 million for 2014. The decrease reflects primarily: (i) a $10.5 million decrease in the FDIC deposit insurance premium expense reflecting, among other things, the decrease in brokered CDs, a strengthened capital position and an improved earnings to assets average ratio, (ii) a $5.4 million decrease in taxes, other than income taxes, primarily reflecting the elimination of Puerto Rico's national gross receipts tax in 2015, partially offset by incremental costs related to the sales and use tax, and (iii) a $5.0 million decrease in adjusted OREO related expenses, mainly due to a $3.7 million increase in rental income from OREO income-producing properties and higher gains on sales. These decreases were partially offset by: (i) a $12.3 million increase in employees' compensation and benefits (excluding costs associated with the voluntary early retirement program), mainly associated with salary merit increases, the impact of personnel costs related to the branches acquired from Doral in 2015, higher stock-based compensation expense and an increase in incentive and performance-based compensation, (ii) a $3.1 million increase in adjusted professional fees, including $3.6 million in interim servicing costs related to loan and deposit accounts acquired from Doral and $1.3 million of consulting and legal expenses related to special projects as well as strategic, stress testing and capital planning matters, and (iii) a $1.0 million increase in occupancy and equipment costs primarily related to rental, depreciation and maintenance expenses associated with the acquired Doral branches. Refer to "Non-Interest Expenses" below for additional information.

The decrease of $36.8 million in 2014, as compared to 2013, was mainly due to a $21.9 million decrease in losses on OREO operations, primarily due to a $16.4 million decrease in write-downs to the value of OREO properties, and a $9.5 million decrease

in the FDIC deposit insurance premium expense reflecting, among other things, improved earnings trends, the decrease in brokered deposits, a strengthened capital position and a decrease in the amount of leveraged commercial loans. In addition, the favorable variance reflects the impact in 2013 of several non-recurring items, including: (i) professional service fees of $6.9 million incurred in the bulk sales of assets, (ii) the $2.5 million loss contingency related to attorney's fees awarded in connection with the Lehman litigation, (iii) $1.7 million on costs associated with the common stock offering by certain of the Corporation's existing stockholders, (iv) $1.7 million on costs related to the conversion of the credit card processing platform, and (v) $1.2 million associated with a terminated preferred stock exchange offer. These decreases were partially offset by a $4.6 million increase in employees' compensation and benefits in 2014.

- For 2015, the Corporation recorded an income tax expense of $6.4 million, compared to an income tax benefit of $300.6 million for 2014 and an income tax expense of $5.2 million for 2013. The income tax benefit for 2014 primarily reflects the $302.9 million partial reversal of FirstBank's deferred tax assets valuation allowance. The Corporation's effective tax rate for 2015 was 23%. As of December 31, 2015, the Corporation had a net deferred tax asset of $311.3 million (net of a valuation allowance of $201.7 million, including a valuation allowance of $174.7 million against the deferred tax assets of the Corporation's banking subsidiary, FirstBank). Refer to "Income Taxes" below for additional information.

- As of December 31, 2015, total assets were $12.6 billion, a decrease of $154.8 million from December 31, 2014. The variance mainly reflects a $79.3 million decrease in available-for-sale investment securities driven by U.S. agency MBS prepayments, debt securities called prior to maturity and decreases in the fair value of Puerto Rico Government debt securities and U.S. agency MBS. The cash and cash equivalents balance decreased by $43.7 million to $752.5 million as of December 31, 2015 from $796.1 million as of December 31, 2014 due to, among other things, funds used for $200 million in reverse repurchase agreements entered into in 2015 under a master netting arrangement. This agreement qualifies for offsetting accounting, thus, reverse repurchase agreements were netted against repurchase agreements in the consolidated statement of financial condition. Total loans (before allowance) decreased by $29.7 million, primarily due to a $———213.2 million decrease in commercial and construction loans, including the $147.5 million of loans included in the bulk sale of assets completed in the second quarter of 2015, and a $155.4 million decrease in the consumer loan portfolio. These variances were partially offset by a $338.9 million increase in residential mortgage loans mainly attributable to loans acquired from Doral in late February 2015. Refer to "Financial Condition and Operating Data" below for additional information.

- As of December 31, 2015, total liabilities were $10.9 billion, a decrease of $177.2 million, from December 31, 2014. The decrease was mainly related to a $789.6 million decrease in brokered CDs and the netting of the $200 million reverse repurchase agreement entered into in 2015 against repurchase agreements. These variances were partially offset by a $643.7 million increase in non-brokered deposits to $7.2 billion as of December 31, 2015, including an increase of $176.1 million in government deposits and approximately $446.9 million related to the outstanding balance as of December 31, 2015 of the deposits assumed from Doral Bank. FHLB advances increased during 2015 by $130.0 million to $455.0 million as of December 31, 2015. Refer to "Risk Management – Liquidity and Capital Adequacy" below for additional information about the Corporation's funding sources.

- As of December 31, 2015, the Corporation's stockholders' equity was $1.7 billion, an increase of $22.4 million from December 31, 2014. The increase was mainly driven by the net income of $21.3 million for 2015 and the exchange of $5.3 million of trust preferred securities for shares of the Corporation's common stock.

- The Corporation's Total Capital, Common equity Tier 1 Capital, Tier 1 Capital and Leverage ratios calculated under the Basel III rules were 20.01%, 16.92%, 16.92%, and 12.22%, respectively, as of December 31, 2015. The Corporation's tangible common equity ratio increased to 12.84% as of December 31, 2015, from 12.51% as of December 31, 2014. Refer to "Risk Management – Capital" below for additional information including further information about the implementation of the Basel III rules in 2015

- Total loan production, including purchases, refinancings and draws from existing revolving and non-revolving commitments, was $3.0 billion for the year ended December 31, 2015, excluding the utilization activity on outstanding credit cards, compared to $3.2 billion, for 2014. The decrease in loan production was mainly related to lower borrowings under credit facilities granted to government entities in Puerto Rico and a decrease in auto loan originations.

- Total non-performing assets were $609.9 million as of December 31, 2015, a decrease of $106.8 million from December 31, 2014. The decrease was driven by the bulk sale of assets that included $91.9 million of non-performing commercial and construction loans, the restoration to accrual status of a $24.5 million commercial mortgage facility after consideration of the borrower's sustained historical repayment performance and credit evaluation, and an $11.7 million decrease in non-performing residential mortgage loans, partially offset by the inflow to non-performing status in the first quarter of the credit facility with PREPA (with a book value of $71.1 million as of December 31, 2015). The remainder of the decrease reflects charge-offs, commercial loans brought current, and cash collections. Refer to "Risk Management - Non-accruing and Non-performing Assets" below for additional information.

- Adversely classified commercial and construction loans held for investment decreased by $35.4 million to $522.1 million, or 6%, from December 31, 2014, driven by the bulk sale of assets and the transfer of loans to the OREO, partially offset by the migration of the $129.4 million exposure to commercial mortgage loans guaranteed by TDF.

Critical Accounting Policies and Practices

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

Allowance for Loan and Lease Losses

The Corporation maintains the allowance for loan and lease losses at a level considered adequate to absorb losses currently inherent in the loan and lease portfolio. The Corporation does not maintain an allowance for held for sale loans or purchased credit impaired loans that are performing in accordance with or better than expectations as of the date of acquisition, as the fair values of these loans already reflects a credit component. The allowance for loan and lease losses does not include amounts related to accrued interest receivable, other than billed interest and fees on credit card loans, as accrued interest receivable is reversed when a loan is placed on nonaccrual status. The allowance for loan and lease losses provides for probable losses that have been identified with specific valuation allowances for individually evaluated impaired loans and for probable losses believed to be inherent in the loan portfolio that have not been specifically identified. The determination of the allowance for loan and lease losses requires significant estimates, including the timing and amounts of expected future cash flows on impaired loans, consideration of current economic conditions, and historical loss experience pertaining to the portfolios and pools of homogeneous loans, all of which may be susceptible to change.

The Corporation evaluates the need for changes to the allowance by portfolio loan segments and classes of loans within certain of those portfolio segments. The Corporation combines loans with similar credit risk characteristics into the following portfolio segments: commercial mortgage, construction, commercial and industrial, residential mortgage, and consumer loans. Classes are usually disaggregations of the portfolio segments. The classes within the residential mortgage segment are residential mortgages guaranteed by the U.S. government and other residential loans. The classes within the consumer portfolio are auto, finance leases, and other consumer loans. Other consumer

loans mainly include unsecured personal loans, credit cards, home equity lines, lines of credits, and marine financing. The classes within the construction loan portfolio are land loans, construction of commercial projects, and construction of residential projects. The commercial mortgage and commercial and industrial segments are not further segmented into classes. The adequacy of the allowance for loan and lease losses is based on judgments related to the credit quality of each portfolio segment. These judgments consider ongoing evaluations of each portfolio segment, including such factors as the economic risks associated with each loan class, the financial condition of specific borrowers, the geography (Puerto Rico, Florida or the Virgin Islands), the level of delinquent loans, historical loss experience, the value of any collateral and, where applicable, the existence of any guarantees or other documented support. In addition to the general economic conditions and other factors described above, additional factors considered include the internal risk ratings assigned to loans. An internal risk rating is assigned to each commercial loan at the time of approval and is subject to subsequent periodic review by the Corporation's senior management. The allowance for loan and lease losses is reviewed on a quarterly basis as part of the Corporation’s continued evaluation of its asset quality.

The allowance for loan and lease losses is increased through a provision for credit losses that is charged to earnings, based on the quarterly evaluation of the factors previously mentioned, and is reduced by charge-offs, net of recoveries.

The allowance for loan and lease losses consists of specific reserves based upon valuations of loans considered to be impaired and general reserves. A specific valuation allowance is established for individual impaired loans in the commercial mortgage, construction, and commercial and industrial portfolios and certain boat loans, residential mortgage loans, and home equity lines of credit, primarily when the collateral value of the loan (if the impaired loan is determined to be collateral dependent) or the present value of the expected future cash flows discounted at the loan’s effective rate is lower than the carrying amount of that loan. Commercial mortgage, construction, commercial and industrial, and boat loans with individual principal balances of $1 million or more, troubled debt restructurings (“TDRs”), as well as residential mortgage loans and home equity lines of credit considered impaired based on their delinquency and loan-to-value levels are individually evaluated for impairment. When foreclosure of a collateral dependent loan is probable, the impairment measure is based on the fair value of the collateral. The fair value of the collateral is generally obtained from appraisals. Updated appraisals are obtained when the Corporation determines that loans are impaired and are generally updated annually thereafter according to the Corporation’s appraisal policy. In addition, appraisals and/or appraiser price opinions are also obtained for residential mortgage loans based on specific characteristics such as delinquency levels, age of the appraisal, and loan-to-value ratios. The excess of the recorded investment in a collateral dependent loan over the resulting fair value of the collateral is charged-off when deemed uncollectible.

For all other loans, which include small, homogeneous loans, such as auto loans, all classes in the consumer loan portfolio, residential mortgages in amounts under $1 million and commercial and construction loans not considered impaired, the Corporation maintains a general valuation allowance established through a process that begins with estimates of incurred losses based upon various statistical analyses. The general reserve is primarily determined by applying loss factors according to the loan type and assigned risk category (pass, special mention, and substandard not considered to be impaired; all doubtful loans are considered impaired).

The Corporation uses a roll-rate methodology to estimate losses on its consumer loan portfolio based on delinquencies and considering credit bureau score bands. The Corporation tracks the historical portfolio performance to arrive at a weighted-average distribution in each subgroup of each delinquency bucket. Roll-to-loss rates (loss factors) are calculated by multiplying the roll rates from each subgroup within the delinquency buckets forward through loss. Once roll rates are calculated, the resulting loss factor is applied to the existing receivables in the applicable subgroups within the delinquency buckets and the end results are aggregated to arrive at the required allowance level. The Corporation's assessment also involves evaluating key qualitative and environmental factors, which include credit and macroeconomic indicators such as unemployment, bankruptcy trends, recent market transactions, and collateral values to account for current market conditions that are likely to cause estimated credit losses to differ from historical loss experience. The Corporation analyzes the expected delinquency migration to determine the future volume of delinquencies.

The cash flow analysis for each residential mortgage pool is performed at the individual loan level and then aggregated to the pool level in determining the overall expected loss ratio. The model applies risk-adjusted prepayment curves, default curves, and severity curves to each loan in the pool. For loan restructuring pools, the present value of expected future cash flows under new terms, at the loan's effective interest rate, is taken into consideration. Additionally, the default risk and prepayments related to loan restructurings are based on, among other things, the historical experience of these loans. Loss severity is affected by the expected house price scenario, which is based in part on recent house price trends. Default curves are used in the model to determine expected delinquency levels. The attributes that are most significant to the probability of default include present collection status (current, delinquent, in bankruptcy, in foreclosure stage), vintage, loan-to-values, and geography (Puerto Rico, Florida or the Virgin Islands).The risk-adjusted timing of liquidations and associated costs are used in the model, and are risk-adjusted for the geographic area in which each property is located.

For commercial loans, historical charge-offs rates are calculated by the Corporation on a quarterly basis by tracking cumulative charge-offs experienced over a two-year loss period on loans according to their internal risk rating (referred to as "base rate" for the quarter). The allowance is calculated using the base rate average of the last 8 quarters. A qualitative factor adjustment is applied to the base rate average utilizing a resulting factor derived from a set of risk-based ratings and weights assigned to credit and economic indicators over a reasonable period applied to a developed expected range of historical losses. This factor may be stressed to reflect other elements not reflected in the historical data underlying the loss estimates, such as the prolonged uncertainty surrounding how the Puerto Rico Government might restructure its debt and the effect of recent payment defaults and other unprecedented measures implemented by the Puerto Rico Government to deal with its fiscal condition. In the fourth quarter of 2015, the

Corporation recorded a $19.2 million charge to the provision for loan and lease losses related to qualitative factor adjustments that stressed the historical loss rates applied to the Corporation's exposure to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding loans to municipalities) in light of unprecedented actions taken by the Puerto Rico Government to deal with its deteriorating liquidity and the extended uncertainty surrounding how the Puerto Rico Government might restructure its debt.

Charge-off of Uncollectible Loans – Net charge-offs consist of the unpaid principal balances of loans held for investment that the Corporation determines are uncollectible, net of recovered amounts. Charge-offs are recorded as a reduction to the allowance for loan and lease losses and subsequent recoveries of previously charged off amounts are credited to the allowance for loan and lease losses. Collateral dependent loans in the construction, commercial mortgage, and commercial and industrial loan portfolios are charged off to their net realizable value (fair value of collateral, less estimated costs to sell) when loans are considered to be uncollectible. Within the consumer loan portfolio, auto loans and finance leases are reserved once they are 120 days delinquent and are charged off to their estimated net realizable value when the collateral deficiency is deemed uncollectible (i.e., when foreclosure/repossession is probable) or when the loan is 365 days past due. Within the other consumer loans class, closed-end loans are charged off when payments are 120 days in arrears, except small personal loans. Open-end (revolving credit) consumer loans, including credit card loans, and small personal loans are charged off when payments are 180 days in arrears. On a quarterly basis, residential mortgage loans that are 180 days delinquent and have an original loan-to-value ratio that is higher than 60% are reviewed and charged-off, as needed, to the fair value of the underlying collateral. Generally, all loans may be charged off or written down to the fair value of the collateral prior to the policies described above if a loss-confirming event occurred. Loss-confirming events include, but are not limited to, bankruptcy (unsecured), continued delinquency, or receipt of an asset valuation indicating a collateral deficiency when the asset is the sole source of repayment. The Corporation does not record charge-offs on PCI loans that are performing in accordance with or better than expectations as of the date of acquisition, as the fair value of these loans already reflects a credit component. The Corporation records charge-offs on PCI loans only if actual losses exceed estimated losses incorporated into the fair value recorded at acquisition and the amount is deemed uncollectible.

Other-than-temporary impairments

On a quarterly basis, the Corporation performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered an OTTI. A security is considered impaired if the fair value is less than its amortized cost basis.

The Corporation evaluates whether the impairment is other-than-temporary depending upon whether the portfolio consists of debt securities or equity securities, as further described below. The Corporation employs a systematic methodology that considers all available evidence in evaluating a potential impairment of its investments.

The impairment analysis of debt securities places special emphasis on the analysis of the cash position of the issuer and its cash and capital generation capacity, which could increase or diminish the issuer's ability to repay its bond obligations, the length of time and the extent to which the fair value has been less than the amortized cost basis, and the latest information available about the financial health and prospects of the issuer, credit ratings, the failure of the issuer to meet scheduled principal or interest payments, recent legislation, government actions affecting the issuer's industry, and actions taken by the issuer to deal with the economic climate. The Corporation also takes into consideration changes in the near-term prospects of the underlying collateral, if applicable, such as changes in default rates, loss severity given default, and significant changes in prepayment assumptions. OTTI must be recognized in earnings if the Corporation has the intent to sell the debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, even if the Corporation does not expect to sell a debt security, it must evaluate expected cash flows to be received and determine if a credit loss has occurred. An unrealized loss is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. The credit loss component of an OTTI, if any, is recorded as net impairment losses on debt securities in the statements of income (loss), while the remaining portion of the impairment loss is recognized in OCI, net of taxes, and included as a component of stockholders' equity provided the Corporation does not intend to sell the underlying debt security and it is more likely than not that the Corporation will not have to sell the debt security prior to recovery. The previous amortized cost basis less the OTTI recognized in earnings is the new amortized cost basis of the investment. The new amortized cost basis is not adjusted for subsequent recoveries in fair value. However, for debt securities for which OTTI was recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected is accreted as interest income. Debt securities held by the Corporation at year end primarily consisted of securities issued by U.S. government-sponsored entities, bonds issued by the Puerto Rico Government and private label mortgage-backed securities ("MBS"). Given the explicit and implicit guarantees provided by U.S. Federal government, the Corporation believes the credit risk in securities issued by the U.S. government-sponsored entities is low. The Corporation's OTTI assessment is concentrated on Puerto Rico Government debt securities, with an amortized cost of $49.7 million as of December 31, 2015, and on private label MBS with an amortized cost of $34.9 million as of December 31, 2015. The risk-adjusted discounted cash flow analyses applied to the Puerto Rico Government debt securities are calculated based on the probability of default and loss severity assumptions. The valuation for private label MBS is derived from a discounted cash flow analysis that considers relevant assumptions such as the prepayment rate, default rate, and loss severity on a loan level basis. For further information, refer to Note 5 – Investment Securities, to the consolidated financial statements.

The impairment analysis of equity securities is performed and reviewed on an ongoing basis based on the latest financial information and any supporting research report made by a major brokerage firm. This analysis is very subjective and based, among other things, on relevant financial data such as capitalization, cash flow, liquidity, systematic risk, and debt outstanding of the issuer. Management also considers the issuer's industry trends, the historical performance of the stock and credit ratings, if applicable, as well as the Corporation's intent to hold the security for an extended period. If management believes there is a low probability of recovering book value in a reasonable time frame, it records an impairment by writing the security down to market value. As previously mentioned, equity securities are monitored on an ongoing basis but special attention is given to those securities that have experienced a decline in fair value for six months or more. An impairment charge is generally recognized when the fair value of an equity security has remained significantly below cost for a period of 12 consecutive months or more.

Income Taxes

The Corporation is required to estimate income taxes in preparing its consolidated financial statements. This involves the estimation of current income tax expense together with an assessment of temporary differences resulting from differences in the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The determination of current income tax expense involves estimates and assumptions that require the Corporation to assume certain positions based on its interpretation of current tax regulations. Management assesses the relative benefits and risks of the appropriate tax treatment of transactions, taking into account statutory, judicial and regulatory guidance and recognizes tax benefits only when deemed probable. Changes in assumptions affecting estimates may be required in the future and estimated tax liabilities may need to be increased or decreased accordingly. The accrual of tax contingencies is adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. The Corporation's effective tax rate includes the impact of tax contingencies and changes to such accruals, as considered appropriate by management. When particular matters arise, a number of years may elapse before such matters are audited by the taxing authorities and finally resolved. Favorable resolution of such matters or the expiration of the statute of limitations may result in the release of tax contingencies that are recognized as a reduction to the Corporation's effective rate in the year of resolution. Unfavorable settlement of any particular issue could increase the effective rate and may require the use of cash in the year of resolution.

Under the Puerto Rico Internal Revenue Code of 2011 as amended, 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 an NOL, a particular subsidiary must be able to demonstrate sufficient taxable income within the applicable NOL carryforward period.

The determination of deferred tax expense or benefit is based on changes in the carrying amounts of assets and liabilities that generate temporary differences. The carrying value of the Corporation's net deferred tax asset assumes that the Corporation will be able to generate sufficient future taxable income based on estimates and assumptions. If these estimates and related assumptions change, the Corporation may be required to record valuation allowances against its deferred tax asset resulting in additional income tax expense in the consolidated statements of income. Management evaluates its deferred tax asset on a quarterly basis and assesses the need for a valuation allowance, if any. A valuation allowance is established when management believes that it is more likely than not that some portion of its deferred tax asset will not be realized.

Changes in the valuation allowance from period to period are included in the Corporation's tax provision in the period of change. In 2010, the Corporation established a valuation allowance for substantially all of the deferred tax assets of its banking subsidiary, FirstBank, primarily due to significant operational losses driven by charges to the provision for loan losses, a three-year cumulative loss position as of the end of the year 2010, and uncertainty regarding the amount of future taxable income that the Bank could forecast. As of December 31, 2014, based upon the assessment of all positive and negative evidence, management concluded that it was more likely than not that FirstBank will generate

sufficient taxable income within the applicable NOL carry-forward periods to realize $308.2 million of its deferred tax assets and, therefore reversed $302.9 million of the valuation allowance

During 2015, management reassessed the need for a valuation allowance and concluded, based upon the assessment of all positive and negative evidence, that it is more likely than not that FirstBank will generate sufficient taxable income within the applicable NOL carry-forward periods to realize $306.4 million of its deferred tax asset. The positive evidence considered by management to conclude on the adequacy of the valuation allowance as of December 31, 2015 includes factors such as: FirstBank's return to profitability, forecasts of future profitability under several potential scenarios that support the partial utilization of NOLs prior to their expiration between 2021 through 2024, the taxable year 2015 being the first year with taxable income since 2008, sustained pre-tax pre-provision for loan losses income which demonstrates demand for FirstBank's products and services, the Doral Bank transaction which resulted in market share expansion, and improvements in credit quality measures that have resulted in reduced credit exposures and have improved both sustainability of profitability and management's ability to forecast future losses, which in turn led to actions such as the lifting of the FDIC Consent Order during 2015. The negative evidence considered by management includes that the Bank remains in a three-year cumulative loss position of $69.9 million due to significant charges to the provision for loan losses as a result of bulk sales of adversely classified and non-performing loans in 2013 and 2015. However, this loss position is significantly lower than the three-year cumulative pre-tax loss position of $860.3 million as of December 31, 2010, the year when a full valuation allowance was established. Other negative factors include Puerto Rico's current economic conditions and the still elevated levels of non-performing assets.

Income tax expense includes Puerto Rico and USVI income taxes as well as applicable United States 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. 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 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.

The authoritative accounting guidance prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken on income tax returns. Under this guidance, income tax benefits are recognized and measured based on a two-step analysis: 1) a tax position must be more likely than not to be sustained based solely on its technical merits in order to be recognized, and 2) the benefit is measured at the largest dollar amount of that position that is more likely than not to be sustained upon settlement. The difference between the benefit recognized in accordance with this analysis and the tax benefit claimed on a tax return is referred to as UTB.

As of December 31, 2015, the Corporation did not have UTBs recorded on its books. During 2014, the Corporation reached a final settlement with the IRS in connection with the 2007-2009 examination periods. As a result, during 2014, the Corporation released a portion of its reserve for uncertain tax positions, resulting in a tax benefit of $1.8 million, and paid $2.5 million to settle the tax liability resulting from the audit.

Refer to Note 26 – Income Taxes of the Corporation's audited financial statements for the year ended December 31, 2015 included in Item 8 of this Form 10-K for further information related to Income Taxes.

Investment Securities Classification and Related Values

Management determines the appropriate classification of debt and equity securities at the time of purchase. Debt securities are classified as held to maturity when the Corporation has the intent and ability to hold the securities to maturity. Held-to-maturity ("HTM") securities are stated at amortized cost. Debt and equity securities are classified as trading when the Corporation has the intent to sell the securities in the near term. Debt and equity securities classified as trading securities, if any, are reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as HTM or trading, except for equity securities that do not have readily available fair values, are classified as available for sale ("AFS"). AFS securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported net of deferred taxes in accumulated OCI (a component of stockholders' equity), and do not affect earnings until realized or are deemed to be other-than-temporarily impaired. Investments in equity securities that do not have publicly or readily determinable fair values are classified as other equity securities in the statement of financial condition and carried at the lower of cost or realizable value. The assessment of fair value applies to certain of the Corporation's assets and liabilities, including the investment portfolio. Fair values are volatile and are affected by factors such as market interest rates, the rates at which prepayments occur and discount rates.

Valuation of financial instruments

The measurement of fair value is fundamental to the Corporation's presentation of its financial condition and results of operations. The Corporation holds fixed income and equity securities, derivatives, investments, and other financial instruments at fair value. The Corporation holds its investments and liabilities mainly to manage liquidity needs and interest rate risks. A significant part of the Corporation's total assets is reflected at fair value on the Corporation's financial statements.

The following is a description of the valuation methodologies used for instruments measured 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, U.S. Treasury notes, and non-callable U.S. Agency debt securities), when available (Level 1), or 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 2015, the Corporation recorded OTTI charges of $15.9 million on certain Puerto Rico Government debt securities, specifically bonds of GDB and the Puerto Rico Public Buildings Authority. The credit impairment loss was based on the probability of default and loss severity in the event of default in consideration of the latest information available about the Puerto Rico Government's financial condition. Refer to Note 5- Investments 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.

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. That is, on interest rate swaps, the credit risk of both counterparties is included in the valuation; and, on options and caps, only the seller's credit risk is considered. The derivative instruments, namely swaps and 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 in 2015, 2014 and 2013 was immaterial.

Income Recognition on Loans

Loans that the Corporation has the ability and intent to hold for the foreseeable future are classified as held for investment. The substantial majority of the Corporation's loans are classified as held for investment. Loans are stated at the principal outstanding balance, net of unearned interest, cumulative charge-offs, unamortized deferred origination fees and costs, and unamortized premiums and discounts. Fees collected and costs incurred in the origination of new loans are deferred and amortized using the interest method or a method that approximates the interest method over the term of the loan as an adjustment to interest yield. Unearned interest on certain personal loans, auto loans and finance leases and discounts and premiums are recognized as income under a method that

approximates the interest method. When a loan is paid-off or sold, any unamortized net deferred fee (cost) is credited (charged) to income. Credit card loans are reported at their outstanding unpaid principal balance plus uncollected billed interest and fees net of amounts deemed uncollectible. PCI loans are reported net of any remaining purchase accounting adjustments. See "Loans Acquired" below for the accounting policy for PCI loans.

Non-Performing and Past-Due Loans **–** Loans on which the recognition of interest income has been discontinued are designated as non-performing. Loans are classified as non-performing when they are 90 days past due for interest and principal, with the exception of residential mortgage loans guaranteed by the Federal Housing Administration or the Veterans Administration and credit cards. It is the Corporation's policy to report delinquent mortgage loans insured by the FHA or guaranteed by the VA as loans past due 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. However, the Corporation discontinues the recognition of income for FHA/VA loans when such loans are over 15 months delinquent. Based on an update to the analysis of historical collections from these agencies performed in the fourth quarter of 2015, the Corporation determined to discontinue the recognition of income for FHA/VA loans once loans are over 15 months delinquent. Previously, the Corporation discontinued the recognition of interest income on these loans when they were 18-months delinquent as to principal or interest. The impact of this change in estimate was not material to the Corporation's consolidated statement of financial position, results of operations or cash flows. As permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council ("FFIEC"), credit card loans are generally charged off in the period in which the account becomes 180 days past due. Credit card loans continue to accrue finance charges and fees until charged off at 180 days. Loans generally may be placed on non-performing status prior to when required by the policies described above when the full and timely collection of interest or principal becomes uncertain (generally based on an assessment of the borrower's financial condition and the adequacy of collateral, if any). When a loan is placed on non-performing status, any accrued but uncollected interest income is reversed and charged against interest income and amortization of any net deferred fees is suspended. Interest income on non-performing loans is recognized only to the extent it is received in cash. However, when there is doubt regarding the ultimate collectability of loan principal, all cash thereafter received is applied to reduce the carrying value of such loans (i.e., the cost recovery method). Generally, the Corporation returns a loan to accrual status when all delinquent interest and principal becomes current under the terms of the loan agreement, or after a sustained period of repayment performance (6 months) and the loan is well secured, is in the process of collection, and full repayment of the remaining contractual principal and interest is expected. PCI loans are not reported as non-performing as these loans were written down to fair value at the acquisition date and the accretable yield is recognized in interest income over the remaining life of the loans. Loans that are past due

30 days or more as to principal or interest are considered delinquent, with the exception of residential mortgage, commercial mortgage, and construction loans, which are considered past due when the borrower is in arrears on two or more monthly payments.

Impaired Loans – A loan is considered impaired when, based upon current information and events, it is probable that the Corporation will be unable to collect all amounts due (including principal and interest) according to the contractual terms of the loan agreement, or the loan has been modified in a Troubled Debt Restructuring ("TDR"). Loans with insignificant delays or insignificant shortfalls in the amounts of payments expected to be collected are not considered to be impaired. The Corporation measures impairment individually for those loans in the construction, commercial mortgage, and commercial and industrial portfolios with a principal balance of $1 million or more and any loans that have been modified in a TDR. The Corporation also evaluates for impairment purposes certain residential mortgage loans and home equity lines of credit with high delinquency and loan-to-value levels. Generally, consumer loans are not individually evaluated for impairment on a regular basis except for impaired marine financing loans in amounts that exceed $1 million, home equity lines with high delinquency and loan-to-value levels and TDR loans. Held for sale loans are not reported as impaired, as these loans are recorded at the lower of cost or fair value.

The Corporation generally measures impairment and the related specific allowance for individually impaired loans based on the difference between the recorded investment of the loan and the present value of the loans' expected future cash flows, discounted at the effective original interest rate of the loan at the time of modification, or the loan's observable market price. If the loan is collateral dependent, the Corporation measures impairment based upon the fair value of the underlying collateral, instead of discounted cash flows, regardless of whether foreclosure is probable. Loans are identified as collateral dependent if the repayment is expected to be provided solely by the underlying collateral, through liquidation or operation of the collateral. When the fair value of the collateral is used to measure impairment on an impaired collateral-dependent loan and repayment or satisfaction of the loan is dependent on the sale of the collateral, the fair value of the collateral is adjusted to consider estimated costs to sell. If repayment is dependent only on the operation of the collateral, the fair value of the collateral is not adjusted for estimated costs to sell. If the fair value of the loan is less than the recorded investment, the Corporation recognizes impairment by either a direct write-down or establishing a specific allowance for the loan or by adjusting the specific allowance for the impaired loan. For an impaired loan that is collateral dependent, charge-offs are taken in the period in which the loan, or portion of the loan, is deemed uncollectible, and any portion of the loan not charged off is adversely credit risk rated at a level no worse than substandard.

A restructuring of a loan 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. TDR loans typically result from the Corporation's loss mitigation activities and residential mortgage loans modified in accordance with guidelines similar to those of the U.S. government's Home Affordable Modification Program, and could include rate reductions to a rate that is below market on the loan, principal forgiveness, term extensions, payment forbearance, refinancing of any past-due amounts, including interest, escrow, and late charges and fees, and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. Residential mortgage loans for which a binding offer to restructure has been extended are also classified as TDR loans. PCI loans are not classified as TDR.

TDR loans are classified as either accrual or nonaccrual. Loans in accrual status may remain in accrual status when their contractual terms have been modified in a TDR if the loans had demonstrated performance prior to the restructuring and payment in full under the restructured terms is expected. Otherwise, a loan on nonaccrual status and restructured as a TDR will remain on nonaccrual status until the borrower demonstrates a sustained period of performance (generally six consecutive months of payments, inclusive of consecutive payments made prior to the modification), and there is evidence that such payments can and are likely to continue as agreed.

In connection with commercial loan restructurings, the decision to maintain a loan that has been restructured on accrual status is based on a current, well-documented credit evaluation of the borrower’s financial condition and prospects for repayment under the modified terms. The credit evaluation reflects consideration of the borrower’s future capacity to pay, which may include evaluation of cash flow projections, consideration of the adequacy of collateral to cover all principal and interest, and trends indicating improving profitability and collectability of receivables. This evaluation also includes an evaluation of the borrower’s current willingness to pay, which may include a review of past payment history, an evaluation of the borrower’s willingness to provide information on a timely basis, and consideration of offers from the borrower to provide additional collateral or guarantor support.

The evaluation of mortgage and consumer loans for restructurings includes an evaluation of the client’s disposable income and credit report, the value of the property, the loan-to-value relationship, and certain other client-specific factors that have impacted the borrower’s ability to make timely principal and interest payments on the loan. In connection with residential and consumer restructurings, a nonperforming loan will be returned to accrual status when current as to principal and interest, under the revised terms, and upon sustained historical repayment performance.

The Corporation removes loans from TDR classification, consistent with authoritative guidance that allows for a TDR to be removed from this classification in years following the modification, only when the following two circumstances are met:

(i) The loan is in compliance with the terms of the restructuring agreement and, therefore, is not considered impaired under the revised terms; and

(ii) The loan yields a market interest rate at the time of the restructuring. In other words, the loan was restructured with an interest rate equal to or greater than what the Corporation would have been willing to accept at the time of the restructuring for a new loan with comparable risk.

If both of the conditions are met, the loan can be removed from the TDR classification in calendar years after the year in which the restructuring took place. However, the loan continues to be individually evaluated for impairment. Loans classified as TDRs, including loans in trial payment periods (trial modifications), are considered impaired loans.

With respect to loan splits, generally, Note A of a loan split is restructured under market terms, and Note B is fully charged off. If Note A is in compliance with the restructured terms in years following the restructuring, Note A will be removed from the TDR classification.

A loan that had previously been modified in a TDR and is subsequently refinanced under current underwriting standards at a market rate with no concessionary terms is accounted for as a new loan and is no longer reported as a TDR.

Interest income on impaired loans is recognized based on the Corporation's policy for recognizing interest on accrual and non-accrual loans.

Loans Acquired

All purchased loans are recorded at fair value at the date of acquisition. Loans acquired with evidence of credit deterioration since their origination and where it is probable at the date of acquisition that the Corporation will not collect all contractually required principal and interest payments are considered PCI loans. Evidence of credit quality deterioration as of the purchase date may include statistics such as past due and non-accrual status, credit scores, and revised loan terms. PCI loans have been aggregated into pools based on common risk characteristics. Each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. In accounting for PCI loans, the difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. The nonaccretable difference, which is neither accreted into income nor recorded on the consolidated statement of financial condition, reflects estimated future credit losses expected to be incurred over the life of the pool of loans. The excess of cash flows expected to be collected over the estimated fair value of PCI loans is referred to as the accretable yield. This amount is not recorded on the statement of financial condition, but is accreted into interest income over the remaining life of the pool of loans, using the effective-yield method.

Subsequent to acquisition, the Corporation continues to estimate cash flows expected to be collected over the life of the PCI loans using models that incorporate current key assumptions such as default rates, loss severity, and prepayment speeds. Decreases in expected cash flows will generally result in an impairment charge to the provision

for loan and lease losses and the establishment of an allowance for loan and lease losses. Increases in expected cash flows will generally result in a reduction in any allowance for loan and lease losses established subsequent to acquisition and an increase in the accretable yield. The adjusted accretable yield is recognized in interest income over the remaining life of the pool of loans.

Resolutions of loans may include sales of loans to third parties, receipt of payments in settlement with the borrower, or foreclosure of the collateral. The Corporation's policy is to remove an individual loan from a pool at its relative carrying amount. The carrying amount is defined as the loan's current contractually required payments receivable less its remaining nonaccretable difference and accretable yield, but excluding any post-acquisition loan loss allowance. To determine the carrying value, the Corporation performs a pro-rata allocation of the pool's total remaining nonaccretable difference and accretable yield to an individual loan in proportion to the loan's current contractually required payments receivable compared to the pool's total contractually required payments receivable. This removal method assumes that the amount received from resolution approximates pool performance expectations. The remaining accretable yield balance is unaffected and any material change in the remaining effective yield caused by this removal method is addressed by the Corporation's quarterly cash flow evaluation process for each pool. Modified PCI loans are not removed from a pool even if those loans would otherwise be deemed TDRs.

Because the initial fair value of PCI loans recorded at acquisition includes an estimate of credit losses expected to be realized over the remaining lives of the loans, the Corporation separately tracks and reports PCI loans and excludes these loans from its delinquency and non-performing loan statistics.

For acquired loans that are not deemed impaired at acquisition, subsequent to acquisition, the Corporation recognizes the difference between the initial fair value at acquisition and the undiscounted expected cash flows in interest income over the period in which substantially all of the inherent losses associated with the non-PCI loans at the acquisition date are estimated to occur. Thus, such loans are accounted for consistently with other originated loans, potentially being classified as nonaccrual or impaired, as well as being classified under the Corporation's standard practice and procedures. In addition, these loans are considered in the determination of the allowance for loan losses.

Loans held for sale

Loans that the Corporation intends to sell or that the Corporation does not have the ability and intent to hold for the foreseeable future are classified as held for sale loans. Loans held for sale are stated at the lower of aggregate cost or fair value. Generally, the loans held for sale portfolio consists of conforming residential mortgage loans that the Corporation intends to sell to the Government National Mortgage Association and government sponsored entities such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Generally, residential mortgage loans held for sale are valued on an aggregate portfolio basis and the value is primarily derived from quotations based on the mortgage-backed securities market. The amount by which cost exceeds market value in the aggregate portfolio of loans held for sale, if any, is accounted for as a valuation allowance with changes therein included in the determination of net income and reported as part of mortgage banking activities in the consolidated statement of income (loss). Loan costs and fees are deferred at origination and are recognized in income at the time of sale. The fair value of commercial loans held for sale is primarily derived from external appraisals with changes in the valuation allowance reported as part of other non-interest income in the consolidated statement of income (loss).

In certain circumstances, the Corporation transfers loans from/to held for sale or held for investment based on a change in strategy. If such a change in holding strategy is made, significant adjustments to the loans' carrying values may be necessary. Reclassification of loans held for sale to held for investment are made at fair value on the date of transfer. Any difference between the carrying value and the fair value of the loan is recorded as an adjustment to non-interest income. Meanwhile, reclassification of loans held for investment to held for sale are made at the lower of cost or fair value on the date of transfer and establish a new cost basis upon transfer. Write-downs of loans transferred from held for investment to held for sale are recorded as charge-offs at the time of transfer.

Results of Operations

Net Interest Income

Net interest income is the excess of interest earned by First BanCorp. on its interest-earning assets over the interest incurred on its interest-bearing liabilities. First BanCorp.'s net interest income is subject to interest rate risk due to the repricing and maturity mismatch of the Corporation's assets and liabilities. Net interest income for the year ended December 31, 2015 was $502.3 million, compared to $518.1 million and $514.9 million for 2014 and 2013, respectively. On a tax-equivalent basis and excluding the changes in the fair value of derivative instruments, net interest income for the year ended December 31, 2015 was $520.0 million compared to $535.0 million and $527.4 million for 2014 and 2013, respectively.

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

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

Part I								
	Average volume			**Interest income(1) / expense**			**Average**	
Year Ended December 31,	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**	**2015**	**20**
(Dollars in thousands)								
Interest-earning assets:								
Money market and other								
short-term investments	$ 775,848	$ 742,929	$ 684,074	$ 2,148	$ 1,892	$ 1,927	0.28%	0.2
Government obligations (2)	474,275	350,175	338,571	10,420	8,258	7,892	2.20%	2.3
Mortgage-backed securities	1,489,423	1,669,406	1,666,091	44,909	54,291	52,841	3.02%	3.2
FHLB stock	26,522	27,155	30,941	1,075	1,169	1,359	4.05%	4.3
Other investments	777	320	1,330	-	-	-	0.00%	0.0
Total investments (3)	2,766,845	2,789,985	2,721,007	58,552	65,610	64,019	2.12%	2.3
Residential mortgage loans	3,272,464	2,751,366	2,681,753	181,400	153,373	148,033	5.54%	5.5
Construction loans	169,666	198,450	272,917	6,357	7,304	8,722	3.75%	3.6
C&I and commercial								
mortgage loans	3,984,302	4,549,732	4,804,608	172,634	199,787	196,814	4.33%	4.3
Finance leases	228,709	240,268	240,479	18,259	19,530	20,591	7.98%	8.1
Consumer loans	1,670,245	1,806,646	1,799,402	186,120	205,278	220,089	11.14%	11.3
Total loans (4)(5)	9,325,386	9,546,462	9,799,159	564,770	585,272	594,249	6.06%	6.1

Total interest-earning assets	$ 12,092,231	$ 12,336,447	$ 12,520,166	$ 623,322	$ 650,882	$ 658,268	5.15%	5.2
Interest-bearing liabilities:								
Interest-bearing checking accounts	$ 1,096,087	$ 1,075,513	$ 1,127,857	$ 5,440	$ 6,446	$ 8,419	0.50%	0.6
Savings accounts	2,533,689	2,426,171	2,344,444	13,660	15,416	15,852	0.54%	0.6
Certificates of deposit	2,294,939	2,296,314	2,310,200	25,246	26,371	29,264	1.10%	1.1
Brokered CDs	2,428,185	3,098,724	3,251,091	24,904	29,894	38,252	1.03%	0.9
Interest-bearing deposits	8,352,900	8,896,722	9,033,592	69,250	78,127	91,787	0.83%	0.8
Other borrowed funds	997,615	1,131,959	1,131,959	29,882	34,188	33,025	3.00%	3.0
FHLB advances	349,027	312,575	357,661	4,171	3,561	6,031	1.20%	1.1
Total interest-bearing liabilities	$ 9,699,542	$ 10,341,256	$ 10,523,212	$ 103,303	$ 115,876	$ 130,843	1.07%	1.1
Net interest income				$ 520,019	$ 535,006	$ 527,425		
Interest rate spread							4.08%	4.1
Net interest margin							4.30%	4.3

(1)	On an adjusted tax-equivalent basis. The adjusted tax-equivalent yield was estimated by dividing the interest rate spread on exempt assets by 1 less the Puerto Rico statutory tax rate of 39.0% and adding to it the cost of interest-bearing liabilities. The tax-equivalent adjustment recognizes the income tax savings when comparing taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest income, interest rate spread and net interest margin on a fully tax-equivalent basis. Therefore, management believes these measures provide useful information to investors by allowing them to make peer comparisons. Changes in the fair value of derivatives are excluded from interest income and interest expense because the changes in valuation do not affect interest paid or received.
(2)	Government obligations include debt issued by government-sponsored agencies.
(3)	Unrealized gains and losses on available-for-sale securities are excluded from the average volumes.
(4)	Average loan balances include the average of non-performing loans.
(5)	Interest income on loans includes $10.8 million, $14.2 million and $13.8 million for 2015, 2014 and 2013, respectively, of income from prepayment penalties and late fees related to the Corporation's loan portfolio.

Part II

	2015 Compared to 2014			2014 Compared to 2013		
	Increase (decrease)			Increase (decrease)		
	Due to:			Due to:		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
(In thousands)						
Interest income on interest-earning assets:						
Money market and other short-term investments	$ 86	$ 170	$ 256	$ 158	$ (193)	$ (35)
Government obligations	2,827	(665)	2,162	273	93	366
Mortgage-backed securities	(5,599)	(3,783)	(9,382)	105	1,345	1,450
FHLB stock	(27)	(67)	(94)	(163)	(27)	(190)
Total investments	(2,713)	(4,345)	(7,058)	373	1,218	1,591
Residential mortgage loans	28,967	(940)	28,027	3,870	1,470	5,340
Construction loans	(1,069)	122	(947)	(2,560)	1,142	(1,418)
C&I and commercial mortgage loans	(24,531)	(2,622)	(27,153)	(10,816)	13,789	2,973
Finance leases	(927)	(344)	(1,271)	(18)	(1,043)	(1,061)
Consumer loans	(15,260)	(3,898)	(19,158)	855	(15,666)	(14,811)
Total loans	(12,820)	(7,682)	(20,502)	(8,669)	(308)	(8,977)
Total interest income	$ (15,533)	$ (12,027)	$ (27,560)	$ (8,296)	$ 910	$ (7,386)
Interest expense on interest-bearing liabilities:						
Brokered CDs	$ (6,673)	$ 1,683	$ (4,990)	$ (1,726)	$ (6,632)	$ (8,358)
Other interest-bearing deposits	1,001	(4,888)	(3,887)	136	(5,438)	(5,302)
Other borrowed funds	(4,026)	(280)	(4,306)	-	1,163	1,163
FHLB advances	430	180	610	(691)	(1,779)	(2,470)
Total interest expense	(9,268)	(3,305)	(12,573)	(2,282)	(12,686)	(14,967)

	Change in net interest income	$	(6,265)		$	(8,722)		$	(14,987)		$	(6,015)		$	13,596		$	7,581

Portions of the Corporation’s interest-earning assets, mostly investments in obligations of some U.S. government agencies and sponsored entities, generate interest that is exempt from income tax, principally in Puerto Rico. Also, interest and gains on sales of investments held by the Corporation’s IBEs are tax-exempt under the Puerto Rico tax law (refer to “Income Taxes” below for additional information). To facilitate the comparison of all interest data related to these assets, the interest income has been converted to an adjusted taxable equivalent basis. The tax equivalent yield was estimated by dividing the interest rate spread on exempt assets by 1 less the Puerto Rico statutory tax rate as adjusted for changes to enacted tax rates (39.0%) and adding to it the average cost of interest-bearing liabilities. The computation considers the interest expense disallowance required by Puerto Rico tax law.

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

The following table reconciles net interest income in accordance with GAAP to net interest income, excluding valuations and the $2.5 million prepayment penalty collected on a commercial mortgage loan paid off in the fourth quarter of 2014, and net interest income on an adjusted tax-equivalent basis. The table reconciles net interest spread and net interest margin on a GAAP basis to these items excluding valuations and on an adjusted tax-equivalent basis:

	Year Ended December 31,					
		2015		2014		2013
(Dollars in thousands)						
Interest income - GAAP	$	605,569	$	633,949	$	645,788
Unrealized gain on derivative instruments		(139)		(1,258)		(1,695)
Interest income excluding valuations		605,430		632,691		644,093
Prepayment penalty income on a commercial mortgage loan						
tied to an interest rate swap		-		(2,546)		-
Interest income excluding valuations and the $2.5 million						
prepayment penalty collected		605,430		630,145		644,093
Tax-equivalent adjustment		17,892		18,191		14,175
Prepayment penalty collected on a commercial						
mortgage loan		-		2,546		-
Interest income on a tax-equivalent basis excluding						
valuations		623,322		650,882		658,268
Interest expense - GAAP		103,303		115,876		130,843
Net interest income - GAAP	$	502,266	$	518,073	$	514,945
Net interest income excluding valuations and the $2.5 million						
prepayment penalty income	$	502,127	$	514,269	$	513,250
Net interest income on a tax-equivalent basis						
excluding valuations	$	520,019	$	535,006	$	527,425
Average Balances						
Loans and leases	$	9,325,386	$	9,546,462	$	9,799,159
Total securities and other short-term investments		2,766,845		2,789,985		2,721,007
Average interest-earning assets	$	12,092,231	$	12,336,447	$	12,520,166
Average interest-bearing liabilities	$	9,699,542	$	10,341,256	$	10,523,212
Average Yield/Rate						

Average yield on interest-earning assets - GAAP		5.01%			5.14%			5.16%
Average rate on interest-bearing liabilities - GAAP		1.07%			1.12%			1.24%
Net interest spread - GAAP		3.94%			4.02%			3.92%
Net interest margin - GAAP		4.15%			4.20%			4.11%
Average yield on interest-earning assets excluding valuations								
and the $2.5 million prepayment penalty income		5.01%			5.11%			5.14%
Average rate on interest-bearing liabilities excluding valuations		1.07%			1.12%			1.24%
Net interest spread excluding valuations and the $2.5 million								
prepayment penalty income		3.94%			3.99%			3.90%
Net interest margin excluding valuations and the $2.5 million								
prepayment penalty income		4.15%			4.17%			4.10%
Average yield on interest-earning assets on a tax-equivalent								
basis and excluding valuations		5.15%			5.28%			5.26%
Average rate on interest-bearing liabilities								
excluding valuations		1.07%			1.12%			1.24%
Net interest spread on a tax-equivalent basis and excluding								
valuations		4.09%			4.16%			4.02%
Net interest margin on a tax-equivalent basis and excluding								
valuations		4.30%			4.34%			4.21%

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

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

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

Derivative instruments, such as interest rate swaps, are subject to market risk. While the Corporation does have certain trading derivatives to facilitate customer transactions, the Corporation does not utilize derivative instruments for speculative purposes. As of December 31, 2015, most of the interest rate swaps outstanding are used for protection against rising interest rates, although not designated as hedges. Refer to Note 31 of the Corporation's audited financial statements for the year ended December 31, 2015 included in Item 8 of this Form 10-K for further details concerning the notional amounts of derivative instruments and additional information. 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 net interest income. This will depend, for the most part, on the shape of the yield curve, the level of interest rates, and the expectations for rates in the future.

2015 compared to 2014

Net interest income for the year ended December 31, 2015 amounted to $502.3 million, a decrease of $15.8 million, when compared to $518.1 million in 2014. The net interest margin, excluding fair value adjustments and the $2.5 million prepayment penalty collected on a commercial mortgage loan paid off in the fourth quarter of 2014, decreased by 2 basis points to 4.15% for 2015, compared to 2014. The $15.8 million decrease in net interest income was primarily due to:

- A $30.2 million decrease in interest income on commercial loans, including a decrease of approximately $24.5 million attributable to a $594.2 million decline in the average volume of such loans and the adverse impact of approximately $3.8 million in interest payments received from the PREPA credit facility accounted for on a cost-recovery basis since May 2015.

- A $20.4 million decrease in interest income on consumer loans and finance leases, including a decrease of approximately $16.2 million related to a $148.0 million decrease in the average volume of such loans and a $3.8 million decrease due to the fact that the remaining discount on the credit card portfolio acquired in 2012 was fully accreted into income in the first half of 2014.

- A $7.6 million decrease in interest income on MBS investments, including a decrease of approximately $4.6 million attributable to a $180.0 million decline in the average volume of MBS investments and a $3.0 million decrease related to lower yields reflecting, among other things, an acceleration of prepayments and the gradual reinvestment of MBS prepayments in lower-yielding investments given the low interest rate environment.

These variances were partially offset by:

- A $28.6 million increase in the interest income on residential mortgage loans primarily related to the acquisition of several loan portfolios from Doral completed after the end of the first quarter of 2014, including the most recent acquisition in February 2015.

- An $8.9 million decrease in interest expense on deposits, including a $5.0 million reduction in interest expense on brokered CDs primarily related to a $670.5 million decrease in the average volume of brokered CDs. Interest expense on non-brokered interest-bearing deposits (i.e. savings, interest-bearing checking and retail CDs) decreased by $3.9 million mainly due to a lower deposit pricing that resulted in an 8 basis points reduction in the average cost of such deposits to 0.75% in 2015 from 0.83% in 2014. The decrease in interest expense on non-brokered deposits was achieved despite the $126.7 million increase in the average balance of such deposits.

- A $4.6 million decrease in interest expense on repurchase agreements mainly related to the aforementioned restructuring of $400 million of repurchase agreements and the netting effect of the $2.7 million interest income earned in 2015 on $200 million reverse repurchase agreements entered into in 2015 that qualifies for offsetting accounting pursuant to ASC 210-20-45-11.

On an adjusted tax-equivalent basis, net interest income for the year ended December 31, 2015 decreased $15.0 million to $520.0 million when compared to 2014. In addition to the facts discussed above, the decrease for the 2015 period also includes a reduction of $0.3 million in the tax-equivalent adjustment attributable to a lower volume of tax-exempt assets, primarily MBS investments held by the Corporation’s IBE subsidiary, FirstBank Overseas Corporation.

2014 compared to 2013

Net interest income for the year ended December 31, 2014 amounted to $518.1 million, an increase of $3.1 million, when compared to $514.9 million in 2013. Net interest income for 2014 includes income from a prepayment penalty of $2.5 million recorded in the fourth quarter on a commercial mortgage loan paid by the borrower to compensate for the economic loss sustained by the Corporation in the early termination of an interest rate swap agreement that provided an economic hedge of the cash flows associated with this loan. Such loss equals the mark-to-market unrealized losses recorded by the Corporation in prior periods for the terminated interest rate swap. Net interest income, excluding valuations and the $2.5 million prepayment penalty, increased by $1.0 million to $514.3 million for 2014, as compared to 2013, and the related net interest margin increased by 7 basis points to 4.17%. The increase in net interest income and margin was primarily driven by a reduction in the average cost of funds, improved deposit mix, and the maturity of high-cost borrowings. In addition, net interest income and margin were favorably impacted by the acquisitions of residential mortgage loans from another financial institution completed in 2014, partially offset by lower yields on consumer loans and a decrease in the average volume of commercial and construction loans. The main drivers of the increase were:

- A decline of $8.4 million in interest expense on brokered CDs for 2014, when compared to 2013. For the year ended December 31, 2014, the average cost of brokered CDs decreased by 22 basis points to 0.96% compared to 2013, and the average balance of brokered CDs for 2014 decreased by $152.4 million, compared to 2013. In 2014, the Corporation repaid approximately $1.75 billion of maturing brokered CDs with an all-in cost of 0.81% and issued $1.5 billion of new brokered CDs with an all-in cost of 0.79%.

- A net decrease of $5.3 million in interest expense on non-brokered deposits for 2014, when compared to 2013. The Corporation's strategic focus remains to grow non-brokered deposits and improve the overall funding mix. For the year ended December 31, 2014, the average rate paid on non-brokered deposits decreased by 10 basis points to 0.83% compared to the same period in 2013. The average balance of non-brokered deposits for the year ended December 31, 2014 increased by $15.5 million to $5.8 billion, compared to the same period in 2013.

- A decrease of approximately $2.5 million in interest expense on FHLB advances for 2014, as compared to 2013. In the latter part of 2013, the Corporation repaid approximately $53.4 million of FHLB advances with an all-in cost of 4.94% and issued $25 million in the third quarter of 2014 with an all-in cost of 1.79%. This was partially offset by contractual repricings of certain structured repurchase agreements totaling $200 million that resulted in an increase of approximately $1.2 million in interest expense.

- An increase of $8.7 million in interest income attributable to acquisitions of residential mortgage loans from another financial institution completed in 2014. Interest income on mortgage loans acquired from Doral Financial on

May 30, 2014 was approximately $6.3 million higher than the interest income recorded in 2013 on Doral Financial's previous commercial secured borrowings. Refer to "Provision and Allowance for Loan and Lease Losses" discussion below for additional information about this transaction completed in the second quarter of 2014. In addition, interest income of $2.4 million was recorded in 2014 in connection with a $192.6 million portfolio of performing residential mortgage loans purchased from Doral Bank early in the fourth quarter.

The aforementioned variances were partially offset by:

- A decrease of approximately $16.7 million in interest income on consumer loans attributable to a reduction in the average yield. The average yield of consumer loans (including finance leases) decreased to 10.98% for 2014, from 11.80% for 2013. The decline in the average yield reflects both the impact of lower rates on new loan originations given the current level of interest rates and the fact that the remaining discount related to the credit card portfolio acquired in 2012 was fully accreted into income during the first half of 2014. The discount accretion included in interest income in 2014 was $3.8 million compared to $9.6 million in 2013, a decrease of $5.8 million.

- A $1.6 million reduction in interest income on commercial and construction loans driven by a $177.2 million decrease in the average volume of such portfolios, excluding the average volume of Doral's secured borrowings, partially offset by higher yields.

- A 4 basis points reduction in the average yield of MBS investments, or a decrease in interest income of approximately $0.7 million, mainly reflecting the gradual reinvestment of MBS prepayments in lower-yielding investments given the low interest rate environment or the deposit of such prepayments in cash balances maintained at the Federal Reserve Bank.

On an adjusted tax-equivalent basis, net interest income for the year ended December 31, 2014 increased $7.6 million to $535.0 million when compared to 2013. In addition to the facts discussed above, the increase for the 2014 period also includes an increase of $4.0 million in the tax-equivalent adjustment.

Provision for Loan and Lease Losses

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

During 2015, the Corporation recorded a provision for loan and lease losses of $172.0 million, compared to $109.5 million in 2014 and $243.8 million in 2013. The provision for the year ended December 31, 2015 includes a $46.9 million charge associated with commercial loans held for investment included in the bulk sale of assets completed in the second quarter of 2015.

2015 compared to 2014

The adjusted provision for loan and lease losses, excluding the impact of the 2015 bulk sale of assets, increased by $15.6 million in 2015, as compared to 2014 driven by:

- A $35.5 million increase in the provision for commercial and construction loans, including a $35 million increase in the general reserve related to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities) that reflects the migration of loans guaranteed by the TDF to adverse classification categories as well as a $19.2 million charge related to qualitative factors adjustments that stressed the historical loss rates applied to the Government loans (excluding municipalities). As of December 31, 2015 the total reserve coverage ratio (general and specific reserves) related to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities) was 19%. The increase also reflects reductions in loan loss recoveries of $11.5 million in the Florida region, as shown below. This was partially offset by an $8.1 million reserve release for construction loans recorded in the fourth quarter of 2015 that reflects adjustments to the general reserve given the stabilization in the asset quality of land loans.

- A $12.9 million increase in the provision for residential mortgage loans driven by several factors including inherent loss severities of loans in late stages of delinquency, decreases in appraised values, the overall increase in the size of this portfolio and the establishment of a $4.0 million reserve for PCI loans acquired from Doral Financial in May 2014. The reserve for PCI loans was driven by the revision of the expected cash flows of the portfolio for the remaining term of the loan pool based on market conditions.

Partially offset by:

- A decrease in the provision for consumer loans of $32.8 million mainly due to improvements in charge-off trends and lower loss severity rates on auto loans. Consumer loans net charge-offs decreased by $16.7 million for 2015 compared to 2014, including loan loss recoveries of $2.7 million on the sale in the second quarter of 2015 of certain auto and personal loans that had been fully charged-off in prior periods. The decrease in the provision also reflects the decline in the size of this portfolio.

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

2014 compared to 2013

During 2014, the Corporation recorded a provision for loan and lease losses of $109.5 million, compared to $243.8 million in 2013. The provision for the year ended December 31, 2013 includes a charge of $132.0 million related to the bulk sales of adversely classified and non-performing assets and the transfer of certain construction and commercial loans to held for sale in the first half of 2013. The adjusted non-GAAP provision for loan and lease losses, excluding the impact of the bulk sales of assets and transfer of certain commercial loans to held for sale in 2013, decreased by $2.2 million in 2014, as compared to 2013, mainly related to higher recoveries in the United States region, a decrease in the size of the construction and commercial portfolios, and an improved residential mortgage loan portfolio composition following the sale of non-performing residential assets in 2013, partially offset by an increase in the provision for consumer loans. The most significant drivers of the decrease in the non-GAAP adjusted provision include:

- Continued improvements in the Florida region in terms of recoveries of amounts previously charged-off, stability of collateral values and reductions in adversely classified assets. For the year ended December 31, 2014, the Corporation recorded a negative provision of $27.7 million compared to a negative provision of $10.7 million for 2013. Higher negative provisions in 2014 were primarily related to higher recoveries, releases related to updated appraisals, a lower level of adversely classified assets related to the commercial and construction portfolios, and lower reserve requirements for residential mortgage loans evaluated for impairment purposes. The following table sets forth a detail of the charge-offs and recoveries recorded in the Florida region for 2015, 2014, and 2013:

	Year Ended December 31,							
	2015			2014			2013	
				(In thousands)				
Charge-offs	$	(2,182)		$	(1,398)		$	(9,857)
Recoveries		2,554			14,210			5,075
Net recoveries (charge-offs)	$	372		$	12,812		$	(4,782)

- An $8.1 million reduction in the provision for residential mortgage loans in the Puerto Rico region driven by an improved portfolio composition following the sale of non-performing residential assets in 2013.

- A $6.5 million decrease in the provision for the commercial and construction portfolio in the Puerto Rico region mainly related to certain recoveries of amounts previously charged-off related to construction loans and updated appraisals on commercial mortgage loans.

On May 30, 2014, FirstBank purchased from Doral Financial all of its rights, title and interest in first and second mortgage loans having an unpaid principal balance of approximately $241.7 million for an aggregate price of approximately $232.9 million. Doral Financial had pledged the mortgage loans to FirstBank as collateral for secured borrowings pursuant to a series of credit agreements between the parties entered into in 2006. As consideration for the purchase of the mortgage loans, FirstBank credited approximately $232.9 million as full satisfaction of the outstanding balance of the Doral Financial secured borrowings plus interest owed to FirstBank. The estimated fair value of the mortgage loans at acquisition was $226.0 million. This transaction resulted in a loss of $6.9 million derived from the difference between the fair value of the mortgage loans acquired, $226.0 million, and the book value of the secured borrowings of $232.9 million. Approximately $5.5 million of the loss was part of the general allowance for loan losses established for commercial loans in prior periods; thus, an additional charge to the provision of $1.4 million was recorded in 2014.

Partially offset by:

- A $25.7 million increase in the provision for consumer loans in the Puerto Rico region mainly due to higher charge-offs and adjustments to account for higher loss severity rates on the auto loan portfolio, partially offset by a decrease in the provision for credit card loans tied to the decrease in the size of this portfolio.

Non-Interest Income (Loss)

The following table presents the composition of non-interest income (loss):

	2015		2014		2013	
(In thousands)						
Service charges on deposit accounts	$	20,330	$	16,709	$	16,974
Mortgage banking activities		17,217		14,685		16,830
Insurance income		7,058		6,868		5,955
Broker-dealer income		-		459		97
Other operating income		32,794		30,033		28,079
Non-interest income before net (loss) gain on investments, bargain purchase gain, gain on sale of merchant contracts,equity in loss of unconsolidated entity, and write-off of collateral pledged to Lehman		77,399		68,754		67,935
Net gain on sale of investments		-		262		-
OTTI on equity securities		-		-		(42)
OTTI on debt securities		(16,517)		(388)		(117)
Net loss on investments		(16,517)		(126)		(159)
Impairment - collateral pledged to Lehman		-		-		(66,574)
Bargain purchase gain		13,443		-		-
Gain on sale of merchant contracts		7,000		-		-
Equity in loss of unconsolidated entity		-		(7,280)		(16,691)
Total	$	81,325	$	61,348	$	(15,489)

Non-interest income primarily consists of service charges on deposit accounts; commissions derived from various banking, securities and insurance activities; gains and losses on mortgage banking activities; interchange and other fees related to debit and credit cards; equity in earnings (loss) of the unconsolidated entity through the second quarter of 2014; and net gains and losses on investments and impairments.

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

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

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

Broker-dealer income consists of commissions earned from the Corporation's broker-dealer subsidiary activities, FirstBank Puerto Rico Securities.

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

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

Equity in earnings (losses) of unconsolidated entity relates to FirstBank's investment in CPG/GS, the entity that purchased $269 million of loans from FirstBank during the first quarter of 2011. The Bank holds a 35% subordinated ownership interest in CPG/GS. The majority owner of CPG/GS is entitled to recover its initial investment and a priority return of 12% prior to any return paid to the Bank. The adjustments of $7.3 million recorded in the first half of 2014 reduced to zero the book value of the Bank's investment in CPG/GS. No negative investments need to be reported as the Bank has no legal obligation or commitment to provide further financial support to this entity; thus, no further losses are being recorded on this investment. Any potential increase in the carrying value of the investment in CPG/GS, under the Hypothetical Liquidation Book Value 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. Refer to Note 15 of the Corporation's audited financial statements for the year ended December 31, 2015 included in Item 8 of this Form 10-K for additional information about the Bank's investment in CPG/GS.

The bargain purchase gain is related to assets acquired and deposits assumed from Doral Bank in the first quarter of 2015. On February 27, 2015, FirstBank acquired 10 Puerto Rico branches of Doral Bank, assumed $522.7 million in deposits related to such branches, acquired approximately $324.8 million in principal balance of loans, primarily residential mortgage loans, acquired $5.5 million of property, plant and equipment and received $217.7 million of cash, through an alliance with Popular, who was the successful lead bidder with the FDIC on the failed Doral Bank, as well as other co-bidders. Under the FDIC's bidding format, Popular was the lead bidder and party to the purchase and assumption agreement with the FDIC covering all assets and deposits to be acquired by Popular and its alliance co-bidders. Popular entered into back to back purchase assumption agreements with the alliance co-bidders, including FirstBank, for the transferred assets and deposits. There is no loss-share arrangement with the FDIC related to the acquired assets. The gain of $13.4 million represents the excess of the estimated fair value of the assets acquired (including cash payments of $217.7 million received from the FDIC) over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. Refer to Note 2 of the Corporation's audited financial statements for the year ended December 31, 2015 included in Item 8 of this Form 10-K for further information, including the fair values of assets acquired and liabilities assumed in this transaction.

The gain on sale of merchant contracts is associated with a long-term strategic marketing alliance entered during the fourth quarter of 2015 as part of the sale of FirstBank's merchant contracts portfolio. Effective October 31, 2015, FirstBank entered into a long-term strategic marketing alliance with Evertec, Inc. ("Evertec") to which FirstBank sold its merchant contracts portfolio and related POS terminals. Evertec acquired FirstBank's merchant contracts and will continue to provide processing services, customer service and support operations to FirstBank's merchant locations. Merchant services will be marketed through FirstBank's branches and offices in Puerto Rico and the Virgin Islands. Under the 10-year marketing and referral agreement, FirstBank and Evertec will share, in accordance with agreed terms, revenues generated by the existing and incremental merchant contracts over the term of the agreement. The Corporation sold the merchant contracts for $10.0 million, recorded a gain on sale of $7.0 million in the fourth quarter of 2015 and deferred $3.0 million to be recognized into income over the marketing and referral agreement term.

2015 compared to 2014

Non-interest income for 2015 amounted to $81.3 million, compared to non-interest income of $61.3 million for 2014. Non-interest income for 2015 includes significant unusual items such as OTTI charges of $15.9 million on Puerto Rico Government debt securities, a $13.4 million bargain purchase gain related to assets acquired and deposits assumed from Doral Bank in the first quarter of 2015, and the $7.0 million gain on the sale of merchant contracts. Excluding the aforementioned significant items, non-interest income increased by $15.4 million primarily due to:

- The impact in 2014 of the $7.3 million equity in loss of unconsolidated entity on the Bank's investment in CPG/GS.

- A $3.6 million increase in service charges on deposits primarily associated with the deposits assumed from Doral late in February 2015 as well as the implementation of new service and transactional fees on certain products beginning in the fourth quarter of 2015.

- A $2.5 million increase in revenues from the mortgage banking business driven by a $1.2 million decrease in losses on TBAs MBS forward contracts, a $1.1 million decrease in charges related to compensatory fees imposed by government-sponsored agencies, and a $0.2 million increase in servicing fees tied to a larger portfolio. Realized gains on sales of residential mortgage loans amounting to $13.5 million in 2015 remained flat as compared to 2014. Loans sold in the secondary market to U.S. government-sponsored entities amounted to $427.9 million in 2015, compared to $337.2 million in 2014. Higher margins were observed in 2014 due, in part, to the sale of re-performing mortgage loans.

- A $1.3 million increase in merchant-related income despite the sale of merchant-contracts completed early in the fourth quarter of 2015.

2014 compared to 2013

Non-interest income for 2014 amounted to $61.3 million, compared to non-interest loss of $15.5 million for 2013. The non-interest loss for 2013 includes the $66.6 million write-off of the collateral pledged to Lehman that was recorded in the second quarter of 2013. Adjusted non-interest income, excluding the Lehman collateral write-off, increased $10.3 million primarily due to:

- A $9.4 million decrease in equity in losses of unconsolidated entity, as the Corporation recorded equity in loss of $7.3 million for 2014 compared to a loss of $16.7 million for 2013.

- A $2.0 million positive variance in other operating income mainly due to the impact in 2013 of lower of cost or market adjustments to commercial loans held for sale that resulted in a net charge of $1.5 million in 2013. These adjustments were related to non-performing loans transferred at the beginning of year 2013, particularly a commercial mortgage loan in which the Corporation received foreclosed real estate in partial satisfaction of a debt arrangement.

- A $0.9 million increase in insurance commission income.

- A $0.4 million increase related to underwriting fees on a bond issuance of the Puerto Rico government early in 2014.

- A $0.3 million gain on the sale of a $4.6 million Puerto Rico government agency bond.

Partially offset by:

- A $2.1 million decrease in revenues from mortgage banking activities driven by a $3.1 million decrease in net gains on sales of loans as a result of a lower volume of sales and securitizations and a $0.8 million increase in expenses related to breaches of representations and warranties on residential mortgage sales and compensatory fees imposed by government-sponsored agencies. In addition, there was a $0.2 million decrease in servicing fees reflecting the expiration of the interim servicing agreement related to loans included in the bulk sales of 2013. Loan sales for 2014 of $337.2 million resulted in a realized gain of $12.0 million, compared to sales and securitizations of $579.8 million and a related realized gain of $15.1 million recorded in 2013. These variances were partially offset by the positive variance resulting from the impact in the first half of 2013 of a $1.8 million lower of cost or market valuation charge on residential mortgage loans held for sale.

- A $0.3 million decrease in service charges on deposit accounts primarily related to cash management and overdraft fees.

- A $0.2 million increase in OTTI charges on debt and equity securities. The OTTI charge for both periods is mainly related to credit losses associated with private label mortgage-backed securities held by the Corporation with an amortized cost of $45.7 million as of December 31, 2014.

Non-Interest Expenses							
The following table presents the components of non-interest expenses:							
		2015			**2014**		**2013**
(In thousands)							
Employees' compensation and benefits	$	150,059		$	135,422	$	130,815

Occupancy and equipment		59,295			58,290			60,746
Insurance and supervisory fees		29,021			39,131			48,470
Taxes, other than income taxes		12,669			18,089			18,109
Professional fees:								
Collections, appraisals and other credit-related fees		12,833			12,064			12,659
Outsourcing technology services		18,547			18,439			14,144
Other professional fees		24,252			17,437			22,641
Credit and debit card processing expenses		16,177			15,449			12,909
Business promotion		15,234			16,531			15,977
Communications		7,726			7,766			7,401
Net loss on OREO and OREO operations		15,788			20,596			42,512
Loss contingency for attorneys' fees-Lehman litigation		-			-			2,500
Other		22,229			19,039			26,145
Total	$	383,830		$	378,253		$	415,028

2015 compared to 2014

Non-interest expenses for 2015 were $383.8 million compared to $378.3 million for 2014. Non-interest expenses for 2015 include significant unusual items such as the $4.6 million of acquisition and conversion costs related to the Doral Bank transaction, $1.2 million of expenses and losses related to the bulk sale of assets and costs of $2.2 million related to a voluntary early retirement program. Excluding the aforementioned significant items, non-interest expenses decreased by $2.5 million primarily due to:

- A $10.5 million decrease in the FDIC insurance premium expense reflecting, among other things, the continued decrease in brokered CDs, a strengthened capital position and an improved earnings to assets average ratio for most of the year. This expense is included as part of "Insurance and supervisory fees" in the table above.

- A $5.4 million decrease in taxes, other than income taxes, reflecting the elimination of Puerto Rico's national gross receipts tax effective January 1, 2015 that represented a decrease of approximately $5.7 million, partially offset by incremental costs

of approximately $0.5 million associated with the sales and use tax including the new 4% sales and use tax applicable to business-to-business services and designated professional services.

- A $5.0 million decrease in OREO-related expenses reflecting an increase of $3.7 million in rental income from income-producing OREO properties and a $2.0 million decrease in losses on the sale of OREO properties, partially offset by higher OREO operating expenses such as repairs and management fees.

- A $1.3 million decrease in business promotion expenses mainly due to lower marketing expenses.

Partially offset by:

- A $3.1 million increase in total professional service fees, excluding the portion of acquisition and conversion costs and expenses incurred in the bulk sale of assets amounting $4.6 million included as part of professional service fees, driven by: (i) $3.6 million in interim servicing costs incurred in the first half of 2015 related to loans and deposits acquired from Doral Bank in late February 2015 up to the completion of the conversion in May 2015 (upon competition of the conversion, the ongoing costs related to the processing and maintenance of these accounts are lower), (ii) $1.3 million in consulting and legal expenses for special projects as well as strategic, stress testing and capital planning matters that are not expected to be incurred on an ongoing basis, and (iii) a $0.8 million increase in collections, appraisals and other credit related professional service fees related to troubled loan resolution efforts. These increases were partially offset by a $2.2 million decrease in legal fees, including the impact in 2014 of $1.2 million of professional fees incurred in the two separate acquisitions of mortgage loans from Doral Financial and Doral Bank in 2014.

- A $12.3 million increase in employees’ compensation and benefit expenses, excluding the $2.2 million costs related to the voluntary early retirement program, mainly due to salary merit increases, the impact of personnel costs related to the branches acquired from Doral, which accounted for approximately $2.7 million of the increase, a $1.4 million increase in stock-based compensation expense, and a $2.1 million increase in incentive and performance-based compensation. The voluntary early retirement program completed in 2015 is expected to result in an annual saving of approximately $1.9 million for 2016.

- A $1.0 million increase in occupancy and equipment costs primarily related to rental, depreciation and maintenance expenses associated with the acquired Doral branches.

- A $3.2 million increase in “other expenses” in the table above, that primarily includes increases in supplies, printing and the amortization of the core deposit intangible associated with the acquired Doral branches and a $0.9 million increase in the provision for unfunded loan commitments.

2014 compared to 2013

Non-interest expenses decreased by $36.8 million to $378.3 million for the year ended December 31, 2014, compared to $415.0 million for 2013, primarily due to:

- A $21.9 million decrease in the net loss on OREO and OREO operations mainly related to lower write-downs and losses on the sale of OREO properties and, to a lesser extent, lower net operating expenses. Total write-downs and losses on sales amounted to $14.9 million for 2014 compared to $33.9 million for 2013, a decrease of $19.0 million. This variance primarily reflects a decrease of $16.4 million in market value adjustments and the impact in 2013 of a $1.9 million loss on the sale of certain OREO properties as part of the bulk sale of non-performing residential assets. In addition, operating expenses decreased by approximately $2.9 million primarily related to higher rental income and reductions in maintenance and repairs consistent with the decrease in the inventory.

- A $9.5 million decrease in the FDIC deposit insurance premium expense reflecting, among other things, improved earnings trends, the decrease in brokered deposits, a strengthened capital position and a decrease in the amount of leveraged commercial loans. This expense is included as part of “Insurance and supervisory fees” in the table above.

- A $2.5 million decrease in occupancy and equipment mainly related to a decrease in the depreciation expense attributable to assets fully depreciated, and a $0.5 million decrease in property taxes related to a tax debt settlement.

- The $2.5 million loss contingency recorded in 2013 related to attorneys’ fees granted by the court to Barclays Capital in connection with the denial of the Corporation’s Summary Judgment on its claim to recover assets pledged to Lehman.

- A $1.7 million decrease in non-interest expenses associated with the secondary offering of the Corporation’s common stock by certain of the existing stockholders that occurred in the third quarter of 2013, primarily included as part of “Other” in the table above.

- A $1.7 million decrease in costs associated with the conversion of the credit card processing platform in 2013, primarily included as part of “Other” in 2013.

- A $1.4 million decrease in professional fees. This variance reflects the impact of $6.9 million in professional fees related to the bulk sales of assets completed during the first and second quarters of 2013 and the impact of $1.2 million in professional fees associated with a terminated preferred stock exchange offer in the first quarter of 2013. These decreases were partially offset by an increase of $4.3 million in professional services related to the outsourcing of technology services, mainly due to services provided by FIS under a multi-year technology outsourcing agreement executed by the Corporation at the beginning of the second quarter of 2013, $1.2 million of professional fees incurred in the two separate acquisitions of mortgage loans from Doral Financial and Doral Bank in 2014, and a $0.9 million increase in legal, collection fees and other costs incurred in troubled loan resolution efforts.

- A $1.1 million decrease in the amortization of intangible assets, included as part of “Other” in the table above.

These decreases were partially offset by:

- A $4.6 million increase in employees’ compensation and benefits due to salary merit increases in the first half of 2014, higher stock-based compensation expenses and lower capitalized costs associated with loan originations.

- A $2.5 million increase in credit and debit card processing fees attributable to the impact in the second quarter of 2013 of $1.4 million of contractual discounts required by the previous interim servicing contract for the credit card portfolio purchased in May 2012. The Corporation completed the conversion of the credit card platform in the third quarter of 2013.

Income Taxes

Income tax expense includes Puerto Rico and USVI income taxes as well as applicable United States 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 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, 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 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 unit 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.

For additional information relating to income taxes, see Note 26 to the Corporation's audited financial statements for the year ended December 31, 2015 included in Item 8 of this Form 10-K, including the reconciliation of the statutory to the effective income tax rate for 2015, 2014 and 2013.

2015 compared to 2014

For 2015, the Corporation recorded an income tax expense of $6.4 million compared to an income tax benefit of $300.6 million for 2014. The income tax benefit for the year 2014 primarily reflects a $302.9 million partial reversal of the valuation allowance of the

Bank's deferred tax assets. Other variances are primarily related to a higher taxable income in 2015 and the disallowance of $7.7 million of NOL carryforwards. The effective tax rate for year ended December 31, 2015 is 23%.

In 2010, the Corporation established a valuation allowance for substantially all of the deferred tax assets of its banking subsidiary, FirstBank, primarily due to significant operational losses driven by charges to the provision for loan losses, a three-year cumulative loss position as of the end of the year 2010, and uncertainty regarding the amount of future taxable income that the Bank could forecast. As of December 31, 2014, based upon the assessment of all positive and negative evidence, management concluded that it was more likely than not that FirstBank will generate sufficient taxable income within the applicable NOL carry-forward periods to realize $308.2 million of its deferred tax assets and, therefore reversed $302.9 million of the valuation allowance.

The Corporation's net deferred tax assets amounted to $311.3 million as of December 31, 2015, net of a valuation allowance of $201.7 million. The net deferred tax assets of the Corporation's banking subsidiary, FirstBank, amounted to $306.4 million as of December 31, 2015, net of a valuation allowance of $174.7 million. During 2015, management reassessed the need for a valuation allowance and concluded, based upon the assessment of all positive and negative evidence, that it is more likely than not that FirstBank will generate sufficient taxable income within the applicable NOL carry-forward periods to realize $306.4 million of its deferred tax asset. The positive evidence considered by management to conclude on the adequacy of the valuation allowance as of December 31, 2015 includes factors such as: FirstBank's return to profitability, forecasts of future profitability under several potential scenarios that support the partial utilization of NOLs prior to their expiration between 2021 through 2024, the taxable year 2015 being the first year with taxable income since 2008, sustained pre-tax pre-provision for loan losses income which demonstrates demand for FirstBank's products and services, the Doral Bank transaction which resulted in market share expansion, and improvements in credit quality measures that have resulted in reduced credit exposures and have improved both sustainability of profitability and management's ability to forecast future losses, which in turn led to actions such as the lifting of the FDIC Consent Order during 2015. The negative evidence considered by management includes that the Bank remains in a three-year cumulative loss position of $69.9 million due to significant charges to the provision for loan losses as a result of bulk sales of adversely classified and non-performing loans in 2013 and 2015. However, this loss position is significantly lower than the three-year cumulative pre-tax loss position of $860.3 million as of December 31, 2010, the year when a full valuation allowance was established. Other negative factors include Puerto Rico's current economic conditions and the still elevated levels of non-performing assets.

In determining whether management's projections of future taxable income used to determine the valuation allowance reversal are reliable, management considered objective evidence supporting the forecast's assumptions as well as recent experience to conclude as to the Bank's ability to reasonably project future results of operations. The analysis included the evaluation of multiple financial scenarios, including scenarios where credit losses remain elevated. Further, while Puerto Rico's economy is expected to remain challenging due to inherent uncertainties, the Corporation believes that it can reasonably forecast future taxable income at sufficient levels over the future period of time that FirstBank has available to realize part of the December 31, 2015 net deferred tax asset as further described below.

The Corporation expects to realize approximately $182.1 million of deferred tax assets associated with FirstBank's NOLs prior to their expiration periods, compared to $188.4 million expected to be realized as of December 31, 2014. In addition, as of December 31, 2015, approximately $127.8 million of the deferred tax assets of the Corporation are attributable to temporary differences or tax credit carry-forwards that have no expiration date, compared to $123.1 million in 2014. Approximately $19.4 million of other non-NOL related deferred tax assets of the Corporation are fully reserved with a valuation allowance, compared to $16.7 million as of December 31, 2014, given limitations and uncertainties as to their future utilization. The increase in fully reserved deferred tax assets is related to the increase in other than temporary impairments on investment securities. The ability to recognize the remaining deferred tax assets that continue to be subject to a valuation allowance will be evaluated on a quarterly basis to determine if there are any significant events that would affect the ability to utilize these deferred tax assets.

As of December 31, 2015, the Corporation did not have UTBs recorded on its books. During 2014, the Corporation reached a final settlement with the IRS in connection with the 2007-2009 examination periods. As a result, during 2014, the Corporation released a portion of its reserve for uncertain tax positions, resulting in a tax benefit of $1.8 million, and paid $2.5 million to settle the tax liability resulting from the audit. During the second quarter of 2015, the Corporation settled the previously accrued interest of $1.3 million related to the aforementioned IRS examination. The Corporation classifies all interest and penalties, if any, related to tax uncertainties as income tax expense. 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 each 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.

During 2013, the Puerto Rico Government approved Act No. 40, which imposed a national gross receipts tax. The national gross receipts tax for financial institutions was computed on the basis of 1% of gross income net of allowable exclusions. Subject to certain

limitations, a financial institution was able to claim a credit of 0.5% of its gross income against its regular income tax or the alternative minimum tax. However, on December 22, 2014, the Governor of Puerto Rico signed Act No. 238, which amended the 2011 PR Code. Act No. 238 clarified that the national gross receipts tax was not applicable to taxable years starting after December 31, 2014. Accordingly, the Corporation did not record a national gross receipts tax expense for 2015. During the year 2014, a $5.7 million gross receipts tax expense was included as part of “Taxes, other than income taxes” in the consolidated statement of income and a $2.9 million benefit related to this credit was recorded as a reduction to the provision for income taxes.

On May 28 and September 30, 2015, the Puerto Rico legislature approved Act 72-2015 and Act 159-2015, respectively, which enacted amendments to the 2011 PR Code. The amendments related to the income tax provision include changes to the alternative minimum tax computation, and changes to the use limitation on NOLs and capital losses for 2015 and future taxable years. The change in the tax law affected the Corporation’s income tax computation by limiting the NOL deduction to 80% of taxable income, compared to a 90% limitation in prior years.

2014 compared to 2013

For 2014, the Corporation recorded an income tax benefit of $300.6 million compared to an income tax expense of $5.2 million for 2013. The income tax benefit for 2014 primarily reflects the $302.9 million reduction to the valuation allowance related to FirstBank’s deferred tax assets. In addition, the variance includes a net change of $3.7 million related to adjustments to the reserve for uncertain tax positions, partially offset by the impact in 2013 of a net benefit of approximately $1.3 million related to the increase in the deferred tax asset of profitable subsidiaries due to changes in statutory tax rates.

OPERATING SEGMENTS

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 December 31, 2015, the Corporation had six reportable segments: Commercial and Corporate Banking; Consumer (Retail) Banking; Mortgage 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. For additional information regarding First BanCorp.’s reportable segments, please refer to Note 33, “Segment Information,” to the Corporation’s audited financial statements for the year ended December 31, 2015 included in Item 8 of this Form 10-K.

The accounting policies of the segments are the same as those described in Note 1, "Nature of Business and Summary of Significant Accounting Policies," to the Corporation's audited financial statements for the year ended December 31, 2015 included in Item 8 of this Form 10-K. The Corporation evaluates the performance of the segments based on net interest income, the estimated 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. In 2015, 2014, and 2013, other operating expenses not allocated to a particular segment amounted to $103.9 million, $94.3 million, and $94.1 million, respectively. Expenses pertaining to corporate administrative functions that support the operating segment but are not specifically attributable to or managed by any segment are not included in the reported financial results of the operating segments. The unallocated corporate expenses include certain general and administrative expenses and related depreciation and amortization expenses.

The Treasury and Investments segment lends funds to the Consumer (Retail) Banking, Mortgage Banking and Commercial and Corporate 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 segment also lend funds to other segments. The interest rates charged or credited by Treasury and Investment, 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.

Commercial and Corporate Banking

The Commercial and Corporate Banking segment consists of the Corporation's lending and other services across a broad spectrum of industries ranging from small businesses to large corporate clients, including the public sector. FirstBank has developed expertise in a wide variety of industries. 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. This segment also includes the Corporation's broker-dealer activities, which are primarily concentrated in municipal securities underwriting and financial advisory services. A substantial portion of the commercial and corporate banking portfolio is secured by the underlying value of the real estate collateral and the personal guarantees of the borrowers. Since commercial loans involve greater credit risk than a typical residential mortgage loan because they are larger in size and more risk is concentrated in a single borrower, the Corporation has and maintains a credit risk management infrastructure designed to mitigate potential losses

associated with commercial lending, including underwriting and loan review functions, sales of loan participations and continuous monitoring of concentrations within portfolios.

The highlights of the Commercial and Corporate Banking segment's financial results for the years ended December 31, 2015, 2014 and 2013 include the following:

- Segment loss before taxes for the year ended December 31, 2015 was $15.8 million compared to income of $69.1 million for 2014 and a loss of $5.0 million for 2013.

- Net interest income for the year ended December 31, 2015 was $115.8 million compared to $150.9 million and $157.7 million for the years ended December 31, 2014 and 2013, respectively. The decrease in net interest income for 2015, compared to 2014, was mainly related to a decrease of $617.2 million in the average balance of commercial and construction loans in Puerto Rico and the adverse impact of the approximately $3.8 million in interest payments received from the PREPA credit facility accounted for on a cost-recovery basis since May 2015. The decrease in net interest income for 2014, compared to 2013, was mainly related to a decrease of $721.4 million in the average balance of commercial loans and construction loans in Puerto Rico. In addition, there was a $2.8 million reduction in interest income attributable to commercial secured borrowings owed by Doral that were satisfied in 2014 with the acquisition of mortgage loans that served as collateral for these borrowings.

- The provision for loan losses for 2015 was $101.6 million compared to $40.1 million and $102.0 million for 2014 and 2013, respectively. The provision for 2015 includes a charge of $46.9 million related to the bulk sale of assets completed in the second quarter of 2015. Excluding the effect of the bulk sale, the provision for this business segment increased $14.6 million in 2015, reflecting a $35 million increase in the general reserve for commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities) due to the migration of certain loans to adverse classification categories and the $19.2 million charge related to increased qualitative reserve factors applied to these loans. This increase was partially offset by an $8.1 million general reserve release for construction-land loans given the stabilization in the asset quality of this portfolio, a $5.1 million increase in loan loss recoveries on commercial and construction loans in Puerto Rico and the overall decrease in the size of this portfolio. The decrease in 2014, compared to 2013, reflects the charge of approximately $56.9 million related to the bulk sale of adversely classified assets and the transfer of certain loans to held for sale completed in the first quarter of 2013. Excluding the effect of the bulk sale and the transfer of loans to held for sale, the provision for this business segment decreased $5.0 million in 2014, mainly related to reserve releases in connection with updated appraisals for commercial mortgage loans and certain recoveries of amounts previously charged-off on construction loans. Refer to "Provision for Loan and Lease Losses" above and "Risk Management – Allowance for Loan and Lease Losses and Non-performing Assets" below for additional information with respect to the credit quality of the Corporation's commercial and construction loan portfolio.

- Total non-interest income for the year ended December 31, 2015 amounted to $12.5 million compared to $5.2 million and $3.9 million for the years ended December 31, 2014 and 2013, respectively. The increase in 2015, compared to 2014, includes the $4.2 million portion of the gain on sale of merchant contracts attributable to this segment and increases in cash management and overdraft fees on deposit accounts of corporate clients, partially offset by a $0.5 million decrease in fee income from the broker-dealer subsidiary as a result of underwriting fees on a bond issuance of the Puerto Rico Government that took place in the first quarter of 2014, and a $0.6 million loss on the sale of a commercial mortgage loan held for sale as part of the bulk sale of assets in 2015. The increase in 2014 compared to 2013, was mainly related to the impact in 2013 of lower of cost or market adjustments to commercial loans held for sale that resulted in a net charge of $2.0 million in 2013 and due to the $0.4 million increase related to underwriting fees on the aforementioned bond issuance of the Puerto Rico government early in 2014.

- Direct non-interest expenses for 2015 were $42.5 million, compared to $47.0 million in 2014, and $64.6 million in 2013. The decrease in 2015, compared to 2014, reflects a $6.8 million decrease related to the portion of the FDIC deposit insurance premium allocated to this segment, partially offset by $1.2 million of professional service fees and losses related to the bulk sale of assets completed in 2015. The main variances for 2014, compared to 2013, were related to an $8.2 million decrease in losses on OREO operations, the impact in 2013 of $3.9 million of professional service fees related to the bulk sale of adversely classified assets, and a $5.5 million decrease in the portion of the FDIC deposit insurance premium allocated to this segment.

Consumer (Retail) Banking

The Consumer (Retail) Banking segment consists of the Corporation's consumer lending and deposit-taking activities conducted mainly through FirstBank's branch network in Puerto Rico. Loans to consumers include auto, boat and personal loans, credit cards and lines of credit. Deposit products include interest bearing and non-interest bearing checking and savings accounts, Individual Retirement Accounts and retail CDs. Retail deposits gathered through each branch of FirstBank's retail network serve as one of the funding sources for the lending and investment activities.

Consumer lending has been mainly driven by auto loan originations. The Corporation follows a strategy of seeking to provide outstanding service to selected auto dealers that provide the channel for the bulk of the Corporation's auto loan originations.

Personal loans, credit cards, and, to a lesser extent, marine financing also contribute to interest income generated on consumer lending. Management plans to continue to be active in the consumer loans market, applying the Corporation's strict underwriting standards. Other activities included in this segment are finance leases and insurance activities in Puerto Rico.

The highlights of the Consumer (Retail) Banking segment's financial results for the years ended December 31, 2015, 2014 and 2013 include the following:

- Segment income before taxes for the year ended December 31, 2015 was $50.2 million compared to $42.2 million and $67.0 million for the years ended December 31, 2014 and 2013, respectively.

- Net interest income for the year ended December 31, 2015 was $188.4 million compared to $208.4 million and $204.8 million for the years ended December 31, 2014 and 2013, respectively. The decrease in 2015, compared to 2014, was mainly due to the $152.1 million decrease in the average volume of consumer loans in Puerto Rico and a $3.8 million decrease due to the fact that the remaining discount related to a credit card portfolio acquired in 2012 was fully accreted into income in the first half of 2014. The increase in 2014, compared to 2013, was driven by an increase in revenues from the deployment of a higher core deposit base and the increase in medium-term market interest rates in 2014, together with lower rates paid on core deposits.

- The provision for loan and lease losses for 2015 decreased by $33.3 million to $46.7 million compared to 2014 and increased by $25.7 million to $79.9 million when comparing 2014 with 2013. The decrease in the provision in 2015, compared to 2014, was mainly due to improvements in charge-off trends, lower loss severities on auto loans and the overall decrease in the size of this portfolio. The increase in the provision for 2014, compared to 2013, was mainly due to higher loss severity rates on the auto loan portfolio, partially offset by a decrease in the provision for credit card loans tied to the decrease in the size of this portfolio.

- Non-interest income for the year ended December 31, 2015 was $41.9 million compared to $40.0 million and $39.0 million for the years ended December 31, 2014 and 2013, respectively. The increase in 2015, compared to 2014, reflects primarily a $3.1 million increase in service charge on deposits mainly related to the deposits assumed from Doral Bank in 2015 as well as the implementation of new service and transactional fees on certain products

beginning in the fourth quarter of 2015. The increase in 2014, compared to 2013, was mainly related to the $0.9 million increase in insurance commission income.

- Direct non-interest expenses for the year ended December 31, 2015 were $133.4 million compared to $126.3 million and $122.6 million for the years ended December 31, 2014 and 2013, respectively. The increase for 2015, compared to 2014, was mainly due to a $5.4 million increase in employees' compensation, and a $1.4 million increase in occupancy and equipment costs, partially offset by the decrease of $2.5 million in the FDIC insurance assessment portion allocated to this segment. The increase for 2014, compared to 2013, was primarily due to increases in credit and debit card processing expenses, employees' compensation, professional service fees, marketing, and expenses related to the credit card awards program, partially offset by the decrease in the FDIC insurance assessment portion allocated to this segment and the decrease in the amortization of intangible assets.

Mortgage Banking

The Mortgage Banking segment conducts its operations mainly through FirstBank. The operation consists of the origination, sale and servicing of a variety of residential mortgage loan products. Originations are sourced through different channels such as FirstBank branches and mortgage bankers, and in association with new project developers. The mortgage banking segment focuses on originating residential real estate loans, some of which conform to the FHA, VA and RD standards. Loans originated that meet the FHA's standards qualify for the FHA's insurance program whereas loans that meet the standards of the VA and RD are guaranteed by their respective federal agencies.

Mortgage loans that do not qualify under these programs are commonly referred to as conventional loans. Conventional real estate loans can be conforming or non-conforming. Conforming loans are residential real estate loans that meet the standards for sale under the FNMA and FHLMC programs whereas loans that do not meet those standards are referred to as non-conforming residential real estate loans. The Corporation's strategy is to penetrate markets by providing customers with a variety of high quality mortgage products to serve their financial needs through a faster and simpler process and at competitive prices. The Mortgage Banking segment also acquires and sells mortgages in the secondary markets. Residential real estate conforming loans are sold to investors like FNMA

and FHLMC. The Corporation has commitment authority to issue GNMA mortgage-backed securities. Under this program, the Corporation has been selling FHA/VA mortgage loans into the secondary market since 2009.

The highlights of the Mortgage Banking segment's financial results for the years ended December 31, 2015, 2014 and 2013 include the following:

- Segment income before taxes for the year ended December 31, 2015 was $41.3 million compared to $35.1 million for 2014 and a loss of $51.1 million for 2013.

- Net interest income for the year ended December 31, 2015 was $92.7 million compared to $78.6 million and $71.5 million for the years ended December 31, 2014 and 2013, respectively. The increase in net interest income experienced in the last two years was mainly related to the acquisition of several loan portfolios from Doral Financial and Doral Bank completed in the second and fourth quarter of 2014 and the most recent acquisition in February 2015. The Mortgage Banking portfolio is principally composed of fixed-rate residential mortgage loans tied to long-term interest rates that are financed with shorter-term borrowings, thus positively affected in a lower interest rate scenario.

- The provision for loan and lease losses for 2015 was $30.0 million compared to $17.6 million and $89.4 million for the years ended December 31, 2014 and 2013, respectively. The increase in the provision for 2015, compared to 2014, was driven by several factors including inherent loss severities of loans in late stages of delinquency, decreases in appraised values, the overall decrease in the size of this portfolio and the establishment of a $4.0 million reserve for PCI loans acquired from Doral Financial in May 2014. The provision for 2013 includes a charge of approximately $63.7 million related to the bulk sale of residential non-performing assets completed in 2013. Excluding the effect of the bulk sale, the provision for this business segment decreased for 2014 by $8.1 million mainly due to the improved credit quality following the bulk sale of non-performing residential assets and a decrease in net charge-offs.

- Non-interest income for the year ended December 31, 2015 was $16.0 million compared to $13.5 million and $15.8 million for the years ended December 31, 2014 and 2013, respectively. The increase in 2015, compared to 2014, was mainly due to lower losses on TBAs MBS forward contracts, lower charges related to compensatory fees imposed by government-sponsored entities and an increase in servicing fees tied to a larger portfolio. The decrease in 2014, compared to 2013, was mainly due to a lower volume of sales and charges related to compensatory fees imposed by government-sponsored entities.

- Direct non-interest expenses in 2015 were $37.3 million compared to $39.4 million and $48.9 million for 2014 and 2013, respectively. The decrease in 2015, compared to 2014, reflects a $1.4 million decrease associated with the FDIC deposit insurance premium allocated to this segment, a $0.6 million decrease in losses on OREO operations,

and a $1.0 million decrease related to the national gross receipts tax, partially offset by a $1.4 million increase in employees' compensation expenses. The decrease in 2014, compared to 2013, reflects, among other things, a $4.7 million decrease in losses on OREO operations, the impact in 2013 of $5.0 million of expenses related to the bulk sale of non-performing residential assets, and a $1.6 million decrease in the portion of the FDIC deposit insurance premium allocated to this segment.

Treasury and Investments

The Treasury and Investments segment is responsible for the Corporation's treasury and investment management functions. The treasury function, which includes funding and liquidity management, sells funds to the Commercial and Corporate Banking segment, the Mortgage Banking segment, and the Consumer (Retail) Banking segment to finance their respective lending activities and purchases funds gathered by those segments and from the United States Operations segment. Funds not gathered by the different business units are obtained by the Treasury function through wholesale channels, such as brokered deposits, advances from the FHLB, and repurchase agreements with investment securities, among others.

The investment function is intended to implement a leverage strategy for the purposes of liquidity management, interest rate management and earnings enhancement.

The interest rates charged or credited by Treasury and Investments are based on market rates.

The highlights of the Treasury and Investments segment's financial results for the years ended December 31, 2015, 2014, and 2013 include the following:

- Segment income before taxes for the year ended December 31, 2015 amounted to $6.5 million compared to $1.1 million for 2014 and a loss of $58.5 million for 2013.

- Net interest income for the year ended December 31, 2015 was $26.2 million compared to net interest income of $6.2 million and $18.8 million for the years ended December 31, 2014 and 2013, respectively. The increase in net interest

income in 2015, compared to 2014, primarily reflects the impact of the declining balances of brokered CDS, the restructuring of repurchase agreements, and the benefit of increases in short-term market rates experienced in the second half of 2015. The decrease in net interest income in 2014, compared to 2013, was mainly due to lower amounts loaned to other business segments.

- Non-interest loss for the year ended December 31, 2015 amounted to $15.9 million compared to income of $0.3 million and losses of $66.6 million for the years ended December 31, 2014 and 2013, respectively. The loss for 2015 was driven by OTTI charges on Puerto Rico Government debt securities of $15.9 million. The positive variance in 2014, when compared to 2013, was mainly due to the impact in 2013 of the $66.6 million write-off of the collateral pledged to Lehman and the $0.3 million gain on the sale of a $4.6 million Puerto Rico government agency bond.

- Direct non-interest expenses for 2015 were $3.8 million compared to $5.4 million and $10.6 million for 2014 and 2013, respectively. The decrease in 2015, compared to 2014, was mainly due to a $0.9 million decrease in legal and consulting fees. The variance in 2014, compared to 2013, was mainly attributable to the following charges in 2013: (i) the loss contingency of $2.5 million related to attorneys' fees granted by the court to the other party in connection with the denial of the Corporation's motion for Summary judgment on its claim to recover assets pledged to Lehman, (ii) expenses of $1.7 million related to the secondary offering of the Corporation's common stock by certain of the existing stockholders, and (iii) expenses of $1.2 million related to the terminated preferred stock exchange offer.

United States Operations

The United States Operations segment consists of all banking activities conducted by FirstBank on the United States mainland. FirstBank provides a wide range of banking services to individual and corporate customers primarily in southern Florida through 10 branches. FirstBank's success in attracting core deposits in Florida has enabled it to become less dependent on brokered CDs. The United States Operations segment offers an array of both retail and commercial banking products and services. Consumer banking products include checking, savings and money market accounts, retail CDs, internet banking services, residential mortgages, home equity loans and lines of credit, and automobile loans. Deposits gathered through FirstBank's branches in the United States also serve as one of the funding sources for the Corporation's overall lending and investment activities.

The commercial banking services include checking, savings and money market accounts, CDs, internet banking services, cash management services, remote data capture and automated clearing house, or ACH, transactions. Loan products include the traditional C&I and commercial real estate products, such as lines of credit, term loans and

construction loans.

The highlights of the United States operations segment’s financial results for the years ended December 31, 2015, 2014, and 2013 include the following:

- Segment income before taxes for the year ended December 31, 2015 was $25.0 million compared to $40.8 million and $8.0 million for the years ended December 31, 2014 and 2013, respectively.

- Net interest income for the year ended December 31, 2015 was $42.9 million compared to $37.3 million and $24.5 million for the years ended December 31, 2014 and 2013, respectively. The variances were primarily related to increases of $97.9 million and $152.9 million in the average volume of loans, primarily commercial and residential mortgage loans, in 2015 and 2014, respectively The increases also reflect reductions in the average rate paid on deposits, and higher interest charges made to operating segments in Puerto Rico.

- During 2015, a negative provision of $8.0 million was recorded for this segment, compared to negative provisions of $27.7 million and $10.7 million for 2014 and 2013, respectively. The lower negative provision in 2015, compared to 2014, reflects an $11.5 million decrease in loan loss recoveries of commercial and construction loans and lower reserve releases on these portfolios. The higher negative provision in 2014, compared to 2013, was mainly related to a $9.1 million increase in recoveries of amounts previously charged-off, and releases related to updated appraisals, a lower level of adversely classified assets related to the commercial and construction portfolios, and lower reserve requirements for residential mortgage loans evaluated for impairment purposes.

- Total non-interest income for the year ended December 31, 2015 amounted to $2.8 million compared to $2.5 million and $1.3 million for the years ended December 31, 2014 and 2013, respectively. The increase in 2015, compared to 2014, was mainly due to a $0.2 million increase in gains on sales of residential mortgage loans tied to a higher volume of sales. The increase in 2014, compared to 2013, was mainly related to service charges on deposits, higher gains on sales of mortgage loans, and the impact in 2013 of a $0.5 million loss related to valuation adjustments on fixed assets no longer used for operations after the consolidation of certain branches in Florida.

- Direct non-interest expenses in 2015 were $28.7 million compared to $26.6 million and $28.6 million for 2014 and 2013, respectively. The increase in 2015, compared to 2014, was mainly due to increases in employees' compensation of $2.0 million, a $0.6 million increase in OREO-related expenses and a $0.3 million increase in occupancy and equipment costs, partially offset by a $0.7 million decrease in the allocation of the FDIC insurance premium expense. The decrease in 2014, compared to 2013, was mainly related to lower losses on OREO operations and decreases in professional service fees and the amortization of the core deposit intangible related to this segment.

Virgin Islands Operations

The Virgin Islands Operations segment consists of all banking activities conducted by FirstBank in the U.S. and British Virgin Islands, including retail and commercial banking services, with a total of 11 branches currently serving the islands in the USVI of St. Thomas, St. Croix and St. John, and the island of Tortola in the BVI. The Virgin Islands Operations segment is driven by its consumer, commercial lending and deposit-taking activities.

Loans to consumers include auto, boat, lines of credit, and personal and residential mortgage loans. Deposit products include interest bearing and non-interest bearing checking and savings accounts, IRAs, and retail CDs. Retail deposits gathered through each branch serve as the funding sources for the lending activities.

The highlights of the Virgin Islands operations' financial results for the years ended December 31, 2015, 2014 and 2013 include the following:

- Segment income before taxes for the year ended December 31, 2015 was $10.9 million compared to income of $5.1 million and losses of $8.9 million for the years ended December 31, 2014 and 2013, respectively.

- Net interest income for the year ended December 31, 2015 was $36.3 million compared to $36.8 million and $37.7 million for the years ended December 31, 2014 and 2013, respectively. The decrease in net interest income in 2015, compared to 2014, was mainly related to a $12.4 million decrease in the average volume of loans, primarily residential mortgage loans. The decrease in net interest income in 2014, compared to 2013, was mainly related to a $14.7 million decrease in the average volume of loans, primarily residential mortgage loans.

- During 2015, a provision of $1.7 million was recorded for this segment, compared to a net release to the allowance of $0.4 million for 2014 and a provision of $8.8 million for 2013. The increase in the provision for 2015,

compared to 2014, was primarily related to a $0.6 million increase in the provision for residential mortgage loans and the $1.8 million provision on commercial and industrial loans recorded in 2015. The provision in 2013 includes a charge of $5.2 million related to the bulk sale of non-performing residential assets attributable to Virgin Islands loans completed in the second quarter of 2013 and a charge of $6.3 million related to a commercial construction loan relationship transferred to held for sale in the first quarter of 2013. Excluding the impact of the bulk sale of non-performing residential assets and the transfer of loans to held for sale attributable to Virgin Islands loans, the Corporation recorded a net release to the allowance of $2.6 million in 2013. The lower net release to the allowance in 2014 reflects the impact in 2013 of a $1.8 million recovery on the sale of the underlying collateral of a construction project and an increase of $0.5 million in the provision for residential mortgage loans.

- Non-interest income for the year ended December 31, 2015 was $10.6 million, compared to $7.1 million and $7.9 million for the years ended December 31, 2014 and 2013, respectively. The increase in 2015, compared to 2014, was mainly related to the $2.8 million portion of the gain on sale of merchant contracts attributable to this segment, and a $0.4 million gain on the sale of a parcel of land in 2015. The decrease in 2014, compared to 2013, was mainly related to a lower sales volume of residential mortgage loans and a decrease in service charges on deposits.

- Direct non-interest expenses for the year ended December 31, 2015 were $34.2 million compared to $39.3 million and $45.7 million for the years ended December 31, 2014 and 2013, respectively. The decrease in 2015, compared to 2014, was mainly due to a $2.6 million decrease in losses on OREO operations, a $0.6 million decrease related to the allocation of the FDIC insurance premium expense to this segment, and a $1.5 million decrease in occupancy and equipment costs. The increase in 2014, compared to 2013, was mainly due to lower losses on OREO operations, primarily lower write-downs.

FINANCIAL CONDITION AND OPERATING DATA ANALYSIS

Financial Condition

The following table presents an average balance sheet of the Corporation for the following years:

	December 31,					
		2015		2014		2013
(In thousands)						
ASSETS						
Interest-earning assets:						
Money market and other short-term investments	$	775,848	$	742,929	$	684,074
U.S. and Puerto Rico Government obligations		474,275		350,175		338,571
Mortgage-backed securities		1,489,423		1,669,406		1,666,091
FHLB stock		26,522		27,155		30,941
Other investments		777		320		1,330
Total investments		2,766,845		2,789,985		2,721,007
Residential mortgage loans		3,272,464		2,751,366		2,681,753
Construction loans		169,666		198,450		272,917
Commercial loans		3,984,302		4,549,732		4,804,608
Finance leases		228,709		240,268		240,479
Consumer loans		1,670,245		1,806,646		1,799,402
Total loans		9,325,386		9,546,462		9,799,159
Total interest-earning assets		12,092,231		12,336,447		12,520,166
Total non-interest-earning assets (1)		689,322		310,998		292,295
Total assets	$	12,781,553	$	12,647,445	$	12,812,461
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Interest-bearing checking accounts	$	1,096,087	$	1,075,513	$	1,127,857
Savings accounts		2,533,689		2,426,171		2,344,444
Certificates of deposit		2,294,939		2,296,314		2,310,200
Brokered CDs		2,428,185		3,098,724		3,251,091
Interest-bearing deposits		8,352,900		8,896,722		9,033,592
Other borrowed funds		997,615		1,131,959		1,131,959
FHLB advances		349,027		312,575		357,661
Total interest-bearing liabilities		9,699,542		10,341,256		10,523,212
Total non-interest-bearing liabilities		1,391,306		1,009,484		962,199
Total liabilities		11,090,848		11,350,740		11,485,411

Stockholders' equity:								
Preferred stock		36,104			46,576			63,047
Common stockholders' equity		1,654,601			1,250,129			1,264,003
Stockholders' equity		1,690,705			1,296,705			1,327,050
Total liabilities and stockholders' equity	$	12,781,553		$	12,647,445		$	12,812,461

(1) Includes, among other things, the allowance for loan and lease losses and the valuation of available-for-sale investment securities.

The Corporation's total average assets were $12.8 billion for the year ended December 31, 2015 compared to $12.6 billion for 2014, an increase of $134.1 million. The variance reflects the full year impact of the $302.9 million partial reversal of FirstBank's deferred tax assets valuation allowance recorded in December 2014, partially offset by the $221.1 million decrease in the average volume of loans, primarily commercial and consumer loans.

The Corporation's total average liabilities were $11.1 billion as of December 31, 2015, a decrease of $259.9 million compared to December 31, 2014. The decrease was mainly related to a $670.5 million decrease in the average balance of brokered CDs and the netting of $200 million reverse repurchase agreements entered into in 2015 against repurchase agreements, partially offset by a $344.3 million increase in the average balance of non-interest bearing deposits, and a $128.1 million increase in the average balance of savings and interest-bearing checking accounts.

Assets

Total assets were approximately $12.6 billion, a decrease of $154.8 million from December 31, 2014. The variance reflects a $79.3 million decrease in available-for-sale investment securities driven by U.S. agency MBS prepayments, debt securities called prior to maturity and a decrease in the fair value of both Puerto Rico Government debt securities and U.S. agency MBS. In addition, the balance of cash and cash equivalents decreased by $43.7 million reflecting, among other things, funds used for $200 million in reverse repurchase agreements entered into in 2015 that qualifies for offsetting accounting, thus, it was netted against repurchase agreements in the statement of financial condition. Total loans decreased by $29.7 million as further discussed below.

Loans Receivable, including Loans Held for Sale

The following table presents the composition of the loan portfolio including loans held for sale as of year end for each of the last five years.

	2015	2014	2013	2012	2011
(In thousands)					
Residential mortgage loans (1)(2)	$ 3,344,719	$ 3,011,187	$ 2,549,008	$ 2,747,217	$ 2,873,785
Commercial loans:					
Commercial mortgage loans	1,537,806	1,665,787	1,823,608	1,883,798	1,565,411
Construction loans (3)	156,195	123,480	168,713	361,875	427,863

	Commercial and Industrial													
	loans (4)		2,407,996			2,479,437			2,788,250			2,793,157		3,856,695
	Loans to local financial institutions													
	collateralized by real estate													
	mortgages (2)		-			-			240,072			255,390		273,821
	Total commercial loans		4,101,997			4,268,704			5,020,643			5,294,220		6,123,790
	Finance leases		229,165			232,126			245,323			236,926		247,003
	Consumer loans		1,597,984			1,750,419			1,821,196			1,775,751		1,314,814
	Total loans held for investment		9,273,865			9,262,436			9,636,170			10,054,114		10,559,392
	Less:													
	Allowance for loan and lease losses		(240,710)			(222,395)			(285,858)			(435,414)		(493,917)
	Total loans held for investment, net		9,033,155			9,040,041			9,350,312			9,618,700		10,065,475
	Loans held for sale (3)		35,869			76,956			75,969			85,394		15,822
	Total loans, net	$	9,069,024		$	9,116,997	$		9,426,281	$		9,704,094	$	10,081,297

(1) On February 27, 2015 FirstBank acquired 10 Puerto Rico branches of Doral Bank and acquired, among other things, $324.8 million in principal balance of loans, primarily residential mortgage loans. Refer to *Critical Accounting Policies and Practices - Accounting for Acquisition* above for additional information about this transaction.

(2) On May 30, 2014, FirstBank acquired from Doral Financial mortgage loans, mainly residential mortgage loans, having an unpaid principal balance of $241.7 million (estimated fair value at acquisition of $226.0 million) in full satisfaction of secured borrowings with a book value of $232.9 million owed by Doral Financial to FirstBank. In addition, on October 3, 2014, FirstBank purchased from Doral $192.6 million in outstanding unpaid principal balance of performing residential mortgage loans.

(3) During the third quarter of 2015, upon the signing of a new agreement with the borrower, the Corporation changed its intent to sell a $40.0 million construction-commercial loan in the Virgin Islands. Accordingly, the loan was transferred back from held for sale to held for investment and continues to be classified as a TDR and a non-performing loan.

(4) As of 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.

Lending Activities

As of December 31, 2015, the Corporation's total loans, before the allowance, decreased by $29.7 million, when compared with the balance as of December 31, 2014. The decrease was primarily due to a $213.2 million decrease in commercial and construction loans, reflecting the $147.5 million of loans included in the bulk sale of assets completed in the second quarter of 2015, and a $155.4 million decrease in the consumer loan portfolio. These variances were partially offset by a $338.9 million increase in residential mortgage loans, mainly attributable to loans acquired from Doral Bank in late February 2015, and an increase of $96.1 million in the Florida region mortgage portfolio.

As shown in the table above, the 2015 loans held for investment portfolio was comprised of commercial loans (44%), residential real estate loans (36%), and consumer and finance leases (20%). Of the total gross loan portfolio held for investment of $9.3 billion as of December 31, 2015, approximately 81% has credit risk concentration in Puerto Rico, 12% in the United States (mainly in the state of Florida) and 7% in the Virgin Islands, as shown in the following table:

As of December 31, 2015	**Puerto Rico**		**Virgin Islands**		**United States**		**Total**	
(In thousands)								
Residential mortgage loans	$	2,575,888	$	327,976	$	440,855	$	3,344,719
Commercial mortgage loans		1,208,347		69,773		259,686		1,537,806
Construction loans		63,654		69,874		22,667		156,195
Commercial and Industrial loans		1,876,143		173,916		357,937		2,407,996
Total commercial loans		3,148,144		313,563		640,290		4,101,997
Finance leases		229,165		-		-		229,165
Consumer loans		1,506,773		48,430		42,781		1,597,984
Total loans held for investment	$	7,459,970	$	689,969	$	1,123,926	$	9,273,865
Loans held for sale		33,787		507		1,575		35,869
Total loans, gross	$	7,493,757	$	690,476	$	1,125,501	$	9,309,734
As of December 31, 2014	**Puerto Rico**		**Virgin Islands**		**United States**		**Total**	
(In thousands)								
Residential mortgage loans	$	2,325,455	$	341,098	$	344,634	$	3,011,187
Commercial mortgage loans		1,305,057		69,629		291,101		1,665,787
Construction loans		70,618		30,011		22,851		123,480
Commercial and Industrial loans		2,072,265		120,947		286,225		2,479,437
Total commercial loans		3,447,940		220,587		600,177		4,268,704
Finance leases		232,126		-		-		232,126

Consumer loans		1,666,373			47,811			36,235		1,750,419
Total loans held for investment	$	7,671,894	$		609,496	$		981,046	$	9,262,436
Loans held for sale		34,972			40,317			1,667		76,956
Total loans, gross	$	7,706,866	$		649,813	$		982,713	$	9,339,392

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

The following table sets forth certain additional data (including loan production) related to the Corporation's loan portfolio net of the allowance for loan and lease losses as of the dates indicated:

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
(In thousands)					
Beginning balance as of January 1	$ 9,116,997	$ 9,426,281	$ 9,704,094	$ 10,081,297	$ 11,403,177
Residential real estate loans originated and purchased (1)	703,749	826,937	830,959	756,133	563,138
Construction loans originated and purchased	32,604	39,041	57,514	76,822	93,183
C&I and commercial mortgage loans originated and purchased	1,738,763	1,842,697	1,661,128	1,236,910	1,480,192
Finance leases originated	84,978	76,765	104,968	93,700	83,651
Consumer loans originated and purchased (2)	835,719	916,251	1,055,940	1,281,872	493,511
Total loans originated and purchased	3,395,813	3,701,691	3,710,509	3,445,437	2,713,675
Loans acquired from Doral	311,410	-	-	-	-
Sales and securitizations of loans	(598,840)	(394,736)	(968,626)	(468,463)	(1,175,463)
Repayments and prepayments	(2,975,441)	(3,488,207)	(2,801,685)	(3,049,722)	(2,422,071)
Other decreases (3)	(180,915)	(128,032)	(218,011)	(304,455)	(438,021)
Net decrease	(47,973)	(309,284)	(277,813)	(377,203)	(1,321,880)
Ending balance as of December 31	$ 9,069,024	$ 9,116,997	$ 9,426,281	$ 9,704,094	$ 10,081,297
Percentage decrease	(0.53)%	(3.28)%	(2.86)%	(3.74)%	(11.59)%

(1) For 2014, includes the purchase from Doral of $147.5 million in outstanding principal balance of performing residential mortgage loans.

(2) For 2012, includes the initial carrying value of $368.9 million related to the credit card portfolio acquired from FIA and

$226.9 million of subsequent utilization activity on outstanding credit cards.
(3) Includes, among other things, the change in the allowance for loan and lease losses and cancellation of loans due to
the repossession of the collateral and loans repurchased.

Residential Real Estate Loans

As of December 31, 2015, the Corporation's residential real estate loan portfolio held for investment increased by $333.5 million as compared to the balance as of December 31, 2014, mainly due to the $321.0 million in principal balance of residential mortgage loans (initial fair value of $311 million) acquired from Doral in late February 2015 and a $96.2 million increase in the Florida region.

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

Residential mortgage loan originations and purchases, excluding the loans acquired from Doral, for the year ended December 31, 2015 amounted to $703.7 million compared to $634.3 million for 2014 and $831.0 million for 2013. The higher volume of loan originations in 2015 includes an increase of $48.6 million in Puerto Rico, mainly refinancings (external and internal) and conforming loan originations, and a $33.6 million increase in residential mortgage loan originations in the Florida region. These statistics include loans purchased from mortgage bankers of $91.9 million and $146.5 million for 2015 and 2014, respectively.

Commercial and Construction Loans

As of December 31, 2015, the Corporation's commercial and construction loan portfolio held for investment decreased by $166.7 million to $4.1 billion, as compared to the balance of $4.3 billion as of December 31, 2014. The reduction primarily reflects the effect of the aforementioned bulk sale of assets that included $147.5 million of commercial and construction loans, primarily non-performing and adversely classified loans, as well as loans transferred to the OREO portfolio, including the repossession of the underlying collateral of two commercial mortgage loans totaling $27.9 million.

As of December 31, 2015, the Corporation had $316.0 million of credit facilities, excluding investment securities,

granted to the Puerto Rico government, its municipalities and public corporations, of which $314.6 million was outstanding (book value of $311.0

million), compared to $308.0 million outstanding as of December 31, 2014. In addition, the outstanding balance of facilities granted to the government of the Virgin Islands amounted to $126.2 million as of December 31, 2015, compared to $57.7 million as of December 31, 2014. Approximately $199.5 million of the granted credit facilities outstanding consisted of loans to municipalities in Puerto Rico whose revenues are independent of the central government. The good faith, credit, and unlimited taxing power of the applicable municipality have been pledged to their repayment. Approximately 88% of the Corporation's municipality exposure consists primarily of senior priority loans concentrated on five of the largest municipalities in Puerto Rico (San Juan, Carolina, Bayamon, Mayaguez, and Guaynabo). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. Late in 2015, 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 the funds should be distributed by the GDB pursuant to the applicable law. In addition to municipalities, loans extended to the Puerto Rico Government include $18.9 million of loans to units of the Puerto Rico central government, and approximately $96.3 million ($92.6 million book value) of loans to public corporations that generally receive revenues from the rates they charge for services or products, such as electric power services, including the credit facility extended to PREPA, with a book value of $71.1 million as of December 31, 2015. The PREPA credit facility was placed in non-accrual status in the first quarter of 2015, and interest payments are now recorded on a cost-recovery basis.

Furthermore, as of December 31, 2015, the Corporation had $129.4 million outstanding in financings to the hotel industry in Puerto Rico where the borrower and the operations of the underlying collateral are the primary sources of repayment and the TDF provides a secondary guarantee for payment performance, compared to $133.3 million as of December 31, 2014. As a result of liquidity risk and uncertainty regarding the Puerto Rico government fiscal situation, the Corporation adversely classified this $129.4 million exposure during the third quarter of 2015. Since late 2012, the Corporation has received combined payments from the borrowers and TDF as guarantor sufficient to cover contractual payments on these loans, including collections of principal and interest from TDF of approximately $5.3 million in 2015 and $6.1 million in 2014. These loans were current and remained in accrual status as of December 31, 2015.

In the fourth quarter of 2015, the Corporation recorded a $19.2 million charge to the provision for loan losses related to increased qualitative reserve factors applied to commercial loans extended to or guaranteed by the Puerto Rico Government (excluding municipalities).

As of December 31, 2015, the Corporation's total exposure to shared national credit ("SNC") loans amounted to $603.1 million. Approximately $455.1 million of the SNC exposure as of December 31, 2015 is in Puerto Rico, including the $71.1 million book value of the PREPA credit facility and $74.3 million of the loans guaranteed by the TDF.

Commercial and construction loan origination (excluding government loans) for 2015 amounted to $1.7 billion compared to $1.5 billion in 2014. The increase in 2015 was mainly related to disbursements on existing commercial credit facilities in Puerto Rico.

Government loan originations for 2015 amounted to $101.6 million compared to $424.2 million for 2014, a decrease driven by the reduced draws in existing commercial credit facilities granted to the Commonwealth of Puerto Rico central government and instrumentalities, partially offset by increases in the Virgin Islands region. Government loan originations in the Virgin Islands for 2015 amounted to $65.3 million compared to $49.1 million for 2014.

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

The composition of the Corporation's construction loan portfolio held for investment as of December 31, 2015 by category and geographic location follows:

As of December 31, 2015								
	Puerto Rico		**Virgin Islands**		**United States**		**Total**	
(In thousands)								
Loans for residential housing projects:								
Mid-rise (1)	$	829	$	4,002	$	-	$	4,831
Single-family, detached		6,818		-		6,899		13,717
Total for residential housing projects		7,647		4,002		6,899		18,548
Construction loans to individuals secured by residential								
properties		1,016		1,509		-		2,525
Loans for commercial projects		20,655		47,301		15,437		83,393
Bridge loans - commercial		-		12,911		-		12,911
Land loans - residential		18,873		4,221		331		23,425
Land loans - commercial		15,679		-		-		15,679
Total before net deferred fees and allowance for loan								
losses	$	63,870	$	69,944	$	22,667	$	156,481
Net deferred cost (fees)		(216)		(70)		-		(286)
Total construction loan portfolio, gross		63,654		69,874		22,667		156,195
Allowance for loan losses		(2,492)		(991)		(36)		(3,519)
Total construction loan portfolio, net	$	61,162	$	68,883	$	22,631	$	152,676

(1) Mid-rise relates to buildings of up to 7 stories.

The following table presents further information on the Corporation's construction portfolio as of and for the year ended December 31, 2015:

(In thousands)			
Total undisbursed funds under existing commitments	$	59,747	
Construction loans held for investment in non-accrual status	$	54,636	
Construction loans held for sale in non-accrual status	$	8,135	
Net charge offs - Construction loans (1)	$	2,412	
Allowance for loan losses - Construction loans	$	3,519	
		38.20	%

Non-performing construction loans to total construction loans, including held for sale			
Allowance for loan losses for construction loans to total construction loans held for investment		2.25	%
Net charge-offs to total average construction loans		1.42	%

(1) Includes net charge-offs totaling $3.3 million associated with the bulk sale of assets.

The following summarizes the construction loans for residential housing projects in Puerto Rico segregated by the estimated selling price of the units:

(In thousands)		
Construction loan portfolio:		
Under $300k	$	2,640
Over $600k (1)		5,007
	$	7,647

(1) One residential housing project in Puerto Rico.

Consumer Loans and Finance Leases

As of December 31, 2015, the Corporation's consumer loan and finance lease portfolio decreased by $155.4 million to $1.8 billion, as compared to the portfolio balance of $2.0 billion as of December 31, 2014. The decrease was mainly the result of charge-offs and repayments that exceeded the volume of new originations. The auto and finance lease portfolio decreased by $128.8 million during 2015 to $1.2 billion reflecting repayments, charge-offs and a reduced activity in new loan originations. The auto loan and finance lease portfolios in Puerto Rico amounted to $891.0 million and $229.2 million, respectively, as of December 31, 2015, compared to $1.0 billion and $232.1 million, respectively, as of December 31, 2014.

The remaining decrease in the consumer loan portfolio was primarily related to an $11.6 million reduction in the credit card loan portfolio balance, to $295.0 million as of December 31, 2015, and a $10.7 million decrease in boat loans, to $36.7 million as of December 31, 2015.

Originations of auto loans (including finance leases) for 2015 amounted to $361.8 million, a decrease of $95.4 million, compared to $457.2 million for 2014. The decrease mainly reflects the reduced activity in new auto sales reflecting lower consumer confidence as a result of the prolonged economic recession in Puerto Rico.

Personal loan originations, other than credit cards, for 2015 amounted to $184.8 million compared to $191.8 million for 2014. The utilization activity on the outstanding credit card portfolio for 2015 amounted to $374.6 million compared to $388.0 million for 2014.

Investment Activities

As part of its liquidity, revenue diversification and interest rate risk strategies, First BanCorp. maintains an investment portfolio that is classified as available for sale. The Corporation's total available-for-sale investment securities portfolio as of December 31, 2015 amounted to $1.9 billion, a decrease of $79.3 million from December 31, 2014. During 2015, U.S. agency MBS prepayments amounted to $233 million, U.S. agency debt obligations called prior to maturity amounted to $46 million, and the fair value of Puerto Rico Government debt securities decreased by $19 million. The aforementioned decreases were partially offset by purchases of approximately $239 million of U.S. government-sponsored agencies securities (average yield of 1.87%).

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

As mentioned above, during 2015, the Corporation recorded $15.9 million in OTTI charges on three Puerto Rico Government debt securities held by the Corporation as part of its available-for-sale securities portfolio, specifically bonds of the Government Development Bank for Puerto Rico and the Puerto Rico Public Buildings Authority. A $12.9 million impairment charge was booked in the second quarter and an additional $3.0 million impairment was recorded in the fourth quarter. The credit-related impairment loss estimate is based on the probability of default and loss severity in the event of default in consideration of the latest available market-based evidence implied in current security valuations and information about the Puerto Rico Government's financial condition, including credit ratings, payment defaults on other bonds, and "clawback" measures implemented to redirect revenues pledged to support bonds from certain government agencies to service the general obligation debt. As of December 31, 2015, the Corporation owns Puerto Rico Government debt securities in the aggregate amortized cost of $49.7 million (net of the $15.9 million OTTI charges taken in 2015), recorded on its books at a fair value of $28.2 million. Refer to Note 5 to the Corporation's audited financial statements for the year ended December 31, 2015 included in Item 8 of this Form 10-K for additional information regarding the assumptions utilized to determine the OTTI charge on the Puerto Rico Government debt securities held by the Corporation.

The following table presents the carrying value of investments as of December 31, 2015 and 2014:

		2015		2014
(In thousands)				
Money market investments	$	219,473	$	16,961
Investment securities available for sale, at fair value:				
U.S. government and agencies obligations		460,558		340,614
Puerto Rico government obligations		28,217		43,222
Mortgage-backed securities		1,397,520		1,581,830
Other		100		-
Total investment securities available for sale, at fair value		1,886,395		1,965,666
Other equity securities, including $31.3 million and $25.5				
million of FHLB stock as of December 31, 2015 and				
2014, respectively		32,169		25,752
Total money market and investment securities	$	2,138,037	$	2,008,379

Mortgage-backed securities as of December 31, 2015 and 2014 consisted of:

		2015		2014
(In thousands)				
Available-for-sale:				
FHLMC certificates	$	287,445	$	315,794
GNMA certificates		301,573		377,448
FNMA certificates		783,195		854,940
Other mortgage pass-through certificates		25,307		33,648
Total mortgage-backed securities	$	1,397,520	$	1,581,830

The carrying values of investment securities classified as available for sale as of December 31, 2015 by contractual maturity (excluding mortgage-backed securities and equity securities) are shown below:

	Carrying Amount		Weighted average yield %
(In thousands)			
U.S. government and agencies obligations			
Due within one year	$ 14,618		0.68
Due after one year through five years	387,689		1.31
Due after five years through ten years	58,251		2.34
	460,558		1.42
Puerto Rico government obligations			
Due after one year through five years	11,001		4.38
Due after five years through ten years	855		5.20
Due after ten years	16,361		5.40
	28,217		4.87
Other Investment Securities			
Due after one year through five years	100		1.50
Total	488,875		1.75
Mortgage-backed securities	1,397,520		2.61
Total investment securities available for sale	$ 1,886,395		2.38

Net interest income of future periods could be affected by prepayments of mortgage-backed securities. Acceleration in the prepayments of mortgage-backed securities would lower yields on these securities, as the amortization of premiums paid upon acquisition of these securities would accelerate. Conversely, acceleration of the prepayments of mortgage-backed securities would increase yields on securities purchased at a discount, as the amortization of the discount would accelerate. These risks are directly linked to future period market interest rate fluctuations. Also, net interest income in future periods might be affected by the Corporation’s investment in callable securities. As of December 31, 2015, the Corporation had approximately $142.8 million in debt securities (U.S. Agencies and Puerto Rico government securities) with embedded calls and with an average yield of 1.78%. Refer to “Risk Management” below for further analysis of the effects of changing interest rates on the Corporation’s net interest income and of the interest rate risk management strategies followed by the Corporation. Also refer to Note 5 to the accompanying audited consolidated financial statements included in Item 8 of this Form 10-K for additional information regarding the Corporation’s investment portfolio.

Investment Securities and Loans Receivable Maturities

The following table presents the maturities or repricings of the loan and investment portfolio as of December 31, 2015:

	One Year or Less	2-5 Years Fixed Interest Rates	2-5 Years Variable Interest Rates	Over 5 Years Fixed Interest Rates	Over 5 Years Variable Interest Rates	Total
(In thousands)						
Investments:						
Money market investments	$ 219,473	$ -	$ -	$ -	$ -	$ 219,473
Mortgage-backed securities	25,597	2,740	-	1,369,183	-	1,397,520
Other securities (1)	46,787	398,790	-	75,467	-	521,044
Total investments	291,857	401,530	-	1,444,650	-	2,138,037
Loans: (2) (3)						
Residential mortgage	823,276	369,915	-	2,179,262	-	3,372,453
C&I and commercial						
mortgage	3,191,853	463,543	170,645	119,761	-	3,945,802
Construction	157,925	5,179	-	1,226	-	164,330
Finance leases	74,188	152,168	-	2,809	-	229,165
Consumer	540,071	1,020,366	-	37,547	-	1,597,984
Total loans	4,787,313	2,011,171	170,645	2,340,605	-	9,309,734
Total earning assets	$ 5,079,170	$ 2,412,701	$ 170,645	$ 3,785,255	$ -	$ 11,447,771

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(1) Equity securities and loans having no stated scheduled repayment date and no stated maturity were included under the "one year or less category."

(2) Scheduled repayments were reported in the maturity category in which the payment is due and variable rates were reported based on the next repricing date.

(3) Non-accruing loans were included under the "one year or less category."

RISK MANAGEMENT

General

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

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

Risk Definition

Liquidity Risk

Liquidity risk is the risk to earnings or capital arising from the possibility that the Corporation will not have sufficient cash to meet its short-term liquidity demands, such as from deposit redemptions or loan commitments. Refer to "—Liquidity and Capital Adequacy" below for further details.

Interest Rate Risk

Interest rate risk is the risk to earnings or capital arising from adverse movements in interest rates, refer to "—Interest Rate Risk Management" below for further details.

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in market rates or prices, such as interest rates or equity prices. The Corporation evaluates market risk together with interest rate risk. Refer to "—Interest Rate Risk Management" below for further details.

Credit Risk

Credit risk is the risk to earnings or capital arising from a borrower's or a counterparty's failure to meet the terms of a contract with the Corporation or otherwise to perform as agreed. Refer to "—Credit Risk Management" below for further details.

Operational Risk

Operational risk is the risk to earnings or capital arising from problems with the delivery of services or products. This risk is a function of internal controls, information systems, employee integrity and operating processes. It also includes risks associated with the Corporation's preparedness for the occurrence of an unforeseen event. This risk is inherent across all functions, products and services of the Corporation. Refer to "—Operational Risk" below for further details.

Legal and Regulatory Risk

Legal and regulatory risk is the risk to earnings and capital arising from the Corporation's failure to comply with laws or regulations that can adversely affect the Corporation's reputation and/or increase its exposure to litigation or penalties.

Reputational Risk

Reputational risk is the risk to earnings and capital arising from any adverse impact on the Corporation's market value, capital or earnings of negative public opinion, whether true or not. This risk affects the Corporation's ability to

establish new relationships or services, or to continue servicing existing relationships.

Model Risk

Model Risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. The use of models exposes the Corporation to some level of model risk. Model errors can contribute to incorrect valuations and lead to operational errors, inappropriate business decisions or incorrect financial entries. Model risk can be reduced substantially through rigorous model identification and validation.

Capital Risk

Capital risk is the risk that the Corporation may lose value on its capital or has an inadequate Capital Plan, which results in insufficient capital resources to meet minimum regulatory requirements, support its credit rating, or support its growth and strategic options.

Strategic Risk

Strategic Risk refers to the risk to current or anticipated earnings, capital, or franchise or enterprise value arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the banking industry and operating environment. This risk is a function of the compatibility of the Corporation's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation.

Information Technology Risk

Information Technology risk is the risk of a potential adverse impact to the Corporation's operations, reputation, assets, and customers that arises from the loss of confidentiality, integrity, or availability of information or information systems. It includes business risk associated with the use, ownership, operation, involvement, influence, and adoption of information technology within the Corporation.

Risk Governance

The following discussion highlights the roles and responsibilities of the key participants in the Corporation's risk management framework:

Board of Directors

The Board of Directors oversees the Corporation's overall risk governance program with the assistance of the Board Committees discussed below.

Risk Committee

The Risk Committee is appointed by the Board of Directors of the Corporation to assist the Board in fulfilling its responsibility to oversee the Corporation's management of its company-wide risk management framework. The Committee's role is one of oversight, recognizing that management is responsible for designing, implementing and maintaining an effective risk management framework.

Asset/Liability Committee

The Asset/Liability Committee is appointed by the Board of Directors to assist the Board of Directors in its oversight of the Corporation's asset and liability management policies related to the management of the Corporation's funds, investments, liquidity, interest rate risk, and the use of derivatives. In doing so, the Committee's primary functions involve:

- The establishment of a process to enable the identification, assessment, and management of risks that could affect the Corporation's assets and liabilities management;

- The identification of the Corporation's risk tolerance levels for yield maximization relating to its assets and liabilities management; and

- The evaluation of the adequacy, effectiveness and compliance with the Corporation's risk management process relating to the Corporation's assets and liabilities management, including management's role in that process.

Credit Committee

The Credit Committee is appointed by the Board of Directors to assist the Board of Directors in its oversight of the Corporation's policies related to the Corporation's lending function, hereafter "Credit Management." The Committee's primarily responsibilities are to:

- Review the quality of the Corporation's credit portfolio and the trends affecting that portfolio;
- Oversee the effectiveness and administration of credit-related policies;
- Approve those loans as required by the lending authorities approved by the Board; and
- Report to the Board regarding Credit Management.

Audit Committee

The Audit Committee is appointed by the Board of Directors to assist the Board of Directors in fulfilling its responsibility to oversee management regarding:

- The conduct and integrity of the Corporation's financial reporting to any governmental or regulatory body, stockholders, other users of the Corporation's financial reports and the public;
- The performance of the Corporation's internal audit function;
- The Corporation's internal control over financial reporting and disclosure controls and procedures;

- The qualifications, engagement, compensation, independence and performance of the Corporation’s independent auditors, their conduct of the annual audit of the Corporation’s financial statements, and their engagement to provide any other services;

- The Corporation’s legal and regulatory compliance;

- The application of the Corporation’s related person transaction policy as established by the Board of Directors;

- The application of the Corporation’s code of business conduct and ethics as established by management and the Board of Directors; and

- The preparation of the Audit Committee report required to be included in the Corporation’s annual proxy statement by the rules of the SEC.

In performing this function, the Audit Committee is assisted by the Chief Risk Officer (“CRO”) and the Executive Risk Management Committee, and other members of senior management.

Compliance Committee

The Compliance Committee is appointed by the Board of Directors to assist the Board of the Corporation in fulfilling its responsibility to ensure that the Corporation and the Bank comply with the provisions of the Written Agreement entered into with the New York FED. In addition, the Compliance Committee shall assist the Board of the Bank in fulfilling its responsibility with respect to any actions required by the FDIC and the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico to improve the financial condition of the Bank (and collectively with the Written Agreement the “Regulatory Actions”).

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is appointed by the Board of Directors to develop, review and assess corporate governance principles. The Corporate Governance and Nominating Committee is responsible for director succession, orientation and compensation, identifying and recommending new director candidates, overseeing the evaluation of the Board and management, recommending to the Board the designation of a candidate to hold the position of the Chairman of the Board, and directing and overseeing the Corporation’s executive succession plan.

Compensation and Benefits Committee

The Compensation and Benefits Committee of the Corporation is appointed by the Board of Directors to oversee compensation policies and practices including the evaluation and recommendation to the Board of the proper and

competitive salaries and incentive compensation programs of the executive officers and key employees of the Corporation. The Committee recommends guidelines and principles for compensation programs of executive officers and key employees of the Corporation, including establishing a clear link between pay and performance and safeguards against the encouragement of excessive risk-taking.

Management Roles and Responsibilities

While the Board of Directors is charged with the oversight of the risk governance program, the responsibility for carrying out the implementation of the necessary policies and procedures, and internal controls is delegated to Management of the Corporation. To carry out these responsibilities, the Corporation has a clearly defined risk governance culture, to ensure risk management is communicated at all levels of the Corporation, and each area understands their specific role, there are several management level committees that have been established in order to support risk oversight, as follows:

Executive Risk Management Committee

The Executive Risk Management Committee is responsible for exercising oversight of information regarding FirstBanCorp's enterprise risk management framework, including the significant policies, procedures, and practices employed to manage the identified risk categories, credit risk, operational risk, legal and regulatory risk, reputational risk, model risk, and capital risk. In carrying out its oversight responsibilities, each Committee member is entitled to rely on the integrity and expertise of those people providing information to the Committee and on the accuracy and completeness of such information, absent actual knowledge of the inaccuracy.

The Comitte is appointed by the Chief Executive Officer and provides Senior and Exceutive management with the opportunity to share their insights about the types of risks that could impede the Corporation's ability to achieve its business objectives. The Chief Risk Officer of the Corporation directs the agenda for the meetings and the Enterprise Risk Management and Operational Risk Director serves as Secretary of the Committee and maintains the minutes on behalf of the Committee. The General Auditor also participates of the Committee as observer.

The Committee shall provide assistance and support to the Chief Risk Officer to promote effective risk management throughout the Corporation. The Chief Risk Officer and the ERM and Operational Risk Director report to the Committee those matters related to the enterprise risk management framework of the Corporation including but not limited to:

- Risk governance structure
- Risk competencies of the Corporation
- Corporation's risk appetite statement and risk tolerance
- Risk management strategy and associated risk management initiatives and how both support the business strategy and business model of the Corporation.

Regional Risk Management Committee

This management committee is appointed by the Chief Risk Officer of the Corporation to assist the Corporation in overseeing, and receiving information regarding the Corporation's policies, procedures and practices relating to the Corporation's identified risks in the regions of Florida and the USVI and BVI. In so doing, the Regional Committee's primary general functions involve:

- The evaluation of different risks within the regions to identify any gaps and the implementation of any necessary controls to close such gap;
- The establishment of a process to enable the recognition, assessment, and management of the risks that could affect the regions; and
- The responsibility to ensure that the Executive Risk Management Committee receives appropriate information about the Corporation's identified risks within the regions.

Other Management Committees

As part of its governance framework, the Corporation has various additional risk management related-committees. These committees are jointly responsible for ensuring adequate risk measurement and management in their respective areas of authority. At the management level, these committees include:

(1) Management's Investment and Asset Liability Committee ("MIALCO") – oversees interest rate and market risk, liquidity management and other related matters. Refer to "—Liquidity Risk and Capital Adequacy and Interest Rate Risk Management" below for further details.

(2) Information Technology Steering Committee – is responsible for the oversight of and counsel on matters related to information technology and cyber security, including the development of information management policies and procedures throughout the Corporation.

(3) Bank Secrecy Act Committee – is responsible for oversight, monitoring and reporting of the Corporation's compliance with the Bank Secrecy Act.

(4) Credit Committees (Credit Management Committee and Delinquency Committee) – oversee and establish standards for credit risk management processes within the Corporation. The Credit Management Committee is responsible for the approval of loans above an established size threshold. The Delinquency Committee is responsible for the periodic review of (a) past-due loans, (b) overdrafts, (c) non-accrual loans, (d) OREO assets, and (e) the bank's watch list and non-performing loans.

(5) Vendor Management Committee – oversees policies, procedures and related practices related to the Corporation's vendor management efforts. The Vendor Management Committee's primary functions involve the establishment of processes and procedures to enable the recognition, assessment, management and monitoring of vendor management risks.

(6) The Community Reinvestment Act Executive Committee – is responsible for oversight, monitoring and reporting of the Corporation's compliance with CRA regulatory requirements. The Bank is committed to develop programs and products that increase access to credit and create a positive impact on low and moderate income individuals and communities.

(7) Anti-Fraud Committee – oversees the Corporation's policies, procedures and related practices relating to the Corporation's anti-fraud measures.

(8) Regulatory Compliance Committee - Oversees the Regulatory Compliance Management System of First BanCorp. Reviews and discusses any regulatory compliance laws and regulations that impact performance of regulatory compliance policies, programs and procedures. Ensures the coordination of regulatory compliance requirements throughout departments and business units.

Officers

As part of its governance framework, the following officers play a key role in the Corporation's risk management process:

1) Chief Executive Officer is responsible for the overall risk governance structure of the Corporation. The CEO is ultimately responsible for business strategies, strategic objectives, risk management priorities, and policies.

2) Chief Risk Officer is responsible for the oversight of the risk management of the organization as well as risk governance processes. The CRO, together with the Enterprise Risk Management and Operational Risk Director monitors key risks and manages the operational risk program. The CRO provides the leadership and strategy for the Corporation's risk management and monitoring activities and is responsible for the oversight of regulatory compliance, strategic and capital planning, model risk, and operational risk management.

3) Credit Risk Officer, Chief Lending Officer and other senior executives are responsible for managing and executing the Corporation's credit risk program.

4) Chief Financial Officer, together with the Corporation's Treasurer, manages the Corporation's interest rate and market and liquidity risk programs and, together with the Corporation's Chief Accounting Officer, is responsible for the implementation of accounting policies and practices in accordance with GAAP and applicable regulatory requirements. The CFO is assisted by the Risk Assessment Manager in the review of the Corporation's internal control over financial reporting.

5) Chief Accounting Officer is responsible for the development and implementation of the Corporation's accounting policies and practices and the review and monitoring of critical accounts and transactions to ensure that they are managed in accordance with GAAP and applicable regulatory requirements.

6) Strategic and Capital Planning Officer is responsible for the development of the Corporation's strategic and business plan, by coordinating and collaborating with the executive team and all corporate bodies concerned with the strategic and business planning process. The Strategic and Capital Planning Director is also responsible for developing and executing a strategy for our stress testing modeling framework.

7) ERM and Operational Risk Director is responsible for driving the identification, assessment, measurement, mitigation risk and exposure and monitoring of key risks throughout the Corporation. The ERM and Operational Risk Director promotes and instills a culture of risk control, identifies and monitors the resolution of major and critical operational risk issues across the Corporation, and serves as key advisor to business executives with regards to risk exposure to the organization, corrective actions and corporate policies and best practices to mitigate risks.

8) Compliance Director is responsible for oversight of regulatory compliance. Maintains an inventory of applicable regulations, implements an enterprise-wide compliance risk assessment, and monitors compliance with significant regulations. Builds awareness and educates business units and subsidiaries on regulatory risks.

9) General Counsel is responsible for the oversight of legal risks, including matters such as contract structuring, litigation risk and all legal related aspects.

10) Corporate Security Officer (CSO) is responsible for the oversight of Information Security policies and procedures, and the ongoing monitoring of existing and new vendors' due diligence for information security. In addition, the CSO identifies risk factors, and determines solutions to security needs.

Other Officers

In addition to a centralized Enterprise Risk Management function, certain lines of business and corporate functions have their own risk managers and support staff. The risk managers, while reporting directly within their respective line of business or function, facilitate communications with the Corporation's risk functions and work in partnership with the CRO and CFO to ensure alignment with sound risk management practices and expedite the implementation of the enterprise risk management framework and policies.

Liquidity Risk and Capital Adequacy, Interest Rate Risk, Credit Risk, and Operational, Legal and Regulatory Risk Management

The following discussion highlights First BanCorp.'s adopted policies and procedures for liquidity risk and capital adequacy, interest rate risk, credit risk, and operational, legal and regulatory risk.

Liquidity Risk and Capital Adequacy

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

The Corporation manages liquidity at two levels. The first is the liquidity of the parent company, which is the holding company that owns the banking and non-banking subsidiaries. The second is the liquidity of the banking subsidiary. As of December 31, 2015, FirstBank could not pay any dividend to the parent company except upon receipt of prior approval by the New York FED and the Federal Reserve Board because of the Written Agreement.

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

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

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

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

The Corporation manages its liquidity in a proactive manner, and maintains a sound liquidity position. Multiple measures are utilized to monitor the Corporation's liquidity position, including core liquidity, basic liquidity, and time-based reserve measures. As of December 31, 2015, the estimated core liquidity reserve (which includes cash and free liquid assets) was $1.5 billion or 12.3% of total assets, compared to $1.5 billion or 11.7% of total assets as of December 31, 2014. The basic liquidity ratio (which adds available secured lines of credit to the core liquidity) was approximately 17.4% of total assets, compared to 15.6% of total assets as of December 31, 2014. As of December 31, 2015, the Corporation had $641.6 million available for additional credit from the FHLB NY. Unpledged liquid securities as of December 31, 2015 mainly consisted of fixed-rate MBS and U.S. agency debentures amounting to approximately $617.6 million. The Corporation does not rely on uncommitted inter-bank lines of credit (federal funds lines) to fund its operations and does not include them in the basic liquidity measure. As of December 31, 2015, the holding company had $35.2 million of cash and cash equivalents. Cash and cash equivalents at the Bank level as of December 31, 2015 were approximately $745.6 million. The Bank has $2.1 billion in brokered CDs as of December 31, 2015, of which approximately $1.3 billion mature over the next twelve months. Liquidity at the Bank level is highly dependent on bank deposits, which fund 75% of the Bank's assets (or 58% excluding brokered CDs).

Sources of Funding

The Corporation utilizes different sources of funding to help ensure that adequate levels of liquidity are available when needed. Diversification of funding sources is of great importance to protect the Corporation's liquidity from market disruptions. The principal sources of short-term funds are deposits, including brokered CDs, securities sold under agreements to repurchase, and lines of credit with the FHLB.

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

The Corporation has continued reducing the amounts of brokered CDs. As of December 31, 2015, the amount of brokered CDs had decreased $789.6 million to $2.1 billion from brokered CDs of $2.9 billion as of December 31, 2014. At the same time as the Corporation focuses on reducing its reliance on brokered CDs, it is seeking to add core deposits. During 2015, the Corporation increased non-brokered deposits, excluding government deposits, by $467.2 million to $6.7 billion. The Doral transaction added over $446.9 million in non-brokered deposits as of December 31, 2015, excluding $41.3 million of government deposits.

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

The Corporation's principal sources of funding are:

Deposits

The following table presents the composition of total deposits:

	Weighted Average Cost as of December 31, 2015		As of December 31, 2015		2014		2013
(In thousands)							
Savings accounts	0.57%	$	2,459,186	$	2,450,484	$	2,334,831
Interest-bearing checking accounts	0.45%		1,088,651		1,054,136		1,167,480
Certificates of deposit	1.07%		4,453,728		5,078,709		5,526,401
Interest-bearing deposits	0.83%		8,001,565		8,583,329		9,028,712
Non-interest-bearing deposits			1,336,559		900,616		851,212

Total			$	9,338,124		$	9,483,945	$	9,879,924
Interest-bearing deposits:									
Average balance outstanding			$	8,352,900		$	8,896,722	$	9,033,592
Non-interest-bearing deposits:									
Average balance outstanding			$	1,220,726		$	876,460	$	855,231
Weighted average rate during									
the period on interest-									
bearing deposits				0.83%			0.88%		1.02%

Brokered CDs – A large portion of the Corporation's funding has been retail brokered CDs issued by FirstBank. Total brokered CDs decreased during 2015 by $789.6 million to $2.1 billion as of December 31, 2015. The Corporation utilized a portion of the cash received in the Doral transaction to pay off maturing brokered CDs.

The average remaining term to maturity of the retail brokered CDs outstanding as of December 31, 2015 is approximately 1.1 years.

The use of brokered CDs has been particularly important for the growth of the Corporation. The Corporation encounters intense competition in attracting and retaining regular retail deposits in Puerto Rico. The brokered CD market is very competitive and liquid, and has enabled the Corporation to obtain substantial amounts of funding in short periods of time. This strategy has enhanced the Corporation's liquidity position, since brokered CDs are insured by the FDIC up to regulatory limits and can be obtained faster compared to regular retail deposits. During 2015, the Corporation issued $1.0 billion in brokered CDs with an average cost of 1.11%.

The following table presents a maturity summary of brokered and retail CDs with denominations of $100,000 or higher as of December 31, 2015:

		Total		
	(In thousands)			
	Three months or less	$	582,382	
	Over three months to six months		476,439	
	Over six months to one year		1,180,805	
	Over one year		1,387,823	

	Total	$	3,627,449	

Certificates of deposit in denominations of $100,000 or higher include brokered CDs of $2.1 billion issued to deposit brokers in the form of large ($100,000 or more) certificates of deposit that are generally participated out by brokers in shares of less than $100,000 and are therefore insured by the FDIC.

Government deposits - As of December 31, 2015, the Corporation had $390.4 million of public sector deposits in Puerto Rico ($336.5 million in transactional accounts and $53.9 million in time deposits) compared to $227.4 million as of December 31, 2014. Approximately 45% came from municipalities and municipal agencies in Puerto Rico and 55% came from public corporations and the central government and agencies. The Doral Bank transaction added $41.3 million in government deposits as of December 31, 2015.

In addition, as of December 31, 2015, the Corporation had $186.9 million of government deposits in the Virgin Islands, compared to $173.3 million as of December 31, 2014.

Retail deposits – The Corporation's deposit products also include regular savings accounts, demand deposit accounts, money market accounts and retail CDs. On February 27, 2015, FirstBank acquired 10 Puerto Rico branches of Doral and assumed $522.6 million in deposits related to such branches. Total deposits, excluding brokered CDs and government deposits, increased by $467.2 million to $6.7 billion from the balance of $6.2 billion as of December 31, 2014. Refer to Note 16 in the Corporation's audited financial statements for the year ended December 31, 2015 included in Item 8 of this Form 10-K for further details.

Refer to "Net Interest Income" above for information about average balances of interest-bearing deposits, and the average interest rates paid on deposits for the years ended December 31, 2015, 2014 and 2013.

Borrowings

As of December 31, 2015, total borrowings amounted to $1.38 billion as compared to $1.46 billion and $1.43 billion as of December 31, 2014 and 2013, respectively.

The following table presents the composition of total borrowings as of the dates indicated:

	Weighted Average Rate as of December 31, 2015	As of December 31, 2015	2014	2013
(Dollars in thousands)				

Securities sold under agreements									
to repurchase	2.73%	$	700,000		$	900,000		$	900,000
Advances from FHLB	1.30%		455,000			325,000			300,000
Other borrowings	3.16%		226,492			231,959			231,959
Total (1)		$	1,381,492		$	1,456,959		$	1,431,959
Weighted average rate during									
the period			2.53%			2.72%			2.62%

(1) Includes borrowings of $826.5 million as of December 31, 2015 that have variable interest rates or have maturities within a year.

Securities sold under agreements to repurchase - The Corporation’s investment portfolio is funded in part with repurchase agreements. The Corporation’s outstanding securities sold under repurchase agreements amounted to $900 million as of December 31, 2015 and 2014. One of the Corporation’s strategies has been the use of structured repurchase agreements and long-term repurchase agreements to reduce liquidity risk and manage exposure to interest rate risk by lengthening the final maturities of its liabilities while

keeping funding costs at reasonable levels. In addition to these repurchase agreements, the Corporation has been able to maintain access to credit by using cost-effective sources such as FHLB advances. Refer to Note 17 in the Corporation's audited financial statements for the period ended December 31, 2015 included in Item 8 of this Form 10-K for further details about repurchase agreements outstanding by counterparty and maturities.

During the first quarter of 2015, the Corporation restructured $400 million of its repurchase agreements. Of those, $200 million were restructured by extending the contractual maturity and changing from a fixed interest rate to a variable rate. The Corporation entered into $200 million of reverse repurchase agreements with the same counterparty under a master netting arrangement that provides for a right of setoff that meets the conditions of ASC 210-20-45-11. These repurchase agreements and reverse repurchase agreements are presented net on the consolidated statement of financial condition. In addition, during the first quarter of 2015, the Corporation restructured an additional $200 million of its repurchase agreements with a different counterparty, by extending the contractual maturity and reducing the interest rate in these agreements.

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

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

Advances from the FHLB – The Bank is a member of the FHLB system and obtains advances to fund its operations under a collateral agreement with the FHLB that requires the Bank to maintain qualifying mortgages and/or investments as collateral for advances taken. As of December 31, 2015 and 2014, the outstanding balance of FHLB advances was $455.0 and $325.0 million, respectively. The Corporation had $641.6 million available for additional credit on FHLB lines of credit.

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

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

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

The trust-preferred debentures are presented in the Corporation's consolidated statement of financial condition as Other Borrowings. The variable rate trust-preferred securities are fully and unconditionally guaranteed by the Corporation. The $100 million Junior Subordinated Deferrable Debentures issued by the Corporation in April 2004 and the $125 million issued in September 2004 mature on June 17, 2034 and September 20, 2034, respectively; however, under certain circumstances, the maturity of Junior Subordinated Debentures may be shortened (such shortening would result in a mandatory redemption of the variable rate trust-preferred securities). The trust-preferred securities, subject to certain limitations, qualify as Tier I regulatory capital under current applicable rules and regulations. The Collins Amendment of the Dodd-Frank Act eliminated certain trust-preferred securities from Tier 1 Capital. Bank Holding Companies such as the Corporation were required to fully phase out these instruments from Tier I capital by January 1, 2016 (25% allowed in 2015 and 0% in 2016), however they may remain in Tier 2 capital until the instruments are redeemed or mature. As of December 31, 2015, the Corporation had $220 million in trust preferred securities that are subject to the phase-out from Tier 1 Capital under the Basel III Final Rule.

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. This transaction resulted in a gain of $0.3 million resulting from the difference between the carrying value of the trust preferred securities exchanged and the fair value of the common stock issued, included as part of other income in the consolidated statement of income. The Corporation surrendered the trust preferred securities, resulting in a commensurate reduction in the related Floating Rate Junior Subordinated Debenture.

With respect to the outstanding subordinated debentures, the Corporation has elected to defer the interest payments that were due in quarterly periods since March 2012. The aggregate amount of payments deferred and accrued approximates $28.7 million as of December 31, 2015, included as part of accounts payable and other liabilities in the consolidated statement of financial condition. Under the indentures, we have the right, from time to time, and without causing an event of default, to defer payments of interest on the subordinated debentures by extending the interest payment period at any time and from time to time during the term of the subordinated debentures for up to twenty consecutive quarterly periods. Future interest payments are subject to Federal Reserve approval.

During the first quarter of 2016, the Corporation completed the repurchase of trust preferred securities that were being auctioned in a public sale at which the Corporation was invited to participate. The Corporation repurchased and cancelled $10 million in trust preferred securities of the FBP Statutory Trust II, resulting in a commensurate reduction in the related Floating Rate Junior Subordinated Debenture.

The Corporation’s winning bid equated to 70% of the $10 million par value. The 30% discount, plus accrued interest, resulted in a pre-tax gain of approximately $4.2 million. As trust preferred securities no longer qualify for Tier 1 capital, the realized gain on the transaction contributed to an increase of approximately 5 basis points in the Common Equity Tier 1 and Tier 1 capital ratios, an increase of approximately 4 basis point in the Leverage capital ratio, and a decrease of approximately 6 basis points in the Total Regulatory capital ratio.

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

The enhanced capabilities improve the Corporation’s liquidity profile as they allow the Corporation to derive liquidity, if needed, from the sale of mortgage loans in the secondary market. The U.S. (including Puerto Rico) secondary mortgage market is still highly liquid, in large part because of the sale of mortgages through guarantee programs of the FHA, VA, HUD, FNMA and FHLMC. The Corporation obtained commitment authority from GNMA to issue GNMA mortgage-backed securities from GNMA, and, under this program, the Corporation completed the securitization of approximately $286.0 million of FHA/VA mortgage loans into GNMA MBS during 2015. Any regulatory actions affecting GNMA, FNMA or FHLMC could adversely affect the secondary mortgage market.

Impact of Credit Ratings on Access to Liquidity

The Corporation’s liquidity is contingent upon its ability to obtain external sources of funding to finance its operations. The Corporation’s current credit ratings and any further downgrades in credit ratings can hinder the Corporation’s

access to new forms of external funding and/or cause external funding to be more expensive, which could in turn adversely affect results of operations. Also, changes in credit ratings may further affect the fair value of unsecured derivatives that consider the Corporation's own credit risk as part of the valuation.

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

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

Cash Flows

Cash and cash equivalents were $752.5 million as of December 31, 2015, a decrease of $43.7 million when compared to the balance as of December 31, 2014, while, as of December 31, 2014, the total balance of cash and cash equivalents amounted to $796.1 million, an increase of $140.4 million from December 31, 2013. The following discussion highlights the major activities and transactions that affected the Corporation's cash flows during 2015 and 2014.

Cash Flows from Operating Activities

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

For 2015 and 2014, net cash provided by operating activities was $261.9 million and $264.4 million, respectively. Net cash generated from operating activities was higher than reported net income largely as a result of adjustments for operating items such as the provision for loan and lease losses, depreciation and amortization, and impairments as well as the cash generated from sales of loans held for sale.

Cash Flows from Investing Activities

The Corporation's investing activities primarily relate to originating loans to be held for investment and purchasing, selling and repayments of available-for-sale investment securities. For the year ended December 31, 2015, net cash provided by investing activities was $439.0 million, primarily reflecting the net cash received in the Doral Bank transaction, proceeds from the bulk sale of assets and repayments of commercial and consumer loans.

For the year ended December 31, 2014, net cash used in investing activities was $254.7 million, primarily reflecting principal repayments on loans held for investment and available-for-sale investment securities.

Cash Flows from Financing Activities

The Corporation's financing activities primarily include the receipt of deposits and issuance of brokered CDs, the issuance and payments of long-term debt, the issuance of equity instruments and activities related to its short-term funding. For the year ended December 31, 2015, net cash used in financing activities was $744.5 million, mainly due to the repayments of maturing brokered CDs and funds used for the aforementioned $200 million reverse repurchase agreements entered into in 2015.

During 2014, net cash used in financing activities was $378.6 million, mainly due to the reduction of brokered CDs and deposit withdrawals by certain government entities and public corporations in Puerto Rico.

Capital

As of December 31, 2015, the Corporation's stockholders' equity was $1.7 billion, an increase of $22.4 million from December 31, 2014. The increase was mainly driven by the net income of $21.3 million for 2015 and the exchange of

$5.3 million of trust preferred securities for shares of the Corporation's common stock, partially offset by a $9.4 million decrease in other comprehensive income. As a result of the Written Agreement with the New York FED, currently neither First BanCorp., nor FirstBank, is permitted to pay dividends on securities without prior approval.

New U.S. regulatory capital requirements (the "Basel III rules") have introduced new minimum capital ratios and capital conservation buffer requirements, change the composition of regulatory capital, required a number of new adjustments to and deductions from regulatory capital, and introduced a new "Standardized Approach" for the calculation of risk-weighted assets. The new minimum regulatory capital requirements and the Standardized Approach for the calculation of risk-weighted assets became effective for the Corporation and FirstBank on January 1, 2015. The phase-in period for certain deductions and adjustments to regulatory capital began on January 1, 2015 and will be completed on January 1, 2018.

The Basel III rules introduce a new and separate ratio of Common Equity Tier 1 capital ("CET1") to risk-weighted assets. CET1, a narrower subcomponent of total Tier 1 capital, generally consists of common stock and related surplus, retained earnings, accumulated other comprehensive income ("AOCI"), and qualifying minority interests. Certain banking organizations, however, including the Corporation and FirstBank, were allowed to make a one-time permanent election in early 2015 to continue to exclude AOCI items. The Corporation and FirstBank elected to permanently exclude capital in AOCI in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the securities portfolio. In addition, the Basel III rules require the Corporation to maintain an additional CET1 capital conservation buffer of 2.5%. Under the fully phased-in rules, the Corporation will be required to maintain: (i) a minimum CET1 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. The phase-in of the capital conservation buffer began on January 1, 2016 with a first year requirement of 0.625% of additional CET1, which will be progressively increased over a four-year period, increasing by that same percentage amount on each subsequent January 1 until it reaches the fully phased-in 2.5% CET1 requirement on January 1, 2019.

In addition, the Basel III rules require a number of new deductions from and adjustments to CET1, including deductions from CET1 for certain intangible assets, and deferred tax assets dependent upon future taxable income; the four-year phase-in period for these adjustments generally began on January 1, 2015. Mortgage servicing assets and deferred tax assets attributable to temporary

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differences, among others, are required to be deducted to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

In addition, under the Basel III rules banking organizations such as the Corporation were required to phase out TRuPs from Tier 1 capital beginning on January 1, 2015. The Corporation's TRuPs must be fully phased out from Tier 1 capital by January 1, 2016. However, the Corporation's TRuPs may continue to be included in Tier 2 capital until the instruments are redeemed or mature.

The Corporation and FirstBank compute risk-weighted assets using the Standardized Approach required by the Basel III rules. The Standardized Approach for risk-weightings has expanded the risk-weighting categories from the four major risk-weighting categories under the previous regulatory capital rules (0%, 20%, 50%, and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets. In a number of cases, the Standardized Approach results in higher risk weights for a variety of asset categories. Specific changes to the risk-weightings of assets include, among other things: (i) applying a 150% risk weight instead of a 100% risk weight for high volatility commercial real estate acquisition, development and construction loans, (ii) assigning a 150% risk weight to exposures that are 90 days past due (other than qualifying residential mortgage exposures, which remain at an assigned risk-weighting of 100%), (iii) establishing a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable, in contrast to the 0% risk-weighting under the prior rules and (iv) requiring capital to be maintained against on-balance-sheet and off-balance-sheet exposures that result from certain cleared transactions, guarantees and credit derivatives, and collateralized transactions (such as repurchase agreement transactions).

Set forth below are First BanCorp.'s and FirstBank's regulatory capital ratios as of December 31, 2015 and December 31, 2014:

	First BanCorp.		Banking Subsidiary FirstBank		To be well capitalized
As of December 31, 2015	**Actual (1)**	**Fully Phased-in (2)**	**Actual (1)**	**Fully Phased-in (2)**	
Total capital ratio (Total capital to risk-weighted assets)	20.01%	19.44%	19.73%	19.18%	10.00%
Common Equity Tier 1 capital ratio					
(Common equity Tier 1 capital to risk weighted assets) (3)	16.92%	15.44%	16.35%	14.61%	6.50%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	16.92%	15.83%	18.45%	17.91%	8.00%
Leverage ratio	12.22%	11.69%	13.33%	13.24%	5.00%

		Banking Subsidiary	
	First BanCorp.	**FirstBank**	**To be well capitalized**
As of December 31, 2014 (1)			
Total capital (Total capital to risk-weighted assets)	19.70%	19.37%	10.00%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	18.44%	18.10%	6.00%
Leverage ratio	13.27%	13.04%	5.00%

(1) Ratios as of December 31, 2015 reflect the adoption of the Basel III Capital Rules in effect beginning January 1, 2015. The ratios for December 31, 2014 represent the applicability previous capital rules under Basel I.

(2) Certain adjustments required under the Basel III capital rules will be phased in through the end of 2018. The ratios shown in this column are calculated assuming a fully phased-in basis of all such adjustments as if they were effective as of December 31, 2015.

(3) As of December 31, 2015, Common Equity Tier 1 capital ratio is a new ratio requirement under the Basel III capital rules and represents common equity, less goodwill and intangible assets, divided by risk-weighted assets (subject to phase-in adjusments as indicated in footnote (2) above).

The Corporation, as an institution with more than $10 billion but less than $50 billion of total consolidated assets, is subject to certain requirements established by the Dodd-Frank Act, including those related to capital stress testing. The Dodd-Frank Act stress testing requirements are implemented for the Corporation through the Federal Reserve’s Dodd-Frank Act Stress Testing program (DFAST). Consistent with the requirements of these programs, the Corporation submitted its first annual company-run stress test to regulators prior to the established deadline of March 31, 2015. The results for the severely adverse economic scenario are available on the Corporation’s website. The results show that even in a severely adverse economic environment, the Corporation’s and the Bank’s capital ratios exceed the well-capitalized thresholds throughout the nine-quarter horizon.

The tangible common equity ratio and tangible book value per common share are non-GAAP financial measures generally used by the financial community to evaluate capital adequacy. Tangible common equity is total equity less preferred equity, goodwill, core deposit intangibles, and purchased credit card relationship intangible assets. Tangible assets are total assets less goodwill, core deposit intangibles, and purchased credit card relationship intangible assets. Refer to “Basis of Presentation” below for additional information.

The following table is a reconciliation of the Corporation's tangible common equity and tangible assets for the years ended December 31, 2015 and 2014, respectively:

(In thousands, except ratios and per share information)	December 31, 2015		December 31, 2014	
Total equity - GAAP	$	1,694,134	$	1,671,743
Preferred equity		(36,104)		(36,104)
Goodwill		(28,098)		(28,098)
Purchased credit card relationship		(13,319)		(16,389)
Core deposit intangible		(9,166)		(5,420)
Tangible common equity	**$**	**1,607,447**	**$**	**1,585,732**
Total assets - GAAP	$	12,573,019	$	12,727,835
Goodwill		(28,098)		(28,098)
Purchased credit card relationship		(13,319)		(16,389)
Core deposit intangible		(9,166)		(5,420)
Tangible assets	**$**	**12,522,436**	**$**	**12,677,928**
Common shares outstanding		**215,089**		**212,985**
Tangible common equity ratio		**12.84%**		**12.51%**
Tangible book value per common share	$	**7.47**	$	**7.45**

The Banking Law of the Commonwealth of Puerto Rico requires that a minimum of 10% of FirstBank's net income for the year be transferred to legal surplus until such surplus equals the total of paid-in capital on common and preferred stock. Amounts transferred to the legal surplus account from the retained earnings account are not available for distribution to the stockholders without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The Puerto Rico Banking Law provides that, when the expenditures of a Puerto Rico commercial bank are greater than receipts, the excess of the expenditures over receipts shall be charged against the undistributed profits of the bank, and the balance, if any, shall be charged against the reserve fund, as a reduction thereof. If there is no reserve fund sufficient to cover such balance in whole or in part, the outstanding amount shall be charged against the capital account and the Bank cannot pay dividends until it can replenish the reserve fund to an amount of at least 20% of the original capital contributed. During 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 December 31, 2015 (2014 - $40.0 million).

Off-Balance Sheet Arrangements

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

As a provider of financial services, the Corporation routinely enters into commitments with off-balance-sheet risk to meet the financial needs of its customers. These financial instruments may include loan commitments and standby letters of credit. These commitments are subject to the same credit policies and approval processes used for on-balance-sheet instruments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. As of December 31, 2015, commitments to extend credit and commercial and financial standby letters of credit amounted to approximately $1.1 billion (including $643.2 million pertaining to credit card loans) and $27.9 million, respectively. Commitments to extend credit are agreements to lend to customers as long as the conditions established in the contract are met. Generally, the Corporation does not enter into the execution of interest rate lock agreements with prospective borrowers in connection with mortgage banking activities.

Contractual Obligations and Commitments

The following table presents a detail of the maturities of the Corporation's contractual obligations and commitments, which consist of CDs, long-term contractual debt obligations, commitments to sell mortgage loans and commitments to extend credit:

	Contractual Obligations and Commitments As of December 31, 2015				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
(In thousands)					
Contractual obligations:					
Certificates of deposit	$ 4,453,728	$ 2,751,040	$ 1,550,276	$ 133,772	$ 18,640
Securities sold under agreements to repurchase (1)	700,000	400,000	100,000	-	200,000
Advances from FHLB	455,000	100,000	225,000	130,000	-
Other borrowings	226,492	-	-	-	226,492
Operating leases	88,108	10,175	18,087	13,680	46,166
Other contractual obligations	108,660	34,347	46,836	22,338	5,139
Total contractual obligations	$ 6,031,988	$ 3,295,562	$ 1,940,199	$ 299,790	$ 496,437
Commitments to sell mortgage loans	$ 49,998				
Standby letters of credit	$ 3,577				
Commitments to extend credit:					
Lines of credit	$ 1,048,811				
Letters of credit	24,359				
Construction undisbursed funds	59,747				
Total commercial commitments	$ 1,132,917				

(1) Reported net of reverse repurchase agreements by counterparties, when applicable, pursuant to ASC 210-20-45-11.

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

Interest Rate Risk Management

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

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

(1) Using a static balance sheet, as the Corporation had on the simulation date, and

(2) Using a dynamic balance sheet based on recent patterns and current strategies.

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

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

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

The 12-month net interest income is forecasted assuming the December 31, 2015 interest rate curves remain constant. Then, net interest income is estimated under rising and falling rate scenarios. For the rising rate scenario, a gradual (ramp) parallel upward shift of the yield curve is assumed during the first twelve months (the "+200 ramp" scenario). Conversely, for the falling rate scenario, a gradual (ramp) parallel downward shift of the yield curve is assumed during the first twelve months (the "-200 ramp" scenario). However, given the current low levels of interest rates, a full downward shift of 200 bps would represent an unrealistic scenario. Therefore, under the falling rate scenario, rates move downward up to 200 basis points, but without reaching zero. The resulting scenario shows interest rates close to zero in most cases, reflecting a flattening yield curve instead of a parallel downward scenario.

The Libor/Swap curve for December 31, 2015, as compared to December 2014, reflected a 33 basis points increase in the short-term horizon, between one to twelve months, while market rates increased by 9 basis points in the medium term, that is, between 2 to 5 years. In the long term, that is, over a 5-year time horizon, market rates decreased by 9 basis points. The U.S. Treasury curve in the short-term increased by 26 point basis and in the medium-term horizon increased 38 basis points as compared to December 2014 end of month levels. The long-term horizon increased by 15 basis points as compared to December 2014 end of month levels.

The following table presents the results of the simulations as of December 31, 2015 and December 31, 2014. Consistent with prior years, these exclude non-cash changes in the fair value of derivatives:

	December 31, 2015 Net Interest Income Risk (Projected for the next 12 months)				December 31, 2014 Net Interest Income Risk (Projected for the next 12 months)			
	Static Simulation		Growing Balance Sheet		Static Simulation		Growing Balance Sheet	
(Dollars in millions)	**Change**	**% Change**	**Change**	**% Change**	**Change**	**% Change**	**Change**	**% Change**

+ 200 bps ramp	$	12.6	2.51	%	$	14.2	2.81	%	$	9.6	1.88	%	$	9.8	1.90	%
- 200 bps ramp	$	(7.8)	(1.55)	%	$	(8.7)	(1.72)	%	$	(8.2)	(1.60)	%	$	(9.3)	(1.80)	%

The Corporation continues to manage its balance sheet structure to control the overall interest rate risk. As part of the strategy to limit the interest rate risk, the Company has executed certain transactions that affected the simulation results. The composition of the loan portfolio changed with commercial and construction loans decreasing by $213.2 million, mainly due to the bulk sale of assets and certain large repayments and foreclosures, and consumer loans decreasing by $155.4 million, while mortgage loans increased by $339.0 million mainly due to the residential mortgage loans acquired from Doral Bank. Other transactions completed in 2015 include the reduction in brokered CDs and the restructuring of $400 million of repurchase agreements, including $200 million in reverse repurchase agreements entered into in 2015 under a master netting agreement with an existing counterparty.

Taking into consideration the above-mentioned facts for modeling purposes, the net interest income for the next twelve months under a non-static balance sheet scenario is estimated to increase by $––14.2 million in the rising rate scenario when compared against the Corporation’s flat or unchanged interest rate forecast scenario. Under the falling rate, non-static scenario the net interest income is estimated to decrease $8.7 million.

Derivatives

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

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

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

Interest rate swaps - Interest rate swap agreements generally involve the exchange of fixed and floating-rate interest payment obligations without the exchange of the underlying notional principal amount. As of December 31, 2015, the Corporation has no interest rate swaps outstanding. In the past, most of the interest rate swaps outstanding were used for protection against rising interest rates. Similar to unrealized gains and losses arising from changes in fair value, net interest settlements on interest rate swaps are recorded as an adjustment to interest income or interest expense depending on whether an asset or liability is being economically hedged.

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

For detailed information regarding the volume of derivative activities (e.g. notional amounts), location and fair values of derivative instruments in the Statement of Financial Condition and the amount of gains and losses reported in the Statement of Income (Loss), refer to Note 31 in the Corporation’s audited financial statements for the year ended December 31, 2015 included in Item 8 of this Form 10-K.

The following tables summarize the fair value changes in the Corporation’s derivatives as well as the sources of the fair values:

	Asset Derivatives			Liability Derivatives	
	Year Ended			Year Ended	
(In thousands)	December 31, 2015			December 31, 2015	
Fair value of contracts outstanding at the beginning of the year	$	39		$	(187)
Fair value of new contracts entered into during the period		1,098			(1,229)
Changes in fair value during the year		(331)			495
Fair value of contracts outstanding as of December 31, 2015	$	806		$	(921)

Sources of Fair Value

	Payment Due by Period				
(In thousands)	**Maturity Less Than One Year**	**Maturity 1-3 Years**	**Maturity 3-5 Years**	**Maturity in Excess of 5 Years**	**Total Fair Value**
As of December 31, 2015					
Pricing from observable market inputs -					
Asset Derivatives	$ -	$ 15	$ 791	$ -	$ 806
Pricing from observable market inputs -					
Liability Derivatives	(123)	(14)	(784)	-	(921)
	$ (123)	$ 1	$ 7	$ -	$ (115)

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

As of December 31, 2015 and 2014, all of the derivative instruments held by the Corporation were considered economic undesignated hedges.

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

rights of set-off that provide for the net settlement of contracts with the same counterparty in the event of default. All of the Corporation's interest rate swaps are supported by securities collateral agreements, which allow the delivery of securities to and from the counterparties depending on the fair value of the instruments, to minimize credit risk.

Refer to Note 31 of the Corporation's audited financial statements for the year ended December 31, 2015 included in Item 8 of this Form 10-K for additional information regarding the fair value determination of derivative instruments.

Credit Risk Management

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

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

Management, consisting of the Corporation's Commercial Credit Risk Officer, Retail Credit Risk Officer, Chief Lending Officer and other senior executives, has the primary responsibility for setting strategies to achieve the

Corporation's credit risk goals and objectives. These goals and objectives are documented in the Corporation's Credit Policy.

Allowance for Loan and Lease Losses and Non-performing Assets

Allowance for Loan and Lease Losses

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

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

The ratio of the allowance for loan losses to total loans held for investment increased to 2.60% as of December 31, 2015 from 2.40% as of December 31, 2014. The allowance to total loans for each of the Corporation's categories of loans changed as follows: the allowance to total loans for the C&I portfolio increased from 2.57% as of December 31, 2014 to 2.86% at December 31, 2015; the

allowance to total loans for the commercial mortgage portfolio increased from 3.06% at December 31, 2014 to 4.44% at December 31, 2015; the allowance to total loans for the construction loan portfolio decreased from 10.38% at December 31, 2014 to 2.25% at December 31, 2015; the allowance to total loans for the residential mortgage portfolio increased from 0.91% at December 31, 2014 to 1.18% at December 31, 2015; and the allowance to total consumer loans and finance leases decreased from 3.41% as of December 31, 2014 to 3.32% as of December 31, 2015.

Substantially all of the Corporation's loan portfolio is located within the boundaries of the U.S. economy. Whether the collateral is located in Puerto Rico, the U.S. and British Virgin Islands or the U.S. mainland (mainly in the state of Florida), the performance of the Corporation's loan portfolio and the value of the collateral supporting the transactions are dependent upon the performance of and conditions within each specific area's real estate market. The real estate market in Puerto Rico experienced readjustments in value over the last few years driven by the loss of income due to higher unemployment, reduced demand and general adverse economic conditions. The Corporation sets adequate loan-to-value ratios upon original approval following its regulatory and credit policy standards. The real estate market for the U.S. Virgin Islands has declined mostly due to reduced business activity in the region, partially related to the closing in 2012 of the Hovensa refinery in St Croix. In Florida, we operate mostly in Miami, where home prices have improved, mostly driven by a higher demand from foreign investors, and a decrease in distressed property sales.

As shown in the following table, the allowance for loan and lease losses amounted to $240.7 million as of December 31, 2015, or 2.60% of total loans, compared with $222.4 million, or 2.40% of total loans, as of December 31, 2014. Refer to "Provision for Loan and Lease Losses" above for additional details, including information about the adjustments to qualitative factors that stressed the historical loss rates applied to the Corporation's exposure to commercial loans extended to or guaranteed by the Puerto Rico Government in light of recent events surrounding the Government's fiscal situation and the incorporation of the charge-offs on the bulk sale of assets completed in the second quarter of 2015 in the calculation of historical loss rates.

The following table sets forth an analysis of the activity in the allowance for loan and lease losses during the periods indicated:

Year Ended December 31,		2015		2014		2013		2012		2011
(Dollars in thousands)										
Allowance for loan and lease losses, beginning of year	$	222,395	$	285,858	$	435,414	$	493,917	$	553,025
Provision (release) for loan and lease losses:										
Residential mortgage (1)		30,377		17,487		92,755		36,531		45,339
Commercial mortgage (2)		66,884		(7,076)		38,048		(778)		54,513
Commercial and Industrial (3)		34,575		36,681		43,608		38,773		78,711
Construction (4)		(6,891)		(17,508)		15,461		10,955		40,174

Consumer and finance leases	47,100	79,946	53,879	35,018	17,612
Total provision for loan and lease losses (5)	172,045	109,530	243,751	120,499	236,349
Charge-offs:					
Residential mortgage (6)	(19,317)	(24,345)	(129,164)	(37,944)	(39,826)
Commercial mortgage (7)	(56,101)	(25,807)	(67,457)	(21,779)	(51,207)
Commercial and Industrial (8)	(33,844)	(61,935)	(109,849)	(49,521)	(69,783)
Construction (9)	(4,994)	(11,533)	(43,323)	(45,008)	(103,131)
Consumer and finance leases	(62,465)	(76,696)	(63,108)	(43,735)	(45,478)
Total charge offs (10)	(176,721)	(200,316)	(412,901)	(197,987)	(309,425)
Recoveries:					
Residential mortgage	1,209	1,049	1,165	1,089	835
Commercial mortgage (11)	6,534	10,639	4,855	810	90
Commercial and Industrial (12)	4,316	3,680	4,636	3,605	2,921
Construction (13)	2,582	6,049	2,076	4,267	2,371
Consumer and finance leases	8,350	5,906	6,862	9,214	7,751
Total recoveries (14)	22,991	27,323	19,594	18,985	13,968
Net charge-offs	(153,730)	(172,993)	(393,307)	(179,002)	(295,457)
Allowance for loan and lease losses, end					
of year	$ 240,710	$ 222,395	$ 285,858	$ 435,414	$ 493,917
Allowance for loan and lease losses to year end total					
loans held for investment	2.60%	2.40%	2.97%	4.33%	4.68%
Net charge-offs to average loans					
outstanding during the year	1.65%	1.81%	4.01%	1.74%	2.68%
Net charge-offs, excluding net charge-offs related to the					
bulk sale of assets ($61.4 million) in 2015, the acquisition of					
mortgage loans from Doral Financial ($6.9 million) in 2014 and bulk					
loan sales and loans transferred to held for sale ($232.4 million)					

in 2013, to average loans outstanding during the year (15)	1.00%	1.74%	1.68%	1.74%	2.68%
Provision for loan and lease losses to net charge-offs					
during the year	1.12x	0.63x	0.62x		