FIRST BANCORP /PR/
Form 10-K
March 16, 2017

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, 2016

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 No

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

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 30, 2016 (the last trading day of the registrant's most recently completed second fiscal quarter) was $501,752,414 based on the closing price of $3.97 per share of the registrant's common stock on the New York Stock Exchange on June 30, 2016. The registrant had no nonvoting common equity outstanding as of June 30, 2016. 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, 2016. 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: 217,509,055 shares as of March 3, 2017.

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 23, 2017 are incorporated by reference in this Form 10-K in response to items 10, 11, 12, 13 and 14 of Part III.

FIRST BANCORP.

2016 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

Forward Looking Statements

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the safe 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 or phrases “would,” “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.”

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

- the ability of the Puerto Rico government or any of its public corporations or other instrumentalities to repay its respective debt obligations, including the effect of payment defaults on the Puerto Rico government general obligations, bonds of the Government Development Bank for Puerto Rico (the “GDB”) and certain bonds of government public corporations, and recent and any future downgrades of the long-term and short-term debt ratings of the Puerto Rico government, which could exacerbate Puerto Rico’s adverse economic conditions and, in turn, further adversely impact the Corporation;

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

- uncertainty about whether the Corporation will be able to continue to fully comply with the written agreement dated June 3, 2010 (the “Written Agreement”) that the Corporation entered into with the Federal Reserve Bank of New York (the “New York FED” or “Federal Reserve”), that, among other things, requires the Corporation to serve as a source of strength to FirstBank Puerto Rico (“FirstBank” or the “Bank”) and that, except with the consent generally of the New York FED and the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”, referred to together with the New York FED as the “Federal “Reserve”), prohibits the Corporation from paying dividends to stockholders or receiving dividends from FirstBank, making payments on trust preferred securities or subordinated debt, incurring, increasing or guaranteeing debt and repurchasing any capital securities and uncertainty whether such consent will be provided for future interest payments on the subordinated debt despite the consents that enabled the Corporation to pay all the accrued but deferred interest payments plus the interest for the second, third and fourth quarters of 2016 on the Corporation's subordinated debentures associated with its trust preferred securities and for future monthly dividends on its non-cumulative perpetual preferred stock despite the consents that enabled the Corporation to pay monthly dividends on its non-cumulative perpetual preferred stock for December 2016, January and February 2017;

- 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 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 common stockholders in the future due to the Corporation's need to receive regulatory approvals to declare or pay any dividends and to take dividends or any other form of payment representing a reduction in capital from FirstBank or FirstBank's failure to generate sufficient cash flow to make a dividend payment to the Corporation;

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

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

- adverse changes in general economic conditions in Puerto Rico, the 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, including changes resulting from the recent U.S. election;

- the risk of possible failure or circumvention of controls and procedures and the risk that the Corporation’s risk management policies may not be adequate;

- the risk that the FDIC may increase the deposit insurance premium and/or require special assessments to replenish its insurance fund, causing an additional increase in the Corporation’s non-interest expenses;

- the impact on the Corporation’s results of operations and financial condition of acquisitions and dispositions;

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

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

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

- uncertainty as to whether FirstBank will be able to satisfy its regulators regarding, among other things, its asset quality, liquidity plans, maintenance of capital levels and compliance with applicable laws, regulations and related requirements; and

- general competitive factors and industry consolidation.

The Corporation does not undertake, and specifically disclaims any obligation, to update any "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, 2016, the Corporation had total assets of $11.9 billion, total deposits of $8.8 billion and total stockholders’ equity of $1.8 billion.

The Corporation provides a wide range of financial services for retail, commercial and institutional clients. As of December 31, 2016, 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 of Puerto Rico (“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.

As of December 31, 2016, FirstBank conducts its business through its main office located in San Juan, Puerto Rico, 48 banking branches in Puerto Rico, 11 branches in the USVI and BVI, and 11 branches in the state of Florida (U.S.). As of December 31, 2016 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 28 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 banking activities, such as advisory services, capital raising efforts on behalf of clients and assistance with 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.

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, 2016 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 the commercial and corporate banking 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.

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 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.

Mortgage Banking

These operations consist of the origination, sale, 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 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. Most of the Corporation's residential mortgage loan portfolio consists of fixed-rate, fully amortizing, full documentation loans. The Corporation has commitment authority to issue Government National Mortgage Association ("GNMA") mortgage-backed securities. Under this program, the Corporation has been selling FHA/VA mortgage loans into the secondary market since 2009.

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 the Consumer (Retail) Banking segments to finance their respective lending activities and borrows from those segments. Funds not gathered by the different business units are obtained by the Treasury function 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 11 branches. The United States Operations segment offers an array of both consumer 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, lines of credit, and automobile loans. Retail deposits, as well as FHLB advances and brokered CDs assigned to this operation, serve as funding sources for its lending activities. 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 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, 2017, the Corporation and its subsidiaries employed 2,701 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 2016

Repurchase of Trust Preferred Securities and Dividend Payments on Trust Preferred Securities and Preferred Stock

During the first quarter of 2016, the Corporation completed the repurchase of $10 million of trust preferred securities of the FBP Statutory Trust II that were auctioned in a public sale at which the Corporation was invited to participate. The Corporation repurchased and cancelled the repurchased trust preferred securities, resulting in a commensurate reduction in the related Floating Rate Junior Subordinated Debentures. The Corporation's winning bid equated to 70% of the $10 million par value. The 30% discount, plus accrued interest, resulted in a gain of approximately $4.2 million.

During the second quarter of 2016, the Corporation received approval from the Federal Reserve and OCIF that enabled it to pay $31.2 million for all the accrued but deferred interest payments plus the interest for the second quarter on the Corporation's subordinated debentures associated with its trust preferred securities. Subsequently, the Corporation received quarterly approvals that enabled it to pay the interest for the third and fourth quarters of 2016. As of December 31, 2016, the Corporation is current on all interest payments related to its subordinated debt. Future interest payments are subject to Federal Reserve and OCIF approval. It is the intent of the Corporation to request approvals in future periods to continue regularly scheduled quarterly interest payments.

For the first time since July 2009, following receipt of the requisite regulatory approval, on December 8, 2016, the Corporation announced the declaration of a cash dividend on its outstanding shares of Series A through E Noncumulative Perpetual Monthly Income Preferred Stock for the month of December 2016. The Corporation paid cash dividends on its Series A through E Preferred Stock in February and January 2017 and declared the cash dividend for March 2017. Although there is no assurance that any dividends will be declared on the Corporation's Series A through E Preferred Stock in any future periods, the Corporation intends to continue to request regulatory approval pursuant to the requirements of the Written Agreement to enable it to continue to pay the monthly dividends on its Series A through E Preferred Stock. The Corporation has received approval to pay the monthly dividends on the Corporation's Series A through E Preferred Stock through March 2017.

Sale of Non-Performing Assets

During the fourth quarter of 2016, the Corporation completed the sale of a pool of non-performing assets with a book value of $16.3 million (principal balance of $20.1 million), in a cash transaction. The proceeds from this sale were $11.3 million net of escrow and principal and interest collected on behalf of the purchaser subsequent to the effective date of the transaction. Approximately $2.8 million of reserves had been allocated to the loans. This transaction resulted in total net charge-offs of $4.6 million and an incremental pre-tax loss of $1.8 million recorded as a charge to the provision for loan and lease losses.

Sale of the Puerto Rico Electric Power Authority ("PREPA") Loan

During the first quarter of 2017, the Corporation received an unsolicited offer and sold its outstanding participation in the PREPA line of credit with a book value of $64 million at the time of sale (principal balance of $75 million), thereby reducing its direct exposure to the Puerto Rico government. A specific reserve of approximately $10.2 million had been allocated to this loan. Gross proceeds from the sale of $53.2 million have resulted in an incremental loss of $0.6 million as compared to the book value, net of reserve. This loss was recognized at the time of the sale in the first quarter of 2017.

Puerto Rico Government Fiscal Situation, Government Actions, enactment of PROMESA and Exposure

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 2017 and 2018, the Puerto Rico government projects a continued economic contraction in the Commonwealth's real gross national product ("GNP") of 2.2% and 2.8%, respectively, while the Government Development Bank for Puerto Rico economic activity index ("GDB-EAI") in December 2016 decreased 2.9% on a year-over-year basis to 121.1, the lowest number in 25 years. The GDB-EAI is a coincident index of economic activity for Puerto Rico made up of four indicators (non-farm payroll employment, electric power generation, cement sales and gasoline consumption). The seasonally adjusted unemployment rate in Puerto Rico was 12.4% in December 2016, which is higher than in any U.S. state. Puerto Rico population decreased by an estimated 6.8% from 2010 – 2015, driven primarily by falling birth rate, a rising death rate, and migration to the United States mainland, according to the U.S. census data.

On April 6, 2016, the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act ("Act 21") was enacted, which gives Puerto Rico's governor emergency powers to deal with the challenging fiscal situation, including the ability to declare a moratorium on any debt payment. Puerto Rico's governor also issued an executive order intended to protect the GDB's liquidity by allowing withdrawals only to fund necessary costs for essential services such as health, public safety and education services.

On June 30, 2016, pursuant to Act 21, the Puerto Rico governor ordered a moratorium on the payment of $780 million of the Puerto Rico government's general obligations and guaranteed debt, along with the payment obligations of certain other issuers. The Puerto Rico government has continued to default on general obligation bonds, including the payment due on January 1, 2017. This followed a default on the principal payment of $367 million of GDB notes due on May 1, 2016. On August 1, 2016, the GDB defaulted on a $28 million payment of interest due to its creditors, including interest due on GDB bonds held by the Corporation. The GDB default marked the first time the GDB, or any other Puerto Rico agency or instrumentality, failed to pay interest on Puerto Rico government bonds held by the Corporation. On October 1, 2016, the Puerto Rico Public Buildings Authority failed to make a full payment of interest due on its obligation bonds, including bonds held by the Corporation. Generally, based on specific facts and circumstances of the issuer, a default event requires us to classify the defaulted bonds as a non-performing asset. Accordingly, during the third quarter of 2016, bonds of the GDB and the Puerto Rico Public Buildings Authority with an aggregate fair value as of December 31, 2016 of $20.5 million ($35.6 million- amortized cost, including accrued interest of $0.9 million) were classified as non-performing and placed in non-accrual status by the Corporation. These bonds are held as part of the available-for-sale securities portfolio. In the first quarter of 2016, the Corporation recorded a $6.3 million other-than-temporary impairment ("OTTI") charge on the aforementioned bonds of the GDB and the Puerto Rico Public Buildings Authority. This was the third OTTI charge on these securities recorded since June 30, 2015, as OTTI charges of $12.9 million and $3.0 million were booked in the second and fourth quarters of 2015. 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 information about the Puerto Rico government's financial condition, including the enactment of a debt moratorium law and the declaration of a state of emergency at the GDB, the issuance of the GDB and the Commonwealth's audited financial statements for the fiscal year ended June 30, 2014, as well as issuance of exchange proposals with the Commonwealth's creditors related to its outstanding bond obligations. In addition to bonds of the GDB and the Puerto Rico Public Buildings Authority, the Corporation owns bonds of the Puerto Rico Housing Finance Authority in the aggregate amount of $7.9 million carried on the Corporation's books at the aggregate fair value of $6.3 million, which are current as to contractual payments as of December 31, 2016.

On June 30, 2016, President Obama signed HR5278 Bill, PROMESA, which established an oversight board, a process for restructuring debt, and expedited procedures for approving critical infrastructure projects in order to address the Puerto Rico government fiscal situation. The independent seven-member oversight board that was appointed by the House of Representatives, Senate and President Obama pursuant to PROMESA (the "PROMESA oversight board") has fiscal oversight over Puerto Rico's finances for an initial term of five years. This marks the largest federal intervention ever in to the U.S. municipal bond market. PROMESA enables Puerto Rico to restructure its debt. The PROMESA oversight board had its first meeting on September 30, 2016, and its term will expire once Puerto Rico has posted four structurally balanced budgets in a row and is deemed to have adequate access to the capital markets. The PROMESA oversight board has the power to approve or reject the general government's proposed budgets until the PROMESA oversight board is satisfied that the budgets are structurally responsible and based on reasonable expectations and accounting standards.

During their first meeting, the PROMESA oversight board announced the designation of a number of entities as covered entities under PROMESA, including the Commonwealth, all of its public corporations and retirement systems, the University of Puerto Rico and all affiliates and subsidiaries of the foregoing. The designation of an entity as a covered entity has various implications under PROMESA. First, it means that the Governor will have to submit such entity's annual budgets and, if the PROMESA oversight board so requests, its fiscal plans, to the PROMESA oversight board for its review and approval. Second, covered territorial instrumentalities may not issue debt or guarantee, exchange, modify, repurchase, redeem, or enter into similar transactions with respect to their debts without the prior approval of the PROMESA oversight board. Third, pursuant to certain contracting guidelines approved by the PROMESA oversight board, prior PROMESA oversight board approval is required in connection with any transaction undertaken by a covered entity that (i) is outside the ordinary course of business or (ii) has a material financial impact. Finally, covered entities could also potentially be eligible to use the restructuring procedures provided by PROMESA. The first, Title VI, is a largely out-of-court process through which a government entity and its financial creditors can agree on terms to restructure such entity's debt. If a supermajority of creditors of a certain category agree, that agreement can bind all other creditors in such category. The second, Title III, draws on the federal bankruptcy code and provides a court-supervised process for a comprehensive restructuring led by the PROMESA oversight board.

PROMESA also created a bipartisan Congressional Task Force on Economic Growth in Puerto Rico. The Task Force consists of an eight-member panel of Congressional members that will review federal laws and programs to improve Puerto Rico's economy. The Task Force submitted a report during December 2016 with over 75 recommendations to Congress to jump start Puerto Rico's economy that included dealing with Medicaid, competitive tax treatment for U.S. subsidiaries, granting child tax credits and increasing loans for small businesses and the rum cover-over tax. They also stated that if the government conducts a plebiscite authorized by Congress, they would analyze and take any appropriate legislative action. As of the date of submission of this Form 10-K, the U.S. Congress has not taken action on any of the recommendations in the report.

On November 8, 2016, a new governor of Puerto Rico was elected and assumed office in January 2017. In addition a new Resident Commissioner was designated to represent Puerto Rico in the U.S. House of Representatives. Since taking office, Puerto Rico's governor signed an executive order reducing spending by 10%, created an expedited process for infrastructure projects, implemented a zero-based budgeting methodology, introduced several bills to promote economic development and outlined several labor reforms aimed at reducing the cost of doing business in Puerto Rico. Puerto Rico's governor also signed an extension to an excise tax on foreign manufacturers which contributes a significant amount of revenue to the general fund. Furthermore, Puerto Rico's governor signed the "Financial Emergency and Fiscal Responsibility Act," which replaces the prior administration's debt moratorium with a new approach that segregates revenues available after the payment of essential services to pay debt service.

In January 2017, the PROMESA oversight board sent a letter to the Puerto Rico governor outlining a minimum of $4.5 billion in fiscal measures that would need to be included in the government's next fiscal plan in order for the PROMESA oversight board to certify it, the first step before negotiations with creditors can occur. In response to the Puerto Rico governor's request for more time to develop a fiscal plan, the PROMESA oversight board established a number of milestones and conditions it would require if the then-current deadlines were extended. On January 28, 2017, the PROMESA oversight board officially extended various deadlines including moving to (i) February 28, 2017 the deadline for the updated fiscal plan, (ii) March 15, 2017 for the PROMESA oversight board to certify the fiscal plan and (iii) May 1, 2017 for the stay on debt-related litigation. On February 28, 2017, the Puerto Rico governor submitted to the PROMESA oversight board the Puerto Rico government fiscal plan which, among other initiatives, calls for significant reductions, in operational expenses and subsides for municipalities and the University of Puerto Rico. The plan, which relies on significant change in economic assumptions vis a vis the baseline, projects a surplus before debt service of $11.6 billion in the aggregate during the ten year projection period (against $35.1 billion in contractual debt service). Estimated savings under the fiscal plan of $3.8 billion fall short of the $4.5 billion figure the PROMESA oversight board recommended. This initial fiscal plan was rejected by the PROMESA oversight board, which claimed the proposal relied on overly optimistic baseline revenue assumptions, economic projections and forecasted savings resulting from measures to reduce public expenditures. A revised fiscal plan was submitted by the Puerto Rico governor on March 11, 2017, including $262 million in additional revenue and changes to healthcare funding. On March 13, 2017, the PROMESA oversight board certified the revised fiscal plan, provided that two amendments are made. One amendment would institute the PROMESA oversight board's earlier proposal for furloughing most government employees four days a month, with two days for teachers and none for law enforcement officers, by July 1st, 2017 (the beginning of fiscal year 2018), and eliminate the annual Christmas bonus for government workers if the Puerto Rico government does not come up with plans to increase liquidity by $200 million and implement its plan to "right-size" its operations in a fiscal year 2018 budget proposal by April 30th. If it does, the cost-savings measures would be delayed until September 1st. A further determination would then be made as to whether the savings measures are needed or to what extent needed. The other amendment would require an agreement between the Puerto Rico government and the PROMESA oversight board to reduce pension costs 10% by 2020 to be reached within 30 days and finalized by June 30th.

With respect to PREPA, on December 23, 2015, PREPA and more than 70% of its creditors reached an agreement on an Amended and Restated Restructuring Support Agreement ("RSA") that would provide, among other things, for a restructuring of some of PREPA's outstanding debt at 85 cents on the dollar. The RSA also included a Bond Purchase Agreement ("BPA") whereby certain of those creditors would purchase new bonds to be issued by PREPA. The implementation of the RSA would provide the basis for PREPA to provide more reliable and lower-cost service, fund its capital needs for the medium term, help ensure environmental compliance, diversify generation resources to include more natural gas, and provide jobs.

Legislation to establish the necessary securitization framework for the new PREPA debt was passed on February 16, 2016. In June 2016, the Puerto Rico Energy Commission approved a "transition" charge to PREPA customers that will secure the new debt that will be issued to facilitate the PREPA restructuring. In May and June of 2016, certain bondholders purchased $115 million of bonds pursuant to the BPA. The BPA was amended in late June and bondholders purchased another $264 million on June 30, 2016. Following the BPA amendment, PREPA made the full principal and interest payment due on July 1, 2016. On January 1, 2017, PREPA made its full interest payment and did so without requiring any type of BPA.

On January 27, 2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”) notified all creditors involved that it was extending the January 31, 2017 expiration date of the RSA until March 31, 2017. In addition, AAFAF also notified the parties together with its financial advisors Rothchild, that it would lead negotiations with PREPA creditors.

As of December 31, 2016, the Corporation had $323.3 million of direct exposure to the Puerto Rico government, its municipalities and public corporations, compared to $360.7 million as of December 31, 2015. Approximately $191.9 million of the exposure consisted of loans and obligations of municipalities in Puerto Rico that are supported by assigned property tax revenues and for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment. Approximately 89% of the Corporation’s municipality exposure consists primarily of senior priority obligations concentrated in five of the largest municipalities in Puerto Rico (San Juan, Carolina, Bayamon, Mayaguez and Guaynabo). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of their respective general obligation bonds and loans. The PROMESA oversight board has not designated any of the Puerto Rico’s 78 municipalities as covered entities under PROMESA. In addition to municipalities, the total exposure to the Puerto Rico government included $6.9 million of loans to units of the Puerto Rico central government, and approximately $81.9 million consisted of loans to public corporations (entities covered by PROMESA), including the direct exposure to PREPA with a book value of $65.5 million as of December 31, 2016 that was sold in the first quarter of 2017 as described above. The PREPA credit facility was placed in non-accrual status in the first quarter of 2015, and interest payments recorded on a cost-recovery basis. The Corporation's total direct exposure also includes obligations of the Puerto Rico government with an amortized cost of $42.7 million as part of its available-for-sale investment securities portfolio, net of $22.2 million in cumulative OTTI charges, and recorded at a fair value of $26.8 million as of December 31, 2016.

Furthermore, as of December 31, 2016, the Corporation had $127.7 million outstanding (book value of $111.8 million) in credit facilities extended to the hotel industry in Puerto Rico under which 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 $129.4 million outstanding as of December 31, 2015. The TDF is a subsidiary of the GDB that facilitates private sector financings to Puerto Rico's hotel industry. Adverse developments related to the Puerto Rico government's fiscal situation introduced additional uncertainty regarding the TDF's ability to honor its guarantee, including the enactment of Act 21. These facilities were placed in non-accrual status and classified as impaired in the first quarter of 2016, and interest payments are now applied against principal. Approximately $2.0 million of interest payments received on loans guaranteed by the TDF since late March 2016 have been applied against principal. The Corporation has been receiving payments on the largest of these three facilities sufficient to cover the monthly contractual payments. This facility matured on February 1, 2017 and is currently under renegotiation. In addition, the borrower's cash flows related to the other two facilities are insufficient to cover debt service and the Corporation is not receiving collections from the TDF guarantee. As such, these two facilities are collateral dependent loans and charge-offs amounting to $13.9 million were recorded during the second half of 2016, of which $13.0 million was charged against reserves established in prior periods. These loans have been adversely classified since the third quarter of 2015. As of December 31, 2016, the loans guaranteed by the TDF are being carried at 72% of unpaid principal balance, net of reserves and accumulated charge-offs. The Corporation measures impairment on these loans based on the fair value of the collateral and the existence of the government guarantee. Developments of the Puerto Rico government debt restructuring process, with the automatic stay on litigations under PROMESA set to expire on May 1, 2017, and actions taken or those that may have to be taken by the Commonwealth or the PROMESA oversight board to address Puerto Rico's fiscal and economic crisis could ultimately adversely affect the value of the Puerto Rico government guarantees, including the TDF guarantee. If as a result of developments, including discussions with regulators, loan rating downgrades, progress in the debt restructuring process, or for other reasons, the Corporation determines that additional impairment charges are necessary, such an action would adversely affect the Corporation's results of operations in the period in which such determination is taken. The Corporation's collections of principal and interest from the TDF in 2016 amounted to $0.6 million compared to $5.3 million in 2015.

In addition, the Corporation had $119.9 million in exposure to residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority. Residential mortgage loans guaranteed by the Puerto Rico Housing Finance Authority are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. The Puerto Rico government guarantees up to $75 million of the principal guaranteed under the mortgage loans insurance program. According to the most recently released audited financial statements of the Puerto Rico Housing Financing Authority, as of June 30, 2015, the Puerto Rico Housing Finance Authority's mortgage loans insurance program covered loans aggregating approximately $552 million. The regulations adopted by the Puerto Rico Housing Finance Authority require the establishment of adequate reserves to guarantee the solvency of the mortgage loans insurance fund. As of June 30, 2015, the most recent date as to which information is available, the Puerto Rico Housing Finance Authority had a restricted net position for such purposes of approximately $77.4 million.

Furthermore, as of December 31, 2016, the Corporation had $408.8 million of public sector deposits in Puerto Rico. Approximately 28% is from municipalities and municipal agencies in Puerto Rico and 72% is from public corporations and the central government and agencies in Puerto Rico.

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, 2016, 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 Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") now have been adopted, numerous additional regulations and changes to regulations may be adopted 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 primary examination and enforcement authority over FirstBank and other banks with over $10 billion in assets with respect to consumer financial products and services.

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 currently apply to the Corporation and FirstBank, 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 current rules increase the quantity and quality of capital required by, among other things, establishing a minimum common equity capital requirements and an additional common equity Tier 1 capital conservation buffer. In addition, the current 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 current 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, 2016, the Corporation had $210 million in trust preferred securities that are subject to a full 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 2016" above for additional information.

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

The current 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, currently fully apply to us. The 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, 2016 to all the provisions that will be phased-in between January 1, 2015 and January 1, 2019, were 16.9%, 17.3%, 20.8%, and 13.6%, 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) have agreed 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. As proposed by the U.S. federal banking agencies in May 2016, however, the NSFR requirements would not apply to the Corporation.

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 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 were effective as of January 1, 2016. In addition, in February 2017, the federal banking agencies 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 2017 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 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 and loss mitigation, 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.

In October 2016, the CFPB adopted further changes to these mortgage servicing rules. The new changes generally 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 amendments also 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 amendments variously become effective in October 2017 and April 2018. These new mortgage servicing standards are expected to add to our costs of conducting a mortgage servicing business.

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 TILA and the RESPA. Consistent with this requirement, the Bureau has 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 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 may 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 possible 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, and assess substantial civil money penalties, 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. The Corporation currently 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, 2016, 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 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, 2016, First BanCorp's management concluded that the Corporation's 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, 2016, the U.S. Treasury owned approximately 4.7% 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: (a) the Special Master review of ongoing compensation in certain situations; (b) prohibition on tax gross-ups for certain employees; (c) disclosure of perquisites; and (d) 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 the 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 that 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 and oversight 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. FirstBank is required to maintain capital at specified levels pursuant to applicable law and its agreement with its regulators and currently exceeds all minimum capital requirements. 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/or 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, 2016, the Corporation had completed all of the items included in the Capital Plan and is continuing to work on reducing non-performing loans. The Written Agreement also requires the submission to the regulators of quarterly progress reports.

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 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. We must obtain the regulators' approval before we declare, set apart or pay any dividends on any of our common stock or preferred stock. During the fourth quarter of 2016, following receipt of the requisite regulatory approval, the Corporation announced the declaration of a cash dividend on its outstanding shares of Series A through E Noncumulative Perpetual Monthly Income Preferred Stock for the month of December 2016. The Corporation has to date received approval to pay the monthly dividends on the Corporation's Series A through E Preferred Stock through March 2017, although there is no assurance that such approvals for future periods will be forthcoming. Although there is no assurance that any dividends will be declared on the Corporation's Series A through E Preferred Stock in any future periods, the Corporation intends to continue to request the Federal Reserve's approval pursuant to the requirements of the Written Agreement to enable it to continue to pay the monthly dividends on its Series A through E Preferred Stock. Furthermore, so long as any shares of preferred stock remain outstanding, 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.

Executive Compensation

In 2010, the federal banking agencies adopted interagency guidance governing incentive-based compensation programs, which applies to all banking organizations regardless of asset size. This guidance uses a principles-based approach to ensure that incentive-based compensation arrangements appropriately tie rewards to longer-term performance and do not undermine the safety and soundness of banking organizations or create undue risks to the financial system. The interagency guidance is based on three major principles: (i) balanced risk-taking incentives; (ii) compatibility with effective controls and risk management; and (iii) strong corporate governance. The guidance further provides that, where appropriate, the banking agencies will take supervisory or enforcement action to ensure that material deficiencies that pose a threat to the safety and soundness of the organization are promptly addressed.

In May 2016, as required under section 956 of the Dodd-Frank Act, the federal banking agencies, along with other federal regulatory agencies, proposed regulations (first proposed in 2011) governing incentive-based compensation practices at covered banking institutions, which would include, among others, all banking organizations with assets of $1 billion or greater. These proposed rules are intended to better align the financial rewards for covered employees with an institution's long-term safety and soundness. Portions of these proposed rules would apply to the Corporation and FirstBank. Those applicable provisions would generally (i) prohibit types and features of incentive-based compensation arrangements that encourage inappropriate risk because they are "excessive" or "could lead to material financial loss" at the banking institution; (ii) require incentive-based compensation arrangements to adhere to three basic principles: (1) a balance between risk and reward; (2) effective risk management and controls; and (3) effective governance; and (iii) require appropriate board of directors (or committee) oversight and recordkeeping and disclosures to the banking institution's primary regulatory agency. The nature and substance of any final action to adopt these proposed rules, and the timing of any such action, are not known at this time.

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 introduced 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 introduced 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 introduced 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 outstanding balance owed on the Corporation's TRuPs were fully phased out from Tier 1 capital as of 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 agencies' 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, 2016 based on Federal Reserve and FDIC guidelines:

		Banking Subsidiary	
	First BanCorp.	**FirstBank**	**General Well-Capitalized Minimum**
As of December 31, 2016			
Total capital (Total capital to			

risk-weighted assets)	21.34%	20.80%	10.00%
Common Equity Tier 1 Capital (Common Equity Tier 1 capital to risk-weighted assets)	17.74%	16.92%	6.50%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	17.74%	19.53%	8.00%
Leverage ratio (1)	13.70%	15.10%	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 changed the requirements for the Deposit Insurance Fund by requiring that the designated reserve ratio for the Deposit Insurance Fund for any year 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 revise the risk-based assessment system for all large insured depository institutions (institutions with at least $10 billion in total assets), such as FirstBank. In March 2016, the FDIC adopted a rule, which became effective on July 1, 2016, to increase the Deposit Insurance Fund to the statutorily required minimum level of 1.35 percent. Among other things, the rule imposes 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 will reach 1.35 percent before the end of 2018. If the reserve ratio does not reach 1.35 percent by the end of 2018, however, the FDIC will impose a shortfall assessment on March 31, 2019, on insured depository institutions with total consolidated assets of $10 billion or more.

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 eleven 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 of New York 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 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 OCIF 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.

Act 187, as amended, enacted on November 17, 2015 requires the Commissioner to issue a Certificate of Compliance every two years in order to certify the compliance with law of companies organized under IBE Act 52.

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.

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, as amended, 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. However, Act 54-2016, enacted on May 26, 2016, repealed the VAT sections of Act 72-2015 and made permanent the changes to SUT. The still in force changes in SUT include: an increase in tax rate from 7% to 11.5% on taxable goods and services, effective since July 1, 2015, and a 4% SUT on business to business services, and professional services, with certain exceptions, effective since October 1, 2015.

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, 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.

As a result of the Written Agreement, which is designed to enhance our ability to act as a source of strength to FirstBank, as well as other requirements, we must obtain regulatory 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 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.

If we fail to comply with the Written Agreement and other requirements from our regulators, 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, 2016, which increased $117.3 million to $568.2 million as of December 31, 2016, or 26%, from $450.9 million as of December 31, 2015. Our non-performing loans represent approximately 6% of our $8.9 billion loan portfolio as of December 31, 2016. In addition, we have a high level of total non-performing assets, which increased $124.6 million to $734.5 million as of December 31, 2016, or 20%, from $609.9 million as of December 31, 2015. The increase in total non-performing assets was related, among other things, to the placement in non-accrual status of the Corporation's $111.8 million exposure to commercial loans guaranteed by the TDF and bonds of the GDB and the Puerto Rico Public Buildings Authority with an aggregate fair value of $20.5 million as of December 31, 2016. 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 FHLB of New York to maintain its lending activities and to replace certain maturing liabilities. As of December 31, 2016, we had $1.4 billion in brokered CDs outstanding, representing approximately 16% of our total deposits, and a reduction of $657.8 million from the year ended December 31, 2015. Approximately $798.8 million 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, 2016 was approximately 1.2 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 our regulators. 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 our regulators 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 2016 and 2015, \$9.6 million and \$2.8 million, respectively, were transferred to the legal surplus reserve. FirstBank's legal surplus reserve amounted to \$52.4 million and \$42.8 million as of December 31, 2016 and 2015, respectively.

If we do not obtain Federal Reserve approval to pay interest, principal or other sums on subordinated debentures or trust-preferred securities, a default 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 had elected to defer the interest payments that were due in quarterly periods since March 2012. However, during the second quarter of 2016, the Corporation received approval from the Federal Reserve that enabled it to pay \$31.2 million for all the accrued but deferred interest payments plus the interest for the second quarter on the Corporation's subordinated debentures associated with its trust preferred securities. Subsequently, the Corporation received approval that enabled it to pay interest for the third quarter and fourth quarters of 2016. Future interest payments are subject to Federal Reserve approval. It is the intent of the Corporation to request approvals in future periods to continue regularly scheduled quarterly interest payments, although there is no assurance that such approvals will be granted.

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 need 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 $3.9 billion as of December 31, 2016. 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, 2016, we had $375.1 million in non-performing commercial and construction loans held for investment. During 2015, the Corporation increased the reserve for loan losses by approximately $35 million related to commercial loans extended to or guaranteed by the Puerto Rico government (excluding municipalities). In addition, the Corporation recorded other-than-temporary impairment charges totaling $22.2 million in the last two years, on Puerto Rico government debt securities as a result of the Puerto Rico government's fiscal situation, including an OTTI charge of $6.3 million in 2016. See "Risks Relating to the Business Environment and Our Industry – The Corporation's credit quality and the value of our portfolio of Puerto Rico government securities has been and in the future may be adversely affected by Puerto Rico's economic condition and may be affected by actions taken by the Puerto Rico government or the PROMESA oversight board to address the ongoing fiscal and economic crisis in Puerto Rico." 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, the 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, 2016, approximately 1%, 18% and 37% 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, 2016, commercial mortgage and construction real estate loans amounted to $1.7 billion or 19% 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, 2016, net charge-offs on construction, commercial mortgage and residential mortgage loan portfolios totaled $1.5 million, $19.6 million and $30.7 million, respectively.

The acquisition of certain assets and deposits of Doral Bank through an alliance with another financial institution has magnified certain of the Corporation's risks and presented 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 presents new risks and magnifies certain of the risks the Corporation already faces that are described in these "Risk Factors", 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, 2014, 2015 and 2016, we recognized a total of $0.4 million, $16.5 million and $6.7 million, respectively, in other-than-temporary impairments. The 2015 and 2016 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 and the value of our portfolio of Puerto Rico government securities has been and in the future may be adversely affected by Puerto Rico's economic condition and may be affected by actions taken by the Puerto Rico government or the PROMESA oversight board to address the ongoing fiscal and economic crisis in Puerto Rico." To the extent that any portion of the unrealized losses in our investment securities portfolio of

$66.6 million as of December 31, 2016 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 unrealized losses on available-for-sale securities 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, the provision by a vendor of 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. While we maintain hurricane insurance, including coverage for lost profits and extra expense, 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.

As a TARP recipient, we are subject to the executive compensation provisions of the EESA, including amendments to such provisions implemented under the American Recovery and Reinvestment Act of 2009, which limit the types of compensation arrangements that the Corporation may enter into with our most senior leaders. Our competitors may be in an advantageous position to retain and attract senior leaders since we are the only institution in Puerto Rico that is currently subject to TARP-related compensation provisions. Our compensation practices are subject to review and oversight by the Federal Reserve Board. We also may be subject to limitations on compensation practices by the FDIC or other regulators, which may or may not affect our competitors. Limitations on our compensation practices could have a negative impact on our ability to attract and retain talented senior leaders in support of our long term strategy.

Our compensation practices are subject to oversight by the Federal Reserve Board and the FDIC. Any deficiencies in our compensation practices may be incorporated into our supervisory ratings, which can affect our ability to make acquisitions or perform other actions. In addition, the regulation of our compensation practices may change in the future.

Our compensation practices are subject to oversight by the Federal Reserve Board and the FDIC. As discussed above, the Corporation currently is subject to the executive compensation restrictions as a TARP recipient and the 2010 interagency guidance governing the incentive compensation activities of regulated banks and bank holding companies. Our failure to satisfy these restrictions and guidelines could expose us to adverse regulatory criticism, lowered supervisory ratings, and restrictions on our operations and acquisition activities. In addition, the federal banking agencies have proposed new regulations under the Dodd-Frank Act that place restrictions on the incentive compensation practices of banking organizations with $1 billion or more in assets.

The scope and content of the U.S. banking regulators' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of the Corporation and its subsidiaries to hire, retain and motivate their key employees.

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 (currently, $250,000 per depositor account). 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. Among other things, the Dodd-Frank Act requires the FDIC 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.

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.

In March 2016, the FDIC adopted a final rule imposing a quarterly deposit insurance assessment surcharge on banks with at least $10 billion in assets of 4.5 cents per $100 of their assessment base, after making certain adjustments once the Deposit Insurance Fund Reserve Ratio reaches or exceeds 1.15 percent. For purposes of this surcharge, the first $10 billion of assets are subtracted from the regular insurance assessment base to determine the surcharge base. The assessment surcharge became effective on July 1, 2016, is assessed as of the third quarter of 2016 and subsequent periods, and applies to FirstBank. The Bank's current surcharge base is slightly higher than the $10 billion threshold. The surcharge assessments will continue through December 31, 2018 or until the Deposit Insurance Fund Reserve Ratio reaches or exceeds 1.35 percent. In addition, under existing regulations, the FDIC reduced the initial base assessment rate, which reduces the standard risk-based assessment rate. This resulted in a decrease in the total FDIC insurance premium expense (standard risk-based assessment plus assessment surcharge expense) of approximately $1.6 million in the second half of 2016, as the benefit of the reduction in the initial base assessment rate exceeded the surcharge amount. In addition, under the Final Rule, if the Deposit Insurance Fund Reserve Ratio does not reach 1.35 percent by December 31, 2018, a shortfall assessment may be assessed on large banks in the first quarter of 2019 and collected by the FDIC on June 30, 2019. The FDIC 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 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, when 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 (“FASB”). The FASB has issued several financial accounting and reporting standards that will govern key aspects of the Corporation's financial statements or interpretations thereof when those standards become effective, including those areas where the Corporation is required to make assumptions or estimates. For example, the FASB's new accounting standard on credit losses, which will become effective for the Corporation on January 1, 2020, will require earlier recognition of credit losses on financial assets. The new accounting model requires that lifetime "expected credit losses" of financial assets not recorded at fair value through net income, such as loans and held-to-maturity securities, be recorded at inception of the financial asset, replacing the multiple existing impairment model under GAAP which generally require that a loss be "incurred" before it is recognized. For additional information on this and other accounting standards, see Note 1 to the Consolidated Financial Statements.

Changes to financial accounting or reporting standards or interpretations, whether promulgated or required by the FASB or other regulators, could present operational challenges and could require the Corporation to change certain of the assumptions or estimates it previously used in preparing its financial statements, which could negatively impact how it records and reports its financial condition and results of operations generally and/or with respect to particular businesses. For additional information on the key areas for which assumption and estimates are used in preparing the Corporation's financial statements, see Note 1 to the Consolidated Financial Statements.

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 2016.

The Step 1 evaluation of goodwill allocated to the Florida reporting unit under our 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, 2016 or 2015, nor was any goodwill written off due to impairment during 2016, 2015, and 2014. 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, 2016, the Corporation had a deferred tax asset of $281.7 million (net of a valuation allowance of $207.2 million), including $171.5 million associated with FirstBank's Net Operating Losses ("NOLs"). 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 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, 2016 amounted to $207.2 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 Puerto Rico Department of Treasury ("PRTD"), 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.

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, volatile 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 and the value of our portfolio of Puerto Rico government securities has been and in the future may be adversely affected by Puerto Rico's economic condition and may be affected by actions taken by the Puerto Rico government or the PROMESA oversight board to address the ongoing fiscal and economic crisis in Puerto Rico.

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 2017 and 2018, the Puerto

Rico government projects a continued economic contraction in the Commonwealth's GNP of 2.2% and 2.8%, respectively, while the GDB-EAI in December 2016 decreased 2.9% on a year-over-year basis to 121.1, the lowest number in 25 years. The GDB-EAI is a coincident index of economic activity for Puerto Rico made up of four indicators (non-farm payroll employment, electric power generation, cement sales and gasoline consumption). The seasonally adjusted unemployment rate in Puerto Rico was 12.4% in December 2016, which is higher than in any U.S. state. Puerto Rico population decreased by an estimated 6.8% from 2010-2015, driven primarily by falling birth rate, a rising death rate, and migration to the United States mainland, according to the U.S. census data.

Based on information published by the Puerto Rico government, General Fund net revenues for the fiscal year 2015-2016 totaled approximately $9.175 billion, a year-over-year increase of $214.4 million. Fiscal year revenues were $116.7 million below revised estimates. General Fund net revenues for the first semester of fiscal year 2017 were $3.97 billion, an increase of $75 million year-over-year, and exceeded estimates by approximately $77 million.

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

On June 30, 2016, pursuant to the debt moratorium law, the Puerto Rico governor ordered a moratorium on the payment of $780 million of the Puerto Rico government's general obligations and guaranteed debt, along with the payment obligations of certain other issuers. The Puerto Rico government has continued to default on general obligation bonds, including the payment due on January 1, 2017. This followed a default on the principal payment of $367 million of GDB notes due on May 1, 2016. On August 1, 2016, the GDB defaulted on a $28 million payment of interest due to its creditors, including interest due on GDB bonds held by the Corporation. The GDB default marked the first time the GDB, or any other Puerto Rico agency or instrumentality, failed to pay interest on Puerto Rico government bonds held by the Corporation. On October 1, 2016, the Puerto Rico Public Buildings Authority failed to make a full payment of interest due on its obligation bonds, including bonds held by the Corporation. Generally, based on specific facts and circumstances of the issuer, a default event requires us to classify the defaulted bonds as a non-performing asset. Accordingly, during the third quarter of 2016, bonds of the GDB and the Puerto Rico Public Buildings Authority with an aggregate fair value as of December 31, 2016 of $20.5 million ($35.6 million- amortized cost, including accrued interest of $0.9 million) were classified as non-performing and placed in non-accrual status by the Corporation. These bonds are held as part of the available-for-sale securities portfolio. In the first quarter of 2016, the Corporation recorded a $6.3 million OTTI charge on the aforementioned bonds of the GDB and the Puerto Rico Public Buildings Authority. This was the third OTTI charge on these securities recorded since June 30, 2015, as OTTI charges of $12.9 million and $3.0 million were booked in the second and fourth quarters of 2015. 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 information about the Puerto Rico government's financial condition, including the enactment of a debt moratorium law and the declaration of a state of emergency at the GDB, the issuance of the GDB and the Commonwealth's audited financial statements for the fiscal year ended June 30, 2014, as well as issuance of exchange proposals with the Commonwealth's creditors related to its outstanding bond obligations. In addition to bonds of the GDB and the Puerto Rico Public Buildings Authority, the Corporation owns bonds of the Puerto Rico Housing Finance Authority in the aggregate amount of $7.9 million carried on the Corporation's books at the aggregate fair value of $6.3 million, which are current as to contractual payments as of December 31, 2016.

On June 30, 2016, President Obama signed HR5278 Bill, PROMESA, which established an oversight board, a process for restructuring debt, and expedited procedures for approving critical infrastructure projects in order to address the Puerto Rico government fiscal situation. The independent seven-member oversight board that was appointed by the House of Representatives, Senate and President Obama pursuant to PROMESA has fiscal oversight over Puerto Rico's finances for an initial term of five years. This marks the largest federal intervention ever into the U.S. municipal bond market. PROMESA enables Puerto Rico to restructure its debt. The PROMESA oversight board had its first meeting on September 30, 2016, and its term will expire once Puerto Rico has posted four structurally balanced budgets in a row and is deemed to have adequate access to the capital markets. The PROMESA oversight board has the power to approve or reject the general government's proposed budgets until the oversight board is satisfied that the budgets are structurally responsible and based on reasonable expectations and accounting standards.

During their first meeting, the PROMESA oversight board announced the designation of a number of entities as covered entities under PROMESA, including the Commonwealth, all of its public corporations and retirement systems, the University of Puerto Rico and all affiliates and subsidiaries of the foregoing. The designation of an entity as a covered entity has various implications under PROMESA. First, it means that the Governor will have to submit such entity's annual budgets and, if the PROMESA oversight board so requests, its fiscal plans, to the PROMESA oversight board for its review and approval. Second, covered territorial instrumentalities may not issue debt or guarantee, exchange, modify, repurchase, redeem, or enter into similar transactions with respect to their debts without the prior approval of the PROMESA oversight board. Third, pursuant to certain contracting guidelines approved by the PROMESA oversight board, prior PROMESA oversight board approval is required in connection with any transaction undertaken by a covered entity that (i) is outside the ordinary course of business or (ii) has a material financial impact. Finally, covered entities could also potentially be eligible to use the restructuring procedures provided by PROMESA. The first, Title VI, is a largely out-of-court process through which a government entity and its financial creditors can agree on terms to restructure such entity's debt. If a supermajority of creditors of a certain category agree, that agreement can bind all other creditors in such category. The second, Title III, draws on the federal bankruptcy code and provides a court-supervised process for a comprehensive restructuring led by the PROMESA oversight board.

PROMESA contains many provisions that, although similar to the provisions of Chapter 9 or other chapters of the United States Bankruptcy Code, are not identical and may not be interpreted in the same manner. Puerto Rico's economy may be adversely affected by expenditures cuts or revenue raising measures implemented as a result of PROMESA. An increase in the tax burden of Puerto Rico residents may aggravate the population decline and economic recession. Additionally austerity measures that further reduce governmental expenditures or services, may also increase the rate at which residents leave and reduce the disposable income of residents of Puerto Rico. This decline may, in turn, lead to a decrease in economy activity that will affect the government's ability to collect revenues as projected. Holders of bonds issued by the Commonwealth and its instrumentalities may be subject to voluntary or involuntary haircuts of interest or principal or both on their bonds as a result of one of the two methods to restructure Puerto Rico's debt contained in PROMESA.

PROMESA also created a bipartisan Congressional Task Force on Economic Growth in Puerto Rico. The Task Force consists of an eight-member panel of Congressional members that will review federal laws and programs to improve Puerto Rico's economy. The Task Force submitted a report during December 2016 with over 75 recommendations to Congress to jump start Puerto Rico's economy that included dealing with Medicaid, competitive tax treatment for U.S. subsidiaries, granting child tax credits and increasing loans for small businesses and the rum cover-over tax. They also stated that if the government conducts a plebiscite authorized by Congress, they would analyze and take any appropriate legislative action. As of the date of submission of this Form 10-K, the U.S. Congress has not taken action on any of the recommendations in the report.

On November 8, 2016, a new governor of Puerto Rico was elected and assumed office in January 2017. In addition a new Resident Commissioner was designated to represent Puerto Rico in the U.S. House of Representatives. Since taking office, Puerto Rico's governor signed an executive order reducing spending by 10%, created an expedited process for infrastructure projects, implemented a zero-based budgeting methodology, introduced several bills to promote economic development and outlined several labor reforms aimed at reducing the cost of doing business in Puerto Rico. Puerto Rico's governor also signed an extension to an excise tax on foreign manufacturers which contributes a significant amount of revenue to the general fund. Furthermore, Puerto Rico's governor signed the "Financial Emergency and Fiscal Responsibility Act," which replaces the prior administration's debt moratorium with a new approach that segregates revenues available after the payment of essential services to pay debt service.

In January 2017, the PROMESA oversight board sent a letter to the Puerto Rico governor outlining a minimum of $4.5 billion in fiscal measures that would need to be included in the government's next fiscal plan in order for the PROMESA oversight board to certify the fiscal plan, which is the first step before negotiations with creditors can occur. In response to the Puerto Rico governor's request for more time to develop a fiscal plan, the PROMESA oversight board established a number of milestones and conditions it would require if the then-current deadlines were extended. On January 28, 2017, the PROMESA oversight board officially extended various deadlines including moving to (i) February 28, 2017 the deadline for the updated fiscal plan, (ii) March 15, 2017 for the PROMESA oversight board to certify the fiscal plan and (iii) May 1, 2017 for the stay on debt-related litigation. On February 28, 2017, the Puerto Rico governor submitted to the PROMESA oversight board the Puerto Rico government fiscal plan which, among other initiatives, calls for significant reductions in operational expenses and subsides for municipalities and the University of Puerto Rico. The plan, which relies on significant change in economic assumptions vis a vis the baseline, projects a surplus before debt service of $11.6 billion in the aggregate during the ten year projection period (against $35.1 billion in contractual debt service). Estimated savings under the fiscal plan of $3.8 billion fall short of the $4.5 billion figure the PROMESA oversight board recommended. This initial fiscal plan was rejected by the PROMESA oversight board, which claimed the proposal relied on overly optimistic baseline revenue assumptions, economic projections and forecasted savings resulting from measures to reduce public expenditures. A revised fiscal plan was submitted by the Puerto Rico governor on March 11, 2017, including $262 million in additional revenue and changes to healthcare funding. On March 13, 2017, the PROMESA oversight board certified the revised fiscal plan, provided that two amendments are made. One amendment would institute the PROMESA oversight board's earlier proposal for furloughing most government employees four days a month, with two days for teachers and none for law enforcement officers, by July 1st, 2017 (the beginning of fiscal year 2018), and eliminate the annual Christmas bonus for government workers if the Puerto Rico government does not come up with plans to increase liquidity by $200 million and implement its plan to "right-size" its operations in a fiscal year 2018 budget proposal by April 30th. If it does, the cost-savings measures would be delayed until September 1st. A further determination would then be made as to whether the savings measures are needed or to what extent needed. The other amendment would require an agreement between the Puerto Rico government and the PROMESA oversight board to reduce pension costs 10% by 2020 to be reached within 30 days and finalized by June 30th.

With respect to the PREPA, on December 23, 2015, PREPA and more than 70% of its creditors reached an agreement on an RSA that would provide, among other things, for a restructuring of some of PREPA's outstanding debt at 85 cents on the dollar. The RSA also included a BPA whereby certain of those creditors would purchase new bonds to be issued by PREPA. The implementation of the RSA would provide the basis for PREPA to provide more reliable and lower-cost service, fund its capital needs for the medium term, help ensure environmental compliance, diversify generation resources to include more natural gas, and provide jobs.

Legislation to establish the necessary securitization framework for the new PREPA debt was passed on February 16, 2016. In June 2016, the Puerto Rico Energy Commission approved a "transition" charge to PREPA customers that will secure the new debt that will be issued to facilitate the PREPA restructuring. In May and June of 2016, certain bondholders purchased $115 million of bonds pursuant to the BPA. The BPA was amended in late June and bondholders purchased another $264 million on June 30, 2016. Following the BPA amendment, PREPA made the full principal and interest payment due on July 1, 2016. On January 1, 2017, PREPA made its full interest payment and did so without requiring any type of BPA

On January 27, 2017, the AAFAF notified all creditors involved that it was extending the January 31, 2017 expiration date of the RSA until March 31, 2017. In addition, AAFAF also notified the parties together with its financial advisors Rothchild, that it would lead negotiations with PREPA creditors.

As of December 31, 2016, the Corporation had $323.3 million of direct exposure to the Puerto Rico government, its municipalities and public corporations, compared to $360.7 million as of December 31, 2015. Approximately $191.9 million of the exposure consisted of loans and obligations of municipalities in Puerto Rico that are supported by assigned property tax revenues and for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment. Approximately 89% of the Corporation's municipality exposure consists primarily of senior priority obligations concentrated in five of the largest municipalities in Puerto Rico (San Juan, Carolina, Bayamon, Mayaguez and Guaynabo). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of their respective general obligation bonds and loans. Although the PROMESA oversight board has not designated any of the Commonwealth's 78 municipalities as covered entities under PROMESA, it may decide to do so in the future. While the fiscal plan submitted by the Puerto Rico governor to the PROMESA oversight board on February 28, 2017 did not contemplate a restructuring of the debt of Puerto

Rico's municipalities, the plan did call for the gradual elimination of budgetary subsidies provided to municipalities, which constitute a material portion of the operating revenues of certain municipalities. The PROMESA oversight board had previously expressly called for the elimination of these budgetary subsidies as part of any certified fiscal plan. Furthermore, municipalities are also likely to be affected by the negative economic and other effects resulting from expense, revenue or cash management measures taken to address the Puerto Rico government's fiscal and liquidity shortfalls. In addition to municipalities, the total exposure to the Puerto Rico government entities covered by PROMESA included $6.9 million of loans to units of the Puerto Rico central government, and approximately $81.9 million consisted of loans to public corporations (entities covered by PROMESA), including the direct exposure to PREPA with a book value of $65.5 million as of December 31, 2016 that was sold in the first quarter of 2017 as described above. See "Significant Events Since the Beginning of 2016 – Sale of the Puerto Rico Electric Power Authority Loan". The PREPA credit facility was placed in non-accrual status in the first quarter of 2015, and interest payments recorded on a cost-recovery basis. The Corporation's total direct exposure also includes obligations of the Puerto Rico government with an amortized cost of $42.7 million as part of its available-for-sale investment securities portfolio, net of $22.2 million in cumulative OTTI charges, and recorded at a fair value of $26.8 million as of December 31, 2016.

Furthermore, as of December 31, 2016, the Corporation had $127.7 million outstanding (book value of $111.8 million) in credit facilities extended to the hotel industry in Puerto Rico under which the borrower and the operations of the underlying collateral are the primary sources of repayment and the TDF provides a secondary guarantee for payment performance, compared to $129.4 million outstanding as of December 31, 2015. The TDF is a subsidiary of the GDB that facilitates private sector financings to Puerto Rico's hotel industry. Adverse developments related to the Puerto Rico government's fiscal situation introduced additional uncertainty regarding the TDF's ability to honor its guarantee, including the enactment of Act 21. These facilities were placed in non-accrual status and classified as impaired in the first quarter of 2016, and interest payments are now applied against principal. The Corporation has been receiving payments on the largest of these three facilities sufficient to cover the monthly contractual payments. This facility matured on February 1, 2017 and is currently under renegotiation. In addition, the borrowers' cash flows related to the other two facilities are insufficient to cover debt service and the Corporation is not receiving collections from the TDF guarantee. As such, these two facilities are collateral dependent loans and charge-offs amounting to $13.9 million were recorded during the second half of 2016, of which $13.0 million was charged against reserves established in prior periods. These loans have been adversely classified since the third quarter of 2015. As of December 31, 2016, the loans guaranteed by the TDF are being carried at 72% of unpaid principal balance, net of reserves and accumulated charge-offs. The Corporation measures impairment on these loans based on the fair value of the collateral and the existence of the government guarantee. Developments of the Puerto Rico government debt restructuring process, with the automatic stay on litigations under PROMESA set to expire on May 1, 2017, and actions taken or those that may have to be taken by the Commonwealth or the PROMESA oversight board to address Puerto Rico's fiscal and economic crisis could ultimately adversely affect the value of the Puerto Rico government guarantees, including the TDF guarantee. If as a result of developments, including discussions with regulators, loan rating downgrades, progress in the debt restructuring process, or for other reasons, the Corporation determines that additional impairment charges are necessary, such an action would adversely affect the Corporation's results of operations in the period in which such determination is taken.

In addition, the Corporation had $119.9 million in exposure to residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority. Residential mortgage loans guaranteed by the Puerto Rico Housing Finance Authority are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. The Puerto Rico government guarantees up to $75 million of the principal guaranteed under the mortgage loans insurance program. According to the most recently released audited financial statements of the Puerto Rico Housing Financing Authority, as of June 30, 2015, the Puerto Rico Housing Finance Authority's mortgage loans insurance program covered loans aggregating approximately $552 million. The regulations adopted by the Puerto Rico Housing Finance Authority require the establishment of adequate reserves to guarantee the solvency of the mortgage loans insurance fund. As of June 30, 2015, the most recent date as to which information is available, the Puerto Rico Housing Finance Authority had a restricted net position for such purposes of approximately $77.4 million.

Furthermore, as of December 31, 2016, the Corporation had $408.8 million of public sector deposits in Puerto Rico. Approximately 28% is from municipalities and municipal agencies in Puerto Rico and 72% is from public corporations and the central government and agencies in Puerto Rico.

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. During the next four fiscal years, the Commonwealth expects to confront various events that may significantly reduce its revenues or increase its expenditures. To the extent the Commonwealth is unable to address these events, its ability to continue operating and providing essential services to its population may be severely compromised. Any further potential deterioration of economic activity could result in further adverse effects on our profitability and credit quality.

Continuation of the economic slowdown and decline in the U.S. Virgin Islands could continue to harm our results of operations.

The fiscal health of the government of the USVI over the past 10 years has shown signs of deterioration evidenced by persistent budgetary deficits and projected future revenue shortfalls. The accumulated deficit position in the general fund at the end of the fiscal year 2015 was in excess of $74 million and the annual deficit for fiscal year 2016 is projected to be nearly $14 million. In addition to the general fund situation, the USVI is also experiencing growth in its unfunded actuarial accrued liability.

The government of the USVI has developed a five-year financial plan, designed to return the general fund to fiscal stability. The fiscal stabilization plan includes a number of revenue enhancement initiatives as well as reductions to government operating expenses. Many of the USVI government’s revenue enhancement initiatives are subject to legislative approval and are in the form of tax increases which could potentially have an adverse effect on the economy. The fiscal stabilization plan is also predicated on access of the government to the financial markets in order to issue deficit financing to cover the operating deficits for 2017 and 2018, which is uncertain.

As of December 31, 2016, the Corporation has total exposure to the USVI government and its instrumentalities of $84.7 million. All loans are currently performing and up to date with its principal and interest payments.

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 volatile interest rate environment, along with a continued sluggish recovery in the consumer real estate market and certain commercial real estate markets 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.

Financial deregulation measures proposed by the Trump administration and members of the U.S. Congress may create regulatory uncertainty for the financial sector, increase competition in certain of our investment strategies and adversely affect our business, financial condition and results of operations.

The Trump administration's short-term legislative agenda may include certain deregulatory measures for the U.S. financial services industry including changes to the Volcker Rule, the U.S. Risk Retention Rules, Basel III capital requirements, the FSOC's authority and other aspects of the Dodd-Frank Act. On February 3, 2017, President Trump signed an executive order calling for the administration to review U.S. financial laws and regulations in order to determine their consistency with a set of core principles identified in the order. One bill, the Financial CHOICE Act (the "CHOICE Act"), which was sponsored by Rep. Jeb Hensarling last year but was not enacted, is being discussed as an avenue for amending the Dodd-Frank Act and may be subject to revisions and reintroduction in the current session of Congress. The most recent version of the CHOICE Act would eliminate the power of the FSOC to designate non-bank financial institutions as systematically important, repeal the Volcker Rule and change the structure and powers of the Consumer Financial Protection Bureau. In addition, the CHOICE Act would allow certain qualifying banking organizations with a satisfactory composite supervisory rating and a non-risk weighted leverage ratio of at least 10% to elect to be exempt from enhanced risk-weighted capital ratios, liquidity requirements and other regulations currently applicable to large banking organizations, and would revise the U.S. Risk Retention Rules to remove the risk retention requirement for all asset-backed securitizations other than for certain non-qualifying residential mortgage securitizations. The CHOICE Act also would significantly alter stress testing, possibly exempting qualifying banking organizations from stress tests altogether and eliminating the Federal Reserve Board's ability to make “qualitative” objections to capital plans submitted by other banking organizations. In addition, the CHOICE Act would also significantly enhance the SEC’s enforcement capabilities and increase the maximum civil penalties and criminal sanctions under federal securities laws, including under the Investment Company Act of 1940 and the Investment Advisers Act of 1940.

Whether the CHOICE Act will be enacted, and, if so, whether additional amendments would be added during the legislative process remains unclear. However, the results of the recent elections have increased the likelihood that the CHOICE Act or similar financial reform legislation will be enacted. In addition, in the absence of legislative change, the Trump administration may influence the substance of regulatory supervision through, among other things, the appointment of individuals to the Federal Reserve Board. As a result of the recent notice of resignation by one member of the Federal Reserve Board, President Trump is expected to soon be able to nominate persons to fill three of the Federal Reserve Board’s seven seats, including a Vice Chairman for Supervision. In turn, the nomination of new Federal Reserve Board members by Mr. Trump may increase the likelihood that the Federal Reserve Board will depart from adopting capital and liquidity requirements for U.S. banking organizations that are more stringent than those that have been agreed upon at the international level, including the Basel Committee on Banking Supervision’s Basel III framework.

Measures focused on deregulation of the U.S. financial services industry may have the effect of increasing competition for our credit-focused businesses or otherwise reducing investment opportunities. Increased competition from banks and other financial institutions in the credit markets could have the effect of reducing credit spreads, which may adversely affect the revenues of our credit and other businesses whose strategies including the provision of credit to borrowers.

Determining the full extent of the impact on us of any such potential financial reform legislation, or whether any such particular proposal will become law, at this point in time is highly speculative. However, any such changes may impose additional costs on us, require the attention of our senior management or result in limitations on the manner in which business is conducted.

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. For more details on the implications of TARP please refer to the risks factors titled as follow: "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" above.

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, 2016, the Corporation had $210 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 both companies will continue to exceed the minimum risk-based and leverage capital ratio requirements for well-capitalized status under the new capital rules, we may not remain well capitalized.

Additional regulatory proposals and legislation, if finally adopted, could 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.

We are subject to regulatory capital adequacy guidelines, and if we fail to meet these guidelines our business and financial condition will be adversely affected.

Under regulatory capital adequacy guidelines, and other regulatory requirements, the Corporation and our banking subsidiary must meet guidelines that include quantitative measures of assets, liabilities and certain off balance sheet items, subject to qualitative judgments by regulators regarding components, risk weightings and other factors. If we fail to meet these minimum capital guidelines and other regulatory requirements, our business and financial condition will be materially and adversely affected. If we fail to maintain certain capital levels, or are deemed not well managed under regulatory exam procedures, or if we experience certain regulatory violations, our status as a financial holding company, and our ability to offer certain financial products will be compromised and our financial condition and results of operations could be adversely affected.

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. There are new laws and regulations that come into effect in 2017 and 2018 affecting the residential mortgage business and commercial business which may cause us to incur additional increased regulatory and compliance costs. Notwithstanding the above, the new administration has expressed its disagreement with the burden of new regulations and requirements. In addition, House Financial Services Committee Chairman Jeb Hensarling issued a press release on January 26, 2017 stating that replacing the Dodd-Frank Act is a top administration and congressional priority. At this point, however, it is uncertain whether any of these regulatory burdens will be relaxed.

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. The current 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.

The Corporation submitted its second annual company-run stress test to regulators in July 2016, which was published in October 2016.

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. 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 23% 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 23.2% of our outstanding shares of common stock: funds affiliated with Thomas H. Lee Partners, L.P. (“THL”), which own approximately 9.2%, and funds managed by Oaktree Capital Management, L.P. (“Oaktree”), which own approximately 9.2%, and the U.S. Treasury, which owns approximately 4.7%, excluding shares of common stock issuable upon exercise of the U.S. Treasury’s 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’s 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 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. The Corporation's ability to declare and pay dividends is dependent on certain Federal regulatory considerations, including the guidelines of the Federal Reserve Board regarding capital adequacy and dividends and on the requirements of the Written Agreement which requires prior written approval of the Federal Reserve to declare or pay dividends. During the fourth quarter of 2016, following the requisite regulatory approval, the Corporation announced the declaration of a cash dividend on its outstanding shares of Series A through E Noncumulative Perpetual Monthly Income Preferred Stock for the month of December 2016. Dividends on our Series A through E Preferred Stock had not been paid since July 2009. The Corporation has to date receive approval to pay the monthly dividends on the Corporation's Series A through E Preferred Stock through March 2017. Although there is no assurance that any dividends will be declared on the Corporation's Series A through E Preferred Stock in any future periods, the Corporation intends to continue to request the Federal Reserve's approval pursuant to the requirements of the Written Agreement to enable it to continue to pay the monthly dividends on its Series A through E Preferred

Stock.

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, 2017, 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 20 branch and office premises and auto lots and leases 82 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 3, 2017, there were 388 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 $6.30.

In December 2016, January 2017, and February 2017 the Corporation paid dividends on the non-cumulative perpetual monthly income preferred stocks which, along with common stock dividend payments, were suspended during the third quarter of 2009. 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 Common Share**
2016:								
Fourth Quarter Ended December 31, 2016	$	7.05	$	4.78	$	6.61	$	-
Third Quarter Ended September 30, 2016		5.26		3.82		5.20		-
Second Quarter Ended June 30, 2016		4.62		2.52		3.97		-
First Quarter Ended March 31, 2016		3.23		2.06		2.92		-
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		-

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

On December 5, 2016, THL and Oaktree completed a secondary offering of the Corporation's common stock. THL and Oaktree sold an aggregate of 18 million shares (9 million shares each) of common stock at a price of $5.60 per share. In addition, the underwriters exercised their option to purchase an additional 2.7 million shares of common stock from the selling stockholders. Also, on February 7, 2017, THL and Oaktree participated in another secondary offering in which they sold an additional aggregate amount of 20 million shares (10 million shares each) of common stock at a price of $6.36 per share. Subsequently, the underwriters exercised their option to purchase an additional 3 million shares of common stock from the selling stockholders. The Corporation did not receive any proceeds from these offering.

As of March 3, 2017, each of THL and Oaktree owned approximately 9.2% of the Corporation's outstanding common stock and the U.S. Treasury owned approximately 4.7%, 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 755,223 shares of common stock with a weighted average market value of $3.96 in 2016 as such additional salary amounts (2015 – 483,053 shares with a weighted average market value of $4.67). The Corporation withheld 226,261 shares from the common stock paid to the officers as additional compensation to cover employee payroll and income tax withholding liabilities in 2016 (2015 – 149,463 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 2016, the Corporation granted 1,925,575 shares of restricted stock to certain executive officers, other employees, and independent directors (2015 – 1,013,495 shares). In connection with the vesting of restricted stock in 2016, the Corporation withheld 65,498 shares of restricted stock (2015 – 72,918 shares) to cover employee payroll and income tax withholding liabilities; these shares are also held as treasury shares.

As of December 31, 2016 and December 31, 2015, the Corporation had 1,254,189 and 962,430 shares held as treasury stock, respectively.

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.

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. For the first time since July 2009, following the requisite regulatory approval, on December 8, 2016, the Corporation announced the declaration of a cash dividend on its outstanding shares of Series A through E Noncumulative Perpetual Monthly Income Preferred Stock for the month of December 2016. The Corporation has to date received approval to pay the monthly dividends on the Corporation's Series A through E Preferred Stock through March 2017. 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. The Corporation intends to continue to request the Federal Reserve's approval pursuant to the requirements of the Written Agreement to enable it to continue to pay the monthly dividends on its Series A through E Preferred Stock. 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% withheld at source is imposed, in lieu of regular tax, on any eligible dividends paid to individuals, trusts, and estates. Eligible dividends include dividends paid by a domestic Puerto Rico corporation. However, the taxpayer can perform an election to be excluded from the 15% special tax. Once this election is made it is irrevocable. The election allows the taxpayer to include in gross income the eligible dividends received and take a credit for the amount of tax withheld in excess, if any. If the taxpayer does not make this election on the tax return, then he can exclude from gross income the eligible dividends 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, 2016:

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 (1)	34,989(1)	$ 138.00	6,846,986(2)
Equity compensation plans not approved by stockholders	N/A	N/A	N/A
Total	34,989	$ 138.00	6,846,986

(1) The 1997 stock option plan 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. Stock options granted under the 1997 stock options plan expired in January 2017.
(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. The Omnibus Plan was first amended with stockholder approval on December 9, 2011 to increase the number of shares reserved for issuance under the Omnibus plan. Then, on May 24, 2016, the Omnibus plan was amended again to, among other things, increase the number of shares of common stock reserved for issuance under the Omnibus Plan, to extend the term of the Omnibus Plan to May 24, 2026 and to re-approve the material terms of the performance goals under the Omnibus Plan for purpose of Section 162 (m) of the U.S. Internal Revenue Code of 1986, as amended. 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 14,169,807 shares of common stock, subject to adjustments for stock splits, reorganization and other similar events. As of December 31, 2016, 6,846,986 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 relating to the Corporation's purchases of shares of its common stock in the three-month period ended December 31, 2016:

Period	Total number of shares purchased (1)	Average Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans Or Programs	Maximum Number of Shares That May Yet be Purchased Under These Plans or Programs
October, 2016	13,283	$ 5.34	-	-
November, 2016	12,290	5.77	-	-
December, 2016	11,084	6.40	-	-
Total	36,657	$ 5.80	-	-

(1) Reflects shares of common stock withheld from the common stock paid to certain senior officers.

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, 2011 in a share of, or interest 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, 2011 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, 2016. 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)	**2016**	**2015**	**2014**	**2013**	**2012**
Condensed Income Statements:					
Total interest income	$ 585,292	$ 605,569	$ 633,949	$ 645,788	$ 637,7
Total interest expense	101,174	103,303	115,876	130,843	176,0
Net interest income	484,118	502,266	518,073	514,945	461,7
Provision for loan and lease losses	86,733	172,045	109,530	243,751	120,4
Non-interest income (loss)	87,954	81,325	61,348	(15,489)	49,3
Non-interest expenses	355,080	383,830	378,253	415,028	354,8
Income (loss) before income taxes	130,259	27,716	91,638	(159,323)	35,7
Income tax (expense) benefit	(37,030)	(6,419)	300,649	(5,164)	(5,93
Net income (loss)	93,229	21,297	392,287	(164,487)	29,7
Net income (loss) attributable to common stockholders - basic	93,006	21,297	393,946	(164,487)	29,7
Net income (loss) attributable to common stockholders - diluted	93,006	21,297	393,946	(164,487)	29,7
Per Common Share Results:					
Net earnings (loss) per common share - basic	$ 0.44	$ 0.10	$ 1.89	$ (0.80)	$ 0.
Net earnings (loss) per common share - diluted	$ 0.43	$ 0.10	$ 1.87	$ (0.80)	$ 0.
Cash dividends declared	-	-	-	-	
Average shares outstanding	212,818	211,457	208,752	205,542	205,3
Average shares outstanding diluted	215,794	212,971	210,540	205,542	205,8
Book value per common share	$ 8.05	$ 7.71	$ 7.68	$ 5.57	$ 6.
Tangible book value per common share [1]	$ 7.83	$ 7.47	$ 7.45	$ 5.30	$ 6.
Balance Sheet Data:					
Total loans, including loans held for sale	$ 8,936,879	$ 9,148,251	$ 9,177,371	$ 9,545,501	$ 10,022,6
Allowance for loan and lease losses	205,603	240,710	222,395	285,858	435,4
Money market and investment securities	2,091,196	2,299,520	2,170,401	2,374,980	2,103,5
Intangible assets	46,754	50,583	49,907	54,866	60,9
Deferred tax asset, net	281,657	311,263	313,045	7,644	4,8
Total assets	11,922,455	12,573,019	12,727,835	12,656,925	13,099,7
Deposits	8,831,205	9,338,124	9,483,945	9,879,924	9,864,5
Borrowings	1,186,187	1,381,492	1,456,959	1,431,959	1,640,3
Total preferred equity	36,104	36,104	36,104	63,047	63,0
Total common equity	1,784,529	1,685,779	1,653,990	1,231,547	1,393,5
Accumulated other comprehensive (loss) income, net of tax	(34,390)	(27,749)	(18,351)	(78,736)	28,4
Total equity	1,786,243	1,694,134	1,671,743	1,215,858	1,485,0

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Selected Financial Ratios (In Percent):					
Profitability:					
Return on Average Assets	0.75	0.17	3.10	(1.28)	0.23
Return on Average Total Equity	5.28	1.26	30.25	(12.39)	2.04
Return on Average Common Equity	5.39	1.29	31.38	(13.01)	2.14
Average Total Equity to Average Total Assets	14.25	13.23	10.25	10.36	11.24
Interest Rate Spread	3.88	3.94	4.02	3.92	3.37
Interest Rate Margin	4.14	4.15	4.20	4.11	3.64
Interest Rate Spread- tax equivalent basis (2)	3.99	4.08	4.16	4.01	3.41
Interest Rate Margin- tax equivalent basis (2)	4.25	4.30	4.34	4.21	3.68
Tangible common equity ratio (1)	14.34	12.84	12.51	8.71	10.44
Dividend payout ratio	-	-	-	-	-
Efficiency ratio (3)	62.07	65.77	65.28	83.10	69.44
Asset Quality:					
Allowance for loan and lease losses to loans held for investment	2.31	2.64	2.44	3.02	4.38
Net charge-offs to average loans (4)	1.37	1.68	1.84	4.07	1.76
Provision for loan and lease losses to net charge-offs	0.71x	1.12x	0.63x	0.69x	0.67x
Non-performing assets to total assets (4)	6.16	4.85	5.63	5.73	9.45
Non-performing loans held for investment to total loans held for investment (4)	6.30	4.86	5.76	5.23	9.82
Allowance to total non-performing loans held for investment	36.71	54.36	42.45	57.69	44.63
Allowance to total non-performing loans held for investment, excluding residential real estate loans	51.50	87.92	64.80	85.56	65.78
Other Information:					
Common stock price: End of period	$ 6.61	$ 3.25	$ 5.87	$ 6.19	$ 4.58

(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.

(4) Loans used in the denominator in calculating each of these ratios include purchased 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 amounts.

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. This section also presents certain non-GAAP financial measures. Refer to “Basis of Presentation” below for information about why the non-GAAP financial measures are being presented and the reconciliation of the non-GAAP financial measures for which the reconciliation is not presented earlier.

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, and insurance agency and broker-dealer activities.

The Puerto Rico economy

See “Puerto Rico Government Fiscal Situation, Government Actions, enactment of PROMESA and Exposure” above and “Exposure to Puerto Rico Government” below for a discussion about the Puerto Rico government’s difficult economic situation, which has a significant impact on the operations of the Corporation.

EXECUTIVE 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, the 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.

The Corporation had net income of $93.2 million, or $0.43 per diluted share, for the year ended December 31, 2016, compared to $21.3 million, or $0.10 per diluted share, for 2015 and $392.3 million, or $1.87 per diluted share, for 2014. The financial results for 2016, 2015, and 2014 included the following items that management believes are not reflective of core operating performance, are not expected to reoccur with any regularity or may reoccur at uncertain times and in uncertain amounts:

Year ended December 31, 2016

- Charge to the provision for loan and lease losses of $1.8 million ($1.1 million after-tax) related to the sale of a $16.3 million pool of non-performing assets in the fourth quarter of 2016, mostly comprised of non-performing commercial loans.

- Gain of $1.5 million ($1.2 million after-tax) from recovery of a residual collateralized mortgage obligation ("CMO") previously written off once the trust was liquidated in the fourth quarter of 2016.

- Gain of $6.1 million ($5.9 million after-tax) on sales of $198.7 million of U.S. agency MBS that carried an average yield of 2.36% recorded in the third quarter of 2016.

- OTTI charges on debt securities, primarily on Puerto Rico government debt securities, of $6.7 million recorded in the first quarter of 2016. No tax benefit was recognized for the OTTI charges.

- Brokerage and insurance commissions of $1.7 million ($1.0 million after-tax) net of incentive costs, recorded in the fourth quarter of 2016, primarily from the sale of large fixed annuities contracts.

- Adjustment of $2.7 million ($1.7 million after tax) recorded in the fourth quarter of 2016 to reduce the credit card rewards program liability due to the expiration of reward points earned by customers up to September 2013 (the conversion date of the credit card portfolio acquired from FIA in May 2012). Most of these points had been accrued at acquisition date and ultimately experienced a redemption pattern materially different from those points accrued after conversion.

- Costs of $0.6 million recorded in the fourth quarter of 2016 associated with the secondary offering of the Corporation’s common stock by certain of the existing stockholders. The costs, incurred at the holding company level, had no effect on the income tax expense in 2016.

- Severance payments of $0.3 million ($0.2 million after-tax) related to permanent job discontinuance recorded in the third quarter of 2016.

- Gain of $4.2 million on the repurchase and cancellation of $10 million in trust preferred securities recorded in the first quarter of 2016, reflected in the statement of income as “Gain on early extinguishment of debt.” The gain, realized at the holding company level, had no effect on the income tax expense in 2016.

Year ended December 31, 2015

- Charges of $48.7 million ($29.7 million after-tax) related to a bulk sale of assets with a carrying value of $150.4 million (the “bulk sale of assets”) completed in the second quarter of 2015, mostly comprised of non-performing commercial loans.

- OTTI charges on debt securities, primarily on Puerto Rico government debt securities, of $16.5 million in 2015. No tax benefit was recognized for the OTTI charges.

- Gain of $7.0 million ($4.3 million after-tax) associated with a long-term strategic marketing alliance entered into during the fourth quarter of 2015 as part of the sale of the FirstBank Puerto Rico merchant contracts portfolio.

- Bargain purchase gain of $13.4 million ($8.2 million after-tax) on assets acquired and liabilities assumed from Doral Bank recorded in the first quarter of 2015.

- Costs of $2.2 million ($1.4 million after-tax) related to a voluntary early retirement program recorded in the fourth quarter of 2015.

- Costs of $4.6 million ($2.8 million after-tax) in 2015 related to the conversion of loan and deposit accounts acquired from Doral Bank to the FirstBank systems.

Year ended December 31, 2014

- Prepayment penalty income of $2.5 million ($1.6 million after-tax) on a commercial mortgage loan paid off in the fourth quarter of 2014. The $2.5 million contractual prepayment penalty collected was 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 equaled the mark-to-market unrealized losses recorded by the Corporation in prior periods for the terminated interest rate swap.

- Charge to the provision for loan and lease losses of $1.4 million ($0.9 million after-tax) recorded in the second quarter of 2014 related to the acquisition of residential mortgage loans from Doral Financial in full satisfaction of secured borrowings owed by such entity to FirstBank.

- OTTI charges on debt securities of $0.4 million in 2014. No tax benefit was recognized for the OTTI charges.

- Gain of $0.3 million on the sale of a $4.6 million Puerto Rico government agency bond in the second quarter of 2014. The gain had no income tax effect in 2014.

- Equity in loss of unconsolidated entity of $7.3 million in 2014. No tax effect was reflected in 2014 related to the equity in loss of unconsolidated entity, as the related deferred tax asset was fully reserved with a valuation allowance. Refer to “Non-interest income” below for additional information.

- Costs of $1.2 million ($0.8 million after-tax) recorded in 2014 related to the acquisition of residential mortgage loans from Doral Financial.

- Income tax benefit of $302.9 million associated with the partial reversal of the valuation allowance recorded in the fourth quarter of 2014 against the deferred tax assets of the Corporation’s banking subsidiary, FirstBank.

The following table reconciles for 2016, 2015, and 2014 the reported net income to adjusted net income, a non-GAAP financial measure that excludes the items identified above, which are items that management believes are not reflective of core operating performance, are not expected to reoccur with any regularity or may reoccur at uncertain times and in uncertain amounts:

	Year Ended December 31,		
	2016	**2015**	**2014**
(In thousands)			
Net income, as reported	$ 93,229	$ 21,297	$ 392,287
Adjustments:			
Charge related to the sale of the $16.3 million pool of non-performing assets	1,799	-	-
Charges related to the bulk sale of assets, including transaction expenses	-	48,667	-
Gain from recovery of investments previously written off	(1,547)	-	-
Brokerage and insurance commissions, primarily from the sale of large fixed annuities contracts, net of incentive costs	(1,692)	-	-
Adjustment to reduce the credit cards rewards liability due to unusually large customer forfeitures	(2,732)	-	-
Secondary offering costs	590	-	-
Gain on sale of investment securities	(6,104)	-	(262)
Severance payments on jobs discontinuance	281	-	-
Other-than-temporary impairment on debt securities	6,687	16,517	388
Gain on early extinguishment of debt	(4,217)	-	-
Gain on sale of merchant contracts	-	(7,000)	-
Voluntary early retirement program expenses	-	2,238	-
Bargain purchase gain on assets acquired and liabilities assumed from Doral Bank	-	(13,443)	-
Acquisition and conversion costs of assets acquired and liabilities assumed from Doral Bank	-	4,646	-
Equity in loss of unconsolidated entity			7,279
Partial reversal of the deferred tax assets valuation allowance	-	-	(302,898)
Prepayment penalty collected on a commercial loan tied to interest rate swaps	-	-	(2,546)
Charges related to the acquisition of loans from Doral Financial, including associated expenses	-	-	2,663
Income tax impact of adjustments (1)	1,409	(13,691)	(45)
Adjusted net income	$ 87,703	$ 59,231	$ 96,866

(1) See "Basis of Presentation" for the individual tax impact for each reconciling item.

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

- Net interest income for the year ended December 31, 2016 was $484.1 million compared to $502.3 million and $518.1 million for the years ended December 31, 2015 and 2014, respectively. The decrease for 2016 compared to 2015 was primarily driven by: (i) a $15.2 million decrease in interest income on consumer loans and finance leases mainly attributable to a decrease of $142.8 million in the average balance of this portfolio, primarily auto loans, (ii) a $3.9 million decrease in interest income on investment securities, primarily reflecting the gradual reinvestment of MBS prepayments in lower yielding securities given the low interest rate environment that prevailed in 2016 and an adverse impact of approximately $1.0 million related to the discontinuance of interest income recognition on bonds of the GDB and the Puerto Rico Public Buildings Authority that were placed in non-performing status in the third quarter of 2016, (iii) a $1.2 million decrease in interest income on commercial and construction loans, reflecting a decline of $153.4 million in the average balance of these portfolios that resulted in a decrease of approximately $3.6 million in interest income and the adverse impact of large commercial relationships classified as non-performing during 2016, partially offset by an increase of approximately $1.4 million in prepayment penalties and deferred fees amortization, recovery of interest income on certain non-performing loans that were fully paid off, and the upward repricing of variable commercial loans tied to higher short-term interest rates, and (iv) a $1.2 million decrease in interest income on residential mortgage loans primarily due to lower cash collections on residential non-performing loans.

These variances were partially offset by: (i) a $2.1 million decrease in interest expense, including a decrease of $3.0 million in interest expense on brokered CDs primarily related to a $622.7 million decrease in the average volume of brokered CDs that offset higher costs on new issuances, and a $2.2 million decrease in interest expense on repurchase agreements primarily reflecting the effect of the repayment of $400 million of repurchase agreements that matured in 2016 and carried an average cost of 3.35%, partially offset by increases of $1.8 million and $1.0 million in interest expense on FHLB advances and non-brokered deposits, respectively, and (ii) a $1.2 million increase in interest income on interest-bearing cash and cash equivalent balances due to increases in fed fund rates late in 2015 and 2016. The net interest margin decreased slightly to 4.14% for the year ended December 31, 2016 compared to 4.15% for 2015.

The decrease for 2015 compared to 2014 was primarily driven by: (i) a $30.1 million decrease in interest income on commercial and construction loans, including a decrease of approximately $24.1 million attributable to a $592.2 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, (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 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 interest income on residential mortgage loans primarily related to the acquisition of several loan portfolios from Doral Bank completed in the first quarter of 2015 and fourth quarter of 2014 and from Doral Financial in the second quarter of 2014, (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 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 4.20% for 2014.

- The provision for loan and lease losses for 2016 was $86.7 million compared to $172.0 million and $109.5 million for 2015 and 2014, respectively. The provision for the year ended December 31, 2016 includes a charge of $1.8 million associated with the sale of a $16.3 million pool of non-performing assets in the fourth quarter of 2016, for 2015 included a charge of $46.9 million associated with the bulk sale of assets completed during the second quarter of

2015, and for 2014 included a charge of $1.4 million related to the acquisition of residential mortgage loans from Doral Financial in the second quarter of 2014 in full satisfaction of secured borrowings owed by such entity to FirstBank, as further discussed below. Excluding the impact of the aforementioned items, the adjusted provision for loan and lease losses of $84.9 million for 2016 decreased by $40.2 million compared to the adjusted provision for loan and lease losses of $125.1 million for 2015 reflecting, among other things, (i) a $23.2 million decrease in the adjusted provision for commercial and construction loans reflecting, among other things, the impact in 2015 of the $35 million increase in the general reserve for commercial loans extended to or guaranteed by the Puerto Rico government (excluding municipalities) reflecting the impact of both the migration of certain of these loans to adverse classification categories and a $19.2 million charge related to qualitative factor adjustments that stressed the historical loss rates applied to these loans, partially offset by lower loan loss recoveries and the impact in 2015 of an $8.1 million reserve release adjustment for construction loans that reflected adjustments to the general reserve given the stabilization in the asset quality of land loans, (ii) an $11.7 million decrease in the provision for consumer loans, driven by lower charge-offs and loss severity rates and the overall decrease in the size of this portfolio, and (iii) a $5.3 million decrease in the adjusted provision for residential mortgage loans mainly related to lower delinquency levels, lower charges to the reserve for PCI loans, and the overall decrease in the size of this portfolio.

During the fourth quarter of 2016, the Corporation completed the sale of a pool of non-performing assets, primarily comprised of non-performing commercial loans, with a book value of $16.3 million (principal balance of $20.1 million), in a cash transaction. The proceeds from this sale were $11.3 million, net of $0.4 million of escrow and principal and interest collected on behalf of the purchaser subsequent to the effective date of the transaction. Approximately $2.8 million of reserves had been allocated to the loans. This transaction resulted in total net charge-offs of $4.6 million and an incremental pre-tax loss of $1.8 million recorded as a charge to the provision for loan and lease losses. The following table shows the impact of the sale of the $16.3 million pool of non-performing assets on net charge-offs and the provision for loan and lease losses for the year ended December 31, 2016 as well as on a non-GAAP basis excluding the impact of such sale:

(Dollars in thousands) **2016**		As Reported (GAAP)		Impact of the Sale of a $16.3 Million Pool of Non-Performing Assets		Adjusted (Non-GAAP)
Total net charge-offs	**$**	**121,840**	**$**	**4,631**	**$**	**117,209**
Total net charge-offs to average loans		1.37%				1.32%
Commercial mortgage	$	19,638	$	3,026	$	16,612
Commercial mortgage loans net charge-offs to average loans		1.28%				1.09%
Commercial and Industrial	$	23,890	$	1,593	$	22,297
Commercial and Industrial loans net charge-offs to average loans		1.11%				1.04%
Residential mortgage	$	30,680	$	12	$	30,668
Residential mortgage loans net charge-offs to average loans		0.93%				0.93%
Provision for loan and lease losses	**$**	**86,733**	**$**	**1,799**	**$**	**84,934**
Commercial mortgage		8,688		1,787		6,901
Commercial and Industrial		17,075		2		17,073
Residential mortgage		25,090		10		25,080

During the second quarter of 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 net 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) **2015**	As Reported (GAAP)	Impact of the Bulk Sale Transaction	Adjusted (Non-GAAP)
Total net charge-offs	**$ 153,730**	**$ 61,435**	**$ 92,295**
Total net charge-offs to average loans	1.68%		1.01%
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	1.32%		0.40%
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**
Commercial mortgage	66,884	33,807	33,077
Commercial and Industrial	34,575	10,765	23,810
Construction	(6,891)	2,375	(9,266)

The provision for loan and lease losses for the year ended December 31, 2014 includes a charge of $1.4 million related to the acquisition of residential mortgage loans from Doral Financial in the second quarter of 2014 in full satisfaction of secured borrowings owed by such entity to FirstBank. 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 purchase 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. The following table shows the impact of this transaction on net charge-offs and the provision for loan and lease losses for the year ended December 31, 2014 on a GAAP basis as well as on a non-GAAP basis excluding the impact of the transaction.

2014		**As Reported (GAAP)**		**Loss on Acquisition of Mortgage Loans from Doral Financial**		**Adjusted (Non-GAAP)**
(in thousands)						
Total net charge-offs	**$**	**172,993**	**$**	**6,908**	**$**	**166,085**
Total net charge-offs to average loans		1.84%				1.77%
Commercial and Industrial		58,255		6,908		51,347
Commercial and Industrial loans net charge-offs to average loans		2.27%				2.08%
Provision for loan and lease losses	**$**	**109,530**	**$**	**1,428**	**$**	**108,102**
Commercial and Industrial		36,681		1,428		35,253

The adjusted provision for loan and lease losses of $125.1 million for the year ended December 31, 2015 increased by $17.0 million compared to the adjusted provision of $108.1 million 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 the 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.

Net charge-offs totaled $121.8 million for the year ended December 31, 2016, or 1.37% of average loans, including $4.6 million of net charge-offs related to the sale of the $16.3 million pool of non-performing assets in 2016. Net charge-offs for the year ended December 31, 2015 totaled $153.7 million, or 1.68% 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, 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 borrowings that such institution owed to FirstBank. Adjusted net charge-offs that exclude from net charge-offs for 2016 the impact of the sale of the $16.3 million of non-performing assets, for 2015 the impact of the bulk sale of assets, and for 2014 the impact of charge-offs resulting from the mortgage loans acquired in satisfaction of secured borrowings are non-GAAP financial measures. Non-GAAP adjusted net charge-offs for 2016 amounted to $117.2 million, or 1.32% of average loans, an increase of $24.9 million compared to non-GAAP adjusted net charge-offs of $92.3 million for 2015. The increase reflects the impact of four large commercial loan charge-offs totaling $28.0 million in the Puerto Rico region, including $13.9 million associated with two of the three facilities guaranteed by the TDF. 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 $88.0 million for the year ended December 31, 2016 compared to $81.3 million and $61.3 million for the years ended December 31, 2015 and 2014, respectively. The increase for 2016 compared to 2015 was primarily driven by: (i) a $9.8 million decrease in OTTI charges on debt securities, primarily related to lower charges on bonds of GDB and the Puerto Rico Public Buildings Authority held by the Corporation as part of the available-for-sale securities portfolio, with respect to which the Corporation had already recognized OTTI charges of $22.2 million, (ii) a $6.1 million gain on sales of $198.7 million of U.S. agency MBS in 2016, (iii) a $4.2 million gain on the repurchase and cancellation of $10 million in trust preferred securities in 2016, (iv) a $3.2 million increase in revenues from the mortgage banking business driven by higher gains on sales of residential mortgage loans in the secondary market associated with both a higher volume of sales and higher gain margins, (v) a $2.6 million increase in service charges on deposits primarily related to the implementation of new service and transactional fees on certain products in November 2015, (vi) a $2.2 million increase in insurance and broker-dealer commissions, primarily related to the sale of large fixed annuities contracts, and (viii) a $1.5 million gain from the recovery of a residual CMO previously written off. These increases were partially offset by the impact in 2015 of the $13.4 million bargain purchase gain on assets acquired and liabilities assumed from Doral Bank and the impact in 2015 of a $7.0 million gain on the sale of merchant contracts. Adjusted non-interest income for 2016 was $81.0 million, excluding items that management believes are not reflective of core operating performance, are not expected to reoccur with any regularity or may reoccur at uncertain times and in uncertain amounts, compared to adjusted non-interest income of $78.0 million in 2015. Refer to “Basis of Presentation” below for additional information and reconciliation of this non-GAAP financial measure.

The increase in non-interest income of $20.0 million in 2015, as compared to 2014, was mainly due to: (i) the $13.4 million bargain purchase gain on assets acquired and liabilities assumed from Doral Bank in 2015, (ii) the $7.0 million gain on the sale of merchant contracts, (iii) the impact in 2014 of the $7.3 million equity in loss of unconsolidated entity related to the Bank’s investment in CPG/GS PR NPL, LLC (“CPG/GS”), since the value of the investment in this unconsolidated entity became zero in the second quarter of 2014, (iv) 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, (v) a $2.5 million increase in revenues from the mortgage banking business, and (vi) an increase of $1.3 million in merchant-related income despite the sale of merchant contracts completed early in the fourth quarter of 2015. These variances were partially offset by a $16.1 million increase in OTTI charges on debt securities, primarily related to OTTI charges of $15.9 million on Puerto Rico government debt securities, specifically bonds of the GDB and the Puerto Rico Public Buildings Authority held by the Corporation as part of the available-for-sale securities portfolio. Adjusted non-interest income for 2015 was $78.0 million, excluding items that management believes are not reflective of core operating performance, are not expected to reoccur with any regularity or may reoccur at uncertain times and in uncertain amounts, compared to adjusted non-interest income of $68.8 million in 2014. Refer to “Basis of Presentation” below for additional information and reconciliation of this non-GAAP financial measure.

- Non-interest expenses for 2016 were $355.1 million compared to $383.8 million and $378.3 million for 2015 and 2014, respectively. The decrease for 2016 compared to 2015 was primarily due to: (i) an $11.5 million decrease in total professional service fees mainly driven by the impact in 2015 of several items, including, professional services fees of $3.7 million related to the acquisition and conversion of loan and deposit accounts acquired from Doral Bank to the FirstBank systems, $3.6 million of interim servicing costs related to loans and deposits acquired from Doral Bank, costs of $1.3 million related to special projects and strategic, stress testing and capital planning matters, professional service fees of $0.9 million directly related to the bulk sale of assets, and a $2.9 million decrease in collections, appraisals and other credit related professional service fees associated with lower costs on troubled loans resolution efforts, (ii) a $4.3 million decrease in losses on OREO operations primarily reflecting decreases in write downs to the value of OREO properties and in OREO-operating expenses, including lower property taxes, and an increase in rental income, (iii) a $4.1 million decrease in occupancy and equipment costs reflecting reductions in depreciation, electricity and repairs expenses, (iv) a $3.9 million decrease in the FDIC insurance premium expense reflecting, among other things, a reduction in the initial base assessment rate, and reductions in brokered deposits and average assets, (v) a $3.8 million decrease in business promotion expenses, primarily due to lower costs associated with credit card and deposit reward programs, including the effect of the $2.7 million adjustment recorded during the fourth quarter of 2016 to reduce the credit card rewards liability due to the expiration of reward points earned by customers up to September 2013 (the conversion date of the credit card portfolio acquired from FIA in May 2012), and (vi) a $2.5 million decrease in processing expenses mainly due to the sale of merchant contracts in the fourth quarter of 2015. These variances were partially offset by a $2.5 million increase in taxes, other than income taxes, primarily due to the increase in the sales tax rate from 7% to 11.5% effective in Puerto Rico since July 1, 2015 and the sales tax of 4% on designated professional services effective in Puerto Rico since October, 1, 2015. Adjusted non-interest expenses for 2016 were $356.9 million, excluding items that management believes are not reflective of core operating performance, are not expected to reoccur with any regularity or may reoccur at uncertain times and in uncertain amounts, compared to adjusted non-interest expenses of $375.8 million in 2015. Refer to "Basis of Presentation" below for additional information and reconciliation of this non-GAAP financial measure.

The increase in non-interest expense of $5.6 million in 2015, as compared to 2014 was mainly due to: (i) a $14.6 million increase in employees' compensation and benefits, including costs of $2.2 million associated with the voluntary early retirement program and higher costs associated with salary merit increases, the impact of personnel costs related to the branches acquired from Doral Bank in 2015, higher stock-based compensation expense and an increase in incentive and performance-based compensation, (ii) a $7.7 million increase in total professional service fees driven by the aforementioned impact of $3.7 million in professional service fees related to the acquisition and conversion of loan and deposit accounts acquired from Dora Bank to the FirstBank systems and the $3.6 million incurred in interim servicing costs also related to loans and deposits acquired from Doral Bank, 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 Bank branches. These variances were partially offset by: (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 $4.8 million decrease in OREO-related expenses, mainly due to a $3.7 million increase in rental income from OREO income-producing properties and higher gains on sales, and (iii) 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. Adjusted non-interest expenses for 2015 was $375.8 million, excluding items that management believes are not reflective of core operating performance, are not expected to reoccur with any regularity or may reoccur at uncertain times and in uncertain amounts, compared to adjusted non-interest expenses of $377.0 million in 2014. Refer to "Basis of Presentation" below for additional information and reconciliation of this non-GAAP financial measure.

- For 2016, the Corporation recorded an income tax expense of $37.0 million compared to an income tax expense of $6.4 million for 2015 and an income tax benefit of $300.6 million for 2014. The increase in income tax expense for 2016, when compared to 2015, was mainly driven by higher taxable income, as the year 2015 was impacted by a pre-tax loss of $48.7 million on the bulk sale of assets. The effective tax rate for the year ended December 31, 2016 was 28% compared to 23% for the year ended December 31, 2015. The income tax benefit for 2014 primarily reflects the $302.9 million partial reversal of FirstBank's deferred tax assets valuation allowance. As of December 31, 2016, the Corporation had a net deferred tax asset of $281.7 million (net of a valuation allowance of $207.2 million, including a valuation allowance of $171.0 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, 2016, total assets were approximately $11.9 billion, a decrease of $650.6 million from December 31, 2015. The decrease was mainly due to a $452.8 million decrease in cash and cash equivalents, associated with liquidity used to repay maturing brokered CDs and repurchase agreements. Total loans (before allowance) decreased $211.4 million primarily due to a $110.5 million reduction in consumer loans, primarily auto loans, a $66.4 million reduction in commercial and construction loans, and a $34.5 million reduction in residential mortgage loans primarily reflected in the Puerto Rico region. The decrease in commercial and construction loans includes a reduction of $195.3 million in Puerto Rico driven by the repayment of several large commercial loans, the sale of a $20.2 million commercial loans participation, the sale of the $16.3 million pool of non-performing assets, and charge-offs, including the four large charge-offs totaling $28.0 million noted above. The commercial and construction loan portfolio in the Virgin Islands decreased by $49.7 million primarily related to facilities granted to government entities. In contrast, the commercial and construction loan portfolio in the Florida region increased by $178.7 million during 2016. Refer to "Financial Condition and Operating Data" below for additional information.

- As of December 31, 2016, total liabilities were $10.1 billion, a decrease of $742.7 million, from December 31, 2015. The decrease was mainly related to a $657.8 million decrease in brokered CDs, the repayment at maturity of $400 million of repurchase agreements, a $10 million decrease in junior subordinated debentures associated with the repurchase and cancellation of certain trust preferred securities, and the payment of interest on trust preferred securities deferred and accrued since March 2012. As of December 31, 2016, the Corporation is current on all interest payments related to its subordinated debt. These reductions were partially offset by a $164.5 million increase in total deposits, excluding government deposits and brokered CDs, and a $215.0 million increase in FHLB advances. Refer to "Risk Management – Liquidity and Capital Adequacy" below for additional information about the Corporation's funding sources.

- As of December 31, 2016, the Corporation's stockholders' equity was $1.8 billion, an increase of $92.1 million from December 31, 2015. The increase was mainly driven by the net income of $93.2 million reported for 2016. The Corporation's Total Capital, Common equity Tier 1 Capital, Tier 1 Capital and Leverage ratios calculated under the Basel III rules were 21.34%, 17.74%, 17.74%, and 13.70%, respectively, as of December 31, 2016, compared to Total Capital, Common equity Tier 1 Capital, Tier 1 Capital and Leverage ratios of 20.01%, 16.92%, 16.92%, and 12.22%, respectively, as of December 31, 2015. The Corporation's tangible common equity ratio increased to 14.34% as of December 31, 2016, from 12.84% as of December 31, 2015. Refer to "Risk Management – Capital" below for additional information.

- Total loan production, including purchases, refinancings and draws from existing revolving and non-revolving commitments, was $2.9 billion for the year ended December 31, 2016, excluding the utilization activity on outstanding credit cards, compared to $3.0 billion, for 2015. The decrease consisted of reductions of $103.7 million and $45.8 million in the Puerto Rico and Virgin Islands regions, respectively, partially offset by the growth of $70.0 million achieved in the Florida region primarily reflected in the commercial segment.

- Total non-performing assets were $734.5 million as of December 31, 2016, an increase of $124.6 million from December 31, 2015. The increase was primarily attributable to the inflow in the first quarter of 2016 of the Corporation's exposure to commercial mortgage loans guaranteed by the TDF with a book value of $111.8 million as of December 31, 2016, and the inflow in 2016 of two commercial relationship in Puerto Rico, which together totaled $68.7 million, and the placement in non-performing status of bonds of the GDB and the Puerto Rico Public Buildings Authority as these entities had defaulted on interest due on bonds held by the Corporation as part of its available-for-sale securities portfolio. As of December 31, 2016, the amortized cost of these bonds, including accrued interest of $0.9 million, was $35.6 million (net of $22.2 million in cumulative other-than-temporary impairment charges), and the bonds were recorded on the Corporation's books at their aggregate fair value of $20.5 million. The increase resulting from the inflow of large commercial loans and investment securities was partially offset by charge-offs, the sale of the $16.3 million pool of non-performing assets in the fourth quarter of 2016, mostly comprised of non-performing commercial loans, and reductions in non-performing residential, consumer and OREO balances. 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 $32.7 million to $489.4 million, or 6%, from $522.1 million as of December 31, 2015, driven by certain loans paid off, charge offs, and the pool sale of non-performing assets completed in the fourth quarter of 2016. This decrease was partially offset by the aforementioned migration of certain commercial relationships to non-accrual status.

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 PCI 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 reflect 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 with respect to 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 lease, 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, including loans modified in a Troubled Debt Restructuring (“TDR”), 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 marine financings, 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. The loans within the commercial mortgage, construction, commercial and industrial and marine financings portfolios with a principal balance of $1 million or more are individually evaluated for impairment. Also, certain residential mortgage loans and home equity lines of credit are individually evaluated for impairment purposes based on their delinquency and loan to value levels. 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, and the other classes in the consumer loan portfolio, residential mortgages 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 loans that are 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, estimates of 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 estimates of 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-off 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.

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 has 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 ("OTTI")

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, any adverse change to the credit conditions and liquidity of the issuer, taking into consideration the latest information available about the financial condition of the issuer, credit ratings, the failure of the issuer to make scheduled principal or interest payments, recent legislation and government actions affecting the issuer's industry and actions taken by the issuer to deal with the economic climate. The Corporation also takes into consideration changes in the near-term prospects of the underlying collateral of a security, if any, such as changes in default rates, loss severity given default, and significant changes in prepayment assumptions and the level of cash flows generated from the underlying collateral, if any, supporting the principal and interest payments of the debt securities. 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, while the remaining portion of the impairment loss is recognized in other comprehensive income ("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 as long as the security is not placed in non-accrual status. 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 MBS. Given the explicit and implicit guarantees provided by the 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 $42.7 million as of December 31, 2016, and on private label MBS with an amortized cost of $28.8 million as of December 31, 2016. The 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, of the Corporation's audited financial statements for the year ended December 31, 2016 included in Item 8 of this Form 10-K.

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 on, among other things, 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 tax 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 tax rate in the year of resolution. Unfavorable settlement of any particular issue could increase the effective tax rate and may require the use of cash in the year of resolution.

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

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

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

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 2016, 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 $277.4 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, 2016 includes factors such as: FirstBank's three-year cumulative gain position of $206.7 million; forecasts of future profitability under several potential scenarios that support the partial utilization of NOLs prior to their expiration between 2021 through 2024; two consecutive years of taxable income (taxable year 2015 being the first year with taxable income since 2008); and sustained pre-tax pre-provision for loan losses income. These factors demonstrate demand for FirstBank's products and services and improvements in credit quality measures that have resulted in reduced credit exposures, when compared to the period that led to the full valuation allowance, and have resulted in improvements in both sustainability of profitability and management's ability to forecast future losses. The negative evidence considered by management includes: Puerto Rico's current economic conditions, which resulted in the enactment of the Puerto Rico Oversight Management and Economic Stability Act ("PROMESA"), the uncertainty related to government loan concentration and the still elevated levels of non-performing assets.

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, 2016, 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, 2016 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.

During the second quarter of 2016, the Corporation reviewed its historical accounting treatment as loans of its $156.2 million of financing arrangements with Puerto Rico municipalities issued in bond form, but underwritten as loans with features that are typically found in commercial loan transactions. This review came as a result of the determination of the Federal Reserve Board that the transactions must be treated for regulatory reporting purposes as investment securities. The Puerto Rico Municipal Finance Act (“the Act”) requires the designation of financing arrangements obtained by municipalities with maturities greater than 8 years as “special obligation bonds” subject to specific provisions under the Act. The Corporation concluded that the impact of accounting for the transaction as held-to-maturity investment securities rather than loans does not have a material effect on previously reported results of operations, financial condition, or cash flows and, accordingly, these financing arrangements have been accounted for and reported as held-to-maturity investment securities and not as loans since the second quarter of 2016. For purposes of comparability, prior period amounts have been reclassified to conform to the 2016 presentation.

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, Treasury notes, and non-callable U.S. Agency debt securities), when available (Level 1), or, when available, market prices for identical or comparable assets (as is the case with MBS and callable U.S. agency debt) that are based on observable market parameters, including benchmark yields, reported trades, quotes from brokers or dealers, issuer spreads, bids, offers and reference data, including market research operations (Level 2). Observable prices in the market already consider the risk of nonperformance. During 2016, the Corporation recorded OTTI charges of $6.3 million on certain Puerto Rico government debt securities, specifically bonds of the GDB and the Puerto Rico Public Buildings Authority. The credit impairment loss was based on the probability of default and loss severity in the event of default in consideration of the latest information available about the Puerto Rico government's financial condition. Refer to Note 5- Investment Securities, of the Corporation's audited financial statements for the year ended December 31, 2016 included in Item 8 of this Form 10-K, 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 based on historical portfolio performance. 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, using an asset-level risk assessment method taking into account loan credit characteristics (loan-to-value, state, delinquency, property type and pricing behavior, 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. On interest caps, only the seller's credit risk is considered. The caps were valued using a discounted cash flow approach based on the related LIBOR and swap rate for each cash flow.

A credit spread is considered for those derivative instruments that are not secured. The cumulative mark-to-market effect of credit risk in the valuation of derivative instruments in 2016, 2015 and 2014 was immaterial.

Income Recognition on Loans and Impaired 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 FHA or the VA 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. 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 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 evaluates individually for impairment those loans in the construction, commercial mortgage, commercial and industrial and marine financing portfolios with a principal balance of $1 million or more. Loans in the Construction, Commercial mortgage, and Commercial and Industrial portfolios that originally met the Corporation's threshold for impairment evaluation but due to charge-offs or payments are currently below the $1 million threshold and are still 90 days past due, except TDR's, are accounted for under the Corporation's general reserve. Although the accounting authoritative guidance for a specific impairment of a loan excludes large groups of smaller balance homogeneous loans that are collectively evaluated for impairment (e.g. mortgage and consumer loans), it specifically requires that loan modifications considered TDR be analyzed under its provision. 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. 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 a 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. Refer to Note 8 – Loans Held for Investment, of the Corporation’s audited financial statements for the year ended December 31, 2016 included in Item 8 of this Form 10-K, for additional qualitative and quantitative information about TDR loans.

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 and continues to be individually evaluated for impairment.

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 statements 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 statements 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. 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.

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. Reclassifications 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 a reclassified 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, 2016 was $484.1 million, compared to $502.3 million and $518.1 million for 2015 and 2014, 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, 2016 was $497.4 million compared to $520.0 million and $535.0 million for 2015 and 2014, respectively.

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

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

Part I

	Average volume			**Interest income(1) / expense**			**Average rate(1)**		
Year Ended December 31,	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
(Dollars in thousands)									
Interest-earning assets:									
Money market and other short-term investments	$ 667,838	$ 775,848	$ 742,929	$ 3,365	$ 2,148	$ 1,892	0.50%	0.28%	0.25%
Government obligations (2)	746,890	636,734	514,626	20,849	20,560	15,749	2.79%	3.23%	3.06%
Mortgage-backed securities	1,357,518	1,489,423	1,669,406	38,072	44,909	54,291	2.80%	3.02%	3.25%
FHLB stock	31,449	26,522	27,155	1,454	1,075	1,169	4.62%	4.05%	4.30%
	1,963	777	320	8	-	-	0.41%	0.00%	0.00%

Other investments									
Total investments (3)	2,805,658	2,929,304	2,954,436	63,748	68,692	73,101	2.27%	2.34%	2.47%
Residential mortgage loans	3,302,519	3,272,464	2,751,366	180,051	181,400	153,373	5.45%	5.54%	5.57%
Construction loans	143,095	169,666	198,450	5,225	6,357	7,304	3.65%	3.75%	3.68%
C&I and commercial mortgage loans	3,694,988	3,821,843	4,385,281	160,329	162,496	192,296	4.34%	4.25%	4.39%
Finance leases	229,632	228,709	240,268	17,349	18,259	19,530	7.56%	7.98%	8.13%
Consumer loans	1,526,475	1,670,245	1,806,646	171,858	186,120	205,278	11.26%	11.14%	11.36%
Total loans (4)(5)	8,896,709	9,162,927	9,382,011	534,812	554,632	577,781	6.01%	6.05%	6.16%
Total interest-earning assets	$ 11,702,367	$ 12,092,231	$ 12,336,447	$ 598,560	$ 623,324	$ 650,882	5.11%	5.15%	5.28%
Interest-bearing liabilities:									
Interest-bearing checking accounts	$ 1,073,821	$ 1,096,087	$ 1,075,513	$ 4,914	$ 5,440	$ 6,446	0.46%	0.50%	0.60%
Savings accounts	2,503,047	2,533,689	2,426,171	12,392	13,660	15,416	0.50%	0.54%	0.64%
Certificates of deposit	2,367,874	2,294,939	2,296,314	28,068	25,246	26,371	1.19%	1.10%	1.15%
Brokered CDs	1,805,443	2,428,185	3,098,724	21,928	24,904	29,894	1.21%	1.03%	0.96%
Interest-bearing deposits	7,750,185	8,352,900	8,896,722	67,302	69,250	78,127	0.87%	0.83%	0.88%
Other borrowed funds	833,283	997,615	1,131,959	27,908	29,882	34,188	3.35%	3.00%	3.02%
FHLB advances	460,861	349,027	312,575	5,964	4,171	3,561	1.29%	1.20%	1.14%
Total interest-bearing liabilities	$ 9,044,329	$ 9,699,542	$ 10,341,256	$ 101,174	$ 103,303	$ 115,876	1.12%	1.07%	1.12%

Net interest income	$ 497,386	$ 520,021	$ 535,006			
Interest rate spread				3.99%	4.08%	4.16%
Net interest margin				4.25%	4.30%	4.34%

(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 received or paid.

(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 $9.9 million, $10.8 million and $14.2 million for 2016, 2015 and 2014, respectively, of income from prepayment penalties and late fees related to the Corporation’s loan portfolio.

Part II

	2016 Compared to 2015 Increase (decrease) Due to:			2015 Compared to 2014 Increase (decrease) Due to:		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
(In thousands)						
Interest income on interest-earning assets:						
Money market and other short-term investments	$ (422)	$ 1,639	$ 1,217	$ 86	$ 170	$ 256
Government obligations	3,316	(3,027)	289	3,904	907	4,811
Mortgage-backed securities	(3,822)	(3,015)	(6,837)	(5,599)	(3,783)	(9,382)
FHLB stock	216	163	379	(27)	(67)	(94)
Other investments	-	8	8	-	-	-
Total investments	(712)	(4,232)	(4,944)	(1,636)	(2,773)	(4,409)
Residential mortgage loans	1,652	(3,001)	(1,349)	28,967	(940)	28,027
Construction loans	(974)	(158)	(1,132)	(1,069)	122	(947)
C&I and commercial mortgage loans	(5,449)	3,282	(2,167)	(24,100)	(5,700)	(29,800)
Finance leases	72	(982)	(910)	(927)	(344)	(1,271)
Consumer loans	(16,104)	1,842	(14,262)	(15,260)	(3,898)	(19,158)
Total loans	(20,803)	983	(19,820)	(12,389)	(10,760)	(23,149)
Total interest income	$ (21,515)	$ (3,249)	$ (24,764)	$ (14,025)	$ (13,533)	$ (27,558)
Interest expense on interest-bearing liabilities:						
Brokered CDs	$ (6,975)	$ 3,999	$ (2,976)	$ (6,673)	$ 1,683	$ (4,990)
Other interest-bearing deposits	150	878	1,028	1,001	(4,888)	(3,887)
Other borrowed funds	(5,213)	3,239	(1,974)	(4,026)	(280)	(4,306)
FHLB advances	1,424	369	1,793	430	180	610
Total interest expense	(10,614)	8,485	(2,129)	(9,268)	(3,305)	(12,573)
Change in net interest income	$ (10,901)	$ (11,734)	$ (22,635)	$ (4,757)	$ (10,228)	$ (14,985)

Portions of the Corporation’s interest-earning assets, mostly investments in obligations of some U.S. government agencies and sponsored entities, generate interest which 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 net interest income on an adjusted tax-equivalent basis for the last three years. The table also reconciles net interest spread and net interest margin on a GAAP basis to these items excluding valuations, and on an adjusted tax-equivalent basis:

	Year Ended December 31,		
	2016	2015	2014
(Dollars in thousands)			
Interest income - GAAP	$ 585,292	$ 605,569	$ 633,949
Unrealized gain on derivative instruments	-	(139)	(1,258)
Interest income excluding valuations	585,292	605,430	632,691
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	585,292	605,430	630,145
Tax-equivalent adjustment	13,268	17,894	18,191
Prepayment penalty collected on a commercial mortgage loan	-	-	2,546
Interest income on a tax-equivalent basis excluding valuations	598,560	623,324	650,882
Interest expense - GAAP	101,174	103,303	115,876
Net interest income - GAAP	$ 484,118	$ 502,266	$ 518,073
Net interest income excluding valuations and the $2.5 million prepayment penalty income	$ 484,118	$ 502,127	$ 514,269
Net interest income on a tax-equivalent basis excluding valuations	$ 497,386	$ 520,021	$ 535,006
Average Balances			
Loans and leases	$ 8,896,709	$ 9,162,927	$ 9,382,011
Total securities, other short-term investments and interest-bearing cash balances	2,805,658	2,929,304	2,954,436
Average interest-earning assets	$ 11,702,367	$ 12,092,231	$ 12,336,447
Average interest-bearing liabilities	$ 9,044,329	$ 9,699,542	$ 10,341,256
Average Yield/Rate			
Average yield on interest-earning assets - GAAP	5.00%	5.01%	5.14%
Average rate on interest-bearing liabilities - GAAP	1.12%	1.07%	1.12%
Net interest spread - GAAP	3.88%	3.94%	4.02%
Net interest margin - GAAP	4.14%	4.15%	4.20%
Average yield on interest-earning assets excluding valuations and the $2.5 million prepayment penalty income	5.00%	5.01%	5.11%
Average rate on interest-bearing liabilities excluding valuations	1.12%	1.07%	1.12%
Net interest spread excluding valuations and the $2.5 million prepayment penalty income	3.88%	3.94%	3.99%
Net interest margin excluding valuations and the $2.5 million prepayment penalty income	4.14%	4.15%	4.17%

Average yield on interest-earning assets on a tax-equivalent basis and excluding valuations	5.11%	5.15%	5.28%
Average rate on interest-bearing liabilities excluding valuations	1.12%	1.07%	1.12%
Net interest spread on a tax-equivalent basis and excluding valuations	3.99%	4.08%	4.16%
Net interest margin on a tax-equivalent basis and excluding valuations	4.25%	4.30%	4.34%

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

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

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

2016 compared to 2015

Net interest income for the year ended December 31, 2016 amounted to $484.1 million, a decrease of $18.1 million, when compared to $502.3 million in 2015. The $18.1 million decrease in net interest income was primarily due to:

- A $15.2 million decrease in interest income on consumer loans and finance leases mainly attributable to the decrease of $142.8 million in the average balance of this portfolio, primarily auto loans.

- A $3.9 million decrease in interest income on investment securities, primarily reflecting the gradual reinvestment of MBS prepayments and proceeds from debt securities called prior to maturity in lower-yielding investments, given the low interest rate environment, and an adverse impact of $1.0 million related to the discontinuance of interest income recognition on bonds of the GDB and the Puerto Rico Public Buildings Authority that were placed in non-performing status during the third quarter of 2016.

- A $1.2 million decrease in interest income on commercial and construction loans reflecting a decline of $153.4 million in the average balance of these portfolios that resulted in a decrease of approximately $3.6 million in interest income and the adverse impact of the classification of certain large commercial relationships as non-performing during 2016, partially offset by an increase of approximately $1.4 million in prepayment penalties and deferred fees amortization, recovery of interest income on certain non-performing loans that were fully paid off, and the upward repricing of variable commercial loans tied to higher short-term interest rates.

- A $1.2 million decrease in interest income on residential mortgage loans primarily due to lower cash collections on residential non-performing loans.

Partially offset by:

- A $2.1 million decrease in interest expense, including a decrease of $3.0 million in interest expense on brokered CDs primarily related to a $622.7 million decrease in the average volume of brokered CDs that offset higher costs on new issuances, and a $2.2 million decrease in interest expense on repurchase agreements primarily reflecting the effect of the repayment of $400 million of repurchase agreements matured in 2016 that carried an average cost of 3.35%. During 2016, the Corporation repaid $1.3 billion of maturing brokered CDs with an all-in cost of 0.96% and new issuances amounted to $633.5 million with an all-in cost of 1.21%. The aforementioned decreases were partially offset by increases of $1.8 million and $1.0 million in interest expense on FHLB advances and non-brokered deposits (i.e. savings, interest-bearing checking and retail CDs), respectively.

- A $1.2 million increase in interest income on interest-bearing cash and cash equivalent balances due to increases in fed fund rates late in 2015 and 2016.

The net interest margin decreased slightly to 4.14% for the year ended December 31, 2016 compared to 4.15% for 2015 driven by lower yields on investment securities, higher funding costs and the decrease in size of the consumer loans portfolio.

On an adjusted tax-equivalent basis, net interest income for the year ended December 31, 2016 decreased $22.6 million to $497.4 million when compared to 2015. In addition to the facts discussed above, the decrease for the 2016 period also includes a reduction of $4.6 million in the tax-equivalent adjustment attributable to a lower volume of tax-exempt assets.

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 $30.1 million decrease in interest income on commercial loans, including a decrease of approximately $24.1 million attributable to a $592.2 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.

- 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 several acquisitions of loan portfolios from Doral Bank and Doral Financial completed in the second and fourth quarters of 2014 and the first quarter of 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 decreased by $3.9 million mainly due to 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 of 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.

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, especially given the current economic climate in 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 2016, the Corporation recorded a provision for loan and lease losses of $86.7 million, compared to $172.0 million in 2015 and $109.5 million in 2014. The provisions for the year ended December 31, 2016, 2015 and 2014 includes the $1.8 million charge associated with the sale of the $16.3 million pool of non-performing assets in the fourth quarter of 2016, the charge of $46.9 million associated with the bulk sale of assets completed during the second quarter of 2015, and the charge of $1.4 million related to the acquisition of residential mortgage loans from Doral Financial in the second quarter of 2014 in full satisfaction of secured borrowings owed by such entity to FirstBank.

2016 compared to 2015

The adjusted provision for loan and lease losses, excluding the impact of the charges mentioned above, decreased by $40.2 million in 2016, as compared to the adjusted provision for 2015, driven by:

- A $23.2 million decrease in the adjusted provision for commercial and construction loans, primarily reflecting, among other things, the impact in 2015 of the $35 million increase in the general reserve for commercial loans extended to or guaranteed by the Puerto Rico government (excluding municipalities) reflecting the impact of both the migration of certain of these loans to adverse classification categories and a $19.2 million charge related to qualitative factor adjustments that stressed the historical loss rates applied to these loans, partially offset by lower loan loss recoveries and the impact in 2015 of an $8.1 million reserve release adjustment for construction loans that reflected adjustments to the general reserve given the stabilization in the asset quality of land loans. During the third quarter of 2015, the Corporation adversely classified its exposure to commercial mortgage loans guaranteed by the TDF and the general reserve for commercial loans was increased in the fourth quarter of 2015 due to qualitative factor adjustments applied to the Puerto Rico government-related exposure, including this particular portfolio. The migration of the loans guaranteed by the TDF to non-performing and impaired status in the first quarter of 2016 did not result in significant increases to the allowance for loan losses. As of December 31, 2016, 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 17% compared to 19% as of December 31, 2015.

- An $11.7 million decrease in the provision for consumer loans driven by lower charge-offs and loss severity and the overall decrease in the size of the portfolio. Consumer loan net-charge offs decreased by $7.9 million in 2016 compared to 2015.

- A $5.3 million decrease in the adjusted provision for residential mortgage loans mainly related to lower delinquency levels, lower charges to the reserve for PCI loans, and the overall decrease 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.

2015 compared to 2014

The adjusted provision for loan and lease losses increased by $17.0 million in 2015, as compared to 2014, driven by:

- A $36.9 million increase in the adjusted 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 an adjustment for qualitative factors 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 in the adjusted provision also reflects reductions in loan loss recoveries of $11.5 million in the Florida region. This was partially offset by an $8.1 million reserve release for construction loans recorded in the fourth quarter of 2015 that reflected 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.

Non-Interest Income

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

(In thousands)	2016	2015	2014
Service charges on deposit accounts	$ 22,965	$ 20,330	$ 16,709
Mortgage banking activities	20,435	17,217	14,685
Insurance income	8,473	7,058	6,868
Broker-dealer income	789	-	459
Other operating income	30,111	32,794	30,032
Non-interest income before net gain (loss) on investments, gain on early extinguishment of debt, bargain purchase gain, gain on sale of merchant contracts, and equity in loss of unconsolidated entity	82,773	77,399	68,753
Net gain on sale of investments	6,104	-	262
Gain from recovery of investments previously written off	1,547	-	-
OTTI on debt securities	(6,687)	(16,517)	(388)
Net gain (loss) on investments	964	(16,517)	(126)
Gain on early extinguishment of debt	4,217	-	-
Bargain purchase gain	-	13,443	-
Gain on sale of merchant contracts	-	7,000	-
Equity in loss of unconsolidated entity	-	-	(7,279)
Total	$ 87,954	$ 81,325	$ 61,348

Non-interest income primarily consists of income from 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 as well as corporate cash management fees.

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 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, as well as contractual shared revenues from merchant contracts sold in the fourth quarter of 2015.

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

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

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 Inc. ("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, meaning that FirstBank assumed all losses with respect to such assets, with no financial assistance from the FDIC. The gain of $13.4 million represents the excess of the estimated fair value of the assets acquired (including cash payments of $217.7 million received from the FDIC) over the estimated fair value of the liabilities assumed. Refer to Note 2 – Business Combination, of the Corporation's audited financial statements for the year ended December 31, 2016 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 the 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 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 the sale of $7.0 million in the fourth quarter of 2015 and deferred $3.0 million that is being recognized into income over the marketing and referral agreement term.

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.

2016 compared to 2015

Non-interest income for 2016 amounted to $88.0 million, compared to $81.3 million for 2015. The $6.6 million increase in non-interest income was primarily due to:

- A $9.8 million decrease in OTTI charges on debt securities. During the first quarter of 2016, the Corporation recorded OTTI charges of $6.3 million on three Puerto Rico government debt securities held by the Corporation as part of its available-for-sale securities portfolio, specifically bonds of the GDB and the Puerto Rico Public Buildings Authority. This was the third OTTI charge on these securities recorded since June 30, 2015, as OTTI charges of $12.9 million and $3.0 million were booked in the second and fourth quarters of 2015, respectively.

- The $6.1 million gain on sales of U.S. agency MBS completed in the third quarter of 2016.

- The $4.2 million gain recorded in the first quarter of 2016 on the repurchase and cancellation of $10 million in trust preferred securities.

- A $3.2 million increase in revenues from the mortgage banking business, driven by a $1.7 million increase in the gain on sales of residential mortgage loans in the secondary market associated with both a higher volume of sales and higher gain margins tied to market interest rate levels and a $0.9 million increase in gains on TBAs MBS forward contracts. Loans sold in the secondary market to U.S. government-sponsored entities amounted to $482.6 million in 2016 with a related gain of $15.2 million, compared to $427.9 million with a related gain of $13.5 million in 2015. In addition, loan servicing fees increased by $0.4 million associated with the increase in the servicing portfolio.

- A $2.6 million increase in service charges on deposits, primarily associated with the full period impact of deposits assumed from Doral Bank late in February 2015, as well as the implementation of new service and transactional fees on certain products in November 2015.

- A $2.2 million increase in brokerage and insurance commissions, primarily related to the sale of large fixed annuities contracts in the fourth quarter of 2016.

- A $1.5 million gain recorded in the fourth quarter of 2016 from the recovery of a residual CMO that was previously written off.

Partially offset by:

- The impact in 2015 of the $13.4 million bargain purchase gain on assets acquired and deposits assumed from Doral Bank.

- The impact in 2015 of a $7.0 million gain on the sale of merchant contracts associated with a long-term strategic alliance entered in the fourth quarter of 2015 as part of the sale of the FirstBank Puerto Rico merchant contracts portfolio.

- A $2.7 million decrease in "other operating income" in the table above, reflecting a $5.4 million decrease in fees from merchant transactions due to the sale of merchant contracts completed in the fourth quarter of 2015 (a reduction of approximately $3.3 million in processing costs, depreciation and other expenses related to the sale of merchant contracts was reflected in non-interest expenses). The decrease in fees from merchant contracts was partially offset by the impact in 2015 of the $0.6 million loss on the sale of a commercial mortgage loan held for sale included in the bulk sale of assets, a $0.6 million gain on the sale of fixed assets recorded in 2016, a $0.4 million fee recorded as income in 2016 associated with a terminated credit agreement in which the Bank was committed to purchase a loan participation and a $0.7 million increase in ATM fees that reflects both changes in the fee structure and the expansion of the Bank's automatic teller network with a total of 80 new locations.

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. The $20.0 million increase in non-interest income was primarily due to:

- The $13.4 million bargain purchase gain on assets acquired and liabilities assumed from Doral Bank in the first quarter of 2015.

- The $7.0 million gain on the sale of merchant contracts completed in the fourth quarter of 2015.

- The impact in 2014 of the $7.3 million equity in the loss of an 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 Bank late in February 2015 as well as the aforementioned 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.

Partially offset by:

- A $16.1 million increase in OTTI charges on debt securities. During 2015, the Corporation recorded $15.9 million in OTTI charges on bonds of the GDB and the Puerto Rico Building Authority held by the Corporation as part of its available-for-sale securities portfolio.

Non-Interest Expenses

The following table presents the components of non-interest expenses:

	2016	2015	2014
(In thousands)			
Employees' compensation and benefits	$ 151,493	$ 150,059	$ 135,422
Occupancy and equipment	55,159	59,295	58,290
Insurance and supervisory fees	24,920	29,021	39,131
Taxes, other than income taxes	15,139	12,669	18,089
Professional fees:			
Collections, appraisals and other credit-related fees	9,890	12,833	12,064
Outsourcing technology services	20,264	18,547	18,439
Other professional fees	13,983	24,252	17,437
Credit and debit card processing expenses	13,635	16,177	15,449
Business promotion	11,419	15,234	16,531
Communications	6,759	7,726	7,766
Net loss on OREO and OREO operations	11,533	15,788	20,596
Other	20,886	22,229	19,039
Total	$ 355,080	$ 383,830	$ 378,253

2016 compared to 2015

Non-interest expenses decreased by $28.8 million to $355.1 million for the year ended December 31, 2016, compared to $383.8 million for 2015. The decrease was primarily due to the following:

- An $11.5 million decrease in total professional service fees mainly driven by the impact in 2015 of several items, including costs of $3.7 million related to the acquisition and conversion of loan and deposit accounts acquired from Doral Bank to the FirstBank systems, $3.6 million of interim servicing costs related to loans and deposits acquired from Doral Bank, costs of $1.3 million related to special projects and strategic, stress testing and capital planning matters, and $0.9 million of professional service fees directly related to the bulk sale of assets. In addition, there was a $2.9 million decrease in collections, appraisals and other credit-related professional service fees associated with lower costs on troubled loans resolution efforts.

- A $4.3 million decrease in losses on OREO operations primarily reflecting a $3.0 million decrease in write downs to the value of OREO properties, a $0.7 million decrease in OREO-operating expenses, including lower property taxes, and a $1.0 million increase in rental income associated with both a higher inventory of income-producing properties and increased occupancy.

- A $4.1 million decrease in occupancy and equipment costs reflecting reductions in depreciation, electricity and repairs expenses, including a reduction of approximately $1.2 million related to the depreciation of POS terminals sold as part of the sale of merchant contracts in the fourth quarter of 2015.

- A $3.9 million decrease in the FDIC insurance premium expense, included as part of “Insurance and supervisory fees” in the table above reflecting, among other things, a reduction in the initial base assessment rate, and reductions in brokered deposits and average assets.

- A $3.8 million decrease in business promotion expenses, primarily due to lower costs associated with credit card and deposit reward programs, including the effect of the $2.7 million adjustment recorded during the fourth quarter of 2016 to reduce the credit card rewards liability due to the expiration of reward points earned by customers up to September 2013 (the conversion date of the credit card portfolio acquired from FIA in May 2012). Most of these points had been accrued at acquisition date and ultimately experienced a redemption pattern materially different from those points accrued after conversion. Reduced advertising and marketing expenses also contributed to this variance.

- A $2.5 million decrease in processing expenses mainly due to the sale of merchant contracts in the fourth quarter of 2015.

- A $1.3 million decrease in “other operating expenses” in the table above, including reductions of $1.6 million in supplies and printing costs, $0.2 million in the amortization of intangible assets, and a $0.5 million decrease in losses and expenses related to non-real estate repossessed assets. These variances were partially offset by a $0.9 million increase in charges to the provision for unfunded loan commitments tied to the utilization of a floor plan revolving credit facility.

Partially offset by:

- A $2.5 million increase in taxes, other than income taxes, primarily due to the increase in the sales tax rate from 7% to 11.5% effective in Puerto Rico since July 1, 2015 and the sales tax of 4% on designated professional services effective in Puerto Rico since October 1, 2015.

- A $1.4 million increase in employees' compensation, mainly due to merit salary increases, the full year impact of personnel costs associated with branches acquired from Doral Bank in February 2015, and higher stock-based compensation, partially offset by the impact in 2015 of costs of $2.2 million related to a voluntary early retirement program.

2015 compared to 2014

Non-interest expenses for 2015 were $383.8 million compared to $378.3 million for 2014. The increase was primarily due to:

- A $14.6 million increase in employees' compensation and benefit expenses, including 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 Bank in 2015, 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.

- A $7.7 million increase in total professional service fees driven by the aforementioned impact of $3.7 million in professional service fees related to the acquisition and conversion of loan and deposit accounts acquired from Doral Bank to the FirstBank systems, the $3.6 million incurred in interim servicing costs also related to loans and deposits acquired from Doral Bank, $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, a $0.8 million increase in collections, appraisals and other credit-related professional service fees related to troubled loan resolution efforts, and $0.9 million of professional service fees directly associated with the bulk sale of assets completed in 2015. 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 $1.0 million increase in occupancy and equipment costs primarily related to rental, depreciation and maintenance expenses associated with the acquired Doral Bank branches.

- A $3.2 million increase in “other expenses” in the table above, that primarily includes increases in supplies and printing and the amortization of the core deposit intangible associated with the acquired Doral Bank branches in 2015 and a $0.9 million increase in the provision for unfunded loan commitments.

Partially offset by:

- 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 $4.8 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.

Income Taxes

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

Under the 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, 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 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.

For additional information relating to income taxes, see Note 26 – Income Taxes, of the Corporation's audited financial statements for the year ended December 31, 2016 included in Item 8 of this Form 10-K, including the reconciliation of the statutory to the effective income tax rate for 2016, 2015 and 2014.

2016 compared to 2015

For 2016, the Corporation recorded an income tax expense of $37.0 million compared to an income tax expense of $6.4 million for 2015. The increase in income tax expense for 2016, when compared to 2015, was mainly driven by higher taxable income, as the year 2015 was impacted by an incremental pre-tax loss of $48.7 million on the bulk sale of assets. The effective tax rate for the year ended December 31, 2016 was 28% compared to 23% for the year ended December 31, 2015.

The Corporation’s net deferred tax assets amounted to $281.7 million as of December 31, 2016, net of a valuation allowance of $207.2 million. The net deferred tax assets of the Corporation’s banking subsidiary, FirstBank, amounted to $277.4 million as of December 31, 2016, net of a valuation allowance of $171.0 million, compared to net deferred tax assets of $306.4 million as of December 31, 2015. 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 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 2016, 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 $277.4 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, 2016 includes factors such as: FirstBank’s three-year cumulative gain position of $206.7 million; forecasts of future profitability under several potential scenarios that support the partial utilization of NOLs prior to their expiration between 2021 through 2024; two consecutive years of taxable income (taxable year 2015 being the first year with taxable income since 2008); and sustained pre-tax pre-provision for loan losses income. These factors demonstrate demand for FirstBank’s products and services and improvements in credit quality measures that have resulted in reduced credit exposures, when compared to the period that led to the full valuation allowance, and have resulted in improvements in both sustainability of profitability and management’s ability to forecast future losses. The negative evidence considered by management include: Puerto Rico’s current economic conditions, which resulted in the enactment of PROMESA, the uncertainty related to government loan concentration 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, 2016 net deferred tax asset as further described below.

The Corporation expects to realize approximately $171.5 million of deferred tax assets associated with FirstBank's NOLs prior to their expiration periods, compared to $182.1 million expected to be realized as of December 31, 2015. In addition, as of December 31, 2016, approximately $117.0 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 $127.8 million in 2015. Approximately $20.5 million of other non-NOLs related deferred tax assets of the Corporation are fully reserved with a valuation allowance, compared to $19.4 million as of December 31, 2015, given limitations and uncertainties as to their future utilization. The increase in fully reserved deferred tax assets is related to the increase in cumulative 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.

Management's estimate of future taxable income is based on internal projections that consider historical performance, multiple internal scenarios and assumptions, as well as external data that management believes is reasonable. If events are identified that affect the Corporation's ability to utilize its deferred tax assets, the analysis will be updated to determine if any adjustments to the valuation allowance are required. If actual results differ significantly from the current estimates of future taxable income, even if caused by adverse macro-economic conditions, the remaining valuation allowance may need to be increased. Such an increase could have a material adverse effect on the Corporation's financial condition and results of operations. Conversely, better than expected results and continued positive results and trends could result in further releases to the deferred tax valuation allowance; any such decreases could have a material positive effect on the Corporation's financial condition and results of operations.

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 the $302.9 million partial reversal of the valuation allowance of the Bank's deferred tax assets described above. Other variances were primarily related to higher taxable income in 2015 and the disallowance of $7.7 million of NOL carryforwards.

As of December 31, 2016 and 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.

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, 2016, 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, of the Corporation's audited financial statements for the year ended December 31, 2016 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, of the Corporation's audited financial statements for the year ended December 31, 2016 included in Item 8 of this Form 10-K. The Corporation evaluates the performance of the segments based on net interest income, the provision for loan and lease losses, non-interest income, and direct non-interest expenses. The segments are also evaluated based on the average volume of their interest-earning assets less the allowance for loan and lease losses. In 2016, 2015, and 2014, other operating expenses not allocated to a particular segment amounted to $101.1 million, $103.9 million, and $94.3 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 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. This segment also includes the Corporation's broker-dealer activities, which are primarily concentrated in municipal securities underwriting and selling for local Puerto Rico municipal bond issuers and other investment banking activities, such as advisory services, capital raising efforts on behalf of clients and assistance with financial transaction structuring. 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, 2016, 2015 and 2014 include the following:

- Segment income before taxes for the year ended December 31, 2016 was $35.3 million compared to a loss of $15.8 million for 2015 and income of $69.1 million for 2014.

- Net interest income for the year ended December 31, 2016 was $96.7 million compared to $115.8 million and $150.9 million for the years ended December 31, 2015 and 2014, respectively. The decrease in net interest income for 2016, compared to 2015, was mainly related to a decrease of $239.5 million in the average balance of commercial and construction loans in Puerto Rico and the adverse impact of large commercial relationships classified as non-performing during 2016. Inflows to non-performing loans during the first quarter of 2016 included the Corporation's exposure to commercial mortgage loans guaranteed by the TDF with a book value of $111.8 million as of December 31, 2016 for which interest payments collected are now applied against principal. The decrease in net interest income for 2015, compared to 2014, was mainly related to a decrease of $615.2 million in the average balance of commercial and construction loans in Puerto Rico and the adverse impact of approximately $3.8 million in interest payments received in 2015 from the PREPA credit facility accounted for on a cost-recovery basis.

- The provision for loan losses for 2016 was $28.6 million compared to $101.6 million and $40.1 million for 2015 and 2014, respectively. The fluctuations in the provision were driven by the impact in 2015 of both the $46.9 million charge related to the bulk sale of assets completed in the second quarter of 2015 and 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 in the third quarter of 2015 and adjustments related to increased qualitative reserve factors applied to these 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, 2016 amounted to $7.8 million compared to $12.5 million and $5.2 million for the years ended December 31, 2015 and 2014, respectively. The decrease in 2016, compared to 2015, was driven by a $5.7 million decrease in fees from merchant transactions attributable to this segment related to the sale of merchant contracts completed in the fourth quarter of 2015, including the $4.2 million portion of the gain on the sale of merchant contracts attributable to this segment. This was partially offset by fee income of $0.8 million from the broker-dealer subsidiary primarily associated with the sale of large fixed annuities contracts, and the impact in 2015 of the $0.6 million loss on the sale of a commercial mortgage loan held for sale included as part of the bulk sale of assets. The increase in 2015, compared to 2014, includes the $4.2 million portion of the gain on the sale of merchant contracts recorded in 2015 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 the aforementioned $0.6 million loss on the sale of a commercial mortgage loan held for sale included as part of the bulk sale of assets in 2015.

- Direct non-interest expenses for 2016 were $40.7 million, compared to $42.5 million in 2015, and $47.0 million in 2014. The decrease in 2016, compared to 2015, reflects a $1.8 million decrease related to the portion of the FDIC deposit insurance premium allocated to this segment and a $0.6 million decrease in employee's compensation and benefits, partially offset by a $0.9 million increase in the provision for unfunded loan commitments primarily related to a floor plan revolving credit agreement. 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 OREO losses related to the bulk sale of assets completed in 2015.

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 loan 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, 2016, 2015 and 2014 include the following:

- Segment income before taxes for the year ended December 31, 2016 was $66.2 million compared to $50.2 million and $42.2 million for the years ended December 31, 2015 and 2014, respectively.

- Net interest income for the year ended December 31, 2016 was $168.7 million compared to $188.4 million and $208.4 million for the years ended December 31, 2015 and 2014, respectively. The decrease in 2016, compared to

2015, was mainly due to a $149.7 million decrease in the average balance of consumer loans in Puerto Rico and a decrease in income from funds lent to other business segments due to lower medium-term market interest rates in 2016. The decrease in 2015, compared to 2014, was mainly due to a $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 provision for loan and lease losses for 2016 decreased by $12.4 million to $34.2 million compared to 2015 and decreased by $33.3 million to $46.7 million when comparing 2015 with 2014. The decrease in the provision experienced over the last two years reflects improvements in charge-off trends, lower loss severities on auto loans and the overall decrease in the size of this portfolio.

- Non-interest income for the year ended December 31, 2016 was $44.5 million compared to $41.9 million and $40.0 million for the years ended December 31, 2015 and 2014, respectively. The increase in 2016, compared to 2015, reflects increases of $2.2 million in service charge on deposits, an increase of $0.7 million in ATM fee income and commissions and an increase of $1.5 million in insurance commission income, partially offset by a $2.1 million decrease in merchant-related income due to the sale of merchant contracts in the fourth quarter of 2015. The increase in 2015, compared to 2014, reflects primarily a $3.1 million increase in service charges 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.

- Direct non-interest expenses for the year ended December 31, 2016 were $112.8 million compared to $133.4 million and $126.3 million for the years ended December 31, 2015 and 2014, respectively. The decrease for 2016, compared to 2015, was mainly due to a $2.0 million reduction in processing expenses, primarily related to the sale of merchant contracts in the fourth quarter of 2015, a $4.4 million decrease in employees' compensation and benefits, a $3.3 million decrease in business promotion expenses mainly due to lower costs associated with credit card and deposit reward programs, a $1.9 million decrease in occupancy and equipment costs, a $4.3 million decrease in professional service fees significantly impacted by costs in 2015 related to the conversion of deposit accounts acquired from Doral Bank to the FirstBank systems, and a $0.8 million decrease in the FDIC insurance assessment portion allocated to this segment. 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.

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 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 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 the 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.

The highlights of the Mortgage Banking segment's financial results for the years ended December 31, 2016, 2015 and 2014 include the following:

- Segment income before taxes for the year ended December 31, 2016 was $46.0 million compared to $41.3 million for 2015 and $35.1 million for 2014.

- Net interest income for the year ended December 31, 2016 was $89.5 million compared to $92.7 million and $78.6 million for the years ended December 31, 2015 and 2014, respectively. The decrease in net interest income in 2016, compared to 2015, was mainly due to lower cash collections on residential non-performing loans and a decrease of $38.6 million in the average balance of residential mortgage loans in Puerto Rico. The increase in net interest income in 2015, compared to 2014, was mainly related to the acquisition of several loan portfolios from Doral Financial and Doral Bank completed in the second and fourth quarters of 2014 and the first quarter of 2015. The Mortgage Banking portfolio is principally composed of fixed-rate residential mortgage loans tied to long-term interest rates.

- The provision for loan and lease losses for 2016 was $24.9 million compared to $30.0 million and $17.6 million for the years ended December 31, 2015 and 2014, respectively. The decrease in the provision for 2016, compared to 2015, was mainly related to lower delinquency levels, lower charges to the reserve for PCI loans, and the overall decrease in the size of this portfolio. 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.

- Non-interest income for the year ended December 31, 2016 was $19.5 million compared to $16.0 million and $13.5 million for the years ended December 31, 2015 and 2014, respectively. The increase in 2016, compared to 2015, was mainly due to higher realized gains on sales of residential mortgage loans in the secondary market attributable to both a higher volume of sales and higher gain margins associated with changes in market interest rates, and realized gains on TBAs MBS forward contracts settled during the year. 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.

- Direct non-interest expenses in 2016 were $38.2 million compared to $37.3 million and $39.4 million in 2015 and 2014, respectively. The increase in 2016, compared to 2015, primarily reflects a $1.6 million increase in employees' compensation and benefits, a $0.5 million increase in professional service fees, and a $0.4 million increase in supplies and printing costs, partially offset by a $1.1 million decrease associated with the FDIC deposit insurance premium allocated to this segment and a $0.5 million decrease in losses on OREO operations. 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.

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 segment, the Mortgage Banking segment, and the Consumer (Retail) Banking segment to finance their respective lending activities and borrows from those segments. 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, 2016, 2015, and 2014 include the following:

- Segment income before taxes for the year ended December 31, 2016 amounted to $54.6 million compared to $6.5 million for 2015 and $1.1 million for 2014.

- Net interest income for the year ended December 31, 2016 was $53.2 million compared to net interest income of $26.2 million and $6.2 million for the years ended December 31, 2015 and 2014, respectively. The increase in net interest income in 2016, compared to 2015, reflects higher income from funds lent to other business segments associated with increases in short-term market interest rates, the benefit of reduced balances in brokered CDs, and the decrease in interest expense associated with the repayment of $400 million of repurchase agreements that matured in 2016 and carried an average cost of 3.35%. 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.

- Non-interest income for the year ended December 31, 2016 amounted to $5.4 million, compared to a non-interest loss of $15.9 million for the year ended December 31, 2015 and income of $0.3 million for the year ended December 31, 2014. The non-interest income reported in 2016 consisted mainly of the $6.1 million gain on sales of U.S. agency MBS, the $4.2 million gain on the repurchase and cancellation of $10 million in trust preferred securities, and the $1.5 million recovery of a residual CMO previously written off, partially offset by OTTI charges on debt securities of $6.7 million recorded in 2016, primarily on Puerto Rico government debt securities. The loss for 2015 was driven by OTTI charges on Puerto Rico government debt securities of $15.9 million.

• Direct non-interest expenses for 2016 were $4.0 million compared to $3.8 million and $5.4 million for 2015 and 2014, respectively. The increase in 2016, compared to 2015, reflects, among other things, increases in employees' compensation and benefits and in professional service fees. The decrease in 2015, compared to 2014, was mainly due to a $0.9 million decrease in legal and consulting fees.

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 11 branches. The United States Operations segment offers an array of both consumer 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. Retail deposits, as well as FHLB advances and brokered CDs assigned to this operation serve as funding sources for its lending activities. 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, retail 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, 2016, 2015, and 2014 include the following:

• Segment income before taxes for the year ended December 31, 2016 was $16.1 million compared to $25.0 million and $40.8 million for the years ended December 31, 2015 and 2014, respectively.

• Net interest income for the year ended December 31, 2016 was $41.8 million compared to $42.9 million and $37.3 million for the years ended December 31, 2015 and 2014, respectively. The decrease in 2016, compared to 2015, was mainly due to a decrease in income from funds lent to operating segments in Puerto Rico, partially offset by a $197.5 million increase in the average balance of total loans in the United States, primarily commercial and residential mortgage loans. The increase in 2015, compared to 2014, was primarily related to an increase of $97.9 million in the average volume of loans, primarily commercial and residential mortgage loans. The increases also reflect reductions in the average rate paid on deposits, and higher interest charges made to operating segments in Puerto Rico.

- During 2016, a negative provision of $1.4 million was recorded for this segment, compared to negative provisions of $8.0 million and $27.7 million for 2015 and 2014, respectively. The lower negative provision in 2016, compared to 2015, primarily reflects lower reserve releases on commercial and construction loans as the declines in historical loss rates were partially offset by the overall increase in the size of this portfolio. In addition, loan loss recoveries decreased by $1.6 million. 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.

- Total non-interest income for the year ended December 31, 2016 amounted to $3.6 million compared to $2.8 million and $2.5 million for the years ended December 31, 2015 and 2014, respectively. The increase in 2016, compared to 2015, was mainly due to a $0.4 million fee recorded as income associated with a terminated credit agreement in which the Bank was committed to purchase a loan participation and the impact in 2015 of a $0.2 million loss on the sale of fixed assets. The increase in 2015, compared to 2014, was mainly due to a $0.2 million increase in the gain on sales of residential mortgage loans tied to a higher volume of sales.

- Direct non-interest expenses in 2016 were $30.7 million compared to $28.7 million and $26.6 million for 2015 and 2014, respectively. The increase in 2016, compared to 2015, was mainly due to an increase of $1.2 million in employees' compensation and benefits, including additional resources in the commercial and corporate banking area, and a $0.7 million increase in rental expense of offices and premises. The increase in 2015, compared to 2014, was mainly due to an increase 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.

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 its own lending activities.

The highlights of the Virgin Islands operations' financial results for the years ended December 31, 2016, 2015 and 2014 include the following:

- Segment income before taxes for the year ended December 31, 2016 was $13.2 million compared to income of $10.9 million and $5.1 million for the years ended December 31, 2015 and 2014, respectively.

- Net interest income for the year ended December 31, 2016 was $34.1 million compared to $36.3 million and $36.8 million for the years ended December 31, 2015 and 2014, respectively. The decrease in net interest income in 2016, compared to 2015, was mainly related to a $35.9 million decrease in the average volume of loans, primarily commercial and industrial loans. 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.

- During 2016, a provision of $0.4 million was recorded for this segment, compared to a provision of $1.7 million in 2015 and a negative provision of $0.4 million for 2014. The decrease in the provision for 2016, compared to 2015, was primarily reflected in the commercial and industrial loan portfolio. 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.

- Non-interest income for the year ended December 31, 2016 was $7.1 million, compared to $10.6 million and $7.1 million for the years ended December 31, 2015 and 2014, respectively. The decrease in 2016, compared to 2015, was mainly related to a $3.8 million decrease in merchant-related income, including the impact in 2015 of the $2.8 million portion of the gain on the sale of merchant contracts attributable to this segment, and the impact in 2015 of a $0.4 million gain on the sale of a parcel of land, partially offset by a $0.2 million increase in service charges on deposits in 2016. The increase in 2015, compared to 2014, was mainly related to the aforementioned gain of $2.8

million gain on the sale of merchant contracts attributable to this segment, and of $0.4 million on the sale of a parcel of land.

- Direct non-interest expenses for the year ended December 31, 2016 were $27.6 million compared to $34.2 million and $39.3 million for the years ended December 31, 2015 and 2014, respectively. The decrease in 2016, compared to 2015, was mainly due to a $3.5 million decrease in employees' compensation and benefits, a $1.8 million decrease in professional service fees, primarily legal and collection expenses related to the resolution of troubled loans, a $0.8 million decrease in occupancy and equipment costs, a $0.4 million decrease in processing expenses, primarily related to the sale of merchant contracts, a $0.4 million decrease related to the portion of the FDIC insurance premium expense allocated to this segment, and a $0.3 million decrease in business promotion expenses, partially offset by a $0.5 million increase in losses on OREO operations. 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.

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,		
	2016	2015	2014
(In thousands)			
ASSETS			
Interest-earning assets:			
Money market and other short-term investments	$ 667,838	$ 775,848	$ 742,929
U.S. and Puerto Rico government obligations	746,890	636,734	514,626
Mortgage-backed securities	1,357,518	1,489,423	1,669,406
FHLB stock	31,449	26,522	27,155
Other investments	1,963	777	320
Total investments	2,805,658	2,929,304	2,954,436
Residential mortgage loans	3,302,519	3,272,464	2,751,366
Construction loans	143,095	169,666	198,450
Commercial loans	3,694,988	3,821,843	4,385,281
Finance leases	229,632	228,709	240,268
Consumer loans	1,526,475	1,670,245	1,806,646
Total loans	8,896,709	9,162,927	9,382,011
Total interest-earning assets	11,702,367	12,092,231	12,336,447
Total non-interest-earning assets (1)	687,775	689,322	310,998
Total assets	$ 12,390,142	$ 12,781,553	$ 12,647,445
LIABILITIES AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Interest-bearing checking accounts	$ 1,073,821	$ 1,096,087	$ 1,075,513
Savings accounts	2,503,047	2,533,689	2,426,171
Certificates of deposit	2,367,874	2,294,939	2,296,314
Brokered CDs	1,805,443	2,428,185	3,098,724
Interest-bearing deposits	7,750,185	8,352,900	8,896,722
Other borrowed funds	833,283	997,615	1,131,959
FHLB advances	460,861	349,027	312,575
Total interest-bearing liabilities	9,044,329	9,699,542	10,341,256
Total non-interest-bearing liabilities	1,580,408	1,391,306	1,009,484
Total liabilities	10,624,737	11,090,848	11,350,740
Stockholders' equity:			
Preferred stock	36,104	36,104	46,576
Common stockholders' equity	1,729,301	1,654,601	1,250,129
Stockholders' equity	1,765,405	1,690,705	1,296,705
Total liabilities and stockholders' equity	$ 12,390,142	$ 12,781,553	$ 12,647,445

(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 $12.4 billion for the year ended December 31, 2016 compared to $12.8 billion for 2015, a decrease of $391.4 million. The variance primarily reflects a decrease of $266.2 million in the average volume of loans, primarily commercial and consumer loans, and a $108.0 million decrease in the average balance of interest-earning cash and cash equivalents.

The Corporation's total average liabilities were $10.6 billion as of December 31, 2016, a decrease of $466.1 million compared to December 31, 2015. The decrease was mainly related to a $622.7 million decrease in the average balance of brokered CDs, partially offset by a $195.2 million increase in the average balance of non-interest bearing deposits.

Assets

The Corporation's total assets were approximately $11.9 billion as of December 31, 2016, a decrease of $650.6 million from December 31, 2015. The decrease was mainly due to a $452.8 million decrease in cash and cash equivalents, associated with liquidity used to repay maturing brokered CDs and repurchase agreements. In addition, total loans (before the allowance) decreased by $211.4 million, including a $110.5 million reduction in consumer loans, primarily auto loans, a $66.4 million reduction in commercial and construction loans, and a $34.5 million reduction in residential mortgage loans primarily reflected in the Puerto Rico region.

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.

	2016	2015	2014	2013	2012
(In thousands)					
Residential mortgage loans (1)(2)	$ 3,296,031	$ 3,344,719	$ 3,011,187	$ 2,549,008	$ 2,747,217
Commercial loans:					
Commercial mortgage loans	1,568,808	1,537,806	1,665,787	1,823,608	1,883,798
Construction loans (3)	124,951	156,195	123,480	168,713	361,875
Commercial and Industrial loans	2,180,455	2,246,513	2,317,416	2,621,612	2,676,281

Loans to local financial institutions collateralized by real estate mortgages (2)	-	-	-	240,072	255,390
Total commercial loans	3,874,214	3,940,514	4,106,683	4,854,005	5,177,344
Finance leases	233,335	229,165	232,126	245,323	236,926
Consumer loans	1,483,293	1,597,984	1,750,419	1,821,196	1,775,751
Total loans held for investment	8,886,873	9,112,382	9,100,415	9,469,532	9,937,238
Less: Allowance for loan and lease losses	(205,603)	(240,710)	(222,395)	(285,858)	(435,414)
Total loans held for investment, net	8,681,270	8,871,672	8,878,020	9,183,674	9,501,824
Loans held for sale (3)	50,006	35,869	76,956	75,969	85,394
Total loans, net	$ 8,731,276	$ 8,907,541	$ 8,954,976	$ 9,259,643	$ 9,587,218

____

(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 at acquisition, primarily residential mortgage loans.

(2) On May 30, 2014, FirstBank acquired from Doral Financial mortgage loans, mainly residential mortgage loans, having an unpaid principal balance at acquisition 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 Bank performing residential mortgage loans with an outstanding unpaid principal balance at acquisition of $192.6 million.

(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.

Lending Activities

As of December 31, 2016, the Corporation's total loans held for investment, before the allowance, amounted to $8.9 million, down $225.5 million when compared to December 31, 2015. The decline primarily reflects a $110.5 million decrease in the consumer and finance lease loan portfolio mainly driven by charge-offs and repayments that exceeded the volume of originations, a decrease of $66.3 million in the commercial and construction loan portfolio and a $48.7 million decrease in the residential mortgage loan portfolio, which was primarily reflected in the Puerto Rico region. The decrease in the commercial and construction loan portfolio includes reductions of $195.3 million and $49.7 million in Puerto Rico and the Virgin Islands, respectively, partially offset by an increase of $178.7 million in the Florida (U.S.) region, as further discussed below.

As shown in the table above, as of December 31, 2016, the loans held for investment portfolio was comprised of commercial loans (44%), residential real estate loans (37%), and consumer and finance leases (19%). Of the total gross loan portfolio held for investment of $8.9 billion as of December 31, 2016, approximately 78% had credit risk concentration in Puerto Rico, 15% in the United States (mainly in the state of Florida) and 7% in the Virgin Islands, as shown in the following tables, which also show the credit risk concentration as of December 31, 2015:

As of December 31, 2016	**Puerto Rico**	**Virgin Islands**	**United States**	**Total**
(In thousands)				
Residential mortgage loans	$ 2,480,076	$ 314,915	$ 501,040	$ 3,296,031
Commercial mortgage loans	1,177,550	79,365	311,893	1,568,808
Construction loans	42,753	44,687	37,511	124,951
Commercial and Industrial loans	1,571,097	139,795	469,563	2,180,455
Total commercial loans	2,791,400	263,847	818,967	3,874,214
Finance leases	233,335	-	-	233,335
Consumer loans	1,383,485	48,958	50,850	1,483,293
Total loans held for investment, gross	$ 6,888,296	$ 627,720	$ 1,370,857	$ 8,886,873
Loans held for sale	38,423	-	11,583	50,006
Total loans, gross	$ 6,926,719	$ 627,720	$ 1,382,440	$ 8,936,879

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	1,714,660	173,916	357,937	2,246,513
Total commercial loans	2,986,661	313,563	640,290	3,940,514

Finance leases	229,165	-	-	229,165
Consumer loans	1,506,773	48,430	42,781	1,597,984
Total loans held for investment, gross	$ 7,298,487	$ 689,969	$ 1,123,926	$ 9,112,382
Loans held for sale	33,787	507	1,575	35,869
Total loans, gross	$ 7,332,274	$ 690,476	$ 1,125,501	$ 9,148,251

FirstBanCorp. 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,				
	2016	2015	2014	2013	2012
(In thousands)					
Beginning balance as of January 1	$ 8,907,541	$ 8,954,976	$ 9,259,643	$ 9,587,218	$ 9,974,035
Residential real estate loans originated and purchased (1)	749,653	703,749	826,937	830,959	756,133
Construction loans originated and purchased	19,019	32,604	39,041	57,514	76,822
C&I and commercial mortgage loans originated and purchased	1,601,618	1,734,233	1,842,697	1,608,036	1,224,561
Finance leases originated	87,246	84,978	76,765	104,968	93,700
Consumer loans originated and purchased (2)	780,148	835,719	916,251	1,055,940	1,281,872
Total loans originated and purchased	3,237,684	3,391,283	3,701,691	3,657,417	3,433,088
Loans acquired from Doral Bank	-	311,410	-	-	-
Sales and securitizations of loans	(514,489)	(598,840)	(394,736)	(968,626)	(468,463)
Repayments and prepayments	(2,801,024)	(2,970,373)	(3,483,590)	(2,798,355)	(3,046,987)
Other decreases (3)	(98,436)	(180,915)	(128,032)	(218,011)	(304,455)
Net decrease	(176,265)	(47,435)	(304,667)	(327,575)	(386,817)
Ending balance as of December 31	$ 8,731,276	$ 8,907,541	$ 8,954,976	$ 9,259,643	$ 9,587,218
Percentage decrease	(1.98)%	(0.53)%	(3.29)%	(3.42)%	(3.88)%

(1) For 2014, includes the purchase from Doral Bank of $192.6 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, 2016, the Corporation's residential real estate loan portfolio held for investment decreased by $48.7 million as compared to the balance as of December 31, 2015, mainly resulting from activities in Puerto Rico as principal repayments and charge-offs exceeded the volume of new loans originated and held for investment purposes. The residential mortgage loan portfolio held for investment in Puerto Rico and the Virgin Islands decreased during the year by $95.8 million and $13.1 million, respectively, partially offset by an increase of $60.2 million in Florida.

The majority of the Corporation's outstanding balance of residential mortgage loans consists of fixed-rate, fully amortizing, and 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 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 for the year ended December 31, 2016 amounted to $749.7 million compared to $703.7 million for 2015 and $826.9 million for 2014 (including the purchase of $192.6 million of performing residential mortgage loans from Doral Bank in 2014). These statistics include purchases from mortgage bankers of $85.0 million for the year ended December 31, 2016, compared to $91.9 million in 2015 and $146.5 million in 2014. The higher volume of loan originations in 2016, compared to 2015, includes an increase of $52.9 million in Puerto Rico, primarily conforming loan originations and refinancings, partially offset by decreases of $6.6 million and $0.4 million in the Virgin Islands and Florida, respectively.

Commercial and Construction Loans

As of December 31, 2016, the Corporation's commercial and construction loan portfolio held for investment decreased by $66.3 million to $3.9 billion, as compared to the balance as of December 31, 2015. The decrease in commercial and construction loans includes a reduction of $195.3 million in Puerto Rico driven by the repayment of several large commercial loans, the sale of a $20.2 million commercial loan participation, the sale of the $16.3 million pool of non-performing assets, and charge-offs, including the four large charge-offs totaling $28.0 million noted above. The commercial and construction loan portfolio in the Virgin Islands decreased by $49.7 million primarily related to facilities granted to government entities in the U.S. Virgin Islands. In contrast, the commercial and construction loan portfolio in the Florida region increased by $178.7 million during 2016. The Corporation has invested in facilities, opened in 2016 its 11th South Florida location and first branch within Miami's Brickell Financial District, has increased its resources dedicated to commercial and corporate banking functions and has invested in technology platforms as the Corporation expects to achieve continued growth in this region.

As of December 31, 2016, the Corporation had $133.6 million outstanding (book value of $124.5 million) in loans extended to the Puerto Rico government, its municipalities and public corporations, compared to $153.2 million outstanding as of December 31, 2015. In addition, the outstanding balance of loans granted to the government of the Virgin Islands amounted to $84.7 million as of December 31, 2016, compared to $126.2 million as of December 31, 2015. Approximately $91.0 million outstanding ($81.9 million book value) of the granted credit facilities outstanding consisted of loans to public corporations, including the direct exposure to PREPA, with an outstanding balance of $75 million ($65.5 million book value) as of December 31, 2016, and approximately $6.9 million consisted of loans to units of the Puerto Rico central government. The PREPA credit facility was placed in non-accrual status in the first quarter of 2015, and interest payments recorded on a cost-recovery basis. During the first quarter of 2017, the Corporation received an unsolicited offer and sold its outstanding participation in the PREPA line of credit with a book value of $64 million at the time of sale (principal balance of $75 million), thereby reducing its direct exposure to the Puerto Rico government. A specific reserve of approximately $10.2 million had been allocated to this loan. Gross proceeds from the sale of $53.2 million have resulted in an incremental loss of $0.6 million as compared to the book value, net of reserve. This loss was recognized at the time of the sale in the first quarter of 2017.

In addition, the Corporation had $35.7 million of loans extended to municipalities in Puerto Rico, which in most cases are supported by assigned property tax revenues. The vast majority of municipalities' revenues are independent of the Puerto Rico central government. These municipalities are required by law to levy special property taxes in such amounts as are required for the payment of all of their respective general obligation bonds and notes. Late in 2015, the GDB and the Municipal Revenue Collection Center (CRIM) signed and perfected a deed of trust. Through this deed, the GDB, as fiduciary, is bound to keep the CRIM funds separate from any other deposits and must distribute the funds pursuant to applicable law. The CRIM funds are deposited at another commercial depository financial institution in Puerto Rico.

Furthermore, as of December 31, 2016, the Corporation had $127.7 million outstanding (book value of $111.8 million) in credit facilities extended to the hotel industry in Puerto Rico under which the borrower and the operations of the underlying collateral are the primary sources of repayment and the TDF provides a secondary guarantee for payment performance, compared to $129.4 million as of December 31, 2015. These facilities were placed in non-accrual status and classified as impaired in the first quarter of 2016, and interest payments are now applied against principal. Approximately $2.0 million of interest payments received on loans guaranteed by the TDF since late March 2016 have been applied against principal. The Corporation has been receiving payments on the largest of these three facilities sufficient to cover the monthly contractual payments. This facility matured on February 1, 2017 and is currently under renegotiation. In addition, the borrower's cash flows related to the other two facilities are insufficient to cover debt service and the Corporation is not receiving collections from the TDF guarantee. As such, these two facilities are collateral dependent loans and charge-offs amounting to $13.9 million were recorded during the second half of 2016, of which $13.0 million was charged against reserves established in prior periods. These loans have been adversely classified since the third quarter of 2015. As of December 31, 2016, the loans guaranteed by the TDF are being carried at 72% of unpaid principal balance, net of reserves and accumulated charge-offs. The Corporation measures impairment on these loans based on the fair value of the collateral and the existence of the government guarantee. Developments of the Puerto Rico government debt restructuring process, with the automatic stay on litigations under PROMESA set to expire on May 1, 2017, and actions taken or those that may have to be taken by the Commonwealth or the PROMESA oversight board to address Puerto Rico's fiscal and economic crisis could ultimately adversely affect the value of the Puerto Rico government guarantees, including the TDF guarantee. If as a result of developments, including discussions with regulators, loan rating downgrades, progress in the debt restructuring process, or for other reasons, the Corporation determines that additional impairment charges are necessary, such an action would adversely affect the Corporation's results of operations in the period in which such determination is taken. The Corporation's collections of principal and interest from the TDF in 2016 amounted to $0.6 million compared to $5.3 million in 2015.

As of December 31, 2016, the total reserve to book value coverage ratio related to commercial loans extended to or guaranteed by the Puerto Rico government (excluding municipalities) was 17% and the loans are being carried at 74% of unpaid principal balance, net of reserves and accumulated charge offs.

The TDF is a subsidiary of the GDB that facilitates private sector financings to Puerto Rico's hotel industry. Adverse developments related to the Puerto Rico government's fiscal situation introduced additional uncertainty regarding the TDF's ability to honor its guarantee, including the enactment of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act ("Act 21"). On June 30, 2016, pursuant to Act 21, the Puerto Rico governor ordered a moratorium on the payment of $780 million of the Puerto Rico government's general obligations and the debt of certain other instrumentalities due on July 1, 2016. The Puerto Rico government has continued to default on general obligation bonds, including the payment due on January 1, 2017. This followed a default on the principal payment of $367 million of the GDB's notes due on May 1, 2016. Puerto Rico's governor also issued an executive order intended to protect the GDB's liquidity by allowing withdrawals only to fund necessary costs for essential services such as health, public safety and education services. Recently, the GDB defaulted on a $28 million payment of interest due to its creditors on August 1, 2016, including interest due on the GDB's bonds held by the Corporation, as further discussed below.

As of December 31, 2016, the Corporation's total exposure to shared national credit ("SNC") loans amounted to $717.6 million, compared to $603.1 million as of December 31, 2015. As of December 31, 2016, approximately $434.3 million of the SNC exposure is in Puerto Rico, including $71.9 million of the loans guaranteed by the TDF. The increase is primarily related to participated loans originated in 2016 in both Puerto Rico and Florida regions.

Commercial and construction loan originations (excluding government loans) for 2016 amounted to $1.6 billion compared to $1.7 billion in 2015, a decrease of $85.8 million. The decrease reflects a reduction of $160.0 million in commercial and construction loan originations in Puerto Rico, partially offset by increases of $68.1 million and $6.2 million in Florida and the Virgin Islands, respectively.

Government loan originations for 2016 amounted to $54.8 million compared to $97.1 million for 2015. The decrease reflects the origination in 2015 of two large facilities in the U.S. Virgin Islands totaling $43.2 million.

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, 2016 by category and geographic location follows:

As of December 31, 2016

	Puerto Rico	Virgin Islands	United States	Total
(In thousands)				
Loans for residential housing projects:				
Mid-rise (1)	$ 1,367	$ 956	$ -	$ 2,323
Single-family, detached	3,259	-	7,401	10,660
Total for residential housing projects	4,626	956	7,401	12,983
Construction loans to individuals secured by residential properties	703	2,040	-	2,743
Loans for commercial projects	8,632	38,880	29,970	77,482
Land loans - residential	17,214	2,818	140	20,172
Land loans - commercial	11,614	-	-	11,614

Total before net deferred fees and allowance for loan losses	$ 42,789	$ 44,694	$ 37,511	$ 124,994
Net deferred fees	(36)	(7)	-	(43)
Total construction loan portfolio, gross	42,753	44,687	37,511	124,951
Allowance for loan losses	(1,914)	(642)	(6)	(2,562)
Total construction loan portfolio, net	$ 40,839	$ 44,045	$ 37,505	$ 122,389

(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, 2016:

(In thousands)		
Total undisbursed funds under existing commitments	$	41,271
Construction loans held for investment in non-accrual status	$	49,852
Construction loans held for sale in non-accrual status	$	8,079
Net charge offs - Construction loans	$	1,454
Allowance for loan losses - Construction loans	$	2,562
Non-performing construction loans to total construction loans, including held for sale		43.55%
Allowance for loan losses for construction loans to total construction loans held for investment		2.05%
Net charge-offs to total average construction loans		1.02%

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	$	2,584
Over $600k (1)		2,042
	$	4,626

(1) One residential housing project in Puerto Rico.

Consumer Loans and Finance Leases

As of December 31, 2016, the Corporation's consumer loan and finance lease portfolio decreased by $110.5 million to $1.7 billion, as compared to the portfolio balance of $1.8 billion as of December 31, 2015. The decrease was mainly the result of charge-offs and repayments that exceeded the volume of new originations. The auto and finance lease portfolio decreased by $82.9 million during 2016. The auto loan and finance lease portfolios in Puerto Rico amounted to $793.4 million and $233.3 million, respectively, as of December 31, 2016, compared to $891.0 million and $229.2 million, respectively, as of December 31, 2015. The remaining decrease in the consumer loan portfolio was primarily related to a $14.4 million reduction in the credit card loan portfolio balance, to $280.6 million as of December 31, 2016, and an $8.7 million decrease in boat loans, to $28.1 million as of December 31, 2016.

Originations of auto loans (including finance leases) in 2016 amounted to $361.9 million, an increase of $0.6 million, compared to $361.3 million in 2015. The increase was primarily reflected in Florida and the Virgin Islands with increases of $6.0 million and $1.9 million, respectively, partially offset by a $7.2 million reduction in Puerto Rico.

Personal loan originations, other than credit cards, in 2016 amounted to $186.8 million compared to $184.8 million in 2015. The utilization activity on the outstanding credit card portfolio in 2016 amounted to $318.7 million compared to $327.4 million in 2015.

Investment Activities

As part of its liquidity, revenue diversification and interest rate risk strategies, First BanCorp. maintains an investment portfolio that is classified as available for sale or held to maturity. The Corporation’s total available-for-sale investment securities portfolio as of December 31, 2016 amounted to $1.9 billion, a decrease of $4.5 million from December 31, 2015. The decrease was mainly driven by: (i) sales of approximately $198.7 million of U.S. agency MBS that carried an average yield of 2.36% ($204.8 million of cash proceeds including the gain on sales of $6.1 million), (ii) U.S. agencies MBS prepayments and premium amortization of approximately $238.9 million and $8.2 million, respectively, (iii) Private label MBS prepayments of $5.8 million, and (iv) U.S. agency debt securities matured or called prior to maturity of $142 million. In addition, the fair value of available-for-sale securities decreased by approximately $7.2 million during the year ended December 31, 2016.

These decreases were partially offset by purchases of approximately $604.2 million of securities issued or guaranteed by U.S. agencies during 2016, including: (i) $136.4 million of U.S. agencies callable debentures, (ii) $45.8 million of SBA Guarantee Pool certificates, (iii) $19.9 million of FHLMC guaranteed commercial mortgage-backed securities, (iv) $39.9 million of collateralized mortgage obligations issued by GNMA, (v) $357.2 million of U.S. agencies MBS, and (vi) a $5.0 million bond issued by Farmer Mac.

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

During the first quarter of 2016, the Corporation recorded a $6.3 million credit-related OTTI charge on three Puerto Rico government debt securities held by the Corporation as part of its available-for-sale securities portfolio, specifically bonds of the GDB and the Puerto Rico Public Buildings Authority. This was the third OTTI charge on these securities recorded since June 30, 2015, as OTTI charges of $12.9 million and $3.0 million were booked in the second and fourth quarters of 2015, respectively. The GDB and the Puerto Rico Public Buildings Authority bonds held by the Corporation are scheduled to mature on February 1, 2019 and on July 1, 2028, respectively. Pursuant to the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act enacted on April 6, 2016, the Puerto Rico governor issued an executive order imposing a moratorium on the debt service payment required to be paid by the GDB on May 1, 2016. The GDB paid the scheduled interest payment of $22 million but defaulted on the principal payment of $367 million of its notes due to other creditors on May 1, 2016 and, on August 1, 2016, the GDB defaulted on a $28 million payment of interest due to its creditors, including interest due on the GDB's bonds held by the Corporation. Similarly, the Puerto Rico Public Buildings Authority made only a partial payment on its interest payments due on October 1, 2016 and on January 1, 2017.

In the third quarter of 2016, as a result of the defaults, the Corporation discontinued income recognition related to, and placed in non-performing status, the bonds of the GDB and the Puerto Rico Public Buildings Authority held as part of the available-for-sale investment securities portfolio. As of December 31, 2016, the amortized cost of these bonds, including accrued interest of $0.9 million, was $35.6 million, recorded on the Corporation's books at their aggregate fair value of $20.5 million.

In addition to bonds of the GDB and the Puerto Rico Public Buildings Authority, the Corporation owns bonds of the Puerto Rico Housing Finance Authority in the aggregate amount of $7.9 million that are carried on the Corporation's books at their aggregate fair value of $6.3 million and are current as to contractual payments as of December 31, 2016.

As of December 31, 2016, the Corporation's held-to-maturity investment securities portfolio amounted to $156.2 million, down $5.3 million from December 31, 2015. This decrease was driven by principal repayments received during the year. Held-to-maturity investment securities consist of financing arrangements with Puerto Rico municipalities issued in bond form, accounted for as securities, but underwritten as loans with features that are typically found in commercial loans. These obligations typically are not issued in bearer form, are not registered with the SEC and are not rated by external credit agencies. These bonds have seniority to the payment of operating costs and expenses of the municipality and are supported by assigned property tax revenues. Approximately 87% consist of obligations issued by five of the largest municipalities in Puerto Rico (San Juan, Carolina, Bayamon, Mayaguez and Guaynabo). These municipalities are required by law to levy special property taxes in such amounts as are required for the payment of all of their respective general obligation bonds and loans.

Refer to "Exposure to Puerto Rico Government" discussion below for information and details about the Corporation's total direct exposure to the Puerto Rico government.

The following table presents the carrying value of investments as of December 31, 2016 and 2015:

(In thousands)		2016		2015
Money market investments	$	10,094	$	219,473
Investment securities available for sale, at fair value:				
U.S. government and agencies obligations		505,859		460,558
Puerto Rico government obligations		26,828		28,217
Mortgage-backed securities		1,348,725		1,397,520
Other		508		100
Total investment securities available for sale, at fair value		1,881,920		1,886,395
Investment securities held-to-maturity, at amortized cost:				
Puerto Rico Municipal Bonds		156,190		161,483
Other equity securities, including $40.8 million and $31.3 million of FHLB stock as of December 31, 2016 and 2015, respectively		42,992		32,169
Total money market and investment securities	$	2,091,196	$	2,299,520

Mortgage-backed securities as of December 31, 2016 and 2015 consisted of:

	2016	2015
(In thousands)		
Available-for-sale:		
FHLMC certificates	$ 315,320	$ 287,445
GNMA certificates	226,627	301,573
FNMA certificates	727,273	783,195
Collateralized mortgage obligations issued or guaranteed by FHLMC or GNMA	58,812	-
Other mortgage pass-through certificates	20,693	25,307
Total mortgage-backed securities	$ 1,348,725	$ 1,397,520

The carrying values of investment securities classified as available for sale and held to maturity as of December 31, 2016 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	$ 7,509	0.57
Due after one year through five years	437,668	1.33
Due after five years through ten years	16,695	1.91
Due after ten years	43,987	1.12
	505,859	1.32
Puerto Rico government and municipality obligations		
Due after one year through five years	10,336	0.27
Due after five years through ten years	10,741	4.47
Due after ten years	161,941	4.37
	183,018	3.91
Other Investment Securities		
Due after one year through five years	100	1.50
Total	688,977	2.05
Mortgage-backed securities	1,348,725	2.49
Equity securities	408	2.44
Total investment securities available for sale and held to maturity	$ 2,038,110	2.34

Net interest income of future periods could be affected by prepayments of mortgage-backed securities. Acceleration in the prepayments of mortgage-backed securities would lower yields on these securities, as the amortization of premiums paid upon acquisition of these securities would accelerate. Conversely, acceleration of the prepayments of mortgage-backed securities would increase yields on securities purchased at a discount, as the amortization of the discount would accelerate. These risks are directly linked to future period market interest rate fluctuations. Also, net interest income in future periods might be affected by the Corporation's investment in callable securities. As of December 31, 2016, the Corporation had approximately $145.7 million in debt securities (U.S. Agencies and Puerto Rico government securities) with embedded calls and with an average yield of 1.42%. 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 – Investment Securities, of 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, 2016:

		2-5 Years		Over 5 Years		
	One Year or Less	**Fixed Interest Rates**	**Variable Interest Rates**	**Fixed Interest Rates**	**Variable Interest Rates**	**Total**
(In thousands)						
Investments:						
Money market investments	$ 10,094	$ -	$ -	$ -	$ -	$ 10,094
Mortgage-backed securities	79,957	23,894	-	1,244,874	-	1,348,725
Other securities (1)	208,982	461,848	-	61,547	-	732,377
Total investments	299,033	485,742	-	1,306,421	-	2,091,196
Loans: (2) (3)						
Residential mortgage	493,691	298,713	237,297	2,302,931	5,327	3,337,959
C&I and commercial mortgage	3,143,901	263,269	225,040	112,062	4,991	3,749,263
Construction	124,966	5,697	-	2,366	-	133,029
Finance leases	75,163	154,996	-	3,176	-	233,335
Consumer	641,615	786,157	-	55,521	-	1,483,293
Total loans	4,479,336	1,508,832	462,337	2,476,056	10,318	8,936,879
Total earning assets	$ 4,778,369	$ 1,994,574	$ 462,337	$ 3,782,477	$ 10,318	$ 11,028,075

(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 have 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 and of cyber incidents or data breaches. It includes business risks 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:

<u>Board of Directors</u>

The Board of Directors oversees the Corporation's overall risk governance program with the assistance of the Board Committees discussed below.

<u>Risk Committee</u>

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. The Committee's primary responsibilities are to:

- Review and discuss management's assessment of the Corporation's aggregate enterprise-wide profile and the alignment of the Corporation's risk profile with the Corporation's strategic plan, goals and objectives.

- Review and recommend to the Board the articulation and establishment of the Corporation's risk tolerance and risk appetite.

- Receive reports from management and, if appropriate, other Board committees, regarding the Corporation's policies and procedures related to the Corporation's adherence to risk limits and its established risk tolerance and risk appetite or on selected risk topics.

- Oversee the strategies, policies, procedures, and systems established by management to identify, assess, measure, and manage the major risks facing the Corporation, which may include an overview of the Corporation's credit risk, operational risk, compliance risk, interest rate risk, liquidity risk, market risk, and reputational risk, as well as management's capital management, planning and assessment process.

- Oversee management's activities with respect to capital planning, including stress testing and model risk.

- Review and discuss with management risk assessments for new products and services.

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.

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 complies with the provisions of the Written Agreement entered into with the New York FED. In addition, the Compliance Committee assists 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 that risk management is communicated at all levels of the Corporation, and each area understands its specific role, there are several management level committees that have been established 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 Committee is appointed by the Chief Executive Officer and provides Senior and Executive 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 on the Committee as an observer.

The Committee provides 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 matters related to the enterprise risk management framework of the Corporation, including, but not limited to:

- The risk governance structure
- The risk competencies of the Corporation
- The Corporation's risk appetite statement and risk tolerance; and
- The 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 gaps;
- 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) – oversees and establishes 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 the 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.

(9) Stress Testing and Capital Planning Committee – oversees the implementation of the Corporation's stress testing program and its compliance with the Dodd-Frank Act. The Stress Testing and Capital Planning Committee is responsible for the development and implementation of ongoing stress testing activities as a component of risk management and capital planning within the Corporation. Reviews all stress testing activities on a regular basis to determine validity of assumptions, estimates, underlying models, macroeconomic scenarios and results.

(10) Regulatory Reporting Committee – oversees and assists the Senior Officers in fulfilling their responsibility for oversight of the accuracy and timeliness of the required regulatory reports and related policies and procedures, addresses changes and/or concerns communicated by the regulators and addresses issues identified during the regulatory reporting process. The Regulatory Reporting Committee oversees the established controls and procedures designed to ensure that information in the regulatory reports is recorded, processed, and reported accurately and on a timely basis.

(11) Complaints Management Committee – assists in overseeing the complaint management process implemented across the Corporation within the three marketplaces; Puerto Rico, Eastern Caribbean Region (US Virgin Islands & British Virgin Islands) and Florida. The Complaints Management Committee supports the Corporation's Complaints Management Program to enable the prevention, recognition, resolution and management of complaints within the lines of business. When appropriate, the Complaints Management Committee evaluates existing corrective actions within lines of business related to complaints and complaint management practices within the units.

(12) Project Portfolio Management Committee – reviews and oversees the portfolio's and individual project's performance during the Project Management Cycle (Initiation, Planning, Execution, Control & Monitoring, and Closing). The Project Portfolio Management Committee balances conflicting demands between projects, decides on priorities assigned to each project based on organizational priorities and capacity, oversees project budgets, risks and actions taken to control and mitigate risks.

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 ("CRO") is responsible for the oversight of the risk management of the Corporation 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, loan review, model risk, and operational risk management.

3) Chief 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 and disclosure controls and procedures.

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 Planning Director 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.

7) Capital Planning Manager is responsible for developing and executing a strategy for a stress testing modeling framework. The Capital Planning Manager oversees DFAST implementation and compliance while ensuring that stress tests are documented appropriately, including a description of the types of stress test methodologies used, key assumptions, results, and suggested actions.

8) 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 a key advisor to business executives with regards to risk exposure to the organization, corrective actions and corporate policies and best practices to mitigate risks.

9) Compliance Director is responsible for oversight of regulatory compliance. The Compliance Director 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.

10) General Counsel is responsible for the oversight of legal risks, including matters such as contract structuring, litigation risk and all legal related aspects. The Corporate Affairs Officer assists the General Counsel with various legal areas, including, but not limited, to SEC reporting matters, insurance coverage and liability, and contract structuring.

11) 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, 2016, FirstBank could not pay any dividends to the parent company except upon receipt of prior approval by the Federal Reserve Bank of New York (the "New York FED") and the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") because of the Written Agreement. During the second quarter of 2016, the Corporation received approval from the Federal Reserve and paid $31.2 million for all the accrued but deferred interest payments plus the interest for the second quarter on the Corporation's subordinated debentures associated with its trust preferred securities. Subsequently, the Corporation received quarterly approvals and paid the interest for the third and fourth quarters of 2016. As of December 31, 2016, the Corporation is current on all interest payments due related to its subordinated debt. Future interest payments are subject to the approval of the New York FED and the Federal Reserve Board. It is the intent of the Corporation to request approvals in future periods to continue regularly scheduled quarterly interest payments.

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 help ensure that the Corporation will be able to operate through periods of stress when access to normal sources of funds is constrained. The plans project funding requirements during a potential period of stress, specify and quantify sources of liquidity, outline actions and procedures for effectively managing through a difficult period, and define roles and responsibilities. Under the contingency funding plan, the Corporation stresses the balance sheet and the liquidity position to critical levels that imply difficulties in getting new funds or even maintaining the current funding position of the Corporation and the Bank and are designed to help ensure the ability of the Corporation and the Bank to honor their 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, 2016, the estimated core liquidity reserve (which consists of cash and free liquid assets) was $1.6 billion or 13.35% of total assets, compared to $1.5 billion or 12.3% of total assets as of December 31, 2015. The basic liquidity ratio (which adds available secured lines of credit to the core liquidity) was approximately 19.7% of total assets, compared to 17.4% of total assets as of December 31, 2015. As of

December 31, 2016, the Corporation had $754.3 million available for additional credit from the FHLB NY. Unpledged liquid securities as of December 31, 2016 mainly consisted of fixed-rate MBS and U.S. agency debentures amounting to approximately $1.2 billion. 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, 2016, the holding company had $35.5 million of cash and cash equivalents. Cash and cash equivalents at the Bank level as of December 31, 2016 were approximately $292.8 million. The Bank had $1.4 billion in brokered CDs as of December 31, 2016, of which approximately $798.8 million 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 62% excluding brokered CDs).

Sources of Funding

The Corporation utilizes different sources of funding to help ensure that adequate levels of liquidity are available when needed. Diversification of funding sources is of great importance to protect the Corporation's liquidity from market disruptions. The principal sources of short-term funds are deposits, including brokered CDs, securities sold under agreements to repurchase, and lines of credit with the FHLB.

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

The Corporation has continued reducing the amounts of brokered CDs. As of December 31, 2016, the amount of brokered CDs had decreased $657.8 million to $1.4 billion from brokered CDs of $2.1 billion as of December 31, 2015. At the same time as the Corporation focuses on reducing its reliance on brokered CDs, it is seeking to add core deposits. During 2016, the Corporation increased non-brokered deposits, excluding government deposits, by $164.5 million to $6.8 billion, primarily reflecting increases in demand deposits and savings in Puerto Rico.

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, 2016	2016	As of December 31, 2015	2014
(In thousands)				
Interest-bearing savings accounts	0.44%	$ 2,518,496	$ 2,459,186	$ 2,450,484
Interest-bearing checking accounts	0.42%	1,075,929	1,088,651	1,054,136
Certificates of deposit	1.21%	3,752,625	4,453,728	5,078,709
Interest-bearing deposits	0.83%	7,347,050	8,001,565	8,583,329
Non-interest-bearing deposits		1,484,155	1,336,559	900,616
Total		$ 8,831,205	$ 9,338,124	$ 9,483,945
Interest-bearing deposits:				
Average balance outstanding		$ 7,750,185	$ 8,352,900	$ 8,896,722
Non-interest-bearing deposits:				
Average balance outstanding		$ 1,415,913	$ 1,220,726	$ 876,460
Weighted average rate during the period on interest-bearing deposits		0.87%	0.83%	0.88%

Brokered CDs – A large portion of the Corporation's funding has been brokered CDs issued by FirstBank. Total brokered CDs decreased during 2016 by $657.8 million to $1.4 billion as of December 31, 2016.

The average remaining term to maturity of the retail brokered CDs outstanding as of December 31, 2016 is approximately 1.17 years.

The use of brokered CDs has historically been important for the growth of the Corporation. The Corporation encounters intense competition in attracting and retaining regular retail deposits in Puerto Rico. The brokered CD market is very competitive and liquid, and has enabled the Corporation to obtain substantial amounts of funding in short periods of time. This strategy has enhanced the Corporation’s liquidity position, since brokered CDs are insured by the FDIC up to regulatory limits and can be obtained faster than regular retail deposits. During 2016, the Corporation issued $633.5 million in brokered CDs with an average cost of 1.21%.

The following table presents contractual maturities of brokered CDs with denominations of $100,000 or higher as of December 31, 2016:

		Total
(In thousands)		
Three months or less	$	475,095
Over three months to six months		305,004
Over six months to one year		771,549
Over one year		1,410,449
Total	$	2,962,097

Certificates of deposit in denominations of $100,000 or higher include brokered CDs of $1.4 billion issued to deposit brokers in the form of large certificates of deposit that are generally participated out by brokers in shares of less than the FDIC insurance limit.

Government deposits - As of December 31, 2016, the Corporation had $408.8 million of Puerto Rico public sector deposits ($336.9 million in transactional accounts and $71.9 million in time deposits) compared to $390.4 million as of December 31, 2015. Approximately 28% came from municipalities and municipal agencies in Puerto Rico and 72% came from public corporations and the central government and agencies.

In addition, as of December 31, 2016, the Corporation had $154.9 million of government deposits in the Virgin Islands, compared to $186.9 million as of December 31, 2015.

Retail deposits – The Corporation’s deposit products also include regular savings accounts, demand deposit accounts, money market accounts and retail CDs. Total deposits, excluding brokered CDs and government deposits, increased by $164.5 million to $6.8 billion from the balance of $6.7 billion as of December 31, 2015. The higher balance reflects increases of $243.2 million and $23.2 million in Puerto Rico and the Virgin Islands regions, respectively, primarily increases in demand deposits and savings, partially offset by a decrease of $102.0 million in the Florida region. Refer to Note 16 – Deposits and Related Interest, of the Corporation's audited financial statements for the year ended December 31, 2016 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, 2016, 2015 and 2014.

Borrowings

As of December 31, 2016, total borrowings amounted to $1.19 billion as compared to $1.38 billion and $1.46 billion as of December 31, 2015 and 2014, respectively.

The following table presents the composition of total borrowings as of the dates indicated:

	Weighted Average Rate as of December 31, 2016	**As of December 31,**		
		2016	**2015**	**2014**
(Dollars in thousands)				
Securities sold under agreements to repurchase	2.35%	$ 300,000	$ 700,000	$ 900,000
Advances from FHLB	1.31%	670,000	455,000	325,000
Other borrowings	3.61%	216,187	226,492	231,959
Total (1)		$ 1,186,187	$ 1,381,492	$ 1,456,959
Weighted average rate during the period		2.62%	2.53%	2.72%

(1) Includes borrowings of $686.2 million as of December 31, 2016 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 $500 million and $900 million as of December 31, 2016 and 2015, respectively. During 2016, the Corporation repaid at maturity $400 million of repurchase agreements that carried an average cost of 3.35%. 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 – Securities Sold under Agreements to Repurchase, of the Corporation's audited financial statements for the period ended December 31, 2016 included in Item 8 of this Form 10-K for further details about repurchase agreements outstanding by counterparty and maturities.

As of December 31, 2016, the Corporation had $200 million of reverse repurchase agreements with a counterparty under a master netting arrangement that provides for a right of setoff that meets the conditions of ASC 210-20-45-11 for a net presentation. These repurchase agreements and reverse repurchase agreements are presented net on the consolidated statement of financial condition.

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

Given the quality of the collateral pledged, the Corporation has not experienced 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, 2016 and 2015, the outstanding balance of FHLB advances was $670.0 and $455.0 million, respectively. During the fourth quarter of 2016, the Bank entered into new 2-3 Year FHLB advances totaling $145.0 million with an average cost of 1.69% and short-term FHLB advances totaling $170.0 million maturing in January 2017. As of December 31, 2016, the Corporation had $754.3 million available for additional credit on FHLB lines of credit.

Trust Preferred Securities - In 2004, FBP Statutory Trust I, a statutory trust that is wholly owned by the Corporation and not consolidated in the Corporation's financial statements, sold to institutional investors $100 million of its variable rate trust-preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the

Corporation of $3.1 million of FBP Statutory Trust I variable rate common securities, were used by FBP Statutory Trust I to purchase $103.1 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures.

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

The subordinated 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 the subordinated debentures may be shortened (such shortening would result in a mandatory redemption of the variable rate trust-preferred securities). The Collins Amendment of the Dodd-Frank Act eliminated certain trust-preferred securities from Tier 1 Capital. Bank Holding Companies such as the Corporation were required to fully phase out these instruments from Tier I capital. Bank holding companies such as the Corporation were required to fully phase out these instruments from Tier 1 capital in January 1, 2016; however, they may remain in Tier 2 capital until the instruments are redeemed or mature.

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

During the second quarter of 2016, the Corporation received approval from the Federal Reserve and paid $31.2 million for all the accrued but deferred interest payments plus the interest for the second quarter on the Corporation's subordinated debentures associated with its trust preferred securities. Subsequently, the Corporation received quarterly approvals and paid the interest for the third and fourth quarters of 2016. As of December 31, 2016, the Corporation is current on all interest payments due related to its subordinated debt. Future interest payments are subject to Federal Reserve approval. It is the intent of the Corporation to request approvals in future periods to continue regularly scheduled quarterly interest payments.

Other Sources of Funds and Liquidity

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. During 2016, the Corporation sold approximately $338.3 million of FHA/VA mortgage loans to GNMA, which packages them into mortgage-backed securities. Any regulatory actions affecting GNMA, FNMA or FHLMC could adversely affect the secondary mortgage market.

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

Impact of Credit Ratings on Access to Liquidity

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

The Corporation does not have any outstanding debt or derivative agreements that would be affected by credit downgrades. Furthermore, given the Corporation's 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 credit 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 B1 by Moody's, four 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. The Corporation's credit ratings are dependent on a number of factors, both quantitative and qualitative, and are subject to change at any time. The disclosure of credit ratings is not a recommendation to buy, sell or hold the Corporation's securities. Each rating should be evaluated independently of any other rating.

Cash Flows

Cash and cash equivalents were $299.7 million as of December 31, 2016, a decrease of $452.8 million when compared to the total balance of cash and cash equivalents of $752.5 million as of December 31, 2015. The total balance of cash and cash equivalents as of December 31, 2015, was $43.7 million lower than as of December 31, 2014. The following discussion highlights the major activities and transactions that affected the Corporation's cash flows during 2016 and 2015.

Cash Flows from Operating Activities

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

For 2016 and 2015, net cash provided by operating activities was $199.4 million and $261.9 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. The decrease in 2016 was largely driven by the payment of accrued but deferred interest payments on trust preferred securities described above.

Cash Flows from Investing Activities

The Corporation’s investing activities primarily relate to originating loans to be held for investment and purchasing, selling and repaying available-for-sale and held-to-maturity investment securities. For the year ended December 31, 2016, net cash provided by investing activities was $83.2 million, primarily reflecting proceeds from sales of available-for-sale securities and MBS prepayments.

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.

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, 2016, net cash used in financing activities was $735.4 million, mainly due to repayments of maturing brokered CDs and repurchase agreements, and the cash used for the repurchase and cancellation of trust preferred securities, partially offset by the increase in non-brokered deposits and proceeds from new FHLB advances.

During 2015, net cash used in financing activities was $744.5 million, mainly due to repayments of maturing brokered CDs and funds used for the aforementioned $200 million reverse repurchase agreements.

Capital

As of December 31, 2016, the Corporation's stockholders' equity was $1.8 billion, an increase of $92.1 million from December 31, 2015. The increase was mainly driven by the net income of $93.2 million reported for 2016. 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. For the first time since July 2009, the Corporation paid dividends on its non-cumulative perpetual monthly income preferred stock in December 2016, after receiving regulatory approval. The Corporation has received approvals to pay monthly dividends through March 2017 and paid monthly dividends on its non-cumulative perpetual monthly income preferred stock in January and February 2017. The Corporation intends to request approval in future periods to continue to pay monthly dividend payments on the non-cumulative perpetual monthly income preferred stock.

Set forth below are First BanCorp.'s and FirstBank's regulatory capital ratios as of December 31, 2016 and December 31, 2015:

			Banking Subsidiary		
	First BanCorp.		FirstBank		To be well capitalized
As of December 31, 2016	**Actual**	**Fully Phased-in [(1)]**	**Actual**	**Fully Phased-in [(1)]**	
Total capital ratio (Total capital to risk-weighted assets)	21.34%	20.84%	20.80%	20.32%	10.00%
Common Equity Tier 1 capital ratio (Common equity Tier 1 capital to risk weighted assets)	17.74%	16.90%	16.92%	15.70%	6.50%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	17.74%	17.30%	19.53%	19.05%	8.00%
Leverage ratio	13.70%	13.64%	15.10%	15.04%	5.00%

			Banking Subsidiary		
	First BanCorp.		FirstBank		To be well capitalized
As of December 31, 2015	**Actual**	**Fully Phased-in [(1)]**	**Actual**	**Fully Phased-in [(1)]**	
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)	16.92%	15.44%	16.35%	14.61%	6.50%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	16.92%	15.83%	18.45%	17.91%	8.00%
Leverage ratio	12.22%	11.69%	13.33%	13.24%	5.00%

(1)

Certain adjustments required under the Basel III rules will be phased in through the end of 2018. The ratios shown in this column are calculated assuming that the adjustments were fully phased-in and effective as of December 31, 2016 and 2015.

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

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

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

In addition, as required under Basel III rules, the Corporation's trust-preferred securities ("TRuPs") were fully phased out from Tier 1 capital as of 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, 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 Dodd-Frank Act stress testing requirements that apply to banking organizations with consolidated assets of more than $10 billion and less than $50 billion. Consistent with these requirements, the Corporation submitted its second annual company-run stress test to regulators in July 2016, which were published in October 2016. The results show that even in a severely adverse economic environment, which we are not currently in nor do we anticipate being in during the near future, the Corporation's and the Bank's capital ratios significantly 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, purchased credit card relationship asset and insurance customer relationship intangible asset. Tangible assets are total assets less goodwill, core deposit intangibles, purchased credit card relationship and insurance customer relationship intangible assets. Refer to “Basis of Presentation” below for additional information.

The following table is a reconciliation of the Corporation's tangible common equity and tangible assets for the years ended December 31, 2016 and 2015, respectively:

(In thousands, except ratios and per share information)	December 31, 2016	December 31, 2015
Total equity - GAAP	$ 1,786,243	$ 1,694,134
Preferred equity	(36,104)	(36,104)
Goodwill	(28,098)	(28,098)
Purchased credit card relationship intangible	(10,531)	(13,319)
Core deposit intangible	(7,198)	(9,166)
Insurance customer relationship tangible	(927)	-
Tangible common equity	**$ 1,703,385**	**$ 1,607,447**
Total assets - GAAP	$ 11,922,455	$ 12,573,019
Goodwill	(28,098)	(28,098)
Purchased credit card relationship intangible	(10,531)	(13,319)
Core deposit intangible	(7,198)	(9,166)
Insurance customer relationship tangible	(927)	-
Tangible assets	**$ 11,875,701**	**$ 12,522,436**
Common shares outstanding	**217,446**	**215,089**
Tangible common equity ratio	**14.34%**	**12.84%**
Tangible book value per common share	$ **7.83**	$ **7.47**

The Banking Law of the Commonwealth of Puerto Rico requires that a minimum of 10% of FirstBank's net income for the year be transferred to legal surplus until such surplus equals the total of paid-in capital on common and preferred stock. Amounts transferred to the legal surplus account from the retained earnings account are not available for distribution to the Corporation, including for payment as dividends to the stockholders, without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The Puerto Rico Banking Law provides that, when the expenditures of a Puerto Rico commercial bank are greater than receipts, the excess of the expenditures over receipts must be charged against the undistributed profits of the bank, and the balance, if any, must 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 must 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 2016 and 2015, $9.6 million and $2.8 million, respectively, were 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 $52.4 million and $42.8 million, respectively, as of December 31, 2016 and 2015.

On December 5, 2016, THL and Oaktree participated in a secondary offering of the Corporation's common stock. THL and Oaktree sold an aggregate of 18 million shares (9 million shares each) of common stock at a price of $5.60 per share. In addition, the underwriters exercised their option to purchase an additional 2.7 million shares of common stock from the selling stockholders. Also, on February 7, 2017, THL and Oaktree participated in another secondary offering in which they sold an additional aggregate amount of 20 million shares (10 million shares each) of common stock at a price of $6.36 per share. Subsequently, the underwriters exercised their option to purchase an additional 3 million shares of common stock from THL and Oaktree. The Corporation did not receive any proceeds from these offering. As of March 3, 2017, each of THL and Oaktree owns 9.2% of the Corporation's common stock.

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, 2016, commitments to extend credit amounted to approximately $1.1 billion, of which $626.7 million relates to credit card loans. Commercial and financial standby letters of credit amounted to $50.1 million. Commitments to extend credit are agreements to lend to customers as long as the conditions established in the contract are met. Generally, the Corporation does not enter into interest rate lock agreements with prospective borrowers in connection with 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, 2016				
(In thousands)	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Contractual obligations:					
Certificates of deposit	$ 3,752,625	$ 1,982,465	$ 1,454,107	$ 309,670	$ 6,383
Securities sold under agreements to repurchase (1)	300,000	100,000	-	-	200,000
Advances from FHLB	670,000	370,000	300,000	-	-
Other borrowings	216,187	-	-	-	216,187
Operating leases	86,178	10,735	19,755	13,760	41,928
Other contractual obligations	105,484	49,157	45,058	6,854	4,415
Total contractual obligations	$ 5,130,474	$ 2,512,357	$ 1,818,920	$ 330,284	$ 468,913

Commitments to sell mortgage loans	$ 119,679
Standby letters of credit	$ 2,556
Commitments to extend credit:	
Lines of credit	$ 1,088,990
Letters of credit	47,515
Construction undisbursed funds	41,271
Total commercial commitments	$ 1,177,776

(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 making 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 the 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, the 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 that 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, that 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 agreement rates and the mortgage commitment rate of 30 years.

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

The Libor/Swap curve for December 31, 2016, as compared to December 2015, reflected a 44 basis point increase in the short-term horizon, between one to twelve months, while market rates increased by 26 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 increased by 14 basis points. The U.S. Treasury curve in the short-term increased by 25 point basis and in the medium-term horizon increased by 17 basis points as compared to December 2015 end of month levels. The long-term horizon increased by 12 basis points as compared to December 2015 end of month levels.

The following table presents the results of the simulations as of December 31, 2016 and December 31, 2015. Consistent with prior years, these exclude non-cash changes in the fair value of derivatives:

December 31, 2016 Net Interest Income Risk (Projected for the next 12 months)	December 31, 2015 Net Interest Income Risk (Projected for the next 12 months)
Static Simulation	**Static Simulation**

			Growing Balance Sheet				Growing Balance Sheet	
(Dollars in millions)	Change	% Change	Change	% Change	Change	% Change	Change	% Change
+ 200 bps ramp	$ 12.1	2.51%	$ 14.0	2.89%	$ 12.6	2.51%	$ 14.2	2.81%
- 200 bps ramp	$ (6.5)	(1.36)%	$ (11.4)	(2.35)%	$ (7.8)	(1.55)%	$ (8.7)	(1.72)%

The Corporation continues to manage its balance sheet structure to control the overall interest rate risk. As part of the strategy to limit the interest rate risk, the Corporation has executed certain transactions that affected the simulation results. The composition of the loan portfolio has changed as compared to December 2015 end of month levels, primarily reflecting lower commercial and consumer loan balances. However, non-performing assets increased in 2016 by $124.6 million, primarily attributable to the inflow in the first quarter of 2016 of the Corporation's exposure to commercial mortgage loans guaranteed by the TDF with a book value of $111.8 million as of December 31, 2016, the inflow in 2016 of two commercial relationships in Puerto Rico totaling $68.7 million, and the inflow in the third quarter of 2016 of the GDB and Puerto Rico Public Buildings Authority bonds held by the Corporation as part of its available-for-sale securities portfolio recorded at their aggregate fair value of $20.5 million. The Corporation has continued reducing its holdings of brokered CDs, with a reduction of $657.8 million during 2016. It repaid at maturity $400 million of repurchase agreements.

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 $14.0 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 $11.4 million.

Derivatives

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

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

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

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

For detailed information regarding the volume of derivative activities (e.g. notional amounts), location and fair values of derivative instruments in the Statement of Financial Condition and the amount of gains and losses reported in the Statement of Income, refer to Note 31 – Derivative Instruments and Hedging Activities, of the Corporation's audited financial statements for the year ended December 31, 2016 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:

(In thousands)	**Asset Derivatives Year Ended December 31, 2016**		**Liability Derivatives Year Ended December 31, 2016**	
Fair value of contracts outstanding at the beginning of the year	$	806	$	(921)
Fair value of new contracts entered into during the period		19		(25)
Changes in fair value during the year		(271)		193

Fair value of contracts outstanding as of December 31, 2016	$	554	$	(753)

Sources of Fair Value

(In thousands)	Maturity Less Than One Year	Maturity 1-3 Years	Maturity 3-5 Years	Maturity in Excess of 5 Years	Total Fair Value
	Payment Due by Period				
As of December 31, 2016					
Pricing from observable market inputs - Asset Derivatives	$ -	$ 1	$ 553	$ -	$ 554
Pricing from observable market inputs - Liability Derivatives	(201)	(1)	(551)	-	(753)
	$ (201)	$ -	$ 2	$ -	$ (199)

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

As of December 31, 2016 and 2015, 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 for default of the counterparty. To manage this credit risk, the Corporation deals with counterparties of good credit standing, enters into master netting agreements whenever possible and, when appropriate, obtains collateral. Master netting agreements incorporate rights of set-off that provide for the net settlement of contracts with the same counterparty in the event of default.

Refer to Note 28 – Fair Value, of the Corporation's audited financial statements for the year ended December 31, 2016 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 and lease losses to total loans held for investment decreased to 2.31% as of December 31, 2016 compared to 2.64% as of December 31, 2015, primarily due to the four large commercial loan charge-offs totaling $28.0 million recorded during 2016, of which $23.3 million was charged against reserves established in prior periods. 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 decreased from 3.06% as of December 31, 2015 to 2.84% as of December 31, 2016; the allowance to total loans for the commercial mortgage portfolio decreased from 4.44% as of December 31, 2015 to 3.65% as of December 31, 2016, impacted by the recognition during the year of charge-offs on loans guaranteed by the TDF against reserves established in prior periods as discussed below; the allowance to total loans for the construction loan portfolio decreased from 2.25% as of December 31, 2015 to 2.05% as of December 31, 2016; the allowance to total loans for the residential mortgage portfolio decreased from 1.18% as of December 31, 2015 to 1.03% as of December 31, 2016 primarily driven by adjustments recorded early in 2016 based on the experience observed over a 12-month lookback period that showed lower than projected liquidations, loss severity rates and delinquency levels; and the allowance to total loans in the consumer and finance leases portfolio decreased from 3.32% as of December 31, 2015 to 2.90% as of December 31, 2016 driven by an improved charge-off rates trend and lower loss severity rates.

The ratio of the total allowance for loan and lease losses to non-performing loans held for investment was 36.71% as of December 31, 2016 compared to 54.36% as of December 31, 2015, primarily reflecting the effect of the sale of the $16.3 million pool of non-performing assets and the migration to non-performing status in the first quarter of 2016 of the Corporation’s exposure to commercial mortgage loans guaranteed by the TDF with a book value of $111.8 million as of December 31, 2016. These loans have been adversely classified since the third quarter of 2015, and the migration of the loans to non-performing status in 2016 did not result in a significant increase to the total allowance for loan losses. During the second half of 2016, the Corporation recorded charge-offs of $13.9 million on these loans, of which $13.0 million was charged against reserves established in prior periods. As of December 31, 2016, the total reserve to book value coverage ratio related to commercial loans extended to or guaranteed by the Puerto Rico government (excluding municipalities) was 17% and the loans are being carried at 74% of unpaid principal balance, net of reserves and accumulated charge-offs.

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. or 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 has experienced readjustments in value over the last few years driven by the loss of income due to higher unemployment, reduced demand and general adverse economic conditions. The Corporation sets adequate loan-to-value ratios upon original approval following its regulatory and credit policy standards.

As shown in the following table, the allowance for loan and lease losses amounted to $205.6 million as of December 31, 2016, or 2.31% of total loans, compared with $240.7 million, or 2.64% of total loans, as of December 31, 2015.

Refer to “Provision for Loan and Lease Losses” above for additional information.

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,	**2016**	**2015**	**2014**	**2013**	**2012**
(Dollars in thousands)					
Allowance for loan and lease losses, beginning of year	$ 240,710	$ 222,395	$ 285,858	$ 435,414	$ 493,917
Provision (release) for loan and lease losses:					
Residential mortgage (1)	25,090	30,377	17,487	92,755	36,531
Commercial mortgage (2)	8,688	66,884	(7,076)	38,048	(778)
Commercial and Industrial (3)	17,075	34,575	36,681	43,608	38,773
Construction (4)	497	(6,891)	(17,508)	15,461	10,955
Consumer and finance leases	35,383	47,100	79,946	53,879	35,018
Total provision for loan and lease losses (5)	86,733	172,045	109,530	243,751	120,499
Charge-offs:					
Residential mortgage (6)	(33,621)	(19,317)	(24,345)	(129,164)	(37,944)
Commercial mortgage (7)	(20,454)	(56,101)	(25,807)	(67,457)	(21,779)
Commercial and Industrial (8)	(26,579)	(33,844)	(61,935)	(109,849)	(49,521)
Construction (9)	(1,770)	(4,994)	(11,533)	(43,323)	(45,008)
Consumer and finance leases	(54,504)	(62,465)	(76,696)	(63,108)	(43,735)
Total charge offs (10)	(136,928)	(176,721)	(200,316)	(412,901)	(197,987)
Recoveries:					
Residential mortgage	2,941	1,209	1,049	1,165	1,089
Commercial mortgage (11)	816	6,534	10,639	4,855	810
Commercial and Industrial (12)	2,689	4,316	3,680	4,636	3,605
Construction (13)	316	2,582	6,049	2,076	4,267
Consumer and finance leases	8,326	8,350	5,906	6,862	9,214
Total recoveries (14)	15,088	22,991	27,323	19,594	18,985
Net charge-offs	(121,840)	(153,730)	(172,993)	(393,307)	(179,002)
Allowance for loan and lease losses, end of year	$ 205,603	$ 240,710	$ 222,395	$ 285,858	$ 435,414
Allowance for loan and lease losses to year-end total loans held for investment	2.31%	2.64%	2.44%	3.02%	4.38%
Net charge-offs to average loans outstanding during the year	1.37%	1.68%	1.84%	4.07%	1.76%
Net charge-offs, excluding net charge-offs of $4.6 million, $61.4 million, $6.9 million and $232.4 million related to the sale of the $16.3 million pool of non-performing assets in 2016, the bulk sale of assets in 2015, the acquisition of mortgage loans from Doral Financial in 2014, and the bulk loan sales and	1.32%	1.01%	1.77%	1.70%	1.76%

loans transferred to held for sale in 2013, respectively [15]					
Provision for loan and lease losses to net charge-offs during the year	0.71x	1.12x	0.63x	0.62x	0.67x
Provision for loan and lease losses to net charge-offs during the year, excluding the impact of the $16.3 million pool of non-performing assets in 2016, the bulk sale of assets in 2015, the acquisition of mortgage loans from Doral Financial in 2014, and the bulk loan sales and the loans transferred to held for sale in 2013 [15]	0.72x	1.36x	0.65x	0.69x	0.67x

(1) Includes a provision totaling $68.8 million associated with the bulk loan sales in 2013.

(2) Includes a provision totaling $1.8 million associated with the sale of the $16.3 million pool of non-performing assets in 2016, $33.8 million associated with the bulk sale of assets in 2015 and a provision totaling $28.7 million associated with the bulk loan sales and the transfer of loans to held for sale in 2013.

(3) Includes a provision of $10.8 million associated with the bulk sale of assets in 2015, a provision totaling $1.4 million associated with the acquisition of mortgage loans from Doral Financial in 2014, and a provision of $20.8 million associated with the bulk loan sales in 2013.

(4) Includes a provision totaling $2.4 million associated with the bulk sale of assets in 2015 and a provision totaling $13.6 million associated with the bulk loan sales in 2013.

(5) Includes a provision totaling $1.8 million associated with the sale of the $16.3 million pool of non-performing assets in 2016, a provision of $46.9 million associated with the bulk sale of assets in 2015, a provision of $1.4 million associated with the acquisition of mortgage loans from Doral Financial in 2014, and a provision of $132.0 million associated with the bulk loan sales and the transfer of loans to held for sale in 2013.

(6) Includes charge-offs totaling $99.0 million associated with the bulk loan sales in 2013.

(7) Includes charge-offs totaling $3.3 million associated with the sale of the $16.3 million pool of non-performing assets in 2016, charge-offs totaling $43.2 million associated with the bulk sale of assets in 2015 and charge-offs totaling $54.6 million associated with the bulk loan sales and the transfer of loans to held for sale in 2013.

(8) Includes charge-offs totaling $2.1 million associated with the sale of the $16.3 million pool of non-performing assets in 2016, charge-offs totaling $22.6 million associated with the bulk sale of assets in 2015, charge-offs totaling $6.9 million associated with the acquisition of mortgage loans from Doral Financial in 2014, and charge-offs of $44.7 million associated with the bulk loan sales in 2013.

(9) Includes charge-offs totaling $4.1 million associated with the bulk sale of assets in 2015 and charge-offs totaling $34.2 million associated with the bulk loan sales and the transfer of loans to held for sale in 2013.

(10) Includes charge-offs totaling $5.4 million associated with the sale of the $16.3 million pool of non-performing assets in 2016, charge-offs totaling $69.8 million associated with the bulk sale of assets in 2015, charge-offs totaling $6.9 million associated with the acquisition of mortgage loans from Doral Financial in 2014, and charge-offs of $232.4 million associated with the bulk loan sales and the transfer of loans to held for sale in 2013.

(11) Includes recoveries of $0.3 million associated with the sale of the $16.3 million pool of non-performing assets in 2016 and recoveries totaling $5.6 million associated with the bulk sale of assets in 2015.

(12) Includes recoveries of $0.5 million associated with the sale of the $16.3 million pool of non-performing assets in 2016 and recoveries totaling $2.0 million associated with the bulk sale of assets in 2015.

(13) Includes recoveries of $0.8 million associated with the bulk sale of assets in 2015.

(14) Includes recoveries of $0.8 million associated with the sale of the $16.3 million pool of non-performing assets in 2016 and recoveries totaling $8.4 million associated with the bulk sale of assets in 2015.

(15) Refer to "Basis of Presentation" below for reconciliations of these measures.

The following table sets forth information concerning the allocation of the Corporation's allowance for loan and lease losse by loan category and the percentage of loan balances in each category to the total of such loans as of the dates indicated:

	2016		2015		2014		2013		2012	
	Amount	**Percent of loans in each category to total loans**	**Amount**	**Percent of loans in each category to total loans**	**Amount**	**Percent of loans in each category to total loans**	**Amount**	**Percent of loans in each category to total loans**	**Amount**	**Perc of loar in eac categ to tota loar**
(Dollars in thousands)										
Residential mortgage loans	$ 33,980	37%	$ 39,570	36%	$ 27,301	33%	$ 33,110	27%	$ 68,354	28
Commercial mortgage loans	57,261	18%	68,211	17%	50,894	18%	73,138	19%	97,692	19
Construction loans	2,562	1%	3,519	2%	12,822	1%	35,814	2%	61,600	4
Commercial and Industrial loans (including loans to local financial institutions prior to 2014)	61,953	25%	68,768	25%	63,721	25%	85,295	30%	146,900	29
Consumer loans and finance leases	49,847	19%	60,642	20%	67,657	23%	58,501	22%	60,868	20
	$ 205,603	100%	$ 240,710	100%	$ 222,395	100%	$ 285,858	100%	$ 435,414	100

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

As of December 31, 2016 (Dollars in thousands)	**Residential Mortgage Loans**	**Commercial Mortgage Loans**	**Commercial and Industrial Loans**	**Construction Loans**	**Consumer and Finance Leases**	**Total**
Impaired loans without specific reserves:						
Principal balance of loans, net of charge-offs	$ 67,996	$ 72,620	$ 14,656	$ 1,136	$ 5,209	$ 161,61
Impaired loans with specific reserves:						
Principal balance of loans, net of charge-offs	374,271	121,771	138,887	52,155	39,204	726,28
Allowance for loan and lease losses	8,633	26,172	22,638	1,405	5,573	64,42
Allowance for loan and lease losses to principal balance	2.31%	21.49%	16.30%	2.69%	14.22%	8.8
PCI loans:						
Carrying value of PCI loans	162,676	3,142	-	-	-	165,81
Allowance for PCI loans	6,632	225	-	-	-	6,85
Allowance for PCI loans to carrying value	4.08%	7.16%	-	-	-	4.1
Loans with general allowance:						
Principal balance of loans	2,691,088	1,371,275	2,026,912	71,660	1,672,215	7,833,15
Allowance for loan and lease losses	18,715	30,864	39,315	1,157	44,274	134,32
Allowance for loan and lease losses to principal balance	0.70%	2.25%	1.94%	1.61%	2.65%	1.7
Total loans held for investment:						
Principal balance of loans	$ 3,296,031	$ 1,568,808	$ 2,180,455	$ 124,951	$ 1,716,628	$ 8,886,87
Allowance for loan and lease losses	33,980	57,261	61,953	2,562	49,847	205,60
Allowance for loan and lease losses to principal balance (1)	1.03%	3.65%	2.84%	2.05%	2.90%	2.3

(Dollars in thousands)	**Residential Mortgage Loans**	**Commercial Mortgage Loans**	**Commercial and Industrial Loans**	**Construction Loans**	**Consumer and Finance Leases**	**Total**
As of December 31, 2015						
Impaired loans without specific reserves:						
Principal balance of loans, net of charge-offs	$ 65,495	$ 54,048	$ 27,492	$ 42,512	$ 2,618	$ 192,16
Impaired loans with specific reserves:						
Principal balance of loans, net of charge-offs	395,173	27,479	143,214	11,004	37,474	614,34
Allowance for loan and lease losses	21,787	3,073	18,096	1,202	8,423	52,58
Allowance for loan and lease losses to principal balance	5.51%	11.18%	12.64%	10.92%	22.48%	8.5

PCI loans:						
Carrying value of PCI loans	170,766	3,147	-	-	-	173,91
Allowance for PCI loans	3,837	125	-	-	-	3,96
Allowance for PCI loans to carrying value	2.25%	3.97%	-	-	-	2.2
Loans with general allowance:						
Principal balance of loans	2,713,285	1,453,132	2,075,807	102,679	1,787,057	8,131,96
Allowance for loan and lease losses	13,946	65,013	50,672	2,317	52,219	184,16
Allowance for loan and lease losses to principal balance	0.51%	4.47%	2.44%	2.26%	2.92%	2.2
Total loans held for investment:						
Principal balance of loans	$ 3,344,719	$ 1,537,806	$ 2,246,513	$ 156,195	$ 1,827,149	$ 9,112,38
Allowance for loan and lease losses	39,570	68,211	68,768	3,519	60,642	240,71
Allowance for loan and lease losses to principal balance (1)	1.18%	4.44%	3.06%	2.25%	3.32%	2.6

(1) Loans used in the denominator include PCI loans of $165.8 million and $173.9 million as of December 31, 2016 and 2015, respectively. However, the Corporation separately tracks and reports PCI loans and excludes these loans from the amounts of non-performing loans, impaired loans, TDRs and non-performing assets.

The following tables show the activity for impaired loans held for investment and the related specific reserve during 2016, 2015 and 2014:

(In thousands)	2016	2015	2014
Impaired Loans:			
Balance at beginning of year	$ 806,509	$ 945,407	$ 919,112
Loans determined impaired during the year	288,202	160,837	306,390
Charge-offs (1)	(67,210)	(99,023)	(106,154)
Loans sold, net of charge-offs	(8,675)	(67,836)	(4,500)
Loans transferred from held for sale	-	40,005	-
Increases to impaired loans - additional disbursements	3,236	3,340	5,028
Foreclosures	(36,161)	(57,728)	(40,582)
Loans no longer considered impaired	(27,643)	(46,489)	(22,333)
Paid in full or partial payments	(70,353)	(72,004)	(111,554)
Balance at end of year	$ 887,905	$ 806,509	$ 945,407

(1) For the year ended December 31, 2016, includes $4.2 million of charge-offs related to impaired loans included in the sale of the $16.3 million pool of non-performing assets and, for the year ended December 31, 2015, includes $63.9 million of charge-offs related to the bulk sale of assets.

(In thousands)	2016	2015	2014
Specific Reserve:			
Balance at beginning of year	$ 52,581	$ 55,205	$ 102,601
Provision for loan losses	78,695	91,515	58,758
Net charge-offs	(66,855)	(94,139)	(106,154)
Balance at end of year	$ 64,421	$ 52,581	$ 55,205

Non-performing Loans and Non-performing Assets

Total non-performing assets consist of non-performing loans (generally loans held for investment or loans held for sale on which the recognition of interest income has been discontinued when the loan became 90 days past due or earlier if the full and timely collection of interest or principal was uncertain), foreclosed real estate, other repossessed properties, and non-performing investment securities. When a loan is placed in non-performing status, any interest previously recognized and not collected is reversed and charged against interest income.

Non-performing Loans Policy

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

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

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

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

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

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

Other Real Estate Owned

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

Other Repossessed Property

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

Other Non-Performing Assets

This category consists of bonds of the GDB and the Puerto Rico Public Buildings Authority placed in non-performing status in the third quarter of 2016 when these entities defaulted on interest due on bonds held by the Corporation as part of its available-for-sale investment securities portfolio. The balance reported for 2012 in the table below presenting non-performing assets as of the end of the last five fiscal years is related to the assets pledged to Lehman Brothers Special Financing, Inc. that were written off in 2013.

Past-Due Loans 90 days and still accruing

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

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

The following table presents non-performing assets as of the dates indicated:

(Dollars in thousands)	2016	2015	2014	2013	2012
Non-performing loans held for investment:					
Residential mortgage	$ 160,867	$ 169,001	$ 180,707	$ 161,441	$ 313,626
Commercial mortgage	178,696	51,333	148,473	120,107	214,780
Commercial and industrial	146,599	137,051	122,547	114,833	230,090
Construction (1)	49,852	54,636	29,354	58,866	178,190
Finance leases	1,335	2,459	5,245	3,082	3,182
Consumer	22,745	28,293	37,570	37,220	35,693
Total non-performing loans held for investment	560,094	442,773	523,896	495,549	975,561
OREO	137,681	146,801	124,003	160,193	185,764
Other repossessed property	7,300	12,223	14,229	14,865	10,107
Other assets (2)(3)	21,362	-	-	-	64,543
Total non-performing assets, excluding loans held for sale	726,437	601,797	662,128	670,607	1,235,975
Non-performing loans held for sale (1)	8,079	8,135	54,641	54,801	2,243
Total non-performing assets, including loans held for sale (4)(5)	$ 734,516	$ 609,932	$ 716,769	$ 725,408	$ 1,238,218
Past due loans 90 days and still accruing (6) (7)	$ 135,808	$ 163,197	$ 162,887	$ 120,082	$ 142,012
Non-performing assets to total assets	6.16%	4.85%	5.63%	5.73%	9.45%
Non-performing loans held for investment to total loans held for investment	6.30%	4.86%	5.76%	5.23%	9.82%
Allowance for loan and lease losses	$ 205,603	$ 240,710	$ 222,395	$ 285,858	$ 435,414
Allowance to total non-performing loans held for investment	36.71%	54.36%	42.45%	57.69%	44.63%

Allowance to total non-performing loans held for investment, excluding residential real estate loans	51.50%	87.92%	64.80%	85.56%	65.78%

(1) 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 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.

(2) As of December 31, 2016, consists of bonds of the GDB and the Puerto Rico Public Buildings Authority held as part of the available-for-sale investment securities portfolio with an amortized cost of $35.6 million (including accrued interest of $0.9 million), recorded on the Corporation's books at their aggregate fair value of $20.5 million.

(3) As of December 31, 2012, consists of collateral pledged to Lehman.

(4) PCI loans accounted for under ASC 310-30 of $165.8 million, $173.9 million, $102.6 million, $4.8 million and $10.6 million as of December 31, 2016, 2015, 2014, 2013 and 2012, respectively, are excluded and not considered non-performing due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

(5) Non-performing assets exclude $384.9 million, $414.9 million, $494.6 million, $425.4 million and $504.8 million of TDR loans that are in compliance with the modified terms and in accrual status as of December 31, 2016, 2015, 2014, 2013 and 2012, respectively.

(6) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $29.3 million of residential mortgage loans insured by the FHA or guaranteed by the VA, that are over 15 months delinquent, and are no longer accruing interest as of December 31, 2016.

(7) Amount includes PCI loans with individual delinquencies over 90 days and still accruing with a carrying value as of December 31, 2016, 2015 and 2014 of approximately $29.0 million, $23.2 million, and $15.7 million, respectively, primarily related to loans acquired from Doral Bank in the first quarter of 2015 and from Doral Financial in the second quarter of 2014.

The following table shows non-performing assets by geographic segment:

(Dollars in thousands)	2016	2015	2014	2013	2012
Puerto Rico:					
Non-performing loans held for investment:					
Residential mortgage	$ 135,863	$ 147,975	$ 156,361	$ 139,771	$ 281,086
Commercial mortgage	167,241	34,917	121,879	101,255	172,534
Commercial and industrial	141,916	131,450	116,301	109,224	215,985
Construction	10,227	11,894	24,526	43,522	99,383
Finance leases	1,335	2,459	5,245	3,082	3,182
Consumer	21,592	26,329	35,286	34,660	32,529
Total non-performing loans held for investment	478,174	355,024	459,598	431,514	804,699
OREO	128,395	133,121	111,041	123,851	145,683
Other repossessed property	7,217	12,115	14,150	14,806	10,070
Other Assets [1][2]	21,362	-	-	-	64,543
Total non-performing assets, excluding loans held for sale	635,148	500,260	584,789	570,171	1,024,995
Non-performing loans held for sale	8,079	8,135	14,636	14,796	2,243
Total non-performing assets, including loans held for sale [3]	$ 643,227	$ 508,395	$ 599,425	$ 584,967	$ 1,027,238
Past-due loans 90 days and still accruing [4]	$ 131,783	$ 154,915	$ 154,375	$ 118,097	$ 137,288
Virgin Islands:					
Non-performing loans held for investment:					
Residential mortgage	$ 19,860	$ 14,228	$ 15,483	$ 8,439	$ 18,054
Commercial mortgage	7,617	10,073	11,770	6,827	11,232
Commercial and industrial	4,683	5,601	6,246	5,609	12,905
Construction [5]	39,625	42,590	4,064	11,214	72,648
Consumer	452	471	887	514	804
Total non-performing loans held for investment	72,237	72,963	38,450	32,603	115,643
OREO	6,216	5,458	6,967	14,894	24,260
Other repossessed property	5	32	22	5	17
Total non-performing assets, excluding loans held for sale	$ 78,458	$ 78,453	$ 45,439	$ 47,502	$ 139,920
Non-performing loans held for sale [5]	-	-	40,005	40,005	-
Total non-performing assets, including loans held for sale	$ 78,458	$ 78,453	$ 85,444	$ 87,507	$ 139,920
Past-due loans 90 days and still accruing	$ 2,133	$ 8,173	$ 5,281	$ 1,985	$ 4,068
United States:					
Non-performing loans held for investment:					
Residential mortgage	$ 5,144	$ 6,798	$ 8,863	$ 13,231	$ 14,486
Commercial mortgage	3,838	6,343	14,824	12,025	31,014
Commercial and industrial	-	-	-	-	1,200
Construction	-	152	764	4,130	6,159
Consumer	701	1,493	1,397	2,046	2,360
Total non-performing loans held for investment	9,683	14,786	25,848	31,432	55,219
OREO	3,070	8,222	5,995	21,448	15,821
Other repossessed property	78	76	57	54	20
Total non-performing assets	$ 12,831	$ 23,084	$ 31,900	$ 52,934	$ 71,060

Past-due loans 90 days and still accruing	$ 1,892	$ 109	$ 3,231	$ -	$ 656

____

(1) As of December 31, 2016, consists of bonds of the GDB and the Puerto Rico Public Buildings Authority held as part of the available-for-sale investment securities portfolio with an amortized cost of $35.6 million (including accrued interest of $0.9 million), recorded on the Corporation's books at their aggregate fair value of $20.5 million.

(2) As of December 31, 2012, consists of collateral pledged to Lehman.

(3) PCI loans accounted for under ASC 310-30 of $165.8 million, $173.9 million, $102.6 million, $4.8 million and $10.6 million as of December 31, 2016, 2015, 2014, 2013 and 2012, respectively, are excluded and not considered non-performing due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

(4) Amount includes PCI loans with individual delinquencies over 90 days and still accruing with a carrying value as of December 31, 2016, 2015, and 2014 of approximately $29.0 million, $23.2 million and $15.7 million, respectively, primarily related to loans acquired from Doral Bank in the first quarter of 2015 and from Doral Financial in the second quarter of 2014.

(5) 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 loan in the Virgin Islands. Accordingly, it was transferred back from held for sale to held for investment and continues to be classified as a TDR and a non-performing loan.

Total non-performing loans, including non-performing loans held for sale, were $568.2 million as of December 31, 2016. This represents an increase of $117.3 million from $450.9 million as of December 31, 2015. The increase was primarily attributable to the inflow in the first quarter of 2016 of the $111.8 million exposure to commercial mortgage loans guaranteed by the TDF and the inflow of two commercial relationships in Puerto Rico totaling $68.7 million. The increase resulting from the inflow of large commercial loans was partially offset by charge-offs, the aforementioned sale of the $16.3 million pool of non-performing assets, primarily non-performing commercial loans, as well as reductions in non-performing residential, consumer and OREO balances.

Non-performing commercial mortgage loans increased by $127.4 million to $178.7 million as of December 31, 2016 from $51.3 million as of December 31, 2015. The increase was primarily driven by the aforementioned inflow of the $111.8 million exposure to loans guaranteed by the TDF in the first quarter of 2016 and the inflow of a $20.7 million loan that is part of a $35.0 million commercial relationship in Puerto Rico placed in non-performing status in the second quarter of 2016. The increase was partially offset by $8.2 million of commercial mortgage non-performing loans sold as part of the sale of the $16.3 million pool of non-performing assets. Total inflows of non-performing commercial mortgage loans of $168.4 million during 2016 increased by $149.8 million compared to $18.5 million for 2015.

Non-performing commercial and industrial loans increased by $9.5 million to $146.6 million as of December 31, 2016 from $137.1 million as of December 31, 2015. The increase was driven by new inflows, including a $14.3 million loan which is also part of the aforementioned $35.0 million commercial relationship in Puerto Rico placed in non-performing status in the second quarter of 2016 and a $33.7 million commercial relationship in Puerto Rico placed in non-performing status during the fourth quarter of 2016, partially offset by charge-offs, collections, and approximately $8.0 million of commercial and industrial non-performing loans sold as part of the sale of the $16.3 million pool of non-performing assets. Total inflows of non-performing commercial and industrial loans were $69.6 million for 2016, a decrease of $21.6 million when compared to $91.2 million for 2015.

Non-performing construction loans, including non-performing construction loans held for sale, decreased by $4.8 million to $57.9 million as of December 31, 2016 from $62.8 million as of December 31, 2015. The decrease was primarily a combination of cash collections, charge-offs and foreclosures. The inflows of non-performing construction loans of $1.6 million during 2016 increased by $0.7 million compared to inflows of $0.9 million for 2015.

The following tables present the activity of commercial and construction non-performing loans held for investment:

(In thousands)	Commercial Mortgage	Commercial & Industrial	Construction	Total
Year ended December 31, 2016				
Beginning balance	$ 51,333	$ 137,051	$ 54,636	$ 243,020
Plus:				
	168,368	69,601	1,541	239,510

Additions to non-performing								
Less:								
Loans returned to accrual status		(1,385)		(1,723)		(255)		(3,363)
Non-performing loans transferred to OREO		(3,340)		(2,215)		(961)		(6,516)
Non-performing loans charge-offs		(19,778)		(26,280)		(1,738)		(47,796)
Loan collections		(13,366)		(22,531)		(3,293)		(39,190)
Reclassification		1,774		(1,696)		(78)		-
Non-performing loans sold, net of charge offs		(4,910)		(5,608)		-		(10,518)
Ending balance	$	178,696	$	146,599	$	49,852	$	375,147

126

(In thousands)	Commercial Mortgage	Commercial & Industrial	Construction	Total
Year ended December 31, 2015				
Beginning balance	$ 148,473	$ 122,547	$ 29,354	$ 300,374
Plus:				
Additions to non-performing	18,532	91,244.00	866	110,642
Reclassification from loans held for sale	81	-	40,005	40,086
Less:				
Loans returned to accrual status	(31,734)	(1,149)	(303)	(33,186)
Non-performing loans transferred to OREO	(27,099)	(8,429)	(943)	(36,471)
Non-performing loans charge-offs	(28,724)	(28,789)	(4,937)	(62,450)
Loan collections	(10,832)	(15,686)	(2,182)	(28,700)
Other reclassification	398	-	(249)	149
Non-performing loans sold, net of charge-offs	(17,762)	(22,687)	(6,975)	(47,424)
Ending balance	$ 51,333	$ 137,051	$ 54,636	$ 243,020

The following table presents the activity of commercial and construction non-performing loans held for sale:

(In thousands)	Commercial Mortgage	Commercial & Industrial	Construction	Total
Year ended December 31, 2016				
Beginning balance	$ -	$ -	$ 8,135	$ 8,135
Less:				
Lower of cost or market adjustment	-	-	(56)	(56)
Ending balance	$ -	$ -	$ 8,079	$ 8,079

(In thousands)	Commercial Mortgage	Commercial & Industrial	Construction	Total
Year ended December 31, 2015				
Beginning balance	$ 6,839	$ -	$ 47,802	$ 54,641
Less:				

Loan collections	(55)	-	-	(55)
Reclassification to loans held for investment	(81)	-	(40,005)	(40,086)
Non-performing loans sold	(6,556)	-	-	(6,556)
Lower of cost or market adjustment	(147)	-	338	191
Ending balance	$ -	$ -	$ 8,135	$ 8,135

Total non-performing commercial and construction loans (including non-performing loans held for sale) with a book value of $383.2 million as of December 31, 2016 are being carried at 56.6% of unpaid principal balance, net of reserves and accumulated charge-offs. This balance includes $177.2 million related to the Corporation's exposure to commercial mortgage loans guaranteed by the TDF and the credit facility of PREPA. See "Financial Condition and Operating Data Analysis – Loans Receivable, including Loans Held for Sale – Commercial and Construction Loans" above for additional information about the sale of the credit facility of PREPA in the first quarter of 2017.

Non-performing residential mortgage loans decreased by $8.1 million to $160.9 million as of December 31, 2016 from $169.0 million as of December 31, 2015. The decrease was mainly driven by loans brought current, modifications through a TDR after a sustained performance period, charge-offs, and foreclosures during 2016, partially offset by inflows of $91.7 million. The inflows of non-performing residential mortgage loans during 2016 amounted to $91.7 million compared to inflows of $91.8 million for 2015. Approximately $54.4 million, or 34% of total non-performing residential mortgage loans, have been written down to their net realizable value and no specific reserve was allocated.

The following table presents the activity of residential non-performing loans held for investment in 2016 and 2015:

		Year ended December 31, 2016	Year ended December 31, 2015
(In thousands)			
Beginning balance	$	169,001$	180,707
Plus:			
Additions to non-performing		91,655	91,817
Less:			
Loans returned to accrual status		(39,671)	(52,654)
Non-performing loans transferred to OREO		(32,815)	(29,940)
Non-performing loans charge-offs		(22,456)	(13,972)
Loan collections		(4,847)	(6,808)
Other reclassification		-	(149)
Ending balance	$	160,867$	169,001

The amount of non-performing consumer loans, including finance leases, decreased by $6.7 million during 2016 to $24.1 million as of December 31, 2016 compared to $30.8 million as of December 31, 2015. The decrease was mainly related to charge-offs and collections, primarily related to auto loans. The inflows of non-performing consumer loans of $42.5 million for 2016 decreased by $11.5 million compared to inflows of $54.0 million for 2015.

As of December 31, 2016, approximately $204.1 million of the loans placed in non-accrual status, mainly commercial loans, were current, or had delinquencies of less than 90 days in their interest payments, including $110.6 million of TDRs maintained in nonaccrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and there is no doubt about full collectability. Collections on these loans are being recorded on a cash basis through earnings, or on a cost-recovery basis, as conditions warrant.

During the year ended December 31, 2016, interest income of approximately $11.8 million related to non-performing loans with a carrying value of $375.2 million as of December 31, 2016, mainly non-performing construction and commercial loans, was applied against the related principal balances under the cost-recovery method.

As of December 31, 2016, approximately $121.4 million, or 22%, of total non-performing loans held for investment have been charged-off to their net realizable value and no specific reserve was allocated as shown in the following table:

(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial	Construction Loans	Consumer and Finance Leases	Total
As of December 31, 2016						
Non-performing loans held for investment charged off to realizable value	$ 54,356	$ 52,241	$ 12,488	$ 1,027	$ 1,243	$ 121,355
Other non-performing loans held for investment	106,511	126,455	134,111	48,825	22,837	438,739
Total non-performing loans held for investment	$ 160,867	$ 178,696	$ 146,599	$ 49,852	$ 24,080	$ 560,094
Allowance to non-performing loans held for investment	21.12%	32.04%	42.26%	5.14%	207.01%	36.71 %
Allowance to non-performing loans held for investment, excluding non-performing loans charged off to realizable value	31.90%	45.28%	46.20%	5.25%	218.27%	46.86%
As of December 31, 2015						
Non-performing loans held for investment charged-off to realizable value	$ 53,612	$ 15,190	$ 27,492	$ 39,466	$ 1,282	$ 137,042
Other non-performing loans held for investment	115,389	36,143	109,559	15,170	29,470	305,731
Total non-performing loans held for investment	$ 169,001	$ 51,333	$ 137,051	$ 54,636	$ 30,752	$ 442,773
Allowance to non-performing loans held for investment	23.41%	132.88%	50.18%	6.44%	197.20%	54.36 %
Allowance to non-performing loans held for investment, excluding non-performing loans charged-off to realizable value	34.29%	188.73%	62.77%	23.20%	205.78%	78.73%

The Corporation provides homeownership preservation assistance to its customers through a loss mitigation program in Puerto Rico that is similar to the U.S. government's Home Affordable Modification Program guidelines. Depending upon the nature of borrowers' financial condition, restructurings or loan modifications through this program as well as other restructurings of individual commercial, commercial mortgage, construction, and residential mortgage loans fit the definition of a TDR. A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Modifications involve changes in one or more of the loan terms that bring a defaulted loan current and provide sustainable affordability. Changes may include the refinancing of any past-due amounts, including interest and escrow, the extension of the maturity of the loan and modifications of the loan rate. As of December 31, 2016, the Corporation's total TDR loans of $647.0 million consisted of $375.8 million of residential mortgage loans, $133.5 million of commercial and industrial loans, $48.7 million of commercial mortgage loans, $46.6 million of construction loans, and $42.4 million of consumer loans.

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

Prior to permanently modifying a loan, the Corporation may enter into trial modifications with certain borrowers. Trial modifications generally represent a six-month period during which the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification. TDR loans that are participating in or that have been offered a binding trial modification are classified as TDRs when the trial offer is made and continue to be classified as TDRs regardless of whether the borrower enters into a permanent modification. As of December 31, 2016, the Corporation classified an additional $4.1 million of residential mortgage loans as TDRs that were participating in or had been offered a trial modification.

For the commercial real estate, commercial and industrial, and construction loan portfolios, at the time of a restructuring, the Corporation determines, on a loan-by-loan basis, whether a concession was granted for economic or legal reasons related to the borrower's financial difficulty. Concessions granted for commercial loans could include: reductions in interest rates to rates that are considered below market; extension of repayment schedules and maturity dates beyond original contractual terms; waivers of borrower covenants; forgiveness of principal or interest; or other contractual changes that would be considered a concession. The Corporation mitigates loan defaults for its commercial loan portfolios through its collection function. The function's objective is to minimize both early stage delinquencies and losses upon default of commercial loans. In the case of the commercial and industrial, commercial mortgage, and construction loan portfolios, the 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, the Corporation extends, renews, and restructures loans with satisfactory credit profiles. Many commercial loan facilities are structured as lines of credit, which are mainly one year in term and, therefore, are required to be renewed annually. Other facilities may be restructured or extended from time to time based upon changes in the borrower's business needs, use of funds, timing of completion of projects, and other factors. If the borrower is not deemed to have financial difficulties, extensions, renewals, and restructurings are done in the normal course of business and are not considered to be concessions, and the loans continue to be recorded as performing.

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

The following table provides a breakdown of accrual and nonaccrual status of TDRs:

(In thousands)	As of December 31, 2016		
	Accrual	**Nonaccrual (1)**	**Total TDRs**

Non-FHA/VA Residential Mortgage loans	$ 295,656	$ 80,153	$ 375,809
Commercial Mortgage Loans	32,340	16,402	48,742
Commercial and Industrial Loans	18,496	115,025	133,521
Construction Loans:			
Construction-Land	7,732	1,630	9,362
Construction-Commercial	-	36,893	36,893
Construction-Residential	-	357	357
Consumer Loans - Auto	16,253	8,622	24,875
Finance Leases	2,542	105	2,647
Consumer Loans - Other	11,868	2,974	14,842
Total Troubled Debt Restructurings	$ 384,887	$ 262,161	$ 647,048

(1)Included in nonaccrual loans are $110.6 million in loans that are performing under the terms of the restructuring agreement but are reported in nonaccrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and are deemed fully collectible.

The OREO portfolio, which is part of non-performing assets, decreased by $9.1 million. The following tables show the composition of the OREO portfolio as of December 31, 2016 and December 31, 2015, as well as the activity during the year ended December 31, 2016 of the OREO portfolio by geographic region:

OREO Composition by Region

(In thousands)	As of December 31, 2016			
	Puerto Rico	**Virgin Islands**	**Florida**	**Consolidated**
Residential	$ 43,925	$ 289	$ 2,703	$ 46,917
Commercial	73,393	4,938	367	78,698
Construction	11,077	989	-	12,066
	$ 128,395	$ 6,216	$ 3,070	$ 137,681

(In thousands)	As of December 31, 2015			
	Puerto Rico	**Virgin Islands**	**Florida**	**Consolidated**
Residential	$ 37,501	$ 838	$ 5,224	$ 43,563
Commercial	86,423	111	1,315	87,849
Construction	9,197	4,509	1,683	15,389
	$ 133,121	$ 5,458	$ 8,222	$ 146,801

OREO Activity by Region

(In thousands)	As of December 31, 2016			
	Puerto Rico	**Virgin Islands**	**Florida**	**Consolidated**
Beginning Balance	$ 133,121	$ 5,458	$ 8,222	$ 146,801
Additions	44,323	2,248	1,237	47,808
Sales	(31,809)	(1,212)	(6,312)	(39,333)
Fair value adjustments	(17,240)	(278)	(77)	(17,595)
Ending Balance	$ 128,395	$ 6,216	$ 3,070	$ 137,681

In the third quarter of 2016, the Corporation discontinued the income recognition related to, and placed in non-performing status, the bonds of the GDB and the Puerto Rico Public Buildings Authority as these entities defaulted on interest due on bonds held by the Corporation as part of its available-for-sale investment securities portfolio. As of December 31, 2016, the amortized cost of these bonds, including accrued interest of $0.9 million, was $35.6 million (net of $22.2 million in cumulative other-than-temporary credit impairment charges). These bonds are recorded on the Corporation's books at their aggregate fair value of $20.5 million.

Net Charge-offs and Total Credit Losses

Total net charge-offs for 2016 were $121.8 million, or 1.37% of average loans, compared to $153.7 million, or 1.68%, for 2015. Net charge-offs for 2016 included $4.6 million associated with the sale of the $16.3 million pool of non-performing assets completed in the fourth quarter of 2016 and for 2015 included $61.4 million associated with the bulk sale of assets completed in the second quarter of 2015. Excluding the impact of net charge-offs related to the sale of the $16.3 million pool of non-performing assets in 2016 and the bulk sale of assets in 2015, total adjusted net charge-offs in 2016 were $117.2 million, or 1.32% of average loans, compared to $92.3 million, or an annualized 1.01%, for 2015, driven by higher losses on residential mortgage loans and the impact of four large commercial loan charge-offs totaling $28.0 million, including charge-offs of $13.9 million recorded on loans guaranteed by the TDF.

Commercial and industrial loans net charge-offs in 2016 totaled $23.9 million, or 1.11% of related average loans, compared to $29.5 million, or 1.32%, for 2015. Commercial and industrial loans net charge-offs in 2016 include $1.6 million associated with commercial and industrial loans included in the sale of the $16.3 million pool of non-performing assets and for 2015 include $20.6 million associated with the bulk sale of assets. Excluding the impact of net charge-offs related to the sale of the $16.3 million pool of non-performing assets in 2016 and the bulk sale of assets in 2015, adjusted commercial and industrial net charge-offs for 2016 were $22.3 million, or $13.4 million higher than adjusted commercial and industrial net charge-offs of $8.9 million in 2015. Substantially all of the charge-offs recorded in 2016 are related to loans in Puerto Rico, including charge-offs totaling $17.7 million on three commercial relationships.

Commercial mortgage loans net charge-offs in 2016 were $19.6 million, or 1.28% of related average loans, compared to $49.6 million, or 3.12%, for 2015. Commercial mortgage loans net charge-offs in 2016 include $3.0 million associated with commercial mortgage loans included in the sale of the $16.3 million pool of non-performing assets and for 2015 include $37.6 million associated with the bulk sale of assets. Excluding the impact of net charge-offs related to the sale of the $16.3 million pool of non-performing assets in 2016 and the bulk sale of assets in 2015, adjusted commercial mortgage net charge-offs for 2016 were $16.6 million, or $4.6 million higher than adjusted commercial mortgage net charge-offs of $12.0 million in 2015. Most of the charge-offs recorded in 2016 are related to loans in Puerto Rico, including the $13.9 million charge-offs recorded on loans guaranteed by the TDF. These charge-offs are associated with two of the three credit facilities guaranteed by the TDF as the borrowers' cash flows related to these two facilities are insufficient to cover debt service and the Corporation is not receiving collections from the TDF guarantee. As such, these two facilities are collateral dependent loans; thus, the portion of the recorded investment in excess of the fair value of the collateral identified as uncollectible was charged off against the allowance for loan losses. Approximately $13.0 million of the $13.9 million charge-offs recorded in the second half of 2016 on loans guaranteed by the TDF was charged against specific reserves established in prior periods.

Construction loans net charge-offs in 2016 were $1.5 million, or 1.02% of related average loans, compared to $2.4 million, or 1.42%, for 2015. Construction loans net charge-offs in 2015 included $3.3 million of net charge-offs related to the bulk sale of assets. More than half of the net construction loans net charge-offs in 2016 was related to one loan in Puerto Rico.

Residential mortgage loans net charge-offs in 2016 were $30.7 million, or 0.93% of related average loans, compared to $18.1 million, or 0.55%, for 2015. Approximately $21.6 million in charge-offs in 2016 resulted from valuations for impairment purposes of residential mortgage loans considered homogeneous given high delinquency and loan-to-value levels, compared to $11.3 million for 2015. Net charge-offs on residential mortgage loans also included $7.4 million related to foreclosures, compared to $6.6 million for 2015.

Consumer and finance leases net charge-offs in 2016 were $46.2 million, or 2.63% of related average loans, compared to $54.1 million, or 2.85% of average loans, in 2015. The decrease was mainly attributable to the auto loan portfolio.

The following table shows the ratios of net charge-offs to average loans by loan category for the last five years.

	For the year ended December 31,				
	2016	2015	2014	2013	2012
Residential mortgage (1)	0.93%	0.55%	0.85%	4.77%	1.32%
Commercial mortgage (2)	1.28%	3.12%	0.84%	3.44%	1.41%
Commercial and Industrial (3)	1.11%	1.32%	2.27%	3.70%	1.25%
Construction (4)	1.02%	1.42%	2.76%	15.11%	10.49%
Consumer loans and finance leases (5)	2.63%	2.85%	3.46%	2.76%	1.92%
Total loans (6)	1.37%	1.68%	1.84%	4.07%	1.76%

(1) Includes net charge-offs totaling $99.0 million associated with the bulk sale of non-performing residential assets in 2013. The ratio of residential mortgage net charge-offs to average loans, excluding charge-offs associated with the bulk sale of non-performing residential assets in 2013, was 1.13%.

(2) Includes net charge-offs totaling $3.0 million associated with the sale of the $16.3 million pool of non-performing assets in 2016, net charge-offs totaling $37.6 million associated with the bulk sale of assets in 2015 and net charge-offs totaling $54.6 million associated with the bulk sale of adversely classified commercial assets and the transfer of loans to held for sale in 2013. The ratios of commercial mortgage net charge-offs to average loans, excluding net charge-offs associated with the sale of the $16.3 million pool of non-performing assets in 2016, the bulk sale of assets in 2015, and the bulk sale of adversely classified commercial assets and the transfer of loans to held for sale in 2013, were 1.09%, 0.77%, and 0.45%, respectively.

(3) Includes net charge-offs totaling $1.6 million associated with the sale of the $16.3 million pool of non-performing assets in 2016, net charge-offs totaling $20.6 million associated with the bulk sale of assets in 2015, net charge-offs totaling $6.9 million associated with the acquisition of mortgage loans from Doral Financial in 2014, and net charge offs totaling $44.7 million associated with the bulk sale of adversely classified commercial assets in 2013. The ratios of commercial and industrial loans net charge-offs to average loans, excluding net charge-offs associated with the sale of the $16.3 million pool of non-performing assets in 2016, the bulk sale of assets in 2015, the acquisition of mortgage loans from Doral Financial in 2014 and the bulk sale of adversely classified commercial assets in 2013, were 1.04%, 0.40%, 2.08%, and 2.15%, respectively.

(4) Includes net charge-offs totaling $3.3 million associated with the bulk sale of assets in 2015. The ratio of construction net charge-offs to average loans, excluding net charge-offs associated with the bulk sale of assets, was (0.52)% in 2015. Also includes net charge-offs totaling $34.2 million associated with the bulk sales of adversely classified commercial assets and the transfer of loans to held for sale in 2013. The ratio of construction loans net-charge offs to average loans, excluding charge-offs associated with the bulk loan sale and the transfer of loans to held for sale, was 2.91% in 2013.

(5) Includes lease financing.

(6) Includes net charge-offs totaling $4.6 million associated with the sale of the $16.3 million pool of non-performing assets in 2016, net charge-offs totaling $61.4 million associated with the bulk sale of assets in 2015, net charge-offs totaling $6.9 million associated with the acquisition of mortgage loans from Doral Financial in 2014, and net charge-offs totaling $232.4 million associated with the bulk sale of adversely classified commercial assets in 2013. The ratios of total net charge-offs to average loans, excluding excluding net charge-offs associated with the sale of the $16.3 million

pool of non-performing assets in 2016, the bulk sale of assets in 2015, the acquisition of mortgage loans from Doral Financial in 2014, and the bulk sale of adversely classified commercial assets in 2013, were 1.32%, 1.01%, 1.77%, and 1.70%, respectively.

The following table presents net charge-offs to average loans held in various portfolios by geographic segment for the last five

	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013	December 3
PUERTO RICO:					
Residential mortgage (1)	1.20%	0.70%	1.08%	5.90%	
Commercial mortgage (2)(3)(4)	1.66%	3.90%	1.72%	4.26%	
Commercial and Industrial (5)(6)(7)(8)	1.47%	1.63%	2.68%	3.98%	
Construction (9)(10)	2.93%	5.33%	4.16%	15.00%	
Consumer and finance leases (11)	2.73%	2.96%	3.58%	2.83%	
Total loans (12)(13)(14)(15)	1.71%	2.05%	2.32%	4.45%	
VIRGIN ISLANDS:					
Residential mortgage (16)	0.15%	0.04%	0.19%	1.88%	
Commercial mortgage (17)	-0.16%	0.00%	0.10%	0.11%	
Commercial and Industrial (18)	-0.01%	0.23%	-0.23%	1.63%	
Construction (19)	0.25%	0.21%	6.71%	18.08%	
Consumer and finance leases	1.04%	0.29%	0.58%	0.48%	
Total loans (20)	0.16%	0.11%	0.81%	3.50%	
FLORIDA:					
Residential mortgage	0.04%	0.03%	0.03%	0.35%	
Commercial mortgage (21)	-0.03%	0.26%	-3.12%	0.46%	
Commercial and Industrial (22)	-0.01%	0.00%	0.00%	0.10%	
Construction (23)	-1.03%	-5.98%	-14.75%	6.44%	
Consumer and finance leases	0.70%	1.11%	0.73%	1.84%	
Total loans (24)	0.01%	-0.04%	-1.37%	0.61%	

---

(1) For 2013, includes net charge-offs totaling $92.9 million associated with the bulk loan sales. The ratio of residential mortg charge-offs to average loans in Puerto Rico, excluding charge-offs associated with the bulk sales, was 1.41% in 2013.

(2) For 2016, includes net charge-offs totaling $3.0 million associated with the sale of the $16.3 million pool of non-performin assets. The ratio of commercial mortgage net charge-offs to average loans in Puerto Rico, excluding net charge-offs associ with the sale of the $16.3 million pool of non-performing assets, was 1.40% in 2016.

(3) For 2015, includes net charge-offs totaling $37.6 million associated with the bulk sale of assets. The ratio of commercial mortgage net charge-offs to average loans in Puerto Rico, excluding net charge-offs associated with the bulk sale of assets, 0.93% in 2015.

(4) For 2013, includes net charge-offs totaling $54.6 million associated with the bulk sale of adversely classified commercial a and the transfer of loans to held for sale. The ratio of commercial mortgage net charge-offs to average loans in Puerto Rico excluding charge-offs associated with the bulk sale of adversely classified commercial assets and the transfer of loans to he sale, was 0.47% in 2013.

(5) For 2016, includes net charge-offs totaling $1.6 million associated with the sale of the $16.3 million pool of non-performin assets. The ratio of commercial and industrial loans net charge-offs to average loans in Puerto Rico, excluding net charge-o associated with the sale of the $16.3 million pool of non-performing assets, was 1.38% in 2016.

(6) For 2015, includes net charge-offs totaling $20.6 million associated with the bulk sale of assets. The ratio of commercial ar industrial loans net charge-offs to average loans in Puerto Rico, excluding net charge-offs associated with the bulk sale of a was 0.50% in 2015.

(7) For 2014, includes net charge-offs totaling $6.9 million associated with the acquisition of mortgage loans from Doral Finar The ratio of commercial and industrial loans net charge-offs to average loans in Puerto Rico, excluding charge-offs associa

with the acquisition of mortgage loans from Doral Financial, was 2.47% in 2014.

(8) For 2013, includes net charge-offs totaling $44.7 million associated with the bulk sale of adversely classified commercial a The ratio of commercial and industrial loans net charge-offs to average loans in Puerto Rico, excluding charge-offs associa with the bulk sale of adversely classified commercial assets, was 2.28% in 2013.

(9) For 2015, includes net charge-offs totaling $3.3 million associated with the bulk sale of assets. The ratio of construction lo charge-offs to average loans in Puerto Rico, excluding net charge-offs associated with the bulk sale of assets, was 0.89% in

(10) For 2013, includes net charge-offs totaling $19.0 million associated with the bulk sale of adversely classified commercial a and the transfer of loans to held for sale. The ratio of construction loans net charge-offs to average loans in Puerto Rico, excluding charge-offs associated with the bulk sale of adversely classified commercial assets and the transfer of loans to he sale, was 4.29% in 2013.

(11) Includes lease financing.

(12) For 2016, includes net charge-offs totaling $4.6 million associated with the sale of the $16.3 million pool of non-performin assets. The ratio of total net charge-offs to average loans in Puerto Rico, excluding net charge-offs associated with the sale $16.3 million pool of non-performing assets, was 1.67% in 2016.

(13) For 2015, includes net charge-offs totaling $61.4 million associated with the bulk sale of assets. The ratio of total net charg to average loans in Puerto Rico, excluding net charge-offs associated with the bulk sale of assets, was 1.24% in 2015.

(14) For 2014, includes net charge-offs totaling $6.9 million associated with the acquisition of mortgage loans from Doral Finar The ratio of net charge-offs to average loans in Puerto Rico, excluding charge-offs associated with the acquisition of mortg loans from Doral Financial, was 2.23% in 2014.

(15) For 2013, includes net charge-offs totaling $211.2 million associated with the bulk loan sales and the transfer of loans to h sale. The ratio of total net charge-offs to average loans in Puerto Rico, excluding charge-offs associated with the bulk loan and the transfer of loans to held for sale, was 1.92% in 2013.

(16) For 2013, includes net charge-offs totaling $6.1 million associated with the bulk sale of non-performing residential assets. ratio of residential mortgage net charge-offs to average loans in the Virgin Islands, excluding charge-offs associated with t sale of non-performing residential assets, was 0.22% in 2013.

(17) For 2016, recoveries in commercial mortgage loans in the Virgin Islands exceeded charge-offs.

(18) For 2016 and 2014, recoveries in C&I loans in the Virgin Islands exceeded charge-offs.

(19) For 2013, includes net charge-offs totaling $15.2 million associated with the bulk loan sales and the transfer of loans to hel sale. The ratio of construction loans net charge-offs to average loans in the Virgin Islands, excluding charge-offs associated the bulk loan sale and the transfer of loans to held for sale, was -0.48% in 2013.

(20) For 2013, includes net charge-offs totaling $21.3 million associated with the bulk loan sales and the transfer of loans to hel sale. The ratio of total net-charge offs to average loans in the Virgin Islands, excluding charge-offs associated with the bull sales and the transfer of loans to held for sale, was 0.38% in 2013.

(21) For 2016 and 2014, recoveries in commercial mortgage loans in Florida exceeded charge-offs.

(22) For 2016 and 2012, recoveries in commercial and industrial loans in Florida exceeded charge-offs.

(23) For 2016, 2015, 2014 and 2012, recoveries in construction loans in Florida exceeded charge-offs.

(24) For 2015 and 2014, recoveries in total loans in Florida exceeded charge-offs.

Total credit losses (equal to net charge-offs plus losses on OREO operations) for 2016 amounted to $133.4 million, or 1.59% of average loans and repossessed assets, in contrast to credit losses of $169.5 million, or 1.82% of average loans and repossessed assets, for 2015.

The following table presents a detail of the OREO inventory and credit losses for the periods indicated:

	Year Ended December 31, 2016	Year Ended December 31, 2015
(Dollars in thousands)		
OREO		
OREO balances, carrying value:		
Residential	$ 46,917	$ 43,563
Commercial	78,698	87,849
Construction	12,066	15,389
Total	$ 137,681	$ 146,801
OREO activity (number of properties):		
Beginning property inventory	549	458
Properties acquired	414	344
Properties disposed	(337)	(253)
Ending property inventory	626	549
Average holding period (in days)		
Residential	329	328
Commercial	813	468
Construction	975	1,222
	662	505
OREO operations (loss) gain:		
Market adjustments and (losses) gain on sale:		
Residential	$ (2,201)	$ (4,296)
Commercial	(8,143)	(7,609)
Construction	206	(902)
	(10,138)	(12,807)
Other OREO operations expenses	(1,395)	(2,981)
Net Loss on OREO operations	$ (11,533)	$ (15,788)
CHARGE-OFFS		
Residential charge offs, net	$ (30,680)	$ (18,108)
Commercial charge offs, net	(43,528)	(79,095)
Construction charge offs, net	(1,454)	(2,412)
Consumer and finance leases charge-offs, net	(46,178)	(54,115)
Total charge-offs, net	(121,840)	(153,730)
TOTAL CREDIT LOSSES (1)	$ (133,373)	$ (169,518)
LOSS RATIO PER CATEGORY (2):		
Residential	0.98%	0.68%

Commercial	1.37%	2.23%
Construction	0.79%	1.77%
Consumer	2.61%	2.83%
TOTAL CREDIT LOSS RATIO (3)	**1.59%**	**1.82%**

(1) Equal to OREO operations (losses) plus charge-offs, net.

(2) Calculated as net charge-offs plus market adjustments and gains (losses) on sale of OREO divided by average loans and repossessed assets.

(3) Calculated as net charge-offs plus net loss on OREO operations divided by average loans and repossessed assets.

Operational Risk

The Corporation faces ongoing and emerging risk and regulatory pressure related to the activities that surround the delivery of banking and financial products. Coupled with external influences such as market conditions, security risks, and legal risk, the potential for operational and reputational loss has increased. In order to mitigate and control operational risk, the Corporation has developed, and continues to enhance, specific internal controls, policies and procedures that are designated to identify and manage operational risk at appropriate levels throughout the organization. The purpose of these mechanisms is to provide reasonable assurance that the Corporation's business operations are functioning within the policies and limits established by management.

The Corporation classifies operational risk into two major categories: business specific and corporate-wide affecting all business lines. For business specific risks, a risk assessment group works with the various business units to ensure consistency in policies, processes and assessments. With respect to corporate-wide risks, such as information security, business recovery, and legal and compliance, the Corporation has specialized groups, such as the Legal Department, Information Security, Corporate Compliance, and Operations. These groups assist the lines of business in the development and implementation of risk management practices specific to the needs of the business groups.

Legal and Compliance Risk

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

Concentration Risk

The Corporation conducts its operations in a geographically concentrated area, as its main market is Puerto Rico. However, the Corporation has diversified its geographical risk as evidenced by its operations in the Virgin Islands and in Florida. Of the total gross loans held for investment of $8.9 billion as of December 31, 2016, approximately 78% have credit risk concentration in Puerto Rico, 15% in the United States, and 7% in the Virgin Islands.

Exposure to the Puerto Rico Government

As of December 31, 2016, the Corporation had $323.3 million of direct exposure to the Puerto Rico government, its municipalities and public corporations, compared to $360.7 million as of December 31, 2015. Approximately $191.9 million of the exposure consisted of loans and obligations of municipalities in Puerto Rico that are supported by assigned property tax revenues and for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment. Approximately 89% of the Corporation's municipality exposure consists primarily of senior priority obligations concentrated in five of the largest municipalities in Puerto Rico (San Juan, Carolina, Bayamon, Mayaguez and Guaynabo). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of their respective general obligation bonds and notes. In addition to municipalities, the total exposure to the Puerto Rico government included $6.9 million of loans to units of the Puerto Rico central government, and approximately $81.9 million consisted of loans to public corporations, including the direct exposure to PREPA with a book value of $65.5 million as of December 31, 2016. The PREPA credit facility was placed in non-accrual status in the first quarter of 2015, and interest payments recorded on a cost-recovery basis. During the first quarter of 2017, the Corporation received an unsolicited offer and sold its outstanding participation in the PREPA line of credit with a book value of $64 million at the time of sale (principal balance of $75 million), thereby reducing its direct exposure to the Puerto Rico government. A specific reserve of approximately $10.2 million had been allocated to this loan. Gross proceeds from the sale of $53.2 million have resulted in an incremental loss of $0.6 million as compared to the book value, net of reserve. This loss was recognized at the time of the sale in the first quarter of 2017.

The Corporation's total direct exposure also includes obligations of the Puerto Rico government with an amortized cost of $42.7 million as part of its available-for-sale investment securities portfolio, net of $22.2 million in cumulative OTTI charges, and recorded at a fair value of $26.8 million as of December 31, 2016.

The following table details the Corporation's total direct exposure to the Puerto Rico government according to their maturities:

	As of December 31, 2016		
	Investment Portfolio (Amortized cost)	Loans	Total Exposure
	(Dollars in thousands)		
Central Government:			
After 1 to 5 years	$ -	$ 6,856	$ 6,856
Total Central Government	-	6,856	6,856
Government Development Bank:			
After 1 to 5 years	21,422	-	21,422
Total Government Development Bank	21,422	-	21,422
Puerto Rico Housing Finance Authority:			
After 10 years	7,930	-	7,930
Total Puerto Rico Housing Finance Authority	7,930	-	7,930
Puerto Rico Public Buildings Authority:			
After 10 years	13,315	-	13,315
Total Puerto Rico Public Buildings Authority	13,315	-	13,315
Public Corporations:			
Puerto Rico Electric Power Authority and affiliates:			
Due within one year	-	65,454	65,454
After 5 to 10 years	-	16,475	16,475
Total Public Corporations	-	81,929	81,929
Municipalities:			
After 1 to 5 years	1,136	29,495	30,631
After 5 to 10 years	10,741	6,203	16,944
After 10 years	144,313	-	144,313
Total Municipalities	156,190	35,698	191,888
Total Direct Government Exposure	$ 198,857	$ 124,483	$ 323,340

Furthermore, as of December 31, 2016, the Corporation had $127.7 million outstanding (book value of $111.8 million) in credit facilities extended to the hotel industry in Puerto Rico under which the borrower and the operations of the underlying collateral are the primary sources of repayment and the TDF provides a secondary guarantee for payment performance, compared to $129.4 million outstanding as of December 31, 2015. These facilities were placed in non-accrual status and classified as impaired in the first quarter of 2016, and interest payments are now applied against principal. Approximately $2.0 million of interest payments received on loans guaranteed by the TDF since late March 2016 have been applied against principal. The Corporation has been receiving payments on the largest of these three facilities sufficient to cover the monthly contractual payments. This facility matured on February 1, 2017 and is currently under renegotiation. In addition, the borrowers' cash flows related to the other two facilities are insufficient to cover debt service and the Corporation is not receiving collections from the TDF guarantee. As such, these two facilities are collateral dependent loans and charge-offs amounting to $13.9 million were recorded during the second half of 2016, of which $13.0 million was charged against reserves established in prior periods. These loans have been adversely classified since the third quarter of 2015. As of December 31, 2016, the loans guaranteed by the TDF are being carried at 72% of unpaid principal balance, net of reserves and accumulated charge-offs. The Corporation measures impairment on these loans based on the fair value of the collateral and the existence of the government guarantee. Developments of the Puerto Rico government debt restructuring process, with the automatic stay on litigations under PROMESA set to expire on May 1, 2017, and actions taken or those that may have to be taken by the Commonwealth or the PROMESA oversight board to address Puerto Rico's fiscal and economic crisis could ultimately adversely affect the value of the Puerto Rico government guarantees, including the TDF guarantee. If as a result of developments, including discussions with regulators, loan rating downgrades, progress in the debt restructuring process, or for other reasons, the Corporation determines that additional impairment charges are necessary, such an action would adversely affect the Corporation's results of operations in the period in which such determination is taken. The Corporation's collections of principal and interest from TDF in 2016 amounted to $0.6 million compared to $5.3 million in 2015.

The TDF is a subsidiary of the GDB that facilitates private sector financings to Puerto Rico's hotel industry. Adverse developments related to the Puerto Rico government's fiscal situation introduced additional uncertainty regarding the TDF's ability to honor its guarantee, including the enactment of Act 21. On June 30, 2016, pursuant to Act 21, the Puerto Rico governor ordered a moratorium on the payment of $780 million of the Puerto Rico government's general obligations and the debt of certain other instrumentalities due on July 1, 2016. The Puerto Rico government has continued to default on general obligation bonds, including the payment due on January 1, 2017. This followed a default on the principal payment of $367 million of GDB notes due on May 1, 2016. Puerto Rico's governor also issued an executive order intended to protect the GDB's liquidity by allowing withdrawals only to fund necessary costs for essential services such as health, public safety and education services. Recently, the GDB defaulted on a $28 million payment of interest due to its creditors on August 1, 2016, including interest due on GDB bonds held by the Corporation.

As of December 31, 2016, the total reserve to book value coverage ratio related to commercial loans extended to or guaranteed by the Puerto Rico government (excluding municipalities) was 17% and the loans are being carried at 74% of unpaid principal balance, net of reserves and accumulated charge-offs.

In addition, the Corporation had $119.9 million in exposure to residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority. Residential mortgage loans guaranteed by the Puerto Rico Housing Finance Authority are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. The Puerto Rico government guarantees up to $75 million of the principal guaranteed under the mortgage loans insurance program. According to the most recently released audited financial statements of the Puerto Rico Housing Financing Authority, as of June 30, 2015, the Puerto Rico Housing Finance Authority's mortgage loans insurance program covered loans aggregating approximately $552 million. The regulations adopted by the Puerto Rico Housing Finance Authority require the establishment of adequate reserves to guarantee the solvency of the mortgage loans insurance fund. As of June 30, 2015, the most recent date as to which information is available, the Puerto Rico Housing Finance Authority had a restricted net position for such purposes of approximately $77.4 million.

Furthermore, as of December 31, 2016, the Corporation had $408.8 million of public sector deposits in Puerto Rico. Approximately 28% is from municipalities and municipal agencies in Puerto Rico and 72% is from public corporations and the central government and agencies in Puerto Rico.

Impact of Inflation and Changing Prices

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

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

Basis of Presentation

The Corporation has included in this Form 10-K the following financial measures that are not recognized under GAAP, which are referred to as non-GAAP financial measures:

1. Net interest income, interest rate spread, and net interest margin are reported excluding the changes in the fair value of derivative instruments and the $2.5 million prepayment penalty collected on a commercial mortgage loan paid off in the fourth quarter of 2014, and on a tax-equivalent basis in order to provide to investors additional information about the Corporation's net interest income that management uses and believes should facilitate comparability and analysis. The changes in the fair value of derivative instruments have no effect on interest due or interest earned on interest-bearing liabilities or interest-earning assets, respectively. The $2.5 million contractual prepayment penalty collected was 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 the related loan. Such loss equaled the mark-to-market unrealized losses recorded by the Corporation in prior periods for the terminated interest rate swap. Such penalty income is above what the Corporation believes are the normal or recurring level for an individual loan. The tax-equivalent adjustment to net interest income recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a marginal income tax rate. Income from tax-exempt earning assets is increased by an amount equivalent to the taxes that would have been paid if this income had been taxable at statutory rates. Management believes that it is a standard practice in the banking industry to present net interest income, interest rate spread, and net interest margin on a fully tax-equivalent basis. This adjustment puts all earning assets, most notably tax-exempt securities and certain loans, on a common basis that facilitates comparison of results to the results of peers. Refer to "Net Interest Income" above for the table that reconciles the non-GAAP financial measure "net interest income excluding fair value changes and on a tax-equivalent basis" with net interest income calculated and presented in accordance with GAAP. The table also reconciles the non-GAAP financial measures "net interest spread and margin excluding fair value changes and on a tax-equivalent basis" with net interest spread and margin calculated and presented in accordance with GAAP.

2. The tangible common equity ratio and tangible book value per common share are non-GAAP financial measures generally used by the financial community to evaluate capital adequacy. Tangible common equity is total equity less preferred equity, goodwill, core deposit intangibles, and other intangibles, such as the purchased credit card relationship intangible and the insurance customer relationship intangible. Tangible assets are total assets less goodwill, core deposit intangibles, and other intangibles, such as the purchased credit card relationship intangible and the insurance customer relationship intangible. Management and many stock analysts use the tangible common equity ratio and tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase method of accounting for mergers and acquisitions. Accordingly, the Corporation believes that disclosures of these financial measures may also be useful to investors. Neither tangible common equity nor tangible assets, or the related measures should be considered in isolation or as a substitute for stockholders' equity, total assets, or any other measure calculated in accordance with GAAP. Moreover, the manner in which the Corporation calculates its tangible common equity, tangible assets, and any other related measures may differ from that of other companies reporting measures with similar names. Refer to "Risk Management-Capital" above for a reconciliation of the Corporation's tangible common equity and tangible assets.

3. Adjusted provision for loan and lease losses, adjusted net charge-offs, adjusted net charge-offs to average loans ratios, and adjusted provision for loan and lease losses to net charge-offs ratios are non-GAAP financial measures that exclude the effects related to the sale of the $16.3 million pool of non-performing assets in 2016, the bulk sale of assets with a carrying value of $150.4 million in 2015, the acquisition of mortgage loans from Doral Financial in 2014 in full satisfaction of secured borrowings owed by such entity to FirstBank, and the bulk sales of adversely classified commercial assets, non-performing residential loans and loans transferred to held for sale in 2013. Management believes this information helps investors understand the effect of items that are not expected to reoccur with any regularity or may reoccur at uncertain times and in uncertain amounts on reported results and facilitates comparisons with prior periods.

4. Adjusted non-interest income excludes for 2016, 2015, and 2014 the following:

- Gain of $1.5 million from the recovery of a residual CMO previously written off recorded in the fourth quarter of 2016.

- Brokerage and insurance commissions of $1.8 million from the sale of large fixed annuities contracts in the fourth quarter of 2016.

- Gain of $6.1 million on sales of U.S. agency MBS recorded in the third quarter of 2016.

- OTTI charges on debt securities of $6.7 million, $16.5 million, and $0.4 million in 2016, 2015, and 2014, respectively.

- Gain of $4.2 million on the repurchase and cancellation of trust preferred securities recorded in the first quarter of 2016.

- Gain of $7.0 million on the sale of merchant contracts recorded in the fourth quarter of 2015.

- Loss of $0.6 million on loans held for sale included as part of the bulk sale of assets recorded in the second quarter of 2015.

- Bargain purchase gain of $13.4 million on assets acquired and liabilities assumed from Doral Bank in the first quarter of 2015.

- Equity in loss of unconsolidated entity of $7.3 million recorded in 2014.

- Gain of $0.3 million on the sale of a Puerto Rico government agency bond recorded in 2014.

Management believes this information helps investors understand the effect of items that are not expected to reoccur with any regularity or may reoccur at uncertain times and in uncertain amounts and facilitates comparisons with prior periods. In addition, the exclusion of items such as the bargain purchase gain that are not reflective of the core operating performance provides an alternate presentation of the Corporation's performance.

5. Adjusted non-interest expenses excludes for 2016, 2015, and 2014 the following:

- A $2.7 million adjustment recorded in the fourth quarter of 2016 to reduce the credit card rewards liability due to unusually large customer forfeitures related to the expiration of reward points earned by customers up to September 2013 (the conversion date of the credit card portfolio acquired from FIA in May 2012). Most of these points had been accrued at acquisition date and ultimately experienced a redemption pattern materially different from those points accrued after conversion.

- Incentive costs of $0.1 million related to the aforementioned sale of large fixed annuities contracts in the fourth quarter of 2016.

- Costs of $0.6 million associated with the secondary offering of the Corporation's common stock by certain of the existing stockholders recorded in the fourth quarter of 2016.

- Costs above what the Corporation believes are the normal or recurring level for severance payments of $0.3 million related to permanent job discontinuance in the third quarter of 2016 and costs of $2.2 million related to a voluntary early retirement program in the fourth quarter of 2015.

- Transaction expenses and certain losses totaling $1.2 million related to the bulk sale of assets in the second quarter of 2015.

- Acquisition and conversion costs of $4.6 million related to assets acquired and liabilities assumed from Doral Bank recorded in 2015.

- Costs of $1.2 million related to the acquisition of loans from Doral Financial in 2014.

Management believes this information helps investors understand the effect of adjustments that are above normal or recurring levels, are not expected to reoccur with any regularity or may reoccur at uncertain times and in uncertain amounts and facilitates comparisons with prior periods, and provides an alternate presentation of the Corporation's performance.

6. Adjusted net income that excludes the effect of all the items mentioned above and their tax related impacts as follows:

- Tax benefit of $0.7 million related to the sale of the $16.3 million pool of non-performing assets in the fourth quarter of 2016 (calculated based on the statutory tax rate of 39%)

- Tax expense of $0.3 million related to the gain from recovery of a residual CMO previously written off, which was recorded in the fourth quarter of 2016 (calculated based on the applicable capital gain tax rate of 20%).

- Tax expense of $0.7 million related to brokerage and insurance commissions from the sale of large fixed annuities contracts, net of incentive costs, recorded in the fourth quarter of 2016 (calculated based on the statutory tax rate of 39%).

- Tax expense of $1.1 million related to the adjustment to reduce the credit card rewards liability due to unusually large customer forfeitures, which was recorded in the fourth quarter of 2016 (calculated based on the statutory tax rate of 39%).

- Tax expense of $0.2 million related to the taxable portion of the gain on sale of U.S. agency MBS, which was recorded in the third quarter of 2016 (calculated based on the applicable capital gain tax rate of 20%).

- Tax benefit of $0.1 million related to the severance expense, which was recorded in the third quarter of 2016 (calculated based on the statutory tax rate of 39%).

- Tax expense of $2.7 million related to the gain on sale of merchant contracts, which was recorded in the fourth quarter of 2015 (calculated based on the statutory tax rate of 39%).

- Tax benefit of $0.9 million related to the voluntary early retirement program expenses, which was recorded in the fourth quarter of 2015 (calculated based on the statutory tax rate of 39%).

- Tax benefit of $19.0 million related to charges on the bulk sale of assets, including transaction costs, executed in the second quarter of 2015 (calculated based on the statutory tax rate of 39%).

- Tax expense of $5.2 million related to the bargain purchase gain on assets acquired and liabilities assumed from Doral Bank in the first quarter of 2015 (calculated based on the statutory tax rate of 39%).

- Tax benefit of $1.8 million related to the acquisition and conversion costs of assets acquired and liabilities assumed from Doral Bank in the first half of 2015 (calculated based on the statutory tax rate of 39%).

- No tax benefit was recorded for the OTTI charges recorded in 2016, 2015 and 2014.

- Tax expense of $1.0 million related to the $2.5 million prepayment penalty collected on a commercial mortgage loan paid off in the fourth quarter of 2014 (calculated based on the statutory tax rate of 39%).

- Tax benefit of $0.5 million related to costs incurred in the acquisition of mortgage loans from Doral Financial in 2014 in full satisfaction of secured borrowings owed by such entity to FirstBank (calculated based on the statutory tax rate of 39%).

- No tax expenses was recorded for the gain on the sale of a tax-exempt Puerto Rico government agency bond in 2014.

- No tax effect was reflected in 2014 related to the equity in loss of unconsolidated entity, as the related deferred tax asset was fully reserved with a valuation allowance.

- The gain realized on the repurchase and cancellation of trust preferred securities and costs incurred associated with the secondary offering, recorded at the holding company level, had no effect on the income tax expense in 2016.

Management believes this information helps investors understand the effect of items that are not reflective of core operating performance, are not expected to reoccur with any regularity or may reoccur at uncertain times and in uncertain amounts and facilitates comparisons with prior periods and provides an alternate presentation of the Corporation’s performance.

The Corporation uses and believes that these non-GAAP financial measures enhance the ability of analysts and investors to analyze trends in the Corporation’s business and better understand the performance of the Corporation. In addition, the Corporation may utilize these non-GAAP financial measures as a guide in its budgeting and long-term planning process. Any analysis of these non-GAAP financial measures should be used only in conjunction with results presented in accordance with GAAP.

Refer to “Executive Overview of Results of Operations” above for the reconciliation of the non-GAAP financial measures “adjusted net income,” “adjusted provision for loan and lease losses,” “adjusted net charge-offs,” and adjusted net charge-offs to average loans ratio” to the GAAP financial measures. The following tables reconciles the non-GAAP financial measures “adjusted non-interest income” and “adjusted non-interest expenses,” to the GAAP financial measures for 2016, 2015 and 2014:

2016		As reported (GAAP)	Gain from recovery of investments previously written off	OTTI on Debt Securities	Gain on Sale of Investment Securities	Gain on Repurchas and Cancellatio of Trust Preferred Securitie
(In thousands)						
Non-interest income	**$**	**87,954 $**	**(1,547) $**	**6,687 $**	**(6,104) $**	**(4,21**
Gain on sale of investment securities		6,104	**-**	**-**	(6,104)	
Gain from recovery of investments previously written off		1,547	(1,547)	-	-	
Net impairment losses on available-for-sale debt securities		(6,687)	-	6,687	-	
Gain on early extinguishment of debt		4,217	-	-	-	(4,21
Other non-interest income		30,900	-	-	-	
Non-interest expenses	**$**	**355,080 $**	**- $**	**- $**	**- $**	
Employees' compensation and benefits		151,493	-	-	-	
Business promotion		11,419	-	-	-	
Professional fees		44,137	-	-	-	
Taxes other than income taxes		15,139	-	-	-	

2015	As Reported (GAAP)	OTTI on Debt Securities	Gain on sale of Merchant Contracts	Bargain Purchase Gain	Voluntary Early Retirement Program-non-recurring expenses	Acquisition and conversion costs	Bulk sale transaction impact	Adjusted (Non-GAA
(In thousands)								
Non-interest income	**$ 81,325 $**	**16,517 $**	**(7,000) $**	**(13,443) $**	**- $**	**- $**	**552 $**	**77,9**
Bargain purchase	13,443	-	-	(13,443)	-	-	-	

gain								
Net loss on investment and impairments	(16,517)	16,517	-	-	-	-	-	
Gain on sale of merchant contracts	7,000	-	(7,000)	-	-	-	-	
Other net interest income	32,794	-	-	-	-	-	552	33,3
Non-interest expenses	**$ 383,830 $**	**- $**	**- $**	**- $**	**(2,238) $**	**(4,646) $**	**(1,168) $**	**375,7**
Employees' compensation and benefits	150,059	-	-	-	(2,238)	(104)	-	147,7
Occupancy and equipment	59,295	-	-	-	-	(118)	-	59,1
Professional fees	55,632	-	-	-	-	(3,709)	(918)	51,0
Business promotion	15,234	-	-	-	-	(437)	-	14,7
Net loss on OREO operations	15,788	-	-	-	-	-	(250)	15,5
Other expenses	22,229	-	-	-	-	(278)	-	21,9

2014	As Reported (GAAP)	Gain on Sale of Investment Securities	OTTI on Debt Securities	Equity in Loss on Unconsolidated Entity	Costs Related to Acquisition of Mortgage Loans from Doral Financial	Adjusted (Non-GAAP)
(In thousands)						
Non-interest income	**$ 61,348**	**$ (262)**	**$ 388**	**$ 7,279**	**$ -**	**$ 68,753**
Gain on sale of investment securities	262	(262)	-	-	-	-
Net loss on investment and impairments	(388)	-	388	-	-	-
Equity in losses of unconsolidated entity	(7,279)	-	-	7,279	-	-
Non-interest expenses	**$ 378,253**	**$ -**	**$ -**	**$ -**	**$ (1,235)**	**$ 377,018**
Professional fees	47,940	-	-	-	(1,223)	46,717
Other non-interest expenses	19,039	-	-	-	(12)	19,027

The following table reconciles the provision for loan and lease losses to net charge-offs to the Non-GAAP financial measure "a
and lease losses to net-charge-offs" for 2016, 2015, 2014 and 2013.

(In thousands)	Provision for Loan and Lease Losses to Net Charge-Offs, (GAAP to Non GAAP reconciliation) Year Ended					
	December 31, 2016		December 31, 2015		December 31, 201	
	Provision for Loan and Lease Losses	Net Charge-Offs	Provision for Loan and Lease Losses	Net Charge-Offs	Provision for Loan and Lease Losses	Net Charge-
Provision for loan and lease losses and net charge-offs (GAAP)	$ 86,733	$ 121,840	$ 172,045	$ 153,730	$ 109,530	$ 172,9
Less Special Items:						
Sale of a $16.3 million pool of non-performing assets	1,799	4,631	-	-	-	
Bulk sale of assets	-	-	46,947	61,435	-	
Acquisition of mortgage loans from Doral Financial in full satisfaction of secured borrowings	-	-	-	-	1,428	6,9
Bulk sale of adversely classified commercial assets, non-performing residential loans and loans transferred to held for sale	-	-	-	-	-	
Provision for loan and lease losses and net charge-offs, excluding special items (Non-GAAP)	$ 84,934	$ 117,209	$ 125,098	$ 92,295	$ 108,102	$ 166,0

Provision for loan and lease losses to net charge-offs (GAAP)	71.19%	111.91%	63.31%
Provision for loan and lease losses to net charge-offs, excluding special items (Non-GAAP)	72.46%	135.54%	65.09%

The following table reconciles the net charge-offs and net charge-offs to average loans ratios to the Non-GAAP financial measures "adjusted net charge-offs" and "adjusted net charge-offs to average loans ratios" for 2013:

2013	**As Reported (GAAP)**	**Bulk Sales Transaction Impact**	**Loans Transferred To Held For Sale Impact**	**Adjusted (Non-GAAP)**
(in thousands)				
Total net charge-offs	**$ 393,307**	**$ 196,491**	**$ 35,953**	**$ 160,863**
Total net charge-offs to average loans	4.07%			1.70%
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	3.70%			2.15%
Construction	41,247	12,784	21,400	**7,063**
Construction loans net charge-offs to average loans	15.11%			2.91%

Selected Quarterly Financial Data

Financial data showing results of the 2016 and 2015 quarters is presented below. In the opinion of management, all adjustments necessary for a fair presentation have been included. These results are unaudited.

	2016			
	March 31	June 30	September 30	December 31
	(In thousands, except for per share results)			
Interest income	$ 150,831	$ 146,934	$ 143,573	$ 143,954
Net interest income	124,648	120,228	118,178	121,064
Provision for loan losses	21,053	20,986	21,503	23,191
Net income	23,344	21,953	24,074	23,858
Net income attributable to common stockholders - basic	23,344	21,953	24,074	23,635
Net income attributable to common stockholders - diluted	23,344	21,953	24,074	23,635
Earnings per common share-basic	$ 0.11	$ 0.10	$ 0.11	$ 0.11
Earnings per common share-diluted	$ 0.11	$ 0.10	$ 0.11	$ 0.11

	2015			
	March 31	June 30	September 30	December 31
	(In thousands, except for per share results)			
Interest income	$ 152,485	$ 151,632	$ 149,812	$ 151,640
Net interest income	125,647	126,477	124,929	125,213
Provision for loan and lease losses	32,970	74,266	31,176	33,633
Net income (loss)	25,646	(34,074)	14,758	14,967
Net income (loss) attributable to common stockholders -basic	25,646	(34,074)	14,758	14,967
Net income (loss) attributable to common stockholders -diluted	25,646	(34,074)	14,758	14,967
Earnings (loss) per common share-basic	$ 0.12	$ (0.16)	$ 0.07	$ 0.07
Earnings (loss) per common share-diluted	$ 0.12	$ (0.16)	$ 0.07	$ 0.07

Some infrequent transactions that significantly affected quarterly periods include:

Fourth quarter of 2016: (i) a $1.8 million pre-tax charge to the provision for loan and lease losses related to the sale of the $16.3 million pool of non-performing assets; (ii) a pre-tax gain of $1.5 million from recovery of a residual CMO previously written off once the trust was liquidated; (iii) brokerage and insurance pre-tax commissions of $1.7 million, net of incentive costs, primarily from the sale of large fixed annuities contracts; and (iv) a pre-tax adjustment of $2.7 million to reduce the credit card rewards program liability due to the expiration of reward points earned by customers up to September 2013 (the conversion date of the credit card portfolio acquired from FIA in May 2012).

Third quarter of 2016 included a pre-tax gain of $6.1 million on sales of $198.7 million of U.S. agency MBS.

First quarter of 2016: (i) OTTI charges on debt securities, primarily on Puerto Rico government debt securities, of $6.7 million; and (ii) a gain of $4.2 million on the repurchase and cancellation of $10 million in trust preferred securities. These transactions had no effect on the income tax expense in 2016.

Fourth quarter of 2015: (i) a $19.2 million pre-tax charge to the provision for loan and lease losses related to qualitative factor adjustments to the reserves for commercial loans extended to or guaranteed by the Puerto Rico government; (ii) a $7.0 million pre-tax gain associated with a long-term strategic marketing alliance as part of the sale of the Bank's merchant contracts portfolio; (iii) a $3.0 million OTTI charge on Puerto Rico government securities, no tax benefit was recognized for the OTTI charges; and (iv) pre-tax costs of $2.2 million related to a voluntary early retirement program.

Second quarter of 2015: (i) a $48.7 million pre-tax loss related to the bulk sale of assets, primarily adversely classified commercial and construction loans; (ii) a $12.9 million OTTI charge on Puerto Rico government securities, no tax benefit was recognized for the OTTI charges; and (iii) pre-tax conversion costs of $2.6 million associated with the conversion of deposit and loan accounts acquired from Doral to the FirstBank's systems.

First quarter of 2015: (i) the pre-tax $13.4 million bargain purchase gain related to the acquisition of assets and assumption of liabilities from Doral Bank; and (ii) $2.1 million of related pre-tax acquisition and conversion costs.

CEO and CFO Certifications

First BanCorp.'s Chief Executive Officer and Chief Financial Officer have filed with the SEC certifications required by Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1, 31.2, 32.1 and 32.2 to this Annual Report on Form 10-K and the certifications required by Section III(b)(4) of the Emergency Stabilization Act of 2008 as Exhibits 99.1 and 99.2 to this Annual Report on Form 10-K.

In addition, in 2016, First BanCorp's Chief Executive Officer provided to the NYSE his annual certification, as required for all NYSE listed companies, that he was not aware of any violation by the Corporation of the NYSE corporate governance listing standards.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information required herein is incorporated by reference to the information included under the sub caption "Interest Rate Risk Management" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section in this Form 10-K.

Item 8. Financial Statements and Supplementary Data

FIRST BANCORP.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

First BanCorp.:

We have audited the accompanying consolidated statements of financial condition of First BanCorp. and subsidiaries (the "Corporation") as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, cash flows, and changes in stockholders' equity for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First BanCorp. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First BanCorp. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2017 expressed an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

/s/ KPMG LLP

San Juan, Puerto Rico

March 16, 2017

Stamp No. E257685 of the Puerto Rico

Society of Certified Public Accountants

was affixed to the record copy of this report.

Management's Report on Internal Control over Financial Reporting

To the Board of Directors and Stockholders of First BanCorp.:

The management of First BanCorp. (the "Corporation") is responsible for establishing and maintaining adequate internal control over financial reporting. The Corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Corporation's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Corporation's assets that could have a material effect on the financial statements.

Because of its inherent limitations, including the possibility of collusion or improper management override of controls, internal control over financial reporting may not prevent or detect every misstatement due to error or fraud on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2016 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on this assessment, management concluded that, as of December 31, 2016, the Corporation's internal control over financial reporting is effective based on the criteria established in Internal Control-Integrated Framework (2013).

The Corporation's internal control over financial reporting as of December 31, 2016 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their accompanying report dated March 16, 2017, which expressed an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2016.

First BanCorp.

/s/ Aurelio Alemán

Aurelio Alemán

President and Chief Executive Officer

Date: March 16, 2017

/s/ Orlando Berges

Orlando Berges

Executive Vice President

and Chief Financial Officer

Date: March 16, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

First Bancorp.:

We have audited First Bancorp. and subsidiaries' (the "Corporation") internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, First Bancorp. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of First Bancorp. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, cash flows, and changes in stockholders' equity, for each of the years in the three-year period ended December 31, 2016, and our report dated March 16, 2017, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Juan, Puerto Rico

March 16, 2017

Stamp No. ––––E257686 of the Puerto Rico

Society of Certified Public Accountants

was affixed to the record copy of this report.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2016	December 31, 2015
	(In thousands, except for share information)	
ASSETS		
Cash and due from banks	$ 289,591	$ 532,985
Money market investments:		
Time deposits with other financial institutions	2,800	3,000
Other short-term investments	7,294	216,473
Total money market investments	10,094	219,473
Investment securities available for sale, at fair value:		
Securities pledged that can be repledged	339,390	793,562
Other investment securities	1,542,530	1,092,833
Total investment securities available for sale	1,881,920	1,886,395
Investment securities held to maturity, at amortized cost:		
Securities pledged that can be repledged	-	-
Other investment securities	156,190	161,483
Total investment securities held to maturity, fair value of $132,759 (2015- $131,544)	156,190	161,483
Other equity securities	42,992	32,169
Loans, net of allowance for loan and lease losses of $205,603 (2015 - $240,710)	8,681,270	8,871,672
Loans held for sale, at lower of cost or market	50,006	35,869
Total loans, net	8,731,276	8,907,541
Premises and equipment, net	150,828	161,016
Other real estate owned	137,681	146,801
Accrued interest receivable on loans and investments	45,453	48,697
Other assets	476,430	476,459
Total assets	$ 11,922,455	$ 12,573,019
LIABILITIES		
Non-interest-bearing deposits	$ 1,484,155	$ 1,336,559
Interest-bearing deposits	7,347,050	8,001,565
Total deposits	8,831,205	9,338,124
Securities sold under agreements to repurchase	300,000	700,000
Advances from the Federal Home Loan Bank (FHLB)	670,000	455,000

Other borrowings	216,187	226,492
Accounts payable and other liabilities	118,820	159,269
Total liabilities	10,136,212	10,878,885
STOCKHOLDERS' EQUITY		
Preferred stock, authorized, 50,000,000 shares:		
Non-cumulative Perpetual Monthly Income Preferred Stock: issued 22,004,000 shares, outstanding 1,444,146 shares, aggregate liquidation value of $36,104	36,104	36,104
Common stock, $0.10 par value, authorized, 2,000,000,000 shares; issued, 218,700,394 shares (2015 - 216,051,128 shares issued)	21,870	21,605
Less: Treasury stock (at par value)	(125)	(96)
Common stock outstanding, 217,446,205 shares outstanding (2015 - 215,088,698 shares outstanding)	21,745	21,509
Additional paid-in capital	931,856	926,348
Retained earnings, includes legal surplus reserve of $52,436 (2015- $42,798)	830,928	737,922
Accumulated other comprehensive loss, net of tax of $7,752	(34,390)	(27,749)
Total stockholders' equity	1,786,243	1,694,134
Total liabilities and stockholders' equity	$ 11,922,455	$ 12,573,019

The accompanying notes are an integral part of these statements.

149

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2016	2015	2014
	(In thousands, except per share information)		
Interest and dividend income:			
Loans	$ 531,022	$ 548,571	$ 571,685
Investment securities	50,905	54,850	60,372
Money market investments	3,365	2,148	1,892
Total interest income	585,292	605,569	633,949
Interest expense:			
Deposits	67,302	69,250	78,127
Securities sold under agreements to repurchase	20,203	22,431	26,989
Advances from FHLB	5,964	4,171	3,561
Other borrowings	7,705	7,451	7,199
Total interest expense	101,174	103,303	115,876
Net interest income	484,118	502,266	518,073
Provision for loan and lease losses	86,733	172,045	109,530
Net interest income after provision for loan and lease losses	397,385	330,221	408,543
Non-interest income:			
Service charges and fees on deposit accounts	22,965	20,330	16,709
Mortgage banking activities	20,435	17,217	14,685
Net gain on sale of investments	6,104	-	262
Gain from recovery of investments previously written off	1,547	-	-
Other-than-temporary impairment (OTTI) losses on available-for-sale debt securities:			
Total other-than-temporary impairment losses	(1,845)	(35,806)	-
Portion of other-than-temporary impairment recognized in other comprehensive income (OCI)	(4,842)	19,289	(388)
Net impairment losses on available-for-sale debt securities	(6,687)	(16,517)	(388)
Gain on early extinguishment of debt	4,217	-	-
Equity in loss of unconsolidated entity	-	-	(7,279)
Insurance commission income	8,473	7,058	6,868
Bargain purchase gain	-	13,443	-
Gain on sale of merchant contracts	-	7,000	-
Other non-interest income	30,900	32,794	30,491
Total non-interest income	87,954	81,325	61,348
Non-interest expenses:			
Employees' compensation and benefits	151,493	150,059	135,422
Occupancy and equipment	55,159	59,295	58,290
Business promotion	11,419	15,234	16,531
Professional fees	44,137	55,632	47,940
Taxes, other than income taxes	15,139	12,669	18,089

Insurance and supervisory fees	24,920	29,021	39,131
Net loss on other real estate owned (OREO) and OREO operations	11,533	15,788	20,596
Credit and debit card processing expenses	13,635	16,177	15,449
Communications	6,759	7,726	7,766
Other non-interest expenses	20,886	22,229	19,039
Total non-interest expenses	355,080	383,830	378,253
Income before income taxes	130,259	27,716	91,638
Income tax (expense) benefit	(37,030)	(6,419)	300,649
Net income	$ 93,229	$ 21,297	$ 392,287
Net income attributable to common stockholders	$ 93,006	$ 21,297	$ 393,946
Net income per common share:			
Basic	$ 0.44	$ 0.10	$ 1.89
Diluted	$ 0.43	$ 0.10	$ 1.87
Dividends declared per common share	$ -	$ -	$ -

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2016	**2015**	**2014**
		(In thousands)	
Net income	$ 93,229	$ 21,297	$ 392,287
Available-for-sale debt securities on which an other-than-temporary impairment has been recognized:			
Unrealized gain (loss) on debt securities on which an other-than-temporary impairment has been recognized	550	(16,841)	1,781
Reclassification adjustment for other-than-temporary impairment on debt securities included in net income	6,687	16,517	388
All other unrealized gains and losses on available-for-sale securities:			
Reclassification adjustments for net gain included in net income	(6,104)	-	(262)
All other unrealized holding (losses) gains arising during the year	(7,774)	(9,074)	58,478
Other comprehensive (loss) income for the year	(6,641)	(9,398)	60,385
Total comprehensive income	$ 86,588	$ 11,899	$ 452,672

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Cash flows from operating activities:			
Net income	$ 93,229	$ 21,297	$ 392,2
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,649	21,060	20,9
Amortization of intangible assets	4,896	5,143	4,9
Provision for loan and lease losses	86,733	172,045	109,5
Deferred income tax expense (benefit)	23,879	80	(306,0
Stock-based compensation	6,876	6,037	4,2
Gain on sales of investments, net	(6,104)	-	(2
Bargain purchase gain	-	(13,443)	
Gain on sale of merchant contracts	-	(7,000)	
Other-than-temporary impairments on debt securities	6,687	16,517	3
Gain from recovery of investments previously written off	(1,547)	-	
Equity in loss of unconsolidated entity	-	-	7,2
Unrealized loss (gain) on derivative instruments	78	(164)	(9
Gain on sales of premises and equipment and other assets	(700)	(64)	(
Net gain on sales of loans	(10,273)	(7,379)	(7,7
Net amortization/accretion of premiums, discounts, and deferred loan fees and costs	(8,819)	(6,229)	(2,4
Originations and purchases of loans held for sale	(488,833)	(428,348)	(311,3
Sales and repayments of loans held for sale	493,821	436,461	328,8
Loans held for sale valuation adjustment	-	(191)	
Amortization of broker placement fees	2,881	4,563	6,6
Net amortization/accretion of premiums and discounts on investment securities	6,890	7,046	5,4
Gain on extinguishment of debt	(4,217)	-	
Decrease in accrued interest receivable	2,934	1,703	3,2
(Decrease) increase in accrued interest payable	(29,200)	6,241	6,8
Decrease in other assets	17,716	20,625	19,7
(Decrease) increase in other liabilities	(15,144)	5,891	(17,2
Net cash provided by operating activities	199,432	261,891	264,3
Cash flows from investing activities:			
Principal collected on loans	2,830,830	2,969,616	3,483,1
Loans originated and purchased	(2,813,253)	(2,959,871)	(3,423,2
Proceeds from sales of loans held for investment	31,852	107,702	74,0
Proceeds from sales of repossessed assets	56,369	61,808	66,6
Proceeds from sales of available-for-sale securities	219,780	-	4,8
Purchases of available-for-sale securities	(619,636)	(250,585)	(170,4
Proceeds from principal repayments and maturities of available-for-sale securities	390,286	296,950	233,0
Purchases of held-to-maturity investment securities	-	(4,530)	
Proceeds from principal repayments and maturities of securities held to maturity	5,293	5,068	4,6

Proceeds from recovery of investments previously written off	1,547	-	
Proceeds from sale of merchant contracts	-	10,000	
Additions to premises and equipment	(10,370)	(12,456)	(22,2
Proceeds from sales of premises and equipment and other assets	2,279	4,035	1,3
Net (purchases) redemptions/sales of other equity securities	(10,823)	(6,417)	2,9
Net cash received from acquisition	-	217,659	
Net cash outflows from purchase/sale of insurance contracts	(960)	-	
Net cash provided by investing activities	83,194	438,979	254,7
Cash flows from financing activities:			
Net decrease in deposits	(542,019)	(673,347)	(402,6
Change in securities sold under agreements to repurchase	(400,000)	(200,000)	
Net FHLB advances proceeds	215,000	130,000	25,0
Repurchase of outstanding common stock	(1,132)	(1,173)	(9
Repayments of junior subordinated debentures	(7,025)	-	
Dividends paid on preferred stock	(223)	-	
Issuance costs of common stock issued in exchange for preferred stock			
Series A through E	-	-	(
Net cash used in financing activities	(735,399)	(744,520)	(378,6
Net decrease in cash and cash equivalents	(452,773)	(43,650)	140,4
Cash and cash equivalents at beginning of year	752,458	796,108	655,6
Cash and cash equivalents at end of year	$ 299,685	$ 752,458	$ 796,1
Cash and cash equivalents include:			
Cash and due from banks	$ 289,591	$ 532,985	$ 779,1
Money market instruments	10,094	219,473	16,9
	$ 299,685	$ 752,458	$ 796,1

The accompanying notes are an integral part of these statements.

152

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Year Ended December 31,		
	2016	**2015**	**2014**
		(In thousands)	
Preferred Stock:			
Balance at beginning of year	$ 36,104	$ 36,104	$ 63,047
Exchange of preferred stock - Series A through E	-	-	(26,943)
Balance at end of year	36,104	36,104	36,104
Common Stock Outstanding:			
Balance at beginning of year	21,509	21,298	20,707
Common stock issued as compensation	75	48	32
Common stock withheld for taxes	(29)	(22)	(18)
Common stock issued in exchange for Series A through E preferred stock	-	-	459
Common stock issued in exchange for trust preferred securities	-	85	-
Restricted stock grants	193	102	122
Restricted stock forfeited	(3)	(2)	(4)
Balance at end of year	21,745	21,509	21,298
Additional Paid-In Capital:			
Balance at beginning of year	926,348	916,067	888,161
Stock-based compensation	6,876	6,037	4,221
Common stock withheld for taxes	(1,103)	(1,151)	(928)
Common stock issued in exchange for Series A through E preferred stock	-	-	23,904
Reversal of issuance costs of Series A through E preferred stock exchanged	-	-	921
Issuance costs of common stock issued in exchange for Series A through E preferred stock	-	-	(62)
Common stock issued in exchange for trust preferred securities	-	5,543	-
Restricted stock grants	(193)	(102)	(122)
Common stock issued as compensation	(75)	(48)	(32)
Restricted stock forfeited	3	2	4
Balance at end of year	931,856	926,348	916,067
Retained Earnings:			
Balance at beginning of year	737,922	716,625	322,679
Net income	93,229	21,297	392,287
Dividends on preferred stock	(223)	-	-
Excess of carrying amount of Series A through E preferred stock exchanged over fair value of new shares of common stock	-	-	1,659
Balance at end of year	830,928	737,922	716,625
Accumulated Other Comprehensive Income (Loss), net of tax:			
Balance at beginning of year	(27,749)	(18,351)	(78,736)
Other comprehensive (loss) income, net of tax	(6,641)	(9,398)	60,385
Balance at end of year	(34,390)	(27,749)	(18,351)

Total stockholders' equity	$ 1,786,243	$ 1,694,134	$ 1,671,743

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The following is a description of First BanCorp.'s ("First BanCorp." or "the Corporation") most significant policies:

Nature of business

First BanCorp. is a publicly owned, Puerto Rico-chartered financial holding company that is subject to regulation, supervision, and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Corporation is a full service provider of financial services and products with operations in Puerto Rico, the United States, the U.S. Virgin Islands (USVI), and the British Virgin Islands (BVI).

The Corporation provides a wide range of financial services for retail, commercial, and institutional clients. As of December 31, 2016, the Corporation controlled two wholly owned subsidiaries: FirstBank Puerto Rico ("FirstBank" or the "Bank"), 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 of the Commonwealth of Puerto Rico ("OCIF") and the Federal Deposit Insurance Corporation (the "FDIC"). Deposits are insured through the FDIC Deposit Insurance Fund. FirstBank also operates in the state of Florida (USA), subject to regulation and examination by the Florida Office of Financial Regulation and the FDIC, in the USVI, subject to regulation and examination by the United States Virgin Islands Banking Board, and in the BVI, subject to regulation by the British Virgin Islands Financial Services Commission. 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.

As of December 31, 2016, FirstBank conducts its business through its main office located in San Juan, Puerto Rico, 48 banking branches in Puerto Rico, 11 branches in the USVI and BVI, and 11 branches in the state of Florida (USA). As of December 31, 2016, 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 28 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 banking activities, such as advisory services, capital raising efforts on behalf of clients and assistance with 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 other real estate owned properties.

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 Note 2 – Business Combination, to the consolidated financial statements.

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Statutory business trusts that are wholly owned by the Corporation and are issuers of trust-preferred securities, and entities in which the Corporation has a non-controlling interest, are not consolidated in the Corporation's consolidated financial statements in accordance with authoritative guidance issued by the Financial Accounting Standards Board ("FASB") for consolidation of variable interest entities ("VIE"). See "Variable Interest Entities" below for further details regarding the Corporation's accounting policy for these entities.

Reclassifications

During the second quarter of 2016, the Corporation reviewed its historical accounting treatment as loans of its $156.2 million of financing arrangements with Puerto Rico municipalities issued in bond form, but underwritten as loans with features that are typically found in commercial loan transactions. This review came as a result of the determination of the Federal Reserve Board that the transactions must be treated for regulatory reporting purposes as investment securities. The Puerto Rico Municipal Finance Act ("the Act") requires the designation of financing arrangements obtained by municipalities with maturities greater than 8 years as "special

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

obligation bonds" subject to specific provisions under the Act. The Corporation concluded that the impact of accounting for the transaction as held-to-maturity investment securities rather than loans does not have a material effect on previously reported results of operations, financial condition, or cash flows and, accordingly, these financing arrangements have been accounted for and reported as held-to-maturity investment securities and not as loans since the second quarter of 2016. For purposes of comparability, prior period amounts have been reclassified to conform to the 2016 presentation.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management has made significant estimates in several areas, including the allowance for loan and lease losses, valuations of investment securities, the fair value of assets acquired, including purchased credit-impaired (PCI) loans, valuations of residential mortgage servicing rights, valuations of other real estate owned ("OREO") properties, and income taxes, including deferred taxes.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from the Federal Reserve Bank of New York (the "New York FED" or "Federal Reserve") and other depository institutions. Also includes time deposits, money market funds and short-term investments with original maturities of three months or less.

Investment securities

The Corporation classifies its investments in debt and equity securities into one of four categories:

Held-to-maturity — Securities that the entity has the intent and ability to hold to maturity. These securities are carried at amortized cost. The Corporation may not sell or transfer held-to-maturity securities without calling into question its intent to hold other debt securities to maturity, unless a nonrecurring or unusual event that could not have been reasonably anticipated has occurred.

Trading — Securities that are bought and held principally for the purpose of selling them in the near term. These securities are carried at fair value, with unrealized gains and losses reported in earnings. As of December 31, 2016 and 2015, the Corporation did not hold investment securities for trading purposes.

Available-for-sale — Securities not classified as held-to-maturity or trading. These securities are carried at fair value, with unrealized holding gains and losses, net of deferred taxes, reported in other comprehensive income ("OCI") as a separate component of stockholders' equity, and do not affect earnings until they are realized or are deemed to be other-than-temporarily impaired.

Other equity securities — Equity securities that do not have readily available fair values are classified as other equity securities in the consolidated statements of financial condition. These securities are stated at the lower of cost or realizable value. This category is principally composed of stock that is owned by the Corporation to comply with Federal Home Loan Bank (FHLB) regulatory requirements. Their realizable value equals their cost.

Premiums and discounts on investment securities are amortized as an adjustment to interest income on investments over the life of the related securities under the interest method. Net realized gains and losses and valuation adjustments considered other-than-temporary, if any, related to investment securities are determined using the specific identification method and are reported in non-interest income as net gain (loss) on sale of investments and net impairment losses on debt securities, respectively. Purchases and sales of securities are recognized on a trade-date basis.

Evaluation of other-than-temporary impairment ("OTTI") on held-to-maturity and available-for-sale securities

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.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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, any adverse change to the credit conditions and liquidity of the issuer, taking into consideration the latest information available about the financial condition of the issuer, credit ratings, the failure of the issuer to make scheduled principal or interest payments, recent legislation and government actions affecting the issuer's industry and actions taken by the issuer to deal with the economic climate. The Corporation also takes into consideration changes in the near-term prospects of the underlying collateral of a security, if any, such as changes in default rates, loss severity given default, and significant changes in prepayment assumptions and the level of cash flows generated from the underlying collateral, if any, supporting the principal and interest payments of the debt securities. 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, 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 as long as the security is not placed in non-accrual status. 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 the 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 $42.7 million as of December 31, 2016, and on private label MBS with an amortized cost of $28.8 million as of December 31, 2016. The 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 on, among other things, 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.

Loans held for investment

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. Purchased credit-impaired ("PCI") loans are reported net of any remaining purchase accounting adjustments. See "Loans Acquired" below for the accounting policy for PCI loans.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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 (the "FHA") or the Veterans Administration (the "VA") 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. 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 evaluates individually for impairment those loans in the construction, commercial mortgage, commercial and industrial and marine financing portfolios with a principal balance of $1 million or more. Loans in the Construction, Commercial mortgage, and Commercial and Industrial portfolios that originally met the Corporation's threshold for impairment evaluation but due to charge-offs or payments are currently below the $1 million threshold and are still 90 days past due, except TDR's, are accounted for under the Corporation's general reserve. Although the accounting authoritative guidance for a specific impairment of a loan excludes large groups of smaller balance homogeneous loans that are collectively evaluated for impairment (e.g. mortgage and consumer loans), it specifically requires that loan modifications considered TDR be analyzed under its provision. 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. 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 a 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.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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. Refer to Note 8 – Loans Held for Investment, to the consolidated financial statements for additional qualitative and quantitative information about TDR loans.

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 and continues to be individually evaluated for impairment. Refer to Note 8 – Loans Held for Investment, to the consolidated financial statements for additional information about loan splits.

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 statements 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 statements of financial condition, but is accreted into interest income over the remaining life of the pool of loans, using the effective-yield method.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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.

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 has 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.

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 ("GNMA") and government-sponsored entities ("GSEs") such as the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). 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 statements of income. 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 statements of income.

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. Reclassifications 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 a reclassified 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.

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 PCI 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 reflect 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 with respect to 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 lease, 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, including loans modified in a TDR, 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 marine financings, 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. The loans within the commercial mortgage, construction, commercial and industrial portfolios and marine financings with a principal balance of $1 million or more, are individually evaluated for impairment. Also, certain residential mortgage loans and home equity lines of credit are individually evaluated for impairment purposes based on their delinquency and loan to value levels. 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.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

For all other loans, which include small, homogeneous loans, such as auto loans, and the other classes in the consumer loan portfolio, residential mortgages 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 loans that are 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, estimates of 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 estimates of 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-off 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.

Transfers and servicing of financial assets and extinguishment of liabilities

After a transfer of financial assets in a transaction that qualifies for sale accounting, the Corporation derecognizes the financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

The transfer of financial assets in which the Corporation surrenders control over the assets is accounted for as a sale to the extent that consideration other than beneficial interests is received in exchange. The criteria that must be met to determine that the control over transferred assets has been surrendered include: (1) the assets must be isolated from creditors of the transferor, (2) the transferee must obtain the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor cannot maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. When the Corporation transfers financial assets and the transfer fails any one of the above criteria, the Corporation is prevented from derecognizing the transferred financial assets and the transaction is accounted for as a secured borrowing.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Servicing Assets

The Corporation recognizes as separate assets the rights to service loans for others, whether those servicing assets are originated or purchased. In the ordinary course of business, the Corporation sells residential mortgage loans (originated or purchased) to GNMA, which generally securitizes the transferred loans into mortgage-backed securities for sale into the secondary market. Also, certain conventional conforming loans are sold to FNMA or FHLMC with servicing retained. When the Corporation sells mortgage loans, it recognizes any retained servicing right, based on its fair value.

Servicing assets ("MSRs") retained in a sale or securitization arise from contractual agreements between the Corporation and investors in mortgage securities and mortgage loans. The value of MSRs is derived from the net positive cash flows associated with the servicing contracts. Under these contracts, the Corporation performs loan-servicing functions in exchange for fees and other remuneration. The servicing functions typically include: collecting and remitting loan payments, responding to borrower inquiries, accounting for principal and interest, holding custodial funds for payment of property taxes and insurance premiums, supervising foreclosures and property dispositions, and generally administering the loans. The servicing rights, included as part of other assets in the statements of financial condition, entitle the Corporation to annual servicing fees based on the outstanding principal balance of the mortgage loans and the contractual servicing rate. The servicing fees are credited to income on a monthly basis when collected and recorded as part of mortgage banking activities in the consolidated statements of income. In addition, the Corporation generally receives other remuneration consisting of mortgagor-contracted fees such as late charges and prepayment penalties, which are credited to income when collected.

Considerable judgment is required to determine the fair value of the Corporation's MSRs. Unlike highly liquid investments, the market value of MSRs cannot be readily determined because these assets are not actively traded in securities markets. The initial carrying value of the MSRs is generally determined based on its fair value. The fair value of the MSRs is determined based on a combination of market information on trading activity (MSR trades and broker valuations), benchmarking of servicing assets (valuation surveys), and cash flow modeling. The valuation of the Corporation's MSRs incorporates two sets of assumptions: (1) market-derived assumptions for discount rates, servicing costs, escrow earnings rates, floating earnings rates, and the cost of funds and (2) market assumptions calibrated to the Corporation's loan characteristics and portfolio behavior for escrow balances, delinquencies and foreclosures, late fees, prepayments, and prepayment penalties.

Once recorded, MSRs are periodically evaluated for impairment. Impairment occurs when the current fair value of the MSRs is less than its carrying value. If MSRs are impaired, the impairment is recognized in current-period earnings and the carrying value of the MSRs is adjusted through a valuation allowance. If the value of the MSRs subsequently increases, the recovery in value is recognized in current period earnings and the carrying value of the MSRs is adjusted through a reduction in the valuation allowance. For purposes of performing the MSR impairment evaluation, the servicing portfolio is stratified on the basis of certain risk characteristics such as region, terms, and coupons. An other-than-temporary impairment analysis is prepared to evaluate whether a loss in the value of the MSRs, if any, is other than temporary or not. When the recovery of the value is unlikely in the foreseeable future, a write-down of the MSRs in the stratum to its estimated recoverable value is charged to the valuation allowance. As of December 31, 2016, the carrying value of the MSRs amounted to $26.2 million (2015 - $24.3 million).

The servicing assets are amortized over the estimated life of the underlying loans based on an income forecast method as a reduction of servicing income. The income forecast method of amortization is based on projected cash flows. A particular periodic amortization is calculated by applying to the carrying amount of the MSRs the ratio of the cash flows projected for the current period to total remaining net MSR forecasted cash flow.

Premises and equipment

Premises and equipment are carried at cost, net of accumulated depreciation and amortization. Depreciation is provided on the straight-line method over the estimated useful life of each type of asset. Amortization of leasehold improvements is computed over the terms of the leases (contractual term plus lease renewals that are reasonably assured) or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs that do not improve or extend the life of the respective assets are expensed as incurred. Costs of renewals and betterments are capitalized. When assets are sold or disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings as part of other non-interest income in the statements of income. When the asset is no longer used in operations, and the Corporation intends to sell it, the asset is reclassified to other assets held for sale and is reported at the lower of carrying amount or fair value less cost to sell.

The Corporation has operating lease agreements primarily associated with the rental of premises to support the branch network or for general office space. Certain of these arrangements are noncancelable and provide for rent escalation and renewal options. Rent expense on noncancelable operating leases with scheduled rent increases is recognized on a straight-line basis over the lease term.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Other real estate owned (OREO)

OREO, which consists of real estate acquired in settlement of loans, is recorded at the lower of cost (carrying value of the loan) or fair value minus estimated costs to sell the real estate acquired. Generally, loans have been written down to their net realizable value prior to foreclosure. Any further reduction to their net realizable value is recorded with a charge to the allowance for loan losses at foreclosure or a short-time after foreclosure. Thereafter, gains or losses resulting from the sale of these properties and losses recognized on the periodic reevaluations of these properties are credited or charged to earnings and are included as part of net loss on OREO operations in the statements of income. The cost of maintaining and operating these properties is expensed as incurred. The Corporation estimates fair values primarily based on appraisals, when available, and the net realizable value is reviewed and updated periodically depending of the type of property.

Accounting for acquisitions

The Corporation accounts for acquisitions in accordance with the authoritative guidance for business combinations. Under the guidance for business combinations, the accounting differs depending on whether the acquired set of activities and assets meets the definition of a business. A business is considered to be an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing economic benefits directly to investors or other owners, members or participants. If the acquired set of activities and assets meets the definition of a business, the transaction is accounted for as a business combination. Otherwise, it is accounted for as an asset acquisition.

In a business combination, identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree are recorded at fair value as of the acquisition date. Goodwill is recognized as the excess of the acquisition price over the estimated fair value of the net assets acquired. Likewise, if the fair value of the net assets acquired is higher than the acquisition price, a bargain purchase gain is recognized and recorded in non-interest income in the statements of income. The Corporation may retrospectively adjust the initially recorded fair values to reflect new information obtained during the measurement period (not to exceed 12 months) about facts and circumstances that existed as of the acquisition date that, if known, would have affected the acquisition date fair value measurements. There were no acquisitions or mergers completed during the year ended December 31, 2016. Refer to Note 2 – Business Combination, to the consolidated financial statements for a detailed description of the acquisition of assets and assumption of liabilities from Doral Bank in 2015.

Goodwill and other intangible assets_

Goodwill - The Corporation evaluates goodwill for impairment on an annual basis, generally during the fourth quarter, or more often if events or circumstances indicate there may be an impairment. The Corporation evaluated goodwill for impairment as of October 1, 2016. Goodwill impairment testing is performed at the segment (or “reporting unit”) level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to a reporting unit, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill. The Corporation’s goodwill is related to the acquisition of FirstBank Florida in 2005.

The Corporation bypassed the qualitative assessment in 2016 and proceeded directly to perform the first step of the two-step goodwill impairment test. The first step (“Step 1”) involves a comparison of the estimated fair value of the reporting unit to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is not considered impaired. If the carrying value exceeds the estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of the impairment.

The second step (“Step 2”), if necessary, involves calculating an implied fair value of the goodwill for each reporting unit for which Step 1 indicated a potential impairment. The implied fair value of goodwill is determined in a manner similar to the calculation of the amount of goodwill in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in Step 1, over the aggregate estimated fair values of the individual assets, liabilities, and identifiable intangibles as if the reporting unit was then being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

In determining the fair value of a reporting unit, which is based on the nature of the business and the reporting unit's current and expected financial performance, the Corporation uses a combination of methods, including market price multiples of comparable companies, as well as a discounted cash flow analysis ("DCF"). The Corporation evaluates the results obtained under each valuation methodology to identify and understand the key value drivers in order to ascertain that the results obtained are reasonable and appropriate under the circumstances.

The computations require management to make estimates and assumptions. Critical assumptions that are used as part of these evaluations include:

- a selection of comparable publicly traded companies, based on size, performance, and asset quality;
- a selection of comparable and public acquisition transactions of entities of similar size;
- the discount rate applied to future earnings, based on an estimate of the cost of equity;
- the potential future earnings of the reporting unit; and
- the market growth and new business assumptions.

For purposes of the market comparable approach, the valuation was determined based on market multiples for comparable companies and recent acquisition transactions and market participant assumptions applied to the reporting unit to derive an implied value of equity.

For purposes of the DCF analysis approach, the valuation is based on estimated future cash flows. The financial projections used in the DCF analysis for the reporting unit are based on the most recent available data. The growth assumptions included in these projections are based on management's expectations of the reporting unit's financial prospects as well as particular plans for the entity (i.e., restructuring plans). The cost of equity was estimated using the capital asset pricing model using comparable companies, an equity risk premium, the rate of return of a "riskless" asset, a size premium based on the size of the reporting unit, and a company specific premium. The resulting discount rate was analyzed in terms of reasonability given current market conditions.

The Step 1 evaluation of goodwill allocated to the Florida reporting unit, under both valuation approaches (market and DCF) 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. Based on the analysis under both the discounted cash flow and market approaches, the estimated fair value of the reporting unit exceeds the carrying amount of the unit, including goodwill, at the evaluation date.

The Corporation engaged a third-party valuation specialist to assist management in the annual evaluation of the Florida unit's goodwill as of the October 1, 2016 valuation date. In reaching its conclusion on impairment, management discussed with the valuator the methodologies, assumptions, and results supporting the relevant values for the goodwill and determined that they were reasonable.

The goodwill impairment evaluation process requires the Corporation to make estimates and assumptions with regards to the fair value of its reporting unit. Actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact the Corporation's results of operations and the profitability of the reporting unit where goodwill is recorded.

Goodwill was not impaired as of December 31, 2016 or 2015, nor was any goodwill written off due to impairment during 2016, 2015, and 2014.

Other Intangibles - Core deposit intangibles are amortized over their estimated lives, generally on a straight-line basis, and are reviewed periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Corporation performed impairment tests for the years ended December 31, 2016, 2015, and 2014 and determined that no impairment was needed to be recognized for other intangible assets.

In connection with the acquisition of a FirstBank-branded credit card loan portfolio in 2012, the Corporation recognized at acquisition a purchased credit card relationship intangible of $24.5 million ($10.5 million and $13.3 million as of December 31, 2016 and 2015, respectively), which is being amortized on an accelerated basis based on the estimated attrition rate of the purchased credit card accounts, which reflects the pattern in which the economic benefits of the intangible asset are consumed. These benefits are consumed as the revenue stream generated by the cardholder relationship is realized. For further disclosures, refer to Note 14 – Goodwill and other Intangibles, to the consolidated financial statements.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

In the first quarter of 2016, FirstBank Insurance Agency acquired certain insurance customer accounts and related customer records and recognized an insurance customer relationship intangible of $1.1 million ($0.9 million as of December 31, 2016), which is being amortized on a straight-line basis. The list of accounts acquired has a direct relationship to previous mortgage loan portfolio acquisitions from Doral Bank and Doral Financial in 2015 and 2014, respectively.

Securities purchased and sold under agreements to repurchase

Securities purchased under resale agreements and securities sold under repurchase agreements are accounted for as collateralized financing transactions. Generally, these agreements are recorded at the amount at which the securities were purchased or sold. The Corporation monitors the fair value of securities purchased and sold, and obtains collateral from or returns it to the counterparties when appropriate. These financing transactions do not create material credit risk given the collateral provided and the related monitoring process. The Corporation sells and acquires securities under agreements to repurchase or resell the same or similar securities. Generally, similar securities are securities from the same issuer, with identical form and type, similar maturity, identical contractual interest rates, similar assets as collateral, and the same aggregate unpaid principal amount. The counterparty to certain agreements may have the right to repledge the collateral by contract or custom. Such assets are presented separately in the statements of financial condition as securities pledged to creditors that can be repledged. Repurchase and resale activities might be transacted under legally enforceable master repurchase agreements that give the Corporation, in the event of default by the counterparty, the right to liquidate securities held and to offset receivables and payables with the same counterparty. The Corporation offsets repurchase and resale transactions with the same counterparty on the consolidated statements of financial condition where it has such a legally enforceable master netting agreement and the transactions have the same maturity date.

From time to time, the Corporation modifies repurchase agreements to take advantage of prevailing interest rates. Following applicable GAAP guidance, if the Corporation determines that the debt under the modified terms is substantially different from the original terms, the modification must be accounted for as an extinguishment of debt. Modified terms are considered substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10% different from the present value of the remaining cash flows under the terms of the original instrument. The new debt instrument will be initially recorded at fair value, and that amount will be used to determine the debt extinguishment gain or loss to be recognized through the statement of income and the effective rate of the new instrument. If the Corporation determines that the debt under the modified terms is not substantially different, then the new effective interest rate shall be determined based on the carrying amount of the original debt instrument. None of the repurchase agreements modified in the past were considered to be substantially different from the original terms, and, therefore, these modifications were not accounted for as extinguishments of debt.

Rewards Liability

The Corporation offers products, primarily credit cards, that offer reward program members with various rewards, such as airline tickets, cash, or merchandise, based on account activity. The Corporation generally recognizes the cost of rewards as part of business promotion expenses when the rewards are earned by the customer and, at that time, records the corresponding rewards liability. The reward liability is computed based on points earned to date that are expected to be redeemed and the average cost per point redemption. The reward liability is reduced as points are redeemed. In estimating the reward liability, the Corporation considers historical reward redemption behavior, the terms of the current reward program, and the card purchase activity. The reward liability is sensitive to changes in the reward redemption type and redemption rate, which is based on the expectation that the vast majority of all points earned will eventually be redeemed. The reward liability, which is included in other liabilities in the consolidated statements of financial condition, totaled $7.1 million and $9.6 million as of December 31, 2016 and 2015, respectively.

Income taxes

The Corporation uses the asset and liability method for the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Corporation's financial statements or tax returns. Deferred income tax assets and liabilities are determined for differences between financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The computation is based on enacted tax laws and rates applicable to periods in which the temporary differences are expected to be recovered or settled. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized. In making such assessment, significant weight is given to evidence that can be objectively verified, including both positive and negative evidence. The authoritative guidance for accounting for income taxes requires the consideration of all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in carryback years, and tax planning strategies. In estimating taxes, management assesses the relative merits and risks

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

of the appropriate tax treatment of transactions taking into account statutory, judicial, and regulatory guidance. Refer to Note 26 – Income Taxes, to the consolidated financial statements for additional information.

Under the authoritative accounting 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 an Unrecognized Tax Benefit ("UTB"). The Corporation classifies interest and penalties, if any, related to UTBs as components of income tax expense. Refer to Note 26 – Income Taxes, to the consolidated financial statements for required disclosures and further information.

Treasury stock

The Corporation accounts for treasury stock at par value. Under this method, the treasury stock account is increased by the par value of each share of common stock reacquired. Any excess paid per share over the par value is debited to additional paid-in capital for the amount per share that was originally credited. Any remaining excess is charged to retained earnings.

Stock-based compensation

Compensation cost is recognized in the financial statements for all share-based payment grants. Between 1997 and 2007, the Corporation had a stock option plan (the "1997 stock option plan") covering eligible employees. On January 21, 2007, the 1997 stock option plan expired and no additional awards could be granted under that plan. All outstanding awards granted under this plan have continued in full force and effect since then, subject to their original terms. No awards for shares could be granted under the 1997 stock option plan as of its expiration.

On April 29, 2008, the Corporation's stockholders approved the First BanCorp. 2008 Omnibus Incentive Plan, as amended (the "Omnibus Plan"). The Omnibus Plan provides for equity-based compensation incentives (the "awards") through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, cash-based awards and other stock-based awards. The compensation cost for an award, determined based on the estimate of the fair value at the grant date (considering forfeitures and any postvesting restrictions), is recognized over the period during which an employee or director is required to provide services in exchange for an award, which is the vesting period.

Stock-based compensation accounting guidance requires the Corporation to develop an estimate of the number of share-based awards that will be forfeited due to employee or director turnover. Quarterly changes in the estimated forfeiture rate may have a significant effect on share-based compensation, as the effect of adjusting the rate for all expense amortization is recognized in the period in which the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease in the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase in the expense recognized in the financial statements. When unvested options or shares of restricted stock are forfeited, any compensation expense previously recognized on the forfeited awards is reversed in the period of the forfeiture. For additional information regarding the Corporation's equity-based compensation and awards granted, refer to Note 21 – Stock-based Compensation, to the consolidated financial statements.

Comprehensive income

Comprehensive income for First BanCorp. includes net income and the unrealized gain (loss) on available-for-sale securities, net of estimated tax effects.

Segment Information

The Corporation reports financial and descriptive information about its reportable segments (see Note 33 – Segment Information, to the consolidated financial statements). Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance. The Corporation's management determined that the segregation that best fulfills the segment definition described above is by 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, 2016, the Corporation had six operating segments that are all reportable segments: Commercial and Corporate Banking; Mortgage Banking; Consumer (Retail) Banking; Treasury and Investments; United States Operations; and Virgin Islands Operations. Refer to Note 33 – Segment Information, to the consolidated financial statements for additional information.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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 FASB's authoritative guidance for fair value measurement defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance also establishes a fair value hierarchy for classifying financial instruments. The hierarchy is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Three levels of inputs may be used to measure fair value:

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Valuations are observed from unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Under the fair value accounting guidance, an entity has the irrevocable option to elect, on a contract-by-contract basis, to measure certain financial assets and liabilities at fair value at the inception of the contract and, thereafter, to reflect any changes in fair value in current earnings. The Corporation did not make any fair value option election as of December 31, 2016 or 2015. See Note 28 – Fair Value, to the consolidated financial statements for additional information.

Income recognition— Insurance agency

Commission revenue is recognized as of the effective date of the insurance policy. Additional premiums and rate adjustments are recorded as they occur. The Corporation also receives contingent commissions from insurance companies as additional incentive for achieving specified premium volume goals and/or the loss experience of the insurance placed by the Corporation. Contingent commissions from insurance companies are recognized when determinable, which is generally when such commissions are received or when the amount to be received is reported to the Corporation by the insurance company. An allowance is created for expected adjustments to commissions earned relating to policy cancellations.

Advertising costs

Advertising costs for all reporting periods are expensed as incurred.

Earnings per common share

Earnings per share-basic is calculated by dividing net income attributable to common stockholders by the weighted-average number of common shares issued and outstanding. Net income attributable to common stockholders represents net income adjusted for any preferred stock dividends, including dividends declared, and any cumulative dividends related to the current dividend period that have not been declared as of the end of the period, if any. Basic weighted-average common shares outstanding excludes unvested shares of restricted stock. For 2014, the net income attributable to common stockholders also includes the one-time effect of the issuance of common stock in exchange of certain shares of the Series A through E preferred stock. These transactions are further discussed in Note 22 – Stockholders' equity, to the consolidated financial statements. The computation of diluted earnings per share is similar to the computation of basic earnings per share except that the number of weighted-average common shares is increased to include the number of additional common shares that would have been outstanding if the dilutive common shares had been issued, referred to as potential common shares.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Recently issued accounting standards and recently adopted accounting pronouncements

The FASB has issued the following accounting pronouncements and guidance relevant to the Corporation’s operations:

In May 2014, the FASB updated the Accounting Standards Codification (the “Codification” or the “ASC”) to create a new, principle-based revenue recognition framework. The Update is the culmination of efforts by the FASB and the International Accounting Standards Board to develop a common revenue standard for GAAP and International Financial Reporting Standards. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance describes a 5-step process that entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. The new framework is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those reporting periods, as a result of the FASB’s amendment to the standard to defer the effective date by one year. Early adoption is permitted for interim periods beginning after December 15, 2016. While the new guidance does not apply to revenue associated with loans or securities, the Corporation has been working to identify the impact on fees and other non-interest revenues within the scope of the new guidance and assess the related revenues to determine if any accounting or internal control changes will be required for the new provisions. While the Corporation has not yet identified any material changes in the timing of revenue recognition, the Corporation review is ongoing.

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

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

In March 2016, the FASB updated the Codification to simplify certain aspects of the accounting for share-based payment transactions. The main provisions in this Update include: (i) recognition of all tax benefits and tax deficiencies (including tax benefits of dividends on share-base payment awards) as income tax expense or benefit in the income statement, (ii) classification of the excess tax benefit along with other income tax cash flows as an operating activity, (iii) an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur, (iv) a threshold to qualify for equity classification which permits withholding up to the maximum statutory tax rate in the applicable jurisdictions, and (v) classification of cash paid by an employer as a financing activity when the payment results from the withholding of shares for tax withholding purposes. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Corporation adopted the provisions during the first quarter of 2017 without any material impact on the Corporation's consolidated financial statements.

In March 2016, the FASB updated the Codification to require an equity method investor to add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. Also, this Update requires that an entity that has an available-for sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Early application is permitted. The adoption of this guidance during the first quarter of 2017 did not have an impact on the Corporation's consolidated financial statements.

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

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

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

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

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

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

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

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

In August 2016 and November 2016, the FASB updated the Codification to provide specific guidance on the classification and presentation of certain cash payments and cash receipts, including changes in restricted cash, in the statement of cash flows. This guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This new accounting guidance will result in some changes in classification in the Consolidated Statement of Cash Flows, and will not have any impact on its consolidated financial position or results of operations. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Corporation is currently evaluating the impact of the adoption of this guidance, if any, on its consolidated financial statements.

In October 2016, the FASB updated the Codification to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. With this Update, entities are required to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory, when the transfer occurs. Under current GAAP, the recognition of current and deferred income taxes for an intra-entity assets transfer is prohibited until the assets are sold to an outside party. This Update does not include new disclosure requirements; however, existing disclosure requirements might be applicable when accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. For example, GAAP requires an entity to disclose a comparison of income tax expense (benefit) with statutory expectations (a rate reconciliation for public entities or a description of the nature of each significant reconciling item for nonpublic entities) and also requires an entity to disclose the types of temporary differences and carryforwards that give rise to a significant portion of deferred income taxes. For public business entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted for all entities as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. The Corporation is currently evaluating the impact of the adoption of this guidance, if any, on its consolidated financial statements.

In October 2016, the FASB updated the Codification to modify the criteria used by a reporting entity when determining if it is the primary beneficiary of a VIE when the entities are under common control and the reporting entity has indirect interests in the VIE through related parties. If the reporting entity meets the first criteria in that it has the power to direct the activities of the VIE that are most significant to its economic performance, it is required to consider all interests held indirectly through related entities on a proportionate basis in determining if it meets the second criterion, the obligation to absorb losses of the VIE, or the right to receive benefits from it that are potentially significant to the VIE. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Corporation is currently evaluating the impact of the adoption of this guidance, if any, on its consolidated financial statements.

In November 2016, the FASB updated the Codification to provide specific guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents. This Update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update do not provide a definition of restricted cash or restricted cash equivalents. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Corporation is currently evaluating the impact of the adoption of this guidance, if any, on its consolidated financial statements.

In January 2017, the FASB updated the Codification to clarify the definition of a business with the objective of providing guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under current GAAP, there are three elements of a business—inputs, processes, and outputs. While an integrated set of assets and

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

activities (collectively referred to as a “set”) that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs, for example, by integrating the acquired set with their own inputs and processes. The amendments in this Update provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in this Update (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. The framework includes two sets of criteria to consider that depend on whether a set has outputs. Although outputs are not required for a set to be a business, outputs generally are a key element of a business; therefore, the FASB has developed more stringent criteria for sets without outputs. Public business entities should apply the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. The Corporation is currently evaluating the impact of the adoption of this guidance, if any, on its consolidated financial statements.

In January 2017, the FASB updated the Codification to simplify the subsequent measurement of goodwill by eliminating the “Step 2” from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. This Update also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. Furthermore, entities still have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. For public business entities, the amendments in this Update are effective for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Corporation is currently evaluating the impact of the adoption of this guidance, if any, on its consolidated financial statements.

NOTE 2 – BUSINESS COMBINATION

The Corporation made no acquisitions or mergers during the year ended December 31, 2016. On February 27, 2015, FirstBank acquired 10 Puerto Rico branches of Doral Bank, assumed $522.7 million in deposits related to such branches, acquired loans that had an approximate principal balance of $324.8 million, 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. 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 provided a stable source of low-cost deposits.

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 assumed 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 following table identifies the fair values of assets acquired and liabilities assumed from Doral Bank on February 27, 2015:

(In thousands)		**Asset/Liabilities (at Fair Value)**
ASSETS		
Cash	$	217,659
Loans		311,410
Premises and equipment, net		5,450
Core Deposit Intangible		5,820
Total assets acquired		540,339
LIABILITIES		
Deposits		523,517
Other liabilities		3,379
Net assets - Bargain purchase gain	$	13,443

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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 the year ended December 31, 2015, and a core deposit intangible of $5.8 million ($4.4 million - December 31, 2016; $5.1 million – December 31, 2015). Before the bargain purchase gain recognition, the Corporation reassessed whether all of the assets acquired and liabilities assumed had been appropriately identified, recognized and measured. The net after-tax gain of $8.2 million represents the excess of the estimated fair value of the assets acquired (including cash payments received from the FDIC) over the estimated fair value of the liabilities assumed.

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented above:

<u>Cash and due from banks</u> – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. This balance primarily represents the cash settlement received from Popular for the net equity received, the discount bid for the assets and other customary closing adjustments.

<u>Loans</u> – Fair values for loans were based on a discounted cash flow methodology that uses market-driven assumptions such as prepayment rate, default rate, and loss severity on a loan level basis. The forecasted cash flows are then discounted by yields observed in sales of similar portfolios in Puerto Rico and the continental U.S.

The Corporation evaluated the residential mortgage loans acquired and determined that $227.9 million were non-credit impaired purchased loans, which were accounted for in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*, and were recorded with a premium of $1.3 million. The remaining approximately $93.3 million of residential mortgage loans were considered purchased credit impaired loans within the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and were recorded with a $13.4 million discount. These purchased credit impaired loans recognize interest income through accretion of the difference between the fair value of the loans and the expected cash flows.

<u>Core deposit intangible</u> – This intangible asset represents the value of the relationships that Doral Bank had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, the cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Corporation recorded at acquisition $5.8 million of core deposit intangible.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition, equal the amounts payable on demand at the acquisition date. A fair value adjustment of $0.8 million was applied for time deposits because the estimated weighted-average interest rate of the assumed certificates of deposits was estimated to be above the then prevailing market rates.

ASC Topic 805 requires the measurement of all recognized assets acquired and liabilities assumed in a business combination at their acquisition-date fair values. Accordingly, the Corporation initially recorded amounts for the fair values of the assets acquired and liabilities assumed based on the best information available at the acquisition date. The Corporation could retrospectively adjust these amounts to reflect new information obtained during the measurement period (not to exceed 12 months) about facts and circumstances that existed as of the acquisition date that, if known, would have affected the acquisition-date fair value measurements. No retrospective adjustments to acquisition date fair values were recorded.

During 2015, the Corporation incurred $4.6 million for acquisition and conversion costs related to loans and deposit accounts acquired from Doral Bank 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.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The Corporation's operating results for the year ended December 31, 2015 include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. The Corporation also considered the pro forma requirements of ASC 805 and deemed it not necessary to provide pro forma financial information pursuant to that standard for the Doral Bank transaction as it was not material to the Corporation.

NOTE 3 – RESTRICTIONS ON CASH AND DUE FROM BANKS

The Corporation's bank subsidiary, FirstBank, is required by law to maintain minimum average weekly reserve balances to cover demand deposits. The amount of those minimum average weekly reserve balances for the period that covered December 31, 2016 was $276.2 million (2015 — $251.7 million). As of December 31, 2016 and 2015, the Bank complied with the requirement. Cash and due from banks as well as other short-term, highly liquid securities are used to cover the required average reserve balances.

As of December 31, 2016, and as required by the Puerto Rico International Banking Law, the Corporation maintained $300,000 in time deposits, which were considered restricted assets related to FirstBank Overseas Corporation, an international banking entity that is a subsidiary of FirstBank.

NOTE 4 – MONEY MARKET INVESTMENTS

Money market investments are composed of time deposits with other financial institutions and short-term investments with original maturities of three months or less.

Money market investments as of December 31, 2016 and 2015 were as follows:

	2016	2015
(Dollars in thousands)		
Time deposits with other financial institutions, weighted-average interest rate 0.95% (2015- 0.92%)	$ 2,800	$ 3,000
Other short-term investments, weighted-average interest rate of 0.30% (2015 - weighted-average interest rate of 0.34%)	7,294	216,473
	$ 10,094	$ 219,473

As of December 31, 2016, the Corporation’s had no money market investments pledged as collateral (2015 - $8.8 million pledged as collateral, primarily related to letters of credit).

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 5 – INVESTMENT SECURITIES

Investment Securities Available for Sale

The amortized cost, non-credit loss component of OTTI recorded in OCI, gross unrealized gains and losses recorded in OCI, approximate fair value, and weighted-average yield of investment securities available for sale by contractual maturities as of December 31, 2016 and 2015 were as follows:

	December 31, 2016					
			Gross Unrealized			
(Dollars in thousands)	Amortized cost	Noncredit Loss Component of OTTI Recorded in OCI	Gains	Losses	Fair value	Weighted-average yield%
U.S. Treasury securities:						
Due within one year	$ 7,508	$ -	$ 1	$ -	$ 7,509	0.57
Obligations of U.S. government-sponsored agencies:						
After 1 to 5 years	440,438	-	142	2,912	437,668	1.33
After 5 to 10 years	16,942	-	9	256	16,695	1.91
After 10 years	44,145	-	8	166	43,987	1.12
Puerto Rico government obligations:						
After 1 to 5 years	21,422	12,222	-	-	9,200	-
After 10 years	21,245	2,028	73	1,662	17,628	1.86
United States and Puerto Rico government obligations	551,700	14,250	233	4,996	532,687	1.29
Mortgage-backed securities:						
FHLMC certificates:						
After 5 to 10 years	5,908	-	72	-	5,980	2.25
After 10 years	314,906	-	261	5,827	309,340	2.17
	320,814	-	333	5,827	315,320	2.17

GNMA certificates:						
After 1 to 5 years	83	-	3	-	86	3.82
After 5 to 10 years	91,744	-	1,635	92	93,287	3.06
After 10 years	123,548	-	9,706	-	133,254	4.36
	215,375	-	11,344	92	226,627	3.81
FNMA certificates:						
Due within one year	152	-	2	-	154	4.71
After 1 to 5 years	24,409	-	435	-	24,844	2.18
After 5 to 10 years	17,181	-	-	261	16,920	1.87
After 10 years	690,625	-	4,136	9,406	685,355	2.35
	732,367	-	4,573	9,667	727,273	2.33
Collateralized mortgage obligations issued or guaranteed by the FHLMC and GNMA:						
After 5 to 10 years	19,851	-	4	31	19,824	1.42
After 10 years	39,120	-	-	132	38,988	1.44
	58,971	-	4	163	58,812	1.43
Other mortgage pass-through trust certificates:						
After 10 years	28,815	8,122	-	-	20,693	2.40
	28,815	8,122	-	-	20,693	2.40
Total mortgage-backed securities	1,356,342	8,122	16,254	15,749	1,348,725	2.49
Other						
After 1 to 5 years	100	-	-	-	100	1.50
Equity securities (1)	415	-	-	7	408	2.44
Total investment securities available for sale	$ 1,908,557	$ 22,372	$ 16,487	$ 20,752	$ 1,881,920	2.14

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

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

	December 31, 2015					
(Dollars in thousands)	Amortized cost	Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized Gains	Gross Unrealized Losses	Fair value	Weighted-average yield%
U.S. Treasury securities:						
After 1 to 5 years	$ 7,530	$ -	$ -	$ 33	$ 7,497	0.57
Obligations of U.S. government-sponsored agencies:						
Due within one year	14,624	-	4	10	14,618	0.68
After 1 to 5 years	384,323	-	174	4,305	380,192	1.32
After 5 to 10 years	58,150	-	343	242	58,251	2.34
Puerto Rico government obligations:						
After 1 to 5 years	25,663	14,662	-	-	11,001	4.38
After 5 to 10 years	855	-	-	-	855	5.20
After 10 years	23,162	5,255	134	1,680	16,361	5.40
United States and Puerto Rico government obligations	514,307	19,917	655	6,270	488,775	1.75
Mortgage-backed securities:						
FHLMC certificates:						
After 5 to 10 years	336	-	31	-	367	4.95
After 10 years	287,711	-	1,073	1,706	287,078	2.14
	288,047	-	1,104	1,706	287,445	2.15
GNMA certificates:						
Due within one year	2	-	-	-	2	1.70
After 1 to 5 years	109	-	5	-	114	4.26
After 5 to 10 years	120,298	-	3,182	-	123,480	3.07
After 10 years	165,175	-	12,822	20	177,977	4.38
	285,584	-	16,009	20	301,573	3.83
FNMA certificates:						
After 1 to 5 years	2,552	-	74	-	2,626	3.32
After 5 to 10 years	21,557	-	433	233	21,757	2.73
After 10 years	759,247	-	5,628	6,063	758,812	2.34
	783,356	-	6,135	6,296	783,195	2.35

Other mortgage pass-through trust certificates:						
After 5 to 10 years	92	-	1	-	93	7.26
After 10 years	34,905	9,691	-	-	25,214	2.26
	34,997	9,691	1	-	25,307	2.26
Total mortgage-backed securities	1,391,984	9,691	23,249	8,022	1,397,520	2.61
Other						
After 1 to 5 years	100	-	-	-	100	1.50
Total investment securities available for sale	$ 1,906,391	$ 29,608	$ 23,904	$ 14,292	$ 1,886,395	2.38

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

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The aggregate amortized cost and approximate market value of investment securities available for sale as of December 31, 2016 by contractual maturity, are shown below:

(Dollars in thousands)	Amortized Cost	Fair Value
Within 1 year	$ 7,660	$ 7,663
After 1 to 5 years	486,452	471,898
After 5 to 10 years	151,626	152,706
After 10 years	1,262,404	1,249,245
Total	$ 1,908,142	$ 1,881,512
Equity securities	415	408
Total investment securities available for sale	$ 1,908,557	$ 1,881,920

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

	As of December 31, 2016					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
Puerto Rico government obligations	$ -	$ -	$ 22,609	$ 15,912	$ 22,609	$ 15,912
U.S Treasury and U.S. government agencies obligations	469,046	3,334	-	-	469,046	3,334
Mortgage-backed securities:						
FNMA	519,008	9,667	-	-	519,008	9,667
FHLMC	244,839	5,827	-	-	244,839	5,827
GNMA	43,388	92	-	-	43,388	92
Collateralized mortgage obligations issued or guaranteed by FHLMC and GNMA	55,309	163	-	-	55,309	163
Other mortgage pass-through trust certificates	-	-	20,693	8,122	20,693	8,122
Equity securities	408	7	-	-	408	7
	$ 1,331,998	$ 19,090	$ 43,302	$ 24,034	$ 1,375,300	$ 43,124

	As of December 31, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
Debt securities:						
Puerto Rico government obligations	$ -	$ -	$ 23,008	$ 21,597	$ 23,008	$ 21,597
U.S Treasury and U.S. government agencies obligations	198,243	929	210,504	3,661	408,747	4,590
Mortgage-backed securities:						
FNMA	437,305	4,516	88,013	1,780	525,318	6,296
FHLMC	141,890	1,338	19,306	368	161,196	1,706
GNMA	1,047	20	-	-	1,047	20
Other mortgage pass-through trust certificates	-	-	25,214	9,691	25,214	9,691
	$ 778,485	$ 6,803	$ 366,045	$ 37,097	$ 1,144,530	$ 43,900

176

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Assessment for OTTI

Debt securities issued by U.S. government agencies, government-sponsored entities, and the U.S. Treasury accounted for approximately 97% of the total available-for-sale portfolio as of December 31, 2016 and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government. The Corporation's OTTI assessment was concentrated mainly on Puerto Rico government debt securities, with an amortized cost of $42.7 million, and on private label MBS with an amortized cost of $28.8 million, and for which credit losses are evaluated on a quarterly basis. The Corporation considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

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

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

				Year Ended		
		2016		**2015**		**2014**
(In thousands)						
Total other-than-temporary impairment losses	$	(1,845)	$	(35,806)	$	-
Portion of other-than-temporary impairment recognized in OCI		(4,842)		19,289		(388)
Net impairment losses recognized in earnings (1)	$	(6,687)	$	(16,517)	$	(388)

(1) For the years ended December 31, 2016 and 2015, approximately $6.3 million and $15.9 million, respectively, of the credit impairment recognized in earnings consisted of credit losses on Puerto Rico

government debt securities. The remaining impairment losses were associated with credit losses on private label MBS.

The following tables summarize the roll-forward of credit losses on debt securities held by the Corporation for which a portion of an OTTI is recognized in OCI:

	Cumulative OTTI credit losses recognized in earnings on securities still held			
	December 31, 2015 Balance	**Credit impairments recognized in earnings on securities not previously impaired**	**Credit impairments recognized in earnings on securities that have been previously impaired**	**December 31, 2016 Balance**
(In thousands)				
Available for sale securities				
Puerto Rico government obligations	$ 15,889	$ -	$ 6,300	$ 22,189
Private label MBS	6,405	-	387	6,792
Total OTTI credit losses for available-for-sale debt securities	$ 22,294	$ -	$ 6,687	$ 28,981

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

	Cumulative OTTI credit losses recognized in earnings on securities still held			
(In thousands)	December 31, 2014 Balance	Credit impairments recognized in earnings on securities not previously impaired	Credit impairments recognized in earnings on securities that have been previously impaired	December 31, 2015 Balance
Available for sale securities				
Puerto Rico government obligations	$ -	$ 15,889	$ -	$ 15,889
Private label MBS	5,777	-	628	6,405
Total OTTI credit losses for available-for-sale debt securities	$ 5,777	$ 15,889	$ 628	$ 22,294

	Cumulative OTTI credit losses recognized in earnings on securities still held			
(In thousands)	December 31, 2013 Balance	Credit impairments recognized in earnings on securities not previously impaired	Credit impairments recognized in earnings on securities that have been previously impaired	December 31, 2014 Balance
Available for sale securities				
Private label MBS	$ 5,389	$ -	$ 388	$ 5,777

In the first quarter of 2016, the Corporation recorded a $6.3 million OTTI charge on three Puerto Rico government debt securities held by the Corporation as part of its available-for-sale securities portfolio, specifically bonds of the government Development Bank for Puerto Rico ("GDB") maturing on February 1, 2019 and the Puerto Rico Public Buildings Authority maturing on July 1, 2028. This was the third OTTI charge on these securities recorded since June 30, 2015, as OTTI charges of $12.9 million and $3.0 million were booked in the second and fourth quarters of 2015, respectively, and reduced the amortized cost basis of these three Puerto Rico government debt securities to $35.6 million as of December 31, 2016, including accrued interest of $0.9 million.

During 2016, in consideration of the latest available information about the Puerto Rico government's financial condition, including the enactment of a debt moratorium law and the declaration of a state of emergency at the GDB, the issuance of the GDB and the Commonwealth's audited financial statements for the fiscal year ended June 30, 2014, as well as issuance of exchange proposals with the Commonwealth's creditors related to its outstanding bond obligations, the Corporation applied a discounted cash flow analysis to its Puerto Rico government debt securities in order to calculate the cash flows expected to be collected and to determine if any portion of the decline in market value of these securities was considered a credit-related other-than-temporary impairment. The analysis derives an estimate of value based on the present value of risk-adjusted cash flows of the underlying securities and included the following components:

- The contractual future cash flows of the bonds are projected based on the key terms as set forth in the official statements for each security. Such key terms include, among others, the interest rate, amortization schedule, if any, and maturity date.

- The risk-adjusted cash flows are calculated based on a probability of default analysis and recovery rate assumptions, including the weighting of different scenarios of ultimate recovery, considering the credit rating of each security. Constant monthly default rates are assumed throughout the life of the bonds, which considers the respective security's credit rating as of the date of the analysis.

- The adjusted future cash flows are then discounted at the original effective yield of each investment based on the purchase price and expected risk-adjusted future cash flows as of the purchase date of each investment.

The discounted risk-adjusted cash flow analysis for the three Puerto Rico government bonds mentioned above assumed a default probability of 100%, thus reflecting that it is more likely than not that these three bonds will default during their remaining terms. Based on this analysis, the Corporation determined that it is unlikely to receive all of the remaining contractual interest and principal amounts when due on these bonds and recorded, in the first quarter of 2016, other-than-temporary credit-related impairment charges amounting to $6.3 million, assuming recovery rates ranging from 35% to 80% (with a weighted average of 61%). On August 1, 2016, the GDB defaulted on a $28 million payment of interest due to its creditors, including interest due on the GDB's bonds held by the

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Corporation. Similarly, the Puerto Rico Public Buildings Authority made only a partial payment on its interest payment due on October 1, 2016. In the third quarter of 2016, as a result of these defaults, the Corporation discontinued income recognition related to, and placed in non-performing status, the bonds of the GDB and the Puerto Rico Public Buildings Authority. As of December 31, 2016, the amortized cost of these bonds, including accrued interest of $0.9 million, was $35.6 million ($22.3 million of GDB bonds and $13.3 million of Puerto Rico Public Buildings Authority bonds), recorded at their aggregate fair value of $20.5 million ($9.2 million of GDB bonds and $11.3 million of Puerto Rico Public Buildings Authority bonds).

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

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

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

	As of December 31, 2016		As of December 31, 2015	
	Weighted Average	Range	Weighted Average	Range
Discount rate	14.1%	12.88-14.43%	14.5%	14.5%
Prepayment rate	13.8%	6.5-22.5%	25%	15.92% - 31.25%
Projected Cumulative Loss Rate	4%	0.2-8.6%	4%	0.18% - 6.66%

Refer to Note 28 – Fair Value, for additional information about the valuation model for private label MBS.

Total proceeds from the sale of securities available for sale during 2016 amounted to approximately $219.8 million, including proceeds of $204.8 million on the sale of U.S. agency MBS and $15.0 million on the sale of a U.S. Treasury bill. For the year ended December 31, 2016, the Corporation recorded a $6.1 million gain on the sale of U.S. agency MBS and an $8 thousand gain on the sale of the U.S. Treasury bill. In addition, a $1.5 million gain from recovery of a residual private label CMO previously written off was recorded in 2016. No sales of securities available for sale were completed in 2015. Total proceeds from the sale of securities available for sale during 2014 amounted to approximately $4.9 million.

The following table states the names of issuers, and the aggregate amortized cost and market value of the securities of such issuers, when the aggregate amortized cost of such securities exceeds 10% of the Corporation's stockholders' equity. This information excludes securities of the U.S. and Puerto Rico government. Investments in obligations issued by a state of the U.S. and its political subdivisions and agencies that are payable and secured by the same source of revenue or taxing authority, other than the U.S. government, are considered securities of a single issuer and include debt and mortgage-backed securities.

	As of December 31, 2016		As of December 31, 2015	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
(In thousands)				
FHLMC	$ 399,955	$ 394,249	$ 323,437	$ 322,772
GNMA	254,495	265,615	285,584	301,573
FNMA	849,584	843,818	954,178	953,866
FHLB	231,666	229,792	223,049	219,320

Investments Held to Maturity

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The amortized cost, gross unrealized gains and losses, approximate fair value, weighted-average yield and contractual maturities of investment securities held to maturity as of December 31, 2016 and December 31, 2015 were as follows:

	December 31, 2016				
	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%
Puerto Rico Municipal Bonds:					
After 1 to 5 years	$ 1,136	$ -	$ 20	$ 1,116	5.38
After 5 to 10 years	10,741	-	718	10,023	4.47
After 10 years	144,313	-	22,693	121,620	4.74
Total investment securities held to maturity	$ 156,190	$ -	$ 23,431	$ 132,759	4.73

	December 31, 2015				
	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%
Puerto Rico Municipal Bonds:					
After 1 to 5 years	$ 1,371	$ -	$ 37	$ 1,334	5.38
After 5 to 10 years	11,523	-	1,041	10,482	4.25
After 10 years	148,589	-	28,861	119,728	4.64
Total investment securities held to maturity	$ 161,483	$ -	$ 29,939	$ 131,544	4.62

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	As of December 31, 2016					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
Puerto Rico Municipal Bonds	$ -	$ -	$ 132,759	$ 23,431	$ 132,759	$ 23,431

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

Approximately 87% of the held-to-maturity municipal bonds were issued by five of the largest municipalities in Puerto Rico (San Juan, Carolina, Bayamon, Mayaguez and Guaynabo). These obligations typically are not issued in bearer form, nor are they registered with the SEC and are not rated by external credit agencies. In most cases, these bonds have priority over the payment of operating costs and expenses of the municipality, which are required by law to levy special property taxes in such amounts as are required for the payment of all of their respective general obligation bonds and loans.

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

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

Based on the quarterly analysis performed and the circumstances discussed above, management concluded that the unrealized loss is attributable to the time value of money and liquidity assumptions and no individual municipal bond was other-than-temporarily impaired as of December 31, 2016.

From time to time, the Corporation has securities held to maturity with an original maturity of three months or less that are considered cash and cash equivalents and classified as money market investments in the consolidated statements of financial condition. As of December 31, 2016 and 2015, the Corporation had no outstanding securities held to maturity that were classified as cash and cash equivalents.

NOTE 6 – OTHER EQUITY SECURITIES

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

As of December 31, 2016 and 2015, the Corporation had investments in FHLB stock with a book value of $40.8 million and $31.3 million, respectively. The net realizable value is a reasonable proxy for the fair value of these instruments. Dividend income from FHLB stock for 2016, 2015, and 2014 amounted to $1.5 million, $1.1 million, and $1.2 million, respectively.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The shares of FHLB stock owned by the Corporation were issued by the FHLB of New York. The FHLB of New York is part of the Federal Home Loan Bank System, a national wholesale banking network of 11 regional, stockholder-owned congressionally chartered banks. The Federal Home Loan Banks are all privately capitalized and operated by their member stockholders. The system is supervised by the Federal Housing Finance Agency, which ensures that the Federal Home Loan Banks operate in a financially safe and sound manner, remain adequately capitalized and able to raise funds in the capital markets, and carry out their housing finance mission.

The Corporation has other equity securities that do not have a readily available fair value. The carrying value of such securities as of December 31, 2016 and 2015 was $2.2 million and $0.9 million, respectively.

NOTE 7 – INTEREST AND DIVIDEND ON INVESTMENTS AND MONEY MARKET INSTRUMENTS

The following provides information about interest on investments and FHLB dividend income:

	Year Ended December 31,		
	2016	**2015**	**2014**
(In thousands)			
Mortgage-backed securities:			
Taxable	$ 11,246	$ 13,520	$ 16,303
Exempt	20,921	23,779	28,606
	32,167	37,299	44,909
PR government obligations, U.S. Treasury securities, and U.S. government agencies:			
Taxable	4,131	2,628	1,357
Exempt	13,145	13,848	12,937
	17,276	16,476	14,294
Other investment securities (including FHLB dividends)			
Taxable	1,462	1,075	1,169
Total interest income on investment securities	50,905	54,850	60,372
Interest on money market instruments:			
Taxable	2,669	1,490	1,734
Exempt	696	658	158
Total interest income on money market instruments	3,365	2,148	1,892
Total interest and dividend income on investments and money market instruments	$ 54,270	$ 56,998	$ 62,264

The following table summarizes the components of interest and dividend income on investments:

	Year Ended December 31,		
(In thousands)	2016	2015	2014
Interest income on investment securities and money market investments	$ 52,816	$ 55,923	$ 61,095
Dividends on FHLB stock	1,454	1,075	1,169
Total interest income and dividends on investments	$ 54,270	$ 56,998	$ 62,264

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 8 – LOANS HELD FOR INVESTMENT

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

(In thousands)		As of December 31, 2016		As of December 31, 2015
Residential mortgage loans, mainly secured by first mortgages	$	3,296,031	$	3,344,719
Commercial loans:				
Construction loans		124,951		156,195
Commercial mortgage loans		1,568,808		1,537,806
Commercial and Industrial loans (1)		2,180,455		2,246,513
Total commercial loans		3,874,214		3,940,514
Finance leases		233,335		229,165
Consumer loans		1,483,293		1,597,984
Loans held for investment		8,886,873		9,112,382
Allowance for loan and lease losses		(205,603)		(240,710)
Loans held for investment, net	$	8,681,270	$	8,871,672

(1) As of December 31, 2016 and 2015, includes $853.9 million and $973.2 million, respectively, of commercial loans that are secured by real estate but are not dependent upon the real estate for repayment.

As of December 31, 2016 and 2015, the Corporation had net deferred origination costs on its loan portfolio amounting to $4.8 million and $6.5 million, respectively. The total loan portfolio is net of unearned income of $32.8 million and $32.9 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, the Corporation was servicing residential mortgage loans owned by others aggregating $2.7 billion (2015 — $2.4 billion), construction and commercial loans owned by others aggregating $0.1 million (2015 — $0.1 million), and commercial loan participations owned by others aggregating $401.4 million (2015 — $364.9 million).

Various loans, mainly secured by first mortgages, were assigned as collateral for CDs, individual retirement accounts, and advances from the FHLB. Total loans pledged as collateral amounted to $2.0 billion as of December 31, 2016 (2015 — $2.0 billion).

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Loans held for investment on which accrual of interest income had been discontinued were as follows:

	As of December 31, 2016	As of December 31, 2015
(In thousands)		
Non-performing loans:		
Residential mortgage	$ 160,867	$ 169,001
Commercial mortgage	178,696	51,333
Commercial and Industrial	146,599	137,051
Construction:		
Land	11,026	12,174
Construction-commercial	36,893	39,466
Construction-residential	1,933	2,996
Consumer:		
Auto loans	14,346	17,435
Finance leases	1,335	2,459
Other consumer loans	8,399	10,858
Total non-performing loans held for investment (1)(2)(3)	$ 560,094	$ 442,773

(1) As of December 31, 2016 and December 31, 2015, excludes $8.1 million of non-performing loans held for sale.

(2) Amount excludes PCI loans with a carrying value of approximately $165.8 million and $173.9 million as of December 31, 2016 and 2015, respectively, primarily mortgage loans acquired from Doral Bank in the first quarter of 2015 and from Doral Financial in the second quarter of 2014, as further discussed below. These loans are not considered non-performing due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using an estimated cash flow analysis.

(3) Non-performing loans exclude $384.9 million and $414.9 million of TDR loans that are in compliance with the modified terms and in accrual status as of December 31, 2016 and 2015, respectively.

If these loans were accruing interest, the additional interest income realized would have been $43.2 million (2015— $37.8 million; 2014 — $48.9 million).

Loans in Process of Foreclosure

As of December 31, 2016, the recorded investment of residential mortgage loans collateralized by residential real estate property that are in the process of foreclosure amounted to $134.2 million. The Corporation commences the foreclosure process on residential real estate loans when a borrower becomes 120 days delinquent in accordance with the guidelines of the Consumer Financial Protection Bureau (CFPB). Foreclosure procedures and timelines vary depending on whether the property is located in a judicial or non-judicial state. Judicial states (Puerto Rico) require the foreclosure to be processed through the state's court while foreclosure in non-judicial states is processed without court intervention. Foreclosure timelines vary according to state law and investor guidelines. Occasionally foreclosures may be delayed due to mandatory mediations, bankruptcy, court delays and title issues, among other reasons.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of December 31, 2016 (In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 days or more Past Due (1)	Total Past Due	Purchased Credit-Impaired Loans	Current	Total loans held for investment	90 days past due and still accruing
Residential mortgage:								
FHA/VA and other government-guaranteed loans (2) (3) (4)	$ -	$ 5,179	$ 77,052	$ 82,231	$ -	$ 44,627	$ 126,858	$ 77,052
Other residential mortgage loans (4)	-	94,004	177,568	271,572	162,676	2,734,925	3,169,173	16,701
Commercial:								
Commercial and Industrial loans	14,195	3,724	151,967	169,886	-	2,010,569	2,180,455	5,368
Commercial mortgage loans (4)	-	4,534	181,977	186,511	3,142	1,379,155	1,568,808	3,281
Construction:								
Land (4)	-	436	11,504	11,940	-	19,826	31,766	478
Construction-commercial	-	-	36,893	36,893	-	40,582	77,475	-
Construction-residential (4)	-	-	1,933	1,933	-	13,777	15,710	-
Consumer:								
Auto loans	57,142	13,523	14,346	85,011	-	762,947	847,958	-
Finance leases	7,714	1,671	1,335	10,720	-	222,615	233,335	-
Other consumer loans	7,675	5,254	12,328	25,257	-	610,078	635,335	3,929
Total loans held for investment	$ 86,726	$ 128,325	$ 666,903	$ 881,954	$ 165,818	$ 7,839,101	$ 8,886,873	$ 106,809

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

(2) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past-due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $29.3 million of residential mortgage loans insured by the FHA or guaranteed by the VA which are over 15 months delinquent, and are no longer accruing interest as of December 31, 2016.

(3) As of December 31, 2016, includes $43.7 million of defaulted loans collateralizing GNMA securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.

(4) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage, commercial mortgage, and construction loans are considered past due when the borrower is in arrears two or more monthly payments. FHA/VA and other government-guaranteed loans, other residential mortgage loans, commercial mortgage loans, land loans, and construction-residential loans past due

30-59 days as of December 31, 2016 amounted to $9.9 million, $142.8 million, $4.6 million, $0.7 million, and $0.4 million, respectively.

As of December 31, 2015	30-59 Days Past Due	60-89 Days Past Due	90 days or more Past Due (1)	Total Past Due	Purchased Credit-Impaired Loans	Current	Total loans held for investment	90 days past due and still accruing
(In thousands)								
Residential mortgage:								
FHA/VA and other government-guaranteed loans (2) (3) (4)	$ -	$ 6,048	$ 90,168	$ 96,216	$ -	$ 46,925	$ 143,141	$ 90,168
Other residential mortgage loans (4)	-	90,406	185,018	275,424	170,766	2,755,388	3,201,578	16,017
Commercial:								
Commercial and Industrial loans	5,577	6,412	150,893	162,882	-	2,083,631	2,246,513	13,842
Commercial mortgage loans (4)	-	24,729	63,805	88,534	3,147	1,446,125	1,537,806	12,472
Construction:								
Land (4)	-	161	12,350	12,511	-	39,363	51,874	176
Construction-commercial	-	11,722	39,466	51,188	-	32,142	83,330	-
Construction-residential (4)	-	-	6,042	6,042	-	14,949	20,991	3,046
Consumer:								
Auto loans	70,836	16,787	17,435	105,058	-	829,922	934,980	-
Finance leases	7,664	3,100	2,459	13,223	-	215,942	229,165	-
Other consumer loans	9,462	5,524	15,124	30,110	-	632,894	663,004	4,266
Total loans held for investment	$ 93,539	$ 164,889	$ 582,760	$ 841,188	$ 173,913	$ 8,097,281	$ 9,112,382	$ 139,987

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

(2) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past-due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $37.3 million of residential mortgage loans insured by the FHA or guaranteed by the VA which are over 15 months delinquent, and are no longer accruing interest as of December 31, 2015.

(3) As of December 31, 2015, includes $38.5 million of defaulted loans collateralizing GNMA securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.

(4) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage, commercial mortgage, and construction loans are considered past due when the borrower is in arrears two or more monthly payments. FHA/VA and other government-guaranteed loans, other residential mortgage loans, commercial mortgage loans, land loans, and construction-residential loans past-due 30-59 days as of December 31, 2015 amounted to $11.0 million, $162.9 million, $38.6 million, $5.7 million, and $0.8 million, respectively.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Commercial Credit Exposure-Credit Risk Profile based on Creditworthiness Category:				
December 31, 2016	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified (1)**	**Total Portfolio**
(In thousands)					
Commercial Mortgage	$ 193,391	$ 35,416	$ -	$ 228,807	$ 1,568,808
Construction:					
Land	19,345	-	-	19,345	31,766
Construction-commercial	36,893	-	-	36,893	77,475
Construction-residential	1,933	-	-	1,933	15,710
Commercial and Industrial	133,599	67,996	784	202,379	2,180,455

	Commercial Credit Exposure-Credit Risk Profile based on Creditworthiness Category:				
December 31, 2015	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified (1)**	**Total Portfolio**
(In thousands)					
Commercial Mortgage	$ 252,941	$ 140	$ -	$ 253,081	$ 1,537,806
Construction:					
Land	14,035	1	-	14,036	51,874
Construction-commercial	39,466	-	-	39,466	83,330
Construction-residential	2,996	-	-	2,996	20,991
Commercial and Industrial	140,827	71,341	354	212,522	2,246,513

(1) Excludes $8.1 million of non-performing loans held for sale as of December 31, 2016 and 2015.

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

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

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

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

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

December 31, 2016	**Consumer Credit Exposure-Credit Risk Profile Based on Payment Activity**				
	Residential Real-Estate		**Consumer**		
	FHA/VA/ Guaranteed (1)	**Other residential loans**	**Auto**	**Finance Leases**	**Other Consumer**
(In thousands)					
Performing	$ 126,858	$ 2,845,630	$ 833,612	$ 232,000	$ 626,936
Purchased Credit-Impaired (2)	-	162,676	-	-	-
Non-performing	-	160,867	14,346	1,335	8,399
Total	$ 126,858	$ 3,169,173	$ 847,958	$ 233,335	$ 635,335

(1) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. This balance includes $29.3 million of residential mortgage loans insured by the FHA or guaranteed by the VA, which are over 15 months delinquent, and are no longer accruing interest as of December 31, 2016.

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

December 31, 2015	**Consumer Credit Exposure-Credit Risk Profile Based on Payment Activity**				
	Residential Real-Estate		**Consumer**		
	FHA/VA/ Guaranteed (1)	**Other residential loans**	**Auto**	**Finance Leases**	**Other Consumer**
(In thousands)					
Performing	$ 143,141	$ 2,861,811	$ 917,545	$ 226,706	$ 652,146
Purchased Credit-Impaired (2)	-	170,766	-	-	-
Non-performing	-	169,001	17,435	2,459	10,858
Total	$ 143,141	$ 3,201,578	$ 934,980	$ 229,165	$ 663,004

(1) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. This balance includes $37.3 million of residential mortgage loans insured by the FHA or guaranteed by the VA, which are over 15 months delinquent and are no longer accruing interest as of December 31, 2015.

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

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Impaired Loans

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Specific Allowance	Average Recorded Investment	Interest Income Recognized on Accrual Basis	Interest Income Recognized on Cash Basis
As of December 31, 2016						
With no related allowance recorded:						
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	67,996	82,602	-	71,003	741	731
Commercial:						
Commercial mortgage loans	72,620	91,685	-	80,713	940	550
Commercial and Industrial loans	14,656	24,642	-	17,209	42	-
Construction:						
Land	180	233	-	212	2	2
Construction-commercial	-	-	-	-	-	-
Construction-residential	956	1,531	-	956	-	-
Consumer:						
Auto loans	599	599	-	615	7	-
Finance leases	94	94	-	95	1	-
Other consumer loans	4,516	5,876	-	4,696	233	106
	$ 161,617	$ 207,262	$ -	$ 175,499	$ 1,966	$ 1,389
With an allowance recorded:						
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	374,271	423,648	8,633	380,273	17,751	1,503
Commercial:						
Commercial mortgage loans	121,771	133,883	26,172	122,609	463	173
Commercial and Industrial loans	138,887	165,399	22,638	149,153	589	1,287
Construction:						
Land	14,870	19,918	947	15,589	168	49
Construction-commercial	36,893	38,721	324	38,191	-	-
Construction-residential	392	551	134	392	-	-
Consumer:						
Auto loans	24,276	24,276	3,717	26,562	1,813	-
Finance leases	2,553	2,553	71	2,751	202	-

Other consumer loans	12,375	12,734	1,785	13,322	1,143	48
	$ 726,288	$ 821,683	$ 64,421	$ 748,842	$ 22,129	$ 3,060
Total:						
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	442,267	506,250	8,633	451,276	18,492	2,234
Commercial:						
Commercial mortgage loans	194,391	225,568	26,172	203,322	1,403	723
Commercial and Industrial loans	153,543	190,041	22,638	166,362	631	1,287
Construction:						
Land	15,050	20,151	947	15,801	170	51
Construction-commercial	36,893	38,721	324	38,191	-	-
Construction-residential	1,348	2,082	134	1,348	-	-
Consumer:						
Auto loans	24,875	24,875	3,717	27,177	1,820	-
Finance leases	2,647	2,647	71	2,846	203	-
Other consumer loans	16,891	18,610	1,785	18,018	1,376	154
	$ 887,905	$ 1,028,945	$ 64,421	$ 924,341	$ 24,095	$ 4,449

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Specific Allowance	Average Recorded Investment	Interest Income Recognized Accrual Basis	Interest Income Recognized Cash Basis
As of December 31, 2015						
With no related allowance recorded:						
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	65,495	74,146	-	67,282	558	688
Commercial:						
Commercial mortgage loans	54,048	66,448	-	54,967	1,329	832
Commercial and Industrial loans	27,492	29,957	-	28,326	-	693
Construction:						
Land	-	-	-	-	-	-
Construction-commercial	39,466	40,000	-	39,736	-	-
Construction-residential	3,046	3,046	-	3,098	164	-
Consumer:						
Auto loans	-	-	-	-	-	-
Finance leases	-	-	-	-	-	-
Other consumer loans	2,618	4,300	-	2,766	21	115
	$ 192,165	$ 217,897	$ -	$ 196,175	$ 2,072	$ 2,328
With an allowance recorded:						
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	395,173	440,947	21,787	398,790	17,543	1,640
Commercial:						
Commercial mortgage loans	27,479	40,634	3,073	30,518	347	501
Commercial and Industrial loans	143,214	164,050	18,096	148,547	2,338	1,939
Construction:						
Land	9,578	13,758	1,060	9,727	44	70
Construction-commercial	-	-	-	-	-	-
Construction-residential	1,426	2,180	142	1,476	-	-
Consumer:						
Auto loans	21,581	21,581	6,653	23,531	1,494	-
Finance leases	2,077	2,077	86	2,484	170	-
Other consumer loans	13,816	14,043	1,684	14,782	1,592	25
	$ 614,344	$ 699,270	$ 52,581	$ 629,855	$ 23,528	$ 4,175
Total:						
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	460,668	515,093	21,787	466,072	18,101	2,328
Commercial:						

Commercial mortgage loans	81,527	107,082	3,073	85,485	1,676	1,333
Commercial and Industrial loans	170,706	194,007	18,096	176,873	2,338	2,632
Construction:						
Land	9,578	13,758	1,060	9,727	44	70
Construction-commercial	39,466	40,000	-	39,736	-	-
Construction-residential	4,472	5,226	142	4,574	164	-
Consumer:						
Auto loans	21,581	21,581	6,653	23,531	1,494	-
Finance leases	2,077	2,077	86	2,484	170	-
Other consumer loans	16,434	18,343	1,684	17,548	1,613	140
	$ 806,509	$ 917,167	$ 52,581	$ 826,030	$ 25,600	$ 6,503

189

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following tables show the activity for impaired loans during 2016, 2015 and 2014 and the related specific reserves:

(In thousands)	2016	2015	2014
Impaired Loans:			
Balance at beginning of year	$ 806,509	$ 945,407	$ 919,112
Loans determined impaired during the year	288,202	160,837	306,390
Charge-offs (1)	(67,210)	(99,023)	(106,154)
Loans sold, net of charge-offs	(8,675)	(67,836)	(4,500)
Reclassification from loans held for sale	-	40,005	-
Increases to impaired loans - additional disbursements	3,236	3,340	5,028
Foreclosures	(36,161)	(57,728)	(40,582)
Loans no longer considered impaired	(27,643)	(46,489)	(22,333)
Paid in full or partial payments	(70,353)	(72,004)	(111,554)
Balance at end of year	$ 887,905	$ 806,509	$ 945,407

(1) For the year ended December 31, 2016, includes $4.2 million of charge-offs related to impaired loans included in a sale of a $16.3 million pool of non-performing assets and, for the year ended December 31, 2015, includes $63.9 million of charge-offs related to a bulk sales of assets, as further discussed below.

(In thousands)	2016	2015	2014
Specific Reserve:			
Balance at beginning of year	$ 52,581	$ 55,205	$ 102,601
Provision for loan losses	78,695	91,515	58,758
Net charge-offs	(66,855)	(94,139)	(106,154)
Balance at end of year	$ 64,421	$ 52,581	$ 55,205

PCI Loans

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

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

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The carrying amount of PCI loans follows:

(In thousands)		As of December 31, 2016		As of December 31, 2015
Residential mortgage loans	$	162,676	$	170,766
Commercial mortgage loans		3,142		3,147
Total PCI loans	$	165,818	$	173,913
Allowance for loan losses		(6,857)		(3,962)
Total PCI loans, net of allowance for loan losses	$	158,961	$	169,951

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

As of December 31, 2016 (In thousands)	30-59 Days	60-89 Days	90 days or more	Total Past Due	Current	Total PCI loans
Residential mortgage loans	$ -	$ 11,892	$ 27,849	$ 39,741	$ 122,935	$ 162,676
Commercial mortgage loans	-	355	1,150	1,505	1,637	3,142
Total [(1)]	$ -	$ 12,247	$ 28,999	$ 41,246	$ 124,572	$ 165,818

(1) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage and commercial mortgage loans are considered past due when the borrower is in arrears two or more monthly payments. PCI residential mortgage loans and commercial mortgage loans past due 30-59 days as of December 31, 2016 amounted to $22.3 million and $0.1 million, respectively.

As of December 31, 2015 (In thousands)	30-59 Days	60-89 Days	90 days or more	Total Past Due	Current	Total PCI loans
Residential mortgage loans	$ -	$ 16,094	$ 22,218	$ 38,312	$ 132,454	$ 170,766
Commercial mortgage loans	-	-	992	992	2,155	3,147
Total [(1)]	$ -	$ 16,094	$ 23,210	$ 39,304	$ 134,609	$ 173,913

(1)

According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage and commercial mortgage loans are considered past due when the borrower is in arrears two or more monthly payments. PCI residential mortgage loans past due 30-59 days as of December 31, 2015 amounted to $23.6 million.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Initial Fair Value and Accretable Yield of PCI Loans

At acquisition, the Corporation estimated the cash flows the Corporation expected to collect on PCI loans. Under the accounting guidance for PCI loans, the difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. This difference is neither accreted into income nor recorded on the Corporation's consolidated statements of financial condition. The excess of cash flows expected to be collected over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loans, using the effective-yield method.

Changes in accretable yield of acquired loans

Subsequent to the acquisition of loans, the Corporation is required to periodically evaluate its estimate of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and non-accretable difference or reclassifications from non-accretable yield to accretable yield. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized in the Corporation's provision for loan and lease losses, resulting in an increase to the allowance for loan and lease losses. During 2016, the Corporation increased by $2.9 million the reserve related to PCI loans acquired from Doral Financial in 2014. The reserve is driven by the revisions to the expected cash flows of the portfolio for the remaining term of the loan pool based on expected performance and market conditions.

Changes in the accretable yield of PCI loans for the years ended December 31, 2016 and 2015 were as follows:

		December 31, 2016		December 31, 2015
(In thousands)				
Balance at beginning of year	$	118,385	$	82,460
Additions (accretable yield at acquisition of loans from Doral)		-		38,319
Accretion recognized in earnings		(11,533)		(11,188)
Reclassification from non-accretable		9,610		8,794
Balance at end of period	$	116,462	$	118,385

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Year ended December 31, 2016	Year ended December 31, 2015
(In thousands)		
Balance at beginning of period	$ 173,913	$ 102,604
Additions (1)	-	79,889
Accretion	11,533	11,188
Collections	(17,184)	(19,572)
Foreclosures	(2,444)	(196)
Ending balance	$ 165,818	$ 173,913
Allowance for loan losses	(6,857)	(3,962)
Ending balance, net of allowance for loan losses	$ 158,961	$ 169,951

(1) For the year ended December 31, 2015, additions represents the estimated fair value of PCI loans acquired from Doral Bank at the date of acquisition.

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

	Year ended	
	December 31, 2016	December 31, 2015
Balance at beginning of period	$ 3,962	$ -
Provision for loan losses	2,895	3,962
Balance at end of period	$ 6,857	$ 3,962

The outstanding principal balance of PCI loans, including amounts charged off by the Corporation, amounted to $207.3 million as of December 31, 2016 (December 31, 2015- $218.1 million, December 31, 2014- $135.5 million).

Purchases and Sales of Loans

During 2016, the Corporation purchased $85.0 million of residential mortgage loans, consistent with a strategic program to purchase ongoing residential mortgage loan production from mortgage bankers in Puerto Rico. Generally, the loans purchased from mortgage bankers were conforming residential mortgage loans. Purchases of conforming residential mortgage loans provide the Corporation the flexibility to retain or sell the loans, including through securitization transactions, depending upon the Corporation's interest rate risk management strategies. When the Corporation sells such loans, it generally keeps the servicing of the loans.

In the ordinary course of business, the Corporation sells residential mortgage loans (originated or purchased) to GNMA and GSEs such as FNMA and FHLMC, which generally securitize the transferred loans into mortgage-backed securities for sale into the secondary market. The Corporation sold approximately $144.3 million of performing residential mortgage loans to FNMA and FHLMC during 2016. Also during 2016, the Corporation sold approximately $338.3 million of FHA/VA mortgage loans to GNMA, which packages them into mortgage-backed securities. The Corporation's continuing involvement in these sold loans consists primarily of servicing the loans. In addition, the Corporation agreed to repurchase loans when it breaches any of the representations and warranties included in the sale agreement. These representations and warranties are consistent with the GSEs' selling and servicing guidelines (i.e., ensuring that the mortgage was properly underwritten according to established guidelines).

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

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

During 2016, 2015, and 2014, the Corporation repurchased, pursuant to its repurchase option with GNMA $29.1 million, $19.2 million, and $37.8 million, respectively, of loans previously sold to GNMA. The principal balance of these loans is fully guaranteed and the risk of loss related to the repurchased loans is generally limited to the difference between the delinquent interest payment advanced to GNMA computed at the loan's interest rate and the interest payments reimbursed by FHA, which are computed at a pre-determined debenture rate. Repurchases of GNMA loans allow the Corporation, among other things, to maintain acceptable delinquency rates on outstanding GNMA pools and remain as a seller and servicer in good standing with GNMA. The Corporation generally remediates any breach of representations and warranties related to the underwriting of such loans according to established GNMA guidelines without incurring losses. The Corporation does not maintain a liability for estimated losses as a result of breaches in representations and warranties.

Loan sales to FNMA and FHLMC are without recourse in relation to the future performance of the loans. The Corporation repurchased at par loans previously sold to FNMA and FHLMC in the amounts of $0.7 million, $1.4 million, and $2.3 million during 2016, 2015, and 2014, respectively. The Corporation's risk of loss with respect to these loans is also minimal as these repurchased loans are generally performing loans with documentation deficiencies. No losses related to breaches of representations and warranties were incurred in 2016. Historically, losses experienced on these loans have been immaterial. As a consequence, as of December 31, 2016, the Corporation does not maintain a liability for estimated losses on loans expected to be repurchased as a result of breaches in loan and servicer representations and warranties.

The Corporation sold $20.2 million, $20.0 and $53.0 million of commercial mortgage loan participations during 2016, 2015 and 2014, respectively.

In addition to the aforementioned sales, during the fourth quarter of 2016, the Corporation completed the sale of a pool of non-performing assets with a book value of $16.3 million (principal balance of $20.1 million), in a cash transaction. The proceeds from this sale were $11.3 million net of escrows and principal and interest collected on behalf of the purchaser subsequent to the effective date of the transaction. Approximately $2.8 million of reserves had been allocated to the loans. This transaction resulted in total net charge-offs of $4.6 million and an incremental pre-tax loss of $1.8 million recorded as a charge to the provision for loan and lease losses.

Bulk Sale of Assets

During the second quarter of 2015, the Corporation completed the sale of commercial and construction loans with a book value of $147.5 million ($90.7 million of commercial mortgage loans, $45.8 million of commercial and industrial, and $11.0 million of construction loans), 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 the bulk sale.

Loan Portfolio Concentration

The Corporation's primary lending area is Puerto Rico. The Corporation's banking subsidiary, FirstBank, also lends in the USVI and BVI markets and in the United States (principally in the state of Florida). Of the total gross loans held for investment of $8.9 billion as of December 31, 2016, approximately 78% have credit risk concentration in Puerto Rico, 15% in the United States, and 7% in the USVI and BVI.

As of December 31, 2016, the Corporation had $133.6 million outstanding (book value of $124.5 million) in loans extended to the Puerto Rico government, its municipalities and public corporations, compared to $153.2 million outstanding as of December 31, 2015. In addition, the outstanding balance of loans granted to the government of the Virgin Islands amounted to $84.7 million as of December 31, 2016, compared to $126.2 million as of December 31, 2015. Approximately $91.0 million of the granted credit facilities outstanding ($81.9 million book value) consisted of loans to public corporations, including a direct exposure to the Puerto Rico Electric Power Authority ("PREPA"), with an outstanding balance of $75 million ($65.5 million book value) as of December 31, 2016, and approximately $6.9 million consisted of loans to units of the Puerto Rico central government. The PREPA credit facility was placed in non-accrual status in the first quarter of 2015, and interest payments recorded on a cost-recovery basis. The PREPA credit facility was sold in the first quarter of 2017. Refer to Note 35 – Subsequent Events for additional information about this transaction.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

In addition, the Corporation had $35.7 million of loans extended to municipalities in Puerto Rico, which in most cases are supported by assigned property tax revenues. The vast majority of municipalities' revenues are independent of the Puerto Rico central government. These municipalities are required by law to levy special property taxes in such amounts as are required for the payment of all of their respective general obligation bonds and notes. Late in 2015, the GDB and the Municipal Revenue Collection Center (CRIM) signed and perfected a deed of trust. Through this deed, the GDB, as fiduciary, is bound to keep the CRIM funds separate from any other deposits and must distribute the funds pursuant to applicable law. The CRIM funds are deposited at another commercial depository financial institution in Puerto Rico.

Furthermore, as of December 31, 2016, the Corporation had $127.7 million outstanding (book value of $111.8 million) in credit facilities extended to the hotel industry in Puerto Rico under which 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 $129.4 million as of December 31, 2015. These facilities were placed in non-accrual status and classified as impaired in the first quarter of 2016, and interest payments are now applied against principal. Approximately $2.0 million of interest payments received on loans guaranteed by the TDF since late March 2016 have been applied against principal. The Corporation has been receiving payments on the largest of these three facilities sufficient to cover the monthly contractual payments. This facility matured on February 1, 2017 and is currently under renegotiation. In addition, the borrowers' cash flows related to the other two facilities are insufficient to cover debt service and the Corporation is not receiving collections from the TDF guarantee. As such, these two facilities are collateral dependent loans and charge-offs amounting to $13.9 million were recorded during the second half of 2016, of which $13.0 million was charged against reserves established in prior periods. These loans have been adversely classified since the third quarter of 2015. As of December 31, 2016, the loans guaranteed by the TDF are being carried at 72% of unpaid principal balance, net of reserves and accumulated charge-offs. The Corporation measures impairment on these loans based on the fair value of the collateral and the existence of the government guarantee. Developments of the Puerto Rico government debt restructuring process, with the automatic stay on litigations under PROMESA set to expire on May 1, 2017, and actions taken or those that may have to be taken by the Commonwealth or the PROMESA oversight board to address Puerto Rico's fiscal and economic crisis could ultimately adversely affect the value of the Puerto Rico government guarantees, including the TDF guarantee. If as a result of developments, including discussions with regulators, loan rating downgrades, progress in the debt restructuring process, or for other reasons, the Corporation determines that additional impairment charges are necessary, such an action would adversely affect the Corporation's results of operations in the period in which such determination is taken. The Corporation's collections of principal and interest from TDF in 2016 amounted to $0.6 million compared to $5.3 million in 2015.

As of December 31, 2016, the total reserve to book value coverage ratio related to commercial loans extended to or guaranteed by the Puerto Rico government (excluding municipalities) was 17% and the loans are being carried at 74% of unpaid principal balance, net of reserves and accumulated charge offs.

In addition, the Corporation had $119.9 million in exposure to residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority. Residential mortgage loans guaranteed by the Puerto Rico Housing Finance Authority are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. The Puerto Rico government guarantees up to $75 million of the principal guaranteed under the mortgage loans insurance program. According to the most recently released audited financial statements of the Puerto Rico Housing Financing Authority, as of June 30, 2015, the Puerto Rico Housing Finance Authority's mortgage loans insurance program covered loans aggregating approximately $552 million. The regulations adopted by the Puerto Rico Housing Finance Authority require the establishment of adequate reserves to guarantee the solvency of the mortgage loans insurance fund. As of June 30, 2015, the most recent date as to which information is available, the Puerto Rico Housing Finance Authority had a restricted net position for such purposes of approximately $77.4 million.

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

Troubled Debt Restructurings

The Corporation provides homeownership preservation assistance to its customers through a loss mitigation program in Puerto Rico that is similar to the U.S. government's Home Affordable Modification Program guidelines. Depending upon the nature of borrowers' financial condition, restructurings or loan modifications through this program as well as other restructurings of individual commercial, commercial mortgage, construction, and residential mortgage loans fit the definition of a TDR. A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Modifications involve changes in one or more of the loan terms that bring a defaulted loan current and provide sustainable affordability. Changes may include the refinancing of any past-due amounts, including interest and escrow, the extension of the maturity of the loan and modifications of the loan rate. As of December 31, 2016, the Corporation's total TDR loans of $647.0 million consisted of $375.8 million of residential mortgage loans, $133.5 million of commercial and industrial loans, $48.7 million of commercial mortgage loans, $46.6 million of construction loans, and $42.4 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to $1.2 million as of December 31, 2016.

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

Prior to permanently modifying a loan, the Corporation may enter into trial modifications with certain borrowers. Trial modifications generally represent a six-month period during which the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification. TDR loans that are participating in or that have been offered a binding trial modification are classified as TDRs when the trial offer is made and continue to be classified as TDRs regardless of whether the borrower enters into a permanent modification. As of December 31, 2016, the Corporation classified an additional $4.1 million of residential mortgage loans as TDRs that were participating in or had been offered a trial modification.

For the commercial real estate, commercial and industrial, and construction loan portfolios, at the time of a restructuring, the Corporation determines, on a loan-by-loan basis, whether a concession was granted for economic or legal reasons related to the borrower's financial difficulty. Concessions granted for commercial loans could include: reductions in interest rates to rates that are considered below market; extension of repayment schedules and maturity dates beyond original contractual terms; waivers of borrower covenants; forgiveness of principal or interest; or other contractual changes that would be considered a concession. The Corporation mitigates loan defaults for its commercial loan portfolios through its collection function. The function's objective is to minimize both early stage delinquencies and losses upon default of commercial loans. In the case of the commercial and industrial, commercial mortgage, and construction loan portfolios, the Corporation's Special Asset Group ("SAG") focuses on strategies for the accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of OREO.

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

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	As of December 31, 2016					
(In thousands)	Interest rate below market	Maturity or term extension	Combination of reduction in interest rate and extension of maturity	Forgiveness of principal and/or interest	Other (1)	Total
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	$ 29,254	$ 8,373	$ 280,588	$ -	$ 57,594	$ 375,809
Commercial Mortgage loans	6,044	2,007	30,005	-	10,686	48,742
Commercial and Industrial loans	2,111	66,830	16,359	863	47,358	133,521
Construction loans:						
Land	-	6,735	2,219	-	408	9,362
Construction-commercial	-	-	-	36,893	-	36,893
Construction-residential	-	-	-	-	357	357
Consumer loans - Auto	-	1,706	14,698	-	8,471	24,875
Finance Leases	-	366	2,281	-	-	2,647
Consumer loans - Other	236	2,518	9,662	299	2,127	14,842
Total Troubled Debt Restructurings	$ 37,645	$ 88,535	$ 355,812	$ 38,055	$ 127,001	$ 647,048

(1) Other concessions granted by the Corporation include deferral of principal and/or interest payments for a period longer than what would be considered insignificant, payment plans under judicial stipulation, or a combination of the concessions listed in the table.

	As of December 31, 2015					
(In thousands)	Interest rate below market	Maturity or term extension	Combination of reduction in interest rate and extension of maturity	Forgiveness of principal and/or interest	Other (1)	Total
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	$ 29,066	$ 6,027	$ 297,310	$ -	$ 50,269	$ 382,672
Commercial Mortgage loans	4,379	1,244	26,109	-	12,766	44,498

Commercial and Industrial loans	2,163	75,104	27,214	3,027	42,746	150,254
Construction loans:						
Land	-	229	2,165	-	372	2,766
Construction-commercial (2)	-	-	-	39,466	-	39,466
Construction-residential	-	-	3,046	-	436	3,482
Consumer loans - Auto	-	2,330	12,388	-	6,864	21,582
Finance Leases	-	621	1,456	-	-	2,077
Consumer loans - Other	89	1,604	11,026	327	1,748	14,794
Total Troubled Debt Restructurings	$ 35,697	$ 87,159	$ 380,714	$ 42,820	$ 115,201	$ 661,591

(1)Other concessions granted by the Corporation include deferral of principal and/or interest payments for a period longer than what would be considered insignificant, payment plans under judicial stipulation, or a combination of the concessions listed in the table above.

(2)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 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.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

	As of December 31, 2014					
(In thousands)	Interest rate below market	Maturity or term extension	Combination of reduction in interest rate and extension of maturity	Forgiveness of principal and/or interest	Other (1)	Total
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	$ 24,850	$ 5,859	$ 283,317	$ -	$ 35,749	$ 349,775
Commercial Mortgage Loans	29,881	12,737	72,493	-	12,655	127,766
Commercial and Industrial Loans	7,533	80,642	31,553	3,074	49,124	171,926
Construction Loans:						
Land	-	202	1,732	-	536	2,470
Construction-Residential	6,154	337	3,112	-	434	10,037
Consumer Loans - Auto	-	380	10,363	-	6,248	16,991
Finance Leases	-	376	1,805	-	-	2,181
Consumer Loans - Other	37	129	10,812	443	1,886	13,307
Total Troubled Debt Restructurings (2)	$ 68,455	$ 100,662	$ 415,187	$ 3,517	$ 106,632	$ 694,453

(1) Other concessions granted by the Corporation include deferral of principal and/or interest payments for a period longer than what would be considered insignificant, payment plans under judicial stipulation, or a combination of the concessions listed in the table above.

(2) Excludes TDRs held for sale amounting to $45.7 million as of December 31, 2014.

The following table presents the Corporation's TDRs activity:

(In thousands)	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Beginning balance of TDRs	$ 661,591	$ 694,453	$ 630,258
New TDRs	84,942	111,890	164,108
Increases to existing TDRs - additional disbursements	3,921	1,018	1,903
Charge-offs post-modification (1)	(24,876)	(64,116)	(43,916)
Sales, net of charge-offs	(3,761)	(44,048)	(4,500)
Foreclosures	(16,834)	(39,706)	(4,948)
Removed from TDR classification	(3,031)	-	-
	-	40,005	-

Reclassification from loans held for sale (2)						
Paid-off and partial payments		(54,904)		(37,905)		(48,452)
Ending balance of TDRs	$	647,048	$	661,591	$	694,453

(1)For the year ended December 31, 2016, includes $1.3 million of charge-offs related to TDRs included in the sale of the $16.3 million pool of non-performing assets. For the year ended December 31, 2015 includes $45.3 million of charge-offs related to TDRs included in the bulk sale of assets.

(2)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 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.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

TDRs are classified as either accrual or nonaccrual loans. Loans in accrual status may remain in accrual status when their contractual terms have been modified in a TDR if the loans had demonstrated performance prior to the restructuring and payment in full under the restructured terms is expected. Otherwise, loans on nonaccrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform under the modified structure, generally for a minimum of six months, and there is evidence that such payments can and are likely to continue as agreed. Performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of the restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a non-accrual loan. Loan modifications increase the Corporation's interest income by returning a non-performing loan to performing status, if applicable, increase cash flows by providing for payments to be made by the borrower, and limit increases in foreclosure and OREO costs. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the Corporation is willing to accept for a new loan with comparable risk may not be reported as a TDR, or an impaired loan in the calendar years subsequent to the restructuring, if it is in compliance with its modified terms. During the year ended December 31, 2016, the Corporation removed a $3.0 million loan from the TDR classification as the borrower is no longer experiencing financial difficulties, and the loan was refinanced at market terms and does not contain any concession to the borrower.

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

	As of December 31, 2016		
	Accrual	**Nonaccrual (1)**	**Total TDRs**
(In thousands)			
Non-FHA/VA Residential Mortgage loans	$ 295,656	$ 80,153	$ 375,809
Commercial Mortgage loans	32,340	16,402	48,742
Commercial and Industrial loans	18,496	115,025	133,521
Construction loans:			
Land	7,732	1,630	9,362
Construction-commercial	-	36,893	36,893
Construction-residential	-	357	357
Consumer loans - Auto	16,253	8,622	24,875
Finance Leases	2,542	105	2,647
Consumer loans - Other	11,868	2,974	14,842
Total Troubled Debt Restructurings	$ 384,887	$ 262,161	$ 647,048

(1) Included in non-accrual loans are $110.6 million in loans that are performing under the terms of the restructuring agreement but are reported in non-accrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and are deemed fully collectible.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

TDR loans exclude restructured residential mortgage loans that are guaranteed by the U.S. federal government (i.e., FHA/VA loans) totaling $69.1 million as of December 31, 2016 (December 31, 2015 - $77.6 million). The Corporation excludes FHA/VA guaranteed loans from TDR loan statistics given that, in the event that the borrower defaults on the loan, the principal and interest (at the specified debenture rate) are guaranteed by the U.S. government; therefore, the risk of loss on these types of loans is very low. The Corporation does not consider loans with U.S. federal government guarantees to be impaired loans for the purpose of calculating the allowance for loan and lease losses.

Loan modifications that are considered TDRs completed during 2016, 2015 and 2014 were as follows:

	Year ended December 31, 2016		
	Number of contracts	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
(In thousands)			
Troubled Debt Restructurings:			

Non-FHA/VA Residential Mortgage loans	209	$ 30,940	$ 29,668
Commercial Mortgage loans	11	5,710	5,739
Commercial and Industrial loans	25	22,182	22,184
Construction loans:			
Land	9	6,759	6,756
Consumer loans - Auto	744	13,141	13,141
Finance Leases	74	1,878	1,878
Consumer loans - Other	1,156	5,496	5,576
Total Troubled Debt Restructurings	2,228	$ 86,106	$ 84,942

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

	Year ended December 31, 2015		
(In thousands)	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Non-FHA/VA Residential Mortgage loans	408	$ 67,006	$ 64,679
Commercial Mortgage loans	16	22,366	19,914
Commercial and Industrial loans	5	5,971	5,351
Construction loans:			
Land	7	603	600
Consumer loans - Auto	756	12,219	11,985
Finance Leases	55	1,447	1,250
Consumer loans - Other	1,338	8,158	8,111
Total Troubled Debt Restructurings	2,585	$ 117,770	$ 111,890

	Year ended December 31, 2014		
(In thousands)	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Non-FHA/VA Residential Mortgage loans	291	$ 40,166	$ 39,194
Commercial Mortgage loans	9	2,853	2,855
Commercial and Industrial loans	17	105,372	105,110
Construction loans:			
Land	6	257	219
Consumer loans - Auto	602	8,903	8,748
Finance Leases	45	953	800
Consumer loans - Other	1,492	7,240	7,182
Total Troubled Debt Restructurings	2,462	$ 165,744	$ 164,108

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Recidivism, or the borrower defaulting on its obligation pursuant to a modified loan, results in the loan once again becoming a non-performing loan. Recidivism on a modified loan occurs at a notably higher rate than do defaults on new origination loans, so modified loans present a higher risk of loss than do new origination loans. The Corporation considers a modified loan to have defaulted if the borrower has failed to make payments of either principal, interest, or both for a period of 90 days or more.

Loan modifications considered TDR loans that defaulted during the years ended December 31, 2016, 2015, and 2014, and had become TDR during the 12 months preceding the default date, were as follows:

	Year ended December 31,					
	2016		2015		2014	
	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
(In thousands)						
Non-FHA/VA Residential Mortgage loans	50	$ 7,673	69	$ 10,240	55	$ 8,087
Commercial Mortgage loans	-	-	1	2,179	2	4,604
Commercial and Industrial loans	-	-	4	5,745	2	1,537
Construction loans:						
Land	-	-	-	-	1	46
Consumer loans - Auto	51	764	13	159	45	697
Finance Leases	2	43	6	185	6	115
Consumer loans - Other	119	454	172	706	241	989
Total	222	$ 8,934	265	$ 19,214	352	$ 16,075

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

The recorded investment in loans held for investment restructured using the A/B note restructure workout strategy was approximately $37.0 million and $39.3 million at December 31, 2016 and 2015, respectively. The following table provides additional information about the volume of this type of loan restructuring and the effect on the allowance for loan and lease losses in 2016, 2015 and 2014:

(In thousands)	December 31, 2016		December 31, 2015		December 31, 2014	
Principal balance deemed collectible at end of year	$	36,971	$	39,329	$	46,032
Amount (recovered) charged off	$	-	$	-	$	(7,501)
Charges (reductions) to the provision for loan losses	$	4,279	$	131	$	(8,341)
Allowance for loan losses at end of year	$	5,141	$	862	$	731

Of the loans comprising the $37.0 million that have been deemed collectible as of December 31, 2016, approximately $3.2 million are in accrual status. These loans continue to be individually evaluated for impairment purposes.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 9 – ALLOWANCE FOR LOAN AND LEASE LOSSES

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

Year Ended December 31, 2016	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial and Industrial Loans	Construction Loans	Consumer Loans	Total
(In thousands)						
Allowance for loan and lease losses:						
Beginning balance	$ 39,570	$ 68,211	$ 68,768	$ 3,519	$ 60,642	$ 240,710
Charge-offs	(33,621)	(20,454)	(26,579)	(1,770)	(54,504)	(136,928)
Recoveries	2,941	816	2,689	316	8,326	15,088
Provision	25,090	8,688	17,075	497	35,383	86,733
Ending balance	$ 33,980	$ 57,261	$ 61,953	$ 2,562	$ 49,847	$ 205,603
Ending balance: specific reserve for impaired loans	$ 8,633	$ 26,172	$ 22,638	$ 1,405	$ 5,573	$ 64,421
Ending balance: purchased credit-impaired loans (1)	$ 6,632	$ 225	$ -	$ -	$ -	$ 6,857
Ending balance: general allowance	$ 18,715	$ 30,864	$ 39,315	$ 1,157	$ 44,274	$ 134,325
Loans held for investment:						
Ending balance	$ 3,296,031	$ 1,568,808	$ 2,180,455	$ 124,951	$ 1,716,628	$ 8,886,873
Ending balance: impaired loans	$ 442,267	$ 194,391	$ 153,543	$ 53,291	$ 44,413	$ 887,905
Ending balance: purchased credit-impaired loans	$ 162,676	$ 3,142	$ -	$ -	$ -	$ 165,818
Ending balance: loans with general allowance	$ 2,691,088	$ 1,371,275	$ 2,026,912	$ 71,660	$ 1,672,215	$ 7,833,150

Year Ended December 31, 2015	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial and Industrial Loans	Construction Loans	Consumer Loans	Total
(In thousands)						
Allowance for loan and lease losses:						
Beginning balance	$ 27,301	$ 50,894	$ 63,721	$ 12,822	$ 67,657	$ 222,395
Charge-offs	(19,317)	(56,101)	(33,844)	(4,994)	(62,465)	(176,721)
Recoveries	1,209	6,534	4,316	2,582	8,350	22,991
Provision (release)	30,377	66,884	34,575	(6,891)	47,100	172,045
Ending balance	$ 39,570	$ 68,211	$ 68,768	$ 3,519	$ 60,642	$ 240,710
Ending balance: specific reserve for	$ 21,787	$ 3,073	$ 18,096	$ 1,202	$ 8,423	$ 52,581

impaired loans												
Ending balance: purchased credit-impaired loans (1)	$	3,837	$	125	$	-	$	-	$	-	$	3,962
Ending balance: general allowance	$	13,946	$	65,013	$	50,672	$	2,317	$	52,219	$	184,167
Loans held for investment:												
Ending balance	$	3,344,719	$	1,537,806	$	2,246,513	$	156,195	$	1,827,149	$	9,112,382
Ending balance: impaired loans	$	460,668	$	81,527	$	170,706	$	53,516	$	40,092	$	806,509
Ending balance: purchased credit-impaired loans	$	170,766	$	3,147	$	-	$	-	$	-	$	173,913
Ending balance: loans with general allowance	$	2,713,285	$	1,453,132	$	2,075,807	$	102,679	$	1,787,057	$	8,131,960

(1) Refer to Note 8 - Loans Held for Investment - PCI Loans for a detail of changes in the allowance for loan losses related to PCI loans.

As discussed in Note 8 – Loans Held for Investment, under the subheading “Bulk Sale of Assets,” during the second quarter of 2015, the Corporation completed the sale of commercial and construction loans with a book value of $147.5 million, mostly comprised of non-performing and adversely classified loans. This transaction resulted in net charge-offs of approximately $61.4 million.

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

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

allocating the second quarter 2015 bulk sale losses over an estimated realization period of eight quarters, which would reflect a more typical loss resolution pattern. Management believes that this loss estimation process is more indicative of the current experience related to the average period for a loan to migrate to asset classification categories and the eventual charge-off.

As of December 31, 2016, the Corporation maintained a $1.6 million reserve for unfunded loan commitments (2015 - $0.4 million) mainly related to an outstanding adversely classified floor plan relationship. The reserve for unfunded loan commitments is an estimate of the losses inherent in off-balance sheet loan commitments to borrowers that are experiencing financial difficulties at the balance sheet date. It is calculated by multiplying an estimated loss factor by an estimated probability of funding, and then by the period-end amounts for unfunded commitments. The reserve for unfunded loan commitments is included as part of accounts payable and other liabilities in the consolidated statements of financial condition.

NOTE 10 – LOANS HELD FOR SALE

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

	December 31,			
	2016		**2015**	
(In thousands)				
Residential mortgage loans	$	41,927	$	27,734
Construction loans		8,079		8,135
Total	$	50,006	$	35,869

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

NOTE 11 – OTHER REAL ESTATE OWNED

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

December 31,

(In thousands)	2016	2015
OREO		
OREO balances, carrying value:		
Residential (1)	$ 46,917	$ 43,563
Commercial	78,698	87,849
Construction	12,066	15,389
Total	$ 137,681	$ 146,801

(1) Excludes \$15.0 million and \$8.9 million as of December 31, 2016 and December 31, 2015, respectively, of foreclosures that meet the conditions of ASC 310-40 and are presented as a receivable (other assets) in the statements of financial condition.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 12 – RELATED-PARTY TRANSACTIONS

The Corporation granted loans to its directors, executive officers, and certain related individuals or entities in the ordinary course of business. The movement and balance of these loans were as follows:

		Amount
(In thousands)		
Balance at December 31, 2014	$	1,333
New loans		43
Payments		(130)
Other changes		6
Balance at December 31, 2015		1,252
New loans		102
Payments		(146)
Other changes		-
Balance at December 31, 2016	$	1,208

These loans were made subject to the provisions of Regulation O-"Loans to Executive Officers, Directors and Principal Shareholders of Member Banks," which governs the permissible lending relationships between a financial institution and its executive officers, directors, principal shareholders, their families and related interests. The amounts reported as other changes include changes in the status of those who are considered related parties, which, for 2015, was mainly related to the addition of one new executive officer.

From time to time, the Corporation, in the ordinary course of its business, obtains services from related parties or makes contributions to non-profit organizations that have some association with the Corporation. Management believes the terms of such arrangements are consistent with arrangements entered into with independent third parties.

NOTE 13 – PREMISES AND EQUIPMENT

Premises and equipment comprise:

(Dollars in thousands)	Useful Life In Years	As of December 31, 2016		2015	
Buildings and improvements	10-35	$	139,533	$	142,872
Leasehold improvements	1-10		60,605		61,089
Furniture and equipment	2-10		165,386		162,954
			365,524		366,915
Accumulated depreciation and amortization			(248,335)		(238,734)
			117,189		128,181
Land			25,279		26,932
Projects in progress			8,360		5,903
Total premises and equipment, net		$	150,828	$	161,016

Depreciation and amortization expense amounted to $17.6 million, $21.1 million, and $21.0 million for the years ended December 31, 2016, 2015, and 2014, respectively.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 14 – GOODWILL AND OTHER INTANGIBLES

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

The Corporation bypassed the qualitative assessment in 2016 and proceeded directly to perform the first step of the two-step goodwill impairment test. The Step 1 evaluation of goodwill allocated to the Florida reporting unit under both valuation approaches (market and discounted cash flow analysis) 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); therefore, the completion of the Step 2 was not required. Based on the analyses under both the market and discounted cash flow approaches, the estimated fair value of the equity of the reporting unit exceeded the carrying amount of the entity, including goodwill at the evaluation date. Goodwill was not impaired as of December 31, 2016 or 2015, nor was any goodwill written off due to impairment during 2016, 2015, and 2014.

In connection with the acquisition of the FirstBank-branded credit card loan portfolio in the second quarter of 2012, the Corporation recognized a purchased credit card relationship intangible of $24.5 million, which is being amortized over the remaining estimated life of 5 years on an accelerated basis based on the estimated attrition rate of the purchased credit card accounts, which reflects the pattern in which the economic benefits of the intangible asset are consumed. These benefits are consumed as the revenue stream generated by the cardholder relationship is realized.

The core deposit intangible acquired in the February 2015 Doral Bank transaction amounted to $5.8 million ($4.4 million as of December 31, 2016 and $5.1 million as of December 31, 2015).

In the first quarter of 2016, FirstBank Insurance Agency acquired certain insurance customer accounts and related customer records and recognized an insurance customer relationship intangible of $1.1 million ($0.9 million as of December 31, 2016), which is being amortized over the next 6.1 years on a straight-line basis. The list of accounts acquired has a direct relationship to the previous mortgage loan portfolio acquisitions from Doral Bank and Doral Financial in 2015 and 2014.

The following table shows the gross amount and accumulated amortization of the Corporation's intangible assets recognized as part of Other Assets in the consolidated statements of financial condition:

	As of December 31,

(Dollars in thousands)		2016		2015
Core deposit intangible:				
Gross amount, beginning of period	$	51,664	$	45,844
Addition as a result of acquisition		-		5,820
Accumulated amortization		(44,466)		(42,498)
Net carrying amount	$	7,198	$	9,166
Remaining amortization period		8.1 years		9.0 years
Purchased credit card relationship intangible:				
Gross amount	$	24,465	$	24,465
Accumulated amortization		(13,934)		(11,146)
Net carrying amount	$	10,531	$	13,319
Remaining amortization period		5 years		5.8 years
Insurance customer relationship intangible:				
Gross amount	$	1,067	$	-
Accumulated amortization		(140)		-
Net carrying amount	$	927	$	-
Remaining amortization period		6.1 years		-

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

		Amount
(In thousands)		
2017	$	4,495
2018		3,519
2019		3,067
2020		2,851
2021		2,658
2022 and after		2,066

NOTE 15 – NON CONSOLIDATED VARIABLE INTEREST ENTITIES AND SERVICING ASSETS

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

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

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

GNMA

The Corporation typically transfers first lien residential mortgage loans in conjunction with GNMA securitization transactions in which the loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights. The securities issued through these transactions are guaranteed by the issuer and, as such, under seller/servicer agreements, the Corporation is required to service the loans in accordance with the issuers' servicing guidelines and standards. As of December 31, 2016, the Corporation serviced loans securitized through GNMA with a principal balance of $1.5 billion.

Trust Preferred Securities

In 2004, FBP Statutory Trust I, a financing trust that is wholly owned by the Corporation, sold to institutional investors $100 million of its variable rate trust-preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.1 million of FBP Statutory Trust I variable rate common securities, were used by FBP Statutory Trust I to purchase $103.1 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures. Also in 2004, FBP Statutory Trust II, a financing trust that is wholly owned by the Corporation, sold to institutional investors $125 million of its variable rate trust-preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.9 million of FBP Statutory Trust II variable rate common securities, were used by FBP Statutory Trust II to purchase $128.9 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures. The debentures are presented in the Corporation's consolidated statement of financial condition as Other Borrowings, net of related issuance costs. The variable rate trust-preferred securities are fully and unconditionally guaranteed by the Corporation. The Junior Subordinated Deferrable Debentures issued by the Corporation in April 2004 and in September 2004 mature on June 17, 2034 and September 20, 2034, respectively; however, under certain circumstances, the maturity of Junior Subordinated Deferrable Debentures may be shortened (such shortening would result in a mandatory redemption of the variable rate trust-preferred securities). During the first quarter of 2016, the Corporation completed the repurchase of $10 million of trust-preferred securities of the FBP Statutory Trust II that were auctioned in a public sale at which the Corporation was invited to participate. The Corporation repurchased and cancelled the repurchased trust preferred securities, resulting in a commensurate reduction in the related Floating Rate Junior Subordinated Debentures. The Corporation's winning bid equated to 70% of the $10 million par value. The 30% discount, plus accrued interest, resulted in a gain of approximately $4.2 million, which is reflected in the statement of income as a "Gain on early extinguishment of debt." During the second quarter of 2015, the Corporation issued 852,831 shares of the Corporation's common stock in exchange for $5.3 million of trust preferred securities (FBP Statutory Trust I), which enabled the Corporation to cancel $5.5 million of the carrying value of the debentures underlying the purchased trust preferred securities. The Collins Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act eliminates certain trust-preferred securities from Tier 1 Capital; however, these instruments may remain in Tier 2 capital until the instruments are redeemed or mature. Under the indentures, the Corporation has the right, from time to time, and

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

without causing an event of default, to defer payments of interest on the Junior Subordinated Debentures by extending the interest payment period at any time and from time to time during the term of the subordinated debentures for up to twenty consecutive quarterly periods. During the second quarter of 2016, the Corporation received approval from the Federal Reserve and paid $31.2 million for all the accrued but deferred interest payments plus the interest for the second quarter on the Corporation's subordinated debentures associated with its trust preferred securities. Subsequently, the Corporation received quarterly approvals and paid the interest for the third and fourth quarters of 2016. As of December 31, 2016, the Corporation is current on all interest payments due related to its subordinated debt. Future interest payments are subject to Federal Reserve approval. It is the intent of the Corporation to request approvals in future periods to continue regularly scheduled quarterly interest payments.

Grantor Trusts

During 2004 and 2005, a third party to the Corporation, referred to in this subsection as the seller, established a series of statutory trusts to effect the securitization of mortgage loans and the sale of trust certificates. The seller initially provided the servicing for a fee, which is senior to the obligations to pay trust certificate holders. The seller then entered into a sales agreement through which it sold and issued the trust certificates in favor of the Corporation's banking subsidiary. Currently, the Bank is the sole owner of the trust certificates; the servicing of the underlying residential mortgages that generate the principal and interest cash flows is performed by another third party, which receives a servicing fee. The securities are variable rate securities indexed to 90-day LIBOR plus a spread. The principal payments from the underlying loans are remitted to a paying agent (servicer), who then remits interest to the Bank; interest income is shared to a certain extent with the FDIC, which has an interest only strip ("IO") tied to the cash flows of the underlying loans and is entitled to receive the excess of the interest income less a servicing fee over the variable rate income that the Bank earns on the securities. This IO is limited to the weighted-average coupon on the securities. The FDIC became the owner of the IO upon its intervention of the seller, a failed financial institution. No recourse agreement exists and the risks from losses on non accruing loans and repossessed collateral are absorbed by the Bank as the sole holder of the certificates. As of December 31, 2016, the amortized cost and fair value of the Grantor Trusts amounted to $28.8 million and $20.7 million, respectively, with a weighted-average yield of 2.40%.

Investment in unconsolidated entity

On February 16, 2011, FirstBank sold an asset portfolio consisting of performing and non-performing construction, commercial mortgage and commercial and industrial loans with an aggregate book value of $269.3 million to CPG/GS, an entity organized under the laws of the Commonwealth of Puerto Rico and majority owned by PRLP Ventures LLC ("PRLP"), a company created by Goldman, Sachs & Co. and Caribbean Property Group. In connection with the sale, the Corporation received $88.5 million in cash and a 35% interest in CPG/GS, and made a loan in the amount of $136.1 million representing seller financing provided by FirstBank. The loan has a seven-year maturity and bears variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity's assets as well as the PRLP's 65% ownership interest in CPG/GS. As of December 31, 2016, the carrying amount of the loan was $5.1 million, which was included in the Corporation's Commercial and Industrial loans held for investment portfolio. FirstBank’s equity interest in CPG/GS is accounted for under the equity method. When applying the equity method, the Bank follows the Hypothetical Liquidation Book Value method (“HLBV”) to determine its share of CPG/GS’s earnings or loss. The loss recorded in 2014 reduced to zero the carrying amount of the Bank’s investment in CPG/GS. No negative investment needs to be reported as the Bank has no legal obligation or commitment to provide further financial support to this entity; thus, no further losses have been or will be recorded on this investment. Any potential increase in the carrying value of the investment in CPG/GS, under the HLBV method would depend upon how better off the Bank is at the end of the period than it was at the beginning of the period after the waterfall calculation performed to determine the amount of gain allocated to the investors.

FirstBank also provided an $80 million advance facility to CPG/GS to fund unfunded commitments and costs to complete projects under construction, which was fully disbursed in 2011, and a $20 million working capital line of credit to fund certain expenses of CPG/GS. The working capital line expired in September 2016 and no amount is outstanding. During 2012, CPG/GS repaid the outstanding balance of the advance facility to fund unfunded commitments, and the funds became available for rewithdrawal under a one-time revolver agreement. This facility bears variable interest at 30-day LIBOR plus 300 basis points. As of December 31, 2016, the carrying value of the revolver agreement was $8.6 million, which was included in the Corporation's commercial and industrial loans held for investment portfolio.

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

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

payments pro rata to PRLP and FirstBank, 35% and 65%, respectively, until FirstBank has achieved a 12% return on its invested capital and the aggregate amount of distributions is equal to FirstBank's capital contributions to CPG/GS.

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

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

Servicing Assets

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

The changes in servicing assets are shown below:

	Year Ended December 31,		
	2016	2015	2014
(In thousands)			
Balance at beginning of year	$ 24,282	$ 22,838	$ 21,987
Capitalization of servicing assets	5,260	4,919	4,321
Amortization	(3,229)	(3,159)	(3,156)
Adjustment to fair value	(325)	(228)	(228)
Other (1)	256	(88)	(86)
Balance at end of year	$ 26,244	$ 24,282	$ 22,838

(1) Amount represents the adjustment to fair value related to the repurchase of loans serviced for others.

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

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Changes in the impairment allowance were as follows:

	Year ended December 31,		
	2016	2015	2014
(In thousands)			
Balance at beginning of year	$ 136	$ 55	$ 212
Temporary impairment charges	466	285	343
OTTI of servicing assets	-	(147)	(385)
Recoveries	(141)	(57)	(115)
Balance at end of year	$ 461	$ 136	$ 55

The components of net servicing income are shown below:

	Year ended December 31,		
	2016	2015	2014
(In thousands)			
Servicing fees	$ 7,606	$ 7,211	$ 6,999
Late charges and prepayment penalties	674	765	695
Adjustment for loans repurchased	256	(88)	(86)
Other (1)	(1)	(161)	(1,253)
Servicing income, gross	8,535	7,727	6,355
Amortization and impairment of servicing assets	(3,554)	(3,387)	(3,384)
Servicing income, net	$ 4,981	$ 4,340	$ 2,971

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

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Maximum	Minimum
2016:		
Constant prepayment rate:		
Government-guaranteed mortgage loans	7.6%	5.9%
Conventional conforming mortgage loans	8.0%	6.3%
Conventional non-conforming mortgage loans	14.1%	9.3%
Discount rate:		
Government-guaranteed mortgage loans	12.0%	11.5%
Conventional conforming mortgage loans	10.0%	9.5%
Conventional non-conforming mortgage loans	14.3%	13.8%
2015:		
Constant prepayment rate:		
Government-guaranteed mortgage loans	9.2%	7.8%
Conventional conforming mortgage loans	9.0%	7.9%
Conventional non-conforming mortgage loans	14.4%	12.9%
Discount rate:		
Government-guaranteed mortgage loans	11.5%	11.5%
Conventional conforming mortgage loans	9.5%	9.5%
Conventional non-conforming mortgage loans	13.8%	13.8%
2014:		
Constant prepayment rate:		
Government-guaranteed mortgage loans	9.6%	9.1%
Conventional conforming mortgage loans	9.4%	8.9%
Conventional non-conforming mortgage loans	14.0%	12.7%
Discount rate:		
Government-guaranteed mortgage loans	11.5%	11.5%
Conventional conforming mortgage loans	9.5%	9.5%
Conventional non-conforming mortgage loans	13.9%	13.8%

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(Dollars in thousands)		
Carrying amount of servicing assets	$	26,244
Fair value	$	29,664
Weighted-average expected life (in years)		8.58
Constant prepayment rate (weighted-average annual rate)		6.12%
Decrease in fair value due to 10% adverse change	$	758
Decrease in fair value due to 20% adverse change	$	1,483
Discount rate (weighted-average annual rate)		11.19%
Decrease in fair value due to 10% adverse change	$	1,413
Decrease in fair value due to 20% adverse change	$	2,708

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship between the change in assumption and the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the servicing asset is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or counteract the sensitivities.

NOTE 16 – DEPOSITS AND RELATED INTEREST

The following table summarizes deposit balances as of the dates indicated:

	December 31,			
		2016		**2015**
(In thousands)				
Type of account and interest rate:				
Non-interest-bearing checking accounts	$	1,484,155	$	1,336,559
Interest-bearing savings accounts - 0.05% to 0.40% (2015- 0.05% to 0.70%)		2,518,496		2,459,186
Interest-bearing checking accounts - 0.05% to 1.00% (2015- 0.10% to 1.06%)		1,075,929		1,088,651

Certificates of deposit- 0.10% to 4.00% (2015- 0.10% to 5.05%)	2,312,928	2,356,245
Brokered certificates of deposit- 0.60% to 2.80% (2015- 0.45% to 2.80%)	1,439,697	2,097,483
	$ 8,831,205	$ 9,338,124

The weighted-average interest rate on total interest-bearing deposits as of December 31, 2016 and 2015 was 0.83%.

As of December 31, 2016, the aggregate amount of unplanned overdrafts in demand deposits that were reclassified as loans amounted to $1.0 million (2015 - $1.0 million). Pre-arranged overdrafts lines of credit amounted to $32.9 million as of December 31, 2016 (2015- $32.8 million).

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following table presents the contractual maturities of CDs, including brokered CDs, as of December 31, 2016:

(In thousands)		Total
Three months or less	$	609,994
Over three months to six months		410,852
Over six months to one year		961,619
Over one year to two years		1,052,030
Over two years to three years		402,077
Over three years to four years		115,771
Over four years to five years		193,899
Over five years		6,383
Total	$	3,752,625

As of December 31, 2016, CDs in denominations of $100,000 or higher amounted to $3.0 billion (2015 - $3.6 billion) including brokered CDs of $1.4 billion (2015 - $2.1 billion) at a weighted-average rate of 1.18% (2015 - 0.97%) issued to deposit brokers in the form of large certificates of deposits that are generally participated out by brokers in shares of less than the FDIC insurance limit. As of December 31, 2016, unamortized broker placement fees amounted to $2.6 million (2015 - $3.9 million), which are amortized over the contractual maturity of the brokered CDs under the interest method.

Brokered CDs mature as follows:

(In thousands)		December 31, 2016
Three months or less	$	253,475
Over three months to six months		150,627
Over six months to one year		394,710
One to three years		540,566
Three to five years		98,755
Over five years		1,564
Total	$	1,439,697

As of December 31, 2016, deposit accounts issued to government agencies amounted to $563.7 million (2015 — $577.3 million). These deposits in Puerto Rico and the U.S. Virgin Islands are insured by the FDIC up to the applicable limits, generally $250,000. The uninsured portion were collateralized by securities and loans with an amortized cost of $583.9 million (2015 — $678.8 million) and an estimated market value of $521.3 million (2015 — $600.6 million). As of December 31, 2016, the Corporation had $408.8 million of government deposits in Puerto Rico (2015— $390.4 million) and $154.9 million in the Virgin Islands (2015— $186.9 million).

A table showing interest expense on deposits follows:

	Year Ended December 31,		
	2016	**2015**	**2014**
(In thousands)			
Interest-bearing checking accounts	$ 4,914	$ 5,440	$ 6,446
Savings	12,392	13,660	15,416
Certificates of deposit	28,068	25,246	26,371
Brokered certificates of deposit	21,928	24,904	29,894
Total	$ 67,302	$ 69,250	$ 78,127

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The total interest expense on deposits includes the amortization of broker placement fees related to brokered CDs amounting to $2.9 million, $4.6 million, and $6.7 million for 2016, 2015 and 2014, respectively. For 2016 and 2015, includes $0.2 million and $0.6 million, respectively, for the accretion of premium related to time deposits assumed in the Doral Bank transaction in 2015.

NOTE 17 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase (repurchase agreements) with original maturities in excess of one year consist of the following:

	December, 31	
(Dollars in thousands)	**2016**	**2015**
Repurchase agreements, interest ranging from 1.96% to 2.83% (December 31, 2015: 1.96% to 3.41%) (1)(2)	$ 300,000	$ 700,000

(1) Reported net of securities purchased under agreements to repurchase (reverse repurchase agreements) by counterparty, when applicable, pursuant to ASC 210-20-45-11.

(2) As of December 31, 2016, includes $200 million that have an average rate of 2.11% and that are callable by lenders before their contractual maturities at various dates beginning on January 19, 2017. Subsequent to December 31, 2016, no lender has exercised its call option on repurchase agreements. In addition, $100 million is tied to variable rates.

The weighted-average interest rates on repurchase agreements as of December 31, 2016 and 2015 were 2.35% and 2.73%, respectively. Accrued interest payable on repurchase agreements amounted to $1.9 million and $4.0 million as of December 31, 2016 and 2015, respectively.

Repurchase agreements mature as follows:

	December 31, 2016
(In thousands)	

Over six months to one year	$	100,000
Over five years		200,000
Total	$	300,000

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following securities were sold under agreements to repurchase:

	December 31, 2016			
Underlying Securities (In thousands)	**Amortized Cost of Underlying Securities**	**Balance of Borrowing**	**Approximate Fair Value of Underlying Securities**	**Weighted Average Interest Rate of Security**
U.S. government-sponsored agencies	$ 126,205	$ 123,175	$ 125,417	1.30%
Mortgage-backed securities	215,352	176,825	213,973	2.20%
Total	$ 341,557	$ 300,000	$ 339,390	
Accrued interest receivable	$ 1,400			

	December 31, 2015			
Underlying Securities (In thousands)	**Amortized Cost of Underlying Securities**	**Balance of Borrowing**	**Approximate Fair Value of Underlying Securities**	**Weighted Average Interest Rate of Security**
U.S. government-sponsored agencies	$ 233,175	$ 211,010	$ 230,603	1.47%
Mortgage-backed securities	564,595	488,990	562,959	2.18%
Total	$ 797,770	$ 700,000	$ 793,562	
Accrued interest receivable	$ 2,145			

The maximum aggregate balance outstanding at any month-end during 2016 was $700 million (2015 — $900 million). The average balance during 2016 was $616.4 million (2015 — $769.0 million). The weighted-average interest rate during 2016 and 2015 was 3.28% and 2.92%, respectively.

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

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

(Dollars in thousands) **Counterparty**		**Amount**	**Weighted-Average Maturity (In Months)**
Dean Witter / Morgan Stanley	$	100,000	10
JP Morgan Chase		200,000	61
	$	300,000	

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 18 – ADVANCES FROM THE FEDERAL HOME LOAN BANK (FHLB)

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

(In thousands)	December 31, 2016		December 31, 2015	
Short-term fixed-rate advances from FHLB, with a weighted-average interest rate of 0.78%	$	170,000	$	-
Long-term fixed-rate advances from FHLB, with a weighted-average interest rate of 1.49% (December 31, 2015 - 1.30%)		500,000		455,000
	$	670,000	$	455,000

Advances from FHLB mature as follows:

(In thousands)	December 31, 2016	
Within 30 days	$	170,000
One to six months		-
Six months to one year		200,000
Over one to three years		300,000
Total	$	670,000

Advances are received from the FHLB under an Advances, Collateral Pledge, and Security Agreement (the "Collateral Agreement"). Under the Collateral Agreement, the Corporation is required to maintain a minimum amount of qualifying mortgage collateral with a market value of generally 125% or higher than the outstanding advances. As of December 31, 2016, the estimated value of specific mortgage loans pledged as collateral amounted to $1.4 billion (2015 — $1.1 billion), as computed by the FHLB for collateral purposes. The carrying value of such loans as of December 31, 2016 amounted to $1.7 billion (2015 — $1.4 billion). As of December 31, 2016, the Corporation had additional capacity of approximately $754.3 million on this credit facility based on collateral pledged at the FHLB, including a haircut reflecting the perceived risk associated with the collateral. Haircut refers to the percentage by which an asset's market value is reduced for the purpose of collateral levels. Advances may be repaid prior to maturity, in whole or in part, at the option of the borrower upon payment of any applicable fee specified in the contract governing such advance. In calculating the fee, due consideration is given to (i) all relevant factors, including but not limited to, any and all applicable costs of repurchasing and/or prepaying any associated liabilities and/or hedges entered into with respect to the applicable advance; (ii) the financial characteristics, in their entirety, of the advance being prepaid; and (iii), in the case of adjustable-rate advances, the expected future earnings of the replacement borrowing as long as the replacement borrowing is at least equal to the original advance’s par amount and the replacement borrowing’s tenor is at least equal to the remaining maturity of the prepaid advance.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 19 – OTHER BORROWINGS

Other borrowings consist of:

(In thousands)		December 31, 2016		December 31, 2015
Junior subordinated debentures due in 2034, interest-bearing at a floating rate of 2.75% over 3-month LIBOR (3.74% as of December 31, 2016 and 3.28% as of December 31, 2015)	$	97,630	$	97,626
Junior subordinated debentures due in 2034, interest-bearing at a floating rate of 2.50% over 3-month LIBOR (3.50% as of December 31, 2016 and 3.07% as of December 31, 2015) (1)		118,557		128,866
	$	216,187	$	226,492

(1) Refer to Note 15 - Non-Consolidated Variable Interest Entities and Servicing Assets - Trust Preferred Securities for additional information, including information about the Corporation's repurchase and cancellation of $10 million of trust preferred securities associated with these junior subordinated debentures.

NOTE 20 – EARNINGS PER COMMON SHARE

The calculation of earnings per common share for the years ended December 31, 2016, 2015, and 2014 are as follows:

	Year Ended December 31,					
		2016		2015		2014
(In thousands, except per share information)						
Net income	$	93,229	$	21,297	$	392,287
Less: Preferred stock dividends		(223)		-		-
Favorable impact from issuing common stock in exchange for Series A through E preferred stock (1)		-		-		1,659
Net income attributable to common stockholders	$	93,006	$	21,297	$	393,946

Weighted-Average Shares:			
Average common shares outstanding	212,818	211,457	208,752
Average potential dilutive common shares	2,976	1,514	1,788
Average common shares outstanding - assuming dilution	215,794	212,971	210,540
Earnings per common share:			
Basic	$ 0.44	$ 0.10	$ 1.89
Diluted	$ 0.43	$ 0.10	$ 1.87

---

(1) Excess of carrying amount of the Series A through E preferred stock exchanged over the fair value of new common shares issued in 2014.

Earnings per common share is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares issued and outstanding. Net income attributable to common stockholders represents net income adjusted for any preferred stock dividends, including any dividends declared and any cumulative dividends related to the current dividend period that have not been declared as of the end of the period. For 2014, net income attributable to common stockholders also includes the one-time effect to retained earnings of the issuance of common stock in exchange for Series A through E preferred stock. These transactions are discussed in Note 22 – Stockholders' Equity, to the consolidated financial statements. Basic weighted-average common shares outstanding exclude unvested shares of restricted stock.

Potential common shares consist of common stock issuable under the assumed exercise of stock options, unvested shares of restricted stock, and outstanding warrants using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from the exercise, in addition to the amount of compensation cost attributable to future services, are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased are added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Stock options, unvested shares of restricted stock, and outstanding warrants that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect on earnings per share. Stock options not included in the computation of outstanding shares because they were antidilutive amounted to 34,989; 69,848, and 82,575 as of December 31, 2016, 2015, and 2014, respectively.

NOTE 21 – STOCK-BASED COMPENSATION

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

The activity of stock options granted under the 1997 stock option plan for the year ended December 31, 2016 is set forth below:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Beginning of year outstanding and exercisable	69,848	$ 160.30		
Options expired	(34,326)	183.37		
Options cancelled	(533)	138.00		
End of year outstanding and exercisable	34,989	$ 138.00	0.1	$ -

On May 24, 2016, the Corporation's stockholders approved the amendment and restatement of the First BanCorp. Omnibus Incentive Plan, as amended (the "Omnibus Plan"), to, among other things, increase the number of shares of common stock reserved for issuance under the Omnibus Plan, to extend the term of the Omnibus Plan to May 24, 2026 and to re-approve the material terms of the performance goals under the Omnibus Plan for purpose of Section 162 (m) of the U.S. Internal Revenue Code of 1986, as amended. The Omnibus Plan provides for equity-based compensation incentives (the "awards") through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, cash-based awards and other stock-based awards. The Omnibus Plan authorizes the issuance of up to 14,169,807 shares of common stock, subject to adjustments for stock splits, reorganizations and other similar events. As of December 31, 2016, 6,846,986 shares of common stock were available for issuance under the Omnibus Plan. The Corporation's Board of Directors, upon receiving the relevant recommendation of the Compensation Committee, has the power and authority to determine those eligible to receive awards and to establish the terms and conditions of any awards, subject to various limits and vesting restrictions that apply to individual and aggregate awards.

Under the Omnibus Plan, during 2016, 130,873 shares of restricted stock were awarded to the Corporation's independent directors subject to a one-year vesting period. Also during 2016, the Corporation issued 1,794,702 shares of restricted stock to employees subject to vesting periods that range from 2 to 3 years. Included in those 1,794,702 shares of restricted stock are 1,546,137 shares granted to certain senior officers consistent with the requirements of the Troubled Asset Relief Program ("TARP") Interim Final Rule, which permit TARP recipients to grant "long-term restricted stock" without violating the prohibition on paying or accruing a bonus payment provided that: (i) the value of the grant may not exceed one-third of the amount of the employee's annual compensation, (ii) no portion of the grant may vest before two years after the grant date, and (iii) the grant must be subject to a further restriction on transfer or payment as described below. Specifically, the stock that has otherwise vested may not become transferable at any time earlier than as permitted under the schedule set forth by TARP, which is based on the repayment in 25% increments of the aggregate financial assistance received from the U.S. Treasury. Hence, notwithstanding the vesting period mentioned above, the senior officers covered by TARP are restricted from transferring the shares. The U.S. Treasury confirmed that, effective March 2014, it has recovered more than 25% of its investment in First BanCorp. Therefore, the restrictions on transfer relating to 25% of certain shares granted under TARP requirements have been released.

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

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

	2016		
	Number of shares of restricted stock		**Weighted-Average Grant Date Fair Value**
Non-vested shares at beginning of year	2,968,461	$	3.34
Granted	1,925,575		1.87
Forfeited	(31,532)		4.93
Vested	(683,713)		3.80
Non-vested shares at end of year	4,178,791	$	2.58

For the years ended December 31, 2016, 2015 and 2014, the Corporation recognized $3.9 million, $3.8 million and $2.6 million, respectively, of stock-based compensation expense related to restricted stock awards. As of December 31, 2016, there was $3.5 million of total unrecognized compensation cost related to nonvested shares of restricted stock. The weighted average period over which the Corporation expects to recognize such cost is 1.3 years.

In 2015, the Corporation awarded (i) 219,531 shares of restricted stock to its independent directors subject to vesting periods that ranged from 1 to 5 years and (ii) 793,964 shares of restricted stock to employees subject to vesting periods that range from 3 months to 3 years. Included in those 793,964 shares of restricted stock are 615,464 shares granted to certain senior officers consistent with the requirements of TARP. The employees covered by TARP are restricted from transferring the shares, subject to the conditions described above.

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

TARP requirements.

Stock-based compensation accounting guidance requires the Corporation to reverse compensation expense for any awards that were forfeited due to employee or director turnover. Approximately, $0.1 million of compensation expense was reversed related to forfeited awards in each of years 2016, 2015 and 2014.

Also, under the Omnibus Plan, effective April 1, 2013, the Corporation's Board of Directors determined to increase the salary amounts paid to certain executive officers primarily by paying the increased salary amounts in the form of shares of the Corporation's common stock, instead of cash. During 2016, the Corporation issued 755,223 shares of common stock (2015 – 483,053 shares) with a weighted-average market value of $3.96 (2015 - $4.67 market value) as salary stock compensation. This resulted in a compensation expense of $3.0 million recorded in 2016 (2015 – $2.3 million).

During 2016, the Corporation withheld 226,261 shares (2015 – 149,463 shares) from the common stock paid to certain senior officers as additional compensation and 65,498 shares (2015- 72,918 shares) of restricted stock that vested during 2016 and 2015 to cover employees' payroll and income tax withholding liabilities; these shares are held as treasury shares. The Corporation paid any fractional share of salary stock that the officer was entitled to in cash. In the consolidated financial statements, the Corporation treats shares withheld for tax purposes as common stock repurchases.

NOTE 22 – STOCKHOLDERS' EQUITY

Common Stock

As of December 31, 2016 and 2015, the Corporation had 2,000,000,000 authorized shares of common stock with a par value of $0.10 per share. As of December 31, 2016 and 2015, there were 218,700,394 and 216,051,128 shares issued, respectively, and 217,446,205 and 215,088,698, shares outstanding, respectively. Refer to Note 21 for information about transactions related to common stock under the Omnibus Plan.

On December 5, 2016, a secondary offering of the Corporation's common stock was completed by certain of the Corporation's existing stockholders. Funds affiliated with Thomas H. Lee Partners, L.P. ("THL") sold 9 million shares of common stock, and funds managed by Oaktree Capital Management ("Oaktree") sold 9 million shares of common stock. In addition, the underwriters exercised their option to purchase an additional 2.7 million shares of common stock from the selling stockholders. The Corporation did not receive any proceeds from the offering. As of December 31, 2016, each of THL and Oaktree owned 14.5% of the Corporation's common stock. In February 2017, THL and Oaktree sold an aggregate of an additional 23 million shares of common stock in a secondary offering, reducing each of their percentage ownership interests in the Corporation to approximately 9.2%.

During the second quarter of 2015, the Corporation issued 852,831 shares of its common stock in exchange for trust preferred securities with a liquidation value of $5.3 million. As a result of these transactions, common stock increased by $85 thousand, which represents the par value of the shares issued. Also, additional paid-in capital increased by the excess of the common stock fair value over the par value, or $5.5 million. With these exchanges, the other borrowings balance decreased by $5.5 million.

Preferred Stock

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

non-cumulative perpetual monthly income preferred stock, Series E. The liquidation value per share is $25.

Effective January 17, 2012, the Corporation delisted all of its outstanding series of non-convertible, non-cumulative preferred stock from the New York Stock Exchange. The Corporation has not arranged for listing and/or registration on another national securities exchange or for quotation of the Series A through E Preferred Stock in a quotation medium. For the first time since July 2009, the Corporation paid dividends on its non-cumulative perpetual monthly income preferred stock in December 2016, after receiving regulatory approval. The Corporation intends to request approval in future periods to continue with monthly dividend payments on the non-cumulative perpetual monthly income preferred stock.

In 2014, the Corporation issued an aggregate of 4,597,121 shares of its common stock in exchange for an aggregate of 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 of 1933, as amended, 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. The carrying (liquidation) value of the Series A through E preferred stock exchanged, or $26.9 million, was reduced, and common stock and additional paid-in capital was increased in the amount of the fair value of the common stock issued. The Corporation recorded the par value of the shares issued as common stock ($0.10 per common share) or $0.5 million. The excess of the common stock fair value over the par value, or $23.9 million, was recorded in additional paid-in capital. The excess of the carrying amount of the shares of preferred stock over the fair value of the shares of common stock, or $1.7 million, was recorded as an increase to retained earnings and an increase in earnings per common share computation.

Treasury stock

During 2016 and 2015, the Corporation withheld an aggregate of 291,759 shares and 222,381 shares, respectively, of the common stock paid to certain senior officers as additional compensation and restricted stock that vested during 2016 and 2015 to cover employees' payroll and income tax withholding liabilities; these shares are also held as treasury shares. As of December 31, 2016 and 2015, the Corporation had 1,254,189 and 962,430 shares held as treasury stock, respectively.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

FirstBank Statutory Reserve (Legal Surplus)

The Banking Law of the Commonwealth of Puerto Rico requires that a minimum of 10% of FirstBank's net income for the year be transferred to legal surplus until such surplus equals the total of paid-in capital on common and preferred stock. Amounts transferred to the legal surplus account from the retained earnings account are not available for distribution to the Corporation, including for payment as dividends to the stockholders, without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The Puerto Rico Banking Law provides that, when the expenditures of a Puerto Rico commercial bank are greater than receipts, the excess of the expenditures over receipts must be charged against the undistributed profits of the bank, and the balance, if any, must 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 must 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 2016 and 2015, $9.6 million and $2.8 million, respectively, were 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 $52.4 million and $42.8 million, respectively, as of December 31, 2016 and 2015.

NOTE 23 – EMPLOYEES' BENEFIT PLAN

FirstBank provides contributory retirement plans pursuant to Section 1081.01 of the Puerto Rico Internal Revenue Code of 2011 for Puerto Rico employees and Section 401(k) of the U.S. Internal Revenue Code for USVI and U.S. employees (the "Plans"). All employees are eligible to participate in the Plans after three months of service for purposes of making elective deferral contributions and one year of service for purposes of sharing in the Bank's matching, qualified matching, and qualified nonelective contributions. Under the provisions of the Plans, the Bank contributes 25% of the first 4% of the participant's compensation contributed to the Plans on a pretax basis. Participants were permitted to contribute up to $15,000 for each of 2014, 2015 and 2016 ($17,500 for 2014, and $18,000 for each of 2015 and 2016 for USVI and U.S. employees). Additional contributions to the Plans are voluntarily made by the Bank as determined by its Board of Directors. No additional discretionary contributions were made for the years ended December 31, 2016, 2015 and 2014. The Bank had a total plan expense of $1.1 million for the year ended December 31, 2016, $1.4 million for 2015, and $2.2 million for 2014.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 24 –OTHER NON-INTEREST INCOME

A detail of other non-interest income is as follows:

	Year Ended		
(In thousands)	2016	2015	2014
Non-deferrable loan fees	$ 3,346	$ 2,687	$ 2,414
Commissions and fees-broker-dealer-related	789	-	459
Lower of cost or market adjustment-commercial and construction loans held for sale	-	191	-
Loss on sale of commercial loans held for sale	-	(553)	-
Gain on exchange of trust preferred securities for common stock	-	267	-
Merchant-related income	4,095	9,510	8,181
ATM and POS fees	8,462	7,213	6,627
Credit card loans interchange and other fees	5,920	6,220	6,047
Other	8,288	7,259	6,763
Total	$ 30,900	$ 32,794	$ 30,491

NOTE 25 –OTHER NON-INTEREST EXPENSES

A detail of other non-interest expenses is as follows:

	Year Ended December 31,		
	2016	2015	2014
(In thousands)			
Supplies and printing	$ 1,502	$ 3,101	$ 2,140
Provision (release) for off-balance sheet exposures	1,173	261	(653)
Amortization of intangible assets	4,896	5,143	4,943
Servicing and processing fees	4,604	4,817	5,524
Write-down and losses on sale of non-real estate repossessed properties	689	755	737
Other	8,022	8,152	6,348
Total	$ 20,886	$ 22,229	$ 19,039

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 26 – INCOME TAXES

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

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

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

The components of income tax expense are summarized below:

	Year Ended December 31,		
	2016	2015	2014
(In thousands)			
Current income tax expense	$ (13,151)	$ (6,339)	$ (5,361)
Deferred income tax (expense) benefit	(23,879)	(80)	306,010
Total income tax (expense) benefit	$ (37,030)	$ (6,419)	$ 300,649

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The differences between the income tax expense applicable to income before the provision for income taxes and the amount computed by applying the statutory tax rate in Puerto Rico were as follows:

	Year Ended December 31,					
	2016		2015		2014	
(Dollars in thousands)	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed income tax at statutory rate	$ (50,801)	(39.0) %	$ (10,810)	(39.0) %	$ (35,738)	(39.0) %
Federal and state taxes	-	- %	(190)	(0.7) %	(117)	(0.1) %
Adjustment in deferred tax due to change in tax rate	-	- %	-	- %	(346)	(0.4) %
Benefit of net exempt income	14,995	11.5 %	9,780	35.3 %	15,202	17.0 %
National receipts tax, net	-	- %	-	- %	628	0.7 %
Effect of capital losses subject to preferential rates	(727)	(0.6) %	(3,019)	(10.9) %	-	- %
Disallowed NOL carryforward resulting from net exempt income	(6,396)	(4.9) %	(7,717)	(27.8) %	-	- %
Nontax deductible expenses	(212)	(0.2) %	365	1.3 %	(193)	(0.2) %
(Decrease) increase in unrecognized tax benefits, including interest	-	- %	-	- %	1,763	2.0 %
Return to provision adjustments	(434)	(0.3) %	1,174	4.2 %	-	- %
Deferred tax valuation allowance	5,976	4.6 %	2,881	10.4 %	318,380	347.0 %
Other-net	569	0.3 %	1,117	4.0 %	1,070	1.2 %
Total income tax (expense) benefit	$ (37,030)	(28.6) %	$ (6,419)	(23.2) %	$ 300,649	328.2 %

For 2016, the Corporation recorded an income tax expense of $37.0 million compared to an income tax expense of $6.4 million for 2015. The increase in income tax expense for 2016, when compared to 2015, was mainly driven by higher taxable income, as the year 2015 was impacted by an incremental pre-tax loss of $48.7 million on the bulk sale of assets. The effective tax rate for the year ended December 31, 2016 was 28% compared to 23% for the year ended December 31, 2015.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Significant components of the Corporation's deferred tax assets and liabilities as of December 31, 2016 and 2015 were as follows:

	December 31, 2016	December 31, 2015
(In thousands)		
Deferred tax asset:		
Net operating loss carryforward	$ 374,091	$ 378,160
Allowance for loan and lease losses	79,330	87,769
Tax credits available for carryforward	8,006	10,714
Unrealized loss on OREO valuation	11,467	11,633
Unrealized net loss on equity investment	187	6,236
Settlement payment-closing agreement	7,313	7,313
Legal reserve	1,807	2,953
Impairment on investment	4,438	3,178
Unrealized loss on available-for-sale securities, net	502	739
Reserve for insurance premium cancellations	724	631
Unrealized losses on derivatives activities	78	48
Other	15,642	17,993
Gross deferred tax assets	503,585	527,367
Less: Valuation allowance	(207,216)	(201,706)
Total deferred tax assets, net of valuation allowance	296,369	325,661
Deferred tax liabilities:		
Differences between the assigned values and tax bases of assets and liabilities recognized in purchase business combinations	5,247	5,712
Unrealized gain on other investments	468	468
Servicing assets	8,997	8,218
Gross deferred tax liabilities	14,712	14,398
Net deferred tax assets	$ 281,657	$ 311,263

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. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized. Management assesses the valuation allowance recorded against deferred tax assets at each reporting date. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires the evaluation of positive and negative evidence that can be objectively verified. Consideration must be given to all sources of taxable income available to realize the deferred tax asset, including, as applicable, the future reversal of existing temporary differences, future taxable income forecasts exclusive of the reversal of temporary differences and carryforwards, taxable income in carryback years and tax planning strategies. In estimating taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial, and regulatory guidance.

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 $281.7 million as of December 31, 2016, net of a valuation allowance of $207.2 million. The net deferred tax assets of the Corporation's banking subsidiary, FirstBank, amounted to $277.4 million as of December 31, 2016, net of a valuation allowance of $171.0 million, compared to $306.4 million as of December 31, 2015. During 2016, 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 $277.4 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, 2016 includes factors such as: FirstBank’s three-year cumulative gain position of $206.7 million; forecasts of future profitability under several potential scenarios that support the partial utilization of NOLs prior to their expiration between 2021 through 2024; two consecutive years of taxable income (taxable year 2015 being the first year with taxable income since 2008); and sustained pre-tax pre-provision for loan losses income. These factors demonstrate demand for FirstBank’s products and services and improvements in credit quality measures that have resulted in reduced credit exposures, when compared to the period that led to the full valuation allowance, and have resulted in improvements in both sustainability of profitability and management’s ability to forecast future losses. The negative evidence considered by management includes: Puerto Rico’s current economic conditions, which resulted in the enactment of the Puerto Rico Oversight Management and Economic Stability Act (“PROMESA”), the uncertainty related to government loan concentration 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, 2016 net deferred tax asset as further described below.

The Corporation expects to realize approximately $171.5 million of deferred tax assets associated with FirstBank’s NOLs prior to their expiration periods, compared to $182.1 million expected to be realized as of December 31, 2015. In addition, as of December 31, 2016, approximately $117.0 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 $127.8 million in 2015. Approximately $20.5 million of other non-NOLs, related deferred tax assets of the Corporation are fully reserved with a valuation allowance, compared to $19.4 million as of December 31, 2015, given limitations and uncertainties as to their future utilization. The increase in fully reserved deferred tax assets is related to the increase in cumulative 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.

Management’s estimate of future taxable income is based on internal projections that consider historical performance, multiple internal scenarios and assumptions, as well as external data that management believes is reasonable. If events are identified that affect the Corporation’s ability to utilize its deferred tax assets, the analysis will be updated to determine if any adjustments to the valuation allowance are required. If actual results differ significantly from the current estimates of future taxable income, even if caused by adverse macro-economic conditions, the remaining valuation allowance may need to be increased. Such an increase could have a material adverse effect on the

Corporation’s financial condition and results of operations. Conversely, better than expected results and continued positive results and trends could result in further releases to the deferred tax valuation allowance; any such decreases could have a material positive effect on the Corporation’s financial condition and results of operations.

As of December 31, 2016, 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.

The following table reconciles the balance of UTBs:

(In thousands)		2016		2015		2014
Balance at January 1,	$	-	$	-	$	4,310
(Decrease) increase related to positions taken during prior years		-		-		(1,763)
Decrease related to settlement with taxing authorities		-		-		(2,547)
Balance at December 31,	$	-	$	-	$	-

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 four years; the statute of limitations for Virgin Islands and U.S. income tax purposes are each three years after a tax return is

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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 2012 remain open to examination. During 2015 and 2016, the IRS audited the US income tax return for the year 2012. During the first quarter of 2017, the IRS completed such audit without adjustments. 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 clarifies that the national gross receipts tax was not applicable to taxable years starting after December 31, 2014. Accordingly, the Corporation did not record national gross receipts tax expense for 2015 or 2016. During 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.

NOTE 27 – LEASE COMMITMENTS

As of December 31, 2016, certain premises are leased with terms expiring through the year 2050. The Corporation has the option to renew or extend certain leases beyond the original term. Some of these leases require the payment of insurance, increases in property taxes, and other incidental costs. As of December 31, 2016, the obligation under various leases is as follows:

		Amount
(In thousands)		
2017	$	10,735

2018		10,282
2019		9,473
2020		7,490
2021		6,270
2022 and later years		41,928
Total	$	86,178

Rental expense for offices and premises included in occupancy and equipment expense was $11.3 million in 2016 (2015 - $10.9 million; 2014- $10.6 million).

NOTE 28 – FAIR VALUE

Fair Value Measurement

The FASB authoritative guidance for fair value measurement defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance also establishes a fair value hierarchy for classifying financial instruments. The hierarchy is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Three levels of inputs may be used to measure fair value:

Level 1 Valuations of Level 1 assets and liabilities are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 1 assets and liabilities include equity securities that trade in an active exchange market, as well as certain U.S. Treasury and other U.S. government and agency securities and corporate debt securities that are traded by dealers or brokers in active markets.

Level 2 Valuations of Level 2 assets and liabilities are based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include (i) mortgage-backed securities for which the fair value is estimated based on the value of identical or comparable assets, (ii) debt securities with quoted prices that are traded less frequently than exchange-traded instruments, and (iii) derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 Valuations of Level 3 assets and liabilities are based on unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models for which the determination of fair value required significant management judgments estimation.

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

Financial Instruments Recorded at Fair Value on a Recurring Basis

Investment securities available for sale

The fair value of investment securities was the market value based on quoted market prices (as is the case with equity securities, Treasury notes, and non-callable U.S. Agency debt securities), when available (Level 1), or, when available, market prices for identical or comparable assets (as is the case with MBS and callable U.S. agency debt) that are based on observable market parameters, including benchmark yields, reported trades, quotes from brokers or dealers, issuer spreads, bids, offers and reference data, including market research operations (Level 2). Observable prices in the market already consider the risk of nonperformance. During 2016, the Corporation recorded OTTI charges of $6.3 million on certain Puerto Rico government debt securities, specifically bonds of the GDB and the Puerto Rico Public Buildings Authority. The credit impairment loss was based on the probability of default and loss severity in the event of default in consideration of the latest information available about the Puerto Rico government’s financial condition. Refer to Note 5- Investment Securities, for significant assumptions used to determine the credit impairment portion, including default rates and recovery rates, which are unobservable inputs. If listed prices or quotes are not available, fair value is based upon discounted cash flows 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 based on historical portfolio performance. 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, using an asset-level risk assessment method taking into account loan credit

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

characteristics (loan-to-value, state, delinquency, property type and pricing behavior, and other) to provide an estimate of default and loss severity.

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

Derivative instruments

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

A credit spread is considered for those derivative instruments that are not secured. The cumulative mark-to-market effect of credit risk in the valuation of derivative instruments in 2016, 2015 and 2014 was immaterial.

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

	As of December 31, 2016 Fair Value Measurements Using				**As of December 31, 2015 Fair Value Measurements Using**			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/Liabilities at Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Assets/Liabilit at Fair Value**
Assets:								
Securities available for sale :								
Equity securities	$ 408	$ -	$ -	$ 408	$ -	$ -	$ -	$ -
U.S. Treasury Securities	7,509	-	-	7,509	7,497	-	-	7,497
Noncallable U.S. agency debt	-	356,919	-	356,919	-	315,467	-	315,467
Callable U.S. agency debt and MBS	-	1,469,463	-	1,469,463	-	1,509,807	-	1,509,807
Puerto Rico government obligations	-	24,707	2,121	26,828	-	26,327	1,890	28,217
Private label MBS	-	-	20,693	20,693	-	-	25,307	25,307
Other investments	-	-	100	100	-	-	100	100
Derivatives, included in assets:								
Purchased interest rate cap agreements	-	554	-	554	-	806	-	806

Liabilities:								
Derivatives, included in liabilities:								
Written interest rate cap agreement	-	552	-	552	-	798	-	798
Forward contracts	-	201	-	201	-	123	-	123

The table below presents a reconciliation of the beginning and ending balances of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2016, 2015, and 2014:

Level 3 Instruments Only	**2016 Securities Available for Sale (1)**		**2015 Securities Available for Sale (1)**		**2014 Securities Available for Sale (1)**	
(In thousands)						
Beginning balance	$	27,297	$	36,212	$	43,292
Total gain (losses) (realized/unrealized):						
Included in earnings		(387)		(628)		(388)
Included in other comprehensive income		1,586		1,623		2,404
Purchases		-		100		5,123
Sales		-		-		(4,855)
Principal repayments and amortization		(5,582)		(10,010)		(9,364)
Ending balance	$	22,914	$	27,297	$	36,212

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

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The table below presents qualitative information for significant assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2016:

	December 31, 2016			
(In thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range**
Investment securities available for sale:				
Private label MBS	$ 20,693	Discounted cash flows	Discount rate	14.1%
			Prepayment rate	6.5% -22.5% (Weighted Average 13.8%)
			Projected Cumulative Loss Rate	0.2% - 8.6% (Weighted Average 4%)
Puerto Rico government obligations	2,121	Discounted cash flows	Prepayment rate	3.00%

Information about Sensitivity to Changes in Significant Unobservable Inputs

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

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

The table below summarizes changes in unrealized gains and losses recorded in earnings for the years ended December 31, 2016, 2015, and 2014 for Level 3 assets and liabilities that are still held at the end of each year:

Level 3 Instruments Only	**Changes in Unrealized Losses (Year Ended December 31, 2016) Securities Available for Sale**	**Changes in Unrealized Losses (Year Ended December 31, 2015) Securities Available for Sale**	**Changes in Unrealized Losses (Year Ended December 31, 2014) Securities Available for Sale**
(In thousands)			
Changes in unrealized losses relating to assets still held at reporting date:			
Net impairment losses on available-for-sale investment securities (credit component)	$ (387)	$ (628)	$ (388)

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of December 31, 2016, impairment or valuation adjustments were recorded for assets recognized at fair value on a non-recurring basis as shown in the following table:

	Carrying value as of December 31, 2016			(Losses) recorded for the Year Ended December 31, 2016
(In thousands)	**Level 1**	**Level 2**	**Level 3**	
Loans receivable (1)	$ -	$ -	$ 442,081	$ (49,884)
OREO (2)	-	-	137,681	(7,873)
Mortgage servicing rights (3)	-	-	26,244	(325)

(1) Consists mainly of impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral. The fair value was derived from external appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g., absorption rates), which are not market observable.

(2) The fair value was derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g., absorption rates and net operating income of income producing properties) that are not market observable. Losses were related to market valuation adjustments after the transfer of the loans to the OREO portfolio.

(3) Fair value adjustments to mortgage servicing rights were mainly due to assumptions associated with mortgage prepayment rates. The Corporation carries its mortgage servicing rights at the lower of cost or market, measured at fair value on a non-recurring basis. Assumptions for the value of mortgage servicing rights include: Prepayment rate 6.12%, Discount rate 11.19%.

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

	Carrying value as of December 31, 2015			(Losses) Gain recorded for the Year Ended December 31, 2015
(In thousands)	**Level 1**	**Level 2**	**Level 3**	

Loans receivable (1)	$	-	$	-	$	303,095	$	(27,245)
OREO (2)		-		-		146,801		(10,494)
Mortgage servicing rights (3)		-		-		24,282		(228)
Loans Held For Sale (4)		-		-		8,135		338

(1)Consists mainly of impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral. The fair value was derived from external appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g., absorption rates), which are not market observable.

(2) The fair value was derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g., absorption rates and net operating income of income producing properties) that are not market observable. Losses were related to market valuation adjustments after the transfer of the loans to the OREO portfolio.

(3) Fair value adjustments to the mortgage servicing rights were mainly due to assumptions associated with mortgage prepayments rates. The Corporation carries its mortgage servicing rights at the lower of cost or market, measured at fair value on a non-recurring basis. Assumptions for the value of mortgage servicing rights include: Prepayment rate 9.07%, Discount rate 10.65%.

(4) The value of these loans was derived from external appraisals, adjusted for specific characteristics of the loans.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

As of December 31, 2014, impairment or valuation adjustments were recorded for assets recognized at fair value on a nonrecurring basis as shown in the following table:

	Carrying value as of December 31, 2014			(Losses) recorded for the Year Ended December 31, 2014
	Level 1	Level 2	Level 3	
(In thousands)				
Loans receivable (1)	$ -	$ -	$ 446,816	$ (43,318)
OREO (2)	-	-	124,003	(9,656)
Mortgage servicing rights (3)	-	-	22,838	(228)
Loans Held For Sale (4)	-	-	54,641	-

(1)Consists mainly of impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral. The fair value was derived from external appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g., absorption rates), which are not market observable.

(2)The fair value was derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g., absorption rates and net operating income of income producing properties) that are not market observable. Losses were related to market valuation adjustments after the transfer of the loans to the OREO portfolio.

(3)Fair value adjustments to the mortgage servicing rights were mainly due to assumptions associated with mortgage prepayments rates. The Corporation carries its mortgage servicing rights at the lower of cost or market, measured at fair value on a non-recurring basis. Assumptions for the value of mortgage servicing rights include: Prepayment rate 9.74%, Discount rate 10.60%.

(4)The value of these loans was derived from external appraisals, adjusted for specific characteristics of the loans.

Qualitative information regarding the fair value measurements for Level 3 financial instruments are as follows:

	December 31, 2016	
	Method	**Inputs**
Loans	Income, Market, Comparable Sales, Discounted Cash Flows	External appraised values; probability weighting of broker price opinions; management assumptions regarding market trends or other relevant factors
OREO	Income, Market, Comparable Sales, Discounted Cash Flows	External appraised values; probability weighting of broker price opinions; management assumptions regarding market trends or other relevant factors
Mortgage servicing rights	Discounted Cash Flows	Weighted-average prepayment rate of 6.12%; weighted average discount rate of 11.19%

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Cash and due from banks and money market investments

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

Investment securities held to maturity

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

Other equity securities

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

Loans receivable, including loans held for sale

The fair value of loans held for investment and of mortgage loans held for sale was estimated using discounted cash flow analyses, based on interest rates currently being offered for loans with similar terms and credit quality and with adjustments that the Corporation's management believes a market participant would consider in determining fair value. Loans were classified by type, such as commercial, residential mortgage, and automobile. These asset categories were further segmented into fixed-and adjustable-rate categories. Valuations are carried out based on categories and not on a loan-by-loan basis. The fair values of performing fixed-rate and adjustable-rate loans were calculated by discounting expected cash flows through the estimated maturity date. This fair value is not currently an indication of an exit price as that type of assumption could result in a different fair value estimate. The fair value of credit card loans was estimated using a discounted cash flow method and excludes any value related to a customer account relationship. Other loans with no stated maturity, like credit lines, were valued at book value. Prepayment assumptions were considered for non-residential loans. For residential mortgage loans, prepayment estimates were based on a prepayment model that combined both a historical calibration and current market prepayment expectations. Discount rates were based on the U.S. Treasury and LIBOR/Swap Yield Curves at the date of the analysis, and included appropriate adjustments for expected credit losses and liquidity. For impaired collateral dependent loans, the impairment was primarily measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observable transactions involving similar assets in similar locations.

Deposits

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

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

The fair value of brokered CDs, which are included within deposits, is determined using discounted cash flow analyses over the full term of the CDs. The fair value of the CDs is computed using the outstanding principal amount. The discount rates used were based on

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

brokered CD market rates as of the end of the year. The fair value does not incorporate the risk of nonperformance, since interests in brokered CDs are generally sold by brokers in amounts of less than $250,000 and, therefore, are insured by the FDIC.

Securities sold under agreements to repurchase

Some repurchase agreements reprice at least quarterly, and their outstanding balances are estimated to be their fair value. Where longer commitments are involved, fair value is estimated using exit price indications of the cost of unwinding the transactions as of the end of the reporting period. The brokers who are the counterparties provide these indications, which the Corporation evaluates. Securities sold under agreements to repurchase are fully collateralized by investment securities.

Advances from FHLB

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

Other borrowings

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

The following tables present the carrying value and the estimated fair value of financial instruments as of December 31, 2016 and 2015:

	Total Carrying Amount in	Fair Value Estimate	Level 1	Level 2	Level 3

Statement of Financial Condition December 31, 2016	December 31, 2016

(In thousands)