FIRST BANCORP /PR/
Form 10-Q
August 10, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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

For the transition period from ____________________ to ____________________

COMMISSION FILE NUMBER 001-14793

First BanCorp.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

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

Yesþ No ¨

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

Yesþ No ¨

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

Large accelerated filer ¨ Accelerated filer

þ

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

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

Yes ¨ No þ

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

Common stock: 214,721,826 shares outstanding as of July 31, 2015.

FIRST BANCORP.

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Forward Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the safe harbor created by such sections. When used in this Form 10-Q or future filings by First BanCorp. (the “Corporation”) with the U.S. Securities and Exchange Commission (“SEC”), in the Corporation’s press releases or in other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the word or phrases “would be,” “will allow,” “intends to,” “will likely result,” “ar expected to,” “should,” “anticipate” and similar statements of a future or forward-looking nature that reflect our current views with respect to future events and financial 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 various factors, including but not limited to the following, could cause actual results to differ materially from those expressed in, or implied by, such “forward-looking statements”:

- uncertainty about whether the Corporation will be able to continue to fully comply with the written agreement dated June 3, 2010 (the “Written Agreement”) that the Corporation entered into with the Federal Reserve Bank of New York (the “New York FED” or “Federal Reserve”) that, among other things, requires the Corporation to serve as a source of strength to FirstBank Puerto Rico (“FirstBank” or “the Bank”) and that, except with the consent generally of the New York FED and the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”), prohibits the Corporation from paying dividends to stockholders or receiving dividends from FirstBank, making payments on trust preferred securities or subordinated debt and incurring, increasing or guaranteeing debt or repurchasing any capital securities.

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

- a decrease in demand for the Corporation’s products and services and lower revenues and earnings because of the continued recession in Puerto Rico, the current fiscal problems of the Puerto Rico government, the payment default by a government public corporation and recent credit downgrades of the Puerto Rico government’s debt;

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

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

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

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

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

- additional 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 has 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 once again 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 is determined to be other-than-temporary, including additional impairments on the Puerto Rico government's obligations;

- uncertainty about regulatory and legislative changes for financial services companies in Puerto Rico, the U.S., the USVI and the BVI, which could affect the Corporation's financial condition or performance and could cause the Corporation's actual results for future periods to differ materially from prior results and anticipated or projected results;

- changes in the fiscal and monetary policies and regulations of the U.S. federal government and the Puerto Rico and other governments, including those determined by the Federal Reserve Board, the New York FED, the Federal Deposit Insurance Corporation ("FDIC"), government-sponsored housing agencies, and regulators in Puerto Rico, the USVI and the BVI;

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

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

- the impact on the Corporation’s results of operations and financial condition of acquisitions and dispositions, including the acquisition of loans and branches of Doral Bank as well as the assumption of deposits at the branches during the first quarter of 2015;

- a need to recognize impairments on 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 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) on the Corporation’s businesses, business practices and cost of operations; 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 the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2014, as well as “Part II, Item 1A, Risk Factors” in this quarterly report on Form 10-Q, for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	June 30, 2015			December 31, 2014	
	(In thousands, except for share information)				
ASSETS					
Cash and due from banks	$	462,934		$	779,147
Money market investments:					
Time deposits with other financial institutions		3,000			300
Other short-term investments		216,469			16,661
Total money market investments		219,469			16,961
Investment securities available for sale, at fair value:					
Securities pledged that can be repledged		798,148			1,025,966
Other investment securities		1,167,535			939,700
Total investment securities available for sale		1,965,683			1,965,666
Other equity securities		26,152			25,752
Loans, net of allowance for loan and lease losses of $221,518					
(2014 - $222,395)		8,996,157			9,040,041
Loans held for sale, at lower of cost or market		80,026			76,956
Total loans, net		9,076,183			9,116,997
Premises and equipment, net		164,643			166,926
Other real estate owned		122,129			124,003
Accrued interest receivable on loans and investments		50,191			50,796
Other assets		491,429			481,587
Total assets	$	12,578,813		$	12,727,835
LIABILITIES					
Non-interest-bearing deposits	$	1,271,464		$	900,616
Interest-bearing deposits		8,233,112			8,583,329
Total deposits		9,504,576			9,483,945
Securities sold under agreements to repurchase		700,000			900,000
Advances from the Federal Home Loan Bank (FHLB)		325,000			325,000
Other borrowings		226,492			231,959
Accounts payable and other liabilities		154,525			115,188
Total liabilities		10,910,593			11,056,092
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, 215,552,377 shares (2014 - 213,724,749 shares issued)		21,555			21,372
Less: Treasury stock (at par value)		(86)			(74)
Common stock outstanding, 214,694,470 shares outstanding (2014 - 212,984,700					
shares outstanding)		21,469			21,298
Additional paid-in capital		923,829			916,067
Retained earnings, includes legal surplus reserve of $40.0 million		708,197			716,625
Accumulated other comprehensive loss, net of tax of $7,752		(21,379)			(18,351)
Total stockholders' equity		1,668,220			1,671,743
Total liabilities and stockholders' equity	$	12,578,813		$	12,727,835
The accompanying notes are an integral part of these statements.					

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF (LOSS) INCOME

(Unaudited)

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2015	**2014**	**2015**	**2014**
(In thousands, except per share information)				
Interest and dividend income:				
Loans	$ 139,880	$ 144,241	$ 279,224	$ 289,084
Investment securities	11,242	13,728	23,846	28,956
Money market investments	510	454	1,047	954
Total interest income	151,632	158,423	304,117	318,994
Interest expense:				
Deposits	16,980	19,466	34,674	39,765
Securities sold under agreements to repurchase	5,388	6,430	11,781	12,798
Advances from FHLB	944	833	1,878	1,657
Notes payable and other borrowings	1,843	1,787	3,660	3,547
Total interest expense	25,155	28,516	51,993	57,767
Net interest income	126,477	129,907	252,124	261,227
Provision for loan and lease losses	74,266	26,744	107,236	58,659
Net interest income after provision for loan and lease losses	52,211	103,163	144,888	202,568
Non-interest income:				
Service charges on deposit accounts	5,219	4,222	9,774	8,349
Mortgage banking activities	4,763	3,036	8,381	6,404
Net gain on sale of investments	-	291	-	291
Other-than-temporary impairment losses on available-for-sale debt securities:				
Total other-than-temporary impairment losses	(29,521)	-	(29,521)	-
Noncredit-related impairment portion on debt securities not expected to be sold				
(recognized in other comprehensive income)	16,424	-	16,268	-
Net impairment losses on available-for-sale debt securities	(13,097)	-	(13,253)	-

Equity in loss of unconsolidated entity		-		(670)		-		(7,280)
Insurance commission income		1,522		1,467		4,544		4,038
Bargain purchase gain		-		-		13,443		-
Other non-interest income		8,263		7,585		16,510		15,479
Total non-interest income		6,670		15,931		39,399		27,281
Non-interest expenses:								
Employees' compensation and benefits		37,945		34,793		73,599		67,691
Occupancy and equipment		15,059		14,482		29,408		28,800
Business promotion		3,934		4,142		6,802		8,115
Professional fees		19,005		11,955		34,223		22,448
Taxes, other than income taxes		3,131		4,504		6,132		9,079
Insurance and supervisory fees		6,796		10,784		13,656		21,774
Net loss on other real estate owned (OREO) and OREO operations		4,874		6,778		7,502		12,615
Credit and debit card processing expenses		3,945		3,882		7,902		7,706
Communications		2,045		1,894		3,653		3,773
Other non-interest expenses		6,065		4,931		11,650		8,929
Total non-interest expenses		102,799		98,145		194,527		190,930
(Loss) income before income taxes		(43,918)		20,949		(10,240)		38,919
Income tax benefit (expense)		9,844		276		1,812		(611)
Net (loss) income	$	(34,074)	$	21,225	$	(8,428)	$	38,308
Net (loss) income attributable to common stockholders	$	(34,074)	$	22,505	$	(8,428)	$	39,967
Net (loss) earnings per common share:								
Basic	$	(0.16)	$	0.11	$	(0.04)	$	0.19
Diluted	$	(0.16)	$	0.11	$	(0.04)	$	0.19
Dividends declared per common share	$	-	$	-	$	-	$	-

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

	Quarter Ended		Six-Month Period Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
(In thousands)				
Net (loss) income	$ (34,074)	$ 21,225	$ (8,428)	$ 38,308
Available-for-sale debt securities on which an other-than-temporary impairment has been recognized:				
Subsequent unrealized gain on debt securities on which an other-than-temporary impairment has been recognized	683	274	1,372	1,187
Reclassification adjustment for other-than-temporary impairment on debt securities included in net income	13,097	-	13,253	-
All other unrealized holding (losses) gains arising during the period	(23,948)	27,807	(17,653)	49,433
Reclassification adjustments for net gain included in net income	-	(291)	-	(291)
Other comprehensive (loss) income for the period, net of tax	(10,168)	27,790	(3,028)	50,329
Total comprehensive (loss) income	$ (44,242)	$ 49,015	$ (11,456)	$ 88,637

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six-Month Period Ended				
	June 30, 2015			June 30, 2014	
(In thousands)					
Cash flows from operating activities:					
Net (loss) income	$	(8,428)		$	38,308
Adjustments to reconcile net (loss) income to net cash provided by operating activities:					
Depreciation		10,561			10,574
Amortization of intangible assets		2,491			2,488
Provision for loan and lease losses		107,236			58,659
Deferred income tax expense (benefit)		2,683			(1,352)
Stock-based compensation		3,043			1,960
Gain on sales of investments, net		-			(291)
Bargain purchase gain		(13,443)			-
Other-than-temporary impairments on debt securities		13,253			-
Equity in loss of unconsolidated entity		-			7,280
Unrealized gain on derivative instruments		(182)			(173)
Gain on sales of premises and equipment and other assets		(178)			(32)
Net gain on sales of loans		(3,157)			(3,868)
Net amortization/accretion of premiums, discounts and deferred loan fees and costs		(2,217)			(1,564)
Originations and purchases of loans held for sale		(213,586)			(141,099)
Sales and repayments of loans held for sale		210,394			157,964
Amortization of broker placement fees		2,504			3,501
Net amortization/accretion of premium and discounts on investment securities		3,803			869
(Increase) decrease in accrued income tax payable		(5,937)			5,013
Decrease in accrued interest receivable		313			1,920
Increase in accrued interest payable		1,737			2,449
Decrease in other assets		5,310			12,480
Increase (decrease) in other liabilities		16,523			(4,940)
Net cash provided by operating activities		132,723			150,146
Cash flows from investing activities:					
Principal collected on loans		1,563,662			1,619,024
Loans originated and purchased		(1,442,407)			(1,582,527)
Proceeds from sales of loans held for investment		107,702			16,558

Proceeds from sales of repossessed assets		33,720		35,344
Proceeds from sales of available-for-sale securities		-		4,855
Purchases of available-for-sale securities		(158,932)		(88,493)
Proceeds from principal repayments and maturities of available-for-sale securities		141,226		114,277
Additions to premises and equipment		(6,161)		(13,689)
Proceeds from sale of premises and equipment and other assets		2,511		37
Net cash received from acquisition		217,659		-
Net purchases of other equity securities		(400)		(450)
Net cash provided by investing activities		458,580		104,936
Cash flows from financing activities:				
Net decrease in deposits		(504,270)		(252,637)
Change in securities sold under agreements to repurchase		(200,000)		-
Net FHLB advances proceeds		-		20,000
Repurchase of outstanding common stock		(738)		(392)
Issuance costs of common stock issued in exchange for preferred stock Series A through E		-		(62)
Net cash used in financing activities		(705,008)		(233,091)
Net (decrease) increase in cash and cash equivalents		(113,705)		21,991
Cash and cash equivalents at beginning of period		796,108		655,671
Cash and cash equivalents at end of period	$	682,403	$	677,662
Cash and cash equivalents include:				
Cash and due from banks	$	462,934	$	660,709
Money market instruments		219,469		16,953
	$	682,403	$	677,662
The accompanying notes are an integral part of these statements.				

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Six-Month Period Ended		
	June 30, 2015		June 30, 2014
(In thousands)			
Preferred Stock:			
Balance at beginning of period	$ 36,104		$ 63,047
Exchange of preferred stock- Series A through E	-		(26,943)
Balance at end of period	36,104		36,104
Common Stock outstanding:			
Balance at beginning of period	21,298		20,707
Common stock issued as compensation	17		15
Common stock withheld for taxes	(12)		(7)
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	83		102
Restricted stock forfeited	(2)		-
Balance at end of period	21,469		21,276
Additional Paid-In-Capital:			
Balance at beginning of period	916,067		888,161
Stock-based compensation	3,043		1,960
Common stock withheld for taxes	(726)		(385)
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	(83)		(102)
Common stock issued as compensation	(17)		(15)
Restricted stock forfeited	2		-
Balance at end of period	923,829		914,382
Retained Earnings:			

Balance at beginning of period		716,625			322,679
Net (loss) income		(8,428)			38,308
Excess of carrying amount of Series A though E preferred stock exchanged over fair value of new					
shares of common stock		-			1,659
Balance at end of period		708,197			362,646
Accumulated Other Comprehensive Income (Loss), net of tax:					
Balance at beginning of period		(18,351)			(78,736)
Other comprehensive (loss) income, net of tax		(3,028)			50,329
Balance at end of period		(21,379)			(28,407)
Total stockholders' equity	$	1,668,220		$	1,306,001
The accompanying notes are an integral part of these statements.					

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements (unaudited) of First BanCorp. ("the Corporation") have been prepared in conformity with the accounting policies stated in the Corporation's Audited Consolidated Financial Statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014. Certain information and note disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted from these statements pursuant to the rules and regulations of the SEC and, accordingly, these financial statements should be read in conjunction with the Audited Consolidated Financial Statements of the Corporation for the year ended December 31, 2014, which are included in the Corporation's 2014 Annual Report on Form 10-K. All adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the statement of financial position, results of operations and cash flows for the interim periods have been reflected. All significant intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the quarter and six-month period ended June 30, 2015 are not necessarily indicative of the results to be expected for the entire year.

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

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

In January 2014, the FASB updated the Accounting Standards Codification (the "Codification") to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan so that the loan should be derecognized and the real estate property recognized in the financial statements. The Update clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. In addition, creditors are required to disclose on an annual and interim basis both (i) the amount of the foreclosed residential real estate property held and (ii) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments are effective for public business entities for annual periods beginning after December 15, 2014, and interim periods within those fiscal years. Early adoption is permitted. The guidance can be implemented using either a modified retrospective transition method or a prospective transition method. The Corporation adopted the provisions of this guidance on a prospective basis during the first quarter of 2015 without any material impact on the Corporation's financial statements. Refer to Notes 7 and 10 for required disclosures.

In May 2014, the FASB updated the Codification 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 U.S. 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 entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. The new framework is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those reporting periods, as a result of the FASB's recent amendment to the standard to defer the effective date by one year. Early adoption is permitted for interim periods beginning after December 15, 2016. The Corporation is currently evaluating the impact that the adoption of this guidance will have on the presentation and disclosures in its financial statements.

In June 2014, the FASB updated the Codification to respond to stakeholders' concerns about current accounting and disclosures for repurchase agreements and similar transactions. This Update requires two accounting changes. First, the Update changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the Update requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. Additionally, the Update introduces new disclosures to (i) increase transparency about the types of collateral pledged in secured borrowing transactions and (ii) enable users to better understand transactions in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. For public business entities, the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. All other accounting and disclosure amendments in the Update are effective for public business entities for the first interim or annual period beginning after December 15, 2014. The adoption of this guidance did not have a material effect on the Corporation's financial statements.

In June 2014, the FASB updated the Codification to provide guidance for determining compensation cost under specific circumstances when an employee's compensation award is eligible to vest regardless of whether the employee is rendering service on the date the performance target is achieved. This Update becomes effective for annual and interim periods beginning after December 15, 2015 with early adoption permitted. The Corporation is currently evaluating the impact that the adoption of this guidance will have on the presentation and disclosures in its financial statements, if any.

In August 2014, the FASB updated the Codification to reduce the diversity found in the classification of certain foreclosed mortgage loans held by creditors that are either fully or partially guaranteed under government programs. Consistency in classification upon foreclosure is expected in order to provide more decision-useful information. The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if: (i) the loan has a government guarantee that is not separable from the loan before foreclosure; (ii) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under the claim, and (iii) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The Update is effective for public business entities for annual periods, and interim periods within those annual periods beginning after December 15, 2014. The guidance can be implemented using either a prospective transition method or a modified retrospective transition method. The Corporation adopted the provisions of this guidance on a prospective basis during the first quarter of 2015 without any material impact on the Corporation's financial statements.

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

In November 2014, the FASB updated the Codification to clarify how current GAAP should be interpreted in evaluating the economic characteristics and risk of a host contract in a hybrid financial instrument that is issued in the form of a share. In addition, the Update was issued to clarify that, in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (that is, the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. The effects of initially adopting this Update should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective. Retrospective application is permitted to all relevant prior periods. This Update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption in an interim period is permitted. The Corporation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements, if any.

In January 2015, the FASB updated the Codification to eliminate from GAAP the concept of extraordinary items as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). Under current GAAP, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. In order to be classified as an extraordinary item, the event or transaction must be: (i) unusual in nature, and (ii) infrequent in occurrence. Before the update was issued, an entity was required to segregate these items from the results of ordinary operations and show the items separately in the income statement, net of tax, after income from continuing operations. This Update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption in an interim period is permitted. The Corporation expects the adoption of this guidance will have no impact on the Corporation's consolidated financial statements.

In February 2015, the FASB updated the Codification to eliminate the deferral of FAS 167, which has allowed reporting entities with interests in certain investment funds to follow the previous consolidation guidance in FIN 46(R), and to make other changes to both the variable interest model and the voting model. While the Update is aimed at asset managers, it will affect all reporting entities involved with limited partnerships or similar entities. In some cases, consolidation conclusions will change. In other cases, reporting entities will need to provide additional disclosure about entities that currently are not considered VIEs but will be considered VIEs under the new guidance when they have a variable interest in those VIEs. Regardless of whether conclusions change or additional disclosure requirements are triggered, reporting entities will need to re-evaluate limited partnerships or similar entities for consolidation and revise their documentation. For public business entities, the Update is effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. A reporting entity must apply the amendments retrospectively. The Corporation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements, if any.

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

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

NOTE 2 – BUSINESS COMBINATION

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

Under the FDIC’s bidding format, Popular was the lead bidder and party to the purchase and assumption agreement with the FDIC covering all assets and deposits to be acquired by Popular and its alliance co-bidders. Popular entered into back to back purchase assumption agreements with the alliance co-bidders, including FirstBank, for the transferred assets and deposits. There is no loss-share arrangement with the FDIC related to the acquired assets.

The Corporation accounted for this transaction as a business combination. The following table identifies the fair value of assets acquired and liabilities assumed from Doral Bank on February 27, 2015:

	Asset/Liabilities (at Fair Value)		
	(In thousands)		
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	

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 (loss) income for the six-month period ended June 30, 2015, and a core deposit intangible of $5.8 million. 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 and is influenced significantly by the FDIC-assisted transaction process.

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

Cash and due from banks – 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, assets discount bid and other customary closing adjustments.

Loans – 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 are non-credit impaired purchased loans, which have been 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 will recognize interest income through accretion of the difference between the fair value of the loans and the expected cash flows.

Core deposit intangible – 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, 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. The 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 current 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 may 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. Any retrospective adjustments to acquisition date fair values will affect the bargain purchase gain recognized. During the first half of 2015, the Corporation incurred $11.2 million of expenses related to loan and deposit accounts acquired from Doral, of which $4.6 million represents acquisition and conversion costs that are considered non-recurring in nature and $3.6 million represents 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 (loss).

The Corporation's operating results for the six-month period ended June 30, 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 – EARNINGS PER COMMON SHARE

The calculations of earnings (losses) per common share for the quarters and six-month periods ended June 30, 2015 and 2014 are as follows:

	Quarter Ended June 30,				Six-Month Period Ended June 30,			
	2015		2014		2015		2014	
	(In thousands, except per share information)							
Net (loss) income	$	(34,074)	$	21,225	$	(8,428)	$	38,308
Favorable impact from issuing common stock in								
exchange for Series A through E preferred stock (1)		-		1,280		-		1,659
Net (loss) income attributable to common stockholders	$	(34,074)	$	22,505	$	(8,428)	$	39,967
Weighted-Average Shares:								
Average common shares outstanding		211,247		208,202		210,968		206,974
Average potential dilutive common shares		-		1,942		-		1,543
Average common shares outstanding- assuming dilution		211,247		210,144		210,968		208,517
(Loss) earnings per common share:								
Basic	$	(0.16)	$	0.11	$	(0.04)	$	0.19
Diluted	$	(0.16)	$	0.11	$	(0.04)	$	0.19

(1) Excess of carrying amount of the Series A through E preferred stock exchanged over the fair value of new common shares issued in the second quarter and first half of 2014.

Earnings (loss) per common share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares issued and outstanding. Net income (loss) attributable to common stockholders represents net income (loss) 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 the quarter and six-month period ended June 30, 2014, net income attributable to common stockholders includes the one-time effect on retained earnings of the issuance of common stock in exchange for Series A through E preferred stock. These transactions are discussed in Note 19 to the unaudited consolidated financial statements. Basic weighted average common shares outstanding excludes 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 is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Stock options, unvested shares of restricted stock, and outstanding warrants that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect on earnings per share. Stock options not included in the computation of outstanding shares because they were antidilutive amounted to 69,848 and 82,575 for the quarters and six-month periods ended June 30, 2015 and 2014, respectively. Warrants outstanding to purchase 1,285,899 shares of common stock and 2,939,794 unvested shares of restricted stock were excluded from the computation of diluted earnings per share for the quarter and six-month period ended June 30, 2015 because the Corporation reported a net loss attributable to common stockholders for the periods and their inclusion would have an antidilutive effect.

NOTE 4 – STOCK-BASED COMPENSATION

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

The activity of stock options granted under the 1997 stock option plan for the six-month period ended June 30, 2015 is set forth below:

	Number of Options			Weighted-Average Exercise Price		Weighted-Average Remaining Contractual Term (Years)			Aggregate Intrinsic Value (In thousands)
Beginning of period outstanding and exercisable	82,575		$	187.75					
Options expired	(11,395)			358.80					
Options cancelled	(1,332)			164.10					
End of period outstanding and exercisable	69,848		$	160.30		1.1		$	-

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

Under the Omnibus Plan, during the first half of 2015, 30,068 shares of restricted stock were awarded to one of the Corporation’s independent directors subject to vesting periods that range from 1 to 5 years. In addition, during the first half of 2015, the Corporation issued 793,964 shares of restricted stock that will vest based on the employees’ continued service with the Corporation. For 40,000 of the 793,964 shares awarded to employees, the requisite service period was three months and already vested in 2015. For the remaining 753,964 shares granted to employees, fifty percent (50%) of those shares vest in two years from the grant date and the remaining 50% vest in three years from the grant date.

Included in those 753,964 shares of restricted stock are 615,464 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. Department of Treasury (the "U. S. Treasury"). Hence, notwithstanding the vesting period mentioned above, the employees covered by TARP restrictions are restricted from transferring the shares. The U.S. Treasury confirmed that, effective March 2014, it has recovered more than a 25% of its investment in First BanCorp. Therefore, the restriction on transfer relating to 25% of the shares granted under TARP requirements was released.

The fair value of the shares of restricted stock granted in 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 to account for 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 Treasury would hold the common stock of the Corporation that it currently owns for a period not to exceed one year, resulting in a fair value of $3.18 for restricted shares granted under the TARP requirements. Also, the Corporation uses empirical data to estimate employee termination; 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 2015 under the Omnibus Plan for both executive officers covered by the TARP requirements and other employees as well as for independent directors:

	Six-Month Period Ended June 30, 2015		
	Number of shares of restricted stock		**Weighted-Average Grant Date Fair Value**
Non-vested shares at beginning of year	2,327,156	$	3.39
Granted	824,032		3.93
Forfeited	(17,500)		5.48
Vested	(193,894)		5.07
Non-vested shares at June 30, 2015	2,939,794	$	3.42

For the quarter and six-month period ended June 30, 2015, the Corporation recognized $1.0 million and $2.0 million, respectively, of stock-based compensation expense related to restricted stock awards, compared to $0.8 million and $1.2 million for the same periods in 2014. As of June 30, 2015, there was $5.1 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 2.2 years.

During the second quarter of 2014, the Corporation awarded to its independent directors 210,840 shares of restricted stock that vest ratably over a 5-year period. In addition, during the first half of 2014, the Corporation issued 810,138 shares of restricted stock that will vest based on the employees' continued service with the Corporation. Fifty percent (50%) of those shares vest in two years from the grant date and the remaining 50% vest in three years from the grant date. Included in those 810,138 shares of restricted stock are 653,138 shares granted to certain senior officers consistent with the requirements of TARP. The employees covered by TARP are restricted from transferring the shares, subject to certain conditions as explained above.

The fair value of the shares of restricted stock granted in the first six months of 2014 was based on the market price of the Corporation's outstanding common stock on the date of the grant. For the 653,138 shares of restricted stock granted under the TARP requirements, the market price was discounted due to postvesting restrictions. For purposes of computing the discount, the Corporation estimated an appreciation of 16% 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 an additional two years, resulting in a fair value of $2.63 for restricted shares granted under the TARP requirements.

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

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, then 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. Approximately $36 thousand and $5 thousand of compensation expense was reversed during the first half of 2015 and 2014, respectively, related to forfeited awards.

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

For the first half of 2015, the Corporation withheld 56,486 shares from the common stock paid to certain senior officers as additional compensation and 61,372 shares of restricted stock that vested during the first quarter of 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 5 – INVESTMENT SECURITIES

Investment Securities Available for Sale

The amortized cost, non-credit loss component of other-than-temporary impairment ("OTTI") recorded in other comprehensive income ("OCI"), gross unrealized gains and losses recorded in OCI, approximate fair value, and weighted average yield of investment securities available for sale by contractual maturities as of June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015					
			Gross Unrealized			
	Amortized cost	Noncredit Loss Component of OTTI Recorded in OCI	gains	losses	Fair value	Weighted average yield%
	(Dollars in thousands)					
U.S. Treasury securities:						
After 1 to 5 years	7,542	-	-	4	7,538	0.57
Obligations of U.S.						
government-sponsored						
agencies:						
After 1 to 5 years	296,226	-	333	2,152	294,407	1.31
After 5 to 10 years	119,563	-	108	1,647	118,024	1.93
Puerto Rico government						
obligations:						
After 1 to 5 years	28,488	11,245	-	-	17,243	4.49
After 5 to 10 years	865	-	-	-	865	5.20

After 10 years	23,343	5,420	24	1,478	16,469	5.36
United States and Puerto Rico						
government obligations	476,027	16,665	465	5,281	454,546	1.85
Mortgage-backed securities:						
FHLMC certificates:						
After 1 to 5 years	397	-	40	-	437	4.95
After 10 years	311,364	-	1,781	2,019	311,126	2.15
	311,761	-	1,821	2,019	311,563	2.16
GNMA certificates:						
Due within one year	14	-	-	-	14	3.36
After 1 to 5 years	138	-	8	-	146	4.23
After 5 to 10 years	72,606	-	3,074	-	75,680	3.56
After 10 years	248,554	-	16,106	26	264,634	3.90
	321,312	-	19,188	26	340,474	3.82
FNMA certificates:						
After 1 to 5 years	3,285	-	110	-	3,395	3.37
After 5 to 10 years	21,804	-	480	270	22,014	2.74
After 10 years	805,202	-	6,929	8,050	804,081	2.33
	830,291	-	7,519	8,320	829,490	2.35
Other mortgage pass-through						
trust certificates:						
Over 5 to 10 years	104	-	-	-	104	7.26
After 10 years	39,778	10,372	-	-	29,406	2.18
	39,882	10,372	-	-	29,510	2.18
Total mortgage-backed						
securities	1,503,246	10,372	28,528	10,365	1,511,037	2.62

Other										
After 1 to 5 years		100		-		-		-		100	1.50
Total investment securities										
available for sale	$	1,979,373	$	27,037	$	28,993	$	15,646	$	1,965,683	2.43

	December 31, 2014				
		Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized			
	Amortized cost		gains	losses	Fair value	Weighted average yield%
U.S. Treasury securities:						
Due within one year	$ 7,498	$ -	$ 1	$ -	$ 7,499	0.11
Obligations of U.S.						
government-sponsored						
agencies:						
After 1 to 5 years	260,889	-	42	4,219	256,712	1.22
After 5 to 10 years	78,234	-	246	2,077	76,403	1.72
Puerto Rico government						
obligations:						
After 1 to 5 years	39,827	-	-	12,419	27,408	4.49
After 5 to 10 years	886	-	1	-	887	5.20
After 10 years	20,498	-	-	5,571	14,927	5.83
United States and Puerto Rico						
government obligations	407,832	-	290	24,286	383,836	1.86
Mortgage-backed securities:						
FHLMC certificates:						
After 10 years	315,311	-	1,743	1,260	315,794	2.17

GNMA certificates:						
After 1 to 5 years	39	-	1	-	40	3.26
After 5 to 10 years	17,108	-	501	-	17,609	3.65
After 10 years	338,842	-	20,957	-	359,799	3.83
	355,989	-	21,459	-	377,448	3.83
FNMA certificates:						
After 1 to 5 years	4,160	-	181	-	4,341	3.40
After 5 to 10 years	9,584	-	521	5	10,100	3.49
After 10 years	837,597	-	7,756	4,854	840,499	2.36
	851,341	-	8,458	4,859	854,940	2.37
Other mortgage pass-through						
trust certificates:						
Over 5 to 10 years	111	-	1	-	112	7.27
After 10 years	45,677	12,141	-	-	33,536	2.17
	45,788	12,141	1	-	33,648	2.17
Total mortgage-backed						
securities	1,568,429	12,141	31,661	6,119	1,581,830	2.66
Total investment securities						
available for sale	$ 1,976,261	$ 12,141	$ 31,951	$ 30,405	$ 1,965,666	2.49

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

The following tables show the Corporation's available-for-sale investments' fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2015 and December 31, 2014. 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. Unrealized losses for which OTTI had been recognized have been reduced by any subsequent recoveries in fair value.

	As of June 30, 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	$ -	$ -	$ 29,434	$ 18,143	$ 29,434	$ 18,143
U.S. Treasury and U.S. government agencies obligations	56,971	191	210,580	3,612	267,551	3,803
Mortgage-backed securities:						
FNMA	429,411	6,503	95,932	1,817	525,343	8,320
FHLMC	153,197	1,700	20,561	319	173,758	2,019
GNMA	1,052	26	-	-	1,052	26
Other mortgage pass-through trust certificates	-	-	29,406	10,372	29,406	10,372
	$ 640,631	$ 8,420	$ 385,913	$ 34,263	$ 1,026,544	$ 42,683

	As of December 31, 2014					
	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	$ -	$ -	$ 42,335	$ 17,990	$ 42,335	$ 17,990
U.S. government agencies obligations	46,436	74	257,996	6,222	304,432	6,296
Mortgage-backed securities:						
FNMA	2,038	5	541,642	4,854	543,680	4,859
FHLMC	-	-	135,277	1,260	135,277	1,260

Other mortgage pass-through trust						
certificates	-	-	33,536	12,141	33,536	12,141
	$ 48,474	$ 79	$ 1,010,786	$ 42,467	$ 1,059,260	$ 42,546

Assessment for 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 debt security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. The accounting literature requires the Corporation to assess whether the unrealized loss is other than temporary.

OTTI losses must be recognized in earnings if an investor 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 an investor 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 a component of net impairment losses on investment securities in the accompanying consolidated statements of income (loss), while the remaining portion of the impairment loss is recognized in OCI, 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.

Debt securities issued by U.S. government agencies, government-sponsored entities and the Treasury accounted for approximately 97% of the total available-for-sale portfolio as of June 30, 2015 and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government. The Corporation’s assessment for OTTI was concentrated mainly on Puerto Rico Government debt securities, with an amortized cost of $52.7 million, and on private label mortgage-backed securities (“MBS”) with an amortized cost of $39.8 million for which credit losses are evaluated on a quarterly basis. The Corporation considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

- The length of time and the extent to which the fair value has been less than the amortized cost basis;
- Any adverse change to the credit conditions and liquidity of the issuer, taking into consideration the latest information available about the overall financial condition of the issuer, credit ratings, recent legislation and government actions affecting the issuer’s industry and actions taken by the issuer to deal with the present economic climate;
- Changes in the near term prospects of the underlying collateral of a security, if any, such as changes in default rates, loss severity given default, and significant changes in prepayment assumptions; and

• The level of cash flows generated from the underlying collateral, if any, supporting the principal and interest payments of the debt securities.

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

	Quarter ended June 30,				Six-Month Period Ended June 30,			
	2015		2014		2015		2014	
(In thousands)								
Total other-than-temporary impairment losses	$	(29,521)	$	-	$	(29,521)	$	-
Noncredit-related impairment portion recognized in OCI		16,665				16,665		
Portion of other-than-temporary impairment losses previously recognized in OCI		(241)		-		(397)		-
Net impairment losses recognized in earnings (1)	$	(13,097)	$	-	$	(13,253)	$	-

(1) Approximately $12.9 million of the credit impairment recognized in earnings consisted of credit losses on Puerto Rico Government debt securities and $0.2 million was associated with credit losses on private label MBS.

The following tables summarize the roll-forward of credit losses on debt securities held by the Corporation for which a portion of an OTTI is recognized in OCI:

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

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

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

	Cumulative OTTI credit losses recognized in earnings on securities still held			
	March 31, 2014 Balance	Credit impairments recognized in earnings on securities not previously impaired	Credit impairments recognized in earnings on securities that have been previously impaired	June 30, 2014 Balance
(In thousands)				
Available for sale securities				
Private label MBS	$ 5,389	$ -	$ -	$ 5,389

	Cumulative OTTI credit losses recognized in earnings on securities still held			
	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	June 30, 2014 Balance
(In thousands)				
Available for sale securities				
Private label MBS	$ 5,389	$ -	$ -	$ 5,389

As of June 30, 2015, the Corporation owns Puerto Rico Government debt securities in the aggregate amount of $52.7 million (net of a $12.9 million OTTI), carried on its books at a fair value of $34.6 million. During the six-month period ended June 30, 2015, the fair value of these obligations decreased by $13.0 million. In February and March 2014, Standard & Poor's ("S&P"), Moody's Investor Service ("Moody's") and Fitch Ratings ("Fitch") downgraded the Commonwealth of Puerto Rico general obligations bonds and other obligations of Puerto Rico instrumentalities to non-investment grade categories. In June and July 2015, the three major credit rating agencies downgraded Puerto Rico's general obligation debt further into non-investment grade after the government's recent announcements about concerns on its ability to pay its financial obligations. The issuers of Puerto Rico government and agencies bonds held by the Corporation have not defaulted, and the contractual payments on these securities have been made as scheduled. However, in August 2015 there was a payment default to creditors of the Public Finance Corporation, a government public corporation.

As of June 30, 2015, in consideration of the latest available information about the Puerto Rico Government's financial condition, including the Government's June 2015 statements as to its intentions to restructure 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 are based on 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 three of the bonds held by the Corporation as part of its available-for-sale securities portfolio resulted in a cumulative default probability in the range of 68% to 70% (weighted-average of 70%), thus reflecting that it is more likely than not that these three bonds will default during their remaining terms. Based on this analysis, the Corporation determined that it is unlikely to receive all the remaining contractual interest and principal amounts when due on these bonds and recorded a $12.9 million other-than-temporary credit-related impairment assuming recovery rates ranging from 50% to 82% (weighted-average of 64%).

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

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; as such, only the credit loss component was reflected in earnings. Given the significant uncertainty of a debt restructuring process, the Corporation cannot be certain that future impairment charges will not be required against these securities.

In addition, during the first half of 2015, 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 derived from the model, and since the Corporation does not have the intention to sell the securities and has sufficient capital and liquidity to hold these securities until a recovery of the fair value occurs, only the credit loss component was reflected in earnings. Significant assumptions in the valuation of the private label MBS were as follows:

	June 30, 2015				December 31, 2014		
	Weighted				**Weighted**		
	Average		**Range**		**Average**		**Range**
Discount rate	14.5%		14.5%		14.5%		14.5%
Prepayment rate	29%		17.37%-100.00%		32%		19.89%-100.00%
Projected Cumulative Loss Rate	6.9%		0.16%-80.00%		7.9%		0.64%-80.00%

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

As of June 30, 2015 and December 31, 2014, the Corporation had investments in FHLB stock with a book value of $25.4 million and $25.5 million, respectively. The net realizable value is a reasonable proxy for the fair value of these instruments. Dividend income from FHLB stock for each of the quarters ended June 30, 2015 and 2014, was $0.3 million and for each of the six-month periods ended June 30, 2015 and 2014 was $0.6 million.

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

The Corporation has other equity securities that do not have a readily available fair value. The carrying value of such securities as of June 30, 2015 and December 31, 2014 was $0.7 million and $0.3 million, respectively.

NOTE 7 – LOANS HELD FOR INVESTMENT

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

		June 30, 2015		December 31, 2014
(In thousands)				
Residential mortgage loans, mainly secured by first mortgages	$	3,327,350	$	3,011,187
Commercial loans:				
Construction loans		120,848		123,480
Commercial mortgage loans		1,518,151		1,665,787
Commercial and Industrial loans (1)		2,352,111		2,479,437
Total commercial loans		3,991,110		4,268,704
Finance leases		228,280		232,126
Consumer loans		1,670,935		1,750,419
Loans held for investment		9,217,675		9,262,436
Allowance for loan and lease losses		(221,518)		(222,395)
Loans held for investment, net	$	8,996,157	$	9,040,041

(1) As of June 30, 2015 and December 31, 2014, includes $1.0 billion and $1.1 billion, respectively, of commercial loans that are secured by real estate but are not dependent upon the real estate for repayment.

Loans held for investment on which accrual of interest income had been discontinued as of the indicated dates were as follows:

(In thousands)		June 30, 2015		December 31, 2014
Non-performing loans:				
Residential mortgage	$	175,035	$	180,707
Commercial mortgage		95,088		148,473
Commercial and Industrial		143,935		122,547
Construction:				
Land		12,877		15,030
Construction-residential		3,241		14,324
Consumer:				
Auto loans		17,689		22,276

Finance leases		3,257			5,245
Other consumer loans		12,451			15,294
Total non-performing loans held for investment (1) (2) (3)	$	463,573		$	523,896

(1)	As of June 30, 2015 and December 31, 2014, excludes $48.0 million and $54.6 million, respectively, of non-performing loans held for sale.
(2)	Amount excludes purchased-credit impaired ("PCI") loans with a carrying value of approximately $178.5 million and $102.6 million as of June 30, 2015 and December 31, 2014, respectively, primarily mortgage loans acquired from Doral Bank in the first quarter of 2015 and 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 $400.8 million and $494.6 million of Trouble Debt Restructuring ("TDR") loans that are in compliance with modified terms and in accrual status as of June 30, 2015 and December 31, 2014, respectively.

Loans in Process of Foreclosure

As of June 30, 2015, the recorded investment of residential mortgage loans collateralized by residential real estate property that are in the process of foreclosure amounted to $157.0 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.

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

As of June 30, 2015 (In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 days or more Past Due (1)	Total Past Due	Purchased Credit-Impaired Loans	Current	Total loans held for investment	90 days past due and still accruing (2)
Residential mortgage:								
FHA/VA and other government-guaranteed loans (2) (3) (4)	$ -	$ 7,849	$ 90,923	$ 98,772	$ -	$ 50,068	$ 148,840	$ 90,923
Other residential mortgage loans (4)	-	86,553	193,275	279,828	175,234	2,723,448	3,178,510	18,240
Commercial:								
Commercial and Industrial loans	43,946	18,387	176,473	238,806	-	2,113,305	2,352,111	32,538
Commercial mortgage loans (4)	-	21,990	128,567	150,557	3,260	1,364,334	1,518,151	33,479
Construction:								
Land (4)	-	209	13,068	13,277	-	38,337	51,614	191
Construction-commercial (4)	-	-	-	-	-	39,142	39,142	-
	-	-	3,241	3,241	-	26,851	30,092	-

Construction-residential (4)								
Consumer:								
Auto loans	76,736	19,045	17,689	113,470	-	882,678	996,148	-
Finance leases	10,282	2,754	3,257	16,293	-	211,987	228,280	-
Other consumer loans	9,334	5,359	15,399	30,092	-	644,695	674,787	2,948
Total loans held for investment	$ 140,298	$ 162,146	$ 641,892	$ 944,336	$ 178,494	$ 8,094,845	$ 9,217,675	$ 178,319

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

(2) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past-due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $37.4 million of residential mortgage loans insured by the FHA or guaranteed by the VA, which are over 18 months delinquent, and are no longer accruing interest as of June 30, 2015.

(3) As of June 30, 2015, includes $28.1 million of defaulted loans collateralizing Government National Mortgage Association ("GNMA") securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.

(4) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage, commercial mortgage, and construction loans are considered past due when the borrower is in arrears two or more monthly payments. FHA/VA government guaranteed loans, other residential mortgage loans, commercial mortgage loans, land loans, construction-commercial loans and construction-residential loans past due 30-59 days as of June 30, 2015 amounted to $10.3 million, $181.6 million, $16.2 million, $2.9 million, $5.2 million, and $3.1 million, respectively.

As of December 31, 2014	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 days or more Past Due (1)**				**Total loans held for investment**	**90 days past due and still accruing (2)**

(In thousands)				**Total Past Due**	**Purchased Credit-Impaired Loans**	**Current**		
Residential mortgage:								
FHA/VA and other government-guaranteed loans (2) (3) (4)	$	$ 9,733	$ 81,055	$ 90,788	$ -	$ 62,782	$ 153,570	$ 81,055
Other residential mortgage loans (4)	-	78,336	199,078	277,414	98,494	2,481,709	2,857,617	18,371
Commercial:								
Commercial and Industrial loans	22,217	7,445	143,928	173,590	-	2,305,847	2,479,437	21,381
Commercial mortgage loans (4)	-	15,482	171,281	186,763	3,393	1,475,631	1,665,787	22,808
Construction:								
Land (4)	-	210	15,264	15,474	-	40,447	55,921	234
Construction-commercial	-	-	-	-	-	24,562	24,562	-
Construction-residential (4)		-	14,324	14,324	-	28,673	42,997	-
Consumer:								
Auto loans	77,385	19,665	22,276	119,326	-	941,456	1,060,782	-
Finance leases	8,751	2,734	5,245	16,730	-	215,396	232,126	-

Other consumer loans	9,801	6,054	18,671	34,526	717	654,394	689,637	3,377
Total loans held for investment	$ 118,154	$ 139,659	$ 671,122	$ 928,935	$ 102,604	$ 8,230,897	$ 9,262,436	$ 147,226

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

(2) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past-due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $40.4 million of residential mortgage loans insured by the FHA or guaranteed by the VA, which are over 18 months delinquent, and are no longer accruing interest as of December 31, 2014.

(3) As of December 31, 2014, includes $9.3 million of defaulted loans collateralizing GNMA securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.

(4) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage, commercial mortgage, and construction loans are considered past due when the borrower is in arrears two or more monthly payments. FHA/VA government guaranteed loans, other residential mortgage loans, commercial mortgage loans, land loans and construction-residential loans past due 30-59 days as of December 31, 2014 amounted to $14.0 million, $189.1 million, $20.8 million, $0.8 million and $1.0 million, respectively.

The Corporation's credit quality indicators by loan type as of June 30, 2015 and December 31, 2014 are summarized below:

	Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness category:				
June 30, 2015	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified (1)**	**Total Portfolio**
(In thousands)					
Commercial mortgage	$ 161,579	$ 117	$ -	$ 161,696	$ 1,518,151
Construction:					
Land	14,500	1	-	14,501	51,614
Construction-commercial	11,490	-	-	11,490	39,142
Construction-residential	3,241	-	-	3,241	30,092
Commercial and Industrial	218,604	896	523	220,023	2,352,111

	Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness category:				
December 31, 2014	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified (1)**	**Total Portfolio**
(In thousands)					
Commercial mortgage	$ 273,027	$ 897	$ -	$ 273,924	$ 1,665,787
Construction:					
Land	16,915	-	-	16,915	55,921
Construction-commercial	11,790	-	-	11,790	24,562
Construction-residential	13,548	776	-	14,324	42,997
Commercial and Industrial	234,926	4,884	801	240,611	2,479,437

(1) Excludes $48.0 million ($7.8 million land, $39.1 million construction-commercial, $0.9 million construction-residential and $0.2 million commercial mortgage) and $54.6 million ($7.8 million land, $39.1 million construction-commercial, $0.9 million construction-residential and $6.8 million commercial mortgage) as of June 30, 2015 and December 31, 2014, respectively, of non-performing loans held for sale.

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

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

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

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

June 30, 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	$	148,840	$	2,828,241	$	978,459	$	225,023	$	662,336
Purchased Credit-Impaired (2)		-		175,234		-		-		-
Non-performing		-		175,035		17,689		3,257		12,451
Total	$	148,840	$	3,178,510	$	996,148	$	228,280	$	674,787

(1) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $37.4 million of residential mortgage loans insured by the FHA or guaranteed by the VA, which are over 18 months delinquent, and are no longer accruing interest as of June 30, 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.

December 31, 2014	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	$	153,570	$	2,578,416	$	1,038,506	$	226,881	$	673,626
Purchased Credit-Impaired (2)		-		98,494		-		-		717
Non-performing		-		180,707		22,276		5,245		15,294
Total	$	153,570	$	2,857,617	$	1,060,782	$	232,126	$	689,637

(1) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $40.4 million of residential mortgage loans insured by the FHA or guaranteed by the VA, which are over 18 months delinquent, and are no longer accruing interest as of December 31, 2014.

(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.

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

Impaired Loans								
(In thousands)								
					Quarter ended		**Six-month Period Ended**	
					June 30, 2015			
	Recorded Investment	**Unpaid Principal Balance**	**Related Specific Allowance**	**Year-To-Date Average Recorded Investment**	**Interest Income Recognized on Accrual Basis**	**Interest Income Recognized on Cash Basis**	**Interest Income Recognized on Accrual Basis**	**Interest Income Recognized on Cash Basis**
As of June 30, 2015								
With no related allowance recorded:								
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	69,148	79,066	-	70,366	167	249	253	359
Commercial:								
Commercial mortgage loans	84,629	92,873	-	85,119	436	469	823	924
Commercial and Industrial Loans	30,020	32,406	-	30,393	7	249	14	449
Construction:								
Land	-	-	-	-	-	-	-	-
Construction-commercial	-	-	-	-	-	-	-	-
Construction-residential	4,107	4,610	-	4,134	41	-	82	-
Consumer:								
Auto loans	-	-	-	-	-	-	-	-
Finance leases	-	-	-	-	-	-	-	-
Other consumer loans	2,645	4,068	-	2,745	1	35	1	60
	$ 190,549	$ 213,023	$ -	$ 192,757	$ 652	$ 1,002	$ 1,173	$ 1,792
With an allowance recorded:								
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	378,163	423,151	17,136	379,766	4,219	465	8,383	1,000

Other residential mortgage loans								
Commercial:								
Commercial mortgage loans	46,114	61,162	6,711	48,006	128	88	236	257
Commercial and Industrial Loans	153,099	177,798	15,510	156,788	606	480	1,193	1,848
Construction:								
Land	9,949	13,946	1,232	10,037	13	51	26	63
Construction-commercial	11,491	11,491	926	11,690	123	-	251	-
Construction-residential	643	853	98	644	-	-	-	-
Consumer:								
Auto loans	18,805	18,805	6,501	19,730	357	-	694	-
Finance leases	2,381	2,381	184	2,401	44	-	92	-
Other consumer loans	13,622	13,892	1,620	14,119	1	719	1	1,072
	$ 634,267	$ 723,479	$ 49,918	$ 643,181	$ 5,491	$ 1,803	$ 10,876	$ 4,240
Total:								
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	447,311	502,217	17,136	450,132	4,386	714	8,636	1,359
Commercial:								
Commercial mortgage loans	130,743	154,035	6,711	133,125	564	557	1,059	1,181
Commercial and Industrial Loans	183,119	210,204	15,510	187,181	613	729	1,207	2,297
Construction:								
Land	9,949	13,946	1,232	10,037	13	51	26	63
Construction-commercial	11,491	11,491	926	11,690	123	-	251	-
Construction-residential	4,750	5,463	98	4,778	41	-	82	-
Consumer:								
Auto loans	18,805	18,805	6,501	19,730	357	-	694	-
Finance leases	2,381	2,381	184	2,401	44	-	92	-
Other consumer loans	16,267	17,960	1,620	16,864	2	754	2	1,132
	$ 824,816	$ 936,502	$ 49,918	$ 835,938	$ 6,143	$ 2,805	$ 12,049	$ 6,032

(In thousands)	Recorded Investments	Unpaid Principal Balance	Related Specific Allowance	Year-To-Date Average Recorded Investment
As of December 31, 2014				
With no related allowance recorded:				
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -
Other residential mortgage loans	74,177	80,522	-	75,711
Commercial:				
Commercial mortgage loans	109,271	132,170	-	113,674
Commercial and Industrial Loans	41,131	47,647	-	42,011
Construction:				
Land	2,994	6,357	-	3,030
Construction-commercial	-	-	-	-
Construction-residential	7,461	10,100	-	8,123
Consumer:				
Auto loans	-	-	-	-
Finance leases	-	-	-	-
Other consumer loans	3,778	5,072	-	3,924
	$ 238,812	$ 281,868	$ -	$ 246,473
With an allowance recorded:				
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -
Other residential mortgage loans	350,067	396,203	10,854	357,129
Commercial:				
Commercial mortgage loans	101,467	116,329	14,289	104,191
Commercial and Industrial Loans	195,240	226,431	21,314	198,930
Construction:				
Land	9,120	12,821	794	10,734
Construction-commercial	11,790	11,790	790	11,867
Construction-residential	8,102	8,834	993	8,130
Consumer:				
Auto loans	16,991	16,991	2,787	18,504
Finance leases	2,181	2,181	253	2,367
Other consumer loans	11,637	12,136	3,131	12,291
	$ 706,595	$ 803,716	$ 55,205	$ 724,143
Total:				
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -

Other residential mortgage loans	424,244	476,725	10,854	432,840
Commercial:				
Commercial mortgage loans	210,738	248,499	14,289	217,865
Commercial and Industrial Loans	236,371	274,078	21,314	240,941
Construction:				
Land	12,114	19,178	794	13,764
Construction-commercial	11,790	11,790	790	11,867
Construction-residential	15,563	18,934	993	16,253
Consumer:				
Auto loans	16,991	16,991	2,787	18,504
Finance leases	2,181	2,181	253	2,367
Other consumer loans	15,415	17,208	3,131	16,215
	$ 945,407	$ 1,085,584	$ 55,205	$ 970,616

Interest income of approximately $9.1 million ($6.7 million accrual basis and $2.4 million cash basis) and $17.1 million ($13.1 million accrual basis and $4.0 million cash basis) was recognized on impaired loans for the second quarter and six-month period ended June 30, 2014, respectively.

The following tables show the activity for impaired loans and the related specific reserve for the quarters and six-month periods ended June 30, 2015 and 2014:

		Quarter Ended		Six-Month Period Ended
	June 30, 2015			
	(In thousands)			
Impaired Loans:				
Balance at beginning of period	$	954,981	$	945,407
Loans determined impaired during the period		34,889		97,822
Charge-offs (1)		(70,813)		(82,528)
Loans sold, net of charge-offs		(66,699)		(67,836)
Increases to impaired loans-additional disbursements		1,597		2,116
Foreclosures		(10,234)		(20,186)
Loans no longer considered impaired		(3,287)		(13,185)
Paid in full or partial payments		(15,618)		(36,794)
Balance at end of period	$	824,816	$	824,816

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

		Quarter Ended		Six-Month Period Ended
	June 30, 2014			
	(In thousands)			
Impaired Loans:				
Balance at beginning of period	$	879,388	$	919,112
Loans determined impaired during the period		98,966		153,243
Charge-offs		(32,646)		(64,685)
Increases to impaired loans- additional disbursements		294		919
Foreclosures		(4,134)		(8,140)
Loans no longer considered impaired		(14,003)		(17,731)
Paid in full or partial payments		(19,007)		(73,860)
Balance at end of period	$	908,858	$	908,858

	Quarter Ended	Six-Month Period Ended
	June 30, 2015	

	(In thousands)			
Specific Reserve:				
Balance at beginning of period	$	62,140	$	55,205
Provision for loan losses		53,707		72,357
Net charge-offs		(65,929)		(77,644)
Balance at end of period	$	49,918	$	49,918

	Quarter Ended		**Six-Month Period Ended**	
	June 30, 2014			
	(In thousands)			
Specific Reserve:				
Balance at beginning of period	$	85,016	$	102,601
Provision for loan losses		15,988		30,442
Net charge-offs		(32,646)		(64,685)
Balance at end of period	$	68,358	$	68,358

Purchased Credit Impaired ("PCI") Loans

As described in Note 2, Business Combination, the Corporation acquired PCI loans as part of the Doral Bank transaction and in previously completed asset acquisitions, which are accounted under ASC 310-30. These previous transactions include the acquisition from Doral Financial in the second quarter of 2014 of all its rights, title and interest in first and second residential mortgages loans in full satisfaction of secured borrowings owed by such entity to FirstBank, and the acquisition in 2012 of a FirstBank-branded credit card loans portfolio from FIA Card Services ("FIA").

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

The carrying amount of PCI loans follows:

		June 30, 2015		December 31, 2014
(In thousands)				
Residential mortgage loans	$	175,234	$	98,494
Commercial mortgage loans		3,260		3,393
Credit Cards		-		717
Total PCI loans	$	178,494	$	102,604
Allowance for loan losses		(3,164)		-
Total PCI loans, net of allowance for loan losses	$	175,330	$	102,604

The following tables present PCI loans by past due status as of June 30, 2015 and December 31, 2014:

As of June 30, 2015 (In thousands)		30-59 Days		60-89 Days		90 days or more		Total Past Due		Current		Total PCI loans
Residential mortgage loans (1)	$	-	$	16,775	$	17,820	$	34,595	$	140,639	$	175,234

	30-59 Days	60-89 Days	90 days or more	Total Past Due	Current	Total PCI loans
Commercial mortgage loans (1)	-	-	408	408	2,852	3,260
Credit Cards	-	-	-	-	-	-
	$ -	$ 16,775	$ 18,228	$ 35,003	$ 143,491	$ 178,494

(1) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage and commercial mortgage loans are considered past due when the borrower is in arrears two or more monthly payments. PCI residential mortgage loans and commercial mortgage loans past due 30-59 days as of June 30, 2015 amounted to $31.5 million and $0.8 million, respectively.

As of December 31, 2014 (In thousands)	**30-59 Days**	**60-89 Days**	**90 days or more**	**Total Past Due**	**Current**	**Total PCI loans**
Residential mortgage loans (1)	$ -	$ 12,571	$ 15,176	$ 27,747	$ 70,747	$ 98,494
Commercial mortgage loans (1)	-	356	443	799	2,594	3,393
Credit Cards	47	25	42	114	603	717
	$ 47	$ 12,952	$ 15,661	$ 28,660	$ 73,944	$ 102,604

(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, 2014 amounted to $16.6 million and $0.8 million, respectively.

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 nonaccretable difference. This difference is neither accreted into income nor recorded on the Corporation's consolidated statement of financial condition. The excess of cash flows expected to be collected over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loans, using the effective-yield method.

The following table presents acquired loans from Doral Bank in the first quarter of 2015 accounted for pursuant to ASC310-30 as of the acquisition date:

(In thousands)		
Contractually- required principal and interest	$	166,947
Less: Nonaccretable difference		(48,739)
Cash flows expected to be collected		118,208
Less: Accretable yield		(38,319)
Fair value of loans acquired in 2015 (1)	$	79,889

(1) Amounts are estimates based on the best information available at the acquisition date and adjustments in future quarters may occur up to one year from the date of acquisition.

The cash flows expected to be collected consider the estimated remaining life of the underlying loans and include the effects of estimated prepayments.

Changes in accretable yield of acquired loans

Subsequent to acquisition, the Corporation is required to periodically evaluate its estimate of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications from nonaccretable yield to accretable. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized in the Corporation's provision for loan and lease losses, resulting in an increase to the allowance for loan losses. During the second quarter of 2015, the Corporation established a $3.2 million reserve related to PCI loans acquired from Doral Financial in 2014. The reserve is driven by the revisions to the expected cash flows of the portfolio for the remaining term of the loan pool based on market conditions.

Changes in the accretable yield of PCI loans for the quarter and six-month period ended June 30, 2015 and 2014 were as follows:

	Quarter ended June 30, 2015		Quarter ended June 30, 2014		Six-month period ended June 30, 2015		Six-month period ended June 30, 2014	
(In thousands)								
Balance at beginning of period	$	118,502	$	-	$	82,460	$	-
Additions (accretable yield at acquisition								
of loans from Doral)		-		86,759		38,319		86,759
Accretion recognized in earnings		(3,007)		(612)		(5,284)		(612)
Reclassification from non accretable		8,793		-		8,793		-
Balance at end of period	$	124,288	$	86,147	$	124,288	$	86,147

The outstanding principal balance of PCI loans, including amounts charged off by the Corporation, amounted to $223.4 million as of June 30, 2015 (December 2014 - $135.5 million).

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

		Quarter Ended		Six-Month Period Ended
		June 30, 2015		June 30, 2015
(In thousands)				
Balance at beginning of period	$	181,114	$	102,604
Additions (1)		-		79,889
Accretion		3,007		5,284
Collections and charge-offs		(5,627)		(9,283)
Ending balance	$	178,494	$	178,494
Allowance for loan losses		(3,164)		(3,164)
Ending balance, net of allowance for loan losses	$	175,330	$	175,330

(1) Represents the estimated fair value of the PCI loans acquired from Doral at the date of acquisition.

Purchases and Sales of Loans

As described in Note 2, Business Combination, on February 27, 2015, FirstBank acquired $324.8 million in principal of loans, primarily residential mortgage loans through an alliance with other co-bidders on the failed Doral Bank, a portion of which was accounted for as PCI loans, as described above. Pursuant to the terms of the purchase and assumption agreement, FirstBank purchased the loans at an aggregate discount of 9.0%, or approximately $29 million, through an FDIC facilitated transaction. The transaction was accounted for under ASC Topic 820, which requires all recognized assets acquired and liabilities assumed in a business combination to be measured at their acquisition-date fair values. The fair value of the loans acquired in this transaction was $311.4 million at the acquisition date.

In addition, during the first half of 2015, the Corporation purchased $46.0 million of residential mortgage loans consistent with a strategic program established by the Corporation in 2005 to purchase ongoing residential mortgage loan production from mortgage bankers in Puerto Rico. Also, during the first half of 2015, the Corporation purchased a $21.1million participation in a commercial mortgage loan. Generally, the loans purchased from mortgage bankers were conforming residential mortgage loans. Purchases of conforming residential mortgage loans provide the Corporation the flexibility to retain or sell the loans, including through securitization transactions, depending upon the Corporation's interest rate risk management strategies. When the Corporation sells such loans, it generally keeps the servicing of the loans.

In the ordinary course of business, the Corporation sells residential mortgage loans (originated or purchased) to GNMA and government-sponsored entities ("GSEs") such as Fannie Mae ("FNMA") and Freddie Mac ("FHLMC"), which generally securitize the transferred loans into mortgage-backed securities for sale into the secondary market. The Corporation sold approximately $75.5 million of performing residential mortgage loans to FNMA and FHLMC during the first half of 2015. Also, during the first half of 2015, the Corporation sold $131.0 million of FHA/VA mortgage loans to GNMA, which package them into mortgage-backed securities. The Corporation's continuing involvement in these loan sales consists primarily of servicing the loans. In addition, the Corporation agreed to repurchase loans when it breaches any of the representations and warranties included in the sale agreement. These representations and warranties are consistent with the GSEs' selling and servicing guidelines (i.e., ensuring that the mortgage was properly underwritten according to established guidelines).

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

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

During the first half of 2015, the Corporation repurchased pursuant to its repurchase option with GNMA $6.3 million of loans previously sold to GNMA. The principal balance of these loans is fully guaranteed and the risk of loss related to the repurchased loans is generally limited to the difference between the delinquent interest payment advanced to GNMA computed at the loan's interest rate and the interest payments reimbursed by FHA, which are computed at a pre-determined debenture rate. Repurchases of GNMA loans allow the Corporation, among other things, to maintain acceptable delinquency rates on outstanding GNMA pools and remain as a seller and servicer in good standing with GNMA. The Corporation generally remediates any breach of representations and warranties related to the underwriting of such loans according to established GNMA guidelines without incurring losses. The Corporation does not maintain a liability for estimated losses as a result of breaches in representations and warranties.

Loan sales to FNMA and FHLMC are without recourse in relation to the future performance of the loans. The Corporation repurchased at par loans previously sold to FNMA and FHLMC in the amount of $0.5 million during the first half of 2015. The Corporation's risk of loss with respect to these loans is also minimal as these repurchased loans are generally performing loans with documentation deficiencies. No losses related to breaches of representations and warranties were incurred in the first half of 2015. Historically, losses experienced on these loans have been immaterial. As a consequence, as of June 30, 2015, 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.

In addition, the Corporation sold a $20.0 million loan participation during the second quarter of 2015.

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 other real estate owned ("OREO") 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, First Bank, also lends in the USVI and BVI markets and in the United States (principally in the state of Florida). Of the total gross loans held for investment of $9.2 billion as of June 30, 2015, approximately 82% have credit risk concentration in Puerto Rico, 11% in the United States, and 7% in the USVI and BVI.

As of June 30, 2015, the Corporation had $340.0 million of credit facilities, excluding investment securities, granted to the Puerto Rico government, its municipalities and public corporations, of which $326.7 million was outstanding (book value of $325.8 million), compared to $308.0 million outstanding as of December 31, 2014. In addition, the outstanding balance of facilities granted to the government of the Virgin Islands amounted to $59.1 million as of June 30, 2015, compared to $57.7 million as of December 31, 2014. Approximately $204.3 million of the granted credit facilities outstanding consisted of loans to municipalities in Puerto Rico. Municipal debt exposure is secured by ad valorem taxation without limitation as to rate or amount on all taxable property within the boundaries of each municipality. The good faith, credit, and unlimited taxing power of the applicable municipality have been pledged to the repayment of all outstanding bonds and notes. Approximately $23.3 million consisted of loans to units of the central government, and approximately $99.0 million ($98.1 million book value) consisted of loans to public corporations that generally receive revenues from the rates they charge for services or products, such as electric power services, including a credit facility extended to the Puerto Rico Electric Power Authority ("PREPA"), with a book value of $74.1 million. The PREPA credit facility was placed in non-accrual status in the first quarter of 2015, and interest payments are now recorded on a cost-recovery basis. Major public corporations have varying degrees of independence from the central government and many receive appropriations or other payments from the Puerto Rico's government general fund. Debt issued by the central government can either carry the full faith, credit and taxing power of the Commonwealth of Puerto Rico or represent an obligation that is subject to annual budget appropriations.

Furthermore, as of June 30, 2015, the Corporation had $131.0 million outstanding in financings to the hotel industry in Puerto Rico where the borrower and underlying collateral are the primary sources of repayment and the Puerto Rico Tourism Development Fund ("TDF") provides a secondary guarantee for payment performance, compared to $133.3 million as of December 31, 2014. The TDF is a subsidiary of the Government Development Bank for Puerto Rico ("GDB") that works with private-sector financial institutions to structure financings for new hospitality projects. The Corporation has been receiving payments from TDF to cover scheduled payments on these financings since late 2012, including collections of interest and principal of approximately $4.6 million in 2015 and $8.6 million in 2014. In addition, the Corporation had $124.0 million in indirect exposure to residential mortgage loans that are guaranteed by the Puerto Rico Housing Authority. Mortgage loans guaranteed by the Puerto Rico Housing Authority are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default.

As disclosed in Note 5, S&P, Moody's and Fitch downgraded the credit rating of the Commonwealth of Puerto Rico's debt to non-investment grade categories. The Corporation cannot predict at this time the impact that the current fiscal situation of the Commonwealth of Puerto Rico, including the government's recent announcements regarding its ability to pay debt and the payment default of a government public corporation (Public Finance Corporation), and the various legislative and other measures adopted and to be adopted by the Puerto Rico government in response to such fiscal situation will have on the Puerto Rico economy and on the Corporation's financial condition and results of operations.

Troubled Debt Restructurings

The Corporation provides homeownership preservation assistance to its customers through a loss mitigation program in Puerto Rico that is similar to the U.S. government's Home Affordable Modification Program guidelines. Depending upon the nature of borrowers' financial condition, restructurings or loan modifications through this program as well as other restructurings of individual commercial, commercial mortgage, construction, and residential mortgage loans in the U.S. mainland fit the definition of a TDR. A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Modifications involve changes in one or more of the loan terms that bring a defaulted loan current and provide sustainable affordability. Changes may include the refinancing of any past-due amounts, including interest and escrow, the extension of the maturity of the loan and modifications of the loan rate. As of June 30, 2015, the Corporation's total TDR loans of $634.8 million consisted of $375.3 million of residential mortgage loans, $157.0 million of commercial and industrial loans, $60.0 million of commercial mortgage loans, $6.4 million of construction loans, and $36.0 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to $47 thousand as of June 30, 2015.

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

Prior to permanently modifying a loan, the Corporation may enter into trial modifications with certain borrowers. Trial modifications generally represent a six-month period during which the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification. TDR loans that are participating in or that have been offered a binding trial modification are classified as TDRs when the trial offer is made and continue to be classified as TDRs regardless of whether the borrower enters into a permanent modification. As of June 30, 2015, we classified an additional $9.9 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 contract changes that would be considered a concession. The Corporation mitigates loan defaults for its commercial loan portfolios through its collection function. The function's objective is to minimize both early stage delinquencies and losses upon default of commercial loans. In the case of the commercial and industrial, commercial mortgage, and construction loan portfolios, the Corporation's Special Asset Group ("SAG") focuses on strategies for the accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of OREO. In addition to the management of the resolution process for problem loans, the SAG oversees collection efforts for all loans to prevent migration to the non-performing and/or adversely classified status. The SAG utilizes relationship officers, collection specialists, and attorneys. In the case of residential construction projects, the workout function monitors project specifics, such as project management and marketing, as deemed necessary. The SAG utilizes its collections infrastructure of workout collection officers, credit work-out specialists, in-house legal counsel, and third-party consultants. In the case of residential construction projects and large commercial loans, the SAG function also utilizes third-party specialized consultants to monitor the residential and commercial construction projects in terms of construction, marketing and sales, and assist with the restructuring of large commercial loans.

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

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

	June 30, 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	$ 27,229	$ 5,265	$ 295,997	$ -	$ 46,830	$ 375,321
Commercial Mortgage Loans	24,324	1,824	21,332	-	12,485	59,965
Commercial and Industrial Loans	4,224	75,851	28,653	3,042	45,278	157,048
Construction Loans:						
Land	-	233	2,067	-	591	2,891
Construction-residential	-	-	3,079	-	432	3,511
Consumer Loans - Auto	-	1,343	10,698	-	6,764	18,805
Finance Leases	-	623	1,758	-	-	2,381
Consumer Loans - Other	37	795	11,807	329	1,871	14,839
Total Troubled Debt Restructurings (2)	$ 55,814	$ 85,934	$ 375,391	$ 3,371	$ 114,251	$ 634,761

(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.

(2) Excludes TDRs held for sale amounting to $39.1 million as of June 30, 2015

	December 31, 2014					
(In thousands)	**Interest rate below market**	**Maturity or term extension**	**Combination of reduction in interest rate and**	**Forgiveness of principal and/or**	**Other (1)**	**Total**

			extension of maturity	interest		
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.

(2) Excludes TDRs held for sale amounting to $45.7 million as of December 31, 2014.

The following table presents the Corporation's TDR activity:

(In thousands)	Quarter Ended		Six-Month Period Ended	
	June 30, 2015			
Beginning balance of TDRs	$	705,123	$	694,453
New TDRs		34,195		65,796
Increases to existing TDRs - additional disbursements		-		335
Charge-offs post modification (1)		(49,599)		(53,380)
Sales, net of charge-offs		(44,048)		(44,048)
Foreclosures		(3,096)		(10,252)
Paid-off and partial payments		(7,814)		(18,143)
Ending balance of TDRs	$	634,761	$	634,761

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

(In thousands)	Quarter Ended		Six-Month Period Ended	
	June 30, 2014			
Beginning balance of TDRs	$	622,320	$	630,258
New TDRs		34,810		54,745
Increases to existing TDRs - additional disbursements		107		134
Charge-offs post modification		(18,666)		(26,648)
Foreclosures		(1,527)		(2,601)
Paid-off and partial payments		(8,811)		(27,655)
Ending balance of TDRs	$	628,233	$	628,233

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

Corporation continues to consider a modified loan as an impaired loan for purposes of estimating the allowance for loan and lease losses. A TDR that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the Corporation is willing to accept for a new loan with comparable risk may not be reported as a TDR or an impaired loan in the calendar years subsequent to the restructuring if it is in compliance with its modified terms. The Corporation did not remove loans from the TDR classification during the first six months of 2015.

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

(In thousands)	June 30, 2015					
	Accrual		Nonaccrual (1) (2)		Total TDRs	
Non-FHA/VA Residential Mortgage loans	$	288,759	$	86,562	$	375,321
Commercial Mortgage Loans		29,900		30,065		59,965
Commercial and Industrial Loans		51,426		105,622		157,048
Construction Loans:						
Land		688		2,203		2,891
Construction-residential		3,079		432		3,511
Consumer Loans - Auto		12,254		6,551		18,805
Finance Leases		2,153		228		2,381
Consumer Loans - Other		12,575		2,264		14,839
Total Troubled Debt Restructurings	$	400,834	$	233,927	$	634,761

(1) Included in non-accrual loans are $96.7 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.

(2) Excludes non-accrual TDRs held for sale with a carrying value of $39.1 million as of June 30, 2015.

(In thousands)	December 31, 2014					
	Accrual		Nonaccrual (1) (2)		Total TDRs	
Non- FHA/VA Residential Mortgage loans	$	266,810	$	82,965	$	349,775
Commercial Mortgage Loans		69,374		58,392		127,766
Commercial and Industrial Loans		131,544		40,382		171,926
Construction Loans:						
Land		834		1,636		2,470
Construction-residential		3,448		6,589		10,037
Consumer Loans - Auto		10,558		6,433		16,991
Finance Leases		1,926		255		2,181
Consumer Loans - Other		10,146		3,161		13,307
Total Troubled Debt Restructurings	$	494,640	$	199,813	$	694,453

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

(1)	Included in non-accrual loans are $52.8 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.
(2)	Excludes non-accrual TDRs held for sale with a carrying value of $45.7 million as of December 31, 2014.

TDRs exclude restructured residential mortgage loans that are guaranteed by the U.S. federal government (i.e., FHA/VA loans) totaling $79.5 million. The Corporation excludes FHA/VA guaranteed loans from TDRs given that, in the event that the borrower defaults on the loan, the principal and interest (debenture rate) are guaranteed by the U.S. government; therefore, the risk of loss on these types of loans is very low. The Corporation does not consider loans with U.S. federal government guarantees to be impaired loans for the purpose of calculating the allowance for loan and lease losses.

Loan modifications that are considered TDRs completed during the quarter and six-month period ended June 30, 2015 and 2014 were as follows:

(Dollars in thousands)	**Quarter ended June 30, 2015**		
	Number of contracts	**Pre-modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings:			
Non-FHA/VA Residential Mortgage loans	171	$ 28,647	$ 27,136
Commercial Mortgage Loans	1	131	131
Commercial and Industrial Loans	2	1,316	898
Construction Loans:			
Land	5	430	427
Consumer Loans - Auto	198	3,214	3,137
Finance Leases	16	461	454
Consumer Loans - Other	355	2,015	2,012
Total Troubled Debt Restructurings	748	$ 36,214	$ 34,195
(Dollars in thousands)	**Six-Month period ended June 30, 2015**		
	Number of contracts	**Pre-modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings:			
Non-FHA/VA Residential Mortgage loans	252	$ 40,142	$ 38,401
Commercial Mortgage Loans	9	12,952	13,062
Commercial and Industrial Loans	3	2,997	2,579
Construction Loans:			
Land	6	494	491
Consumer Loans - Auto	344	5,387	5,267
Finance Leases	24	694	638
Consumer Loans - Other	732	5,406	5,358
Total Troubled Debt Restructurings	1,370	$ 68,072	$ 65,796

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(Dollars in thousands)	Quarter ended June 30, 2014				
	Number of contracts		Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:					
Non-FHA/VA Residential Mortgage loans	91	$	11,017	$	10,264
Commercial Mortgage Loans	1		410		410
Commercial and Industrial Loans	7		21,114		21,114
Construction Loans:					
Land	2		55		57
Consumer Loans - Auto	92		1,408		1,393
Finance Leases	10		174		142
Consumer Loans - Other	313		1,457		1,430
Total Troubled Debt Restructurings	516	$	35,635	$	34,810

(Dollars in thousands)	Six-Month period ended June 30, 2014				
	Number of contracts		Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:					
Non-FHA/VA Residential Mortgage loans	138	$	18,726	$	17,975
Commercial Mortgage Loans	4		1,244		1,247
Commercial and Industrial Loans	12		29,078		28,744
Construction Loans:					
Land	2		55		57
Consumer Loans - Auto	209		3,013		2,998
Finance Leases	20		367		335
Consumer Loans - Other	742		3,416		3,389
Total Troubled Debt Restructurings	1,127	$	55,899	$	54,745

Recidivism, or the borrower defaulting on its obligation pursuant to a modified loan, results in the loan once again becoming a non-performing loan. Recidivism occurs at a notably higher rate than do defaults on new origination loans, so modified loans present a higher risk of loss than do new origination loans. The Corporation considers a loan to have defaulted if the borrower has failed to make payments of either principal, interest, or both for a period of 90 days or more.

Loan modifications considered TDRs that defaulted during the quarters and six-month periods ended June 30, 2015 and June 30, 2014 and had become TDRs during the 12-months preceding the default date were as follows:

	Quarter ended June 30,					
(Dollars in thousands)	**2015**			**2014**		
	Number of contracts		**Recorded Investment**	**Number of contracts**		**Recorded Investment**
Non-FHA/VA Residential Mortgage loans	15	$	2,129	19	$	2,267
Construction Loans:						
Land	-		-	1		46
Consumer Loans - Auto	5		32	18		286
Consumer Loans - Other	37		141	53		205
Finance Leases	2		25	-		-
Total	59	$	2,327	91	$	2,804

	Six-Month Period Ended June 30,					
(Dollars in thousands)	**2015**			**2014**		
	Number of contracts		**Recorded Investment**	**Number of contracts**		**Recorded Investment**
Non-FHA/VA Residential Mortgage loans	27	$	3,902	33	$	4,819
Commercial and Industrial Loans	4		5,745	-		-
Construction Loans:						
Land	-		-	1		46
Consumer Loans - Auto	7		40	22		325
Consumer Loans - Other	90		370	98		381
Finance Leases	3		40	-		-
Total	131	$	10,097	154	$	5,571

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

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. 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 on accrual, 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 $41.0 million as of June 30, 2015. The following table provides additional information about the volume of this type of loan restructuring and the effect on the allowance for loan and lease losses in the first six months of 2015 and 2014:

(In thousands)	**June 30, 2015**				**June 30, 2014**
Principal balance deemed collectible at end of period	$	41,000		$	62,159
Amount (recovery) charged off	$	-		$	(4,106)
(Reductions) charges to the provision for loan losses	$	(62)		$	(4,725)
Allowance for loan losses at end of period	$	669		$	942

Of the loans comprising the $41.0 million that have been deemed collectible, approximately $40.0 million were placed in accrual status as the borrowers have exhibited a period of sustained performance. These loans continue to be individually evaluated for impairment purposes.

NOTE 8 – ALLOWANCE FOR LOAN AND LEASE LOSSES

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

(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Quarter ended June 30, 2015						
Allowance for loan and lease losses:						
Beginning balance	$ 28,682	$ 45,027	$ 70,179	$ 13,639	$ 68,537	$ 226,064
Charge-offs	(3,529)	(46,432)	(24,370)	(4,079)	(14,538)	(92,948)
Recoveries	272	4,767	3,953	1,996	3,148	14,136
Provision	8,358	44,278	15,590	309	5,731	74,266
Ending balance	$ 33,783	$ 47,640	$ 65,352	$ 11,865	$ 62,878	$ 221,518
Ending balance: specific reserve for impaired loans	$ 17,136	$ 6,711	$ 15,510	$ 2,256	$ 8,305	$ 49,918
Ending balance: purchased credit-impaired loans	$ 3,061	$ 102	$ -	$ -	$ -	$ 3,163
Ending balance: general allowance	$ 13,586	$ 40,827	$ 49,842	$ 9,609	$ 54,573	$ 168,437
Loans held for investment:						
Ending balance	$ 3,327,350	$ 1,518,151	$ 2,352,111	$ 120,848	$ 1,899,215	$ 9,217,675
Ending balance: impaired loans	$ 447,311	$ 130,743	$ 183,119			