Apollo Medical Holdings, Inc.
Form 10-Q
June 15, 2009

1.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 April 30, 2009

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

For the transition period from ___________ to ____________

Commission File No.
000-25809

Apollo Medical Holdings, Inc.
(Name of small business issuer as specified in its charter)

Delaware	20-8046599
State of Incorporation	IRS Employer Identification No.

1010 N. Central Avenue
Glendale, California 91202
(Address of principal executive offices)
(818) 507-4617
(Issuer's telephone number)

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

Indicate by check mark whether the registrant is a large accelerated filer o, an accelerated filer o, a non-accelerated filer o, or a smaller reporting company x.

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APOLLO MEDICAL HOLDINGS, INC.
INDEX TO FORM 10-Q FILING
FOR THE THREE MONTHS ENDED APRIL 30, 2009 AND 2008

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PART 1 - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

APOLLO MEDICAL HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	April 30, 2009	January 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 59,220	$ 84,161
Accounts receivable, net	269,248	255,665
Due from affiliate	2,050	2,050
Prepaid expenses	17,963	25,025
Total current assets	348,481	366,901
Property and equipment - net	36,992	47,330
TOTAL ASSETS	$ 385,474	$ 414,232
LIABILITIES AND STOCKHOLDERS DEFICIT:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 56,280	$ 65,141
Shares to be issued	378,500	284,000
Convertible notes payable	10,000	10,000
Convertible notes payable-related party	23,000	23,000
Current portion of loan	46,081	41,782
Total current liabilities	513,862	423,923
Loan	144,442	156,218
Convertible notes payable-related party	75,000	75,000
Total liabilities	733,304	655,141
STOCKHOLDERS' EQUITY/(DEFICIT):		
Preferred stock, par value $.001 and $0.0001 per share; 5,000,000 and 25,000,000 shares authorized, respectively; none issued	-	-
Common Stock, par value $.001 and $0.0001, 100,000,000 shares authorized, 25,870,220 shares issued and outstanding	25,870	25,870
Non-controlling interest	228,115	228,115
Additional paid-in-capital	550,058	550,058
Accumulated deficit	(1,151,873)	(1,044,951)
Total stockholders' deficit	(347,830)	(240,909)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 385,474	$ 414,232

The accompanying notes are an integral part of these consolidated financial statements

APOLLO MEDICAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDING APRIL 30, 2009 AND 2008
(UNADITED)

	For the three months ended April 30, 2009	For the three months ended April 30, 2008
REVENUES	$ 501,183	$ 10,000
Operating expenses:		
Cost of services - physician practice salaries, benefits and other	419,554	-
General and administrative	172,562	83,134
Depreciation	10,338	-
Total operating expenses	602,455	83,134
LOSS FROM OPERATIONS	(101,272)	(73,134)
OTHER EXPENSES:		
Interest expense	4,849	-
NET LOSS BEFORE INCOME TAXES	(106,121)	(73,134)
Provision for Income Tax	800	-
NET LOSS	$ (106,921)	$ (73,134)
Net income attributable to noncontrolling interest	13,492	-
Net loss attributable to Apollo Medical Holding, Inc.	$ (120,413)	$ (73,134)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING, BASIC AND DILUTED	25,870,220	20,933,490
*BASIC AND DILUTED NET LOSS PER SHARE	(0.00)	(0.00)

*Weighted average number of shares used to compute basic and diluted loss per share is the same since the effect of dilutive securities is anti-dilutive.

The accompanying notes are an integral part of these consolidated financial statements

APOLLO MEDICAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED APRIL 30, 2009 AND 2008
(UNAUDITED)

	Three months ended April 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Adjustments to reconcile net loss to net cash		
(used in) operating activities:		
Net loss	$ (106,921)	$ (73,134)
Depreciation	10,338	-
Bad debt expense	462	-
Shares to be issued for services	94,500	-
Changes in assets and liabilities:		
Accounts receivable	(14,045)	-
Prepaid expenses	7,062	-
Due from related party	-	1,600
Accounts payable and accrued liabilities	(8,860)	53
Net cash used in operating activities	(17,465)	(71,481)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and Equipment	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of notes payable	(7,477)	-
Proceeds from issuance of common stock for cash		305,000
Net cash (used in) provided by financing activities	(7,477)	305,000
NET INCREASE IN CASH & CASH EQUIVALENTS	(24,941)	233,519
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	84,161	44,352
CASH & CASH EQUIVALENTS, ENDING BALANCE	$ 59,220	$ 277,871
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid during the quarter	$ 2,582	$ -
Taxes paid during the quarter	$ 1,600	$ -

The accompanying notes are an integral part of these consolidated financial statements

APOLLO MEDICAL HOLDINGS, INC.
(FORMERLY SICLONE INDUSTRIES, INC.)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Apollo Medical Holdings, Inc. operates as a medical management holding company that focuses on managing the provision of hospital-based medicine through a wholly owned subsidiary-management company, Apollo Medical Management, Inc. (“AMM”). Through AMM, the Company manages an affiliated medical group, which presently consists of ApolloMed Hospitalists (“AMH”). AMM operates as a Physician Practice Management Company (PPM) and is in the business of providing management services to Physician Practice Companies (PPC) under Management Service Agreements.

On June 13, 2008, Siclone Industries, Inc. (“Siclone”), Apollo Acquisition Co., Inc., a wholly owned subsidiary of Siclone (“Acquisition”), Apollo Medical Management, Inc. (“Apollo Medical”) and the shareholders of Apollo Medical entered into an agreement and Plan of Merger (the “Merger Agreement”). Pursuant to the terms of the Merger Agreement, Apollo Medical merged with and into Acquisition. The former shareholders of Apollo Medical received 20,933,490 shares of Siclone’s common stock in exchange for all the issued and outstanding shares of Apollo Medical.

The acquisition of Apollo Medical is accounted for as a reverse acquisition under the purchase method of accounting since the shareholders of Apollo Medical obtained control of the consolidated entity. Accordingly, the reorganization of the two companies is recorded as a recapitalization of Apollo Medical, with Apollo Medical being treated as the continuing operating entity. The historical financial statements presented herein will be those of Apollo Medical. The continuing entity retained January 31 as its fiscal year end. The financial statements of the legal acquirer are not significant; therefore, no pro forma financial information is submitted.

On July 1, 2008, the continuing entity (i.e., the combined entity of Acquisition and Apollo Medical) changed its name to Apollo Medical Management, Inc. (AMM). On July 3, 2008, Siclone changed its name to Apollo Medical Holdings, Inc. Following the merger, the Company is headquartered in Glendale, California.

On August 1, 2008, AMM completed negotiations and executed a formal Management Services Agreement with ApolloMed Hospitalists (“AMH”), under which AMM will provide management services to AMH. The Agreement is effective as of August 1, 2008 and will allow AMM, which operates as a Physician Practice Management Company, to consolidate AMH, which operates as a Physician Practice, in accordance with EITF 97-2, Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Management Entities and Certain Other Entities with Contractual Management Agreements. The Management Services Agreement was amended on March 20, 2009, to allow for the calculation of the fee on a monthly basis with payment of the calculated fee each month. AMH is controlled by Dr. Hosseinion and Dr. Vazquez, the Company’s Chief Executive Officer and President, respectively.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Apollo in accordance with U.S. generally accepted accounting principles for interim financial statements. The statements consist solely of the management company, Apollo Medical Holdings, Inc. prior to August 1, 2008. Commencing with the Company's third quarter on August 1, 2008, and concurrent with the execution of the Management Services Agreement, the statements reflect the consolidation of AMM and AMH , in accordance with EITF 97-2, Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Management Entities and Certain Other Entities with Contractual Management Agreements . In management's opinion, all adjustments, consisting of normal recurring adjustments necessary for the fair presentation of the results of the interim periods are reflected herein. Operating results for the three month period ended April 30, 2009 are not necessarily indicative of future financial results.

The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain all of the information that is included in the annual financial statements and notes of the Company. The condensed consolidated financial statements and notes presented herein should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended January 31, 2009

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Fair Value of Financial Instruments

Statement of financial accounting standard No. 107, Disclosures about fair value of financial instruments, requires that the Company disclose estimated fair values of financial instruments. The carrying amounts reported in the statements of financial position for assets and liabilities qualifying as financial instruments are a reasonable estimate of fair value.

Credit and Supply Risk

The Company's case rate and capitation revenues, reported by Apollo's affiliate, AMH, are governed by contractual agreements with medical groups/IPA's and hospitals. As a result, receivables from this business are generally fully collected. The Company does face issues related to the timing of these collections, and the Company must assess the level of earned but uncollected revenue to which it is entitled at each period end. The Company does face collection issues with regard to its fee-for-service revenues. One is the estimation of the amount to be received from each billing since the Company invoices on a Medicare schedule and each of many providers remits payment on a reduced schedule. The Company has to estimate the amount it will ultimately receive form each billing and properly record revenue. With a wide variety of contract terms and providers, the Company's revenue is not concentrated or dependent on a specific contract. No individual contract with our clients provides more than 20 percent of reported revenues.

Recently Issued Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement will not have an impact on the Company's financial statements.

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60." The scope of this Statement is limited to financial guarantee insurance (and reinsurance) contracts, as described in this Statement, issued by enterprises included within the scope of Statement 60. Accordingly, this Statement does not apply to financial guarantee contracts issued by enterprises excluded from the scope of Statement 60 or to some insurance contracts that seem similar to financial guarantee insurance contracts issued by insurance enterprises (such as mortgage guaranty insurance or credit insurance on trade receivables). This Statement also does not apply to financial guarantee insurance contracts that are derivative instruments included within the scope of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement will not have an impact on the Company's financial statements.

In April 2009, the FASB issued FSP No. FAS 157-4, "Determining Fair Values When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." This FSP provides guidance on (1) estimating the fair value of an asset or liability when the volume and level of activity for the asset or liability have significantly declined and (2) identifying transactions that are not orderly. The FSP also amends certain disclosure provisions of SFAS No. 157 to require, among other things, disclosures in interim periods of the inputs and valuation techniques used to measure fair value. This pronouncement is effective prospectively beginning April 1, 2009. The Company is currently evaluating the impact of this standard, but would not expect it to have a material impact on the Company's consolidated results of operations or financial condition.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP 115-2). This FSP modifies the requirements for recognizing other-than-temporarily impaired debt securities and changes the existing impairment model for such securities. The FSP also requires additional disclosures for both annual and interim periods with respect to both debt and equity securities. Under the FSP, impairment of debt securities will be considered other-than-temporary if an entity (1) intends to sell the security, (2) more likely than not will be required to sell the security before recovering its cost, or (3) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The FSP further indicates that, depending on which of the above factor(s) causes the impairment to be considered other-than-temporary, (1) the entire shortfall of the security's fair value versus its amortized cost basis or (2) only the credit loss portion would be recognized in earnings while the remaining shortfall (if any) would be recorded in other comprehensive income. FSP 115-2 requires entities to initially apply the provisions of the standard to previously other-than-temporarily impaired debt securities existing as of the date of initial adoption by making a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The cumulative-effect adjustment potentially reclassifies the noncredit portion of a previously other-than-temporarily impaired debt security held as of the date of initial adoption from retained earnings to accumulated other comprehensive income. This pronouncement is effective April 1, 2009. The Company does not believe this standard will have a material impact on the Company's consolidated results of operations or financial condition.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments.” This FSP essentially expands the disclosure about fair value of financial instruments that were previously required only annually to also be required for interim period reporting. In addition, the FSP requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. These additional disclosures will be required beginning with the quarter ending June 30, 2009. The Company is currently evaluating the requirements of these additional disclosures.

Stock-based compensation

On October 17, 2006 the Company adopted SFAS No. 123R, “Share-Based Payment, an Amendment of FASB Statement No. 123.” As of the date of this report the Company has no stock based incentive plan in effect.

Basic and Diluted Earnings Per Share

Earnings per share is calculated in accordance with the Statement of financial accounting standards No. 128 (SFAS No. 128), “Earnings per share”. SFAS No. 128 superseded Accounting Principles Board Opinion No.15 (APB 15). Net income (loss) per share for all periods presented has been restated to reflect the adoption of SFAS No. 128. Basic net income per share is based upon the weighted average number of common shares outstanding. Diluted net income (loss) per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Cash and Cash Equivalents

Cash and cash equivalents include cash in bank representing Company’s current operating account

Revenue Recognition

The Company recognizes Case Rate and Capitation revenue when persuasive evidence of an arrangement exists, service has been rendered, the sales price is fixed or determinable, and collection is reasonable assured. Fee for Service revenues are recorded at amounts reasonably assured to be collected. The determination of reasonably assured collections is based on historical Fee for Service collections as a percent of billings. The provisions are adjusted to reflect actual collections in subsequent periods.

The estimation and the reporting of patient responsibility revenues is highly subjective and depends on the payer mix, contractual reimbursement rates, collection experiences, judgment and other factors. The Company’s fee arrangements are with various payers, including managed care organizations, hospitals, insurance companies, individuals, Medicare and Medicaid.

3. Uncertainty of ability to continue as a going concern

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company has an accumulated deficit of $1,151,873 as of April 30, 2009. Cash Flows used in Operating Activities for the three months ended April 30, 2009 was $17,464.

The financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company’s need for working capital is a key issue for management and necessary for the Company to meet its goals and objectives. The Company is actively pursuing additional capitalization opportunities. Management believes that the above actions will allow the Company to continue operations through the next fiscal year.

4. Accounts Receivable

Accounts Receivable is stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided for those accounts receivable considered to be uncollectible, based upon historical experience and management's evaluation of outstanding accounts receivable at each quarter end. As of April 30, 2009, Accounts Receivable totals $269,248, net of a provision for bad debt expense of $11,927, and represents amounts invoiced by AMH. Accounts receivable was $255,665, net of the provision for bad debt expense of $11,465, on January 31, 2009.

5. Due from affiliate

Due from affiliate totals $2,050 and represents amounts due from AMA, an unconsolidated Affiliate of the Company as of April 30, 2009 and January 31, 2009. ..

6. Prepaid expenses

Prepaid expenses of $17,963 and $25,025 as of April 30, 2009 and January 31, 2009, respectively, are amounts prepaid for medical malpractice insurance and Director’s and Officer’s insurance.

7. Property and Equipment

Property and Equipment consists of the following as of :

	April 30, 2009	January 31, 2009
Computers	$ 13,912	$ 13,912
Software	138,443	138,443
Machinery and equipment	50,815	50,815
Gross Property and Equipment	203,170	203,170
Less accumulated depreciation	(166,178)	(155,840)
Net Property and Equipment	$ 36,992	$ 47,330

Depreciation expense was $10,337 and $0 for the three month periods ended April 30, 2009 and 2008, respectively.

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following as of:

	April 30, 2009	January 31, 2009
Accounts payable	$ 30,599	$ 30,599
Accrued interest	2,776	507
Accrued professional fees	16,000	20,267
Accrued payroll and income taxes	8,905	13,768
Total	$ 56,280	$ 65,141

9. Shares to be Issued

Shares to be issued consist of the following:

	April 30, 2009	January 31, 2009
Accrued shares to be issued for note conversion	$ 200,000	$ 200,000
Accrued shares to be issued for services	178,500	84,000
Total	$ 378,500	$ 284,000

As of April 30, 2009, 266,667 shares were not yet issued for note conversions and 661,111 shares are to be issued for the services rendered through April 30, 2009.

10. Convertible Notes Payable

During the year ended January 31, 2009, the Company received $210,000 proceeds from the issuance of convertible notes payable. The convertible notes bear interest at 10% and are due twelve months from the date of issuance ranging from October 7, 2008 to December 12, 2008. In connection with the convertible notes, the Company issued 140,000 warrants to the note holders with an exercise price of $1.50. There were no issuances of Convertible Notes, or attached warrants, in the first quarter of 2009.

The Company recorded value of warrants using the Black Scholes pricing model using the following assumptions: Stock price $0.27, Expected life of 3 years, Risk free bond rate of 1.05% to 2.00% and volatility of 44% to 61%. Based on the assumptions used the Company recorded the fair value of warrants amounting to $379 which was fully amortized as interest expense during year ended January 31, 2009.

As of January 31, 2009, the Company received the conversion notice from the note holders to convert $200,000 of notes into shares of the Company's common stock. This amount is included in the Shares to be Issued Liabilities and the remaining $10,000 is shown as Convertible Notes payable on the accompanying financial statements.

The Company recorded interest expense of $2,268, related to Convertible Notes in the quarter ended April 30, 2009 and zero for April 30, 2008.

11. Convertible Notes Payable-Related Party

During the year ended January 31, 2008, the Company received $23,000 proceeds from the issuance of convertible notes payable to relatives of the CEO of the Company. The convertible notes bear interest at 10% and are due twelve months from December 25, 2008. In connection with the convertible notes, the Company issued 15,333 warrants to the note holders with an exercise price of $1.50. The Company recorded value of warrants of $ 68 using the Black Scholes pricing model using the following assumptions: Stock price $0.27, Expected life of 3 years, Risk free bond rate of 1.14% and volatility of 49%.

The Company received $70,000 proceeds from the issuance of notes payable to the father of the Company's CEO. The note was due and payable in full no later than October 1, 2008, carried no interest rate, and the Company was obligated to pay an origination fee of $5,000 at the time of payoff. The note was extended by verbal agreement on its expiration date with no change in terms. On January 24, 2009, the Company formalized the note extension with the father of the Company's CEO. Under the terms of the new note, the $5,000 origination fee was added to the note, the due date was extended to March 31, 2011, the interest rate was set at eight 8% and the note is initially convertible into 214,285 shares of common stock. The Company has the right to redeem the note at a 105 percent premium any time prior to the due date on March 31, 2011.

12. Notes payable

There were no additions to Notes Payable in the quarter ended April 30 , 2009.

During the year ended January 31, 2009, the Company borrowed $125,000 on June 13, 2008 from a non-related party. The note bears no interest rate and was due and payable in full on July 2, 2008. The note was paid off as of October 31, 2008. The Company recorded a penalty of $6,250 during the nine months ended October 31, 2008 due to late payment.

Also, during the third quarter, the Company borrowed $125,000 on September 24, 2008 under a note. This note bore an interest rate of 15 percent and was due and payable in full on October 22, 2008. The note obligated the Company for an origination fee of $10,000 and reimbursement of legal fees totaling $1,500 and issuance of 50,000 shares of the Company's common stock. The note, along with the origination fee and legal reimbursement, was paid off in full on October 20, 2008.

13. Related Party Transactions

During the three months ended April 30, 2009 and 2008, the Company generated revenue of $56,491 and $10,000, respectively, by providing management services to ApolloMed Hospitalists (AMH), an affiliated company with common ownership interest. Commencing August 1, 2008, the management services fee income reported by AMM was eliminated in consolidation against similar costs recorded at AMH.

The Company borrowed $70,000 on a short-term promissory note in the quarter ended July 2008 from a related party of the Chief Executive officer of the Company. The $70,000 note was due and payable in full no later than October 1, 2008, carries no interest rate, and the Company was obligated to pay an origination fee of $5,000 at the time of payoff. The note was extended by verbal agreement on its expiration date with no change in terms. On January 24, 2009, the Company formalized the note extension. Under the terms of the new note, the $5,000 origination fee was added to the note, the due date was extended to March 31, 2011, the interest rate was set at eight (8) percent and the note is initially convertible into 214,285 shares of common stock. The Company has the right to redeem the note at a 105 percent premium prior to March 31, 2011. (Note 11)

Also, during the fourth quarter 2009, the Company issued Convertible Notes in amounts aggregating to $23,000 to two relatives of Warren Hosseinion, the Company's CEO (Note 11).

14. Loan

The Company, through AMH, has a SBA line of credit with Wells Fargo Bank. The loan was established on January 5, 2006, provided a total available credit of $200,000 and had a final maturity date of February 10, 2009. The interest rate is the bank's prime rate plus 2. The loan is collateralized by all machinery, equipment, furniture, accounts, inventory and general intangibles of AMH and personally guaranteed by the CEO of the Company.

On February 3, 2009, the Company's SBA line of credit with Wells Fargo Bank was, by mutual agreement, converted into a four-year fully amortizable loan. The credit line was reduced to $198,000. The interest rate remained at the bank's prime rate 5.25% plus 2 percentage points and the maturity date was extended to February 10, 2013 and all collateral and guarantor remained unchanged.

As of April 30, 2009, the outstanding balance against this facility was $190,523, with $46,081 in current portion. Interest expense of $2,582 related to the SBA loan was recorded during the quarter ended April 30, 2009.

The Company also has an overdraft facility with Wells Fargo Bank. This facility is attached to the AMH bank account and provides up to $70,000 of overdraft and short-term borrowing capacity. Draws under the facility carry an 8 percent interest rate. The Company has not utilized this facility.

15. Non-Controlling Interest

The Company recorded AMH ownership interest in the accompanied financial statements as Non-Controlling Interest amounting to $228,115 during the year ended January 31, 2009. No addition has been recorded during the quarter ended April 30, 2009.

16. Stockholder's Equity

The Company did not issue any shares or warrants in the quarter ended April 30, 2009.

During the period from February 1, 2007 to July 31, 2007, Apollo Medical issued 364,000 shares to investors for a total cash value $182,000. As part of issuance of shares for cash the Company granted 91,000 stock warrants to investors. During the period from February 1, 2008 to July 31, 2008, Apollo Medical issued 670,000 shares to investors for a total cash value $335,000. As part of issuance of shares for cash the Company granted 167,500 stock warrants to investors.

As the result of the merger on June 13, 2008, the former shareholders of Apollo Medical received 20,933,490 shares of the Company's common stock in exchange for all the issued and outstanding shares of Apollo Medical. Certain former shareholders of Apollo Medical received 470,470 warrants in exchange for warrants granted to them in previous fund raising.

During the three month period ended October 31, 2008, the Company issued 268,687 shares for legal, accounting and investment advisory services provided to the Company. The Company also issued 50,000 shares as financing fee on a note payable.

On October 27, 2008, the Company entered into a Board of Director's Agreement with Suresh Nihalani. The Company issued a stock award of 400,000 shares to Mr. Nihalani, under the terms of the Director's Agreement, which shares will be issued ratably over a thirty-six month period commencing December 2008. During the year ended January 2009, Mr. Nihalani was issued 11,111 shares under this agreement.

Warrants outstanding:

	Aggregate intrinsic value	Number of warrants
Outstanding at January 31, 2009	$ —	625,803
Granted	—	—
Exercised	—	—
Cancelled	—	—
Outstanding at April 30, 2009	$ —	625,803

Exercise Price	Warrants outstanding	Weighted average remaining contractual life	Warrants exercisable	Weighted average exercise price
$ 1.10	470,470	1.54	470,470	$ 0.83
$ 1.50	155,333	0.76	155,333	$ 0.37
	625,803	2.30	625,803	

17. Commitments and Contingency

On March 15, 2009, the Company entered into a Consulting Agreement with Kaneohe Advisors LLC (Kyle Francis) under which Mr. Francis would become the Company's Executive Vice President, Business Development and Strategy. Under the terms of the Agreement, Mr. Francis will be paid $8,000 per month, of which $2,000 will be paid in cash and $6,000 will be deferred. In addition, Mr. Francis received 350,000 shares of restricted stock at the date of the Agreement and is entitled to 350,000 additional restricted shares on the first and second anniversaries of the Agreement, provided the Agreement is not terminated .. The initial 350,000 shares, along with 50,000 shares granted to Mr. Francis in the year ended January 2009, have been accrued as shares to be issued as a liability in the accompanying financial statements.

On September 4, 2008, Apollo Medical Management, Inc. executed an employment agreement with Jilbert Issai, M.D., to provide services as Senior Vice President. The agreement is for an initial one-year term with provision for successive one-year periods. Under the agreement, Doctor Issai is entitled to a nominal salary and may be granted options to purchase an aggregate of 300,000 shares of the Company's common stock at an exercise price of $.10 per share when and if the Company is to adopt a stock compensation plan.

The Company entered into an Advisory Agreement with Stonecreek Associates, Inc. on October 27, 2008, under which Stonecreek will provide investment advisory services to the Company. Apollo is obligated to pay a fee to Stonecreek on completion of any debt or equity financing. The agreement terminated on March 31, 2009.

On October 27, 2008, the Company entered into a Board of Director's Agreement with Suresh Nihalani. The Company will issue a stock award of 400,000 shares to Mr. Nihalani, under the terms of the Director's Agreement, which shares will be issued ratably over a thirty-six month period commencing December 2008. The shares will be released to Mr. Nihalani on a monthly basis during his tenure as a Director. The distribution of shares will continue as long as Mr. Nihalani serves on the Board, but will cease when Mr. Nihalani is no longer is a Director. Mr. Nihalani was issued 11,111 shares under this agreement in the year ended January 31, 2009. In addition, 11,111 shares have been accrued as shares to be issued as a liability in the accompanying financial statements

The Company received a claim for $250,000 relating to amounts purportedly owed by the Company as a result of the initial reverse acquisition transaction. This dispute relates to the initial letter dated June 3, 2008. The terms of the letter of intent call for, among other things, the payment of cash of $250,000 within 60 days of closing. The letter of intent states, however, that it is intended to serve as a memorandum of the Parties current discussions, and that a definitive transaction agreement will follow. The letter of intent further states that both parties acknowledge that all provisions of the letter of intent are non binding, and that no contract or agreement providing for a transaction shall be deemed to exist unless and until a final agreement has been negotiated and executed. The final merger agreement that was executed contains a clause that it is the "entire agreement" and thus supersedes all previous agreements including the letter of intent; moreover, management contends that there are no additional amounts owed under the final merger agreement. The Company has not accrued for any amount asserted in the above claim as the attorney of the Company has advised that the claim is in its early stage and the outcome of this matter could not be predicted at this stage.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Three Months Ended April 31, 2009 vs. Three Months Ended April 31, 2008

Revenues

Apollo reported revenues of $501,183 for the quarter ended April 2009, compared to revenues of $10,000 in the comparable quarter ended April 2008. Prior to the Management Services Agreement executed on August 1, 2008, the Company could only report the management fees charged to its affiliate, AMH. Subsequent to August 1, 2008, revenues represent the billings by AMH under the various fee structures from health plans, medical groups/IPA's and hospitals. Management fee revenues have been eliminated subsequent to August 1, 2008.

Cost of Services

Cost of Services was $419,554 for the three months ended April 2009, compared to Cost of Services of $ 0 for the corresponding three months ended April 2008. Cost of Services includes the payroll and consulting costs of the physicians, all payroll related costs, costs for all medical malpractice insurance and physician privileges.

Operating Expenses

General and Administrative expenses were $172,562 for the three months ended April 30, 2009, compared to General and Administrative expenses of $83,134 reported in the comparable three months of April 30, 2008. In the first quarter of 2009, the Company recorded non-cash compensation expenses totaling $94,500, related to the issuance of shares for service. There were no comparable non-cash expenses in the first quarter of 2008.

Loss from Operations

The Company reported a Loss from Operations of $101,272 for the three month period ended April 30, 2009, compared to a Loss from Operations of $73,134 for the comparable three months ended April 30, 2008. The increased loss of $28,138 from 2008 to 2009 was due to the high costs of service relative to the revenues generated from the Company's contracts, as the Company has not yet achieved economies of scale in its activities. In addition, the loss from operations in the quarter ended April 2009 was further impacted by compensation and consulting costs. The Loss from Operations in the quarter ended April 2008 was due to the fact that the low level of management Fee income was insufficient to cover the costs of services and administrative costs in this formative year.

Net Loss

A net loss of $106,921 was reported for the three months ended April 30, 2009 verses a net loss of $73,134 for the three months ended April 30, 2008. The increased loss of $33,787 was primarily due to non-cash compensation costs incurred in the quarter just ended.

Liquidity and Capital Resources

At April 30, 2009, the Company had cash and cash equivalents of $59,220, compared to cash and cash equivalents of $84,161 at the beginning of the fiscal year at January 31, 2009. Short-term borrowings totaled $79,081 at April 30, 2009, compared to $74,782 as of January 31, 2009. The Company had no short-term borrowings at January 31, 2008. Long-term borrowings totaled $219,442 as of April 30, 2009, compared to long-term borrowings of $231,218 on January 31, 2009.
.

Net cash used in operating activities totaled a $17,464 for the three months ended April 30, 2009, compared to $71,481 for the comparable three months ended April 30, 2008. The significantly larger operating loss, including the $250,000 paid and expensed on the Siclone Merger, was primarily responsible for the increase in the negative operating cash flow.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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The Company does not hold any derivative instruments and does not engage in any hedging activities.

ITEM 4. CONTROLS AND PROCEDURES

a. Evaluation of Disclosure Controls and Procedures.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial and Accounting Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer have concluded that our disclosure controls and procedures were ineffective as of April 30, 2009. Management has identified the following three material weaknesses in our disclosure controls and procedures, and internal controls over financial reporting:

1. We do not have written documentation of our internal control policies and procedures. Written documentation of key internal controls over financial reporting is a requirement of Section 404 of the Sarbanes-Oxley Act. Management evaluated the impact of our failure to have written documentation of our internal controls and procedures on our assessment of our disclosure controls and procedures, and concluded that the control deficiency that resulted represented a material weakness.

2. We do not have sufficient segregation of duties within accounting functions, which is a basic internal control. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals. Management evaluated the impact of our failure to have segregation of duties on our assessment of our disclosure controls and procedures, and concluded that the control deficiency that resulted represented a material weakness.

3. We do not have review and supervision procedures for financial reporting functions. The review and supervision function of internal control relates to the accuracy of financial information reported. The failure to review and supervise could allow the reporting of inaccurate or incomplete financial information. Due to our size and nature, review and supervision may not always be possible or economically feasible. Management evaluated the impact of our significant number of audit adjustments, and concluded that the control deficiency that resulted represented a material weakness.

Based on the foregoing materials weaknesses, we have determined that, as of April 30, 2009, the effectiveness of our controls and procedures over financial accounting and reporting are insufficient. The Company is taking steps to improve the timeliness and accuracy of its financial information, including the hiring of additional employees to facilitate proper segregation of duties. It should be noted that any system of controls, however well designed and operated, can provide only reasonable and not absolute assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of certain events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore,

even those systems determined to be effective can only provide reasonable assurance of achieving their control objectives.

b. Changes in Internal Controls over Financial Reporting

There has been no change in our internal controls over financial reporting during our most recently completed fiscal quarter (i.e., the three-month period ended April 30, 2009) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company was not a party to any legal proceedings as of April 30, 2009 and is not aware of any pending legal actions.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company did not sell any Equity Securities during the periods covered by this filing.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There were no defaults upon senior securities during the period ended April 30, 2008.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to the vote of securities holders during the period ended April 30, 2008.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
31.2	Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.1	Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2	Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APOLLO MEDICAL HOLDINGS, INC.

Dated: June 12, 2009	By:	/s/ Warren Hosseinion
		Warren Hosseinion Chief Executive Officer and Director
Dated: June 12, 2009	By:	/s/ A. Noel DeWinter
		A. Noel DeWinter Chief Financial Officer and Principal Accounting Officer

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Commercial mortgage loans	
	104,046
	131,800
	4,886
	107,731
	514
	166
	1,510
	634

Commercial and Industrial Loans	
	174,983
	197,619
	17,540
	180,758
	612
	174
	1,814
	2,469
Construction:	

Land	9,861

13,969

1,196

9,978

11

20

37

64

Construction-commercial

51,495

51,490

748

51,645

125

-

376

-

Construction-residential

4,767

5,543

184

4,776

41

-

123

-

Consumer:

Auto loans	20,120
	20,120
	6,698
	21,434

375

-

1,066

-

Finance leases

2,165

2,165

322

2,494

39

-

123

-

Other consumer loans

15,965

16,457

1,580

16,489

370

39

1,323

71

$

842,713

$

952,252

$

51,859

$

858,597

$

6,918

$

863

$	19,829
$	5,040

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(In thousands)	Recorded Investment	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 $9.6 million ($7.6 million accrual basis and $2.0 million cash basis) and $25.6 million ($19.3 million accrual basis and $6.3 million cash basis) was recognized on impaired loans for the third quarter and nine-month period ended September 30, 2014, respectively.

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

		Quarter Ended		Nine-Month Period Ended
	September 30, 2015			
	(In thousands)			
Impaired Loans:				
Balance at beginning of period	$	824,816	$	945,407
Loans determined impaired during the period		37,528		135,350
Charge-offs (1)		(7,498)		(90,026)
Loans sold, net of charge-offs		-		(67,836)
Increases to impaired loans-additional disbursements		408		2,524
Reclassification from loans held for sale		40,005		40,005
Foreclosures		(12,858)		(33,044)
Loans no longer considered impaired		(25,877)		(39,062)
Paid in full or partial payments		(13,811)		(50,605)
Balance at end of period	$	842,713	$	842,713

(1) For the nine-month period ended September 30, 2015, 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		Nine-Month Period Ended
	September 30, 2014			
	(In thousands)			
Impaired Loans:				
Balance at beginning of period	$	908,858	$	919,112
Loans determined impaired during the period		118,549		271,792
Charge-offs		(31,263)		(95,948)
Increases to impaired loans- additional disbursements		1,768		2,687
Foreclosures		(5,332)		(13,472)
Loans no longer considered impaired		(1,009)		(18,740)
Paid in full or partial payments		(18,557)		(92,417)
Balance at end of period	$	973,014	$	973,014

	Quarter Ended	

				Nine-Month Period Ended
	September 30, 2015			
	(In thousands)			
Specific Reserve:				
Balance at beginning of period	$	49,918	$	55,205
Provision for loan losses		9,439		81,796
Net charge-offs		(7,498)		(85,142)
Balance at end of period	$	51,859	$	51,859

	Quarter Ended		Nine-Month Period Ended	
	September 30, 2014			
	(In thousands)			
Specific Reserve:				
Balance at beginning of period	$	68,358	$	102,601
Provision for loan losses		18,189		48,631
Net charge-offs		(31,263)		(95,948)
Balance at end of period	$	55,284	$	55,284

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 for under ASC 310-30. These previous transactions include the acquisition from Doral Financial in the second quarter of 2014 of all its rights, title and interest in first and second residential mortgages loans in full satisfaction of secured borrowings owed by such entity to FirstBank, and the acquisition in 2012 of a FirstBank-branded credit card loans portfolio from FIA Card Services ("FIA").

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

The carrying amount of PCI loans follows:

		September 30, 2015			December 31, 2014
(In thousands)					
Residential mortgage loans	$	172,927		$	98,494
Commercial mortgage loans		3,158			3,393
Credit Cards		-			717
Total PCI loans	$	176,085		$	102,604
Allowance for loan losses		(3,163)			-
Total PCI loans, net of allowance for loan losses	$	172,922		$	102,604

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

As of September 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)	$	-	$	15,805	$	22,145	$	37,950	$	134,977	$	172,927

Commercial mortgage loans (1)	-	571	401	972	2,186	3,158
	$ -	$ 16,376	$ 22,546	$ 38,922	$ 137,163	$ 176,085

(1) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage and commercial mortgage loans are considered past due when the borrower is in arrears two or more monthly payments. PCI residential mortgage loans past due 30-59 days as of September 30, 2015 amounted to $30.9 million.

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 ASC 310-30 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 yield. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized in the Corporation's provision for loan and lease losses, resulting in an increase to the allowance for loan losses. During the 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 nine-month period ended September 30, 2015 and 2014 were as follows:											
	Quarter ended September 30, 2015			**Quarter ended September 30, 2014**			**Nine-month period ended September 30, 2015**			**Nine-month period ended September 30, 2014**	
(In thousands)											
Balance at beginning of period	$	124,288		$	86,147		$	82,460		$	-
Additions (accretable yield at acquisition											
of loans from Doral)		-			-			38,319			86,759
Accretion recognized in earnings		(3,411)			(1,850)			(8,695)			(2,462)
Reclassification from non-accretable		1,348			-			10,141			-
Balance at end of period	$	122,225		$	84,297		$	122,225		$	84,297

The outstanding principal balance of PCI loans, including amounts charged off by the Corporation, amounted to $220.4 million as of September 30, 2015 (December 2014 - $135.5 million).

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

	Quarter Ended		Nine-Month Period Ended	
		September 30, 2015		September 30, 2015
(In thousands)				
Balance at beginning of period	$	178,494	$	102,604
Additions (1)		-		79,889
Accretion		3,411		8,695
Collections and charge-offs		(5,663)		(14,946)
Foreclosures		(157)		(157)
Ending balance	$	176,085	$	176,085
Allowance for loan losses		(3,163)		(3,163)
Ending balance, net of allowance for loan losses	$	172,922	$	172,922

(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 nine months of 2015, the Corporation purchased $68.2 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 nine months of 2015, the Corporation purchased a $21.1 million 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 $110.1 million of performing residential mortgage loans to FNMA and FHLMC during the first nine months of 2015. Also, during the first nine months of 2015, the Corporation sold $213.4 million of FHA/VA mortgage loans to GNMA, which packages them into mortgage-backed securities. The Corporation's continuing involvement in these loan sales consists primarily of servicing the loans. In addition, the Corporation agreed to repurchase loans when it breaches any of the representations and warranties included in the sale agreement. These representations and warranties are consistent with the GSEs' selling and servicing guidelines (i.e., ensuring that the mortgage was properly underwritten according to established guidelines).

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

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

During the first nine months of 2015, the Corporation repurchased pursuant to its repurchase option with GNMA $10.6 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 $1.3 million during the first nine months 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 nine months of 2015. Historically, losses experienced on these loans have been immaterial. As a consequence, as of September 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 $9.3 billion as of September 30, 2015, approximately 81% have credit risk concentration in

Puerto Rico, 12% in the United States, and 7% in the USVI and BVI.

As of September 30, 2015, the Corporation had $336.0 million of credit facilities, excluding investment securities, granted to the Puerto Rico government, its municipalities and public corporations, of which $320.6 million was outstanding (book value of $318.4 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 $101.0 million as of September 30, 2015, compared to $57.7 million as of December 31, 2014. Approximately $199.5 million of the granted credit facilities outstanding consisted of loans to municipalities in Puerto Rico. 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 $21.0 million consisted of loans to units of the Puerto Rico central government, and approximately $100.2 million ($97.9 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 $72.6 million as of September 30, 2015. The PREPA credit facility was placed in non-accrual status in the first quarter of 2015, and interest payments are now recorded on a cost-recovery basis. 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 September 30, 2015, the Corporation had $130.1 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 facilitates private-sector financings to Puerto Rico's hotel industry. TDF provides guarantees to financings and may provide direct loans. The aforementioned $130.1 million exposure was adversely classified during the third quarter of 2015 given liquidity risks and uncertainties over the governments' fiscal initiatives. Nevertheless, these loans are current in payments and are collateralized by real estate. The facilities are in accrual status as of September 30, 2015. 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 $3.9 million in 2015 and $4.5 million in 2014. In addition, the Corporation had $125.1 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 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 September 30, 2015, the Corporation's total TDR loans of $682.0 million consisted of $382.6 million of residential mortgage loans, $151.4 million of commercial and industrial loans, $64.7 million of commercial mortgage loans, $46.6 million of construction loans, and $36.7 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to $0.2 million as of September 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 September 30, 2015, we classified an additional $8.2 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 to assist with the restructuring of large commercial loans.

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

restructurings are done in the normal course of business and 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:

	September 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	$ 29,240	$ 5,629	$ 298,210	$ -	$ 49,534	$ 382,613
Commercial Mortgage Loans	24,076	1,249	26,940	-	12,420	64,685
Commercial and Industrial Loans	2,177	74,357	28,131	3,032	43,713	151,410
Construction Loans:						
Land	-	230	2,173	-	587	2,990
Construction-commercial (2)	-	-	-	40,005	-	40,005
Construction-residential	-	-	3,158	-	431	3,589
Consumer Loans - Auto	-	2,435	11,039	-	6,646	20,120
Finance Leases	-	774	1,391	-	-	2,165
Consumer Loans - Other	37	811	11,424	297	1,817	14,386
Total Troubled Debt Restructurings	$ 55,530	$ 85,485	$ 382,466	$ 43,334	$ 115,148	$ 681,963

(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) During the third quarter of 2015, upon the signing of a new agreement with the borrower, the Corporation changed its intent to sell a $40.0 million construction loan in the Virgin Islands. Accordingly, the loan was

transferred back from held for sale to held for investment and continues to be classified as a TDR and a non-performing loan.

	December 31, 2014					
(In thousands)	Interest rate below market	Maturity or term extension	Combination of reduction in interest rate and extension of maturity	Forgiveness of principal and/or interest	Other (1)	Total
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	$ 24,850	$ 5,859	$ 283,317	$ -	$ 35,749	$ 349,775
Commercial Mortgage Loans	29,881	12,737	72,493	-	12,655	127,766
Commercial and Industrial Loans	7,533	80,642	31,553	3,074	49,124	171,926
Construction Loans:						
Land	-	202	1,732	-	536	2,470
Construction-residential	6,154	337	3,112	-	434	10,037
Consumer Loans - Auto	-	380	10,363	-	6,248	16,991
Finance Leases	-	376	1,805	-	-	2,181
Consumer Loans - Other	37	129	10,812	443	1,886	13,307
Total Troubled Debt Restructurings (2)	$ 68,455	$ 100,662	$ 415,187	$ 3,517	$ 106,632	$ 694,453

(1) Other concessions granted by the Corporation include deferral of principal and/or interest payments for a period longer than what would be considered insignificant, payment plans under judicial stipulation or a combination of the concessions listed in the table.

(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		Nine-Month Period Ended	
	September 30, 2015			
Beginning balance of TDRs	$	634,761	$	694,453
New TDRs		30,044		95,840
Increases to existing TDRs - additional disbursements		309		644
Charge-offs post modification (1)		(5,327)		(58,707)
Sales, net of charge-offs		-		(44,048)
Foreclosures		(6,139)		(16,391)
Reclassification from loans held for sale		40,005		40,005
Paid-off and partial payments		(11,690)		(29,833)
Ending balance of TDRs	$	681,963	$	681,963

(1) For the nine-month period ended September 30, 2015 includes $45.3 million of charge-offs related to TDRs included in the bulk sale of assets.

(In thousands)	Quarter Ended		Nine-Month Period Ended	
	September 30, 2014			
Beginning balance of TDRs	$	628,233	$	630,258
New TDRs		94,864		149,609
Increases to existing TDRs - additional disbursements		1,197		1,331
Charge-offs post modification		(12,598)		(39,246)
Foreclosures		(768)		(3,369)
Paid-off and partial payments		(9,785)		(37,440)
Ending balance of TDRs	$	701,143	$	701,143

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 limit increases in foreclosure and OREO costs. The Corporation continues to consider a modified loan as an impaired loan for purposes of estimating the allowance for loan and lease losses. A TDR 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 nine months of 2015.

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

(In thousands)	September 30, 2015					
	Accrual		Nonaccrual (1)		Total TDRs	
Non-FHA/VA Residential Mortgage loans	$	299,251	$	83,362	$	382,613
Commercial Mortgage Loans		29,271		35,414		64,685
Commercial and Industrial Loans		50,825		100,585		151,410
Construction Loans:						
Land		681		2,309		2,990
Construction-commercial (2)		-		40,005		40,005
Construction-residential		3,063		526		3,589
Consumer Loans - Auto		13,607		6,513		20,120
Finance Leases		1,965		200		2,165
Consumer Loans - Other		13,171		1,215		14,386
Total Troubled Debt Restructurings	$	411,834	$	270,129	$	681,963

(1) Included in non-accrual loans are $94.4 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) During the third quarter of 2015, upon the signing of a new agreement with the borrower, the Corporation changed its intent to sell a $40.0 million construction loan in the Virgin Islands. Accordingly, the loan was transferred back from held for sale to held for investment and continues to be classified as a TDR and a non-performing loan.

(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

(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 $79.9 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 nine-month period ended September 30, 2015 and 2014 were as follows:

(Dollars in thousands)	Quarter ended September 30, 2015						
	Number of contracts		Pre-modification Outstanding Recorded Investment			Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:							
Non-FHA/VA Residential Mortgage loans	98		$	19,901		$	19,481
Commercial Mortgage Loans	4			7,380			5,719
Commercial and Industrial Loans	-			-			-
Construction Loans:							
Land	1			109			109
Consumer Loans - Auto	203			3,352			3,297
Finance Leases	19			521			418
Consumer Loans - Other	197			1,026			1,020
Total Troubled Debt Restructurings	522		$	32,289		$	30,044
(Dollars in thousands)	Nine-Month period ended September 30, 2015						
	Number of contracts		Pre-modification Outstanding Recorded Investment			Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:							
Non-FHA/VA Residential Mortgage loans	350		$	60,043		$	57,882
Commercial Mortgage Loans	13			20,332			18,781
Commercial and Industrial Loans	3			2,997			2,579
Construction Loans:							
Land	7			603			600
Consumer Loans - Auto	547			8,739			8,564
Finance Leases	43			1,215			1,056
Consumer Loans - Other	929			6,432			6,378
Total Troubled Debt Restructurings	1,892		$	100,361		$	95,840

(Dollars in thousands)	Quarter ended September 30, 2014					
	Number of contracts		Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	88	$	13,050	$	12,856	
Commercial Mortgage Loans	1		589		589	
Commercial and Industrial Loans	4		76,110		76,182	
Construction Loans:						
Land	3		183		143	
Consumer Loans - Auto	214		3,189		3,106	
Finance Leases	13		292		230	
Consumer Loans - Other	352		1,756		1,758	
Total Troubled Debt Restructurings	675	$	95,169	$	94,864	

(Dollars in thousands)	Nine-Month period ended September 30, 2014					
	Number of contracts		Pre-modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
Troubled Debt Restructurings:						
Non-FHA/VA Residential Mortgage loans	226	$	31,776	$	30,831	
Commercial Mortgage Loans	5		1,833		1,836	
Commercial and Industrial Loans	16		105,188		104,926	
Construction Loans:						
Land	5		238		200	
Consumer Loans - Auto	423		6,202		6,104	
Finance Leases	33		659		565	
Consumer Loans - Other	1,094		5,172		5,147	
Total Troubled Debt Restructurings	1,802	$	151,068	$	149,609	

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 nine-month periods ended September 30, 2015 and September 30, 2014 and had become TDRs during the 12-months preceding the default date were as follows:

	Quarter ended September 30,							
(Dollars in thousands)	2015				2014			
	Number of contracts		Recorded Investment		Number of contracts		Recorded Investment	
Non-FHA/VA Residential Mortgage loans	23	$	3,744		12	$	1,950	
Commercial Mortgage Loans	-		-		2		4,604	
Commercial and Industrial Loans	-		-		1		377	
Consumer Loans - Auto	1		10		21		347	
Consumer Loans - Other	51		219		64		262	
Finance Leases	3		145		4		82	
Total	78	$	4,118		104	$	7,622	

	Nine-Month Period Ended September 30,							
(Dollars in thousands)	2015				2014			
	Number of contracts		Recorded Investment		Number of contracts		Recorded Investment	
Non-FHA/VA Residential Mortgage loans	50	$	7,646		45	$	6,769	
Commercial Mortgage Loans	-		-		2		4,604	
Commercial and Industrial Loans	4		5,745		1		377	
Construction Loans:								
Land	-		-		1		46	
Consumer Loans - Auto	8		50		43		672	
Consumer Loans - Other	141		589		162		643	

Finance Leases	6			185		4			82
Total	209		$	14,215		258		$	13,193

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 $40.6 million as of September 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 nine months of 2015 and 2014:

(In thousands)	**September 30, 2015**			**September 30, 2014**	
Principal balance deemed collectible at end of period	$	40,632		$	59,764
Amount (recovery) charged off	$	-		$	(7,732)
Charges (reductions) to the provision for loan losses	$	185		$	(8,719)
Allowance for loan losses at end of period	$	916		$	575

Of the loans comprising the $40.6 million that have been deemed collectible, approximately $39.6 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 September 30, 2015						
Allowance for loan and lease losses:						
Beginning balance	$ 33,783	$ 49,092	$ 63,900	$ 11,865	$ 62,878	$ 221,518
Charge-offs	(5,094)	(3,677)	(1,267)	(103)	(15,926)	(26,067)
Recoveries	214	20	327	176	1,602	2,339
Provision (release)	6,958	6,668	3,807	(139)	13,882	31,176
Ending balance	$ 35,861	$ 52,103	$ 66,767	$ 11,799	$ 62,436	$ 228,966
Ending balance: specific reserve for impaired loans	$ 18,705	$ 4,886	$ 17,540	$ 2,128	$ 8,600	$ 51,859
Ending balance: purchased credit-impaired loans	$ 3,061	$ 102	$ -	$ -	$ -	$ 3,163
Ending balance: general allowance	$ 14,095	$ 47,115	$ 49,227	$ 9,671	$ 53,836	$ 173,944
Loans held for investment:						
Ending balance	$ 3,330,089	$ 1,562,538	$ 2,383,807	$ 163,956	$ 1,861,555	$ 9,301,945
Ending balance:	$ 459,311	$ 104,046	$ 174,983	$ 66,123	$ 38,250	$ 842,713

impaired loans												
Ending balance: purchased credit-impaired loans	$	172,927	$	3,158	$	-	$	-	$	-	$	176,085
Ending balance: loans with general allowance	$	2,697,851	$	1,455,334	$	2,208,824	$	97,833	$	1,823,305	$	8,283,147

(In thousands)	Residential Mortgage Loans		Commercial Mortgage Loans		Commercial & Industrial Loans		Construction Loans		Consumer Loans		Total	
Nine-Month period ended September 30, 2015												
Allowance for loan and lease losses:												
Beginning balance	$	27,301	$	50,894	$	63,721	$	12,822	$	67,657	$	222,395
Charge-offs		(13,815)		(54,115)		(30,090)		(4,787)		(48,221)		(151,028)
Recoveries		584		6,515		3,386		2,379		6,323		19,187
Provision		21,791		48,809		29,750		1,385		36,677		138,412
Ending balance	$	35,861	$	52,103	$	66,767	$	11,799	$	62,436	$	228,966
Ending balance: specific reserve for impaired loans	$	18,705	$	4,886	$	17,540	$	2,128	$	8,600	$	51,859
Ending balance: purchased credit-impaired loans	$	3,061	$	102	$	-	$	-	$	-	$	3,163
Ending balance: general allowance	$	14,095	$	47,115	$	49,227	$	9,671	$	53,836	$	173,944
Loans held for investment:												
Ending balance	$	3,330,089	$	1,562,538	$	2,383,807	$	163,956	$	1,861,555	$	9,301,945

Ending balance: impaired loans	$ 459,311	$ 104,046	$ 174,983	$ 66,123	$ 38,250	$ 842,713
Ending balance: purchased credit-impaired loans	$ 172,927	$ 3,158	$ -	$ -	$ -	$ 176,085
Ending balance: loans with general allowance	$ 2,697,851	$ 1,455,334	$ 2,208,824	$ 97,833	$ 1,823,305	$ 8,283,147

(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Quarter ended September 30, 2014						
Allowance for loan and lease losses:						
Beginning balance	$ 29,755	$ 48,578	$ 76,890	$ 21,292	$ 64,662	$ 241,177
Charge-offs	(5,970)	(2,823)	(17,605)	(7,691)	(19,848)	(53,937)
Recoveries	236	3,939	1,174	4,486	1,360	11,195
Provision (release)	5,885	2,721	3,017	(3,652)	19,028	26,999
Ending balance	$ 29,906	$ 52,415	$ 63,476	$ 14,435	$ 65,202	$ 225,434
Ending balance: specific reserve for impaired loans	$ 11,658	$ 14,128	$ 21,267	$ 2,936	$ 5,295	$ 55,284
Ending balance: purchased credit-impaired loans	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: general allowance	$ 18,248	$ 38,287	$ 42,209	$ 11,499	$ 59,907	$ 170,150
Loans held for investment:						
Ending balance	$ 2,819,648	$ 1,812,094	$ 2,515,384	$ 141,689	$ 2,026,587	$ 9,315,402
Ending balance: impaired loans	$ 421,823	$ 238,332	$ 241,413	$ 39,441	$ 32,005	$ 973,014
Ending balance: purchased credit-impaired loans	$ 99,535	$ 3,418	$ -	$ -	$ 1,360	$ 104,313

(In thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Ending balance: loans with general allowance	$ 2,298,290	$ 1,570,344	$ 2,273,971	$ 102,248	$ 1,993,222	$ 8,238,075
Nine-Month period ended September 30, 2014						
Allowance for loan and lease losses:						
Beginning balance	$ 33,110	$ 73,138	$ 85,295	$ 35,814	$ 58,501	$ 285,858
Charge-offs	(17,379)	(22,056)	(59,516)	(11,322)	(56,425)	(166,698)
Recoveries	605	8,271	2,253	5,158	4,329	20,616
Provision (release)	13,570	(6,938)	35,444	(15,215)	58,797	85,658
Ending balance	$ 29,906	$ 52,415	$ 63,476	$ 14,435	$ 65,202	$ 225,434
Ending balance: specific reserve for impaired loans	$ 11,658	$ 14,128	$ 21,267	$ 2,936	$ 5,295	$ 55,284
Ending balance: purchased credit-impaired loans	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: general allowance	$ 18,248	$ 38,287	$ 42,209	$ 11,499	$ 59,907	$ 170,150
Loans held for investment:						
Ending balance	$ 2,819,648	$ 1,812,094	$ 2,515,384	$ 141,689	$ 2,026,587	$ 9,315,402
Ending balance: impaired loans	$ 421,823	$ 238,332	$ 241,413	$ 39,441	$ 32,005	$ 973,014
Ending balance: purchased	$ 99,535	$ 3,418	$ -	$ -	$ 1,360	$ 104,313

credit-impaired loans												
Ending balance: loans with general allowance	$	2,298,290	$	1,570,344	$	2,273,971	$	102,248	$	1,993,222	$	8,238,075

As discussed in Note 7, under the heading “Bulk Sale of Assets,” during the second quarter of 2015, the Corporation completed the sale of commercial and construction loans with a book value of $147.5 million, mostly comprised of non-performing and adversely classified loans. This transaction resulted in charge-offs of approximately $61.4 million.

The Corporation has considered the charge-offs information related to the second quarter 2015 bulk sale in its second and third quarter estimates of credit impairment for loans collectively measured. In the second quarter, the total bulk sale charge offs were included in the determination of historical loss rates with no reduction for the additional market discount related to the bulk sale resolution; in the past the Corporation had separated the market component of the loss. The decision to include total charge-offs, with no qualitative adjustment for the steep discount on this bulk sale, considered the potential use of similar credit resolution strategies in the future in light of the current economic conditions in Puerto Rico. The effect of this position resulted in an increase of $15.5 million in the general reserve for loan losses determined for loans collectively evaluated for impairment. During the third quarter of 2015, the Corporation further refined its methodology by allocating the second quarter bulk sale losses over an estimated realization period of eight quarters which would reflect a more typical loss resolution pattern. Management believes that this loss estimation process is more indicative of the current experience related to the average period for a loan to migrate to asset classification categories and the eventual charge-off.

As of September 30, 2015, the Corporation maintained a $0.5 million reserve for unfunded loan commitments mainly related to outstanding construction and commercial and industrial loan commitments. The reserve for unfunded loan commitments is an estimate of the losses inherent in off-balance sheet loan commitments to borrowers that are experiencing financial difficulties at the balance sheet date. It is calculated by multiplying an estimated loss factor by an estimated probability of funding, and then by the period-end amounts for unfunded commitments. The reserve for unfunded loan commitments is included as part of accounts payable and other liabilities in the consolidated statement of financial condition.

NOTE 9 – LOANS HELD FOR SALE

The Corporation's loans held-for-sale portfolio was composed of:

(In thousands)	September 30, 2015		December 31, 2014	
Residential mortgage loans	$	26,560	$	22,315
Construction loans		7,797		47,802
Commercial mortgage loans		230		6,839
Total	$	34,587	$	76,956

Non-performing loans held for sale totaled $8.0 million ($0.2 million commercial mortgage and $7.8 million construction loans) and $54.6 million ($6.8 million commercial mortgage and $47.8 million construction loans) as of September 30, 2015 and December 31, 2014, respectively.

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

During the second quarter of 2015, the Corporation completed the sale of a $6.6 million non-performing commercial mortgage loan as part of the bulk sale of assets.

NOTE 10 – OTHER REAL ESTATE OWNED

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

(In thousands)	September 30, 2015	December 31, 2014
OREO		
OREO balances, carrying value:		

FHA/VA-Guaranteed (1)	$	7,809	$	7,059
Other residential		30,187		22,520
Commercial		71,124		75,654
Construction		15,322		18,770
Total	$	124,442	$	124,003

(1) As of September 30, 2015, excludes $0.1 million of foreclosures completed in 2015 that meet the conditions of ASC 310-40 and are presented as a receivable (other assets) in the statement of financial condition.

NOTE 11 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

One of the market risks facing the Corporation is interest rate risk, which includes the risk that changes in interest rates will result in changes in the value of the Corporation's assets or liabilities and the risk that net interest income from its loan and investment portfolios will be adversely affected by changes in interest rates. The overall objective of the Corporation's interest rate risk management activities is to reduce the variability of earnings caused by changes in interest rates.

The Corporation designates a derivative as a fair value hedge, a cash flow hedge or an economic undesignated hedge when it enters into the derivative contract. As of September 30, 2015 and December 31, 2014, all derivatives held by the Corporation were considered economic undesignated hedges. These undesignated hedges are recorded at fair value with the resulting gain or loss recognized in current earnings.

The following summarizes the principal derivative activities used by the Corporation in managing interest rate risk:

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

Interest rate swaps - Interest rate swap agreements generally involve the exchange of fixed and floating-rate interest payment obligations without the exchange of the underlying notional principal amount. As of September 30, 2015, the Corporation has no interest rate swaps outstanding. In the past, most of the interest rate swaps were used for protection against rising interest rates. Similar to unrealized gains and losses arising from changes in fair value, net interest settlements on interest rate swaps are recorded as an adjustment to interest income or interest expense depending on whether an asset or liability is being economically hedged.

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

To satisfy the needs of its customers, the Corporation may enter into nonhedging transactions. On these transactions, generally, the Corporation participates as a buyer in one of the agreements and as a seller in the other agreement under the same terms and conditions.

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

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

	Notional Amounts				
	As of September 30, 2015			**As of December 31, 2014**	
	(In thousands)				
Undesignated economic hedges:					
Interest rate contracts:					
Interest rate swap agreements	$	-		$	5,440
Written interest rate cap agreements		121,150			37,132
Purchased interest rate cap agreements		121,150			37,132

Forward Contracts:					
Sale of GNMA TBAs		32,000			19,000
	$	274,300		$	98,704
Notional amounts are presented on a gross basis with no netting of offsetting exposure positions.					

The following table summarizes the fair value of derivative instruments and the location in the statement of financial condition:

	Asset Derivatives					Liability Derivatives				
	Statement of Financial Condition Location		**September 30, 2015 Fair Value**		**December 31, 2014 Fair Value**	**Statement of Financial Condition Location**		**September 30, 2015 Fair Value**		**December 31, 2014 Fair Value**
(In thousands)										
Undesignated economic hedges:										
Interest rate contracts:										
Interest rate swap agreements	Other assets	$	-	$	33	Accounts payable and other liabilities	$	-	$	33
Written interest rate cap agreements	Other assets		-		-	Accounts payable and other liabilities		793		6
Purchased interest rate cap agreements	Other assets		806		6	Accounts payable and other liabilities		-		-
Forward Contracts:										
Sales of GNMA TBAs	Other assets		-		-	Accounts payable and other liabilities		245		148
		$	806	$	39		$	1,038	$	187

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

(In thousands)	Location of Gain or (loss) Recognized in Income on Derivatives	Gain (or Loss) Quarter Ended September 30, 2015	Gain (or Loss) Quarter Ended September 30, 2014	Gain (or Loss) Nine-Month Period Ended September 30, 2015	Gain (or Loss) Nine-Month Period Ended September 30, 2014
Undesignated economic hedges:					
Interest rate contracts:					
Interest rate swap agreements	Interest income - Loans	$ -	$ 419	$ -	$ 993
Written and purchased interest rate cap agreements	Interest income - Loans	144	-	144	-
Forward contracts:					
Sales of GNMA TBAs	Mortgage banking activities	(279)	229	(97)	(173)
Total (loss) gain on derivatives		$ (135)	$ 648	$ 47	$ 820

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

A summary of interest rate swaps is as follows:

(Dollars in thousands)	As of September 30, 2015	As of December 31, 2014
Pay fixed/receive floating :		
Notional amount (1)	$ -	$ 5,440

Weighted-average receive rate at period end		-			2.03%	
Weighted-average pay rate at period end		-			3.45%	

(1) The remaining interest rate swap with a notional amount of $5.4 million matured during the second quarter of 2015.

As of September 30, 2015 the Corporation had not entered into any derivative instrument containing credit-risk related contingent features.

NOTE 12 – OFFSETTING OF ASSETS AND LIABILITIES

The Corporation enters into master agreements with counterparties, primarily related to derivatives and repurchase agreements, that may allow for netting of exposures in the event of default. In an event of default, each party has a right of set-off against the other party for the amounts owed in the related agreement and any other amount or obligation owed in respect of any other agreement or transaction between them. The following table presents information about the offsetting of financial assets and liabilities as well as derivative assets and liabilities:

Offsetting of Financial Assets and Derivative Assets												
(In thousands)												
As of September 30, 2015												
							Gross Amounts Not Offset in the Statement of Financial Position					
Description	**Gross Amounts of Recognized Assets**		**Gross Amounts Offset in the Statement of Financial Position**		**Net Amounts of Assets Presented in the Statement of Financial Position**		**Financial Instruments**		**Cash Collateral**		**Net Amount**	
Derivatives	$	806	$	-	$	806	$	(806)	$	-	$	-
Securities purchased under agreements to resell		200,000		(200,000)		-		-		-		-
Total		200,806		(200,000)		806		(806)		-		-
As of December 31, 2014												
							Gross Amounts Not Offset in the Statement of Financial Position					
					Net Amounts							

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral	Net Amount
Derivatives	$ 6	$ -	$ 6	$ (6)	$ -	$ -

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Offsetting of Financial Liabilities and Derivative Liabilities

(In thousands)

As of September 30, 2015

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

As of December 31, 2014

				Gross Amounts Not Offset in the Statement of Financial Position		
Description	**Gross Amounts of Recognized Liabilities**	**Gross Amounts Offset in the Statement of Financial Position**	**Net Amounts of Liabilities Presented in the Statement of Financial Position**	**Financial Instruments**	**Cash Collateral**	**Net Amount**
Derivatives	$ 33	$ -	$ 33	$ (33)	$ -	$ -
Securities sold under agreements to repurchase	600,000	-	600,000	(600,000)	-	-
Total	$ 600,033	$ -	$ 600,033	$ (600,033)	$ -	$ -

NOTE 13 – GOODWILL AND OTHER INTANGIBLES

Goodwill as of September 30, 2015 and December 31, 2014 amounted to $28.1 million, recognized as part of "Other Assets" in the consolidated statement of financial condition. The Corporation conducted its annual evaluation of goodwill and intangibles during the fourth quarter of 2014. The Corporation's goodwill is related to the acquisition of FirstBank Florida in 2005.

The Corporation bypassed the qualitative assessment in 2014 and proceeded directly to perform the first step of the two-step goodwill impairment test. The Step 1 evaluation of goodwill allocated to the Florida reporting unit under both valuation approaches (market and discounted cash flow analysis) indicated that the fair value of the unit was above the carrying amount of its equity book value as of the valuation date (October 1); therefore, the completion of Step 2 was not required. Based on the analysis under both the market and discounted cash flow analysis, the estimated fair value of the equity of the reporting unit exceeded the carrying amount of the entity, including goodwill at the evaluation date. There have been no events related to the Florida reporting unit that could indicate potential goodwill impairment since the date of the last evaluation; therefore, no goodwill impairment evaluation was performed during the first nine months of 2015. Goodwill and other indefinite life intangibles are reviewed at least annually for impairment.

In connection with the acquisition of the FirstBank-branded credit card loan portfolio in the second quarter of 2012, the Corporation recognized a purchased credit card relationship intangible of $24.5 million, which is being amortized over the next 6.1 years on an accelerated basis based on the estimated attrition rate of the purchased credit card accounts, which reflects the pattern in which the economic benefits of the intangible asset are consumed. These benefits are consumed as the revenue stream generated by the cardholder relationship is realized.

The core deposit intangible acquired in the February 2015 Doral Bank transaction amounted to $5.8 million ($5.3 million as of September 30, 2015).

The following table shows the gross amount and accumulated amortization of the Corporation's intangible assets recognized as part of Other Assets in the consolidated statement of financial condition:

	As of September 30, 2015			**As of December 31, 2014**	
(Dollars in thousands)					
Core deposit intangible:					
Gross amount, beginning of period	$	45,844		$	45,844
Addition as a result of acquisition		5,820			-

Accumulated amortization		(41,939)			(40,424)
Net carrying amount	$	9,725		$	5,420
Remaining amortization period		9.3 years			8.4 years
Purchased credit card relationship intangible:					
Gross amount	$	24,465		$	24,465
Accumulated amortization		(10,378)			(8,076)
Net carrying amount	$	14,087		$	16,389
Remaining amortization period		6.1 years			6.9 years

For the quarter and nine-month period ended September 30, 2015, the amortization expense of core deposit intangibles amounted to $0.6 million and $1.5 million, respectively (2014 - $0.4 million and $1.2 million, respectively). For the quarter and nine-month period ended September 30, 2015, the amortization expense of the purchased credit card relationship intangible amounted to $0.8 million and $2.3 million, respectively (2014 - $0.8 million and $2.6 million, respectively).

The estimated aggregate amortization expense related to these intangible assets for future periods is as follows:				
			Amount	
			(In thousands)	
	2015	$	1,326	
	2016		4,884	
	2017		4,270	
	2018		3,313	
	2019 and after		10,019	

NOTE 14 – NON CONSOLIDATED VARIABLE INTEREST ENTITIES AND SERVICING ASSETS

The Corporation transfers residential mortgage loans in sale or securitization transactions in which it has continuing involvement, including servicing responsibilities and guarantee arrangements. All such transfers have been accounted for as sales as required by applicable accounting guidance.

When evaluating transfers and other transactions with Variable Interest Entities ("VIEs") for consolidation, the Corporation first determines if the counterparty is an entity for which a variable interest exists. If no scope exception is applicable and a variable interest exists, the Corporation then evaluates if it is the primary beneficiary of the VIE and whether the entity should be consolidated or not.

Below is a summary of transfers of financial assets to VIEs for which the Corporation has retained some level of continuing involvement:

GNMA

The Corporation typically transfers first lien residential mortgage loans in conjunction with GNMA securitization transactions in which the loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights. The securities issued through these transactions are guaranteed by the issuer and, as such, under seller/servicer agreements, the Corporation is required to service the loans in accordance with the issuers' servicing guidelines and standards. As of September 30, 2015, the Corporation serviced loans securitized through GNMA with a principal balance of $1.3 billion.

Trust Preferred Securities

In 2004, FBP Statutory Trust I, a financing subsidiary of the Corporation, sold to institutional investors $100 million of its variable rate trust-preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.1 million of FBP Statutory Trust I variable rate common securities, were used by FBP Statutory Trust I to purchase $103.1 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures. Also in 2004, FBP Statutory Trust II, a statutory trust that is wholly owned by the Corporation, sold to institutional investors $125 million of its variable rate trust-preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.9 million of FBP Statutory Trust II variable rate common securities, were used by FBP Statutory Trust II to purchase $128.9 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures. The debentures are presented in the

Corporation's consolidated statement of financial condition as Other Borrowings, net of related issuance costs. The variable rate trust-preferred securities are fully and unconditionally guaranteed by the Corporation. During the second quarter of 2015, the Corporation exchanged $5.3 million of trust preferred securities (FBP Statutory Trust I) for 852,831 shares of the Corporation's common stock. The Junior Subordinated Deferrable Debentures issued by the Corporation in April 2004 and in September 2004 mature on June 17, 2034 and September 20, 2034, respectively; however, under certain circumstances, the maturity of Junior Subordinated Deferrable Debentures may be shortened (such shortening would result in a mandatory redemption of the variable rate trust-preferred securities). The Collins Amendment to the Dodd-Frank Act eliminates certain trust-preferred securities from Tier 1 Capital. Bank Holding Companies, such as the Corporation, must fully phase out these instruments from Tier I capital by January 1, 2016 (25% allowed in 2015 and 0% in 2016); however, these instruments may remain in Tier 2 capital until the instruments are redeemed or mature. Under the indentures, the Corporation has the right, from time to time, and without causing an event of default, to defer payments of interest on the subordinated debentures by extending the interest payment period at any time and from time to time during the term of the subordinated debentures for up to twenty consecutive quarterly periods. Future interest payments are subject to the Federal Reserve approval. The Corporation elected to defer the interest payments that were due on quarterly periods since March 2012. The aggregate amount of payments deferred and accrued approximates $26.8 million as of September 30, 2015.

Grantor Trusts

During 2004 and 2005, a third party to the Corporation, from now on identified as the seller, established a series of statutory trusts to effect the securitization of mortgage loans and the sale of trust certificates. The seller initially provided the servicing for a fee, which is senior to the obligations to pay trust certificate holders. The seller then entered into a sales agreement through which it sold and issued the trust certificates in favor of the Corporation's banking subsidiary. Currently, the Bank is the sole owner of the trust certificates; the servicing of the underlying residential mortgages that generate the principal and interest cash flows, is performed by another third party, which receives a servicing fee. The securities are variable rate securities indexed to 90-day LIBOR plus a spread. The principal payments from the underlying loans are remitted to a paying agent (servicer) who then remits interest to the Bank; interest income is shared to a certain extent with the FDIC, which has an interest only strip ("IO") tied to the cash flows of the underlying loans and is entitled to receive the excess of the interest income less a servicing fee over the variable rate income that the Bank earns on the securities. This IO is limited to the weighted average coupon of the securities. The FDIC became the owner of the IO upon its intervention of the seller, a failed financial institution. No recourse agreement exists and the risk from losses on non-accruing loans and repossessed collateral is absorbed by the Bank as the sole holder of the certificates. As of September 30, 2015, the amortized balance and carrying value of Grantor Trusts amounted to $37.5 million and $27.4 million, respectively, with a weighted average yield of 2.20%.

Investment in unconsolidated entity

On February 16, 2011, FirstBank sold an asset portfolio consisting of performing and non-performing construction, commercial mortgage and commercial and industrial loans with an aggregate book value of $269.3 million to CPG/GS, an entity organized under the laws of the Commonwealth of Puerto Rico and majority owned by PRLP Ventures LLC ("PRLP"), a company created by Goldman, Sachs & Co. and Caribbean Property Group. In connection with the sale, the Corporation received $88.5 million in cash and a 35% interest in CPG/GS, and made a loan in the amount of $136.1 million representing seller financing provided by FirstBank. The loan had a seven-year maturity and bears variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity's assets as well as the PRLP's 65% ownership interest in CPG/GS. As of September 30, 2015, the carrying amount of the loan was $10.0 million, which was included in the Corporation's Commercial and Industrial loans held for investment portfolio. FirstBank's equity interest in CPG/GS is accounted for under the equity method and included as part of Investment in unconsolidated entity in the Consolidated Statements of Financial Condition. When applying the equity method, the Bank follows the Hypothetical Liquidation Book Value method ("HLBV") to determine its share of CPG/GS's earnings or loss. Under HLBV, the Bank determines its share in CPG/GS's earnings or loss by determining the difference between its "claim on CPG/GS's book value" at the end of the period as compared to the beginning of the period. This claim is calculated as the amount the Bank would receive if CPG/GS were to liquidate all of its assets at recorded amounts determined in accordance with GAAP and distribute the resulting cash to the investors, PRLP, and FirstBank, according to their respective priorities as provided in the contractual agreement. The Bank reports its share of CPG/GS's operating results on a one-quarter lag basis. In addition, as a result of using HLBV, the difference between the Bank's investment in CPG/GS and its claim on the book value of CPG/GS at the date of the investment, known as the basis difference, is amortized over the estimated life of the investment, or five years. CPG/GS records its loans receivable under the fair value option. The loss recorded in the first half of 2014 reduced to zero the carrying amount of the Bank's investment in CPG/GS. No negative investment needs to be reported as the Bank has no legal

obligation or commitment to provide further financial support to this entity; thus, no further losses will be recorded on this investment. Any potential increase in the carrying value of the investment in CPG/GS, under the HLBV method, would depend upon how better off the Bank is at the end of the period than it was at the beginning of the period after the waterfall calculation performed to determine the amount of gain allocated to the investors.

FirstBank also provided an $80 million advance facility to CPG/GS to fund unfunded commitments and costs to complete projects under construction, which was fully disbursed in 2011, and a $20 million working capital line of credit to fund certain expenses of CPG/GS. During 2013, the working capital line of credit was renewed and reduced to $7 million for a period of two years expiring on September 2016. During 2012, CPG/GS repaid the outstanding balance of the advance facility to fund unfunded commitments, and the funds became available to redraw under a one-time revolver agreement. These loans bear variable interest at 30-day LIBOR plus 300 basis points. As of September 30, 2015, the carrying value of the revolver agreement and working capital line was $16.5 million and $3.9 million, respectively, which was included in the Corporation's commercial and industrial loans held for investment portfolio.

Cash proceeds received by CPG/GS are first used to cover operating expenses and debt service payments, including the note receivable, the advance facility, and the working capital line, described above, which must be substantially repaid before proceeds can be used for other purposes, including the return of capital to both PRLP and FirstBank. FirstBank will not receive any return on its equity interest until PRLP receives an aggregate amount equivalent to its initial investment and a priority return of at least 12%, resulting in FirstBank’s interest in CPG/GS being subordinate to PRLP’s interest. CPG/GS will then begin to make payments pro rata to PRLP and FirstBank, 35% and 65%, respectively, until FirstBank has achieved a 12% return on its invested capital and the aggregate amount of distributions is equal to FirstBank’s capital contributions to CPG/GS.

The Bank has determined that CPG/GS is a VIE in which the Bank is not the primary beneficiary. In determining the primary beneficiary of CPG/GS, the Bank considered applicable guidance that requires the Bank to qualitatively assess the determination of the primary beneficiary (or consolidator) of CPG/GS based on whether it has both the power to direct the activities of CPG/GS that

most significantly impact the entity's economic performance and the obligation to absorb losses of CPG/GS that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

The Bank determined that it does not have the power to direct the activities that most significantly impact the economic performance of CPG/GS as it does not have the right to manage the loan portfolio, impact foreclosure proceedings, or manage the construction and sale of the property; therefore, the Bank concluded that it is not the primary beneficiary of CPG/GS. As a creditor to CPG/GS, the Bank has certain rights related to CPG/GS; however, these are intended to be protective in nature and do not provide the Bank with the ability to manage the operations of CPG/GS. Since CPG/GS is not a consolidated subsidiary of the Bank and the transaction met the criteria for sale accounting under authoritative guidance, the Bank accounted for this transaction as a true sale, recognizing the cash received, the notes receivable, and the interest in CPG/GS and derecognizing the loan portfolio sold.

The initial fair value of the investment in CPG/GS was determined using techniques with significant unobservable (Level 3) inputs. The valuation inputs included an estimate of future cash flows, expectations about possible variations in the amount and timing of cash flows, and a discount factor based on a rate of return. The Corporation researched available market data and internal information (i.e., proposals received for the servicing of distressed assets and public disclosures and other information about similar structures and/or of distressed asset sales) and determined reasonable ranges of expected returns for FirstBank's equity interest.

The rate of return of 17.57% was used as the discount factor to estimate the value of FirstBank's equity interest and represents the Bank's estimate of the yield a market participant would have required at the time of the transaction. A reasonable range of equity returns was assessed based on consideration of a range of company-specific risk premiums. The valuation of this type of equity interest is highly subjective and somewhat dependent on nonobservable market assumptions, which may result in variations from market participant to market participant.

The following table shows summarized unaudited income statement information of CPG/GS for the quarters and nine-month periods ended September 30, 2015 and 2014:

	Quarter Ended					Nine-Month Period Ended			
	September 30,			**September 30,**		**September 30,**			**September 30,**
	2015			**2014**		**2015**			**2014**
	(In thousands)					**(In thousands)**			
Revenues, including net realized gains on sale of investments in loans and OREO	$	3,277	$	375		$	4,808	$	3,244
Gross (loss) profit	$	(4,336)	$	(2,347)		$	(15,233)	$	(4,310)
Net loss	$	(4,336)	$	(2,976)		$	(14,609)	$	(7,778)

Servicing Assets

Through its sale of mortgages, the Corporation is actively involved in the securitization of pools of FHA-insured and VA-guaranteed mortgages for issuance as GNMA mortgage-backed securities. Also, certain conventional conforming loans are sold to FNMA or FHLMC with servicing retained. The Corporation recognizes as separate assets the rights to service loans for others, whether those servicing assets are originated or purchased.

The changes in servicing assets are shown below:

	Quarter ended September 30,				Nine-Month period ended September 30,			
(In thousands)	2015		2014		2015		2014	
Balance at beginning of period	$	23,519	$	22,270	$	22,838	$	21,987
Capitalization of servicing assets		1,242		1,075		3,789		3,144
Amortization		(758)		(772)		(2,409)		(2,345)
Adjustment to fair value		(23)		(46)		(170)		(226)
Other (1)		(20)		(24)		(88)		(57)
Balance at end of period	$	23,960	$	22,503	$	23,960	$	22,503

(1) Amount represents the adjustment to fair value related to the repurchase of loans serviced for others.

Impairment charges are recognized through a valuation allowance for each individual stratum of servicing assets. The valuation allowance is adjusted to reflect the amount, if any, by which the cost basis of the servicing asset for a given stratum of loans being serviced exceeds its fair value. Any fair value in excess of the cost basis of the servicing asset for a given stratum is not recognized.

Changes in the impairment allowance related to servicing assets were as follows:

	Quarter ended September 30,		Nine-Month Period Ended September 30,	
(In thousands)	2015	2014	2015	2014
Balance at beginning of period	$ 202	$ 392	$ 55	$ 212
Temporary impairment charges	41	53	227	296
OTTI of servicing assets	-	(385)	-	(385)
Recoveries	(18)	(7)	(57)	(70)
Balance at end of period	$ 225	$ 53	$ 225	$ 53

The components of net servicing income are shown below:

	Quarter ended September 30,		Nine-Month Period Ended September 30,	
(In thousands)	2015	2014	2015	2014
Servicing fees	$ 1,796	$ 1,738	$ 5,340	$ 5,098
Late charges and prepayment penalties	179	177	546	518
Adjustment for loans repurchased	(20)	(24)	(88)	(57)
Other (1)	(22)	(197)	(125)	(1,244)
Servicing income, gross	1,933	1,694	5,673	4,315
Amortization and impairment of servicing assets	(781)	(818)	(2,579)	(2,571)
Servicing income, net	$ 1,152	$ 876	$ 3,094	$ 1,744

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

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

	Maximum			Minimum	
Nine-Month Period Ended September 30, 2015:					
Constant prepayment rate:					
Government guaranteed mortgage loans	9.2	%		7.9	%
Conventional conforming mortgage loans	9.0	%		7.9	%
Conventional non-conforming mortgage loans	14.4	%		12.9	%
Discount rate:					
Government guaranteed mortgage loans	11.5	%		11.5	%
Conventional conforming mortgage loans	9.5	%		9.5	%
Conventional non-conforming mortgage loans	13.8	%		13.8	%
Nine-Month Period Ended September 30, 2014:					
Constant prepayment rate:					
Government guaranteed mortgage loans	9.6	%		9.1	%
Conventional conforming mortgage loans	9.4	%		8.9	%
Conventional non-conforming mortgage loans	13.8	%		12.7	%
Discount rate:					
Government guaranteed mortgage loans	11.5	%		11.5	%
Conventional conforming mortgage loans	9.5	%		9.5	%
Conventional non-conforming mortgage loans	13.9	%		13.8	%

As of September 30, 2015, fair values of the Corporation's servicing assets were based on a valuation model that incorporates market driven assumptions regarding discount rates and mortgage prepayment rates, adjusted by the particular characteristics of the Corporation's servicing portfolio. The weighted-averages of the key economic assumptions used by the Corporation in its valuation model and the sensitivity of the current aggregate fair value to immediate 10% and 20% adverse changes in those assumptions for mortgage loans as of September 30, 2015 were as follows:

	(Dollars in thousands)		
Carrying amount of servicing assets	$	23,960	
Fair value	$	26,378	
Weighted-average expected life (in years)		9.27	
Constant prepayment rate (weighted-average annual rate)		9.32%	
Decrease in fair value due to 10% adverse change	$	938	
Decrease in fair value due to 20% adverse change	$	1,821	

Discount rate (weighted-average annual rate)		10.64%	
Decrease in fair value due to 10% adverse change	$	1,114	
Decrease in fair value due to 20% adverse change	$	2,142	

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship between the change in assumption and the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the servicing asset is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or counteract the sensitivities.

NOTE 15 – DEPOSITS

The following table summarizes deposit balances:

(In thousands)		September 30, 2015			December 31, 2014
Type of account:					
Non-interest bearing checking accounts	$	1,402,807		$	900,616
Savings accounts		2,511,356			2,450,484
Interest-bearing checking accounts		1,222,065			1,054,136
Certificates of deposit		2,312,118			2,191,663
Brokered CDs		2,268,115			2,887,046
	$	9,716,461		$	9,483,945

Brokered CDs mature as follows:

(In thousands)		September 30, 2015
Three months or less	$	505,272
Over three months to six months		310,864
Over six months to one year		636,381
One to three years		779,515
Three to five years		5,315
Over five years		30,768
Total	$	2,268,115

The following are the components of interest expense on deposits:

(In thousands)	Quarter Ended September 30, 2015				Quarter Ended September 30, 2014		Nine-Month Period Ended September 30, 2015				Nine-Month Period Ended September 30, 2014
Interest expense on deposits	$	15,947		$	17,705		$	48,402		$	53,969
Accretion of premium from acquisition		(156)			-			(441)			-

Amortization of broker placement fees		1,060		1,639		3,564		5,140
Interest expense on deposits	$	16,851	$	19,344	$	51,525	$	59,109

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NOTE 16 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

(Dollars in thousands)		September 30, 2015			December 31, 2014	
Repurchase agreements, interest ranging from 1.96% to 3.38%						
(December 31, 2014- 2.45% to 4.50%) (1)(2)		$	700,000		$	900,000

(1) Reported net of securities purchased under agreements to repurchase (reverse repurchase agreements) by counterparty, when applicable, pursuant to ASC 210-20-45-11.

(2) As of September 30, 2015, includes $600 million with an average rate of 2.93% that lenders have the right to call before their contractual maturities at various dates beginning on October 9, 2015. In addition, $500 million is tied to variable rates. In October 2015, the counterparty to the $200 million reverse repurchase agreement exercised its call option on the instrument.

In the first quarter of 2015, the Corporation restructured $400 million of its repurchase agreements, $200 million of which were restructured by extending the contractual maturity and changing from a fixed interest rate to a variable rate, and entered into $200 million of reverse repurchase agreements with the same counterparty (effective April 2015) under a master netting arrangement that provides for a right to setoff that meets the conditions of ASC 210-20-45-11. In October 2015, the counterparty to the $200 million reverse repurchase agreement exercised its call option on the instrument. These repurchase agreements and reverse repurchase agreements are presented net on the consolidated statement of financial condition. In addition, in the first quarter of 2015, the Corporation restructured an additional $200 million of its repurchase agreements with a different counterparty by extending the contractual maturity and reducing the interest rate in these agreements.

Repurchase agreements mature as follows:

	September 30, 2015	
	(In thousands)	
Over one year to three years	$	500,000
Over five years		200,000
Total	$	700,000

As of September 30, 2015 and December 31, 2014, the securities underlying such agreements were delivered to the dealers with which the repurchase agreements were transacted.

Repurchase agreements as of September 30, 2015, grouped by counterparty, were as follows:

(Dollars in thousands)			Weighted-Average
Counterparty _		**Amount**	**Maturity (In Months)**
Citigroup Global Markets	$	300,000	13
JP Morgan Chase		200,000	76
Dean Witter / Morgan Stanley		100,000	25
Credit Suisse First Boston		100,000	2
	$	700,000	

NOTE 17 – ADVANCES FROM THE FEDERAL HOME LOAN BANK (FHLB)

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

(Dollars in thousands)	September 30, 2015			December 31, 2014
Fixed-rate advances from FHLB, with a weighted-average interest rate of 1.17%	$	325,000	$	325,000

Advances from FHLB mature as follows:

(In thousands)	September 30, 2015	
Over ninety days to one year	$	100,000
Over one year to three years		225,000
Total	$	325,000

As of September 30, 2015, the Corporation had additional capacity of approximately $797.1 million on this credit facility based on collateral pledged at the FHLB, including a haircut reflecting the perceived risk associated with holding the collateral.

NOTE 18 – OTHER BORROWINGS

Other borrowings consist of:

(In thousands)	September 30, 2015		December 31, 2014

Junior subordinated debentures due in 2034,				
interest-bearing at a floating rate of 2.75%				
over 3-month LIBOR (3.08% as of September 30, 2015				
and 2.99% as of December 31, 2014)	$	97,626	$	103,093
Junior subordinated debentures due in 2034,				
interest-bearing at a floating rate of 2.50%				
over 3-month LIBOR (2.82% as of September 30, 2015				
and 2.75% as of December 31, 2014)		128,866		128,866
	$	226,492	$	231,959

NOTE 19 – STOCKHOLDERS' EQUITY

Common Stock

As of September 30, 2015 and December 31, 2014, the Corporation had 2,000,000,000 authorized shares of common stock with a par value of $0.10 per share. As of September 30, 2015 and December 31, 2014, there were 215,903,829 and 213,724,749 shares issued, respectively, and 214,982,131 and 212,984,700 shares outstanding, respectively. On July 30, 2009, the Corporation announced the suspension of common and preferred stock dividends effective with the preferred dividend for the month of August 2009. Refer to Note 4 for information about transactions related to common stock under the Omnibus Plan.

During the second quarter of 2015, the Corporation issued 852,831 shares of its common stock in exchange for trust preferred securities with a liquidation value of $5.3 million. As a result of these transactions, common stock increased by $85 thousand, which represents the par value of the shares issued. Also additional paid-in capital increased by the excess of the common stock fair value over the par value, or $5.5 million. With these exchanges, the other borrowings balance decreased by $5.5 million.

Preferred Stock

The Corporation has 50,000,000 authorized shares of preferred stock with a par value of $1, redeemable at the Corporation's option subject to certain terms. This stock may be issued in series and the shares of each series will have such rights and preferences as are fixed by the Board of Directors when authorizing the issuance of that particular series. As of September 30, 2015, the Corporation has five outstanding series of non-convertible, non-cumulative preferred stock: 7.125% non-cumulative perpetual monthly income preferred stock, Series A; 8.35% non-cumulative perpetual monthly income preferred stock, Series B; 7.40% non-cumulative perpetual monthly income preferred stock, Series C; 7.25% non-cumulative perpetual monthly income preferred stock, Series D; and 7.00% non-cumulative perpetual monthly income preferred stock, Series E. The liquidation value per share is $25.

Effective January 17, 2012, the Corporation delisted all of its outstanding series of nonconvertible, noncumulative preferred stock from the New York Stock Exchange. The Corporation has not arranged for listing and/or registration on another national securities exchange or for quotation of the Series A through E Preferred Stock in a quotation medium.

In the first nine months of 2014, the Corporation issued an aggregate of 4,597,121 shares of its common stock in exchange for an aggregate of 1,077,726 shares of the Corporation's Series A through E Preferred Stock, having an aggregate liquidation value of $26.9 million. The shares of common stock were issued to holders of the Series A through E Preferred Stock in separate and unrelated transactions in reliance upon the exemption set forth in Section 3(a)(9) of the Securities Act, for securities exchanged by an issuer with existing security holders where no commission or other remuneration is paid or given directly or indirectly by the issuer for soliciting such exchange. The carrying (liquidation) value of the Series A through E preferred stock exchanged, or $26.9 million, was reduced, and common stock and additional paid-in capital was increased in the amount of the fair value of the common stock issued. The Corporation recorded the par value of the shares issued as common stock ($0.10 per common share) or $0.5 million. The excess of the common stock fair value over the par value, or $23.9 million, was recorded in additional paid-in capital. The excess of the carrying amount of the shares of preferred stock over the fair value of the shares of common stock, or $1.7 million, was recorded as an increase to retained earnings and an increase in earnings per common share computation.

Treasury stock

During the first nine months of 2015, the Corporation withheld an aggregate of 181,649 shares of the common stock paid to certain senior officers as additional compensation and of restricted stock that vested during 2015 to cover employees' payroll and income tax withholding liabilities; these shares are also held as treasury shares. As of September 30, 2015 and December 31, 2014, the Corporation had 921,698 and 740,049 shares held as treasury stock, respectively.

FirstBank Statutory Reserve (Legal Surplus)

The Banking Law of the Commonwealth of Puerto Rico requires that a minimum of 10% of FirstBank's net income for the year be transferred to legal surplus until such surplus equals the total of paid-in-capital on common and preferred stock. Amounts transferred to the legal surplus account from the retained earnings account are not available for distribution to the stockholders without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The Puerto Rico Banking Law provides that when the expenditures of a Puerto Rico commercial bank are greater than receipts, the excess of the expenditures over receipts shall be charged against the undistributed profits of the bank, and the balance, if any shall be charged against the reserve fund, as a reduction thereof. If there is no reserve fund sufficient to cover such balance in whole or in part, the outstanding amount shall be charged against the capital account and the Bank cannot pay dividends until it can replenish the reserve fund to an amount of at least 20% of the original capital contributed. During the fourth quarter of 2014, $40.0 million was transferred to the legal surplus reserve. FirstBank's legal surplus reserve, included as part of retained earnings in the Corporation's statement of financial condition, amounted to $40.0 million as of September 30, 2015. There were no transfers to the legal surplus reserve during the first nine months of 2015.

NOTE 20 - INCOME TAXES

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

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

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

In 2010, the Corporation established a valuation allowance for substantially all of the deferred tax assets of its banking subsidiary, FirstBank, primarily due to significant operational losses driven by charges to the provision for loan losses, a three-year cumulative loss position as of the end of the year 2010, and uncertainty regarding the amount of future taxable income that the Bank could forecast. As of December 31, 2014, based upon the assessment of all positive and negative evidence, management concluded that it was more likely than not that FirstBank will generate sufficient taxable income within the applicable NOL carry-forward periods to realize $313.0 million of its deferred tax assets and, therefore, reversed $302.9 million of the valuation allowance. As of September 30, 2015, the deferred tax assets, net of a valuation allowance of $204.1 million, amounted to $311.4 million and management concluded, based upon the assessment of all positive and negative evidence, that it is more likely than not that the Corporation will generate sufficient taxable income within the applicable NOL carry-forward periods to realize such amount.

The Corporation recorded an income tax expense of $4.5 million and $2.7 million in the third quarter and first nine months of 2015, respectively, compared to an income tax expense of $0.1 million and $0.7 million, for the same periods in 2014. For the nine-month period ended September 30, 2015, the Corporation calculated the provision for income taxes by applying the estimated annual effective tax rate for the full fiscal year to ordinary income or loss. The Corporation had historically calculated the provision for income taxes for interim periods by using a discrete effective tax rate method since it had a full valuation allowance on most of its deferred tax assets. As a result of the partial valuation allowance release during the fourth quarter of 2014, management implemented the estimated annual effective tax rate as required by ASC 740 for interim period reporting. In the computation of the consolidated worldwide estimated annual effective tax rate, ASC 740-270 requires the exclusion of legal entities with pre-tax losses from which a tax benefit cannot be recognized. The year to date consolidated worldwide estimated effective tax rate, excluding entities with pre-tax losses from which a tax benefit cannot be recognized, is 17%. The year to date effective tax rate including all entities is 30%. The income tax expense recorded for the first nine months of 2015 is a result of applying the estimated annual effective tax rate to the year to date ordinary income.

As of September 30, 2015, the Corporation did not have Unrecognized Tax Benefits (“UTBs”) recorded on its books. During 2014, the Corporation reached a final settlement with the IRS in connection with the 2007-2009 examination periods. As a result, during 2014, the Corporation released a portion of its reserve for uncertain tax positions, resulting in a tax benefit of $1.8 million, and paid $2.5 million to settle the tax liability resulting from the audit.

During the second quarter of 2015, the Corporation settled the previously accrued interest of $1.3 million related to the aforementioned IRS examination. The Corporation classifies all interest and penalties, if any, related to tax uncertainties as income tax expense. Audit periods remain open for review until the statute of limitations has passed. The statute of limitations under the 2011 PR code is 4 years; the statute of limitations for Virgin Islands and U.S. income tax purposes are each three years after a tax return is due or filed, whichever is later. The completion of an audit by the taxing authorities or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Corporation’s liability for income taxes. Any such adjustment could be material to the results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. For Virgin Islands and U.S. income tax purposes, all tax years subsequent to 2012 remain open to examination. The 2012 U.S. federal

tax return is currently under examination by the IRS. For Puerto Rico tax purposes, all tax years subsequent to 2011 remain open to examination.

During 2013, the Puerto Rico Government approved Act No. 40, which imposed a national gross receipts tax. The national gross receipts tax for financial institutions was computed on the basis of 1% of gross income net of allowable exclusions. Subject to certain limitations, a financial institution was able to claim a credit of 0.5% of its gross income against its regular income tax or the alternative minimum tax. However, on December 22, 2014, the Governor of Puerto Rico signed Act No. 238, which amended the 2011 PR Code. Act No. 238 clarifies that the national gross receipts tax will not be applicable to taxable years starting after December 31, 2014. Accordingly, the Corporation did not record national gross receipts tax expense for 2015. During the first nine months of 2014, a $4.3 million gross receipts tax expense was included as part of “Taxes, other than income taxes” in the consolidated statement of income and a $2.1 million benefit related to this credit was recorded as a reduction to the provision for income taxes.

On May 28 and September 30, 2015, the Puerto Rico legislature approved Act 72-2015 and Act 159-2015, respectively, which enact amendments to the Puerto Rico Internal Revenue Code. The amendments related to the income tax provision determination include changes to the alternative minimum tax computation, and changes to the use limitation on NOLs and capital losses for 2015 and future taxable years. The change in the tax law affected the Corporation’s income tax computation by limiting the NOL deduction to 80% of taxable income, compared to a 90% limitation in prior years. This change was incorporated in our annual estimated effective tax rate and did not have a significant impact in the current year.

NOTE 21 – FAIR VALUE

Fair Value Measurement

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

Level 1	Valuations of Level 1 assets and liabilities are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 1 assets and liabilities include equity

	securities that trade in an active exchange market, as well as certain U.S. Treasury and other U.S. government and agency securities and corporate debt securities that are traded by dealers or brokers in active markets.
Level 2	Valuations of Level 2 assets and liabilities are based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include (i) mortgage-backed securities for which the fair value is estimated based on the value of identical or comparable assets, (ii) debt securities with quoted prices that are traded less frequently than exchange-traded instruments, and (iii) derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
Level 3	Valuations of Level 3 assets and liabilities are based on unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models for which the determination of fair value required significant management judgments estimation.

For 2015, there were no transfers into or out of the Level 1, Level 2 or Level 3 measurement classification of the fair value hierarchy.

Financial Instruments Recorded at Fair Value on a Recurring Basis

Investment securities available for sale

The fair value of investment securities was the market value based on quoted market prices (as is the case with equity securities, U.S. Treasury notes, and non-callable U.S. Agency debt securities), when available (Level 1), or market prices for identical or comparable assets (as is the case with MBS and callable U.S. agency debt) that are based on observable market parameters, including benchmark yields, reported trades, quotes from brokers or dealers, issuer spreads, bids, offers and reference data including market research operations (Level 2). Observable prices in the market already consider the risk of nonperformance. During the second quarter of 2015, the Corporation recorded an OTTI of $12.9 million on certain Puerto Rico Government debt securities, specifically bonds of GDB and the Puerto Rico Public Buildings Authority. The credit impairment loss was based on the probability of default and loss

severity in the event of default in consideration of the latest available information about the Puerto Rico Government's financial condition, including the Puerto Rico Government's intentions to restructure its outstanding bond obligations. Refer to Note 5 for significant assumptions used to determine the credit impairment portion, including default rates and recovery rates, which are unobservable inputs. If listed prices or quotes are not available, fair value is based upon models that use unobservable inputs due to the limited market activity of the instrument, as is the case with certain private label mortgage-backed securities held by the Corporation (Level 3).

Private label MBS are collateralized by fixed-rate mortgages on single-family residential properties in the United States; the interest rate on the securities is variable, tied to 3-month LIBOR and limited to the weighted-average coupon of the underlying collateral. The market valuation represents the estimated net cash flows over the projected life of the pool of underlying assets applying a discount rate that reflects market observed floating spreads over LIBOR, with a widening spread based on a nonrated security. The market valuation is derived from a model that utilizes relevant assumptions such as prepayment rate, default rate, and loss severity on a loan level basis. The Corporation modeled the cash flow from the fixed-rate mortgage collateral using a static cash flow analysis according to collateral attributes of the underlying mortgage pool (i.e. loan term, current balance, note rate, rate adjustment type, rate adjustment frequency, rate caps, and others) in combination with prepayment forecasts obtained from a commercially available prepayment model (ADCO). The variable cash flow of the security is modeled using the 3-month LIBOR forward curve. Loss assumptions were driven by the combination of default and loss severity estimates, taking into account loan credit characteristics (loan-to-value, state, origination date, property type, occupancy loan purpose, documentation type, debt-to-income ratio, and other) to provide an estimate of default and loss severity.

Refer to the table below for further information regarding qualitative information for all assets and liabilities measured at fair value using significant unobservable inputs (Level 3).

Derivative instruments

The fair value of most of the Corporation's derivative instruments is based on observable market parameters and takes into consideration the credit risk component of paying counterparties, when appropriate, except when collateral is pledged. That is, on interest rate swaps, the credit risk of both counterparties is included in the valuation; and, on options and caps, only the seller's credit risk is considered. The derivative instruments, namely swaps and caps, were valued based on a discounted cash flow approach using the related LIBOR and swap rate for each cash flow. Derivatives include interest rate swaps used for protection against rising interest rates. For these interest rate swaps, a credit component was not considered in the valuation since the Corporation has fully collateralized with investment securities any marked-to-market loss with the counterparty and, if there were market gains, the counterparty has to deliver additional collateral to the Corporation.

Although most of the derivative instruments are fully collateralized, a credit spread is considered for those that are not secured in full. The cumulative marked-to-market effect of credit risk in the valuation of derivative instruments for the quarter and nine-month periods ended September 30, 2015 and 2014 was immaterial.

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

	As of September 30, 2015				As of December 31, 2014			
	Fair Value Measurements Using				Fair Value Measurements Using			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets/Liabilities at Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Assets/Liabilities at Fair Value**
Assets:								
Securities available for sale :								
U.S. Treasury Securities	$ 7,537	$ -	$ -	$ 7,537	$ 7,499	$ -	$ -	$ 7,499
Noncallable U.S. agency debt	-	319,357	-	319,357	-	228,157	-	228,157
MBS and Callable U.S. agency debt	-	1,519,218	-	1,519,218	-	1,653,140	-	1,653,140
Puerto Rico government obligations	-	32,047	2,088	34,135	-	40,658	2,564	43,222
Private label MBS	-	-	27,520	27,520	-	-	33,648	33,648
Other investments	-	-	100	100	-	-	-	-
Derivatives, included in assets:								
Interest rate swap agreements	-	-	-	-	-	33	-	33
Purchased interest rate cap agreements	-	806	-	806	-	6	-	6
Liabilities:								

Derivatives, included in liabilities:								
Interest rate swap agreements	-	-	-	-	-	33	-	33
Written interest rate cap agreement	-	793	-	793	-	6	-	6
Forward contracts	-	245	-	245	-	148	-	148

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The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarters and nine-month periods ended September 30, 2015 and 2014:

	Quarter Ended September 30,				
	2015			2014	
Level 3 Instruments Only	**Securities**			**Securities**	
(In thousands)	**Available For Sale[(1)]**			**Available For Sale[(1)]**	
Beginning balance	$	31,640		$	40,918
Total gains or (losses) (realized/unrealized):					
Included in earnings		(231)			(245)
Included in other comprehensive income		345			333
Principal repayments and amortization		(2,046)			(2,124)
Ending balance	$	29,708		$	38,882

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

	Nine-Month Period Ended September 30,				
	2015			2014	
Level 3 Instruments Only	**Securities**			**Securities**	
(In thousands)	**Available For Sale[(1)]**			**Available For Sale[(1)]**	
Beginning balance	$	36,212		$	43,292
Total gains or (losses) (realized/unrealized):					
Included in earnings		(628)			(245)
Included in other comprehensive income		1,489			2,026
Purchases		100			5,123
Sales		-			(4,855)
Principal repayments and amortization		(7,465)			(6,459)
Ending balance	$	29,708		$	38,882

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

The table below presents qualitative information for significant assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at September 30, 2015:

	September 30, 2015				
(In thousands)	Fair Value		Valuation Technique	Unobservable Input	Range
Investment securities available-for-sale:					
Private label MBS	$	27,520	Discounted cash flow	Discount rate	14.5%
				Prepayment rate	17.83% -100% (Weighted Average 29.94%)
				Projected cumulative loss rate	0.16% -80% (Weighted Average 7.1%)
Puerto Rico Government Obligations		2,088	Discounted cash flow	Prepayment speed	3.00%

Information about Sensitivity to Changes in Significant Unobservable Inputs

Private label MBS: The significant unobservable inputs in the valuation include the probability of default, the loss severity assumption and prepayment rates. Shifts in those inputs would result in different fair value measurements. Increases in the probability of default, the loss severity assumptions, and prepayment rates in isolation would generally result in an adverse effect on the fair value of the instruments. Meaningful and possible shifts of each input were modeled to assess the effect on the fair value estimation.

Puerto Rico Government Obligations: The significant unobservable input used in the fair value measurement of this Level 3 instrument is the assumed prepayment rate. A significant increase (decrease) in the assumed rate would lead to a higher (lower) fair value estimate. Loss severity and probability of default are not included as significant unobservable variables because the obligations are guaranteed by the Puerto Rico Housing Finance Authority (“PRHFA”). The PRHFA credit risk is modeled by discounting the cash flows using a curve appropriate to the PRHFA credit rating.

The tables below summarize changes in unrealized gains and losses recorded in earnings for the quarters and nine-month periods ended September 30, 2015 and 2014 for Level 3 assets and liabilities that are still held at the end of each period:

	Changes in Unrealized Losses			**Changes in Unrealized Losses**
	Quarter ended September 30, 2015			**Quarter ended September 30, 2014**
Level 3 Instruments Only	**Securities**			**Securities**
(In thousands)	**Available For Sale**			**Available For Sale**
Changes in unrealized losses relating to assets still held at reporting date:				
Net impairment losses on available-for-sale investment securities (credit component)	$	(231)	$	(245)

	Changes in Unrealized Losses			**Changes in Unrealized Losses**
	Nine-Month Period Ended September 30, 2015			**Nine-Month Period Ended September 30, 2014**
Level 3 Instruments Only	**Securities**			**Securities**
(In thousands)	**Available For Sale**			**Available For Sale**
Changes in unrealized losses relating to assets still held at reporting date:				
Net impairment losses on available-for-sale investment securities (credit component)	$	(628)	$	(245)

Additionally, fair value is used on a nonrecurring basis to evaluate certain assets in accordance with GAAP. Adjustments to fair value usually result from the application of lower-of-cost or market accounting (e.g., loans held for sale carried at the lower-of-cost or fair value and repossessed assets) or write downs of individual assets (e.g., goodwill, loans).

As of September 30, 2015, impairment or valuation adjustments were recorded for assets recognized at fair value on a non-recurring basis as shown in the following table:

	Carrying value as of September 30, 2015			(Losses) recorded for the Quarter Ended September 30, 2015	(Losses) recorded for the Nine-Month Period Ended September 30, 2015
	Level 1	Level 2	Level 3		
	(In thousands)				
Loans receivable [1]	$ -	$ -	$ 332,688	$ (7,864)	$ (22,431)
OREO [2]	-	-	124,442	(4,025)	(8,790)
Mortgage servicing rights [3]	-	-	23,960	(23)	(170)
Loans Held For Sale [4]	-	-	8,027	-	-

(1) Mainly impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral. The fair value was derived from external appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g. absorption rates), which are not market observable.

(2) The fair value was derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g. absorption rates and net operating income of income producing properties) that are not market observable. Losses were related to market valuation adjustments after the transfer of the loans to the OREO portfolio.

(3) Fair value adjustments to mortgage servicing rights were mainly due to assumptions associated with mortgage prepayment rates. The Corporation carries its mortgage servicing rights at the lower of cost or market, measured at fair value on a non-recurring basis. Assumptions for the value of mortgage servicing rights include: Prepayment rate of 9.32%, Discount Rate of 10.64%.

(4) The value of these loans was derived from external appraisals, adjusted for specific characteristics of the loans.

As of September 30, 2014, impairment or valuation adjustments were recorded for assets recognized at fair value on a non-recurring basis as shown in the following table:

	Carrying value as of September 30, 2014		

	Level 1	Level 2	Level 3	(Losses) recorded for the Quarter Ended September 30, 2014	(Losses) recorded for the Nine-Month Period Ended September 30, 2014
	(In thousands)				
Loans receivable [1]	$ -	$ -	$ 461,882	$ (6,495)	$ (30,376)
OREO [2]	-	-	112,803	(2,287)	(10,544)
Mortgage servicing rights [3]	-	-	22,503	(46)	(226)
Loans Held For Sale [4]	-	-	54,641	-	-

(1) Mainly impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral. The fair value was derived from external appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g. absorption rates), which are not market observable.

(2) The fair value was derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g. absorption rates and net operating income of income producing properties) that are not market observable. Losses were related to market valuation adjustments after the transfer of the loans to the OREO portfolio.

(3) Fair value adjustments to the mortgage servicing rights were mainly due to assumptions associated with mortgage prepayments rates. The Corporation carries its mortgage servicing rights at the lower of cost or market, measured at fair value on a non-recurring basis. Assumptions for the value of mortgage servicing rights include: Prepayment Rate of 9.71%, Discount Rate of 10.63%.

(4) The value of these loans was derived from external appraisals, adjusted for specific characteristics of the loans.

Qualitative information regarding the fair value measurements for Level 3 financial instruments is as follows:

	September 30, 2015		
	Method		**Inputs**
Loans	Income, Market, Comparable Sales, Discounted Cash Flows		External appraised values; probability weighting of broker price opinions; management assumptions regarding market trends or other relevant factors
OREO	Income, Market, Comparable Sales, Discounted Cash Flows		External appraised values; probability weighting of broker price opinions; management assumptions regarding market trends or other relevant factors
Mortgage servicing rights	Discounted Cash Flow		Weighted average prepayment rate of 9.32%; weighted average discount rate of 10.64%

The following is a description of the valuation methodologies used for instruments that are not measured or reported at fair value on a recurring basis or reported at fair value on a non-recurring basis. The estimated fair value was calculated using certain facts and assumptions, which vary depending on the specific financial instrument.

Cash and due from banks and money market investments

The carrying amounts of cash and due from banks and money market investments are reasonable estimates of their fair value. Money market investments include held-to-maturity securities, which have a contractual maturity of three months or less. The fair value of these securities is based on quoted market prices in active markets that incorporate the risk of nonperformance.

Other equity securities

Equity or other securities that do not have a readily available fair value are stated at their net realizable value, which management believes is a reasonable proxy for their fair value. This category is principally composed of stock that is owned by the Corporation to comply with FHLB regulatory requirements. The realizable value of the FHLB stock equals its cost as this stock can be freely redeemed at par.

Loans receivable, including loans held for sale

The fair value of loans held for investment and for mortgage loans held for sale was estimated using discounted cash flow analyses, based on interest rates currently being offered for loans with similar terms and credit quality and with adjustments that the Corporation's management believes a market participant would consider in determining fair value. Loans were classified by type, such as commercial, residential mortgage, and automobile. These asset categories were further segmented into fixed- and adjustable-rate categories. Valuations are carried out based on categories and not on a loan-by-loan basis. The fair values of performing fixed-rate and adjustable-rate loans were calculated by discounting expected cash flows through the estimated maturity date. This fair value is not currently an indication of an exit price as that type of assumption could result in a different fair value estimate. The fair value of credit card loans was estimated using a discounted cash flow method and excludes any value related to a customer account relationship. Other loans with no stated maturity, like credit lines, were valued at book value. Prepayment assumptions were considered for non-residential loans. For residential mortgage loans, prepayment estimates were based on a prepayments model that combined both historical calibration and current market prepayment expectations. Discount rates were based on the U.S. Treasury and LIBOR/Swap Yield Curves at the date of the analysis, and included appropriate adjustments for expected credit losses and liquidity. For impaired collateral dependent loans, the impairment was primarily measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observable transactions involving similar assets in similar locations. The market valuation of the loans acquired from Doral Bank in the first quarter of 2015 was derived from a model of forecasted cash flows 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.

Deposits

The estimated fair value of demand deposits and savings accounts, which are deposits with no defined maturities, equals the amount payable on demand at the reporting date. The fair values of retail fixed-rate time deposits, with stated maturities, are based on the present value of the future cash flows expected to be paid on the deposits. The cash flows were based on contractual maturities; no early repayments were assumed. Discount rates were based on the LIBOR yield curve.

The estimated fair value of total deposits excludes the fair value of core deposit intangibles, which represents the value of the customer relationship measured by the value of demand deposits and savings deposits that bear a low or zero rate of interest and do not fluctuate in response to changes in interest rates.

The fair value of brokered CDs, which are included within deposits, is determined using discounted cash flow analyses over the full term of the CDs. The fair value of the CDs is computed using the outstanding principal amount. The discount rates used were based on brokered CD market rates as of September 30, 2015. The fair value does not incorporate the risk of nonperformance, since interests in brokered CDs are generally sold by brokers in amounts of less than $250,000 and, therefore, are insured by the FDIC.

Securities sold under agreements to repurchase

Some repurchase agreements reprice at least quarterly, and their outstanding balances are estimated to be their fair value. Where longer commitments are involved, fair value is estimated using exit price indications of the cost of unwinding the transactions as of the end of the reporting period. The brokers who are the counterparties provide these indications. Securities sold under agreements to repurchase are fully collateralized by investment securities.

Advances from FHLB

The fair value of advances from FHLB with fixed maturities is determined using discounted cash flow analyses over the full term of the borrowings, using indications of the fair value of similar transactions. The cash flows assume no early repayment of the borrowings. Discount rates are based on the LIBOR yield curve. Advances from FHLB are fully collateralized by mortgage loans and, to a lesser extent, investment securities.

Other borrowings

Other borrowings consist of junior subordinated debentures. Projected cash flows from the debentures were discounted using the Bloomberg BB Finance curve plus a credit spread. This credit spread was estimated using the difference in yield curves between swap rates and a yield curve that considers the industry and credit rating of the Corporation as issuer of the note at a tenor comparable to the time to maturity of the debentures.

The following table presents the carrying value and the estimated fair value of financial instruments as of September 30, 2015 and December 31, 2014:

	Total Carrying Amount in Statement of Financial Condition September 30, 2015	Fair Value Estimate September 30, 2015	Level 1	Level 2	Level 3
	(In thousands)				
Assets:					
Cash and due from banks and money market investments	$ 961,737	$ 961,737	$ 961,737	$ -	$ -
Investment securities available for sale	1,907,867	1,907,867	7,537	1,870,622	29,708
Other equity securities	26,319	26,319	-	26,319	-
Loans held for sale	34,587	35,767	-	27,740	8,027
Loans held for investment	9,301,945				
Less: allowance for loan and lease losses	(228,966)				
Loans held for investment, net of allowance	$ 9,072,979	8,877,609	-	-	8,877,609
Derivatives, included in assets	806	806	-	806	-
Liabilities:					
Deposits	9,716,461	9,724,759	-	9,724,759	-
Securities sold under agreements to repurchase	700,000	759,417	-	759,417	-
Advances from FHLB	325,000	326,483	-	326,483	-
Other borrowings	226,492	132,771	-	-	132,771
Derivatives, included in	1,038	1,038	-	1,038	-

liabilities						

	Total Carrying Amount in Statement of Financial Condition December 31, 2014		Fair Value Estimate December 31, 2014		Level 1		Level 2		Level 3
	(In thousands)								
Assets:									
Cash and due from banks and money market investments	$	796,108	$	796,108	$	796,108	$	-	$	-
Investment securities available for sale		1,965,666		1,965,666		7,499		1,921,955		36,212
Other equity securities		25,752		25,752		-		25,752		-
Loans held for sale		76,956		77,888		-		23,247		54,641
Loans held for investment		9,262,436								
Less: allowance for loan and lease losses		(222,395)								
Loans held for investment, net of allowance	$	9,040,041		8,844,659		-		-		8,844,659
Derivatives, included in assets		39		39		-		39		-
Liabilities:										
Deposits		9,483,945		9,486,325		-		9,486,325		-
Securities sold under agreements to repurchase		900,000		958,715		-		958,715		-
Advances from FHLB		325,000		324,376		-		324,376		-
Other borrowings		231,959		162,344		-		-		162,344
Derivatives, included in liabilities		187		187		-		187		-

NOTE 22 – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows:

	Nine-Month Period Ended September 30,				
	2015			2014	
	(In thousands)				
Cash paid for:					
Interest on borrowings	$	70,016		$	76,975
Income tax		3,404			6,427
Non-cash investing and financing activities:					
Additions to other real estate owned		44,415			19,313
Additions to auto and other repossessed assets		57,901			69,409
Capitalization of servicing assets		3,789			3,144
Loan securitizations		213,391			144,569
Preferred stock exchanged for new common stock issued:					
Preferred stock exchanged (Series A through E)		-			26,022
New common stock issued		-			24,363
Trust preferred securities exchanged for new common stock issued:					
Trust preferred securities exchanged		5,303			-
New common stock issued		5,628			-
Fair value of assets acquired (liabilities assumed) in the Doral Bank transaction:					
Loans		311,410			-
Premises and equipment, net		5,450			-
Core Deposit intangible		5,820			-
Deposits		(523,517)			-

Supplemental cash flow information is as follows:

NOTE 23 – SEGMENT INFORMATION

Based upon the Corporation's organizational structure and the information provided to the Chief Executive Officer of the Corporation and, to a lesser extent, the Board of Directors, the operating segments are driven primarily by the Corporation's lines of business for its operations in Puerto Rico, the Corporation's principal market, and by geographic areas for its operations outside of Puerto Rico. As of September 30, 2015, the Corporation had six reportable segments: Commercial and Corporate Banking; Mortgage Banking; Consumer (Retail) Banking; Treasury and Investments; United States Operations; and Virgin Islands Operations. Management determined the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Others factors such as the Corporation's organizational chart, nature of the products, distribution channels, and the economic characteristics of the product were also considered in the determination of the reportable segments.

The Commercial and Corporate Banking segment consists of the Corporation's lending and other services for large customers represented by specialized and middle-market clients and the public sector. The Commercial and Corporate Banking segment offers commercial loans, including commercial real estate and construction loans, and floor plan financings, as well as other products, such as cash management and business management services. The Mortgage Banking segment consists of the origination, sale, and servicing of a variety of residential mortgage loans. The Mortgage Banking segment also acquires and sells mortgages in the secondary markets. In addition, the Mortgage Banking segment includes mortgage loans purchased from other local banks and mortgage bankers. The Consumer (Retail) Banking segment consists of the Corporation's consumer lending and deposit-taking activities conducted mainly through its branch network and loan centers. The Treasury and Investments segment is responsible for the Corporation's investment portfolio and treasury functions executed to manage and enhance liquidity. This segment lends funds to the Commercial and Corporate Banking, Mortgage Banking and Consumer (Retail) Banking segments to finance their lending activities and borrows from those segments and from the United States Operations segment. The Consumer (Retail) Banking and the United States Operations segments also lend funds to other segments. The interest rates charged or credited by Treasury and Investments, the Consumer (Retail) Banking and the United States Operations segments are allocated based on market rates. The difference between the allocated interest income or expense and the Corporation's actual net interest income from centralized management of funding costs is reported in the Treasury and Investments segment. The United States Operations segment consists of all banking activities conducted by FirstBank in the United States mainland, including commercial and retail banking services. The Virgin Islands Operations segment consists of all banking activities conducted by the Corporation in the USVI and BVI, including commercial and retail banking services.

The accounting policies of the segments are the same as those referred to in Note 1- "Nature of Business and Summary of Significant Accounting Policies" in 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.

The Corporation evaluates the performance of the segments based on net interest income, the estimated provision for loan and lease losses, non-interest income and direct non-interest expenses. The segments are also evaluated based on the average volume of their interest-earning assets less the allowance for loan and lease losses.

Supplemental cash flow information is as follows:

The following table presents information about the reportable segments:

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
For the quarter ended September 30, 2015:							
Interest income	$ 36,180	$ 48,528	$ 32,636	$ 11,500	$ 11,229	$ 9,739	$ 149,812
Net (charge) credit for transfer of funds	(12,629)	4,335	(4,058)	8,563	3,789	-	-
Interest expense	-	(5,869)	-	(14,305)	(3,931)	(778)	(24,883)
Net interest income	23,551	46,994	28,578	5,758	11,087	8,961	124,929
(Provision) release for loan and lease losses	(6,750)	(13,946)	(11,355)	-	1,307	(432)	(31,176)
Non-interest income (loss)	3,982	11,759	647	(174)	778	1,766	18,758
Direct non-interest expenses	(8,977)	(32,669)	(10,896)	(1,103)	(6,914)	(7,441)	(68,000)
Segment income	$ 11,806	$ 12,138	$ 6,974	$ 4,481	$ 6,258	$ 2,854	$ 44,511
Average earning assets	$ 2,642,388	$ 1,959,951	$ 2,760,788	$ 2,531,084	$ 1,048,451	$ 644,769	$ 11,587,431

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
For the quarter ended September 30, 2014:							

Interest income	$ 30,038	$ 52,725	$ 39,737	$ 12,335	$ 11,541	$ 10,286	$ 156,662
Net (charge) credit for transfer of funds	(9,541)	4,162	(3,354)	5,601	3,132	-	-
Interest expense	-	(5,902)	-	(17,323)	(4,855)	(888)	(28,968)
Net interest income	20,497	50,985	36,383	613	9,818	9,398	127,694
(Provision) release for loan and lease losses	(5,261)	(18,634)	(8,900)	-	6,791	(995)	(26,999)
Non-interest income (loss)	3,643	9,409	1,104	(190)	621	1,587	16,174
Direct non-interest expenses	(9,896)	(31,670)	(10,265)	(1,481)	(6,015)	(11,118)	(70,445)
Segment income (loss)	$ 8,983	$ 10,090	$ 18,322	$ (1,058)	$ 11,215	$ (1,128)	$ 46,424
Average earning assets	$ 2,189,861	$ 2,021,207	$ 3,398,113	$ 2,676,556	$ 958,790	$ 672,392	$ 11,916,919

	Mortgage Banking	**Consumer (Retail) Banking**	**Commercial and Corporate**	**Treasury and Investments**	**United States Operations**	**Virgin Islands Operations**	**Total**
Nine-Month Period Ended September 30, 2015:							
Interest income	$ 106,352	$ 147,395	$ 100,192	$ 36,276	$ 34,477	$ 29,237	$ 453,929
Net (charge) credit for transfer of funds	(36,212)	12,816	(11,746)	23,936	11,206	-	-
Interest expense	-	(17,379)	-	(44,834)	(12,326)	(2,337)	(76,876)
Net interest income	70,140	142,832	88,446	15,378	33,357	26,900	377,053

Supplemental cash flow information is as follows:

	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
(Provision) release for loan and lease losses	(21,657)	(36,588)	(84,170)	-	6,715	(2,712)	(138,412)
Non-interest income (loss)	11,866	35,504	2,350	(13,046)	2,032	6,008	44,714
Direct non-interest expenses	(26,270)	(96,690)	(30,013)	(3,487)	(21,293)	(24,892)	(202,645)
Segment income (loss)	$ 34,079	$ 45,058	$ (23,387)	$ (1,155)	$ 20,811	$ 5,304	$ 80,710
Average earning assets	$ 2,601,892	$ 1,956,352	$ 2,947,562	$ 2,683,313	$ 1,001,860	$ 640,027	$ 11,831,006

	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
Nine-Month Period Ended September 30, 2014:							
Interest income	$ 83,230	$ 163,406	$ 122,861	$ 41,906	$ 33,316	$ 30,937	$ 475,656
Net (charge) credit for transfer of funds	(26,823)	11,933	(9,402)	15,985	8,307	-	-
Interest expense	-	(18,580)	-	(50,867)	(14,507)	(2,781)	(86,735)
Net interest income	56,407	156,759	113,459	7,024	27,116	28,156	388,921
(Provision) release for loan and lease losses	(12,734)	(58,604)	(36,424)	-	23,231	(1,127)	(85,658)
Non-interest income	9,446	30,044	4,021	207	1,773	5,244	50,735
Direct non-interest expenses	(30,068)	(95,195)	(37,537)	(4,121)	(20,504)	(28,806)	(216,231)
Segment income	$ 23,051	$ 33,004	$ 43,519	$ 3,110	$ 31,616	$ 3,467	$ 137,767

Supplemental cash flow information is as follows:

Average earning assets	$	2,059,427		$	1,953,726		$	3,731,842		$	2,700,429		$	896,667		$	666,279		$	12,008,370

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Supplemental cash flow information is as follows:

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

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2015		2014		2015		2014	
Net income :								
Total income for segments and other	$	44,511	$	46,424	$	80,710	$	137,767
Other non-interest income (loss) (1)		-		-		13,443		(7,280)
Other operating expenses (2)		(25,277)		(23,159)		(85,159)		(68,303)
Income before income taxes		19,234		23,265		8,994		62,184
Income tax expense		(4,476)		(64)		(2,664)		(675)
Total consolidated net income	$	14,758	$	23,201	$	6,330	$	61,509
Average assets:								
Total average earning assets for segments	$	11,587,431	$	11,916,919	$	11,831,006	$	12,008,370
Other average earning assets (1)		-		-		-		2,216
Average non-earning assets		925,723		650,624		916,817		654,845
Total consolidated average assets	$	12,513,154	$	12,567,543	$	12,747,823	$	12,665,431

(1) The bargain purchase gain on the acquisition of assets and assumption of deposits from Doral Bank in 2015 as well as the activities related to the Bank's equity interest in CPG/GS are presented as an Other non-interest income (loss) and the investment in CPG/GS is presented as Other average earning assets in the tables above.

(2) Expenses pertaining to corporate administrative functions that support the operating segments but are not specifically attributable to or managed by any segment are not included in the reported financial results of the operating segments. The unallocated corporate expenses include certain general and administrative expenses and related depreciation and amortization expenses.

NOTE 24 – REGULATORY MATTERS, COMMITMENTS AND CONTINGENCIES

The Corporation is subject to various regulatory capital requirements imposed by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation's assets and liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's capital amounts and classification are also subject to qualitative judgments and adjustment by the regulators with respect to minimum capital requirements, components, risk weightings, and other factors.

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

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

The Corporation submitted its Capital Plan setting forth its plans for how to improve capital positions to comply with the Written Agreement over time. In addition to the Capital Plan, the Corporation submitted to its regulators a liquidity and brokered CD plan, including a contingency funding plan, a non-performing asset reduction plan, a budget and profit plan, a strategic plan, and a plan for the reduction of classified and special mention assets. As of September 30, 2015, the Corporation had completed all of the items included in the Capital Plan and is continuing to work on reducing non-performing loans. The Written Agreement also requires the submission to the regulators of quarterly progress reports.

In July 2013, the U.S. banking regulators approved a revised regulatory capital framework for U.S. banking organizations (the "Basel III rules") that is based on international regulatory capital requirements adopted by the Basel Committee on Banking Supervision over the past several years. The Basel III rules introduce new minimum capital ratios and capital conservation buffer requirements, change the composition of regulatory capital, require a number of new adjustments to and deductions from regulatory capital, and introduce a new "Standardized Approach" for the calculation of risk-weighted assets. The new minimum regulatory

Supplemental cash flow information is as follows:

capital requirements and the Standardized Approach for the calculation of risk-weighted assets became effective for the Corporation and FirstBank on January 1, 2015. The phase-in period for certain deductions and adjustments to regulatory capital began on January 1, 2015 and will be completed on January 1, 2018. The phase-in period for the capital conservation buffer requirements begins on January1, 2016 and will be completed on January 1, 2019.

The Basel III rules introduce a new and separate ratio of Common Equity Tier 1 capital ("CET1") to risk-weighted assets. CET1, a narrower subcomponent of total Tier 1 capital, generally consists of common stock and related surplus, retained earnings, accumulated other comprehensive income ("AOCI"), and qualifying minority interests. Certain banking organizations, however, including the Corporation and FirstBank, were allowed to make a one-time permanent election in early 2015 to continue to exclude AOCI items. The Corporation and FirstBank have elected to permanently exclude capital in AOCI in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the securities portfolio. In addition, the Basel III rules require the Corporation to maintain an additional CET1 capital conservation buffer of 2.5%. The capital conservation buffer must be maintained to avoid limitations on both (i) capital distributions (e.g. repurchases of capital instruments or dividend or interest payments on capital instruments), and (ii) discretionary bonus payments to executive officers and heads of major business lines. Under the fully phased-in rules, the Corporation will be required to maintain: (i) a minimum CET1 to risk-weighted assets ratio of at least 4.5%, plus the 2.5% "capital conservation buffer," resulting in a required minimum CET1 ratio of at least 7%, (ii) a minimum ratio of total Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum Tier 1 capital ratio of 8.5%, (iii) a minimum ratio of total Tier 1 plus Tier 2 capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum total capital ratio of 10.5%, and (iv) a required minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average on-balance sheet (non-risk adjusted) assets. The phase-in of the capital conservation buffer will begin on January 1, 2016 with a first year requirement of 0.625% of additional CET1, which will be progressively increased over a four-year period, increasing by that same percentage amount on each subsequent January 1 until it reaches the fully phased-in 2.5% CET1 requirement on January 1, 2019.

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

In addition, the Federal Reserve Board's Basel III rules require that certain non-qualifying capital instruments, including cumulative preferred stock and trust preferred securities ("TRuPs"), be excluded from Tier 1 capital. In general, banking organizations such as the Corporation began to phase out TRuPs from Tier 1 capital on January 1, 2015. The Corporation is allowed to include 25% of the $220 million outstanding qualifying TRuPs as Tier 1 capital in 2015 and the TRuPs must be fully phased out from Tier 1 capital by January 1, 2016. However, the Corporation's TRuPs may continue to be included in Tier 2 capital until the instruments are redeemed or mature.

The Basel III rules also revise the "prompt corrective action" ("PCA") regulations that apply to depository institutions, including FirstBank, pursuant to Section 38 of the Federal Deposit Insurance Act by (i) introducing a separate CET1 ratio requirement for each PCA capital category (other than critically undercapitalized) with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each PCA capital category with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the previous 6%); and (iii) eliminating the provision that allowed a bank with a composite supervisory rating of 1 to have a 3% leverage ratio and still be adequately capitalized and maintaining the minimum leverage ratio for well-capitalized status at 5%. The Basel III rules do not change the total risk-based capital requirement (10% for well-capitalized status) for any PCA capital category. The new PCA requirements became effective on January 1, 2015.

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

The Corporation's and its banking subsidiary's regulatory capital positions as of September 30, 2015 and December 31, 2014 were as follows:

	Regulatory Requirements													
	Actual					For Capital Adequacy Purposes					To be Well-Capitalized-Regular Thresholds			
	Amount			Ratio		Amount			Ratio		Amount			Ratio
	(Dollars in thousands)													
As of September 30, 2015 (Basel III)														
Total Capital (to														
Risk-Weighted Assets)														
First BanCorp.	$	1,806,332		19.71%	$	733,297			8%			N/A		N/A
FirstBank	$	1,778,981		19.42%	$	732,966			8%	$	916,208			10%
Common Equity Tier 1 Capital														
(to Risk-Weighted Assets)														
First BanCorp.	$	1,524,236		16.63%	$	412,480			4.5%			N/A		N/A
FirstBank	$	1,472,920		16.08%	$	412,293			4.5%	$	595,535			6.5%
Tier I Capital (to														
Risk-Weighted Assets)														
First BanCorp.	$	1,524,236		16.63%	$	549,973			6%			N/A		N/A
FirstBank	$	1,661,709		18.14%	$	549,725			6%	$	732,966			8%
Leverage ratio														
First BanCorp.	$	1,524,236		12.41%	$	491,476			4%			N/A		N/A
FirstBank	$	1,661,709		13.54%	$	490,789			4%	$	613,486			5%
As of December 31, 2014 (Basel I)														
Total Capital (to														
Risk-Weighted Assets)														
First BanCorp.	$	1,748,120		19.70%	$	709,723			8%			N/A		N/A
FirstBank	$	1,717,432		19.37%	$	709,395			8%	$	886,744			10%
Tier I Capital (to														
Risk-Weighted Assets)														
First BanCorp.	$	1,636,004		18.44%	$	354,861			4%			N/A		N/A
FirstBank	$	1,605,367		18.10%	$	354,698			4%	$	532,046			6%
Leverage ratio														
First BanCorp.	$	1,636,004		13.27%	$	493,159			4%			N/A		N/A
FirstBank	$	1,605,367		13.04%	$	492,468			4%	$	615,585			5%

Supplemental cash flow information is as follows:

The Corporation enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments may include commitments to extend credit and commitments to sell mortgage loans at fair value. As of September 30, 2015, commitments to extend credit amounted to approximately $1.1 billion, of which $648.5 million relates to credit card loans. Commercial and Financial standby letters of credit amounted to approximately $52.6 million. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since certain commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. For most of the commercial lines of credit, the Corporation has the option to reevaluate the agreement prior to additional disbursements. In the case of credit cards and personal lines of credit, the Corporation can cancel the unused credit facility at any time and without cause. Generally, the Corporation's mortgage banking activities do not enter into interest rate lock agreements with prospective borrowers.

As of September 30, 2015, First BanCorp. and its subsidiaries were defendants in various legal proceedings arising in the ordinary course of business. Management believes that the final disposition of these matters, to the extent not previously provided for, will not have a material adverse effect, individually or in the aggregate, on the Corporation's financial position, results of operations or cash flows.

NOTE 25 – FIRST BANCORP. (HOLDING COMPANY ONLY) FINANCIAL INFORMATION

The following condensed financial information presents the financial position of the Holding Company only as of September 30, 2015 and December 31, 2014 and the results of its operations for the quarters and nine-month periods ended September 30, 2015 and 2014.

Statements of Financial Condition				
	As of September 30,			As of December 31,
	2015		2014	
	(In thousands)			
Assets				
Cash and due from banks	$	28,849	$	30,380
Money market investments		6,111		6,111
Other investment securities		285		285
Loans held for investment, net		276		322
Investment in First Bank Puerto Rico, at equity		1,893,347		1,866,090
Investment in First Bank Insurance Agency, at equity		14,164		11,890
Investment in FBP Statutory Trust I		2,929		3,093
Investment in FBP Statutory Trust II		3,866		3,866
Other assets		4,784		4,357
Total assets	$	1,954,611	$	1,926,394
Liabilities and Stockholders' Equity				
Liabilities:				
Other borrowings	$	226,492	$	231,959
Accounts payable and other liabilities		27,169		22,692
Total liabilities		253,661		254,651
Stockholders' equity		1,700,950		1,671,743
Total liabilities and stockholders' equity	$	1,954,611	$	1,926,394

Statement of Income				
	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	

Income:				
Interest income on money market investments	$ 5	$ 5	$ 15	$ 15
Other income	58	55	439	163
	63	60	454	178
Expense:				
Other borrowings	1,861	1,818	5,521	5,365
Other operating expenses	643	693	2,000	1,967
	2,504	2,511	7,521	7,332
Loss before income taxes and equity				
in undistributed earnings of subsidiaries	(2,441)	(2,451)	(7,067)	(7,154)
Income tax provision	-	1	-	(3)
Equity in undistributed earnings of subsidiaries	17,199	25,651	13,397	68,666
Net income	$ 14,758	$ 23,201	$ 6,330	$ 61,509
Other Comprehensive income (loss) , net of tax	16,709	(5,916)	13,681	44,413
Comprehensive income	$ 31,467	$ 17,285	$ 20,011	$ 105,922

NOTE 26 – SUBSEQUENT EVENTS

On October 31, 2015, the Corporation entered into a strategic long-term marketing alliance with Evertec, Inc. (“Evertec”) where FirstBank sold its merchants contracts portfolio. Evertec acquired FirstBank’s merchant contracts and will continue to provide processing services, customer service and support operations to FirstBank’s merchant locations. Merchant services will be marketed through FirstBank’s branches and offices in Puerto Rico and the Virgin Islands. Under the marketing alliance agreement, FirstBank and Evertec will share, in accordance with agreed terms, revenues generated by the existing and incremental merchant contracts over the term of the agreement. The Corporation expects to record a portion of the consideration received in exchange for the merchant contracts as a gain on sale at the closing date, with the remainder being recorded over the term of the alliance agreement.

The Corporation has performed an evaluation of all other events occurring subsequent to September 30, 2015; management has determined that there are no additional events occurring in this period that require disclosure in or adjustment to the accompanying financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

SELECTED FINANCIAL DATA					
		Quarter ended		Nine-Month Period Ended	
(In thousands, except for per share and financial ratios)		September 30,		September 30,	
		2015	2014	2015	2014
Condensed Income Statements:					
	Total interest income	$ 149,812	$ 156,662	$ 453,929	$ 475,656
	Total interest expense	24,883	28,968	76,876	86,735
	Net interest income	124,929	127,694	377,053	388,921
	Provision for loan and lease losses	31,176	26,999	138,412	85,658
	Non-interest income	18,758	16,174	58,157	43,455
	Non-interest expenses	93,277	93,604	287,804	284,534
	Income before income taxes	19,234	23,265	8,994	62,184
	Income tax expense	(4,476)	(64)	(2,664)	(675)
	Net income	14,758	23,201	6,330	61,509
	Net income attributable to common stockholders	14,758	23,201	6,330	63,168
Per Common Share Results:					
	Net earnings per share-basic	$ 0.07	$ 0.11	$ 0.03	$ 0.30
	Net earnings per share-diluted	$ 0.07	$ 0.11	$ 0.03	$ 0.30
	Cash dividends declared	$ -	$ -	$ -	$ -
	Average shares outstanding	211,820	210,466	211,255	208,151
	Average shares outstanding diluted	213,783	212,359	212,596	209,811
	Book value per common share	$ 7.74	$ 6.05	$ 7.74	$ 6.05
	Tangible book value per common share (1)	$ 7.50	$ 5.81	$ 7.50	$ 5.81
Selected Financial Ratios (In Percent):					
Profitability:					
	Return on Average Assets	0.47	0.73	0.07	0.65
	Interest Rate Spread (2)	4.12	4.07	4.12	4.17
	Net Interest Margin (2)	4.33	4.25	4.32	4.35
	Return on Average Total Equity	3.49	7.01	0.50	6.43
		3.57	7.21	0.51	6.69

	Return on Average Common Equity				
	Average Total Equity to Average Total Assets	13.39	10.44	13.24	10.10
	Tangible common equity ratio (1)	12.63	9.82	12.63	9.82
	Dividend payout ratio	-	-	-	-
	Efficiency ratio (3)	64.92	65.06	66.13	65.81
Asset Quality:					
	Allowance for loan and lease losses to total loans held for investment	2.46	2.42	2.46	2.42
	Net charge-offs (annualized) to average loans (4) (5) (6)	1.02	1.80	1.88	2.04
	Provision for loan and lease losses to net charge-offs (7) (8)	131.39	63.17	104.98	58.64
	Non-performing assets to total assets (4)	4.81	5.89	4.81	5.89
	Non-performing loans held for investment to total loans held for investment (4)	5.08	6.01	5.08	6.01
	Allowance to total non-performing loans held for investment (4)	48.44	40.29	48.44	40.29
	Allowance to total non-performing loans held for investment,				
	excluding residential real estate loans (4)	76.81	60.20	76.81	60.20
Other Information:					
	Common Stock Price: End of period	$ 3.56	$ 4.75	$ 3.56	$ 4.75
		As of September 30, 2015	**As of December 31, 2014**		
Balance Sheet Data:					
	Loans, including loans held for sale	$ 9,336,532	$ 9,339,392		
	Allowance for loan and lease losses	228,966	222,395		
	Money market and investment securities	2,153,672	2,008,380		
	Intangible assets	51,910	49,907		
	Deferred tax asset, net	311,445	313,045		
	Total assets	12,820,989	12,727,835		

	Deposits		9,716,461			9,483,945						
	Borrowings		1,251,492			1,456,959						
	Total preferred equity		36,104			36,104						
	Total common equity		1,669,516			1,653,990						
	Accumulated other comprehensive loss, net of tax		(4,670)			(18,351)						
	Total equity		1,700,950			1,671,743						

(1)	Non-GAAP measure. Refer to "Capital" below for additional information about the components and a reconciliation of these measures.
(2)	On a tax-equivalent basis and excluding the changes in fair value of derivative instruments (see "Net Interest Income" below for a reconciliation of these non-GAAP measures).
(3)	Non-interest expense to the sum of net interest income and non-interest income. The denominator includes non-recurring income and changes in the fair value of derivative instruments.
(4)	Loans used in the denominator in calculating each of these ratios include purchased credit-impaired ("PCI") loans. However, the Corporation separately tracks and reports PCI loans and excludes these from non-performing loan and non-performing asset statistics.
(5)	The ratio of net charge-offs to average loans, excluding charge-offs associated with the bulk sale of assets, was 1.01% for the nine-month period ended September 30, 2015.
(6)	The ratio of net-charge-offs to average loans, excluding the impact associated with the acquisition of mortgage loans from Doral in the second quarter of 2014, was 1.94% for the nine-month period ended September 30, 2014.
(7)	The ratio of the provision for loan and lease losses to net charge-offs, excluding the impact of the bulk sale of assets, was 129.91% for the nine-month period ended September 30, 2015.
(8)	The ratio of the provision for loan and lease losses to net charge-offs, excluding the impact associated with the acquisition of mortgage loans from Doral in the second quarter of 2014, was 60.52% for the nine-month period ended September 30, 2014.

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The following Management's Discussion and Analysis of Financial Condition and Results of Operations relates to the accompanying unaudited consolidated financial statements of First BanCorp. (the "Corporation" or "First BanCorp.") and should be read in conjunction with such financial statements and the notes thereto.

EXECUTIVE SUMMARY

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

Puerto Rico Economic Environment and Exposure to Puerto Rico Government

A significant portion of our financial activities and credit exposure is concentrated in the Commonwealth of Puerto Rico, which has been in an economic recession since 2006. Based on the first nine months of calendar year 2015, the main economic indicators suggest that the Puerto Rico economy remains weak. For fiscal year 2015, the Puerto Rico Planning Board projects a continued economic contraction in the Commonwealth's real gross national product ("GNP") of 0.9%. The seasonally adjusted labor force measure continued its declining trend in September 2015, reflecting a reduction of 0.5% compared to September 2014. This continued reduction has partially resulted in a reduced seasonally adjusted unemployment rate in Puerto Rico, which decreased to 11.4% in September 2015, compared to 13.9% in September 2014. The seasonally adjusted payroll non-farm employment slightly increased 0.8% in September 2015, compared to September 2014.

Based on information published by the Puerto Rico Government, preliminary General Fund net revenues for the fiscal year ended June 30, 2015 were $8.961 billion, a decrease of $76.0 million when compared to the prior fiscal year and $604.1 million less than the original estimate for the year. The Government's most recent projection is that it will close fiscal year 2015 with a budget deficit in the range of $531 million to $566 million, an amount that, when adjusted for actual tax refunds paid in this fiscal year in excess of the reserve included in the budget for fiscal year 2015, increases the deficit to a range of $705 million to $740 million. Preliminary General Fund net revenues for the first three months of fiscal year 2016 were $1.935.8 billion, an increase of $162.0 million when compared to the prior fiscal year and $18.8 million higher than the original estimate for the first quarter of fiscal year 2016.

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

On June 29, 2015, the Governor of Puerto Rico announced that the Government will seek alternatives to ensure that the aggregate debt burden of the Commonwealth is adjusted so it can be repaid on sustainable terms, while ensuring pension obligations are honored over the long term and essential services for the people of Puerto Rico are maintained, and issued an Executive Order to create the Puerto Rico Fiscal and Economic Recovery Working Group (the "Working Group"). After the announcement, the top three credit rating agencies, Moody's, S&P and Fitch downgraded the Puerto Rico issued bonds deeper into non-investment grade status. On July 31, 2015, GDB confirmed it made the debt service payment of $169.6 million on outstanding GDB notes due on August 1, 2015. Nonetheless, another payment, due the same day, of $57.9 million related to a debt obligation of the Public Finance Corporation was not made. GDB is scheduled to make a debt service payment of $267 million related to certain GDB senior notes that will mature on December 1, 2015. These notes carry an explicit guarantee from the Commonwealth.

The Working Group was created to consider necessary measures, including the measures recommended in the Krueger Report, to address the fiscal crisis of the Commonwealth and will be responsible for developing and recommending to the Governor of Puerto Rico the Puerto Rico Fiscal and Economic Growth Plan (the "Plan"). The Plan must contain the administrative and legislative measures necessary to address the short, medium and long-term fiscal and economic challenges facing Puerto Rico, including measures to: (i) address the financing gaps and the debt load on the public sector, (ii) achieve the execution of its budgets, (iii) achieve greater transparency with respect to statistics and the government's financial information, and (iv) carry out the structural reforms necessary to promote the economic growth and competitiveness of the Commonwealth. Moreover, on October 21, 2015, the U.S. Department of Treasury released its roadmap to address Puerto Rico's ongoing economic and fiscal crisis and to create a path to economic recovery. This roadmap was presented to Congress by U.S Department of Treasury officials and laid out four immediate steps that Congress should take to address the crisis in Puerto Rico:

- Provide Puerto Rico with the necessary tools to restructure its financial liabilities in a fair and orderly manner under the supervision of a federal bankruptcy court.
- Enact strong fiscal oversight and help strengthen Puerto Rico's fiscal governance.
- Provide a long-term solution to Puerto Rico's historically inadequate Medicaid treatment.
- Reward work and support economic growth by providing access to an Earned Income Tax Credit.

During the second quarter of 2015, the Corporation recorded a $12.9 million other-than-temporary impairment ("OTTI") on three Puerto Rico Government debt securities held by the Corporation as part of its available-for-sale securities portfolio, specifically bonds of the GDB and the Puerto Rico Public Buildings Authority. The credit-related impairment loss estimate is based on the probability of default and loss severity in the event of default in consideration of the debt securities credit ratings and the latest available information about the Puerto Rico Government's financial condition, including the Puerto Rico Government's intentions to restructure its outstanding bond obligations. 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. As of September 30, 2015, the Corporation owns Puerto Rico Government debt securities in the aggregate amount of $52.7 million (net of the $12.9 million OTTI), carried on its books at a fair value of $34.1 million.

As of September 30, 2015, the Corporation had $336.0 million of credit facilities, excluding investment securities, granted to the Puerto Rico Government, its municipalities and public corporations, of which $320.6 million was outstanding (book value of $318.4 million). Approximately $199.5 million of the granted credit facilities outstanding consisted of loans to municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment. Approximately $21.0 million consisted of loans to units of the Puerto Rico central government, and approximately $100.2 million ($97.9 million book value) consisted of loans to public corporations, including the direct exposure to the Puerto Rico Electric Power Authority ("PREPA") with a book value of $72.6 million as of September 30, 2015.

Furthermore, as of September 30, 2015, the Corporation had $130.1 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. The aforementioned $130.1 million exposure was adversely classified during the third quarter of 2015 given liquidity risks and uncertainties over the governments' fiscal initiatives. Nevertheless, these loans are current in payments and are collateralized by real estate. The facilities are in accrual status as of September 30, 2015. The TDF is a subsidiary of the GDB that facilitates private-sector financings to Puerto Rico's hotel industry.TDF provides guarantees to financings and may provide direct loans. The GDB, subject to their Board of Directors' approval, has committed to provide the necessary financial support through the extension of credit facilities to satisfy obligations. The Corporation has been receiving payments from the TDF to cover scheduled payments on these financings since late 2012, including collections of interest and principal of approximately $3.9 million in 2015 and $4.5 million in 2014.

In addition, the Corporation had $125.1 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 of September 30, 2015, the Corporation had $524.5 million of public sector deposits in Puerto Rico. Approximately 65% came from municipalities and municipal agencies in Puerto Rico and 35% came from public corporations and the central government and agencies in Puerto Rico.

OVERVIEW OF RESULTS OF OPERATIONS

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

The Corporation had a net income of $14.8 million, or $0.07 per diluted common share, for the quarter ended September 30, 2015, compared to $23.2 million, or $0.11 per diluted common share, for the same period in 2014.

The key drivers of the Corporation’s financial results for the quarter ended September 30, 2015, compared to the same period in 2014, include the following:

- Net interest income decreased $2.8 million to $124.9 million for the quarter ended September 30, 2015 compared to the same period in 2014. The decrease in net interest income was primarily driven by: (i) a $7.7 million decrease in interest income on commercial loans, including a decrease of approximately $5.6 million attributable to a $541.4 million decline in the average volume of commercial loans and the adverse impact of $1.5 million in interest payments received in the third quarter of 2015 from the credit facility to PREPA, accounted for on a cost-recovery basis since May 2015, (ii) a $4.3 million decrease in interest income on consumer loans, primarily related to a $163.7 million decrease in the average volume of such loans, and (iii) a $1.6 million decrease in interest income on mortgage-backed securities ("MBS"), including a decrease of approximately $1.0 million attributable to a $180.6 million decline in the average volume of MBS and a $0.6 million decrease related to lower yields reflecting, among other things, the gradual reinvestment of MBS prepayments in lower-yielding investments given the low interest rate environment.

These variances were partially offset by: (i) a $6.6 million increase in the interest income on residential mortgage loans primarily related to the acquisition of several loan portfolios from Doral completed after the end of the third quarter of 2014, including the most recent acquisition in February 2015, (ii) a $2.5 million decrease in interest expense on deposits reflecting both a $817.0 million decrease in the average volume of brokered CDs and lower rates paid on certain of the Bank's savings and interest-bearing checking accounts, and (iii) a $1.6 million decrease in interest expense on repurchase agreements mainly related to the restructuring of $400 million of repurchase agreements early in 2015 and the interest income earned on a reverse repurchase agreement entered into in 2015 that qualifies for offsetting accounting. The net interest margin, excluding fair value adjustments, increased 7 basis points to 4.19% for the third quarter of 2015 compared to the same period in 2014. For a definition and reconciliation of this non-GAAP measure, refer to "Net Interest Income" discussion below.

- The provision for loan and lease losses increased $4.2 million to $31.2 million for the third quarter of 2015 compared to $27.0 million for the same period in 2014. The increase in the provision for loan and lease losses was primarily related to a higher migration of commercial mortgage loans to adverse classification categories, including the migration of the $130.1 million to commercial mortgage loans with government guarantees, and a decrease in construction loans loss recoveries.

As previously reported, during the second quarter of 2015 the Corporation completed the bulk sale of commercial and construction loans with a book value of $147.5 million (principal balance of $196.5 million), comprised mostly of non-performing and adversely classified loans, as well as OREO properties with a book value of $2.9 million in a cash transaction. The sale price of this bulk sale was $87.3 million. Approximately $15.3 million of reserves had been allocated to the loans. This transaction resulted in total charge-offs of $61.4 million and an incremental pre-tax loss of $48.7 million, including $0.9 million in professional service fees directly attributable to this bulk sale and $0.9 million in losses on loans held for sale and OREO properties included in the bulk sale. The following table shows the impact of the bulk sales on net charge-offs, provision for loan and lease losses, non-interest income, non-interest expenses and pre-tax income for the nine-month period ended September 30, 2015:

(Dollars in thousands) **Nine-Month Period Ended September 30, 2015**		As Reported (GAAP)		Bulk Sale Transaction Impact		Bargain Purchase Gain		Acquisition and conversion costs		OTTI on Puerto Rico Government Debt Securities		Excluding Bulk Sale Transaction, Bargain Purchase Gain, Acquisition and Conversion Costs and OTTI on Puerto Rico Government Debt Securities (Non-GAAP)
Total net charge-offs (1)	**$**	**131,841**	**$**	**61,435**	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**70,406**
Total net charge-offs to average loans		1.88%										1.01%
Commercial mortgage	$	47,600	$	37,590	$	-	$	**-**	$	-	$	10,010
Commercial mortgage loans net charge-offs to average loans		3.96%										0.86%
Commercial and Industrial	$	26,704	$	20,570	$	-	$	-	$	-	$	6,134

Supplemental cash flow information is as follows:

Commercial and Industrial loans net charge-offs to average loans	1.48%					0.34%
Construction	$ 2,408	$ 3,275	$ -	$ -	$ -	$ (867)
Construction loans net charge-offs to average loans	1.88%					-0.70%
Provision for loan and lease losses	**$ 138,412**	**$ 46,947**	**$ -**	**$ -**	**$ -**	**$ 91,465**
Non-interest income	**$ 58,157**	**$ 552**	**$ (13,443)**	**$ -**	**$ 12,856**	**$ 58,122**
Bargain purchase gain	13,443	-	(13,443)	-	-	-
Net loss on investment and impairments	(13,484)	-	-	-	12,856	(628)
Other net interest income	30,691	552	-	-	-	31,243
Non-interest expenses	**$ 287,804**	**$ 1,168**	**$ -**	**$ 4,646**	**$ -**	**$ 281,990**
Employees' compensation and benefits	110,883	-	-	104	-	110,779
Occupancy and equipment	44,656	-	-	118	-	44,538
Professional fees	44,932	918	-	3,709	-	40,305
Business promotion	10,899	-	-	437	-	10,462
Net loss on OREO operations	11,847	250	-	-	-	11,597
Other expenses	35,144	-	-	278	-	34,866

Supplemental cash flow information is as follows:

Pre-tax income	$	**8,994**		$	**48,667**		$	**(13,443)**		$	**4,646**		$	**12,856**	$	**61,720**
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1 - Charge-off percentages annualized																

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Supplemental cash flow information is as follows:

Net charge-offs totaled $23.7 million for the third quarter of 2015, or 1.02% of average loans on an annualized basis, compared to $42.7 million, or 1.80% of average loans for the same period in 2014. The decrease was primarily reflected in the commercial and industrial and consumer loan portfolios. Refer to the discussions under "Provision for loan and lease losses" and "Risk Management" below for an analysis of the allowance for loan and lease losses and non-performing assets and related ratios.

- The Corporation recorded non-interest income of $18.8 million for the quarter ended September 30, 2015, compared to $16.2 million for the same period in 2014, an increase of $2.6 million. The increase was mainly related to service charges on deposits and other fees associated with deposits assumed from Doral in late February 2015 and a $0.5 million increase in revenues from the mortgage banking business. Refer to "Non-Interest Income" below for additional information.

- Non-interest expenses decreased by $0.3 million to $93.3 million for the third quarter of 2015 compared to the same period in 2014. The decrease was primarily related to: (i) a $3.0 million decrease in the FDIC deposit insurance premium expense reflecting, among other things, the decrease in brokered CDs, a strengthened capital position and an improved earnings to assets average ratio, and (ii) a $1.5 million decrease in taxes, other than income taxes, reflecting the elimination of Puerto Rico's national gross receipts tax in 2015.

The above mentioned decreases were partially offset by: (i) a $3.4 million decrease in employees' compensation and benefits expense mainly associated with salary merit increases that became effective early in the second quarter of 2015, personnel costs related to branches acquired from Doral and a higher stock-based compensation expense, and (ii) increases of $0.5 million in occupancy and equipment costs, primarily related to rental, depreciation and maintenance expenses associated with the acquired Doral branches, and of $0.5 million in credit and debit card processing expenses. Refer to "Non-Interest Expenses" below for additional information.

- For the third quarter of 2015, the Corporation recorded an income tax expense of $4.5 million, compared to $0.1 million for the same period in 2014. As a result of the partial reversal of the deferred tax assets valuation allowance recorded in the fourth quarter of 2014, the Corporation is now required to estimate and record a provision for income taxes for interim periods. The Corporation's effective tax rate for the first nine months of 2015 was 30% (17% when excluding entities for which a tax benefit from ordinary losses cannot be recognized). As of September 30, 2015, the Corporation had a net deferred tax asset of $311.4 million (net of a valuation allowance of $204.1 million). Refer to "Income Taxes" below for additional information.

- As of September 30, 2015, total assets were $12.8 billion, an increase of $93.2 million from December 31, 2014. The variance reflects a $165.6 million increase in cash and cash equivalents tied to the increase in government and non-brokered deposits, partially offset by a $57.2 million decrease in investment securities. Total loans (before allowance) decreased by $2.9 million, primarily due to a $205.0 million decrease in commercial and construction loans, reflecting the $147.5 million of loans included in the bulk sale of assets completed in the second quarter of

2015, and a $121.0 million decrease in the consumer loan portfolio. These variances were partially offset by a $323.1 million increase in residential mortgage loans mainly attributable to loans acquired from Doral in late February 2015. Refer to “Financial Condition and Operating Data” below for additional information.

- As of September 30, 2015, total liabilities were $11.1 billion, an increase of $63.9 million, from December 31, 2014. The increase was mainly related to an $851.4 million increase in non-brokered deposits, including an organic growth of approximately $369.6 million and approximately $481.8 million related to deposits assumed from Doral Bank as of September 30, 2015. The organic growth includes an increase of approximately $303.0 million in government deposits. These variances were partially offset by a $618.9 million decrease in brokered CDs and the netting of a $200 million reverse repurchase agreement entered into in 2015 against repurchase agreements. Refer to “Risk Management – Liquidity and Capital Adequacy” below for additional information about the Corporation’s funding sources.

- As of September 30, 2015, the Corporation’s stockholders’ equity was $1.7 billion, an increase of $29.2 million from December 31, 2014. The increase was mainly driven by a $13.7 million increase in other comprehensive income mainly attributable to the increase in the fair value of U.S. agency MBS, the $6.3 million net income reported for the first nine months of 2015 and the exchange of $5.3 million of trust preferred securities for shares of the Corporation’s common stock.

- The Corporation’s Total Capital, Common equity Tier 1 Capital, Tier 1 Capital and Leverage ratios calculated under the Basel III rules were 19.71%, 16.63%, 16.63%, and 12.41%, respectively, as of September 30, 2015. The Corporation’s tangible common equity ratio increased to 12.63% as of September 30, 2015, from 12.51% as of December 31, 2014. Refer to “Risk Management – Capital” below for additional information including further information about the implementation of the Basel III rules in 2015.

- Total loan production, including purchases, refinancings, renewals and draws from existing revolving and non-revolving commitments, was $759.9 million for the quarter ended September 30, 2015, excluding the utilization activity on outstanding

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credit cards, compared to $821.2 million for the same period in 2014. The decrease in loan production was mainly related to lower borrowings under credit facilities granted to government entities in Puerto Rico and a decrease in auto loan originations.

• Total non-performing assets were $617.2 million as of September 30, 2015, a decrease of $99.6 million from December 31, 2014. The decrease was driven by the bulk sale of assets that included $91.9 million of non-performing commercial and construction loans and the restoration to accrual status of a $24.5 million commercial mortgage facility after consideration of the borrower's sustained historical repayment performance and credit evaluation, partially offset by the inflow to non-performing status in the first quarter of the credit facility with PREPA (with a book value of $72.6 million as of September 30, 2015). The remainder of the decrease reflects charge-offs, commercial loans brought current, and cash collections. Refer to "Risk Management - Non-accruing and Non-performing Assets" below for additional information.

• Adversely classified commercial and construction loans held for investment increased by $12.6 million to $570.1 million, or 2%, from December 31, 2014, driven by the migration of the $130.1 million exposure to commercial mortgage loans with a government guarantee and of approximately $44.4 million of syndicated commercial loan participations. Partially offsetting these variances were the bulk sale of assets and improvements in repayment prospects on a $48 million commercial mortgage loan.

Critical Accounting Policies and Practices

The accounting principles of the Corporation and the methods of applying these principles conform to generally accepted accounting principles in the United States ("GAAP"). The Corporation's critical accounting policies relate to: 1) the allowance for loan and lease losses; 2) other-than-temporary impairments ("OTTIs"); 3) income taxes; 4) the classification and values of investment securities; 5) the valuation of financial instruments; 6) income recognition on loans; 7) fair values and the accounting for loans acquired; 8) loans held for sale; 9) the accounting for business combinations; and 10) until the second quarter of 2014, the equity method of accounting for investment in unconsolidated entity. These critical accounting policies involve judgments, estimates and assumptions made by management that affect the amounts recorded for assets, liabilities and contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from estimates, if different assumptions or conditions prevail. Certain determinations inherently require greater reliance on the use of estimates, assumptions, and judgments and, as such, have a greater possibility of producing results that could be materially different than those originally reported.

The Corporation's critical accounting policies are described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in First BanCorp.'s 2014 Annual Report on Form 10-K. There have not been any material changes in the Corporation's critical accounting policies since December 31, 2014.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the excess of interest earned by First BanCorp. on its interest-earning assets over the interest incurred on its interest-bearing liabilities. First BanCorp.'s net interest income is subject to interest rate risk due to the repricing and maturity mismatch of the Corporation's assets and liabilities. Net interest income for the quarter and nine-month period ended September 30, 2015 was $124.9 million and $377.1 million, respectively, compared to $127.7 million and $388.9 million for the comparable periods in 2014. On a tax-equivalent basis, and excluding the changes in the fair value of derivative instruments, net interest income for the quarter and nine-month period ended September 30, 2015 was $129.1 million and $389.9 million, respectively, compared to $131.3 million and $402.2 million for the comparable periods in 2014.

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

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

Part I	Average Volume		Interest income [1] / expense		Average Rate [1]	
Quarter ended September 30,	2015	2014	2015	2014	2015	2014
(Dollars in thousands)						
Interest-earning assets:						
	$ 574,162	$ 744,738	$ 410	$ 473	0.28 %	0.25 %

Money market & other short-term investments						
Government obligations (2)	488,880	339,261	2,701	1,956	2.19 %	2.29 %
Mortgage-backed securities	1,477,223	1,657,816	9,995	11,985	2.68 %	2.87 %
FHLB stock	25,434	26,788	260	283	4.06 %	4.19 %
Other investments	938	320	-	-	-	-
Total investments (3)	2,566,637	2,768,923	13,366	14,697	2.07 %	2.11 %
Residential mortgage loans	3,316,518	2,803,138	45,989	39,401	5.50 %	5.58 %
Construction loans	169,957	195,108	1,645	1,910	3.84 %	3.88 %
C&I and commercial mortgage loans	3,893,387	4,434,798	42,102	49,043	4.29 %	4.39 %
Finance leases	227,912	237,374	4,582	4,707	7.98 %	7.87 %
Consumer loans	1,651,970	1,806,158	46,335	50,481	11.13 %	11.09 %
Total loans (4) (5)	9,259,744	9,476,576	140,653	145,542	6.03 %	6.09 %
Total interest-earning assets	$ 11,826,381	$ 12,245,499	$ 154,019	$ 160,239	5.17 %	5.19 %
Interest-bearing liabilities:						
Brokered CDs	$ 2,280,309	$ 3,097,358	$ 5,943	$ 7,482	1.03 %	0.96 %
Other interest-bearing deposits	5,882,383	5,691,643	10,908	11,862	0.74 %	0.83 %
Other borrowed funds	926,492	1,131,959	7,077	8,675	3.03 %	3.04 %
FHLB advances	325,000	324,674	955	949	1.17 %	1.16 %
Total interest-bearing liabilities	$ 9,414,184	$ 10,245,634	$ 24,883	$ 28,968	1.05 %	1.12 %
Net interest income			$ 129,136	$ 131,271		
Interest rate spread					4.12 %	4.07 %
Net interest margin					4.33 %	4.25 %

Supplemental cash flow information is as follows:

Nine-Month Period Ended September 30,	Average Volume		Interest income (1) / expense		Average Rate (1)	
	2015	2014	2015	2014	2015	2014
(Dollars in thousands)						
Interest-earning assets:						
Money market & other short-term investments	$ 707,174	$ 739,456	$ 1,457	$ 1,427	0.28 %	0.26 %
Government obligations (2)	460,269	339,295	7,656	6,115	2.22 %	2.41 %
Mortgage-backed securities	1,512,345	1,691,816	32,793	42,268	2.90 %	3.34 %
FHLB stock	25,445	27,724	812	897	4.27 %	4.33 %
Other investments	707	320	-	-	-	-
Total investments (3)	2,705,940	2,798,611	42,718	50,707	2.11 %	2.42 %
Residential mortgage loans	3,253,529	2,663,641	135,781	111,066	5.58 %	5.57 %
Construction loans	170,626	203,359	4,743	5,616	3.72 %	3.69 %
C&I and commercial mortgage loans	4,006,796	4,638,218	129,089	150,828	4.31 %	4.35 %
Finance leases	228,978	242,173	13,700	14,882	8.00 %	8.22 %
Consumer loans	1,689,270	1,818,628	140,733	155,787	11.14 %	11.45 %
Total loans (4) (5)	9,349,199	9,566,019	424,046	438,179	6.06 %	6.12 %
Total interest-earning assets	$ 12,055,139	$ 12,364,630	$ 466,764	$ 488,886	5.18 %	5.29 %
Interest-bearing liabilities:						
Brokered CDs	$ 2,483,295	$ 3,135,572	$ 18,592	$ 22,585	1.00 %	0.96 %
	5,894,230	5,817,613	32,933	36,524	0.75 %	0.84 %

Other interest-bearing deposits												
Other borrowed funds		1,009,129		1,131,959		22,518		25,020	2.98	%	2.96	%
FHLB advances		325,000		308,388		2,833		2,606	1.17	%	1.13	%
Total interest-bearing liabilities	$	9,711,654	$	10,393,532	$	76,876	$	86,735	1.06	%	1.12	%
Net interest income					$	389,888	$	402,151				
Interest rate spread									4.12	%	4.17	%
Net interest margin									4.32	%	4.35	%

(1) On an adjusted tax-equivalent basis. The adjusted tax-equivalent yield was estimated by dividing the interest rate spread on exempt assets by 1 less the Puerto Rico statutory tax rate of 39.0% and adding to it the cost of interest-bearing liabilities. The tax-equivalent adjustment recognizes the income tax savings when comparing taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest income, interest rate spread and net interest margin on a fully tax-equivalent basis. Therefore, management believes these measures provide useful information to investors by allowing them to make peer comparisons. Changes in the fair value of derivatives are excluded from interest income and interest expense because the changes in valuation do not affect interest paid or received.
(2) Government obligations include debt issued by government-sponsored agencies.
(3) Unrealized gains and losses on available-for-sale securities are excluded from the average volumes.
(4) Average loan balances include the average of non-performing loans.
(5) Interest income on loans includes $2.6 million and $3.1 million for the quarters ended September 30, 2015 and 2014, respectively, and $7.8 million and $8.8 million for the nine-month periods ended September 30, 2015 and 2014, respectively, of income from prepayment penalties and late fees related to the Corporation’s loan portfolio.

Part II							
	Quarter ended September 30, 2015 compared to 2014			Nine-Month Period Ended September 30, 2015 compared to 2014		
	Increase (decrease)			Increase (decrease)		
	Due to:			Due to:		
(In thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest income on interest-earning assets:						
Money market & other short-term investments	$ (114)	$ 51	$ (63)	$ (65)	$ 95	$ 30
Government obligations	841	(96)	745	2,100	(559)	1,541
Mortgage-backed securities	(1,253)	(737)	(1,990)	(4,220)	(5,255)	(9,475)
FHLB stock	(14)	(9)	(23)	(73)	(12)	(85)
Total investments	(540)	(791)	(1,331)	(2,258)	(5,731)	(7,989)
Residential mortgage loans	7,136	(548)	6,588	24,618	97	24,715
Construction loans	(244)	(21)	(265)	(908)	35	(873)
C&I and commercial mortgage loans	(5,875)	(1,066)	(6,941)	(20,355)	(1,384)	(21,739)
Finance leases	(188)	63	(125)	(796)	(386)	(1,182)
Consumer loans	(4,299)	153	(4,146)	(10,862)	(4,192)	(15,054)
Total loans	(3,470)	(1,419)	(4,889)	(8,303)	(5,830)	(14,133)
Total interest income	(4,010)	(2,210)	(6,220)	(10,561)	(11,561)	(22,122)
Interest expense on interest-bearing liabilities:						
Brokered CDs	(2,041)	502	(1,539)	(4,799)	806	(3,993)
Other interest-bearing deposits	369	(1,323)	(954)	461	(4,052)	(3,591)
Other borrowed funds	(1,570)	(28)	(1,598)	(2,732)	230	(2,502)
FHLB advances	1	5	6	143	84	227
Total interest expense	(3,241)	(844)	(4,085)	(6,927)	(2,932)	(9,859)
Change in net interest income	$ (769)	$ (1,366)	$ (2,135)	$ (3,634)	$ (8,629)	$ (12,263)

Supplemental cash flow information is as follows:

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

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

The following table reconciles net interest income in accordance with GAAP to net interest income, excluding valuations, and net interest income on an adjusted tax-equivalent basis. The table reconciles net interest spread and net interest margin on a GAAP basis to these items excluding valuations and on an adjusted tax-equivalent basis:

(Dollars in thousands)	Quarter Ended		Nine-Month Period Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Interest Income - GAAP	$ 149,812	$ 156,662	$ 453,929	$ 475,656
Unrealized gain on derivative instruments	(144)	(418)	(144)	(993)
Interest income excluding valuations	149,668	156,244	453,785	474,663
Tax-equivalent adjustment	4,351	3,995	12,979	14,223
Interest income on a tax-equivalent basis and excluding valuations	154,019	160,239	466,764	488,886
Interest Expense - GAAP	24,883	28,968	76,876	86,735
Net interest income - GAAP	$ 124,929	$ 127,694	$ 377,053	$ 388,921
Net interest income excluding valuations	$ 124,785	$ 127,276	$ 376,909	$ 387,928
Net interest income on a tax-equivalent basis and excluding valuations	$ 129,136	$ 131,271	$ 389,888	$ 402,151
Average Balances				
Loans and leases	$ 9,259,744	$ 9,476,576	$ 9,349,199	$ 9,566,019
Total securities and other short-term investments	2,566,637	2,768,923	2,705,940	2,798,611
Average Interest-Earning Assets	$ 11,826,381	$ 12,245,499	$ 12,055,139	$ 12,364,630
Average Interest-Bearing Liabilities	$ 9,414,184	$ 10,245,634	$ 9,711,654	$ 10,393,532
Average Yield/Rate				
	5.03 %	5.08 %	5.03 %	5.14 %

Supplemental cash flow information is as follows:

Average yield on interest-earning assets - GAAP				
Average rate on interest-bearing liabilities - GAAP	1.05%	1.12%	1.06%	1.12%
Net interest spread - GAAP	3.98%	3.96%	3.97%	4.02%
Net interest margin - GAAP	4.19%	4.14%	4.18%	4.21%
Average yield on interest-earning assets excluding valuations	5.02%	5.06%	5.03%	5.13%
Average rate on interest-bearing liabilities excluding valuations	1.05%	1.12%	1.06%	1.12%
Net interest spread excluding valuations	3.97%	3.94%	3.97%	4.01%
Net interest margin excluding valuations	4.19%	4.12%	4.18%	4.19%
Average yield on interest-earning assets on a tax-equivalent basis				
and excluding valuations	5.17%	5.19%	5.18%	5.29%
Average rate on interest-bearing liabilities excluding valuations	1.05%	1.12%	1.06%	1.12%
Net interest spread on a tax-equivalent basis and excluding valuations	4.12%	4.07%	4.12%	4.17%
Net interest margin on a tax-equivalent basis and excluding valuations	4.33%	4.25%	4.32%	4.35%

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

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

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

Derivative instruments, such as interest rate swaps, are subject to market risk. While the Corporation does have certain trading derivatives to facilitate customer transactions, the Corporation does not utilize derivative instruments for speculative purposes. As of September 30, 2015, most of the interest rate swaps outstanding are used for protection against rising interest rates, although not designated as hedges. Refer to Note 11 of the accompanying unaudited consolidated financial statements for further details concerning the notional amounts of derivative instruments and additional information. As is the case with investment securities, the market value of derivative instruments is largely a function of the financial market's expectations regarding the future direction of interest rates. Accordingly, current market values are not necessarily indicative of the future impact of derivative instruments on net interest income. This will depend, for the most part, on the shape of the yield curve, the level of interest rates, as well as the expectations for rates in the future.

For the quarter and nine-month period ended September 30, 2015, net interest income decreased $2.8 million to $124.9 million, and $11.9 million to $377.1 million compared to the same periods in 2014. The net interest margin, excluding fair value adjustments,

increased by 7 basis points to 4.19% for the third quarter of 2015 compared to the same period in 2014. The $2.8 million decrease in net interest income for the third quarter of 2015, compared to the same period in 2014 was primarily due to:

- A $7.7 million decrease in interest income on commercial loans, including a decrease of approximately $5.6 million attributable to a $541.4 million decline in the average volume and the adverse impact of $1.5 million in interest payments received in the third quarter of 2015 from the PREPA credit facility accounted for on a cost-recovery basis since May 2015.

- A $4.3 million decrease in interest income on consumer loans primarily related to a $163.7 million decrease in the average volume of such loans.

- A $1.6 million decrease in interest income on MBS investments, including a decrease of approximately $1.0 million attributable to the $180.6 million decline in the average volume of MBS investments and a decrease of approximately $0.6 million related to lower yields reflecting, among other things, the gradual reinvestment of MBS prepayments in lower-yielding investments given the low interest rate environment.

These variances were partially offset by:

- A $6.6 million increase in the interest income on residential mortgage loans primarily related to the acquisition of several loan portfolios from Doral completed after the end of the third quarter of 2014, including the most recent acquisition in February 2015.

- A $2.5 million decrease in interest expense on deposits, including a $1.5 million reduction in interest expense on brokered CDs that was primarily related to an $817.0 million decrease in the average volume. In addition, there was a decrease of approximately $1.0 million in interest expenses on non-brokered interest-bearing deposits that primarily reflects lower rates paid on certain of the Bank’s savings and interest-bearing checking accounts. The Corporation’s strategic focus remains to grow non-brokered deposits and improve the overall mix of funding. The average balance of non-brokered interest-bearing deposits increased by $190.7 million during the third quarter of 2015 compared to the same period in 2014. Over the last 12 months, the Corporation repaid approximately $1.8 billion of maturing brokered CDs with an all-in cost of 0.85%, partially offset by new issuances of $1.0 billion with an all-in cost of 1.00%.

- A $1.6 million decrease in interest on repurchase agreements mainly related to the restructuring of $400 million of repurchase agreements in the first quarter of 2015, including the effect of the netting pursuant to GAAP of the $1.0 million interest income earned on a $200 million reverse repurchase agreement entered into in April 2015, as part of an agreement with an existing counterparty, against interest expense on repurchase agreements with the same counterparty.

The $11.9 million decrease in net interest income for the first nine months of 2015, compared to the same period in 2014 was primarily due to:

- A $22.9 million decrease in interest income on commercial loans, including a decrease of approximately $19.5 million attributable to a $631.4 million decline in the average volume of such loans and the adverse impact of approximately $2.4 million in interest payments received from the PREPA credit facility accounted for on a cost-recovery basis since May 2015.

- An $11.2 million decrease in interest income on consumer loans and finance leases, other than credit cards, primarily related to a $132.3 million decrease in the average volume of such loans.

- A $5.0 million decrease in interest income on credit card loans mainly due to the fact that the remaining discount related to the credit card portfolio acquired in 2012 was fully accreted into income during the second quarter of 2014. The discount accretion during the first half of 2014 amounted to $3.8 million.

- A $7.5 million decrease in interest income on MBS investments, including a decrease of approximately $3.5 million attributable to a $179.5 million decline in the average volume of MBS investments and a $4.0 million decrease related to lower yields reflecting, among other things, an acceleration of prepayment speeds and the gradual reinvestment of MBS prepayments in lower-yielding investments given the low interest rate environment.

These variances were partially offset by:

- A $25.1 million increase in the interest income on residential mortgage loans primarily related to the acquisition of several loan portfolios from Doral completed after the end of the first quarter of 2014.

- A $7.6 million decrease in interest expense on deposits, including a $4.8 million reduction related to a $652.3 million decrease in the average volume of brokered CDs and a $3.6 million reduction in interest expense on non-brokered interest-bearing deposits that reflects lower rates paid on certain of the Bank's savings and interest-bearing checking accounts.

- A $2.7 million decrease in interest on repurchase agreements mainly related to the aforementioned restructuring of $400 million repurchase agreement and the netting effect of the $1.8 million interest income earned in 2015 on the $200 million reverse repurchase agreement entered into in April 2015 that qualifies for offsetting accounting pursuant to ASC 210-20-45-11.

On an adjusted tax-equivalent basis, net interest income for the quarter ended September 30, 2015 decreased by $2.1 million to $129.1 million when compared to the same period in 2014 and by $12.3 million to $389.9 million for the first nine months of 2015 compared to the same period in 2014. In addition to the facts discussed above, the decrease also includes a reduction of $1.2 million for the nine-month period in the tax-equivalent adjustment attributable to a lower volume of tax-exempt assets.

Provision and Allowance for Loan and Lease Losses

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

For the third quarter ended September 30, 2015, the Corporation recorded a provision for loan and lease losses of $31.2 million compared to $27.0 million for the comparable period in 2014. The increase in the provision was driven by:

- An $8.3 million increase in the provision for commercial and construction loans driven by a higher migration of loans to adverse classification categories, including the migration of the $130.1 million in commercial mortgage loans extended to the hotel industry in Puerto Rico guaranteed by the TDF. The variance also reflects a $4.3 million decrease in construction loan loss recoveries.

- A $1.1 million increase in the provision for residential mortgage loans that reflects, among other things, inherent loss severities of loans in late stage of delinquencies and the overall increase in the size of this portfolio.

Partially offset by:

- A decrease in the provision for consumer loans of $5.1 million mainly due to lower historical loss rates that reflect, among other things, improvements in charge-off trends and lower loss severity rates on auto loans. Consumer loans net charge-offs decreased by $4.2 million in the third quarter ended September 30, 2015 compared to the same period in 2014. The decrease in the provision also reflects the decline in the size of this portfolio.

For the nine-month period ended September 30, 2015, the Corporation recorded a provision for loan and lease losses of $138.4 million compared to $85.7 million for the same period in 2014. The provision for loan and lease losses for the first nine months of 2015 includes a $46.9 million charge associated with commercial loans held for investment included in the bulk sale of assets completed in the second quarter of 2015.

On June 5, 2015, the Corporation completed the sale of commercial and construction loans with a book value of $147.5 million (principal balance of $196.5 million), comprised mostly of non-performing and adversely classified loans, as well as OREO properties with a book value of $2.9 million in a cash transaction. The sale price of this bulk sale was $87.3 million. Approximately $15.3 million of reserves had been allocated to the loans. This transaction resulted in total charge-offs of $61.4 million and an incremental pre-tax loss of $48.7 million, including $0.9 million in professional service fees directly attributable to this bulk sale and $0.9 million in losses on loans held for sale and OREO properties included in the bulk sale.

Excluding the $46.9 million charge related to the bulk sale, the provision increased by $5.8 million for the nine-month period ended September 30, 2015 compared to the same period in 2014 driven by:

- A $19.7 million increase in the provision for commercial and construction loans, reflecting reductions on loan loss recoveries of $8.9 million and $2.4 million in the Florida and Puerto Rico region, respectively. The remainder of the increase is primarily related to a higher migration of loans to adverse classification categories and an increase in the

general reserve as a result of the incorporation of the net charge-offs from the bulk sale of assets in the calculation of the historical loss rates used to estimate inherent losses for non-impaired loans.

The Corporation has considered the charge-offs information related to the second quarter 2015 bulk sale in its second and third quarter estimates of credit impairment for loans collectively measured. In the second quarter, the total bulk sale charge offs were included in the determination of historical loss rates with no reduction for the additional market discount related to the bulk sale resolution; in the past the Corporation had separated the market component of the loss. The decision to include total charge-offs, with no qualitative adjustment for the steep discount on this bulk sale, considered the potential use of similar credit resolution strategies in the future in light of the current economic conditions in Puerto Rico. The effect of this position resulted in an increase of $15.5 million in the general reserve for loan losses determined for loans collectively evaluated for impairment. During the third quarter of 2015, the Corporation further refined its methodology by allocating the second quarter bulk sale losses over an estimated realization period of eight quarters which would reflect a more typical loss resolution pattern. Management believes that this loss estimation process is more indicative of the current experience related to the average period for a loan to migrate to asset classification categories and the eventual charge-off.

- An $8.2 million increase in the provision for residential mortgage loans driven by a reserve of $3.1 million established in the second quarter of 2015 attributable to the purchased credit-impaired loans acquired from Doral in May 2014. The reserve was driven by the revision of the expected cash flows of the portfolio for the remaining term of the loan pool based on market conditions. In addition, the increase reflects the effect of decreases in appraised values of the portfolio and the overall increase in the size of this portfolio.

Partially offset by:

- A decrease in the provision for consumer loans of $22.1 million mainly due to, improvements in charge-off trends and lower loss severity rates on auto loans. Consumer loans net charge-offs decreased by $10.2 million in the first nine months of 2015 compared to the same period in 2014, including loan loss recoveries of $2.7 million on the sale in the second quarter of 2015 of certain auto and personal loans that had been fully charged-off in prior periods. The decrease in the provision also reflects the decline in the size of this portfolio.

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

Supplemental cash flow information is as follows:

Non-Interest Income

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Service charges on deposit accounts	$ 5,082	$ 4,205	$ 14,856	$ 12,554
Mortgage banking activities	4,270	3,809	12,651	10,213
Insurance income	1,265	1,290	5,809	5,328
Broker-dealer income	-	-	-	459
Other operating income	8,372	7,115	24,882	22,135
Non-interest income before net (loss) gain on investments, bargain purchase gain and equity in loss of unconsolidated entity	18,989	16,419	58,198	50,689
OTTI on debt securities	(231)	(245)	(13,484)	(245)
Net gain on sale of investments	-	-	-	291
Net (loss) gain on investments	(231)	(245)	(13,484)	46
Bargain purchase gain	-	-	13,443	-
Equity in loss of unconsolidated entity	-	-	-	(7,280)
Total	$ 18,758	$ 16,174	$ 58,157	$ 43,455

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

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

Income from mortgage banking activities includes gains on sales and securitization of loans, revenues earned for administering residential mortgage loans originated by the Corporation and subsequently sold with servicing retained,

and unrealized gains and losses on forward contracts used to hedge the Corporation's securitization pipeline. In addition, lower-of-cost-or-market valuation adjustments to the Corporation's residential mortgage loans held for sale portfolio and servicing rights portfolio, if any, are recorded as part of mortgage banking activities.

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

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

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

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

Equity in earnings (losses) of unconsolidated entity relates to FirstBank's investment in CPG/GS, the entity that purchased $269 million of loans from FirstBank during the first quarter of 2011. The Bank holds a 35% subordinated ownership interest in CPG/GS. The value of the investment in this unconsolidated entity became zero in the second quarter of 2014. Refer to Note 14 of the Corporation's unaudited consolidated financial statements for the quarter ended September 30, 2015 for additional information about the Bank's investment in CPG/GS.

Non-interest income for the third quarter of 2015 amounted to $18.8 million, compared to $16.2 million for the third quarter of 2014. The $2.6 million increase in non-interest income was primarily due to the following:

- A $0.9 million increase in service charges on deposits and an increase of $0.9 million in other transactional fees (included as part of other operating income in the table above) primarily associated with the deposits assumed from Doral late in February 2015.

- A $0.5 million increase in revenues from the mortgage banking business driven by a higher volume of mortgage loan sales. Loans sold and securitized in the secondary market to U.S. government-sponsored entities amounted to $117.0 million with a related gain of $3.7 million in the third quarter of 2015, compared to $75.1 million with a related gain of $3.0 million in the third quarter of 2014. In addition, there was a $0.2 million decrease in charges related to compensatory fees imposed by government-sponsored agencies. These variances were partially offset by a $0.5 million decrease in income related to losses on to-be-announced (TBAs) MBS forward contracts.

Non-interest income for the nine-month period ended September 30, 2015 amounted to $58.2 million, compared to $43.5 million for the same period in 2014. The $14.7 million increase in non-interest income was primarily due to:

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

- Equity in loss of unconsolidated entity in the amount of $7.3 million recognized in the first half of 2014 on the Bank’s investment in CPG/GS.

- A $2.3 million increase in service charges on deposits and an increase of $3.0 million in other transactional fees (included as part of other operating income in the table above) primarily associated with the deposits assumed from Doral late in February 2015.

- A $2.4 million increase in revenues from the mortgage banking business driven by a $0.7 million decrease in losses on TBAs MBS forward contracts, a $1.1 million decrease in charges related to compensatory fees imposed by government-sponsored agencies, and a $0.3 million increase in realized gains on residential mortgage loans. Loans sold in the secondary market to U.S. government-sponsored entities amounted to $323.5 million with a related gain of $10.1 million in the first nine months of 2015, compared to $245.5 million with a related gain of $9.7 million in the comparable period of 2014. Higher margins were observed in 2014 due to the sale of re-performing mortgage loans.

- A $0.5 million increase in insurance commission income.

Partially offset by:

- A $12.9 million OTTI charge on Puerto Rico Government securities recorded in the second quarter of 2015. Please refer to “Recent Significant Event - Puerto Rico Economic Environment and Exposure to Puerto Rico Government” above and Note 5 of the Corporation’s unaudited consolidated financial statements for the quarter ended September 30, 2015 for additional information about the determination of this charge.

- A $0.6 million loss on the sale of a commercial mortgage loan held for sale as part of the bulk sale of assets, included as a reduction of “Other operating income” in the table above.

- A $0.5 million decrease in fee income from the broker-dealer subsidiary as a result of underwriting fees on a bond issuance of the Puerto Rico Government that took place in the first quarter of 2014.

Non-Interest Expenses

The following table presents the detail of non-interest expenses for the periods indicated:

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Employees' compensation and benefits	$ 37,284	$ 33,877	$ 110,883	$ 101,568
Occupancy and equipment	15,248	14,727	44,656	43,527
Insurance and supervisory fees	6,590	9,493	20,246	31,267
Taxes, other than income taxes	3,065	4,528	9,197	13,607
Professional fees:				
Collections, appraisals and other credit related fees	2,269	3,118	9,493	7,820
Outsourcing technology services	4,549	4,840	14,042	13,664
Other professional fees	3,891	4,096	21,397	13,018
Credit and debit card processing expenses	4,283	3,741	12,185	11,447
Business promotion	4,097	3,925	10,899	12,040
Communications	2,189	2,143	5,842	5,916
Net loss on OREO and OREO operations	4,345	4,326	11,847	16,941
Other	5,467	4,790	17,117	13,719
	$ 93,277	$ 93,604	$ 287,804	$ 284,534

Non-interest expenses decreased by $0.3 million to $93.3 million for the third quarter of 2015 compared to $93.6 million for the third quarter of 2014. The decrease was principally attributable to:

- A $3.0 million decrease in the FDIC insurance premium expense reflecting, among other things, the decrease in brokered CDs, a strengthened capital position and an improved earnings to assets average ratio.

- A $1.5 million decrease in taxes, other than income taxes, reflecting the elimination of Puerto Rico’s national gross receipts tax effective January 1, 2015.

- A $1.3 million decrease in total professional service fees primarily reflecting reductions in legal fees on troubled loan resolution efforts and collateral appraisal expenses.

Partially offset by:

- A $3.4 million increase in employees’ compensation and benefit expenses mainly due to salary merit increases that became effective early in the second quarter and accounted for approximately $1.4 million of the increase, the impact of personnel costs related to branches acquired from Doral, which accounted for approximately $0.7 million of the increase, a $0.3 million increase in stock-based compensation expense, and a $0.6 million increase in incentive and performance-based compensation.

- A $0.5 million increase in occupancy and equipment costs primarily resulting from rental, depreciation, and maintenance expenses associated with the acquired Doral branches.

- A $0.5 million increase in credit and debit card processing expenses.

- A $0.7 million increase in “other expenses” in the table above, primarily related to printing and mailing costs and the amortization of the core deposit intangible associated with the acquired Doral branches.

- A $0.2 million increase in business promotion expenses.

Non-interest expenses increased by $3.3 million to $287.8 million for the first nine months of 2015 compared to $284.5 million for the same period in 2014. Non-interest expenses in the first nine months of 2015 include costs of $4.6 million related to the conversion of loan and deposit accounts acquired from Doral to the FirstBank systems, which was completed in the second quarter, and $1.2 million of expenses and losses associated with the bulk sale of assets. The increase of $3.3 million was principally attributable to:

- A $10.4 million increase in total professional service fees, including: (i) $3.6 million in interim servicing costs incurred in the first half of 2015 related to loans and deposits acquired from Doral in late February 2015 up to the completion of the conversion in May 2015, (ii) $3.7 million of non-recurring professional service fees directly related to the conversion

Supplemental cash flow information is as follows:

process, (iii) $1.3 million in consulting and legal expenses for special projects as well as strategic, stress testing and capital planning matters that are not expected to be incurred on an ongoing basis, and (iv) a $1.7 million increase in collections, appraisals and other credit related professional service fees related to troubled loan resolution efforts.

- A $9.3 million increase in employees' compensation and benefit expenses mainly due to salary merit increases, the impact of personnel costs related to the branches acquired from Doral, which accounted for approximately $1.8 million of the increase, a $1.2 million increase in stock-based compensation expense, and a $1.5 million increase in incentive and performance-based compensation.

- A $1.1 million increase in occupancy and equipment costs primarily related to rental, depreciation, and maintenance expenses associated with the acquired Doral branches.

- A $3.4 million increase in "other expenses" in the table above, that primarily includes increases in supplies, printing and the amortization of the core deposit intangible associated with the acquired Doral branches and a $0.9 million increase in the provision for unfunded loan commitments.

Partially offset by:

- An $11.3 million decrease in the FDIC insurance premium expense reflecting, among other things, the continued decrease in brokered CDs, a strengthened capital position and an improved earnings to assets average ratio.

- A $5.1 million decrease in OREO-related expenses reflecting an increase of $2.9 million in rental income from income-producing OREO properties and a $2.7 million decrease in write-downs and losses on the sale of OREO properties.

- A $4.4 million decrease in taxes, other than income taxes, reflecting the elimination of Puerto Rico's national gross receipts tax effective January 1, 2015.

- A $1.1 million decrease in business promotion expenses mainly due to lower marketing expenses.

The Commonwealth of Puerto Rico has adopted measures intended to raise additional revenue, including the increase in the sales and use tax ("SUT"). On May 29, 2015, the Commonwealth enacted Act No. 72 ("Act 72-2015"), which increased the SUT rate and provided for a transition to a value added tax ("VAT") to replace the central government's portion of the SUT, subject to certain conditions. Effective July 1, 2015, transactions that were subject to a 7% SUT are now subject to an 11.5% SUT. The SUT will be in effect until March 31, 2016, unless the Secretary of Treasury extends the effectiveness of the SUT for an additional sixty (60)-day period. In addition, effective October 1, 2015 and until March 31, 2016, the following provisions are in effect:

- Business to business transactions that are taxable are now subject to an 11.5% SUT.

- Business to business services and designated professional services (e.g. accountants, lawyers, engineers) that were previously exempt from SUT are now subject to a Commonwealth SUT of 4% but no municipal SUT will apply to these services.

- The following services will be exempt from SUT: (i) services offered by the Commonwealth government and instrumentalities; (ii) education; (iii) interest and other financing charges; (iv) insurance; (v) health and hospital services; and (vi) services offered by persons with an annual volume of business not exceeding $50,000.

After March 31, 2016 (or the extended sunset date provided for the SUT at the discretion of the Secretary of Treasury), all transactions subject to the SUT will be subject to a new VAT of 10.5% plus a 1% municipal SUT. The new VAT will also apply on the introduction into Puerto Rico of taxable articles and on taxable transactions, which are: (i) the sale in Puerto Rico of goods and services by a merchant; (ii) the rendering of a service by a non-resident to a person in Puerto Rico, and (iii) combined transactions. Certain articles and transactions will not be subject to the VAT. It is uncertain how these measures will impact the consumer and commercial sector.

The financial impact on the Corporation of the 4% tax on business to business transactions is expected to range from $800 to $900 thousand in the fourth quarter of 2015.

Income Taxes

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

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

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

In 2010, the Corporation established a valuation allowance for substantially all of the deferred tax assets of its banking subsidiary, FirstBank, primarily due to significant operational losses driven by charges to the provision for loan losses, a three-year cumulative loss position as of the end of the year 2010, and uncertainty regarding the amount of future taxable income that the Bank could forecast. As of December 31, 2014, based upon the assessment of all positive and negative evidence, management concluded that it was more likely than not that FirstBank will generate sufficient taxable income within the applicable NOL carry-forward periods to realize $313.0 million of its deferred tax assets and, therefore, reversed $302.9 million of the valuation allowance. As of September 30, 2015, the deferred tax assets, net of a valuation allowance of $204.1 million, amounted to $311.4 million and management concluded, based upon the assessment of all positive and negative evidence, that it is more likely than not that the Corporation will generate sufficient taxable income within the applicable NOL carry-forward periods to realize such amount.

The Corporation recorded an income tax expense of $4.5 million and $2.7 million in the third quarter and first nine months of 2015, respectively, compared to an income tax expense of $0.1 million and $0.7 million for the same periods in 2014. For the nine-month period ended September 30, 2015, the Corporation calculated the provision for income taxes by applying the estimated annual effective tax rate for the full fiscal year to ordinary income or loss. The Corporation had historically calculated the provision for income taxes for interim periods by using a discrete effective tax rate method since it had a full valuation allowance on most of its deferred tax assets. As a result of the partial valuation allowance release during the fourth quarter of 2014, management implemented the estimated annual effective tax rate as required by ASC 740 for interim period reporting. In the computation of the consolidated worldwide estimated annual effective tax rate, ASC 740-270 requires the exclusion of legal entities with pre-tax losses from which a tax benefit cannot be recognized. The year to date consolidated worldwide estimated effective tax rate, excluding entities with pre-tax losses from which a tax benefit cannot be recognized, is 17%. The year to date effective tax rate including all entities is 30%. The income tax expense recorded for the first nine months of 2015 is a result of applying the estimated annual effective tax rate to the year to date ordinary income.

As of September 30, 2015, the Corporation did not have Unrecognized Tax Benefits (“UTBs”) recorded on its books. During 2014, the Corporation reached a final settlement with the IRS in connection with the 2007-2009 examination periods. As a result, during 2014, the Corporation released a portion of its reserve for uncertain tax positions, resulting in a tax benefit of $1.8 million, and paid $2.5 million to settle the tax liability resulting from the audit. During the second quarter of 2015, the Corporation settled the previously accrued interest of $1.3 million related to the aforementioned IRS examination. The Corporation classifies all interest and penalties, if any, related to tax uncertainties as income tax expense. Audit periods remain open for review until the statute of limitations has passed. The statute of limitations under the 2011 PR code is 4 years; the statute of limitations for Virgin Islands and U.S. income tax purposes are each three years after a tax return is due or filed, whichever is later. The completion of an audit by the taxing authorities or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Corporation’s liability for income taxes. Any such adjustment could be material to the results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. For Virgin Islands and U.S. income tax purposes, all tax years subsequent to 2012 remain open to examination. The 2012 U.S. federal tax return is currently under examination by the IRS. For Puerto Rico tax purposes, all tax years subsequent to 2011 remain open to examination.

Supplemental cash flow information is as follows:

During 2013, the Puerto Rico Government approved Act No. 40, which imposed a national gross receipts tax. The national gross receipts tax for financial institutions was computed on the basis of 1% of gross income, net of allowable exclusions. Subject to certain limitations, a financial institution was able to claim a credit of 0.5% of its gross income against its regular income tax or the alternative minimum tax. However, on December 22, 2014, the Governor of Puerto Rico signed Act No. 238, which amended the 2011 PR Code. Act No. 238 clarifies that the national gross receipts tax will not be applicable to taxable years starting after December 31, 2014. Accordingly, the Corporation did not record national gross receipts tax expense for 2015. During the first nine months of 2014, a $4.3 million gross receipts tax expense was included as part of “Taxes, other than income taxes” in the consolidated statement of income and a $2.1 million benefit related to this credit was recorded as a reduction to the provision for income taxes.

On May 28 and September 30, 2015, the Puerto Rico legislature approved Act 72-2015 and Act 159-2015, respectively, which enact amendments to the Puerto Rico Internal Revenue Code. The amendments related to the income tax provision determination include changes to the alternative minimum tax computation, and changes to the use limitation on NOLs and capital losses for 2015 and future taxable years. The change in the tax law affected the Corporation’s income tax computation by limiting the NOL deduction to 80% of taxable income, compared to a 90% limitation in prior years. This change was incorporated in our annual estimated effective tax rate and did not have a significant impact in the current year.

FINANCIAL CONDITION AND OPERATING DATA ANALYSIS

Assets

Total assets were $12.8 billion as of September 30, 2015, an increase of $93.2 million from December 31, 2014. The variance reflects a $165.6 million increase in cash and cash equivalents tied to the increase in government and non-brokered deposits, partially offset by a $57.2 million decrease in investment securities. Total loans (before the allowance) decreased by $2.9 million as further discussed below.

Loan Portfolio

The following table presents the composition of the Corporation’s loan portfolio, including loans held for sale, as of the dates indicated:

(In thousands)	September 30, 2015	December 31, 2014

Residential mortgage loans	$	3,330,089		$	3,011,187
Commercial loans:					
Commercial mortgage loans		1,562,538			1,665,787
Construction loans		163,956			123,480
Commercial and Industrial loans		2,383,807			2,479,437
Total commercial loans		4,110,301			4,268,704
Finance leases		228,617			232,126
Consumer loans		1,632,938			1,750,419
Total loans held for investment		9,301,945			9,262,436
Less:					
Allowance for loan and lease losses		(228,966)			(222,395)
Total loans held for investment, net	$	9,072,979		$	9,040,041
Loans held for sale		34,587			76,956
Total loans, net	$	9,107,566		$	9,116,997

Supplemental cash flow information is as follows:

As of September 30, 2015, the Corporation's total loans, before the allowance, decreased by $2.9 million, when compared with the balance as of December 31, 2014. The decrease was primarily due to a $205.0 million decrease in commercial and construction loans, reflecting the $147.5 million of loans included in the bulk sale of assets completed in the second quarter of 2015, and a $121.0 million decrease in the consumer loan portfolio. These variances were partially offset by a $323.1 million increase in residential mortgage loans, mainly attributable to loans acquired from Doral in late February 2015, and increases in both the Virgin Islands and the Florida region.

As shown in the table above, as of September 30, 2015, the loans held for investment portfolio was comprised of commercial loans (44%), residential real estate loans (36%), and consumer and finance leases (20%). Of the total gross loan portfolio held for investment of $9.3 billion as of September 30, 2015, approximately 81% has credit risk concentration in Puerto Rico, 12% in the United States (mainly in the state of Florida) and 7% in the Virgin Islands, as shown in the following table:

As of September 30, 2015		Puerto Rico		Virgin Islands		United States		Total
		(In thousands)						
Residential mortgage loans	$	2,592,975	$	330,975	$	406,139	$	3,330,089
Commercial mortgage loans		1,230,509		70,219		261,810		1,562,538
Construction loans		61,913		70,509		31,534		163,956
Commercial and Industrial loans		1,863,110		162,396		358,301		2,383,807
Total commercial loans		3,155,532		303,124		651,645		4,110,301
Finance leases		228,617		-		-		228,617
Consumer loans		1,543,784		47,854		41,300		1,632,938
Total loans held for investment, gross	$	7,520,908	$	681,953	$	1,099,084	$	9,301,945
Loans held for sale		32,383		105		2,099		34,587
Total loans	$	7,553,291	$	682,058	$	1,101,183	$	9,336,532
As of December 31, 2014		Puerto Rico		Virgin Islands		United States		Total
		(In thousands)						
Residential mortgage loans	$	2,325,455	$	341,098	$	344,634	$	3,011,187
Commercial mortgage loans		1,305,057		69,629		291,101		1,665,787
Construction loans		70,618		30,011		22,851		123,480
Commercial and Industrial loans		2,072,265		120,947		286,225		2,479,437
Total commercial loans		3,447,940		220,587		600,177		4,268,704
Finance leases		232,126		-		-		232,126
Consumer loans		1,666,373		47,811		36,235		1,750,419
Total loans held for investment, gross	$	7,671,894	$	609,496	$	981,046	$	9,262,436

Supplemental cash flow information is as follows:

Loans held for sale	34,972	40,317	1,667	76,956
Total loans	$ 7,706,866	$ 649,813	$ 982,713	$ 9,339,392

Supplemental cash flow information is as follows:

Residential Real Estate Loans

As of September 30, 2015, the Corporation's residential real estate loan portfolio held for investment increased by $318.9 million to $3.3 billion, as compared to the balance of $3.0 billion as of December 31, 2014, mainly due to the $321.0 million of residential mortgage loans acquired from Doral in late February 2015.

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

Commercial and Construction Loans

As of September 30, 2015, the Corporation's commercial and construction loan portfolio held for investment decreased by $158.4 million to $4.1 billion, as compared to the balance of $4.3 billion as of December 31, 2014. The reduction primarily reflects the effect of the aforementioned bulk sale of assets that included $147.5 million of commercial and construction loans, primarily non-performing and adversely classified loans.

As of September 30, 2015, the Corporation had $336.0 million of credit facilities, excluding investment securities, granted to the Puerto Rico Government, its municipalities and public corporations, of which $320.6 million was outstanding (book value of $318.4 million), compared to $308.0 million outstanding as of December 31, 2014. Approximately $199.5 million of the granted credit facilities outstanding consisted of loans to municipalities in Puerto Rico for which, in most cases, the good faith, credit, and unlimited taxing power of the applicable municipality have been pledged to their repayment. Approximately $21.0 million consisted of loans to units of the central government, and approximately $100.2 million ($97.9 million book value) consisted of loans to public corporations, including the direct exposure to PREPA (with a book value of $72.6 million as of September 30, 2015) that was placed in non-accrual status in the first quarter of 2015 and for which interest payments have been recorded on a cost recovery basis since May 2015.

Furthermore, as of September 30, 2015, the Corporation had $130.1 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 TDF provides a secondary guarantee for payment performance. The aforementioned $130.1 million exposure was adversely classified during the third quarter of 2015 given liquidity risks and uncertainties over the governments' fiscal initiatives. The facilities are in accrual status as of September 30, 2015. The Corporation has been receiving payments from the TDF to cover scheduled payments on these financings since late 2012, including collections of interest and

principal of approximately $3.9 million in 2015 and $4.5 million in 2014.

As of September 30, 2015, the Corporation's total exposure to shared national credit ("SNC") loans amounted to $611.4 million. Approximately $472.2 million of the SNC exposure is in Puerto Rico, including the $72.6 million book value of the PREPA credit facility and $74.5 million of the loans guaranteed by the TDF.

The Corporation has significantly reduced its exposure to construction loans and current originations are mainly draws from existing commitments. During the third quarter of 2015, upon the signing of a new agreement with the borrower, the Corporation changed its intent to sell a $40.0 million construction loan in the Virgin Islands. Accordingly, the loan was transferred back from held for sale to held for investment and maintained its classification as a TDR.

The composition of the Corporation's construction loan portfolio held for investment as of September 30, 2015 by category and geographic location is as follows:

As of September 30, 2015	Puerto Rico	Virgin Islands	United States	Total
	(In thousands)			
Loans for residential housing projects:				
Mid-rise (1)	$ 1,189	$ 4,030	$ -	$ 5,219
Single-family, detached	6,910	-	13,136	20,046
Total for residential housing projects	8,099	4,030	13,136	25,265
Construction loans to individuals secured by residential properties	1,187	1,744	-	2,931
Loans for commercial projects	20,021	47,179	18,055	85,255
Bridge loans - commercial	-	12,982	-	12,982
Land loans - residential	19,297	4,764	343	24,404
Land loans - commercial	13,562	-	-	13,562
Total before net deferred fees and allowance for loan losses	$ 62,166	$ 70,699	$ 31,534	$ 164,399
Net deferred fees	(253)	(190)	-	(443)
Total construction loan portfolio, gross	61,913	70,509	31,534	163,956
Allowance for loan losses	(8,767)	(2,203)	(829)	(11,799)
Total construction loan portfolio, net	$ 53,146	$ 68,306	$ 30,705	$ 152,157

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

The following table presents further information on the Corporation’s construction portfolio as of and for the nine-month period ended September 30, 2015:

(In thousands)		
Total undisbursed funds under existing commitments	$	47,441
Construction loans held for investment in non-accrual status	$	55,971
Construction loans held for sale in non-accrual status	$	7,797
Net charge offs - Construction loans (1)	$	2,408
Allowance for loan losses - Construction loans	$	11,799

Supplemental cash flow information is as follows:

	Non-performing construction loans to total construction loans, including held for sale		37.13%	
	Allowance for loan losses - construction loans to total construction loans held for investment		7.20%	
	Net charge-offs (annualized) to total average construction loans		1.88%	
(1)	Includes net charge-offs totaling $3.3 million associated with the bulk sale of assets.			

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

		(In thousands)	
Under $300k	$	2,640	
Over $600k (1)		5,459	
	$	8,099	

(1) Mainly composed of one residential housing project in Puerto Rico.

Consumer Loans and Finance Leases

As of September 30, 2015, the Corporation’s consumer loan and finance lease portfolio decreased by $121.0 million to $1.9 billion, as compared to the portfolio balance of $2.0 billion as of December 31, 2014, mainly as a result of charge-offs and repayments that exceeded the volume of new originations. The auto loan and finance lease portfolio decreased by $102.5 million during the first nine months of 2015 to $1.2 billion reflecting repayments, charge-offs and a reduced activity in new loan originations. The auto loan and finance lease portfolios in Puerto Rico amounted to $919.1 million and $228.6 million, respectively, as of September 30, 2015, compared to $1.0 billion and $232.1 million, respectively, as of December 31, 2014.

The remaining decrease in the consumer loan portfolio was primarily related to a $10.4 million reduction in the credit card loan portfolio balance, to $296.2 million as of September 30, 2015, and a $6.5 million decrease in boat loans, to $41.0 million as of September 30, 2015.

Loan Production

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

The following table provides a breakdown on First BanCorp.'s loan production, including purchases, refinancings, renewals and draws from existing revolving and non-revolving commitments for the periods indicated:

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2015		2014		2015		2014	
	(In thousands)							
Residential real estate	$	179,173	$	168,931	$	529,307	$	481,019
C&I and commercial mortgage		436,424		495,108		1,250,017		1,356,175
Construction		3,960		7,890		27,731		23,286
Finance leases		22,485		18,443		62,838		59,190
Consumer		200,037		216,432		591,625		711,656

Total loan production	$	842,079		$	906,804		$	2,461,518		$	2,631,326

The Corporation is experiencing continued loan demand and has continued its targeted origination strategy. During the third quarter and nine-month period ended September 30, 2015, total loan originations, including purchases, refinancings, renewals, and draws from existing revolving and non-revolving commitments, amounted to approximately $842.1 million and $2.5 billion, respectively, compared to $906.8 million and $2.6 billion, respectively, for the comparable periods in 2014. These statistics exclude the $324.8 million of loans acquired from Doral in late February 2015.

Residential mortgage loan originations and purchases for the quarter and nine-month period ended September 30, 2015 amounted to $179.2 million and $529.3 million, respectively, compared to $168.9 million and $481.0 million, respectively, for the comparable periods in 2014. The increase in 2015 is primarily related to refinancing (external and internal) and conforming loan originations in Puerto Rico. These statistics include purchases of $22.2 million and $68.2 million for the quarter and nine-month period ended September 30, 2015 compared to $34.7 million and $115.1 million for the comparable periods in 2014.

C&I loan originations (excluding government loans) for the quarter and nine-month period ended September 30, 2015 amounted to $357.3 million and $1.1 billion, respectively, compared to $347.8 million and $922.2 million, respectively, for the comparable periods in 2014. The increase in the 2015 periods was mainly related to disbursements on existing credit facilities in Puerto Rico and an increased volume of loan originations in Florida. C&I loan originations in Florida for the nine-month period ended September 30, 2015 amounted to $142.2 million compared to $134.6 million for the comparable period in 2014.

Government loan originations for the quarter and nine-month period ended September 30, 2015 amounted to $46.2 million and $76.5 million, respectively, compared to $92.3 million and $357.8 million, respectively, for the comparable periods in 2014, a decrease driven by the reduced activity in credit facilities granted to the Commonwealth of Puerto Rico central government and instrumentalities, partially offset by increases in the Virgin Islands region. Government loan originations in the Virgin Islands for the nine-month period ended September 30, 2015 amounted to $44.2 million compared to $28.3 million for the comparable period in 2014.

Originations of auto loans (including finance leases) for the quarter and nine-month period ended September 30, 2015 amounted to $90.0 million and $268.6 million, respectively, compared to $99.8 million and $365.6 million, respectively, for the comparable periods in 2014. The decrease mainly resulted from decreased activity in new auto sales reflecting lower consumer confidence as a result of the prolonged economic recession in Puerto Rico.

Personal loan originations, other than credit cards, for the quarter and nine-month period ended September 30, 2015 amounted to $50.3 million and $140.2 million, respectively, compared to $49.5 million and $147.0 million, respectively, for the comparable periods in 2014. The utilization activity on the outstanding credit card portfolio for the quarter and nine-month period ended September 30, 2015 amounted to approximately $82.2 million and $245.6 million, respectively, compared to $85.6 million and $258.2 million, respectively, for the comparable periods in 2014.

Investment Activities

As part of its liquidity, revenue diversification and interest rate risk strategies, First BanCorp. maintains an investment portfolio that is classified as available for sale. The Corporation's total available-for-sale investment securities portfolio as of September 30, 2015 amounted to $1.9 billion, a $57.8 million decrease from December 31, 2014. During 2015, U.S. agency MBS prepayments amounted to $181 million, U.S. agency debt obligations called prior to maturity amounted to $17 million, and the fair value of Puerto Rico Government debt securities decreased $13.4 million. The aforementioned decreases were partially offset by purchases of approximately $149 million of U.S. government-sponsored agencies securities (average yield of 2.13%).

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

As mentioned above, during the second quarter of 2015, the Corporation recorded a $12.9 million credit-related OTTI charge on three Puerto Rico Government debt securities held by the Corporation as part of its available-for-sale securities portfolio, based on the probability of default and loss severity in the event of default in light of the debt securities, credit ratings and latest available information about the Puerto Rico Government's financial condition, including the Puerto Rico Government's announcements regarding its ability to pay its debts and the intention to restructure its outstanding bond obligations. 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. As of September 30, 2015, the Corporation owns Puerto Rico Government debt securities in the aggregate amount of $52.7 million (net of the $12.9 million OTTI), carried on its books at a fair value of $34.1 million. Refer to Note 5 to the accompanying unaudited consolidated financial statements for additional information regarding the assumptions utilized to determine the OTTI charge on the Puerto Rico Government securities held by the Corporation.

The following table presents the carrying value of investment securities as of the indicated dates:

		As of September 30, 2015			As of December 31, 2014
		(In thousands)			
Money market investments	$	219,486		$	16,961
Investment securities available for sale, at fair value:					
U.S. Government and agencies obligations		419,299			340,614
Puerto Rico government obligations		34,135			43,222
Mortgage-backed securities		1,454,333			1,581,830
Other		100			-
Total investment securities available for sale, at fair value		1,907,867			1,965,666
Other equity securities, including $25.4 million and $25.5 million					
of FHLB stock as of September 30, 2015 and December 31, 2014		26,319			25,752
Total money market investments and investment securities	$	2,153,672		$	2,008,379

Mortgage-backed securities as of the indicated dates consist of:

(In thousands)	As of September 30, 2015			As of December 31, 2014	
Available-for-sale:					
FHLMC certificates	$	302,645		$	315,794
GNMA certificates		318,621			377,448
FNMA certificates		805,547			854,940
Other mortgage pass-through certificates		27,520			33,648
Total mortgage-backed securities	$	1,454,333		$	1,581,830

The carrying values of investment securities classified as available for sale as of September 30, 2015 by contractual maturity (excluding mortgage-backed securities and equity securities) are shown below:

(Dollars in thousands)	Carrying Amount			Weighted Average Yield %	
U.S. Government and agencies obligations					
Due within one year	$	5,008		0.66	
Due after one year through five years		348,499		1.31	
Due after five years through ten years		65,792		2.35	
		419,299		1.47	
Puerto Rico Government obligations					
Due after one year through five years		16,471		4.38	
Due after five years through ten years		865		5.20	
Due after ten years		16,799		5.40	
		34,135		4.84	
Other Investment Securities					
Due after one year through five years		100		1.50	
Total		453,534		1.84	
Mortgage-backed securities		1,454,333		2.61	
Total investment securities available for sale	$	1,907,867		2.42	

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Supplemental cash flow information is as follows:

Net interest income of future periods could be affected by prepayments of mortgage-backed securities. Acceleration of the prepayments of mortgage-backed securities would lower yields on these securities, as the amortization of premiums paid upon acquisition of these securities would accelerate. Conversely, acceleration of the prepayments of mortgage-backed securities would increase yields on securities purchased at a discount, as the amortization of the discount would accelerate. These risks are directly linked to future period market interest rate fluctuations. Also, net interest income in future periods might be affected by the Corporation's investment in callable securities. As of September 30, 2015, the Corporation has approximately $97.6 million in debt securities (U.S. Agencies and Puerto Rico Government securities) with embedded calls and with an average yield of 2.16%. Refer to "Risk Management" below for further analysis of the effects of changing interest rates on the Corporation's net interest income and of the interest rate risk management strategies followed by the Corporation. Also refer to Note 5 to the accompanying unaudited consolidated financial statements for additional information regarding the Corporation's investment portfolio.

RISK MANAGEMENT

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

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

The Corporation's risk management policies are described below as well as in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of First BanCorp.'s 2014 Annual Report on Form 10-K.

Liquidity Risk and Capital Adequacy

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations, and meet contractual obligations through unconstrained access to funding at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet the needs for liquidity and accommodate fluctuations in asset and liability levels due to changes in the Corporation's

business operations or unanticipated events.

The Corporation manages liquidity at two levels. The first is the liquidity of the parent company, which is the holding company that owns the banking and non-banking subsidiaries. The second is the liquidity of the banking subsidiary. As of September 30, 2015, FirstBank could not pay any dividend to the parent company except upon receipt of prior approval by the New York FED and the Federal Reserve Board because of the Written Agreement.

The Asset and Liability Committee of the Board of Directors is responsible for establishing the Corporation's liquidity policy as well as approving operating and contingency procedures, and monitoring liquidity on an ongoing basis. The Management Investment and Asset Liability Committee ("MIALCO"), using measures of liquidity developed by management, which involve the use of several assumptions, reviews the Corporation's liquidity position on a monthly basis. The MIALCO oversees liquidity management, interest rate risk and other related matters.

The MIALCO, which reports to the Board of Directors' Asset and Liability Committee, is composed of senior management officers, including the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Retail Financial Services Director, the Risk Manager of the Treasury and Investments Division, the Financial Analysis and Asset/Liability Director and the Treasurer. The Treasury and Investments Division is responsible for planning and executing the Corporation's funding activities and strategy, monitoring liquidity availability on a daily basis and reviewing liquidity measures on a weekly basis. The Treasury and Investments Accounting and Operations area of the Comptroller's Department is responsible for calculating the liquidity measurements used by the Treasury and Investment Division to review the Corporation's liquidity position on a monthly basis; the Financial Analysis and Asset/Liability Director estimates the liquidity gap for longer periods.

In order to ensure adequate liquidity through the full range of potential operating environments and market conditions, the Corporation conducts its liquidity management and business activities in a manner that will preserve and enhance funding stability, flexibility and diversity. Key components of this operating strategy include a strong focus on the continued development of customer-based funding, the maintenance of direct relationships with wholesale market funding providers, and the maintenance of the ability to liquidate certain assets when, and if, requirements warrant.

The Corporation develops and maintains contingency funding plans. These plans evaluate the Corporation's liquidity position under various operating circumstances and allow the Corporation to ensure that it will be able to operate through periods of stress when access to

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normal sources of funds is constrained. The plans project funding requirements during a potential period of stress, specify and quantify sources of liquidity, outline actions and procedures for effectively managing through a difficult period, and define roles and responsibilities. Under the contingency funding plan, the Corporation stresses the balance sheet and the liquidity position to critical levels that imply difficulties in getting new funds or even maintaining the current funding position of the Corporation and the Bank, thereby ensuring the ability of the Corporation and the Bank to honor their respective commitments, and establishing liquidity triggers monitored by the MIALCO in order to maintain the ordinary funding of the banking business. Four different scenarios are defined in the contingency funding plan: local market event, credit rating downgrade, an economic cycle downturn event, and a concentration event. They are reviewed and approved annually by the Board of Directors' Asset and Liability Committee.

The Corporation manages its liquidity in a proactive manner, and maintains a sound liquidity position. Multiple measures are utilized to monitor the Corporation's liquidity position, including core liquidity, basic liquidity, and time-based reserve measures. As of September 30, 2015, the estimated core liquidity reserve (which includes cash and free liquid assets) was $1.8 billion or 14.0% of total assets, compared to $1.5 billion or 11.7% of total assets as of December 31, 2014. The basic liquidity ratio (which adds available secured lines of credit to the core liquidity) was approximately 20.2% of total assets, compared to 15.6% of total assets as of December 31, 2014. As of September 30, 2015, the Corporation had $797.1 million available for additional credit from the FHLB NY. Unpledged liquid securities as of September 30, 2015, mainly fixed-rate MBS and U.S. agency debentures, amounted to approximately $842.6 million. The Corporation does not rely on uncommitted inter-bank lines of credit (federal funds lines) to fund its operations and does not include them in the basic liquidity measure. As of September 30, 2015, the holding company had $35.0 million of cash and cash equivalents. Cash and cash equivalents at the Bank level as of September 30, 2015 were approximately $954.9 million. The Bank has $2.3 billion in brokered CDs as of September 30, 2015, of which approximately $1.5 billion mature over the next twelve months. Liquidity at the Bank level is highly dependent on bank deposits, which fund 76% of the Bank's assets (or 59% excluding brokered CDs).

Sources of Funding

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

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

The Corporation has continued reducing the amounts of brokered CDs. As of September 30, 2015, brokered CDs decreased $618.9 million to $2.3 billion from brokered CDs of $2.9 billion as of December 31, 2014. At the same time as the Corporation focuses on reducing its reliance on brokered CDs, it is seeking to add core deposits. During the first nine months of 2015, the Corporation increased non-brokered deposits, excluding government deposits, by $509.4 million to $6.7 billion. The Doral transaction added over $442.7 million in non-brokered deposits as of September 30, 2015, excluding $39.0 million of government deposits.

The Corporation continues to have the support of creditors, including counterparties to repurchase agreements, the FHLB, and other agents such as wholesale funding brokers. While liquidity is an ongoing challenge for all financial institutions, management believes that the Corporation's available borrowing capacity and efforts to grow retail deposits will be adequate to provide the necessary funding for the Corporation's business plans in the foreseeable future.

The Corporation's principal sources of funding are:

Brokered CDs – A large portion of the Corporation's funding has been retail brokered CDs issued by FirstBank. Total brokered CDs decreased during 2015 by $618.9 million to $2.3 billion as of September 30, 2015. The Corporation utilized a portion of the cash received in the Doral transaction to pay off maturing brokered CDs.

The average remaining term to maturity of the retail brokered CDs outstanding as of September 30, 2015 is approximately 1.0 year.

The use of brokered CDs has been particularly important for the growth of the Corporation. The Corporation encounters intense competition in attracting and retaining regular retail deposits in Puerto Rico. The brokered CD market is very competitive and liquid, and has enabled the Corporation to obtain substantial amounts of funding in short periods of time. This strategy has enhanced the Corporation's liquidity position, since the brokered CDs are insured by the FDIC up to regulatory limits and can be obtained faster compared to regular retail deposits. During the first nine months of 2015, the Corporation issued $695.7 million in brokered CDs with an average cost of 1.08%.

The following table presents a summary of the maturities of brokered and retail CDs with denominations of $100,000 or higher as of September 30, 2015:

			Total	
			(In thousands)	
	Three months or less	$	800,948	
	Over three months to six months		552,314	
	Over six months to one year		1,050,484	
	Over one year		1,329,948	
	Total	$	3,733,694	

Certificates of deposit in denominations of $100,000 or higher include brokered CDs of $2.3 billion issued to deposit brokers in the form of large ($100,000 or more) certificates of deposit that are generally participated out by brokers in shares of less than $100,000 and are therefore insured by the FDIC.

Government deposits - As of September 30, 2015, the Corporation had $524.5 million of Puerto Rico public sector deposits compared to $227.4 million as of December 31, 2014. Approximately 65% came from municipalities and municipal agencies in Puerto Rico and 35% came from public corporations and the central government and agencies. The Doral transaction added $39 million in government deposits as of September 30, 2015 with the remaining increase primarily related to the deposit of funds by a municipal agency in September 2015, which is expected to be temporary.

In addition, as of September 30, 2015, the Corporation had $218.2 million of government deposits in the Virgin Islands, compared to $173.3 million as of December 31, 2014.

Retail deposits - The Corporation’s deposit products also include regular savings accounts, demand deposit accounts, money market accounts and retail CDs. On February 27, 2015, FirstBank acquired 10 Puerto Rico branches of Doral and assumed $522.6 million in deposits related to such branches. Total deposits, excluding brokered CDs and government deposits, increased by $509.4 million to $6.7 billion from the balance of $6.2 billion as of December 31, 2014. Organic deposit growth accounted for approximately $67 million of the increase, primarily growth in demand deposits spread through the Corporation’s geographic segments. Refer to Note 15 in the accompanying unaudited consolidated financial statements for further details.

Refer to the “Net Interest Income” discussion above for information about average balances of interest-bearing deposits, and the average interest rate paid on deposits for the quarters and nine-month periods ended September 30, 2015 and 2014.

Securities sold under agreements to repurchase - The Corporation's investment portfolio is funded in part with repurchase agreements. The Corporation's outstanding repurchase agreements amounted to $900 million as of September 30, 2015 and December 31, 2014. One of the Corporation's strategies has been the use of structured repurchase agreements and long-term repurchase agreements to reduce liquidity risk and manage exposure to interest rate risk by lengthening the final maturities of its liabilities while keeping funding costs at reasonable levels. In addition to these repurchase agreements, the Corporation has been able to maintain access to credit by using cost-effective sources such as FHLB advances. Refer to Note 16 in the Corporation's unaudited consolidated financial statements for the quarter and nine-month period ended September 30, 2015 for further details about repurchase agreements outstanding by counterparty and maturities.

During the first quarter of 2015, the Corporation restructured $400 million of its repurchase agreements. Of those, $200 million were restructured by extending the contractual maturity and changing from a fixed interest rate to a variable rate. The Corporation entered into $200 million of reverse repurchase agreements with the same counterparty under a master netting arrangement, effective April 2015, that provides for a right of setoff that meets the conditions of ASC 210-20-45-11. These repurchase agreements and reverse repurchase agreements are presented net on the consolidated statement of financial condition. In addition, during the first quarter of 2015, the Corporation restructured an additional $200 million of its repurchase agreements with a different counterparty, by extending the contractual maturity and reducing the interest rate in these agreements. In October 2015, the counterparty to the $200 million reverse repurchase agreement exercised its call option on the instrument.

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

Given the quality of the collateral pledged, the Corporation has not experienced significant margin calls from counterparties arising from credit-quality-related write-downs in valuations as of September 30, 2015.

Advances from the FHLB – The Bank is a member of the FHLB system and obtains advances to fund its operations under a collateral agreement with the FHLB that requires the Bank to maintain qualifying mortgages and/or investments as collateral for advances taken. As of September 30, 2015 and December 31, 2014, the outstanding balance of FHLB advances was $325 million. As of September 30, 2015, the Corporation had $797.1 million available for additional credit on FHLB lines of credit.

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

In 2004, FBP Statutory Trust I, a statutory trust that is wholly owned by the Corporation and not consolidated in the Corporation's financial statements, sold to institutional investors $100 million of its variable rate trust preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.1 million of FBP Statutory Trust I variable rate common securities, were used by FBP Statutory Trust I to purchase $103.1 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures.

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

The trust-preferred debentures are presented in the Corporation's consolidated statement of financial condition as Other Borrowings. The variable rate trust-preferred securities are fully and unconditionally guaranteed by the Corporation. The $100 million Junior Subordinated Deferrable Debentures issued by the Corporation in April 2004 and the $125 million issued in September 2004 mature on June 17, 2034 and September 20, 2034, respectively; however, under certain circumstances, the maturity of Junior Subordinated Debentures may be shortened (such shortening would

result in a mandatory redemption of the variable rate trust-preferred securities). The Collins Amendment to the Dodd-Frank Act eliminated certain trust-preferred securities from Tier 1 Capital. Bank Holding Companies such as the Corporation, must fully phase out these instruments of Tier I capital by January 1, 2016 (25% allowed in 2015 and 0% in 2016), however, these instruments may remain in Tier 2 capital until the instruments are redeemed or mature. As of September 30, 2015, the Corporation had $219.9 million in trust-preferred securities that are subject to the phase-out from Tier 1 Capital under the Basel 3 Final Rule.

During the second quarter of 2015, the Corporation exchanged trust-preferred securities with a liquidation value of $5.3 million for 852,831 shares of the Corporation's common stock. This transaction resulted in a gain of $0.3 million resulting from the difference between the carrying value of the trust preferred securities exchanged and the fair value of the common stock issued, included as part of other income in the consolidated statement of income.

With respect to the outstanding subordinated debentures, the Corporation has elected to defer the interest payments that were due in quarterly periods since March 2012. The aggregate amount of payments deferred and accrued approximates $26.8 million as of September 30, 2015. Under the indentures, we have the right without causing an event of default, to defer payments of interest on the subordinated debentures by extending the interest payment period at any time and from time to time during the term of the subordinated debentures for up to twenty consecutive quarterly periods. Future interest payments are subject to Federal Reserve approval.

The Corporation's principal uses of funds are for the origination of loans and the repayment of maturing deposits and borrowings. The ratio of residential real estate loans to total loans has increased over time. Commensurate with the increase in its mortgage banking activities, the Corporation has also invested in technology and personnel to enhance the Corporation's secondary mortgage market capabilities.

The enhanced capabilities improve the Corporation's liquidity profile as they allow the Corporation to derive liquidity, if needed, from the sale of mortgage loans in the secondary market. The U.S. (including Puerto Rico) secondary mortgage market is still highly liquid, in large part because of the sale of mortgages through guarantee programs of the FHA, VA, HUD, FNMA and FHLMC. The Corporation obtained commitment authority to issue GNMA mortgage-backed securities from GNMA and, under this program, the Corporation completed the securitization of approximately $213.4 million of FHA/VA mortgage loans into GNMA MBS during the first nine months of 2015. Any regulatory actions affecting GNMA, FNMA or FHLMC could adversely affect the secondary mortgage market.

Impact of Credit Ratings on Access to Liquidity

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

The Corporation does not have any outstanding debt or derivative agreements that would be affected by credit downgrades. Furthermore, given our non-reliance on corporate debt or other instruments directly linked in terms of pricing or volume to credit ratings, the liquidity of the Corporation so far has not been affected in any material way by downgrades. The Corporation's ability to access new non-deposit sources of funding, however, could be adversely affected by credit downgrades.

The Corporation's credit as a long-term issuer is currently rated B+ by S&P and B- by Fitch. At the FirstBank subsidiary level, long-term issuer ratings are currently B3 by Moody's, six notches below their definition of investment grade; B+ by S&P, four notches below their definition of investment grade; and B- by Fitch, six notches below their definition of investment grade.

Cash Flows

Cash and cash equivalents were $961.7 million as of September 30, 2015, an increase of $165.6 million when compared to the balance as of December 31, 2014, while, as of September 30, 2014, the total balance of cash and cash equivalents amounted to $970.0 million, an increase of $314.3 million from December 31, 2013. The following discussion highlights the major activities and transactions that affected the Corporation's cash flows during the first nine months of 2015 and 2014.

Cash Flows from Operating Activities

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

For the first nine months of 2015 and 2014, net cash provided by operating activities was $199.1 million and $236.9 million, respectively. Net cash generated from operating activities was higher than net income reported, largely as a result of adjustments for items such as the provision for loan and lease losses, depreciation and amortization, and impairments as well as the cash generated from sales of loans held for sale.

Cash Flows from Investing Activities

The Corporation's investing activities primarily relate to originating loans to be held for investment and purchasing, selling and repayments of available-for-sale investment securities. For the nine-month period ended September 30, 2015, net cash provided by investing activities was $461.6 million, primarily reflecting the net cash received in the Doral Bank transaction, proceeds from the bulk sale of assets and repayments on commercial and consumer loans.

For the nine-month period ended September 30, 2014, net cash provided by investing activities was $234.9 million, primarily reflecting principal repayments on loans held for investment and available-for-sale investment securities.

Cash Flows from Financing Activities

The Corporation's financing activities primarily include the receipt of deposits and the issuance of brokered CDs, the issuance and payments of long-term debt, the issuance of equity instruments and activities related to its short-term funding. During the nine-month period ended September 30, 2015, net cash used in financing activities was $495.1 million, mainly due to the repayments of maturing brokered CDs and funds used for the aforementioned $200 million reverse repurchase agreement entered into in April 2015.

In the nine-month period ended September 30, 2014, net cash used by financing activities was $157.5 million, mainly due to the reduction of brokered CDs and deposit withdrawals by certain government entities and public corporations in Puerto Rico.

Supplemental cash flow information is as follows:

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Supplemental cash flow information is as follows:

Capital

As of September 30, 2015, the Corporation's stockholders' equity was $1.7 billion, an increase of $29.2 million from December 31, 2014. The increase was mainly driven by a $13.7 million increase in other comprehensive income, mainly attributable to the increase in the fair value of U.S. agency MBS, the $6.3 million net income reported for the first nine months of 2015 and the exchange of $5.3 million of trust preferred securities for shares of the Corporation's common stock. As a result of the Written Agreement with the New York FED, currently neither First BanCorp. nor FirstBank is permitted to pay dividends on capital securities without prior approval.

In July 2013, the U.S. banking regulators approved a revised regulatory capital framework for U.S. banking organizations (the "Basel III rules") that is based on international regulatory capital requirements adopted by the Basel Committee on Banking Supervision over the past several years. The Basel III rules introduce new minimum capital ratios and capital conservation buffer requirements, change the composition of regulatory capital, require a number of new adjustments to and deductions from regulatory capital, and introduce a new "Standardized Approach" for the calculation of risk-weighted assets. The new minimum regulatory capital requirements and the Standardized Approach for the calculation of risk-weighted assets became effective for the Corporation and FirstBank on January 1, 2015. The phase-in period for certain deductions and adjustments to regulatory capital began on January 1, 2015 and will be completed on January 1, 2018. The phase-in period for the capital conservation buffer requirements begins on January 1, 2016 and will be completed on January 1, 2019.

The Basel III rules introduce a new and separate ratio of Common Equity Tier 1 capital ("CET1") to risk-weighted assets. CET1, a narrower subcomponent of total Tier 1 capital, generally consists of common stock and related surplus, retained earnings, accumulated other comprehensive income ("AOCI"), and qualifying minority interests. Certain banking organizations, however, including the Corporation and FirstBank, were allowed to make a one-time permanent election in early 2015 to continue to exclude AOCI items. The Corporation and FirstBank have elected to permanently exclude capital in AOCI in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the securities portfolio. In addition, the Basel III rules require the Corporation to maintain an additional CET1 capital conservation buffer of 2.5%. Under the fully phased-in rules, the Corporation will be required to maintain: (i) a minimum CET1 to risk-weighted assets ratio of at least 4.5%, plus the 2.5% "capital conservation buffer," resulting in a required minimum CET1 ratio of at least 7%, (ii) a minimum ratio of total Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum Tier 1 capital ratio of 8.5%, (iii) a minimum ratio of total Tier 1 plus Tier 2 capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum total capital ratio of 10.5%, and (iv) a required minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average on-balance sheet (non-risk adjusted) assets. The phase-in of the capital conservation buffer will begin on January 1, 2016 with a first year requirement of 0.625% of additional CET1, which will be progressively increased over a four-year period, increasing by that same percentage amount on each subsequent January 1 until it reaches the fully phased-in 2.5% CET1 requirement on January 1, 2019.

In addition, the Basel III rules require a number of new deductions from and adjustments to CET1, including deductions from CET1 for certain intangible assets, and deferred tax assets dependent upon future taxable income; the four-year phase-in period for these adjustments generally began on January 1, 2015. Mortgage servicing assets and

deferred tax assets attributable to temporary differences, among others, are required to be deducted to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

In addition, the Federal Reserve Board's, Basel III rules require that certain non-qualifying capital instruments, including cumulative preferred stock and trust preferred securities ("TRuPs"), be excluded from Tier 1 capital. In general, banking organizations such as the Corporation, began to phase out TRuPs from Tier 1 capital on January 1, 2015. The Corporation is allowed to include 25% of the approximately $220 million outstanding qualifying TRuPs as Tier 1 capital in 2015 and the TRuPs must be fully phased out from Tier 1 capital by January 1, 2016. However, the Corporation's TRuPs may continue to be included in Tier 2 capital until the instruments are redeemed or mature.

The Basel III rules also revise the "prompt corrective action" ("PCA") regulations that apply to depository institutions, including FirstBank, pursuant to Section 38 of the Federal Deposit Insurance Act by (i) introducing a separate CET1 ratio requirement for each PCA capital category (other than critically undercapitalized) with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each PCA capital category with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the previous 6%); and (iii) eliminating the previous provision that allowed a bank with a composite supervisory rating of 1 to have a 3% leverage ratio and still be adequately capitalized and maintaining the minimum leverage ratio for well-capitalized status at 5%. The Basel III rules do not change the total risk-based capital requirement (10% for well-capitalized status) for any PCA capital category. The new PCA requirements became effective on January 1, 2015.

The Corporation and FirstBank compute risk weighted assets using the Standardized Approach required by the Basel III rules. The Standardized Approach for risk-weightings has expanded the risk-weighting categories from the four major risk-weighting categories under the previous regulatory capital rules (0%, 20%, 50%, and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets. In a number of cases, the Standardized Approach results in higher risk weights for a variety of asset categories. Specific changes to the risk-weightings of assets include, among other things: (i) applying a 150% risk weight instead

of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans, (ii) assigning a 150% risk weight to exposures that are 90 days past due (other than qualifying residential mortgage exposures, which remain at an assigned risk-weighting of 100%), (iii) establishing a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable, in contrast to the 0% risk-weighting under the prior rules and (iv) requiring capital to be maintained against on-balance-sheet and off-balance-sheet exposures that result from certain cleared transactions, guarantees and credit derivatives, and collateralized transactions (such as repurchase agreements transactions).

Set forth below are First BanCorp.'s and FirstBank's regulatory capital ratios as of September 30, 2015 and December 31, 2014:

			Banking Subsidiary		
	First BanCorp.		**FirstBank**		**To be well capitalized**
As of September 30, 2015	**Actual (1)**	**Fully Phased-in (2)**	**Actual (1)**	**Fully Phased-in (2)**	
Total capital ratio (Total capital to risk-weighted assets)	19.71%	19.16%	19.42%	18.88%	10.00%
Common Equity Tier 1 capital ratio					
(Common equity Tier 1 capital to risk weighted assets) (3)	16.63%	15.16%	16.08%	14.32%	6.50%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	16.63%	15.55%	18.14%	17.61%	8.00%
Leverage ratio	12.41%	11.86%	13.54%	13.43%	5.00%

		Banking Subsidiary	
	First BanCorp.	**FirstBank**	**To be well capitalized**
As of December 31, 2014 (1)			
Total capital (Total capital to risk-weighted assets)	19.70%	19.37%	10.00%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	18.44%	18.10%	6.00%
Leverage ratio	13.27%	13.04%	5.00%

(1) Ratios as of September 30, 2015 reflect the adoption of the Basel III Capital Rules in effect beginning January 1, 2015. Ratios for December 31, 2014 represent the previous capital rules under Basel I.

(2) Certain adjustments required under the Basel III Capital Rules will be phased in through the end of 2018. The ratios shown in this column are calculated assuming a fully phased-in basis of all such adjustments as if they were effective as of September 30, 2015.

(3) As of September 30, 2015, Common Equity Tier 1 capital ratio is a new ratio requirement under the Basel III Capital Rules and represents common equity, less goodwill and intangible assets, divided by

	risk-weighted assets (subject to phase-in adjusments as indicated in footnote above).								

The Corporation, as an institution with more than $10 billion but less than $50 billion of total consolidated assets, is subject to certain requirements established by the Dodd-Frank Act, including those related to capital stress testing. The Dodd-Frank Act stress testing requirements are implemented for the Corporation through the Federal Reserve's Comprehensive Capital Analysis and Review program (CCAR), and the Dodd-Frank Act Stress Testing program (DFAST). Consistent with the requirements of these programs, the Corporation submitted its first annual company-run stress test to regulators prior to the established deadline of March 31, 2015. The results for the severely adverse economic scenario are available on the Corporation's website. The results show that even in a severely adverse economic environment, the Corporation's and the Bank's capital ratios exceed the well-capitalized thresholds throughout the nine-quarter horizon.

The tangible common equity ratio and tangible book value per common share are non-GAAP financial measures generally used by the financial community to evaluate capital adequacy. Tangible common equity is total equity less preferred equity, goodwill, core deposit intangibles, and purchased credit card relationship intangible assets. Tangible assets are total assets less goodwill, core deposit intangibles, and purchased credit card relationship intangible assets. Refer to "Basis of Presentation" section below for additional information.

The following table is a reconciliation of the Corporation's tangible common equity and tangible assets as of September 30, 2015 and December 31, 2014, respectively:

(In thousands, except ratios and per share information)		September 30, 2015		December 31, 2014
Total equity - GAAP	$	1,700,950	$	1,671,743
Preferred equity		(36,104)		(36,104)
Goodwill		(28,098)		(28,098)
Purchased credit card relationship		(14,087)		(16,389)
Core deposit intangible		(9,725)		(5,420)
Tangible common equity	**$**	**1,612,936**	**$**	**1,585,732**
Total assets - GAAP	$	12,820,989	$	12,727,835
Goodwill		(28,098)		(28,098)
Purchased credit card relationship		(14,087)		(16,389)
Core deposit intangible		(9,725)		(5,420)
Tangible assets	**$**	**12,769,079**	**$**	**12,677,928**
Common shares outstanding		**214,982**		**212,985**
Tangible common equity ratio		**12.63%**		**12.51%**
Tangible book value per common share	$	**7.50**	$	**7.45**

Off -Balance Sheet Arrangements

In the ordinary course of business, the Corporation engages in financial transactions that are not recorded on the balance sheet, or may be recorded on the balance sheet in amounts that are different from the full contract or notional amount of the transaction. These transactions are designed to (1) meet the financial needs of customers, (2) manage the Corporation's credit, market or liquidity risks, (3) diversify the Corporation's funding sources and (4) optimize capital.

As a provider of financial services, the Corporation routinely enters into commitments with off-balance sheet risk to meet the financial needs of its customers. These financial instruments may include loan commitments and standby letters of credit. These commitments are subject to the same credit policies and approval process used for on-balance sheet instruments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of

the amount recognized in the statement of financial position. As of September 30, 2015, commitments to extend credit and commercial and financial standby letters of credit amounted to approximately $1.1 billion (including $648.5 million pertaining to credit card loans) and $52.6 million, respectively. Commitments to extend credit are agreements to lend to customers as long as the conditions established in the contract are met. Generally, the Corporation does not enter into interest rate lock agreements with prospective borrowers in connection with mortgage banking activities.

Contractual Obligations, Commitments and Contingencies

The following table presents the Corporation's contractual obligations and commitments, which consist of CDs, long-term contractual debt obligations, commitments to sell mortgage loans and commitments to extend credit, based on its contractual maturities:

	Contractual Obligations and Commitments As of September 30, 2015				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(In thousands)				
Contractual obligations:					
Certificates of deposit	$ 4,580,233	$ 2,936,428	$ 1,511,272	$ 100,850	$ 31,683
Securities sold under agreements to repurchase (1)	700,000	-	500,000	-	200,000
Advances from FHLB	325,000	100,000	225,000	-	-
Other borrowings	226,492	-	-	-	226,492
Total contractual obligations	$ 5,831,725	$ 3,036,428	$ 2,236,272	$ 100,850	$ 458,175
Commitments to sell mortgage loans	$ 20,955				
Standby letters of credit	$ 3,303				
Commitments to extend credit:					
Lines of credit	$ 1,053,296				
Letters of credit	49,252				
Commitments to originate loans	47,441				
Total commercial commitments	$ 1,149,989				

(1) Reported net of reverse repurchase agreement by counterparty, when applicable, pursuant to ASC 210-20-45-11.

The Corporation has obligations and commitments to make future payments under contracts, such as debt and lease agreements, and under other commitments to sell mortgage loans at fair value and to extend credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the

contract. Other contractual obligations result mainly from contracts for the rental and maintenance of equipment. Since certain commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. For most of the commercial lines of credit, the Corporation has the option to reevaluate the agreement prior to additional disbursements. There have been no significant or unexpected draws on existing commitments. In the case of credit cards and personal lines of credit, the Corporation can cancel the unused credit facility at any time and without cause.

Interest Rate Risk Management

First BanCorp. manages its asset/liability position in order to limit the effects of changes in interest rates on net interest income and to maintain stability of profitability under varying interest rate scenarios. The MIALCO oversees interest rate risk, and MIALCO meetings focus on, among other things, current and expected conditions in world financial markets, competition and prevailing rates in the local deposit market, liquidity, loan originations pipeline, securities market values, recent or proposed changes to the investment portfolio, alternative funding sources and related costs, hedging and the possible purchase of derivatives such as swaps and caps, and any tax or regulatory issues that may be pertinent to these areas. The MIALCO approves funding decisions in light of the Corporation's overall strategies and objectives.

On a quarterly basis, the Corporation performs a consolidated net interest income simulation analysis to estimate the potential change in future earnings from projected changes in interest rates. These simulations are carried out over a one-to-five-year time horizon, assuming upward and downward yield curve shifts. The rate scenarios considered in these simulations reflect gradual upward and downward interest rate movements of 200 basis points, during a twelve-month period. Simulations are carried out in two ways:

(1) Using a static balance sheet, as the Corporation had on the simulation date, and

(2) Using a dynamic balance sheet based on recent patterns and current strategies.

The balance sheet is divided into groups of assets and liabilities detailed by maturity or re-pricing structure and their corresponding interest yields and costs. As interest rates rise or fall, these simulations incorporate expected future lending rates, current and expected future funding sources and costs, the possible exercise of options, changes in prepayment rates, deposit decay and other factors, that may be important in projecting net interest income.

The Corporation uses a simulation model to project future movements in the Corporation's balance sheet and income statement. The starting point of the projections generally corresponds to the actual values on the balance sheet on the date of the simulations.

These simulations are highly complex, and are based on many assumptions that are intended to reflect the general behavior of the balance sheet components over the period in question. It is unlikely that actual events will match these assumptions in most cases. For this reason, the results of these forward-looking computations are only approximations of the true sensitivity of net interest income to changes in market interest rates. Several benchmark and market rate curves were used in the modeling process, primarily the LIBOR/SWAP curve, Prime, Treasury, FHLB rates, brokered CD rates, repurchase agreement rates and the mortgage commitment rate of 30 years.

The 12-month net interest income is forecasted assuming the September 30, 2015 interest rate curves remain constant. Then, net interest income is estimated under rising and falling rate scenarios. For rising rate scenarios, a gradual (ramp) parallel upward shift of the yield curve is assumed during the first twelve months (the "+200 ramp" scenario). Conversely, for the falling rate scenarios, a gradual (ramp) parallel downward shift of the yield curve is assumed during the first twelve months (the "-200 ramp" scenario). However, given the current low levels of interest rates, a full downward shift of 200 basis points would represent an unrealistic scenario. Therefore, under the falling rate scenario, rates move downward up to 200 basis points, but without reaching zero. The resulting scenario shows interest rates close to zero in most cases, reflecting a flattening yield curve instead of a parallel downward scenario.

The Libor/Swap curve for September 2015, as compared to December 2014, reflected a slight increase in the short-term horizon, between one to twelve months, with an increase of 10 basis points, while market rates decreased by 31 basis points in the medium term, that is, between 2 to 5 years. In the long term, that is, over a 5-year time horizon, market rates decreased by 29 basis points. The Treasury curve in the short-term did not change and in the medium-term horizon decreased 17 basis points as compared to December 2014 end of month levels. The long-term horizon decreased by 5 basis points as compared to December 2014 end of month levels.

The following table presents the results of the simulations as of September 30, 2015 and December 31, 2014. Consistent with prior years, these exclude non-cash changes in the fair value of derivatives:

	September 30, 2015				**December 31, 2014**			
	Net Interest Income Risk				**Net Interest Income Risk**			
	(Projected for the next 12 months)				**(Projected for the next 12 months)**			
	Static Simulation		**Growing Balance Sheet**		**Static Simulation**		**Growing Balance Sheet**	
(Dollars in millions)	**Change**	**% Change**	**Change**	**% Change**	**Change**	**% Change**	**Change**	**% Change**
+ 200 bps ramp	$ 14.5	2.82 %	$ 8.3	1.63 %	$ 9.6	1.88 %	$ 9.8	1.90 %

- 200 bps ramp	$	(5.4)		(1.04)	%		$	(5.1)		(0.99)	%		$	(8.2)		(1.60)	%		$	(9.3)		(1.80)	%

The Corporation continues to manage its balance sheet structure to control the overall interest rate risk. As part of the strategy to limit the interest rate risk, the Company has executed certain transactions that affected the simulation results. The composition of the loan portfolio changed with commercial and construction loans decreasing by $205.0 million, mainly due to the bulk sale of assets and certain large repayments and consumer loans decreasing by $121.0 million, while mortgage loans increased by $323.1 million mainly due to the residential mortgage loans acquired from Doral Bank. Other transactions completed in 2015 include the reduction in brokered CDs and the restructuring of $400 million of repurchase agreements, including a $200 million reverse repurchase agreement entered into in April 2015 under a master netting agreement with an existing counterparty.

Taking into consideration the above-mentioned facts for modeling purposes, the net interest income for the next twelve months under a non-static balance sheet scenario is estimated to increase by $8.3 million in the rising rate scenario when compared against the Corporation's flat or unchanged interest rate forecast scenario. Under the falling rate, non-static scenario the net interest income is estimated to decrease $5.1 million.

Derivatives

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

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

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

Interest rate swaps - Interest rate swap agreements generally involve the exchange of fixed-and-floating-rate interest payment obligations without the exchange of the underlying notional principal amount. As of September 30, 2015, the Corporation has no interest rate swaps outstanding. In the past, most of the interest rate swaps outstanding were used for protection against rising interest rates. Similar to unrealized gains and losses arising from changes in fair value, net interest settlements on interest rate swaps are recorded as an adjustment to interest income or interest expense depending on whether an asset or liability is being economically hedged.

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

For detailed information regarding the volume of derivative activities (e.g. notional amounts), location and fair values of derivative instruments in the Statement of Financial Condition and the amount of gains and losses reported in the Statement of Income, refer to Note 11 in the accompanying unaudited consolidated financial statements.

The following tables summarize the fair value changes in the Corporation's derivatives as well as the sources of the fair values:

	Asset Derivatives			**Liability Derivatives**	
	Nine-Month Period Ended			**Nine-Month Period Ended**	
(In thousands)	**September 30, 2015**			**September 30, 2015**	
Fair value of contracts outstanding at the beginning of the period	$	39		$	(187)
Fair value of new contracts entered into during the period		1,098			(1,229)
Changes in fair value during the period		(331)			378
Fair value of contracts outstanding as of September 30, 2015	$	806		$	(1,038)

Sources of Fair Value		
		Payment Due by Period

(In thousands)	Maturity Less Than One Year	Maturity 1-3 Years	Maturity 3-5 Years	Maturity in Excess of 5 Years	Total Fair Value
As of September 30, 2015					
Pricing from observable market inputs - Asset Derivatives	$ -	$ -	$ 806	$ -	$ 806
Pricing from observable market inputs - Liability Derivatives	(245)	-	(793)	-	(1,038)
	$ (245)	$ -	$ 13	$ -	$ (232)

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Supplemental cash flow information is as follows:

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

As of September 30, 2015 and December 31, 2014, all of the derivative instruments held by the Corporation were considered economic undesignated hedges.

The use of derivatives involves market and credit risk. The market risk of derivatives stems principally from the potential for changes in the value of derivative contracts based on changes in interest rates. The credit risk of derivatives arises from the potential of default from the counterparty. To manage this credit risk, the Corporation deals with counterparties of good credit standing, enters into master netting agreements whenever possible and, when appropriate, obtains collateral. Master netting agreements incorporate rights of set-off that provide for the net settlement of contracts with the same counterparty in the event of default. All of the Corporation's interest rate swaps are supported by securities collateral agreements, which allow the delivery of securities to and from the counterparties depending on the fair value of the instruments, to minimize credit risk.

Refer to Note 21 of the accompanying unaudited consolidated financial statements for additional information regarding the fair value determination of derivative instruments.

Credit Risk Management

First BanCorp. is subject to credit risk mainly with respect to its portfolio of loans receivable and off-balance sheet instruments, mainly derivatives and loan commitments. Loans receivable represent loans that First BanCorp. holds for investment and, therefore, First BanCorp. is at risk for the term of the loan. Loan commitments represent commitments to extend credit, subject to specific conditions, for specific amounts and maturities. These commitments may expose the Corporation to credit risk and are subject to the same review and approval process as for loans. Refer to "Contractual Obligations and Commitments" above for further details. The credit risk of derivatives arises from the potential of the counterparty's default on its contractual obligations. To manage this credit risk, the Corporation deals with counterparties of good credit standing, enters into master netting agreements whenever possible and, when appropriate, obtains collateral. For further details and information on the Corporation's derivative credit risk exposure, refer to "Interest Rate Risk Management" above. The Corporation manages its credit risk through its credit policy, underwriting, independent loan review and quality control procedures, statistical analysis, comprehensive financial analysis, and established management committees. The Corporation also employs proactive collection and loss mitigation efforts. Furthermore, personnel performing structured loan workout functions are responsible for mitigating defaults and minimizing losses upon default within each region and for each business segment. In the case of the C&I, commercial mortgage and construction loan portfolios, the Special Asset Group ("SAG") focuses on strategies for the

accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of OREO. In addition to the management of the resolution process for problem loans, the SAG oversees collection efforts for all loans to prevent migration to the non-performing and/or adversely classified status. The SAG utilizes relationship officers, collection specialists and attorneys. In the case of residential construction projects, the workout function monitors project specifics, such as project management and marketing, as deemed necessary.

The Corporation may also have risk of default in the securities portfolio. The securities held by the Corporation are principally fixed-rate U.S. agency mortgage-backed securities and U.S. Treasury and agency securities. Thus, a substantial portion of these instruments is backed by mortgages, a guarantee of a U.S. government-sponsored entity or the full faith and credit of the U.S. government.

Management, consisting of the Corporation’s Commercial Credit Risk Officer, Retail Credit Risk Officer, Chief Lending Officer and other senior executives, has the primary responsibility for setting strategies to achieve the Corporation’s credit risk goals and objectives. These goals and objectives are documented in the Corporation’s Credit Policy.

Allowance for Loan and Lease Losses and Non-performing Assets

Allowance for Loan and Lease Losses

The allowance for loan and lease losses represents the estimate of the level of reserves appropriate to absorb inherent credit losses. The amount of the allowance was determined by empirical analysis and judgments regarding the quality of each individual loan portfolio. All known relevant internal and external factors that affected loan collectability were considered, including analyses of historical charge-off experience, migration patterns, changes in economic conditions, and changes in loan collateral values. For example, factors affecting the economies of Puerto Rico, Florida (USA), the US Virgin Islands and the British Virgin Islands may contribute to delinquencies and defaults above the Corporation's historical loan and lease losses. Such factors are subject to regular review and may change to reflect updated performance trends and expectations, particularly in times of severe stress. The process includes judgments and quantitative elements that may be subject to significant change. There is no certainty that the allowance will be adequate over time to cover credit losses in the portfolio because of continued adverse changes in the economy, market conditions, or events adversely affecting specific customers, industries or markets. To the extent actual outcomes differ from our estimates, the credit quality of our customer base materially decreases, the risk profile of a market, industry, or group of customers changes materially, or the allowance is determined to not be adequate, additional provisions for credit losses could be required, which could adversely affect our business, financial condition, liquidity, capital, and results of operations in future periods.

The allowance for loan and lease losses provides for probable losses that have been identified with specific valuation allowances for individually evaluated impaired loans and probable losses believed to be inherent in the loan portfolio that have not been specifically identified. An internal risk rating is assigned to each business loan at the time of approval and is subject to subsequent periodic reviews by the Corporation's senior management. The allowance for loan and lease losses is reviewed on a quarterly basis as part of the Corporation's continued evaluation of its asset quality.

The ratio of the allowance for loan losses to total loans held for investment increased to 2.46% as of September 30, 2015 compared to 2.40% as of December 31, 2014. The allowance to total loans for each of the Corporation's categories of loans changed as follows: the allowance to total loans for the C&I portfolio increased from 2.57% as of December 31, 2014 to 2.80% at September 30, 2015; the allowance to total loans for the commercial mortgage portfolio increased from 3.06% at December 31, 2014 to 3.33% at September 30, 2015; the allowance to total loans for the construction loan portfolio decreased from 10.38% at December 31, 2014 to 7.20% at September 30, 2015; the allowance to total loans for the residential mortgage portfolio increased from 0.91% at December 31, 2014 to 1.08% at September 30, 2015; and the allowance to total consumer and finance leases decreased from 3.41% as of December 31, 2014 to 3.35% as of September 30, 2015.

Substantially all of the Corporation's loan portfolio is located within the boundaries of the U.S. economy. Whether the collateral is located in Puerto Rico, the U.S. and British Virgin Islands or the U.S. mainland (mainly in the state of Florida), the performance of the Corporation's loan portfolio and the value of the collateral supporting the transactions are dependent upon the performance of and conditions within each specific area's real estate market. The real estate market in Puerto Rico experienced readjustments in value over the last few years driven by the loss of income due to higher unemployment, reduced demand and general adverse economic conditions. The Corporation sets adequate loan-to-value ratios upon original approval following its regulatory and credit policy standards. The real estate market for the U.S. Virgin Islands has declined mostly due to reduced business activity in the region, partially related to the closing in 2012 of the Hovensa refinery in St. Croix. In Florida, we operate mostly in Miami, where home prices have improved, mostly driven by a higher demand from foreign investors, and a decrease in distressed property sales.

As shown in the following table, the allowance for loan and lease losses amounted to $229.0 million as of September 30, 2015, or 2.46% of total loans, compared with $222.4 million, or 2.40% of total loans, as of December 31, 2014. Refer to the "Provision for Loan and Lease Losses" above for additional details, including information about the incorporation of the charge-offs on the bulk sale of assets completed in the second quarter of 2015 in the calculation of historical loss rates.

(Dollars in thousands)	Quarter Ended September 30, 2015	Quarter Ended September 30, 2014	Nine-Month Period Ended September 30, 2015	Nine-Month Period Ended September 30, 2014
Allowance for loan and lease losses, beginning of period	$ 221,518	$ 241,177	$ 222,395	$ 285,858
Provision (release) for loan and lease losses:				
Residential Mortgage	6,958	5,885	21,791	13,570
Commercial Mortgage (1)	6,668	2,721	48,809	(6,938)
Commercial and Industrial (2) (3)	3,807	3,017	29,750	35,444
Construction (4)	(139)	(3,652)	1,385	(15,215)
Consumer and Finance Leases	13,882	19,028	36,677	58,797
Provision for loan and lease losses (5) (6)	31,176	26,999	138,412	85,658
Charge-offs				
Residential Mortgage	(5,094)	(5,970)	(13,815)	(17,379)
Commercial Mortgage (7)	(3,677)	(2,823)	(54,115)	(22,056)
Commercial and Industrial (8) (9)	(1,267)	30,090	(30,090)	(59,516)
Construction (10)	(103)	(7,691)	(4,787)	(11,322)
Consumer and Finance Leases	(15,926)	(19,848)	(48,221)	(56,425)
Total charge offs (11) (12)	(26,067)	(6,242)	(151,028)	(166,698)
Recoveries:				
Residential Mortgage	214	236	584	605
Commercial Mortgage (13)	20	3,939	6,515	8,271
Commercial and Industrial (14)	327	1,174	3,386	2,253
Construction (15)	176	4,486	2,379	5,158
Consumer and Finance Leases	1,602	1,360	6,323	4,329
Total recoveries (16)	2,339	11,195	19,187	20,616
Net Charge-Offs	(23,728)	4,953	(131,841)	(146,082)
Allowance for loan and lease losses, end of period	$ 228,966	$ 273,129	$ 228,966	$ 225,434

Supplemental cash flow information is as follows:

Allowance for loan and lease losses to period end total loans held for				
investment	2.46 %	2.42 %	2.46 %	2.42 %
Net charge-offs (annualized) to average loans outstanding during the				
period	1.02 %	1.80 %	1.88 %	2.04 %
Net charge-offs (annualized), excluding net charge-offs related to the bulk sale				
($61.4 million) in 2015, and the acquisition of mortgage loans from Doral				
($6.9 million) in 2014, to average loans outstanding during the period (17)	1.02 %	1.80 %	1.01 %	1.94 %
Provision for loan and lease losses to net charge-offs during the				
period	1.31x	0.63x	1.05x	0.59x
Provision for loan and lease losses to net charge-offs during the				
period, excluding the impact of the bulk sale and the acquisition of				
mortgage loans from Doral (18)	1.31x	0.63x	1.30x	0.61x

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(1) For the nine-month period ended September 30, 2015, includes a provision totaling $33.8 million associated with the bulk sale of assets.

(2) For the nine-month period ended September 30, 2015, includes a provision of $10.8 million associated with the bulk sale of assets.

(3) For the nine-month period ended September 30, 2014, includes a provision totaling $1.4 million associated with the acquisition of mortgage loans from Doral in full satisfaction of secured borrowings owed by Doral to FirstBank.

(4) For the nine-month period ended September 30, 2015, includes a provision totaling $2.4 million associated with the bulk sale of assets.

(5) For the nine-month period ended September 30, 2015, includes a provision totaling $46.9 million associated with the bulk sale of assets.

(6) For the nine-month period ended September 30, 2014, includes a provision of $1.4 million associated with the acquisition of mortgage loans from Doral in full satisfaction of secured borrowings owed by Doral to FirstBank.

(7) For the nine-month period ended September 30, 2015, includes charge-offs totaling $43.2 million associated with the bulk sale of assets.

(8) For the nine-month period ended September 30, 2015, includes charge-offs totaling $22.6 million associated with the bulk sale of assets.

(9)	For the nine-month period ended September 30, 2014, includes charge-offs totaling $6.9 million associated with the acquisition of	
	mortgage loans from Doral in full satisfaction of secured borrowings owed by Doral to FirstBank.	
(10)	For the nine-month period ended September 30, 2015, includes charge-offs totaling $4.1 million associated with the bulk sales of assets.	
(11)	For the nine-month period ended September 30, 2015, includes charge-offs totaling $69.8 million associated with the bulk sale of assets.	
(12)	For the nine-month period ended September 30, 2014, includes charge-offs totaling $6.9 million associated with the acquisition of	
	mortgage loans from Doral in full satisfaction of secured borrowings owed by Doral to FirstBank.	
(13)	For the nine-month period ended September 30, 2015, includes recoveries of $5.6 million associated with the bulk sale of assets.	
(14)	For the nine-month period ended September 30, 2015, includes recoveries of $2.0 million associated with the bulk sale of assets.	
(15)	For the nine-month period ended September 30, 2015, includes recoveries of $0.8 million associated with the bulk sale of assets.	
(16)	For the nine-month period ended September 30, 2015, includes recoveries of $8.4 million associated with the bulk sale of assets.	
(17)	Refer to "Overview of Results of Operations" above for a reconciliation of this measure.	
(18)	Refer to "Basis of Presentation" below for a reconciliation of this measure.	

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

(In thousands)	As of September 30, 2015 Amount		Percent of loans in each category to total loans		As of December 31, 2014 Amount		Percent of loans in each category to total loans	
Residential mortgage	$	35,861	36	%	$	27,301	33	%
Commercial mortgage loans		52,103	17	%		50,894	18	%
Construction loans		11,799	2	%		12,822	1	%
Commercial and Industrial loans		66,767	26	%		63,721	27	%
Consumer loans and finance leases		62,436	19	%		67,657	21	%
	$	228,966	100	%	$	222,395	100	%

The following table sets forth information concerning the composition of the Corporation's allowance for loan and lease losses as of September 30, 2015 and December 31, 2014 by loan category and by whether the allowance and related provisions were calculated individually or through a general valuation allowance.

As of September 30, 2015 (Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	C&I Loans	Construction Loans	Consumer and Finance Leases	Total
Impaired loans without specific reserves:						
Principal balance of loans, net of charge-offs	$ 66,162	$ 54,538	$ 27,607	$ 43,163	$ 4,725	$ 196,195
Impaired loans with specific reserves:						
Principal balance of	393,149	49,508	147,376	22,960	33,525	646,518

loans, net of charge-offs						
Allowance for loan and lease losses	18,705	4,886	17,540	2,128	8,600	51,859
Allowance for loan and lease losses to principal balance	4.76 %	9.87 %	11.90 %	9.27 %	25.65 %	8.02 %
PCI loans:						
Carrying value of PCI loans	172,927	3,158	-	-	-	176,085
Allowance for PCI loans	3,061	102	-	-	-	3,163
Allowance for PCI loans to carrying value	1.77 %	3.23 %	-	-	-	1.80 %
Loans with general allowance:						
Principal balance of loans	2,697,851	1,455,334	2,208,824	97,833	1,823,305	8,283,147
Allowance for loan and lease losses	14,095	47,115	49,227	9,671	53,836	173,944
Allowance for loan and lease losses to principal balance	0.52 %	3.24 %	2.23 %	9.89 %	2.95 %	2.10 %
Total loans held for investment:						
Principal balance of loans	$ 3,330,089	$ 1,562,538	$ 2,383,807	$ 163,956	$ 1,861,555	$ 9,301,945
Allowance for loan and lease losses	35,861	52,103	66,767	11,799	62,436	228,966
Allowance for loan and lease losses to principal balance (1)	1.08 %	3.33 %	2.80 %	7.20 %	3.35 %	2.46 %

Supplemental cash flow information is as follows:

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Supplemental cash flow information is as follows:

(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	C&I Loans	Construction Loans	Consumer and Finance Leases	Total
As of December 31, 2014						
Impaired loans without specific reserves:						
Principal balance of loans, net of charge-offs	$ 74,177	$ 109,271	$ 41,131	$ 10,455	$ 3,778	$ 238,812
Impaired loans with specific reserves:						
Principal balance of loans, net of charge-offs	350,067	101,467	195,240	29,012	30,809	706,595
Allowance for loan and lease losses	10,854	14,289	21,314	2,577	6,171	55,205
Allowance for loan and lease losses to principal balance	3.10 %	14.08 %	10.92 %	8.88 %	20.03 %	7.81 %
PCI loans:						
Carrying value of PCI loans	98,494	3,393	-	-	717	102,604
Allowance for PCI loans	-	-	-	-	-	-
Allowance for PCI loans to carrying value	-	-	-	-	-	-

Supplemental cash flow information is as follows:

Loans with general allowance:						
Principal balance of loans	2,488,449	1,451,656	2,243,066	84,013	1,947,241	8,214,425
Allowance for loan and lease losses	16,447	36,605	42,407	10,245	61,486	167,190
Allowance for loan and lease losses to principal balance	0.66%	2.52%	1.89%	12.19%	3.16%	2.04%
Total loans held for investment:						
Principal balance of loans	$ 3,011,187	$ 1,665,787	$ 2,479,437	$ 123,480	$ 1,982,545	$ 9,262,436
Allowance for loan and lease losses	27,301	50,894	63,721	12,822	67,657	222,395
Allowance for loan and lease losses to principal balance (1)	0.91%	3.06%	2.57%	10.38%	3.41%	2.40%

(1) Loans used in the denominator include PCI loans of $176.1 million and $102.6 million as of September 30, 2015 and December 31, 2014, respectively. However, the Corporation separately tracks and reports PCI loans and excludes these loans from statistics for non-performing loans, impaired loans, TDRs and non-performing assets statistics.

The following tables show the activity for impaired loans held for investment and the related specific reserve during the quarter and six-month period ended September 30, 2015 and 2014:

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2015	**2014**	**2015**	**2014**
	(In thousands)		**(In thousands)**	

Impaired Loans:							
Balance at beginning of period	$	824,816	$	908,858	$	945,407	$	919,112
Loans determined impaired during the period		37,528		118,549		135,350		271,792
Charge-offs		(7,498)		(31,263)		(90,026)		(95,948)
Loans sold, net of charge-offs		-		-		(67,836)		-
Increase to impaired loans - additional disbursements		408		1,768		2,524		2,687
Reclassification from loans held for sale		40,005		-		40,005		-
Foreclosures		(12,858)		(5,332)		(33,044)		(13,472)
Loans no longer considered impaired		(25,877)		(1,009)		(39,062)		(18,740)
Paid in full or partial payments		(13,811)		(18,557)		(50,605)		(92,417)
Balance at end of period	$	842,713	$	973,014	$	842,713	$	973,014

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
		2015		2014		2015		2014
	(In thousands)				(In thousands)			
Specific Reserve:								
Balance at beginning of period	$	49,918	$	68,358	$	55,205	$	102,601
Provision for loan losses		9,439		18,189		81,796		48,631
Net charge-offs		(7,498)		(31,263)		(85,142)		(95,948)
Balance at end of period	$	51,859	$	55,284	$	51,859	$	55,284

Non-performing Loans and Non-performing Assets

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

Non-performing Loans Policy

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

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

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

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

PCI Loans — PCI loans were recorded at fair value at acquisition. Since the initial fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans, the subsequent accounting for PCI loans differs from the accounting for non-PCI loans. The Corporation, therefore, separately tracks and reports PCI loans and excludes these from its non-performing loans, impaired loans, Troubled Debt Restructurings ("TDRs"), and non-performing assets statistics.

Cash payments received on certain loans that are impaired and collateral dependent are recognized when collected in accordance with the contractual terms of the loans. The principal portion of the payment is used to reduce the principal balance of the loan, whereas the interest portion is recognized on a cash basis (when collected). However,

when management believes that the ultimate collectability of principal is in doubt, the interest portion is applied to the outstanding principal. The risk exposure of this portfolio is diversified as to individual borrowers and industries, among other factors. In addition, a large portion is secured with real estate collateral.

Other Real Estate Owned

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

Other Repossessed Property

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

Past Due Loans 90 days and still accruing

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

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

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

(Dollars in thousands)	September 30, 2015			December 31, 2014		
Non-performing loans held for investment:						
Residential mortgage	$	174,555		$	180,707	
Commercial mortgage		68,979			148,473	
Commercial and Industrial		141,855			122,547	
Construction (1)		55,971			29,354	
Finance leases		2,353			5,245	
Consumer		28,922			37,570	
Total non-performing loans held for investment	$	472,635		$	523,896	
OREO		124,442			124,003	
Other repossessed property		12,083			14,229	
Total non-performing assets, excluding loans held for sale	$	609,160		$	662,128	
Non-performing loans held for sale (1)		8,027			54,641	
Total non-performing assets, including loans held for sale (2) (3)	$	617,187		$	716,769	
Past due loans 90 days and still accruing (4) (5)	$	188,348		$	162,887	
Non-performing assets to total assets		4.81	%		5.63	%
Non-performing loans held for investment to total loans held for investment		5.08	%		5.66	%
Allowance for loan and lease losses	$	228,966		$	222,395	
Allowance to total non-performing loans held for investment		48.44	%		42.45	%
Allowance to total non-performing loans held for investment,						
excluding residential real estate loans		76.81	%		64.80	%

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

(2) Purchased credit impaired loans accounted for under ASC 310-30 of $176.1 million and $102.6 million as of September 30, 2015 and December 31, 2014, respectively, are excluded and not considered non-performing due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

(3)

	Non-performing assets exclude $411.8 million and $494.6 million of TDRs that are in compliance with the modified terms and in accrual status as of September 30, 2015 and December 31, 2014, respectively.							
(4)	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 $35.9 million of residential mortgage loans insured by the FHA or guaranteed by the VA that are over 18 months delinquent, and are no longer accruing interest as of September 30, 2015.							
(5)	Amount includes purchased credit impaired loans with individual delinquencies over 90 days and still accruing with a carrying value as of September 30, 2015 and December 31, 2014 of approximately $22.5 million and $15.7 million, respectively, primarily related to loans acquired from Doral in the first quarter of 2015 and second quarter of 2014.							

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

(Dollars in thousands)		September 30, 2015		December 31, 2014
Puerto Rico:				
Non-performing loans held for investment:				
Residential mortgage	$	153,684	$	156,361
Commercial mortgage		52,386		121,879
Commercial and Industrial		136,291		116,301
Construction		12,251		24,526
Finance leases		2,353		5,245
Consumer		27,208		35,286
Total non-performing loans held for investment		384,173		459,598
OREO		113,435		111,041
Other repossessed property		12,007		14,150
Total non-performing assets, excluding loans held for sale	$	509,615	$	584,789
Non-performing loans held for sale		8,027		14,636
Total non-performing assets, including loans held for sale (1)	$	517,642	$	599,425
Past due loans 90 days and still accruing (2)	$	180,582	$	154,375
Virgin Islands:				
Non-performing loans held for investment:				
Residential mortgage	$	14,370	$	15,483
Commercial mortgage		10,114		11,770
Commercial and Industrial		5,564		6,246
Construction (3)		43,566		4,064
Consumer		437		887
Total non-performing loans held for investment		74,051		38,450
OREO		5,276		6,967
Other repossessed property		23		22
Total non-performing assets, excluding loans held for sale	$	79,350	$	45,439
Non-performing loans held for sale (3)		-		40,005
Total non-performing assets, including loans held for sale	$	79,350	$	85,444
Past due loans 90 days and still accruing	$	7,766	$	5,281
United States:				

Non-performing loans held for investment:					
Residential mortgage	$	6,501		$	8,863
Commercial mortgage		6,479			14,824
Construction		154			764
Consumer		1,277			1,397
Total non-performing loans held for investment		14,411			25,848
OREO		5,731			5,995
Other repossessed property		53			57
Total non-performing assets, excluding loans held for sale	$	20,195		$	31,900
Non-performing loans held for sale (3)		-			-
Total non-performing assets, including loans held for sale	$	20,195		$	31,900
Past due loans 90 days and still accruing	$	-		$	3,231

(1) Purchased credit impaired loans accounted for under ASC 310-30 of $176.1 million and $102.6 million as of September 30, 2015 and December 31, 2014, respectively, are excluded and not considered non-performing due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

(2) Amount includes purchased credit impaired loans with individual delinquencies over 90 days and still accruing with a carrying value as of September 30, 2015 and December 31, 2014 of approximately $22.5 million and $15.7 million, respectively, primarily related to loans acquired from Doral in the first quarter of 2015 and second quarter of 2014.

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

Total non-performing loans, including non-performing loans held for sale, were $480.7 million as of September 30, 2015. This represents a decrease of $97.9 million, or 17%, from $578.5 million as of December 31, 2014. The decrease was driven by the bulk sale of assets that included $91.9 million of non-performing commercial and construction loans and the restoration to accrual status of a $24.5 million commercial mortgage facility after consideration of the borrower's sustained historical repayment performance and credit evaluation, partially offset by the inflow to non-performing status in the first quarter of the $75.0 million credit facility with PREPA ($72.6 million book value as of September 30, 2015). The remainder of the decrease reflects charge-offs, commercial loans brought current, and cash collections.

Non-performing commercial mortgage loans, including non-performing commercial mortgage loans held for sale, decreased by $86.1 million, or 55%, from December 31, 2014. The decrease was primarily attributable to the bulk sale of assets that included $40.9 million of non-performing commercial mortgage loans and the aforementioned $24.5 million credit facility restored to accrual status. Additional reductions were primarily due to loans brought current, including $5.1 million associated with two relationships, a $6.5 million loan transferred to OREO, cash collections that included the disposition through a short sale of a $6.3 million loan and charge-offs. Total inflows of non-performing commercial mortgage loans of $14.2 million during the first nine months of 2015 decreased by $65.9 million compared to inflows of $80.1 million for the same period in 2014.

Non-performing C&I loans increased by $19.3 million compared to December 31, 2014, driven by the inflow of the $75.0 million credit facility to PREPA (book value of $72.6 million as of September 30, 2015), partially offset by the $39.9 million of non-performing C&I loans included in the bulk sale of assets. Total inflows of non-performing C&I loans were $87.8 million during the first nine months of 2015. Excluding the aforementioned PREPA credit facility, total inflows were $12.8 million during the first nine months of 2015 compared to inflows of $75.2 million for the same period in 2014.

Non-performing construction loans, including non-performing construction loans held for sale, decreased by $13.4 million, or 17%, from December 31, 2014. The decrease was primarily attributable to the bulk sale of assets that included $11.1 million of non-performing construction loans. The inflows of non-performing construction loans of $0.5 million during the first nine months of 2015 decreased by $1.5 million compared to inflows of $2.0 million for the same period in 2014.

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

	Commercial Mortgage	Commercial & Industrial	Construction	Total
(In thousands)				
Quarter ended September 30, 2015				
Beginning balance	$ 95,088	$ 143,935	$ 16,118	$ 255,141

Plus:				
Additions to non-performing	4,530	5,756	57	10,343
Less:				
Non-performing loans transferred to OREO	(866)	(2,531)	(102)	(3,499)
Non-performing loans charge-offs	(3,522)	(805)	(70)	(4,397)
Loans returned to accrual status/loan collections	(26,251)	(4,500)	(37)	(30,788)
Reclassification from loans held for sale	-	-	40,005	40,005
Ending balance	$ 68,979	$ 141,855	$ 55,971	$ 266,805

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Supplemental cash flow information is as follows:

(In thousands)	Commercial Mortgage	Commercial & Industrial	Construction	Total
Nine-Month Period Ended September 30, 2015				
Beginning balance	$ 148,473	$ 122,547	$ 29,354	300,374
Plus:				
Additions to non-performing	14,234	87,835	465	102,534
Less:				
Non-performing loans transferred to OREO	(7,692)	(7,910)	(487)	(16,089)
Non-performing loans charge-offs	(26,850)	(25,220)	(4,754)	(56,824)
Loans returned to accrual status/loan collections	(41,424)	(12,710)	(1,388)	(55,522)
Reclassification from loans held for sale	-	-	40,005	40,005
Other reclassification	-	-	(249)	(249)
Non-performing loans sold, net of charge-offs	(17,762)	(22,687)	(6,975)	(47,424)
Ending balance	$ 68,979	$ 141,855	$ 55,971	$ 266,805

(In thousands)	Commercial Mortgage	Commercial & Industrial	Construction	Total
Quarter ended September 30, 2014				
Beginning balance	$ 166,218	$ 143,669	$ 38,830	$ 348,717
Plus:				
Additions to non-performing	11,985	13,967	122	26,074
Less:				
Non-performing loans transferred to OREO	(1,058)	(3,109)	(749)	(4,916)
Non-performing loans charge-offs	(2,292)	(17,570)	(7,689)	(27,551)
Loans returned to accrual status/loan collections	(4,886)	(6,040)	(403)	(11,329)
Ending balance	$ 169,967	$ 130,917	$ 30,111	$ 330,995

			Construction	Total

	Commercial Mortgage	Commercial & Industrial		
(In thousands)				
Nine-Month Period Ended September 30, 2014				
Beginning balance	$ 120,107	$ 114,833	$ 58,866	$ 293,806
Plus:				
Additions to non-performing	80,108	89,179	2,024	171,311
Less:				
Non-performing loans transferred to OREO	(1,864)	(5,150)	(2,968)	(9,982)
Non-performing loans charge-offs	(21,524)	(44,441)	(11,069)	(77,034)
Loans returned to accrual status/loan collections	(8,035)	(22,329)	(16,742)	(47,106)
Reclassification	1,175	(1,175)	-	-
Ending balance	$ 169,967	$ 130,917	$ 30,111	$ 330,995

Supplemental cash flow information is as follows:

Non-performing commercial and construction loans held for sale decreased to $8.0 million as of September 30, 2015 from $54.6 million as of December 31, 2014, due to the aforementioned reclassification of a $40.0 million construction loans back to held for investment upon the signing of a new agreement with the borrower and the sale of a $6.6 million non-performing commercial mortgage loan held for sale included in the bulk sale of assets.

Total non-performing commercial and construction loans, including non-performing loans held for sale, with a book value of $274.8 million as of September 30, 2015, are being carried at 59.8% of unpaid principal balance, net of reserves and accumulated charge-offs.

Non-performing residential mortgage loans decreased by $6.2 million, or 3%, from December 31, 2014. The decrease was mainly driven by loans brought current, modifications through TDRs after a sustained performance period, charge-offs, foreclosures and cash collections during the first nine months of 2015, partially offset by inflows of $71.7 million. The inflows of non-performing residential mortgage loans of $71.7 million during the first nine months of 2015 were lower than the inflows of $100.5 million for the same period in 2014. Approximately $54.2 million, or 31% of total non-performing residential mortgage loans, have been written down to their net realizable value.

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

			Quarter Ended		Nine-Month Period Ended
			September 30, 2015		
			(In thousands)		
Beginning balance		$	175,035	$	180,707
Plus:					
	Additions to non-performing		27,392		71,663
Less:					
	Non-performing loans transferred to OREO		(10,833)		(21,511)
	Non-performing loans charge-offs		(2,790)		(10,251)
	Loans returned to accrual status/loan collections		(14,249)		(46,302)
	Reclassification		-		249
Ending balance		$	174,555	$	174,555

		Quarter Ended		Nine-Month Period Ended

Supplemental cash flow information is as follows:

		September 30, 2014	
		(In thousands)	
Beginning balance		$ 175,404	$ 161,441
Plus:			
	Additions to non-performing	35,645	100,509
Less:			
	Non-performing loans transferred to OREO	(2,216)	(5,267)
	Non-performing loans charge-offs	(4,445)	(13,632)
	Loans returned to accrual status/loan collections	(19,363)	(58,026)
Ending balance		$ 185,025	$ 185,025

The amount of non-performing consumer loans, including finance leases, showed an $11.5 million decrease during the first nine months of 2015 mainly related to charge-offs and collections, primarily in auto loans and boat financings. The inflows of non-performing consumer loans of $40.2 million decreased by $13.4 million compared to inflows of $53.6 million for the same period in 2014.

As of September 30, 2015, approximately $133.1 million of the loans placed in non-accrual status, mainly commercial loans, were current, or had delinquencies of less than 90 days in their interest payments, including $94.4 million of TDRs maintained in nonaccrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and there is no doubt about full collectability. Collections on these loans are being recorded on a cash basis through earnings, or on a cost-recovery basis, as conditions warrant.

During the nine-month period ended September 30, 2015, interest income of approximately $3.9 million related to non-performing loans with a carrying value of $270.6 million as of September 30, 2015, mainly non-performing construction and commercial loans, including the credit facility with PREPA, was applied against the related principal balances under the cost-recovery method.

The allowance to non-performing loans held for investment ratio as of September 30, 2015 was 48.44%, compared to 42.45% as of December 31, 2014. As of September 30, 2015, approximately $137.9 million, or 29.2%, of total non-performing loans held for investment have been charged-off to their net realizable value and no specific reserve was allocated, as shown in the following table:

(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	C&I Loans	Construction Loans	Consumer and Finance Leases	Total
As of September 30, 2015						
Non-performing loans held for investment						
charged-off to realizable value	$ 54,192	$ 15,427	$ 26,661	$ 40,100	$ 1,496	$ 137,876
Other non-performing loans held						
for investment	120,363	53,552	115,194	15,871	29,779	334,759
Total non-performing loans held						
for investment	$ 174,555	$ 68,979	$ 141,855	$ 55,971	$ 31,275	$ 472,635

Supplemental cash flow information is as follows:

Allowance to non-performing loans held for investment	20.54 %	75.53 %	47.07 %	21.08 %	199.64 %	48.44 %
Allowance to non-performing loans held for investment, excluding non-performing loans charged-off to realizable value	29.79 %	97.29 %	57.96 %	74.34 %	209.66 %	68.40 %
As of December 31, 2014						
Non-performing loans held for investment charged-off to realizable value	$ 74,177	$ 85,824	$ 40,697	$ 6,182	$ 1,672	$ 208,552
Other non-performing loans held for investment	106,530	62,649	81,850	23,172	41,143	315,344
Total non-performing loans held for investment	$ 180,707	$ 148,473	$ 122,547	$ 29,354	$ 42,815	$ 523,896
Allowance to non-performing loans held for investment	15.11 %	34.28 %	52.00 %	43.68 %	158.02 %	42.45 %
Allowance to non-performing loans held for investment, excluding non-performing loans charged-off to realizable value	25.63 %	81.24 %	77.85 %	55.33 %	164.44 %	70.52 %

Supplemental cash flow information is as follows:

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 September 30, 2015, the Corporation's total TDR loans held for investment of $682.0 million consisted of $382.6 million of residential mortgage loans, $151.4 million of commercial and industrial loans, $64.7 million of commercial mortgage loans, $46.6 million of construction loans, and $36.7 million of consumer loans.

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

Prior to permanently modifying a loan, the Corporation may enter into trial modifications with certain borrowers. Trial modifications generally represent a six-month period during which the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification. TDR loans that are participating in, or that have been offered a binding trial modification are classified as TDRs when the trial offer is made and continue to be classified as TDRs regardless of whether the borrower enters into a permanent modification. As of September 30, 2015, the Corporation classified an additional $8.2 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 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 SAG focuses on strategies for the accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of OREO. In addition to the management of the

resolution process for problem loans, the SAG oversees collection efforts for all loans to prevent migration to the non-performing and/or adversely classified status. The SAG utilizes relationship officers, collection specialists, and attorneys. In the case of residential construction projects, the workout function monitors project specifics, such as project management and marketing, as deemed necessary. The SAG utilizes its collections infrastructure of workout collection officers, credit work-out specialists, in-house legal counsel, and third-party consultants. In the case of residential construction projects and large commercial loans, the SAG function also utilizes third-party specialized consultants to monitor the residential and commercial construction projects in terms of construction, marketing and sales, and to assists 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, the 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.

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

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

(In thousands)	September 30, 2015						
	Accrual			Nonaccrual (1)		Total TDRs	
Non-FHA/VA Residential Mortgage loans	$	299,251	$	83,362		$	382,613
Commercial Mortgage Loans		29,271		35,414			64,685
Commercial and Industrial Loans		50,825		100,585			151,410
Construction Loans		3,744		42,840			46,584
Consumer Loans - Auto		13,607		6,513			20,120
Finance Leases		1,965		200			2,165
Consumer Loans - Other		13,171		1,215			14,386
Total Troubled Debt Restructurings	$	411,834	$	270,129		$	681,963

(1) Included in non-accrual loans are $94.4 million in loans that are performing under the terms of the restructuring agreements 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.

The OREO portfolio, which is part of non-performing assets, increased by $0.4 million. The following table shows the activity during the nine-month period ended September 30, 2015 of the OREO portfolio by geographic region and type of property:

(In thousands)	As of September 30, 2015									
	Puerto Rico			Virgin Islands			Florida			Consolidat
	Residential	Commercial	Construction	Residential	Commercial	Construction	Residential	Commercial	Construction	
Beginning Balance	$ 25,667	$ 74,532	$ 10,841	$ 648	$ 114	$ 6,206	$ 3,264	$ 1,008	$ 1,723	$ 124,003
Additions	26,155	13,246	1,298	1,711	-	157	1,481	367	-	44,415
Sales	(12,471)	(9,035)	(1,065)	(1,439)	-	(1,961)	(1,955)	-	-	(27,926
Fair value adjustments	(4,972)	(9,045)	(1,716)	(36)	(3)	(121)	(57)	(60)	(40)	(16,050
Ending balance	$ 34,379	$ 69,698	$ 9,358	$ 884	$ 111	$ 4,281	$ 2,733	$ 1,315	$ 1,683	$ 124,442

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Net Charge-offs and Total Credit Losses

Total net charge-offs for the first nine months of 2015 were $131.8 million, or 1.88% of average loans on an annualized basis, compared to $146.1 million, or an annualized 2.04%, for the same period in 2014. The bulk sale of assets in 2015 and fair value adjustments related to mortgage loans acquired in 2014 from Doral in full satisfaction of secured borrowings owed by such entity to FirstBank added $61.4 million and $6.9 million in net charge-offs for the first nine months of 2015 and 2014, respectively. Excluding the impact of net charge-offs related to the bulk sale in 2015 and net charge-offs related to the acquisition of mortgage loans from Doral in the second quarter of 2014, total net charge-offs in the first nine months of 2015 were $70.4 million, or 1.01% of average loans on an annualized basis, compared to $139.2 million, or an annualized 1.94%, for the same period in 2014, reflecting decreases in all major loan categories.

C&I loans net charge-offs in the first nine months of 2015 totaled $26.7 million, or an annualized 1.48% of related average loans, compared to $57.3 million, or an annualized 2.72%, for the first nine months of 2014. C&I loans net charge-offs in the first nine months of 2015 include $20.6 million associated with the bulk sale of assets and net charge-offs in the first nine months of 2014 include $6.9 million associated with the acquisition of mortgage loans from Doral. Excluding the impact of net charge-offs related to the bulk sale in 2015 and the acquisition of mortgage loans from Doral in 2014, C&I net charge-offs for the first nine months of 2015 were $6.1 million, or $44.3 million lower than net charge-offs of $50.4 million for the same period in 2014. Substantially all of the charge-offs recorded in the first nine months of 2015 were in Puerto Rico.

Commercial mortgage loans net charge-offs in the first nine months of 2015 were $47.6 million, or an annualized 3.96% of related average loans, compared to $13.8 million, or an annualized 1.00%, for the first nine months of 2014. Commercial mortgage loans net charge-offs in the first nine months of 2015 included $37.6 million associated with the bulk sale of assets. Excluding the impact of net charge-offs related to the bulk sale, commercial mortgage loans net charge-offs for the first nine months of 2015 were $10.0 million, or $3.8 million lower than net charge-offs for the same period in 2014.

Construction loans net charge-offs in the first nine months of 2015 were $2.4 million, or an annualized 1.88% of related average loans, compared to $6.2 million, or an annualized 4.04%, for the first nine months of 2014. Construction loans net charge-offs in the first nine months of 2015 included $3.3 million of net charge-offs related to the bulk sale of assets. Excluding the impact of net charge-offs related to the bulk sale, net recoveries on construction loans for the first nine months of 2015 were $0.9 million, primarily reflecting loan loss recoveries of $1.4 million in the Florida region.

Residential mortgage loans net charge-offs in the first nine months of 2015 were $13.2 million, or an annualized 0.54% of related average loans, compared to $16.8 million, or an annualized 0.84%, for the first nine months of 2014. Approximately $8.2 million in charge-offs for the first nine months of 2015 resulted from valuations for impairment purposes of residential mortgage loans considered homogeneous given high delinquency and loan-to-value levels, compared to $13.3 million in the first nine months of 2014. Net charge-offs on residential mortgage loans also included $4.7 million related to foreclosures, compared to $3.0 million in the first nine months of 2014.

Net charge-offs on consumer loans and finance leases in the first nine months of 2015 were $41.9 million, or an annualized 2.91% of related average loans, compared to $52.1 million, or an annualized 3.37% of average loans, in the first nine months of 2014. The decrease is mainly attributable to the auto loan portfolio and to loan loss recoveries of $2.7 million on the sale of certain loans that had been fully charged-off in prior periods.

The following table presents annualized net charge-offs (recoveries) to average loans held-in-portfolio:

	Quarter Ended		Nine-Month Period Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Residential mortgage loans	0.59 %	0.82 %	0.54 %	0.84 %
Commercial mortgage (1)	0.57 %	(0.24) %	3.96 %	1.00 %
Commercial and industrial (2) (3)	0.41 %	2.54 %	1.48 %	2.72 %
Construction loans (4)	(0.17) %	6.57 %	1.88 %	4.04 %
Consumer loans (5)	3.05 %	3.62 %	2.91 %	3.37 %
Total loans (6) (7)	1.02 %	1.80 %	1.88 %	2.04 %

(1) For the nine-month period ended September 30, 2015, includes net charge-offs totaling $37.6 million associated with the bulk sale of assets. For the nine-month period ended September 30, 2015, the ratio of commercial mortgage net charge-offs to average loans, excluding net charge-offs associated with the bulk sale of assets, was 0.86%.

(2) For the nine-month period ended September 30, 2015, includes net charge-offs totaling $20.6 million associated with the bulk sale of assets. For the nine-month period ended September 30, 2015, the ratio of commercial and industrial net charge-offs to average loans, excluding net charge-offs associated with the bulk sale of assets, was 0.34%.

(3) For the nine-month period ended September 30, 2014, includes net charge-offs totaling $6.9 million associated with the acquisition of mortgage loans from Doral. For the nine-month period ended September 30, 2014, the ratio of commercial and industrial net charge-offs to average loans, excluding charge-offs associated with the acquisition of mortgage loans from Doral, was 2.51%.

(4) For the nine-month period ended September 30, 2015, includes net charge-offs totaling $3.3 million associated with the bulk sale of assets. For the nine-month period ended September 30, 2015, the ratio of construction net charge-offs to average loans, excluding net charge-offs associated with the bulk sale of assets, was (0.70)%.

(5) Includes lease financing.

(6) For the nine-month period ended September 30, 2015, includes net charge-offs totaling $61.4 million associated with the bulk sale of assets. For the nine-month period ended September 30, 2015, the ratio of total net charge-offs to average loans, excluding charge-offs associated with the bulk sale of assets, was 1.01%.

(7) For the nine-month period ended September 30, 2014, includes net charge-offs totaling $6.9 million associated with the acquisition of mortgage loans from Doral. For the nine-month period ended September 30, 2014, the ratio of total net charge-offs to average loans, excluding charge-offs associated with the acquisition of mortgage loans from Doral, was 1.94%.

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Supplemental cash flow information is as follows:

The following table presents annualized net charge-offs (recoveries) to average loans held-in-portfolio by geographic segment:

	Quarter Ended		Nine-Month Period Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
PUERTO RICO:				
Residential mortgage	0.73%	1.08%	0.68%	1.10%
Commercial mortgage (1)	0.72%	0.71%	4.94%	1.93%
Commercial and Industrial (2) (3)	0.50%	3.14%	1.78%	3.17%
Construction (4)	0.28%	7.97%	6.80%	5.84%
Consumer and finance leases (5)	3.16%	3.74%	3.02%	3.49%
Total loans (6)	1.25%	2.34%	2.28%	2.54%
VIRGIN ISLANDS:				
Residential mortgage	0.02%	0.01%	0.06%	0.08%
Commercial mortgage	0.00%	0.00%	0.00%	0.13%
Commercial and Industrial (7)	0.03%	-1.52%	0.34%	-0.47%
Construction	0.12%	22.06%	0.20%	8.60%
Consumer and finance leases	0.75%	0.28%	0.26%	0.36%
Total loans	0.08%	1.92%	0.14%	0.88%
FLORIDA:				
Residential mortgage (8)	0.11%	-0.04%	0.03%	0.01%
Commercial mortgage (9)	0.04%	-4.67%	0.35%	-3.09%
Commercial and Industrial	0.00%	0.00%	0.00%	0.00%
Construction (10)	-1.90%	-46.50%	-6.98%	-17.09%
Consumer and finance leases	0.81%	1.32%	0.90%	0.54%
Total loans (11)	0.03%	-2.58%	-0.05%	-1.49%

(1)

	For the nine-month period ended September 30, 2015, includes net charge-offs totaling $37.6 million associated with the bulk sale of assets. For the nine-month period ended September 30, 2015, the ratio of commercial mortgage net charge-offs to average loans in Puerto Rico, excluding net charge-offs associated with the bulk sale of assets, was 0.98%.
(2)	For the nine-month period ended September 30, 2015, includes net charge-offs totaling $20.6 million associated with the bulk sale of assets. For the nine-month period ended September 30, 2015, the ratio of commercial and industrial net charge-offs to average loans in Puerto Rico, excluding net charge-offs associated with the bulk sale of assets, was 0.39%.
(3)	For the nine-month period ended September 30, 2014, includes net charge-offs totaling $6.9 million associated with the acquisition of mortgage loans from Doral. For the nine-month period ended September 30, 2014, the ratio of commercial and industrial net charge-offs to average loans in Puerto Rico, excluding charge-offs associated with the acquisition of mortgage loans from Doral, was 2.94%.
(4)	For the nine-month period ended September 30, 2015, includes net charge-offs totaling $3.3 million associated with the bulk sale of assets. For the nine-month period ended September 30, 2015, the ratio of construction net charge-offs to average loans in Puerto Rico, excluding net charge-offs associated with the bulk sale of assets, was 0.85%.
(5)	Includes lease financing.
(6)	For the nine-month period ended September 30, 2015, includes net charge-offs totaling $61.4 million associated with the bulk sale of assets. For the nine-month period ended September 30, 2015, the ratio of total net charge-offs to average loans in Puerto Rico, excluding net charge-offs associated with the bulk sale of assets, was 1.22%.
(7)	For the third quarter and nine-month period ended September 30, 2014, recoveries in commercial and industrial loans in the Virgin Islands exceeded charge-offs.
(8)	For the third quarter of 2014, recoveries in residential mortgage loans in Florida exceeded charge-offs.
(9)	For the third quarter and nine-month period ended September 30, 2014, recoveries in commercial mortgage loans in Florida exceeded charge-offs.
(10)	For the third quarter of 2014 and nine-month periods ended September 30, 2015 and 2014, recoveries in total loans in Florida exceeded charge-offs.
(11)	For the third quarter and nine-month periods ended September 30, 2015 and 2014, recoveries in construction loans in Florida exceeded charge-offs.

The above ratios are based on annualized charge-offs and are not necessarily indicative of the results expected for the entire year or in subsequent periods.

Total credit losses (equal to net charge-offs plus losses on OREO operations) for the first nine months of 2015 amounted to $143.7 million, or 2.02% on an annualized basis to average loans and repossessed assets, in contrast to credit losses of $163.0 million, or 2.24% on an annual basis to average loans, for the same period in 2014.

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

	Quarter Ended September 30, 2015	Quarter Ended September 30, 2014	Nine-Month Period Ended September 30, 2015	Nine-Month Period Ended September 30, 2014
	(Dollars in thousands)			
OREO				
OREO balances, carrying value:				
Residential	$ 37,996	$ 31,423	$ 37,996	$ 31,423
Commercial	71,124	62,610	71,124	62,610
Construction	15,322	18,770	15,322	18,770
Total	$ 124,442	$ 112,803	$ 124,442	$ 112,803
OREO activity (number of properties):				
Beginning property inventory	472	468	458	496
Properties acquired	108	57	252	154
Properties disposed	(63)	(58)	(193)	(183)
Ending property inventory	517	467	517	467
Average holding period (in days)				
Residential	370	540	370	540
Commercial	523	491	523	491
Construction	1,173	776	1,173	776
	559	555	559	555
OREO operations (loss) gain:				
Market adjustments and (losses) gain on sale:				
Residential	$ (475)	$ (1,478)	$ (2,347)	$ (4,659)
Commercial	(3,466)	(638)	(6,630)	(6,442)
Construction	(192)	(959)	(902)	(1,496)
	(4,133)	(3,075)	(9,879)	(12,597)
Other OREO operations expenses	(212)	(1,251)	(1,968)	(4,344)
Net Loss on OREO operations	$ (4,345)	$ (4,326)	$ (11,847)	$ (16,941)
CHARGE-OFFS				
Residential charge-offs, net	(4,880)	(5,734)	(13,231)	(16,774)
Commercial charge-offs, net	(4,597)	(15,315)	(74,304)	(71,048)

Supplemental cash flow information is as follows:

Construction charge-offs, net		73				(3,205)				(2,408)				(6,164)	
Consumer and finance leases charge-offs, net		(14,324)				(18,488)				(41,898)				(52,096)	
Total charge-offs, net		(23,728)				(42,742)				(131,841)				(146,082)	
TOTAL CREDIT LOSSES (1)	$	(28,073)			$	(47,068)			$	(143,688)			$	(163,023)	
LOSS RATIO PER CATEGORY (2)															
Residential		0.64	%			1.02	%			0.63	%			1.06	%
Commercial		0.82	%			1.42	%			2.66	%			2.19	%
Construction		0.26	%			7.61	%			2.35	%			4.55	%
Consumer		3.03	%			3.59	%			2.89	%			3.34	%
TOTAL CREDIT LOSS RATIO (3)		**1.20**	**%**			**1.96**	**%**			**2.02**	**%**			**2.24**	**%**

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

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

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

Operational Risk

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

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

Legal and Compliance Risk

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

Concentration Risk

The Corporation conducts its operations in a geographically concentrated area, as its main market is Puerto Rico. However, the Corporation has diversified its geographical risk as evidenced by its operations in the Virgin Islands and in Florida. Of the total gross loans held for investment of $9.3 billion as of September 30, 2015, approximately 81% have credit risk concentration in Puerto Rico, 12% in the United States (mostly Florida) and 7% in the Virgin Islands.

Exposure to Puerto Rico Government

As of September 30, 2015, the Corporation had $336.0 million of credit facilities, excluding investment securities, granted to the Puerto Rico Government, its municipalities and public corporations, of which $320.6 million was outstanding (book value of $318.4 million). Approximately $199.5 million of the granted credit facilities outstanding consisted of loans to municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment. Approximately $21.0 million consisted of loans to units of the central government, and approximately $100.2 million ($97.9 million book value) consisted of loans to public corporations, including the direct exposure to PREPA with a book value of $72.6 million as of September 30, 2015.

Furthermore, as of September 30, 2015, the Corporation had $130.1 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 TDF provides a secondary guarantee for payment performance. The TDF is a subsidiary of the GDB that works with private-sector financial institutions to structure financings for new hospitality projects. The Corporation has been receiving payments from the TDF to cover scheduled payments on these financings since late 2012, including collections of interest and principal of approximately $3.9 million in 2015 and $4.5 million in 2014. The aforementioned $130.1 million exposure was adversely classified during the third quarter of 2015 given liquidity risks and uncertainties over the governments' fiscal initiatives. Nevertheless, these loans are current in payments and are collateralized by real estate. The facilities are in accrual status as of September 30, 2015.

In addition, the Corporation had $125.1 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 of September 30, 2015, the Corporation also had $52.7 million of obligations of the Puerto Rico government as part of its available-for-sale investment securities portfolio, net of the $12.9 million other-than-temporary credit impairment recorded in the second quarter of 2015, carried on its books at a fair value of $34.1 million as of September 30, 2015.

Furthermore, as of September 30, 2015, the Corporation had $524.5 million of public sector deposits in Puerto Rico. Approximately 65% came from municipalities and municipal agencies in Puerto Rico and 35% came from public corporations and the central government and agencies in Puerto Rico.

Impact of Inflation and Changing Prices

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

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

Basis of Presentation

The Corporation has included in this Form 10-Q the following financial measures that are not recognized under GAAP, which are referred to as non-GAAP financial measures: (i) the calculation of net interest income, interest rate spread and net interest margin rate on a tax-equivalent basis and excluding changes in the fair value of derivative instruments; (ii) the calculation of the tangible common equity ratio and the tangible book value per common share; and (iii) certain other financial measures adjusted to exclude the effect of the bulk sale of assets in 2015, the acquisition of mortgage loans from Doral in 2014, the acquisition of assets and assumption of deposits from Doral in 2015, the conversion costs related to the 2015 Doral transaction, and OTTI on Puerto Rico Government Securities. Investors should be aware that non-GAAP financial measures have inherent limitations and should be read only in conjunction with the Corporation's consolidated financial data prepared in accordance with GAAP.

Net interest income, interest rate spread and net interest margin are reported excluding changes in the fair value of derivative instruments ("valuations"), and on a tax-equivalent basis. The presentation of net interest income excluding valuations provides additional information about the Corporation's net interest income and facilitates comparability and analysis. The changes in the fair value of derivative instruments have no effect on interest due or interest earned on interest-bearing liabilities or interest-earning assets, respectively. The tax-equivalent adjustment to net interest income recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a marginal income tax rate. Income from tax-exempt earning assets is increased by an amount equivalent to the taxes that would have been paid if this income had been taxable at statutory rates. Management believes that it is a standard practice in the banking industry to present net interest income, interest rate spread and net interest margin on a fully

tax-equivalent basis. This adjustment puts all earning assets, most notably tax-exempt securities and certain loans, on a common basis that facilitates comparison of results to results of peers. Refer to *Net Interest Income* above for the table that reconciles the non-GAAP financial measure “net interest income excluding fair value changes and on a tax-equivalent basis” with net interest income calculated and presented in accordance with GAAP. The table also reconciles the non-GAAP financial measures “net interest spread and margin excluding fair value changes and on a tax-equivalent basis” with net interest spread and margin calculated and presented in accordance with GAAP.

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

To supplement the Corporation’s financial statements presented in accordance with GAAP, the Corporation provides additional measures of provision for loan and lease losses, provision for loan and lease losses to net charge-offs, net charge-offs, net charge-offs to average loans, adjusted non-interest income, adjusted non-interest expenses, and adjusted pre-tax income, to exclude the effect of the bulk sale of assets, the OTTI charge on Puerto Rico Government debt securities, and certain non-recurring expenses related to the acquisition of loans and assumption of deposits from Doral.

Management believes that these non-GAAP measures enhance the ability of analysts and investors to analyze trends in the Corporation’s business and to better understand the performance of the Corporation. In addition, the Corporation may utilize these

non-GAAP financial measures as a guide in its budgeting and long-term planning process. Any analysis of these non-GAAP financial measures should be used only in conjunction with the results presented in accordance with GAAP.

Refer to *Overview of Results of Operations* discussion above for the reconciliation of these non-GAAP financial measures to the GAAP financial measures, except for the reconciliation with respect to the non-GAAP financial measure "provision for loan and lease losses to net charge-offs ratio, excluding the impact of the bulk sale of assets in 2015 and the mortgage loans acquired from Doral in 2014" with the provision for loan losses to net charge-offs ratio calculated and presented in accordance with GAAP, which is set forth below:

	Provision for loan and lease losses to Net Charge-Offs (Non-GAAP to GAAP reconciliation)					
		Nine-Month Period Ended September 30, 2015				
		Provision for Loan and Lease Losses			Net Charge-Offs	
Provision for loan and lease losses and net charge-offs,						
excluding special items (Non-GAAP)	$	91,465		$	70,406	
Special Items:						
Bulk sale of assets		46,947			61,435	
Provision for loan and lease losses and net charge-offs						
(GAAP)	$	138,412		$	131,841	
Provision for loan and lease losses to net charge-offs,						
excluding special items (Non-GAAP)		129.91%				
Provision for loan and lease losses to net charge-offs						
(GAAP)		104.98%				

	Provision for loan and lease losses to Net Charge-Offs (Non-GAAP to GAAP reconciliation)	
	Nine-Month Period Ended	

	September 30, 2014		
	Provision for Loan and Lease Losses		Net Charge-Offs
Provision for loan and lease losses and net charge-offs,			
excluding special items (Non-GAAP)	$ 84,230		$ 139,174
Special Items:			
Loss on acquisition of mortgage loans from Doral in full			
satisfaction of secured borrowings owed by Doral to			
FirstBank	1,428		6,908
Provision for loan and lease losses and net charge-offs			
(GAAP)	$ 85,658		$ 146,082
Provision for loan and lease losses to net charge-offs,			
excluding special items (Non-GAAP)	60.52%		
Provision for loan and lease losses to net charge-offs			
(GAAP)	58.64%		

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding market risk to which the Corporation is exposed, see the information contained in "Part I – Item 2 -"Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management."

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Control and Procedures

First BanCorp.'s management, including its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of First BanCorp.'s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2015. Based on this evaluation, as of the end of the period covered by this Form10-Q, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

Internal Control over Financial Reporting

There have been no changes to the Corporation's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

The Corporation's business, operating results and/or the market price of our common and preferred stock may be significantly affected by a number of factors. For a detailed discussion of certain risk factors that could affect the Corporation's future operations, financial condition or results for future periods see the risk factors below and in Item 1A, "Risk Factors," in the Corporation's 2014 Annual Report on Form 10-K. These factors could also cause actual results to differ materially from historical results or the results contemplated by the forward-looking statements contained in this report. Also refer to the discussion in "Part I – Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report for additional information that may supplement or update the discussion of risk factors in the Corporation's 2014 Form 10-K.

Additional risks and uncertainties not currently known to the Corporation or currently deemed by the Corporation to be immaterial also may materially adversely affect the Corporation's business, financial condition or results of operations.

The Corporation's financial results may be adversely affected by Puerto Rico's current economic condition.

A significant portion of our financial activities and credit exposure is concentrated in the Commonwealth of Puerto Rico, which has been in an economic recession since 2006. Based on the first nine months of calendar year 2015, the main economic indicators suggest that the Puerto Rico economy remains weak. For fiscal year 2015, the Puerto Rico Planning Board projects a continued economic contraction in the Commonwealth's real gross national product ("GNP") of 0.9%. The seasonally adjusted labor force measure continued its declining trend in September 2015, reflecting a reduction of 0.5% compared to September 2014. This continued reduction has partially resulted in a reduced seasonally adjusted unemployment rate in Puerto Rico, which decreased to 11.4% in September 2015, compared to 13.9% in September 2014. The seasonally adjusted payroll non-farm employment rate slightly increased 0.8% in September 2015, compared to September 2014.

Based on information published by the Puerto Rico Government, preliminary General Fund net revenues for the fiscal year ended June 30, 2015 were $8.961 billion, a decrease of $76.0 million when compared to the prior fiscal year and $604.1 million less than the original estimate for the year. The Government's most recent projection is that it will

close fiscal year 2015 with a budget deficit in the range of $531 million to $566 million, an amount that, when adjusted for actual tax refunds paid in this fiscal year in excess of the reserve included in the budget for fiscal year 2015, increases the deficit to a range of $705 million to $740 million. Preliminary General Fund net revenues for the first three months of fiscal year 2016 were $1.935.8 billion, an increase of $162.0 million when compared to the prior fiscal year and $18.8 million higher than the original estimate for the first quarter of fiscal year 2016.

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

On June 29, 2015, the Governor of Puerto Rico announced that the Government will seek alternatives to ensure that the aggregate debt burden of the Commonwealth is adjusted so it can be repaid on sustainable terms, while ensuring pension obligations are honored over the long term and essential services for the people of Puerto Rico are maintained, and issued an Executive Order to create the Puerto Rico Fiscal and Economic Recovery Working Group. After the announcement, the top three credit rating agencies, Moody's, S&P and Fitch downgraded the Puerto Rico issued bonds deeper into non-investment grade status. On July 31, 2015, GDB confirmed it made the debt service payment of $169.6 million on outstanding GDB notes due on August 1, 2015. Nonetheless, another payment, due the same day, of $57.9 million related to a debt obligation of the Public Finance Corporation was not made. Government officials disclosed that due to the lack of appropriated funds by the Legislature of Puerto Rico as part of the current fiscal year 2016 budget, the debt service payment on these bonds was not made. These bonds are payable solely from budgetary appropriations pursuant to legislation adopted by the Legislature of Puerto Rico. The Legislature of Puerto Rico is not legally bound to appropriate funds for such payments. Moreover, GDB is scheduled to make a debt service payment of $267 million related to certain GDB senior notes that will mature on December 1, 2015. These notes carry an explicit guarantee from the Commonwealth.

The Working Group was created to consider necessary measures, including the measures recommended in the Krueger Report, to address the fiscal crisis of the Commonwealth and will be responsible for developing and recommending to the Governor of Puerto Rico the Puerto Rico Fiscal and Economic Growth Plan (the "Plan"). The Plan must contain the administrative and legislative measures

necessary to address the short, medium and long-term fiscal and economic challenges facing Puerto Rico, including measures to: (i) address the financing gaps and the debt load on the public sector, (ii) achieve the execution of its budgets, (iii) achieve greater transparency with respect to statistics and the government's financial information, and (iv) carry out the structural reforms necessary to promote the economic growth and competitiveness of the Commonwealth. Moreover, on October 21, 2015, the U.S. Department of Treasury released its roadmap to address Puerto Rico's ongoing economic and fiscal crisis and to create a path to economic recovery. This roadmap was presented to Congress by U.S Department of Treasury officials and laid out four immediate steps that Congress should take to address the crisis in Puerto Rico:

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

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

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

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

The Commonwealth has adopted measures intended to raise additional revenue, including the increase of the sales and use tax ("SUT"). On May 29, 2015, the Commonwealth enacted Act No. 72, which increased the SUT rate and provided for a transition to a value added tax ("VAT") to replace the central government's portion of the SUT, subject to certain conditions. Commencing on July 1, 2015, transactions that were subject to a 7% SUT are now subject to an 11.5% SUT. The SUT will be in effect until March 31, 2016, unless the Secretary of Treasury extends the effectiveness of the SUT for an additional sixty (60)-day period. In addition, commencing on October 1, 2015 and until March 31, 2016, the following provisions will be in effect:

- Business to business transactions that are currently taxable will be subject to an 11.5% SUT.

- Business to business services and designated professional services (e.g. accountants, lawyers, engineers) that were previously exempt from SUT will be subject to a Commonwealth SUT of 4% but no municipal SUT will apply to these services.

- The following services will be exempt from SUT: (i) services offered by the Commonwealth government and instrumentalities; (ii) education; (ii) interest and other financing charges; (iii) insurance; (iv) health and hospital services; and (v) services offered by persons with an annual volume of business not exceeding $50,000.

After March 31, 2016 (or the extended sunset date provided for the SUT at the discretion of the Secretary of Treasury), all transactions subject to the SUT will be subject to a new VAT of 10.5% plus a 1% municipal SUT. The new VAT will also apply on the introduction into Puerto Rico of taxable articles and on taxable transactions, which are: (i) the sale in Puerto Rico of goods and services by a merchant, (ii) the rendering of a service by a non-resident to a person in Puerto Rico, and (iii) combined transactions. Certain articles and transactions will not be subject to the VAT. It is uncertain how these measures will impact the consumer and commercial sector. The financial impact of the 4% tax on business to business transactions on the Corporation is expected to range between $800,000 and $900,000 for the fourth quarter of 2015.

As of September 30, 2015, the Corporation had $336.0 million of credit facilities, excluding investment securities, granted to the Puerto Rico Government, its municipalities and public corporations, of which $320.6 million was outstanding (book value of $318.4 million). Approximately $199.5 million of the granted credit facilities outstanding

consisted of loans to municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment. Approximately $21.0 million consisted of loans to units of the Puerto Rico central government, and approximately $100.2 million ($97.9 million book value) consisted of loans to public corporations, including the direct exposure to the Puerto Rico Electric Power Authority with a book value of $72.6 million as of September 30, 2015.

Furthermore, as of September 30, 2015, the Corporation had $130.1 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 provides a secondary guarantee for payment performance. The TDF is a subsidiary of the GDB that works with private-sector financial institutions to structure financings for new hospitality projects. The Corporation has been receiving payments from the TDF to cover scheduled payments on these financings since late 2012, including collections of interest and principal of approximately $3.9 million in 2015 and $4.5 million in 2014. The aforementioned $130.1 million exposure was adversely classified during the third quarter of 2015 given liquidity risks and uncertainties over the governments' fiscal initiatives.

In addition, the Corporation had $125.1 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.

On August 14, 2014, PREPA, which has been experiencing significant financial difficulties, entered into forbearance agreements with certain of its bondholders and bank creditors. Among other things, the banks agreed to extend the maturity of their loans until March 31, 2015, and all bondholders and lenders party to the agreements agreed to forbear from exercising their rights against PREPA resulting from certain specified defaults until March 31, 2015. The forbearance agreements have been extended on several occasions.

Pursuant to the extension agreed to on April 30, 2015, PREPA delivered a recovery plan proposal to the forbearing creditors' advisors on June 1, 2015. On November 5, 2015, PREPA and its bank creditors signed a Restructuring Support Agreement (RSA) in which all parties accepted the recovery plan proposal and agreed upon the new economic terms behind PREPA's recovery proposal. The transaction outlined by the RSA must be executed by June 30, 2016.

In addition, as of September 30, 2015, the Corporation had $52.7 million of obligations of the Puerto Rico government as part of its available-for-sale investment securities portfolio, net of the $12.9 million other-than-temporary credit impairment recorded in the second quarter of 2015, carried on its books at a fair value of $34.1 million as of September 30, 2015. The OTTI charge of $12.9 million was recorded on three of the Puerto Rico Government bonds held by the Corporation as part of its available-for-sale securities portfolio. Based on the fiscal and economic situation in Puerto Rico, together with the government's announcements regarding its ability to pay its debt, the Corporation determined that part of the unrealized loss was other than temporary.

As of September 30, 2015, the Corporation had $524.5 million of public sector deposits in Puerto Rico. Approximately 65% came from municipalities and municipal agencies in Puerto Rico and 35% came from public corporations and the central government and agencies in Puerto Rico.

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

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

a) Not applicable.

b) Not applicable.

c) Purchase of equity securities by the issuer and affiliated purchasers. The following table provides information relating to the Corporation’s purchases of shares of its common stock in the three-month period ended September 30, 2015.

Period	Total number of shares purchased (1)		Average Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans Or Programs	Maximum Number of Shares That May Yet be Purchased Under These Plans or Programs
July, 2015	13,025	$	4.63	-	-
August, 2015	17,121		3.85	-	-
September, 2015	30,432		3.76	-	-
Total	60,578	$	3.97	-	-

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

Supplemental cash flow information is as follows:

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed with this report, which Exhibit Index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Corporation has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized:

	First BanCorp.
	Registrant

Date: November 9, 2015	By:	/s/ Aurelio Alemán
		Aurelio Alemán
		President and Chief Executive Officer

Date: November 9, 2015	By:	/s/ Orlando Berges
		Orlando Berges
		Executive Vice President and Chief Financial Officer

Exhibit Index

12.1 – Ratio of Earnings to Fixed Charges.
12.2 – Ratio of Earnings to Fixed Charges and Preference Dividends.
31.1 – CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 – CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 – CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 – CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1 – Interactive Data File with respect to the following materials from the Corporation's Quarterly Report on Form 10-Q for the
period ended September 30, 2015, filed in XBRL (eXtensible Business Reporting Language): (i) the Unaudited Consolidated Statements of Financial Condition, (ii) the Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Comprehensive Income, (iv) the Unaudited Consolidated Statements of Cash Flows, (v) the Unaudited Consolidated Statements of Changes in Stockholders' Equity, and (vi) Notes to Unaudited Consolidated Financial Statements.

Supplemental cash flow information is as follows: