GULFPORT ENERGY CORP
Form SC 13G/A
February 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934
(Amendment No. 4)*

Gulfport Energy Corporation

(Name of Issuer)

Common Stock, $0.01 par value

(Title of Class of Securities)

402635304

(CUSIP Number)

December 31, 2005

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[_] Rule 13d-1(b)

[x] Rule 13d-1(c)

[_] Rule 13d-1(d)

----

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes)

CUSIP No. 402635304

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Harbinger Capital Partners Master Fund I, Ltd.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)
(a) [_]
(b) [X]

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON

5. SOLE VOTING POWER

0

6. SHARED VOTING POWER

2,561,691

7. SOLE DISPOSITIVE POWER

0

8. SHARED DISPOSITIVE POWER

2,561,691

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,561,691

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)
[_]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

8.0%

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

CO

CUSIP No. 402635304

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Harbinger Capital Partners Offshore Manager, L.L.C.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)
(a) [_]
(b) [X]

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

5. SOLE VOTING POWER

   0

6. SHARED VOTING POWER

   2,561,691

7. SOLE DISPOSITIVE POWER

   0

8. SHARED DISPOSITIVE POWER

   2,561,691

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

   2,561,691

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

    [_]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

    8.0%

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

    CO

CUSIP No. 402635304

1. NAME OF REPORTING PERSONS
   I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

   HMC Investors, L.L.C.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

   (a) [_]
   (b) [X]

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

   Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

5. SOLE VOTING POWER

   0

6. SHARED VOTING POWER

2,657,356

7. SOLE DISPOSITIVE POWER

0

8. SHARED DISPOSITIVE POWER

2,657,356

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,657,356

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

[_]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

8.3%

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

CO

CUSIP No. 402635304

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Raymond J. Harbert

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

(a) [_]
(b) [X]

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

U.S.A.

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

5. SOLE VOTING POWER

0

6. SHARED VOTING POWER

2,657,356

7. SOLE DISPOSITIVE POWER

0

8. SHARED DISPOSITIVE POWER

2,657,356

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,657,356

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)
[_]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

8.3%

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

IN

CUSIP No. 402635304

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Michael D. Luce

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)
(a) [_]
(b) [X]

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

U.S.A.

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

5. SOLE VOTING POWER

0

6. SHARED VOTING POWER

2,657,356

7. SOLE DISPOSITIVE POWER

0

8. SHARED DISPOSITIVE POWER

2,657,356

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,657,356

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

[_]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

8.3%

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

IN

CUSIP No. 402635304

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Philip Falcone

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

(a) [_]
(b) [X]

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

U.S.A.

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

5. SOLE VOTING POWER

0

6. SHARED VOTING POWER

2,657,356

7. SOLE DISPOSITIVE POWER

0

8. SHARED DISPOSITIVE POWER

2,657,356

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,657,356

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

[_]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

8.3%

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

IN

CUSIP No. 402635304

Item 1(a). Name of Issuer:

Gulfport Energy Corporation

(b). Address of Issuer's Principal Executive Offices:

14313 North May Avenue, Suite 100
Oklahoma City, Oklahoma 73134
(405) 848-8807

Item 2(a). Name, Principal Business Address, and Citizenship of Persons Filing:

Harbinger Capital Partners Master Fund I, Ltd. - Cayman Islands
c/o International Fund Services (Ireland) Limited
Third Floor, Bishop's Square
Redmond's Hill
Dublin 2, Ireland

Harbinger Capital Partners Offshore Manager, L.L.C. - Delaware
HMC Investors, L.L.C. - Delaware
Raymond J. Harbert - U.S.A.
Michael D. Luce - U.S.A.
One Riverchase Parkway South
Birmingham, Alabama 35244
United States of America

Philip Falcone - U.S.A.
555 Madison Avenue
16th Floor
New York, New York 10022
United States of America

(d). Title of Class of Securities:

Common Stock, $0.01 par value

(e). CUSIP Number: 402635304

Item 3. If This Statement is filed pursuant to ss.240.13d-1(b) or 240.13d-2(b), or (c), check whether the person filing is a:

(a) [_] Broker or dealer registered under Section 15 of the Exchange Act (15 U.S.C. 78c).

(b) [_] Bank as defined in Section 3(a)(6) of the Exchange Act (15 U.S.C. 78c).

(c) [_] Insurance company as defined in Section 3(a)(19) of the Exchange Act (15 U.S.C. 78c).

(d) [_] Investment company registered under Section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).

(e) [_] An investment adviser in accordance with s.240.13d-1(b)(1)(ii)(E);

(f) [_] An employee benefit plan or endowment fund in accordance with s.240.13d-1(b)(1)(ii)(F);

(g) [_] A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);

(h) [_] A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C.1813);

(i) [_] A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);

(j) [_] Group, in accordance with s.240.13d-1(b)(1)(ii)(J).

Item 4. Ownership.

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

(a) Amount beneficially owned:

Harbinger Capital Partners Offshore Manager, L.L.C. - 2,561,691
Harbinger Capital Partners Master Fund I, Ltd. - 2,561,691
HMC Investors, L.L.C. - 2,657,356
Raymond J. Harbert - 2,657,356
Michael D. Luce - 2,657,356
Philip Falcone - 2,657,356

(b) Percent of class:

Harbinger Capital Partners Offshore Manager, L.L.C. - 8.0%
Harbinger Capital Partners Master Fund I, Ltd. - 8.0%
HMC Investors, L.L.C. - 8.3%
Raymond J. Harbert - 8.3%
Michael D. Luce - 8.3%
Philip Falcone - 8.3%

(c) Number of shares as to which the person has:

(i) Sole power to vote or to direct the vote:

Harbinger Capital Partners Offshore Manager, L.L.C. - 0
Harbinger Capital Partners Master Fund I, Ltd. - 0
HMC Investors, L.L.C. - 0
Raymond J. Harbert - 0
Michael D. Luce - 0

Philip Falcone - 0

(ii) Shared power to vote or to direct the vote:

Harbinger Capital Partners Offshore Manager, L.L.C. - 2,561,691
Harbinger Capital Partners Master Fund I, Ltd. - 2,561,691
HMC Investors, L.L.C. - 2,657,356
Raymond J. Harbert - 2,657,356
Michael D. Luce - 2,657,356
Philip Falcone - 2,657,356

(iii) Sole power to dispose or to direct the disposition of:

Harbinger Capital Partners Offshore Manager, L.L.C. - 0
Harbinger Capital Partners Master Fund I, Ltd. - 0
HMC Investors, L.L.C. - 0
Raymond J. Harbert - 0
Michael D. Luce - 0
Philip Falcone - 0

(iv) Shared power to dispose or to direct the disposition of:

Harbinger Capital Partners Offshore Manager, L.L.C. - 2,561,691
Harbinger Capital Partners Master Fund I, Ltd. - 2,561,691
HMC Investors, L.L.C. - 2,657,356
Raymond J. Harbert - 2,657,356
Michael D. Luce - 2,657,356
Philip Falcone - 2,657,356

Item 5. Ownership of Five Percent or Less of a Class.

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following [ ].

N/A

Item 6. Ownership of More Than Five Percent on Behalf of Another Person.

If any other person is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such securities, a statement to that effect should be included in response to this item and, if such interest relates to more than five percent of the class, such person should be identified. A listing of the shareholders of an investment company registered under the Investment Company Act of 1940 or the beneficiaries of employee benefit plan, pension fund or endowment fund is not required.

N/A

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person.

If a parent holding company or Control person has filed this schedule, pursuant to Rule 13d-1(b)(1)(ii)(G), so indicate under Item 3(g) and attach an exhibit stating the identity and the Item 3 classification of the relevant subsidiary. If a parent holding company or control person has filed this schedule pursuant to Rule 13d-1(c) or Rule 13d-1(d), attach an exhibit stating the identification of the relevant subsidiary.

N/A

Item 8. Identification and Classification of Members of the Group.

If a group has filed this schedule pursuant to ss.240.13d-1(b)(1)(ii)(J), so indicate under Item 3(j) and attach an exhibit stating the identity and Item 3 classification of each member of the group. If a group has filed this schedule pursuant to ss.240.13d-1(c) or ss.240.13d-1(d), attach an exhibit stating the identity of each member of the group.

N/A

Item 9. Notice of Dissolution of Group.

Notice of dissolution of a group may be furnished as an exhibit stating the date of the dissolution and that all further filings with respect to transactions in the security reported on will be filed, if required, by members of the group, in their individual capacity. See Item 5.

N/A

Item 10. Certification.

(b) The following certification shall be included if the statement is filed pursuant to Rule 13d-1(c):

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having such purpose or effect.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Harbinger Capital Partners Master Fund I, Ltd.
By: Harbinger Capital Partners Offshore Manager, L.L.C.
By: HMC Investors, L.L.C.

By: /s/ Joel B. Piassick

Harbinger Capital Partners Offshore Manager, L.L.C.*
By: HMC Investors, L.L.C.

By: /s/ Joel B. Piassick

HMC Investors, L.L.C.*

By: /s/ Joel B. Piassick

/s/ Raymond J. Harbert*

Raymond J. Harbert

/s/ Michael D. Luce*

Michael D. Luce

/s/ Philip Falcone*

Philip Falcone

February 14, 2006

*The Reporting Persons disclaim beneficial ownership in the shares reported herein except to the extent of their pecuniary interest therein.

Exhibit A

AGREEMENT

The undersigned agree that this Schedule 13G dated February 14, 2006 relating to the Common Stock of Gulfport Energy Corporation shall be filed on behalf of the undersigned.

Harbinger Capital Partners Master Fund I, Ltd.
By: Harbinger Capital Partners Offshore Manager, L.L.C.
By: HMC Investors, L.L.C.

By: /s/ Joel B. Piassick

Harbinger Capital Partners Offshore Manager, L.L.C.*
By: HMC Investors, L.L.C.

By: /s/ Joel B. Piassick

HMC Investors, L.L.C.*

By: /s/ Joel B. Piassick

/s/ Raymond J. Harbert*

Raymond J. Harbert

/s/ Michael D. Luce*

Michael D. Luce

/s/ Philip Falcone*

Philip Falcone

SK 03773 0003 642465

nt color=black face="Times New Roman,serif" lang=EN-CA style="font-size:8.0pt;">

59,434

3.22

65,550

-

475

78

65,947

3.22

Other mortgage pass-through

trust certificates:

After 10 years	
	19,340
	5,426
	-
	-
	13,914
	4.89

Total MBS	
	1,352,297
	5,426
	6,643

27,054

1,326,460

2.71

Other

After 1 to 5 years

500

-

-

-

500

2.96

Total investment securities

available for sale

$

1,975,230

$

5,426

$

7,260

$

34,496

$

1,942,568

2.55

189

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

	December 31, 2017					
		Noncredit Loss Component of OTTI Recorded	Gross Unrealized			Weighted-
	Amortized cost	in OCI	Gains	Losses	Fair value	average yield%
(Dollars in thousands)						
U.S. Treasury securities:						
After 1 to 5 years	$ 7,458	$ -	$ -	$ 57	$ 7,401	1.29
U.S. government-sponsored agencies obligations:						
Due within one year	122,471	-	-	319	122,152	1.06
After 1 to 5 years	309,472	-	28	3,735	305,765	1.42
After 5 to 10 years	133,451	-	117	319	133,249	2.72
After 10 years	40,769	-	1	149	40,621	1.84
Puerto Rico government obligations:						
After 5 to 10 years	4,071	-	47	-	4,118	3.14
After 10 years	3,972	-	-	1,277	2,695	6.97
United States and Puerto Rico government obligations	621,664	-	193	5,856	616,001	1.70
MBS:						
FHLMC certificates:						
After 5 to 10 years	18,658	-	14	63	18,609	2.14
After 10 years	297,733	-	217	4,853	293,097	2.23
	316,391	-	231	4,916	311,706	2.23
GNMA certificates:						
After 1 to 5 years	81	-	1	-	82	3.23
After 5 to 10 years	69,661	-	1,244	-	70,905	3.05
After 10 years	145,067	-	5,910	334	150,643	3.81
	214,809	-	7,155	334	221,630	3.56
FNMA certificates:						
After 1 to 5 years	20,831	-	294	109	21,016	2.69
After 5 to 10 years	49,934	-	-	818	49,116	1.83
After 10 years	613,129	-	3,180	6,401	609,908	2.43
	683,894	-	3,474	7,328	680,040	2.39

Collateralized mortgage obligations issued or guaranteed by the FHLMC and GNMA:						
After 1 to 5 years	5,918	-	14	-	5,932	2.21
After 5 to 10 years	2,556	-	11	-	2,567	2.23
After 10 years	35,331	-	231	-	35,562	2.22
	43,805	-	256	-	44,061	2.22
Other mortgage pass-through trust certificates:						
After 10 years	22,791	5,731	-	-	17,060	2.44
Total MBS	1,281,690	5,731	11,116	12,578	1,274,497	2.54
Other						
Due within one year	100	-	-	-	100	1.48
Equity Securities (1)	424	-	-	6	418	2.11
Total investment securities available for sale	$ 1,903,878	$ 5,731	$ 11,309	$ 18,440	$ 1,891,016	2.27

(1) As of January 1, 2018, the Corporation adopted ASU 2016-01, resulting in the reclassification of $0.4 million in equity securities from available-for-sale investment securities to other investment securities.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Maturities of MBS are based on the period of final contractual maturity. Expected maturities of investments might differ from contractual maturities because they may be subject to prepayments and/or call options. The weighted-average yield on investment securities available for sale is based on amortized cost and, therefore, does not give effect to changes in fair value. The net unrealized gain or loss on securities available for sale and the noncredit loss component of OTTI are presented as part of OCI.

The aggregate amortized cost and approximate market value of investment securities available for sale as of December 31, 2018 by contractual maturity, are shown below:

(Dollars in thousands)	Amortized Cost	Fair Value
United States Puerto Rico government obligations and other debt securities:		
Within 1 year	$ 199,020	$ 197,079
After 1 to 5 years	185,351	183,305
After 5 to 10 years	199,750	198,490
After 10 years	38,812	37,234
	622,933	616,108
MBS and Collateralized Mortgage Obligations (1)	1,352,297	1,326,460
Total investment securities available for sale	$ 1,975,230	$ 1,942,568

(1) The expected maturities of MBS and collateralized mortgage obligations may differ from their contractual maturities because they may be subject to prepayments.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following tables show the Corporation's available-for-sale investments' fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2018 and December 31, 2017. The tables also include debt securities for which an OTTI was recognized and only the amount related to a credit loss was recognized in earnings. For unrealized losses for which OTTI was recognized, the related credit loss was charged against the amortized cost basis of the debt security.

	As of December 31, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
Debt securities:						
Puerto Rico-government obligations	$ -	$ -	$ 2,824	$ 1,361	$ 2,824	$ 1,361
U.S. Treasury and U.S. government agencies' obligations	16,669	77	468,094	6,004	484,763	6,081
MBS:						
FNMA	25,079	129	521,871	17,048	546,950	17,177
FHLMC	3,382	32	263,798	8,517	267,180	8,549
GNMA	3,364	15	57,535	1,235	60,899	1,250
Collateralized mortgage obligations issued or guaranteed by FHLMC and GNMA	16,065	78	-	-	16,065	78
Other mortgage pass-through trust certificates	-	-	13,914	5,426	13,914	5,426
	$ 64,559	$ 331	$ 1,328,036	$ 39,591	$ 1,392,595	$ 39,922

	As of December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
Debt securities:						
Puerto Rico-government obligations	$ -	$ -	$ 2,695	$ 1,277	$ 2,695	$ 1,277
U.S. Treasury and U.S. government agencies' obligations	136,459	494	362,050	4,085	498,509	4,579
MBS:						
FNMA	189,699	1,705	274,963	5,623	464,662	7,328
FHLMC	91,174	590	166,331	4,326	257,505	4,916
GNMA	39,145	334	-	-	39,145	334
Other mortgage pass-through trust certificates	-	-	17,060	5,731	17,060	5,731
Equity securities (1)	-	-	407	6	407	6

$ 456,477	$ 3,123	$ 823,506	$ 21,048	$ 1,279,983	$ 24,171

(1) As of January 1, 2018, the Corporation adopted ASU 2016-01, resulting in the reclassification of $0.4 million in equity securities from available-for-sale investment securities to equity securities in the consolidated statement of financial condition.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Assessment for OTTI

Debt securities issued by U.S. government agencies, U.S. government-sponsored entities, and the U.S. Treasury accounted for approximately 99% of the total available-for-sale portfolio as of December 31, 2018, and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government. The Corporation's OTTI assessment was concentrated mainly on private label MBS, and on Puerto Rico government debt securities, for which credit losses are evaluated on a quarterly basis. The Corporation considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

- The length of time and the extent to which the fair value has been less than the amortized cost basis;
- Any adverse change to the credit conditions and liquidity of the issuer, taking into consideration the latest information available about the financial condition of the issuer, credit ratings, the failure of the issuer to make scheduled principal or interest payments, recent legislation and government actions affecting the issuer's industry and actions taken by the issuer to deal with the present economic climate;
- Changes in the near term prospects of the underlying collateral for a security, if any, such as changes in default rates, loss severity given default, and significant changes in prepayment assumptions; and
- The level of cash flows generated from the underlying collateral, if any, supporting the principal and interest payments of the debt securities.

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

	Year Ended December 31,					
		2018		2017		2016
(In thousands)						
Total OTTI losses	$	-	$	(12,231)	$	(1,845)
Portion of OTTI recognized in OCI		(50)		-		(4,842)
Net impairment losses recognized in earnings (1)	$	(50)	$	(12,231)	$	(6,687)

(1) For the year ended December 31, 2018, the credit impairment of $50 thousand recognized in earnings consisted of credit losses on private label MBS. For the years ended December 31, 2017 and 2016, approximately $12.2 million and $6.3 million, respectively, of the credit impairment recognized in earnings consisted of credit losses on Puerto Rico government debt securities that were sold in the second quarter of 2017, as further discussed below. The remaining impairment losses for the year ended

December 31, 2016 were associated with credit losses on private label MBS.

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

	Cumulative OTTI credit losses recognized in earnings on securities still held			
	December 31, 2017 Balance	**Credit impairments recognized in earnings on securities that have been previously impaired**	**Credit loss reductions for securities sold during the period**	**December 31, 2018 Balance**
(In thousands)				
Available-for-sale securities				
Private label MBS	$ 6,792	$ 50	$ -	$ 6,842

193

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

	Cumulative OTTI credit losses recognized in earnings on securities still held			
(In thousands)	December 31, 2016 Balance	Credit impairments recognized in earnings on securities that have been previously impaired	Credit loss reductions for securities sold during the period	December 31, 2017 Balance
Available-for-sale securities				
Puerto Rico government obligations	$ 22,189	$ 12,231	$ (34,420)	$ -
Private label MBS	6,792	-	-	6,792
Total OTTI credit losses for available-for-sale debt securities	$ 28,981	$ 12,231	$ (34,420)	$ 6,792

	Cumulative OTTI credit losses recognized in earnings on securities still held			
(In thousands)	December 31, 2015 Balance	Credit impairments recognized in earnings on securities that have been previously impaired	Credit loss reductions for securities sold during the period	December 31, 2016 Balance
Available-for-sale securities				
Puerto Rico government obligations	$ 15,889	$ 6,300	$ -	$ 22,189
Private label MBS	6,405	387	-	6,792
Total OTTI credit losses for available-for-sale debt securities	$ 22,294	$ 6,687	$ -	$ 28,981

During the second quarter of 2017, the Corporation sold for an aggregate of $23.4 million three Puerto Rico government available-for-sale debt securities, specifically bonds of the Government Development Bank for Puerto

Rico (the "GDB") and the Puerto Rico Public Buildings Authority, carried on its book at an amortized cost at the time of sale of $23.0 million (net of $34.4 million in cumulative OTTI impairment charges). This transaction resulted in a $0.4 million recovery from previous OTTI charges reflected in the consolidated statement of income as part of "net gain on sale of investments." Approximately $12.2 million and $6.3 million of the cumulative OTTI charges on these securities was recorded in the first quarter of 2017 and the first quarter of 2016, respectively.

For the OTTI charge recorded on the Puerto Rico government debt securities during 2017 and 2016, the Corporation considered the latest available information about the Puerto Rico government's financial condition, including but not limited to credit ratings downgrades, revised estimates of recovery rates, and other relevant developments such as government actions, including debt exchange proposals and the fiscal plan published by the Puerto Rico government in March 2017, as applicable. The Corporation applied a discounted cash flow analysis to its Puerto Rico government debt securities in order to calculate the cash flows expected to be collected and to determine if any portion of the decline in market value of these securities was considered a credit-related OTTI. The analysis derived an estimate of value based on the present value of risk-adjusted cash flows of the underlying securities and included the following components:

- The contractual future cash flows of the bonds were projected based on the key terms as set forth in the official statements for each security. Such key terms include, among others, the interest rate, amortization schedule, if any, and maturity date.

- The risk-adjusted cash flows were calculated based on a probability of default analysis and recovery rate assumptions, including the weighting of different scenarios of ultimate recovery, considering the credit rating of each security. Constant monthly default rates were assumed throughout the life of the bonds, which considered the respective security's credit rating as of the date of the analysis.

- The adjusted future cash flows were then discounted at the original effective yield of each investment based on the purchase price and expected risk-adjusted future cash flows as of the purchase date of each investment.

The discounted risk-adjusted cash flow analysis for the three Puerto Rico government bonds mentioned above assumed a default probability of 100%, as these three nonaccrual bonds had been in default since the third quarter of 2016. Based on this analysis, the Corporation recorded in the first quarter of 2017 credit-related OTTI amounting to $12.2 million, assuming recovery rates ranging from 15% to 80% (with a weighted average of 41%).

As of December 31, 2018, the Corporation's available-for-sale investment securities portfolio includes bonds of the Puerto Rico Housing Finance Authority ("PRHFA") at an amortized cost of $8.2 million (fair value - $7.0 million). Approximately $4.2 million (fair value - $2.8 million) of these bonds consist of residential pass-through mortgage-backed securities issued by the PRHFA that are collateralized by certain second mortgages originated under a program launched by the Puerto Rico government in 2010. These bonds have been structured as zero-coupon bonds for the first ten years (up to July 2019). Considering the absence of any instances of default and the insurance protection provided by the PRHFA to the underlying collateral, management concluded that these obligations were not other-than-temporarily impaired as of December 31, 2018.

In addition, during 2018 and 2016, the Corporation recorded credit-related impairment losses of $50 thousand and $0.4 million, respectively, associated with private label MBS, which are collateralized by fixed-rate mortgages on single-family residential properties in the United States. The interest rate on these private-label MBS is variable, tied to 3-month LIBOR and limited to the weighted-average coupon on the underlying collateral. The underlying mortgages are fixed-rate, single-family loans with original high FICO scores (over 700) and moderate loan-to-value ratios (under 80%), as well as moderate delinquency levels.

Based on the expected cash flows, and since the Corporation does not have the intention to sell the securities and has sufficient capital and liquidity to hold these securities until a recovery of the fair value occurs, only the credit loss component, if any, is reflected in earnings. Significant assumptions in the valuation of the private label MBS were as follows:

	As of December 31, 2018		**As of December 31, 2017**	
	Weighted Average	**Range**	**Weighted Average**	**Range**
Discount rate	14.5%	14.5%	14.0%	14.0%
Prepayment rate	11.4%	3.3% - 20.9%	16.4%	12.0% - 29.0%
Projected Cumulative Loss Rate	3%	0% - 6.8%	3%	0% - 6.8%

Refer to Note 29 – Fair Value, for additional information about the valuation model for private label MBS.

Total proceeds from the sale of securities available for sale during 2018, 2017 and 2016 amounted to approximately $47.8 million, $23.4 million and $219.8 million, respectively. Total proceeds from sales in 2018 consisted of proceeds of $36.2 million on the sale of U.S. agency MBS and $11.6 million on the sale of U.S. agency callable debt securities. For the year ended December 31, 2018, the Corporation recorded a loss of approximately $59 thousand on the sale of U.S agency MBS and a gain of approximately $22 thousand on the sale of the U.S. agency callable debt securities. In 2017, the Corporation recorded a $0.4 million recovery from previous OTTI charges on the sale of Puerto Rico government debt securities with an amortized cost of $23.0 million. Total proceeds from sales in 2016 consisted of proceeds of $204.8 million on the sale of U.S. agency MBS and $15.0 million on the sale of a U.S. Treasury Security. For the year ended December 31, 2016, the Corporation recorded a $6.1 million gain on the sale of U.S. agency MBS and an $8 thousand gain on the sale of the U.S. Treasury security.

The following table states the names of issuers, and the aggregate amortized cost and market value of the securities of such issuers, when the aggregate amortized cost of such securities exceeds 10% of the Corporation's stockholders' equity. This information excludes securities of the U.S. and Puerto Rico government. Investments in obligations issued by a state of the U.S. and its political subdivisions and agencies that are payable and secured by the same source of revenue or taxing authority, other than the U.S. government, are considered securities of a single issuer and include debt and mortgage-backed securities.

	As of December 31, 2018		As of December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In thousands)				
FHLMC	$ 387,703	$ 379,653	$ 375,719	$ 370,855
GNMA	239,698	242,211	250,140	257,192
FNMA	791,200	775,673	801,198	796,726
FHLB	334,717	330,714	299,949	296,767

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Investments Held to Maturity

The amortized cost, gross unrecognized gains and losses, estimated fair value, weighted-average yield and contractual maturities of investment securities held to maturity as of December 31, 2018 and December 31, 2017 were as follows:

	December 31, 2018				
		Gross Unrecognized			
(Dollars in thousands)	Amortized cost	gains	losses	Fair value	Weighted-average yield%
Puerto Rico Municipal Bonds:					
After 1 to 5 years	$ 6,100	$ -	$ 435	$ 5,665	4.79
After 5 to 10 years	53,016	-	5,360	47,656	6.00
After 10 years	85,699	-	13,362	72,337	5.86
Total investment securities held to maturity	$ 144,815	$ -	$ 19,157	$ 125,658	5.86

	December 31, 2017				
		Gross Unrecognized			
(Dollars in thousands)	Amortized cost	gains	losses	Fair value	Weighted-average yield%
Puerto Rico Municipal Bonds:					
After 1 to 5 years	$ 3,853	$ -	$ 173	$ 3,680	5.38
After 5 to 10 years	39,523	-	3,048	36,475	5.28
After 10 years	107,251	-	16,374	90,877	4.93
Total investment securities held to maturity	$ 150,627	$ -	$ 19,595	$ 131,032	5.03

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following tables show the Corporation's held-to-maturity investments' fair value and gross unrecognized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrecognized loss position, as of December 31, 2018 and December 31, 2017:

	As of December 31, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
	(In thousands)					
Debt securities:						
Puerto Rico Municipal Bonds	$ -	$ -	$ 125,658	$ 19,157	$ 125,658	$ 19,157

	As of December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
	(In thousands)					
Debt securities:						
Puerto Rico Municipal Bonds	$ -	$ -	$ 131,032	$ 19,595	$ 131,032	$ 19,595

The Corporation determines the fair market value of Puerto Rico Municipal Bonds based on a discounted cash flow analysis using risk-adjusted discount rates. A security with similar characteristics traded in the open market is used as a proxy for each municipal bond. Then the cash flow is discounted at the average spread over the discount curve exhibited by the proxy security at the end of each quarter, plus any corresponding discount rate adjustments to reflect recent transactions or market yield expectations for these type of transactions.

All of the Puerto Rico Municipal Bonds are performing and current as to scheduled contractual payments as of December 31, 2018. Approximately 70% of the held-to-maturity municipal bonds were issued by three of the largest municipalities in Puerto Rico. The vast majority of revenues of these three municipalities is independent of the Puerto Rico central government. These obligations typically are not issued in bearer form, nor are they registered with the SEC, and are not rated by external credit agencies. In most cases, these bonds have priority over the payment of operating costs and expenses of the municipality, which are required by law to levy special property taxes in such amounts as are required for the payment of all of their respective general obligation bonds and loans. The Corporation

performs periodic credit quality reviews on these issuers. Based on the quarterly analysis performed, management concluded that no individual debt security held to maturity was other-than-temporarily impaired as of December 31, 2018.

The Financial Oversight and Management Board for Puerto Rico (the “PROMESA oversight board”) has not designated any of Puerto Rico’s 78 municipalities as covered entities under the Puerto Rico Oversight, Management, and Economic Stability Act. (“PROMESA”). However, while the latest fiscal plan certified by the PROMESA oversight board did not contemplate a restructuring of the debt of Puerto Rico’s municipalities, the plan did call for the gradual elimination of budgetary subsidies provided to municipalities by the central government. Furthermore, municipalities are also likely to be affected by the negative economic and other effects resulting from expense, revenue or cash management measures taken by the Puerto Rico government to address its fiscal and liquidity shortfalls, or measures included in fiscal plans of other government entities, such as the fiscal plans of the GDB and the Puerto Rico Electric Power Authority (“PREPA”). Given the uncertain effect that the negative fiscal situation of the Puerto Rico central government and the measures taken, or to be taken, by other government entities may have on municipalities, the Corporation cannot be certain whether future impairment charges will be required relating to these securities.

From time to time, the Corporation has securities held to maturity with an original maturity of three months or less that are considered cash and cash equivalents and are classified as money market investments in the consolidated statements of financial condition. As of December 31, 2018 and December 31, 2017, the Corporation had no outstanding securities held to maturity that were classified as cash and cash equivalents.

NOTE 6 – EQUITY SECURITIES

On January 1, 2018, the Corporation adopted ASU 2016-01, resulting in the reclassification of equity securities with a readily determinable fair value of approximately $0.4 million from available-for-sale investment securities to equity securities in the consolidated statement of financial condition. During 2018, the Corporation measured these equity securities at fair value through earnings resulting in the recognition of marked-to-market losses of $9 thousand recorded as part of other non-interest income in the statement of income.

Institutions that are members of the Federal Home Loan Bank ("FHLB") system are required to maintain a minimum investment in FHLB stock. Such minimum investment is calculated as a percentage of aggregate outstanding mortgages, and the FHLB requires an additional investment that is calculated as a percentage of total FHLB advances, letters of credit, and the collateralized portion of outstanding interest-rate swaps. The stock is capital stock issued at $100 par value. Both stock and cash dividends may be received on FHLB stock.

As of December 31, 2018 and 2017, the Corporation had investments in FHLB stock with a book value of $41.9 million and $40.9 million, respectively. Dividend income from FHLB stock for 2018, 2017, and 2016 amounted to $2.7 million, $2.1 million, and $1.5 million, respectively.

The FHLB of New York issued the shares of FHLB stock owned by the Corporation. The FHLB of New York is part of the Federal Home Loan Bank System, a national wholesale banking network of 11 regional, stockholder-owned congressionally chartered banks. The FHLBs are all privately capitalized and operated by their member stockholders. The system is supervised by the Federal Housing Finance Agency, which ensures that the FHLBs operate in a financially safe and sound manner, remain adequately capitalized and able to raise funds in the capital markets, and carry out their housing finance mission.

The Corporation has other equity securities that do not have a readily determinable fair value. The carrying value of such securities was $2.2 million as of both December 31, 2018 and 2017.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 7 – INTEREST AND DIVIDEND INCOME ON INVESTMENT SECURITIES, MONEY MARKET INVESTMENTS AND INTEREST-BEARING CASH ACCOUNTS

The following provides information about interest on investments and FHLB dividend income:

	Year Ended December 31,		
	2018	**2017**	**2016**
(In thousands)			
Mortgage-backed securities:			
Taxable	$ 8,688	$ 9,656	$ 11,246
Exempt (1)	27,741	24,575	20,921
	36,429	34,231	32,167
PR government obligations, U.S. Treasury securities, and U.S. government agencies:			
Taxable	470	2,091	4,131
Exempt (1)	20,582	12,690	13,145
	21,052	14,781	17,276
Other investment securities (including FHLB dividends)			
Taxable	2,743	2,113	1,462
Total interest income on investment securities	60,224	51,125	50,905
Interest on money market investments and interest-bearing cash accounts			
Taxable	10,863	4,609	2,669
Exempt	233	5	696
Total interest income on money market investments and interest-bearing cash accounts	11,096	4,614	3,365
Total interest and dividend income on investment securities, money market investments, and interest-bearing cash accounts	$ 71,320	$ 55,739	$ 54,270

(1) Primarily MBS and government obligations held by International Banking Entities, whose interest income and sales is exempt from Puerto Rico income taxation under the International Banking Entity Act of Puerto Rico.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following table summarizes the components of interest and dividend income on investments:

	Year Ended December 31,		
	2018	**2017**	**2016**
(In thousands)			
Interest income on investment securities, money market investments, and interest-bearing cash accounts	$ 68,592	$ 53,634	$ 52,816
Dividends on FHLB stock	2,728	2,105	1,454
Total interest income and dividends on investments	$ 71,320	$ 55,739	$ 54,270

NOTE 8 – LOANS HELD FOR INVESTMENT

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

	As of December 31, 2018	**As of December 31, 2017**
(In thousands)		
Residential mortgage loans, mainly secured by first mortgages	$ 3,163,208	$ 3,290,957
Commercial loans:		
Construction loans (1)	79,429	111,397
Commercial mortgage loans (1)	1,522,662	1,614,972
Commercial and Industrial loans (1)(2)	2,148,111	2,083,253
Total commercial loans	3,750,202	3,809,622
Finance leases	333,536	257,462
Consumer loans	1,611,177	1,492,435
Loans held for investment	8,858,123	8,850,476
Allowance for loan and lease losses	(196,362)	(231,843)
Loans held for investment, net	$ 8,661,761	$ 8,618,633

(1) During the first and third quarters of 2018, the Corporation transferred $74.4 million (net of fair value write-downs of $22.2 million recorded at the time of transfers) in nonaccrual loans to held for sale. Loans transferred to held for sale consisted of nonaccrual commercial mortgage loans totaling $39.6 million (net of fair value write-downs of $13.8 million), nonaccrual construction loans totaling $33.0 million (net of fair value write-downs of $6.7 million) and nonaccrual commercial and industrial loans totaling $1.8 million (net of fair value write-downs of $1.7 million). Approximately $27.2 million of the commercial mortgage loans transferred to loans held

for sale and $30.0 million of the construction loans transferred to loans held for sale were eventually sold during the second, third, and fourth quarters of 2018.

(2) As of December 31, 2018 and 2017, $796.8 million and $833.5 million, respectively, of commercial loans were secured by real estate but are not dependent upon the real estate for repayment.

As of December 31, 2018, and 2017, the Corporation had net deferred origination costs on its loan portfolio amounting to $5.6 million and $4.0 million, respectively. The total loan portfolio is net of unearned income of $51.3 million and $38.6 million as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, the Corporation was servicing residential mortgage loans owned by others aggregating $2.9 billion (2017 — $2.8 billion), and commercial loan participations owned by others amounting to $273.4 million as of December 31, 2018 (2017 — $361.3 million).

Various loans, mainly secured by first mortgages, were assigned as collateral for CDs, individual retirement accounts, and advances from the FHLB. Total loans pledged as collateral amounted to $1.9 billion as of December 31, 2018 and 2017.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

		As of December 31, 2018		As of December 31, 2017
(In thousands)				
Nonaccrual loans:				
Residential mortgage	$	147,287	$	178,291
Commercial mortgage (1)		109,536		156,493
Commercial and Industrial (1)		30,382		85,839
Construction:				
Land (1)		6,260		15,026
Construction-commercial (1)		-		35,100
Construction-residential		2,102		1,987
Consumer:				
Auto loans		11,212		10,211
Finance leases		1,329		1,237
Other consumer loans		7,865		5,370
Total nonaccrual loans held for investment (2)(3)(4)	$	315,973	$	489,554

(1) During the first and third quarters 2018, the Corporation transferred $74.4 million (net of fair value write-downs of $22.2 million recorded at the time of transfers) in nonaccrual loans to held for sale. Loans transferred to held for sale consisted of nonaccrual commercial mortgage loans totaling $39.6 million (net of fair value write-downs of $13.8 million), nonaccrual construction loans totaling $33.0 million (net of fair value write-downs of $6.7 million) and nonaccrual commercial and industrial loans totaling $1.8 million (net of fair value write-downs of $1.7 million). Approximately $27.2 million of the commercial mortgage loans transferred to loans held for sale and $30.0 million of the construction loans transferred to loans held for sale were eventually sold during the second, third and fourth quarters of 2018.

(2) Excludes $16.1 million and $8.3 million of nonaccrual loans held for sale as of December 31, 2018 and December 31, 2017, respectively.

(3) Amount excludes PCI loans with a carrying value of approximately $146.6 million and $158.2 million as of December 31, 2018 and 2017, respectively, primarily mortgage loans acquired from Doral Bank in the first quarter of 2015 and from Doral Financial in the second quarter of 2014, as further discussed below. These loans are not considered nonaccrual due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using an estimated cash flow analysis.

(4) Nonaccrual loans exclude $478.9 million and $374.7 million of TDR loans that are in compliance with the modified terms and in accrual status as of December 31, 2018 and 2017, respectively.

If these nonaccrual loans were accruing interest, the additional interest income realized in 2018 would have been $21.4 million (2017— $35.2 million; 2016 — $43.2 million).

During the first quarter of 2018, the Corporation transferred to held for sale several nonaccrual commercial and construction loans. The aggregate recorded investment in these loans of $66.9 million was written down to $57.2 million, which resulted in charge-offs of $9.7 million, of which $4.1 million was taken against previously-established reserves for loan losses, resulting in a charge to the provision for loan and lease losses of $5.6 million in the first quarter of 2018. Subsequent to the end of the first quarter of 2018, the Corporation sold all of these loans transferred to held for sale in separate transactions and also completed the sale of a $7.7 million nonaccrual construction loan held for sale. These sales resulted in the recognition of an additional aggregate net loss of $2.7 million recorded as part of "other non-interest income" in the consolidated statement of income.

In addition, during the third quarter of 2018, the Corporation transferred to held for sale several nonaccrual commercial and construction loans. The aggregate recorded investment in these loans of $29.7 million was written down to $17.2 million, which resulted in charge-offs of $12.5 million, of which $2.4 million was taken against previously established reserves for loan losses, resulting in a charge to the provision for loan and lease losses of $10.1 million in the third quarter of 2018.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

As of December 31, 2018, the recorded investment of residential mortgage loans collateralized by residential real estate property that are in the process of foreclosure amounted to $177.2 million, including $48.5 million of loans insured by the FHA or guaranteed by the VA, and $21.3 million of PCI loans. The Corporation commences the foreclosure process on residential real estate loans when a borrower becomes 120 days delinquent in accordance with the guidelines of the Consumer Financial Protection Bureau ("CFPB"). Foreclosure procedures and timelines vary depending on whether the property is located in a judicial or non-judicial state. Judicial states (*i.e.*, Puerto Rico, Florida and the USVI) require the foreclosure to be processed through the state's court while foreclosure in non-judicial states (*i.e.*, the BVI) is processed without court intervention. Foreclosure timelines vary according to local jurisdiction law and investor guidelines. Occasionally, foreclosures may be delayed due to, among other reasons, mandatory mediations, bankruptcy, court delays and title issues.

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

As of December 31, 2018	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 days or more Past Due** (1)(2)(3)	**Total Past Due**	**Purchased Credit-Impaired Loans**	**Current**	**Total loans held for investment**	**90 days past due and still accruing** (1)(2)(3)
(In thousands)								
Residential mortgage:								
FHA/VA government-guaranteed loans (2) (3) (4)	$ -	$ 4,183	$ 104,751	$ 108,934	$ -	$ 38,271	$ 147,205	$ 104,751
Other residential mortgage loans (2) (4)	-	62,077	161,851	223,928	143,176	2,648,899	3,016,003	14,564
Commercial:								
Commercial and Industrial loans	2,550	66	35,385	38,001	-	2,110,110	2,148,111	5,003
Commercial mortgage loans (4)	-	1,038	110,482	111,520	3,464	1,407,678	1,522,662	946
Construction:								
Land (4)	-	207	6,327	6,534	-	13,779	20,313	67
Construction-commercial (4)	-	-	-	-	-	47,965	47,965	-
Construction-residential (4)	-	-	2,102	2,102	-	9,049	11,151	-
Consumer:								
Auto loans	31,070	7,103	11,212	49,385	-	897,091	946,476	-
Finance leases	5,502	1,362	1,329	8,193	-	325,343	333,536	-
Other consumer loans	9,898	4,542	11,617	26,057	-	638,644	664,701	3,752
Total loans held for investment	$ 49,020	$ 80,578	$ 445,056	$ 574,654	$ 146,640	$ 8,136,829	$ 8,858,123	$ 129,083

(1)

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

(2) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA, guaranteed by the VA, and other government-insured loans as past-due loans 90 days and still accruing as opposed to nonaccrual loans since the principal repayment is insured. These balances include $51.4 million of residential mortgage loans insured by the FHA and guaranteed by the VA that were over 15 months delinquent, and were no longer accruing interest as of December 31, 2018, taking into consideration the FHA interest curtailment process.

(3) As of December 31, 2018, includes $43.6 million of defaulted loans collateralizing GNMA securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.

(4) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage, commercial mortgage, and construction loans are considered past due when the borrower is in arrears on two or more monthly payments. FHA/VA government-guaranteed loans, other residential mortgage loans, commercial mortgage loans, and land loans past due 30-59 days as of December 31, 2018 amounted to $5.6 million, $101.4 million, $5.1 million, and $0.2 million, respectively.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

As of December 31, 2017	30-59 Days Past Due	60-89 Days Past Due	90 days or more Past Due (1)(2)(3)	Total Past Due	Purchased Credit-Impaired Loans	Current	Total loans held for investment	90 days past due and still accruing (1)(2)(3)
(In thousands)								
Residential mortgage:								
FHA/VA government-guaranteed loans (2) (3) (4)	$ -	$ 6,792	$ 102,815	$ 109,607	$ -	$ 29,332	$ 138,939	$ 102,815
Other residential mortgage loans (2) (4)	-	92,502	193,750	286,252	153,991	2,711,775	3,152,018	15,459
Commercial:								
Commercial and Industrial loans	8,971	576	88,156	97,703	-	1,985,550	2,083,253	2,317
Commercial mortgage loans (4)	-	7,525	163,180	170,705	4,183	1,440,084	1,614,972	6,687
Construction:								
Land (4)	-	124	15,177	15,301	-	11,630	26,931	151
Construction-commercial (4)	-	-	35,100	35,100	-	41,456	76,556	-
Construction-residential (4)	-	95	1,987	2,082	-	5,828	7,910	-
Consumer:								
Auto loans	57,560	23,783	10,211	91,554	-	752,777	844,331	-
Finance leases	10,549	3,484	1,237	15,270	-	242,192	257,462	-
Other consumer loans	10,776	5,052	9,361	25,189	-	622,915	648,104	3,991
Total loans held for investment	$ 87,856	$ 139,933	$ 620,974	$ 848,763	$ 158,174	$ 7,843,539	$ 8,850,476	$ 131,420

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

(2) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA, guaranteed by the VA, and other government-insured loans as past-due loans 90 days and still accruing as opposed to nonaccrual loans since the principal repayment is insured. These balances include $29.9 million of residential mortgage loans insured by the FHA and guaranteed by the VA that were over 15 months delinquent, and were no longer accruing interest as of December 31, 2017, taking into consideration the FHA interest curtailment process.

(3) As of December 31, 2017, includes $62.1 million of defaulted loans collateralizing GNMA securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.

(4) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage, commercial mortgage, and construction loans are considered past due when the borrower is in arrears on two or more monthly payments. FHA/VA government-guaranteed loans, other residential mortgage loans, commercial mortgage loans, and land loans past due 30-59 days as of December 31, 2017 amounted to $6.0 million, $224.0 million, $9.0 million, and $2.5 million, respectively.

In working with borrowers in the Virgin Islands and Puerto Rico affected by Hurricanes Irma and Maria, which made landfall on September 6, 2017 and September 20, 2017, respectively, the Corporation provided three-month deferred repayment arrangements to consumer borrowers (i.e., personal loans, auto loans, finance leases, and credit cards) who were current in their payments or no more than 2 payments in arrears as of the date of the respective hurricane. For residential mortgage loans, the Corporation entered during the third and fourth quarters of 2017 into deferred payment arrangements on 9,588 residential mortgages totaling $1.3 billion as of December 31, 2017 that provided for a three-month payment deferral for those loans current or no more than 2 payments in arrears as of the date of the events. For both consumer and residential mortgage loans that were subject to the deferral programs, each borrower was required to resume their regularly scheduled loan payment at the end of the deferral period (January 2018) and the deferred amounts were move to the end of the loan. The payment deferral programs were applied prospectively from the date of the events and did not change the delinquency status of the loans as of such dates. Also in 2017, the Corporation, on a case by case basis, entered into three-month deferral arrangements on 351 commercial and construction loans that were current in payments at the date of the event totaling $1.2 billion as of December 31, 2017. Residential mortgage loans in early delinquency (i.e., 30-89 days past due as defined in regulatory report instructions) decreased during year 2018 by $42.7 million to $73.2 million as of December 31, 2018, and consumer loans in early delinquency decreased during year 2018 by $51.7 million to $59.5 million as of December 31, 2018. Commercial and construction loans in early delinquency decreased during year 2018 by $13.8 million to $3.9 million as of December 31, 2018.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The Corporation's commercial and construction loans credit quality indicators as of December 31, 2018 and 2017 are summarized below:

	Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness Category:				
December 31, 2018	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified (1)**	**Total Portfolio**
(In thousands)					
Commercial mortgage	$ 276,935	$ 1,701	$ -	$ 278,636	$ 1,522,662
Construction:					
Land	7,407	-	-	7,407	20,313
Construction-commercial	-	-	-	-	47,965
Construction-residential	2,102	-	-	2,102	11,151
Commercial and Industrial	45,274	6,114	396	51,784	2,148,111

	Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness Category:				
December 31, 2017	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified (1)**	**Total Portfolio**
(In thousands)					
Commercial mortgage	$ 257,503	$ 4,166	$ -	$ 261,669	$ 1,614,972
Construction:					
Land	15,971	490	-	16,461	26,931
Construction-commercial	35,100	-	-	35,100	76,556
Construction-residential	1,987	-	-	1,987	7,910
Commercial and Industrial	154,416	3,854	676	158,946	2,083,253

(1) Excludes nonaccrual loans held for sale of $16.1 million ($11.4 million commercial mortgage, $3.0 million construction-commercial, and $1.7 million commercial and industrial) and $8.3 million (construction-land) as of December 31, 2018 and December 31, 2017, respectively.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

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

In addition, the Corporation had $257.8 million in commercial and construction loans rated as Special Mention (2017 - $354.7 million). A Special Mention assets has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Corporation’s credit position at some future date. Special Mention assets are not adversely classified and do not expose the Corporation sufficient risk to warrant adverse classification. The Corporation periodically reviews its loans classification to evaluate if they are properly classified, and to determine impairment, if any. The frequency of these reviews will depend on the amount of the aggregate outstanding debt, and the risk rating classification of the obligor. In addition, during the renewal and annual review process of applicable credit facilities, the Corporation evaluates the corresponding loan grades.

The Corporation has a Loan Review Group that reports directly to the Corporation’s Risk Management Committee and administratively to the Chief Risk Officer, which performs annual comprehensive credit process reviews of the Bank’s commercial portfolios. This group evaluates the credit risk profile of portfolios, including the assessment of the risk rating representative of the current credit quality of the loans, and the evaluation of collateral documentation. The monitoring performed by this group contributes to the assessment of compliance with credit policies and underwriting

standards, the determination of the current level of credit risk, the evaluation of the effectiveness of the credit management process and the identification of any deficiency that may arise in the credit-granting process. Based on its findings, the Loan Review Group recommends corrective actions, if necessary, that help in maintaining a sound credit process. The Loan Review Group reports the results of the credit process reviews to the Risk Management Committee of the Corporation's Board of Directors.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The Corporation's consumer and residential loans credit quality indicators as of December 31, 2018 and 2017 are summarized below:

December 31, 2018	**Consumer Credit Exposure-Credit Risk Profile Based on Payment Activity**				
	Residential Real-Estate		**Consumer**		
	FHA/VA/ Guaranteed (1)	**Other residential loans**	**Auto**	**Finance Leases**	**Other Consumer**
(In thousands)					
Performing	$ 147,205	$ 2,725,540	$ 935,264	$ 332,207	$ 656,836
Purchased Credit-Impaired (2)	-	143,176	-	-	-
Nonaccrual	-	147,287	11,212	1,329	7,865
Total	$ 147,205	$ 3,016,003	$ 946,476	$ 333,536	$ 664,701

(1) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA, guaranteed by the VA, and other government-insured loans as 90 days past-due loans and still accruing as opposed to nonaccrual loans since the principal repayment is insured. This balance includes $51.4 million of residential mortgage loans insured by the FHA that were over 15 months delinquent, and were no longer accruing interest as of December 31, 2018, taking into consideration the FHA interest curtailment process.

(2) PCI loans are excluded from nonaccrual statistics due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses.

December 31, 2017	**Consumer Credit Exposure-Credit Risk Profile Based on Payment Activity**				
	Residential Real-Estate		**Consumer**		
	FHA/VA/ Guaranteed (1)	**Other residential loans**	**Auto**	**Finance Leases**	**Other Consumer**
(In thousands)					
Performing	$ 138,939	$ 2,819,736	$ 834,120	$ 256,225	$ 642,734
Purchased Credit-Impaired (2)	-	153,991	-	-	-
Nonaccrual	-	178,291	10,211	1,237	5,370
Total	$ 138,939	$ 3,152,018	$ 844,331	$ 257,462	$ 648,104

(1) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA, guaranteed by the VA, and other government-insured loans as 90 days past-due loans and still accruing as opposed to nonaccrual loans since the principal repayment is insured. This balance includes $29.9 million of residential mortgage loans

insured by the FHA that were over 15 months delinquent, and were no longer accruing interest as of December 31, 2017, taking into consideration the FHA interest curtailment process.

(2) PCI loans are excluded from nonaccrual statistics due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses.

206

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following tables present information about impaired loans held for investment, excluding PCI loans, which are reported separately, as discussed below:

Impaired Loans

	Impaired Loans - With a Related Specific Allowance			Impaired Loans With No Related Specific Allowance		Impaired Loans Total		
(In thousands)	Recorded Investment (1)	Unpaid Principal Balance	Related Specific Allowance	Recorded Investment (1)	Unpaid Principal Balance	Recorded Investment (1)	Unpaid Principal Balance	Related Specific Allowance
As of December 31, 2018								
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	293,494	325,897	19,965	110,238	148,920	403,732	474,817	19,965
Commercial:								
Commercial mortgage loans	184,068	201,116	17,684	43,358	49,253	227,426	250,369	17,684
Commercial and Industrial loans	61,162	76,027	9,693	30,030	48,085	91,192	124,112	9,693
Construction:								
Land	2,444	2,923	552	2,431	2,927	4,875	5,850	552
Construction-commercial	-	-	-	-	-	-	-	-
Construction-residential	1,718	2,370	208	-	-	1,718	2,370	208
Consumer:								
Auto loans	17,781	17,781	3,689	250	250	18,031	18,031	3,689
Finance leases	1,914	1,914	102	22	22	1,936	1,936	102
Other consumer loans	9,291	10,066	2,083	2,068	2,750	11,359	12,816	2,083
	$ 571,872	$ 638,094	$ 53,976	$ 188,397	$ 252,207	$ 760,269	$ 890,301	$ 53,976

(1) Excluding accrued interest receivable.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

	Impaired Loans - With a Related Specific Allowance			Impaired Loans With No Related Specific Allowance		Impaired Loans Total		
(In thousands)	Recorded Investment (1)	Unpaid Principal Balance	Related Specific Allowance	Recorded Investment (1)	Unpaid Principal Balance	Recorded Investment (1)	Unpaid Principal Balance	Related Specific Allowance
As of December 31, 2017								
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	316,616	349,284	22,086	116,818	154,048	433,434	503,332	22,086
Commercial:								
Commercial mortgage loans	87,814	124,084	9,783	65,100	100,612	152,914	224,696	9,783
Commercial and Industrial loans	90,008	112,005	12,359	28,292	31,254	118,300	143,259	12,359
Construction:								
Land	11,865	19,973	1,402	48	49	11,913	20,022	1,402
Construction-commercial	35,101	38,595	560	-	-	35,101	38,595	560
Construction-residential	252	355	55	-	-	252	355	55
Consumer:								
Auto loans	22,338	22,338	3,665	267	267	22,605	22,605	3,665
Finance leases	2,184	2,184	104	-	-	2,184	2,184	104
Other consumer loans	11,084	11,830	1,396	2,521	3,688	13,605	15,518	1,396
	$ 577,262	$ 680,648	$ 51,410	$ 213,046	$ 289,918	$ 790,308	$ 970,566	$ 51,410

(1) Excluding accrued interest receivable.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(In thousands)	Average Recorded Investment [(1)]	Interest Income on Accrual Basis	Interest Income on Cash Basis	Total Interest Income
Year Ended December 31, 2018				
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -
Other residential mortgage loans	411,730	18,131	1,376	19,507
Commercial:				
Commercial mortgage loans	233,372	4,434	2,135	6,569
Commercial and Industrial loans	99,050	2,530	9	2,539
Construction:				
Land	5,025	93	26	119
Construction-commercial	-	-	-	-
Construction-residential	1,724	-	-	-
Consumer:				
Auto loans	20,156	1,449	-	1,449
Finance leases	2,197	145	-	145
Other consumer loans	12,177	913	164	1,077
	$ 785,431	$ 27,695	$ 3,710	$ 31,405

(1) Excluding accrued interest receivable.

(In thousands)	Average Recorded Investment [(1)]	Interest Income on Accrual Basis	Interest Income on Cash Basis	Total Interest Income
Year Ended December 31, 2017				
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -
Other residential mortgage loans	438,847	17,316	2,478	19,794
Commercial:				
Commercial mortgage loans	180,283	1,983	390	2,373
Commercial and Industrial loans	121,233	1,447	403	1,850
Construction:				
Land	14,174	372	38	410
Construction-commercial	35,996	-	-	-
Construction-residential	252	-	-	-
Consumer:				
Auto loans	24,618	1,781	-	1,781

Finance leases	2,428	168	-	168
Other consumer loans	14,324	1,176	144	1,320
	$ 832,155	$ 24,243	$ 3,453	$ 27,696

(1) Excluding accrued interest receivable.

(In thousands)	Average Recorded Investment [(1)]	Interest Income on Accrual Basis	Interest Income on Cash Basis	Total Interest Income
Year Ended December 31, 2016				
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -
Other residential mortgage loans	451,276	18,492	2,234	20,726
Commercial:				
Commercial mortgage loans	203,322	1,403	723	2,126
Commercial and Industrial loans	166,362	631	1,287	1,918
Construction:				
Land	15,801	170	51	221
Construction-commercial	38,191	-	-	-
Construction-residential	1,348	-	-	-
Consumer:				
Auto loans	27,177	1,820	-	1,820
Finance leases	2,846	203	-	203
Other consumer loans	18,018	1,376	154	1,530
	$ 924,341	$ 24,095	$ 4,449	$ 28,544

(1) Excluding accrued interest receivable.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following table show the activity for impaired loans for 2018, 2017 and 2016:

		2018		2017		2016
(In thousands)						
Impaired Loans:						
Balance at beginning of year	$	790,308	$	887,905	$	806,509
Loans determined impaired during the year		250,524		140,977		288,202
Charge-offs (1)		(57,152)		(82,113)		(67,210)
Loans sold, net of charge-offs		(4,121)		(53,245)		(8,675)
Increases to existing impaired loans		7,335		8,292		3,236
Foreclosures		(36,453)		(37,513)		(36,161)
Loans no longer considered impaired		(5,417)		(3,526)		(27,643)
Loans transferred to held for sale		(74,052)		-		-
Paid in full, partial payments and other		(110,703)		(70,469)		(70,353)
Balance at end of year	$	760,269	$	790,308	$	887,905

(1) For the year ended December 31, 2018, includes charge-offs totaling $22.2 million associated with the $74.4 million in nonaccrual loans transferred to held for sale. For the year ended December 31, 2017, includes a charge-off of $10.7 million related to the sale of the PREPA credit line and, for the year ended December 31, 2016, includes $4.2 million of charge-offs related to impaired loans included in a sale of a $16.3 million pool of non-performing assets.

PCI Loans

The Corporation acquired PCI loans accounted for under ASC Topic 310-30, “Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality” (“ASC Topic 310-30”), as part of a transaction that closed on February 27, 2015 in which FirstBank acquired 10 Puerto Rico branches of Doral Bank, and acquired certain assets, including PCI loans, and assumed deposits, through an alliance with Banco Popular of Puerto Rico, that was the successful lead bidder with the FDIC on the failed Doral Bank, as well as other co-bidders. The Corporation also acquired PCI loans in previously completed asset acquisitions that are accounted for under ASC Topic 310-30. These previous transactions include the acquisition from Doral Financial in the second quarter of 2014 of all its rights, title and interest in first and second residential mortgages loans in full satisfaction of secured borrowings owed by such entity to FirstBank.

Under ASC Topic 310-30, the acquired PCI loans were aggregated into pools based on similar characteristics (*i.e.*, delinquency status and loan terms). Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Since the loans are accounted for under ASC Topic 310-30, they are

not considered nonaccrual and will continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. The Corporation recognizes additional losses on this portfolio when it is probable that the Corporation will be unable to collect all cash flows expected as of the acquisition date plus additional cash flows expected to be collected arising from changes in estimates after the acquisition date.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The carrying amounts of PCI loans were as follows:

(In thousands)		As of December 31, 2018		As of December 31, 2017
Residential mortgage loans	$	143,176	$	153,991
Commercial mortgage loans		3,464		4,183
Total PCI loans	$	146,640	$	158,174
Allowance for loan losses		(11,354)		(11,251)
Total PCI loans, net of allowance for loan losses	$	135,286	$	146,923

The following tables present PCI loans by past due status as of December 31, 2018 and 2017:

As of December 31, 2018 (In thousands)	**30-59 Days**	**60-89 Days**	**90 days or more**	**Total Past Due**	**Current**	**Total PCI loans**
Residential mortgage loans	$ -	$ 6,979	$ 26,932	$ 33,911	$ 109,265	$ 143,176
Commercial mortgage loans	-	-	2,512	2,512	952	3,464
Total [1]	$ -	$ 6,979	$ 29,444	$ 36,423	$ 110,217	$ 146,640

(1) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage and commercial mortgage loans are considered past due when the borrower is in arrears two or more monthly payments. PCI residential mortgage loans past due 30-59 days as of December 31, 2018 amounted to $11.6 million. No PCI commercial mortgage loan was 30-59 days past due as of December 31, 2018.

As of December 31, 2017 (In thousands)	**30-59 Days**	**60-89 Days**	**90 days or more**	**Total Past Due**	**Current**	**Total PCI loans**
Residential mortgage loans	$ -	$ 16,600	$ 26,471	$ 43,071	$ 110,920	$ 153,991
Commercial mortgage loans	-	355	2,834	3,189	994	4,183
Total [1]	$ -	$ 16,955	$ 29,305	$ 46,260	$ 111,914	$ 158,174

(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 PCI commercial mortgage loans past due 30-59 days as of December 31, 2017 amounted to $28.1 million and $0.2 million, respectively.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Initial Fair Value and Accretable Yield of PCI Loans

At acquisition of PCI loans, the Corporation estimated the cash flows the Corporation expected to collect on the loans. Under the accounting guidance for PCI loans, the difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. This difference is neither accreted into income nor recorded on the Corporation's consolidated statements of financial condition. The excess of cash flows expected to be collected over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loans, using the effective-yield method.

Changes in Accretable Yield of Acquired Loans

Subsequent to the acquisition of loans, the Corporation is required to periodically evaluate its estimate of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and non-accretable difference or reclassifications from non-accretable yield to accretable yield. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized in the Corporation's provision for loan and lease losses, resulting in an increase to the allowance for loan and lease losses. As of December 31, 2018, the reserve related to PCI loans acquired from Doral Financial in 2014 and from Doral Bank in 2015 amounted to $11.4 million (2017- $11.3 million). Approximately $1.8 million of the allowance related to PCI loans as of each December 31, 2018 and 2017, consists of qualitative adjustments to expected cash flows made to account for the estimated effect Hurricane Maria could have on the PCI loan portfolios; considering the loans historical-deteriorated conditions and higher susceptibility to adverse macroeconomic effects.

Changes in the accretable yield of PCI loans for the years ended December 31, 2018, 2017 and 2016 were as follows:

	December 31, 2018		December 31, 2017		December 31, 2016	
(In thousands)						
Balance at beginning of year	$	103,682	$	116,462	$	118,385
Accretion recognized in earnings		(10,189)		(10,810)		(11,533)
Reclassification (to) from non-accretable		-		(1,970)		9,610

Balance at end of period	$	93,493	$	103,682	$	116,462

212

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Year ended December 31, 2018	Year ended December 31, 2017
(In thousands)		
Balance at beginning of year	$ 158,174	$ 165,818
Accretion	10,189	10,810
Collections	(16,749)	(15,400)
Foreclosures	(4,974)	(3,054)
Ending balance	$ 146,640	$ 158,174
Allowance for loan losses	(11,354)	(11,251)
Ending balance, net of allowance for loan losses	$ 135,286	$ 146,923

Changes in the allowance for loan losses related to PCI loans were as follows:

	Year ended	
	December 31, 2018	December 31, 2017
Balance at beginning of year	$ 11,251	$ 6,857
Provision for loan losses	103	4,394
Balance at end of period	$ 11,354	$ 11,251

The outstanding principal balance of PCI loans, including amounts charged off by the Corporation, amounted to $181.1 million as of December 31, 2018 (compared to - $196.6 million as of December 31, 2017).

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Purchases and Sales of Loans

During 2018, the Corporation purchased $46.1 million of residential mortgage loans as part of a strategic program to purchase ongoing residential mortgage loan production from mortgage bankers in Puerto Rico. In general, the loans purchased from mortgage bankers were conforming residential mortgage loans. Purchases of conforming residential mortgage loans provide the Corporation the flexibility to retain or sell the loans, including through securitization transactions, depending upon the Corporation's interest rate risk management strategies. When the Corporation sells such loans, it generally keeps the servicing of the loans.

In the ordinary course of business, the Corporation sells residential mortgage loans (originated or purchased) to GNMA and GSEs such as FNMA and FHLMC, which generally securitize the transferred loans into MBS for sale into the secondary market. During 2018, the Corporation sold $233.2 million of FHA/VA mortgage loans to GNMA, which packaged them into MBS. Also, during 2018, the Corporation sold approximately $104.9 million of performing residential mortgage loans to FNMA and FHLMC. The Corporation's continuing involvement in these sold loans consists primarily of servicing the loans. In addition, the Corporation agreed to repurchase loans when it breaches any of the representations and warranties included in the sale agreement. These representations and warranties are consistent with the GSEs' selling and servicing guidelines (*i.e.*, ensuring that the mortgage was properly underwritten according to established guidelines). The total amount of loans sold in the secondary market included $9.8 million of seasoned residential mortgage loans sold to FNMA in the second quarter of 2018.

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. As of December 31, 2018 and 2017, rebooked GNMA delinquent loans included in the residential mortgage loan portfolio amounted to $43.6 million and $62.1 million, respectively.

During 2018, 2017, and 2016, the Corporation repurchased, pursuant to its repurchase option with GNMA, $49.1 million, $25.1 million, and $29.1 million, respectively, of loans previously sold to GNMA. While the borrowers for the Corporation's serviced GNMA portfolio benefited from the loan payment moratorium as part of the hurricane relief efforts, the delinquency status of these loans continued to be reported to GNMA without considering the moratorium.

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, which is 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. Historically, losses for violations of representations and warranties, and on optional repurchases of GNMA delinquent loans, have been immaterial and no provision is made at the time of sale.

Loan sales to FNMA and FHLMC are without recourse in relation to the future performance of the loans. The Corporation repurchased at par loans previously sold to FNMA and FHLMC in the amount of $0.1 million, $36 thousand, and $0.7 million during 2018, 2017, and 2016, respectively. The Corporation's risk of loss with respect to these loans is also minimal as these repurchased loans are generally performing loans with documentation deficiencies.

In addition, during 2018 and 2017, the Corporation purchased $21.4 million and $52.6 million, respectively, of commercial and industrial loan participations.

Other loan sales include: (i) the sale in 2018 of a $5.6 million commercial and industrial adversely-classified loan in Puerto Rico (recording a charge-off of $1.3 million); (ii) the sale in 2018 of a $9.2 million commercial and industrial loan participation in the Florida region; (iii) the sale in 2018 of $34.9 million in nonaccrual commercial and construction loans in Puerto Rico and a $27.0 million nonaccrual construction loan in the Virgin Islands, as further discussed above; and (iv) the sale in 2016 of commercial mortgage loan participations amounting to $20.2 million.

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

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

proceeds of $53.2 million from the sale resulted in an incremental loss of $0.6 million recorded as a charge to the provision for loan and lease losses in 2017.

Sale of a $16.3 Million Pool of Non-Performing Assets

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

Loan Portfolio Concentration

The Corporation's primary lending area is Puerto Rico. The Corporation's banking subsidiary, FirstBank, also lends in the USVI and BVI markets and in the United States (principally in the state of Florida). Of the total gross loans held for investment of $8.9 billion as of December 31, 2018, credit risk concentration was approximately 74% in Puerto Rico, 21% in the United States, and 5% in the USVI and BVI.

As of December 31, 2018, the Corporation had $61.6 million outstanding in loans extended to the Puerto Rico government, its municipalities and public corporations, compared to $55.9 million as of December 31, 2017. Approximately $47.2 million of the outstanding loans as of December 31, 2018 consisted of loans extended to municipalities in Puerto Rico, which in most cases are supported by assigned property tax revenues. The vast majority of revenues of the municipalities included in the Corporation's loan portfolio are independent of the Puerto Rico central government. These municipalities are required by law to levy special property taxes in such amounts as are required for the payment of all of their respective general obligation bonds and notes. Late in 2015, the GDB and the Municipal Revenue Collection Center ("CRIM") signed and perfected a deed of trust. Through this deed, the GDB, as fiduciary, is bound to keep the CRIM funds separate from any other deposits and must distribute the funds pursuant to applicable law. The CRIM funds are deposited at another commercial depository financial institution in Puerto Rico. In addition to loans extended to municipalities, the Corporation's exposure to the Puerto Rico government as of December 31, 2018 included a $14.5 million loan granted to an affiliate of PREPA.

In addition, as of December 31, 2018, the Corporation had $112.1 million in exposure to residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority. Residential mortgage loans guaranteed by the Puerto Rico Housing Finance Authority are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. The Puerto Rico government guarantees up to $75 million of the principal under the mortgage loan insurance program. According to the most recently-released audited financial statements of the Puerto Rico Housing Finance Authority, as of June 30, 2016, the Puerto Rico Housing Finance Authority's mortgage loans insurance program covered loans in an aggregate of approximately $576 million. The regulations adopted by the Puerto Rico Housing Finance Authority require the establishment of adequate reserves to guarantee the solvency of the mortgage loan insurance fund. As of June 30, 2016, the most recent date as to which information is available, the Puerto Rico Housing Finance Authority had a restricted net position for such purposes of approximately $77.4 million.

The Corporation also has credit exposure to USVI government entities. As of December 31, 2018, the Corporation had $55.8 million in loans to USVI government instrumentalities and public corporations, compared to $70.4 million as of December 31, 2017. Of the amount outstanding as of December 31, 2018, public corporations of the USVI owed approximately $32.6 million and an independent instrumentality of the USVI government owed approximately $23.2 million. As of December 31, 2018, all loans were currently performing and up to date on principal and interest payments.

The Corporation cannot predict at this time the ultimate effect that the current fiscal situation of the Commonwealth of Puerto Rico, the uncertainty about the debt restructuring process, the various legislative and other measures adopted and to be adopted by the Puerto Rico government and the PROMESA oversight board in response to such fiscal situation, and Hurricane Maria will have on the Puerto Rico economy, the Corporation's clients, and the Corporation's financial condition and results of operations.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Troubled Debt Restructurings

The Corporation provides homeownership preservation assistance to its customers through a loss mitigation program in Puerto Rico that is similar to the U.S. government's Home Affordable Modification Program guidelines. Depending upon the nature of borrowers' financial condition, restructurings or loan modifications through this program, as well as other restructurings of individual commercial, commercial mortgage, construction, and residential mortgage loans, fit the definition of a TDR. A restructuring of a debt constitutes a TDR if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Modifications involve changes in one or more of the loan terms that bring a defaulted loan current and provide sustainable affordability. Changes may include, among others, the extension of the maturity of the loan and modifications of the loan rate. As of December 31, 2018, the Corporation's total TDR loans held for investment of $582.6 million consisted of $333.9 million of residential mortgage loans, $74.9 million of commercial and industrial loans, $137.9 million of commercial mortgage loans, $5.5 million of construction loans, and $30.3 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to $0.7 million as of December 31, 2018.

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 six years (increasing back in step-up rates). Additionally, in certain cases, the restructuring may provide for the forgiveness of contractually-due principal or interest. Uncollected interest is added to the end of the loan term at the time of the restructuring and not recognized as income until collected or when the loan is paid off. These programs are available only to those borrowers who have defaulted, or are likely to default, permanently on their loans and would lose their homes in 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 December 31, 2018, the Corporation classified an additional $3.4 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 loans in these portfolios could include: reductions in interest rates to rates that are considered below market; extension of repayment schedules and maturity dates beyond original contractual terms; waivers of borrower covenants; forgiveness of principal or interest; or other contractual changes that are considered to be concessions. The Corporation mitigates loan defaults for these loan portfolios through its collection function. The function's objective is to minimize both early stage delinquencies and losses upon default of loans in these portfolios. In the case of the commercial and industrial, commercial mortgage, and construction loan portfolios, the Corporation's Special Asset Group ("SAG") focuses on strategies for the accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of OREO.

In addition, the Corporation extends, renews, and restructures loans with satisfactory credit profiles. Many commercial loan facilities are structured as lines of credit, which generally have one-year terms 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, and 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.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Selected information on TDR loans held for investment based on the recorded investment by loan class and modification type is summarized in the following tables. This information reflects all of the Corporation's TDRs held for investment:

	As of December 31, 2018						
(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**	**Forbearance Agreement**	**Other (1)**	**Total**
Troubled Debt Restructurings:							
Non-FHA/VA residential mortgage loans	$ 22,729	$ 11,586	$ 239,348	$ -	$ 145	$ 60,094	$ 333,902
Commercial Mortgage loans (2)	3,966	2,005	122,709	-	-	9,269	137,949
Commercial and Industrial loans (3)	664	19,769	13,323	-	2,673	38,492	74,921
Construction loans:							
Land	16	2,524	1,933	-	-	292	4,765
Construction-commercial	-	-	-	-	-	-	-
Construction-residential	-	545	-	-	-	217	762
Consumer loans - Auto	-	1,517	10,085	-	-	6,429	18,031
Finance leases	-	101	1,186	-	-	648	1,935
Consumer loans - Other	1,396	1,236	5,651	275	-	1,824	10,382
Total Troubled Debt Restructurings	$ 28,771	$ 39,283	$ 394,235	$ 275	$ 2,818	$ 117,265	$ 582,647

(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 commercial mortgage TDR loans held for sale amounting to $11.1 million as of December 31, 2018.
(3) Excludes commercial and industrial TDR loans held for sale amounting to $0.9 millions of December 31, 2018.

	As of December 31, 2017						
	Interest rate below market	**Maturity or term extension**	**Combination of reduction in interest rate and extension of**	**Forgiveness of principal and/or interest**	**Forbearance Agreement**	**Other (1)**	**Total**

			maturity				
(In thousands)							
Troubled Debt Restructurings:							
Non-FHA/VA residential mortgage loans	$ 25,964	$ 8,318	$ 267,578	$ -	$ -	$ 62,070	$ 363,930
Commercial Mortgage loans	6,563	2,094	31,870	-	-	10,285	50,812
Commercial and Industrial loans	2,510	20,648	16,049	-	6,623	48,282	94,112
Construction loans:							
Land	18	3,941	2,186	-	-	331	6,476
Construction-commercial	-	-	-	35,100	-	-	35,100
Construction-residential	-	-	-	-	-	217	217
Consumer loans - Auto	-	1,347	14,233	-	-	7,025	22,605
Finance leases	-	238	1,946	-	-	-	2,184
Consumer loans - Other	892	2,097	6,891	217	-	1,686	11,783
Total Troubled Debt Restructurings	$ 35,947	$ 38,683	$ 340,753	$ 35,317	$ 6,623	$ 129,896	$ 587,219

(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.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following table presents the Corporation's TDR loans held for investment activity:

	Year Ended December 31, 2018		Year Ended December 31, 2017		Year Ended December 31, 2016	
(In thousands)						
Beginning balance of TDRs	$	587,219	$	647,048	$	661,591
New TDRs		171,857		93,837		84,942
Increases to existing TDRs		7,027		6,575		3,921
Charge-offs post-modification(1)(2)(3)		(27,951)		(32,963)		(24,876)
Sales, net of charge-offs		-		(53,245)		(3,761)
Foreclosures		(21,591)		(25,059)		(16,834)
TDRs transferred to held for sale, net of charge-offs		(34,541)		-		-
Paid-off, partial payments and other		(99,373)		(48,974)		(57,935)
Ending balance of TDRs	$	582,647	$	587,219	$	647,048

(1)For the year ended December 31, 2018, includes charge-offs totaling $8.5 million associated with $34.5 million in commercial and construction loans transferred to held for sale.
(2)For the year ended December 31, 2017, includes a $10.7 million charge-off related to the sale of the PREPA credit line.
(3)For the year ended December 31, 2016, includes $1.3 million of charge-offs related to TDRs included in the sale of the $16.3 million pool of non-performing assets.

TDR loans are classified as either accrual or nonaccrual loans. Loans in accrual status may remain in accrual status when their contractual terms have been modified in a TDR if the loans had demonstrated performance prior to the restructuring and payment in full under the restructured terms is expected. Otherwise, loans on nonaccrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform under the modified structure, generally for a minimum of six months, and there is evidence that such payments can, and are likely to, continue as agreed. Performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of the restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan. Loan modifications increase the Corporation's interest income by returning a nonaccrual loan to performing status, if applicable, increase cash flows by providing for payments to be made by the borrower, and limit increases in foreclosure and OREO costs. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the Corporation is willing to accept for a new loan with comparable risk may not be reported as a TDR, or an impaired loan in the calendar years subsequent to the restructuring, if it is in compliance with its modified terms. The Corporation did not remove any loans from the TDR classification during 2018, 2017 and 2016 other than a $9.9 million loan refinanced at market terms in 2018 and a $3.0 million loan refinanced at market terms in 2016, as the borrowers were no longer experiencing financial difficulties and the refinancings did not contain any concession to the borrowers. These refinancings were included as part of "paid-off, partial payments and other" in the above table.

218

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following table provides a breakdown of the TDR loans held for investment by those in accrual and nonaccrual status:

	As of December 31, 2018		
(In thousands)	**Accrual**	**Nonaccrual** (1)	**Total TDRs**
Non-FHA/VA residential mortgage loans	$ 271,766	$ 62,136	$ 333,902
Commercial Mortgage loans (2)	116,830	21,119	137,949
Commercial and Industrial loans (3)	66,603	8,318	74,921
Construction loans:			
Land	1,071	3,694	4,765
Construction-commercial	-	-	-
Construction-residential	-	762	762
Consumer loans - Auto	11,842	6,189	18,031
Finance leases	1,791	144	1,935
Consumer loans - Other	9,025	1,357	10,382
Total Troubled Debt Restructurings	$ 478,928	$ 103,719	$ 582,647

(1) Included in nonaccrual loans are $17.7 million in loans that are performing under the terms of the restructuring agreement but are reported in nonaccrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and are deemed fully collectible.
(2) Excludes commercial mortgage TDR loans held for sale amounting to $11.1 million as of December 31, 2018.
(3) Excludes commercial and industrial TDR loans held for sale amounting to $0.9 million as of December 31, 2018.

	As of December 31, 2017		
(In thousands)	**Accrual**	**Nonaccrual** (1)	**Total TDRs**
Non-FHA/VA residential mortgage loans	$ 280,729	$ 83,201	$ 363,930
Commercial Mortgage loans	23,329	27,483	50,812
Commercial and Industrial loans	41,536	52,576	94,112
Construction loans:			
Land	1,291	5,185	6,476
Construction-commercial	-	35,100	35,100
Construction-residential	-	217	217
Consumer loans - Auto	15,548	7,057	22,605
Finance leases	1,968	216	2,184
Consumer loans - Other	10,294	1,489	11,783
Total Troubled Debt Restructurings	$ 374,695	$ 212,524	$ 587,219

(1)

Included in nonaccrual loans are $88.6 million in loans that were performing under the terms of the restructuring agreement but are reported in nonaccrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and are deemed fully collectible.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

TDR loans exclude restructured residential mortgage loans that are government-guaranteed (*e.g.*, FHA/VA loans) totaling $60.5 million as of December 31, 2018 (compared with $62.1 million as of December 31, 2017). The Corporation excludes FHA/VA guaranteed loans from TDR loan statistics given that, in the event that the borrower defaults on the loan, the principal and interest (at the specified debenture rate) are guaranteed by the U.S. government; therefore, the risk of loss on these types of loans is very low. The Corporation does not consider loans with U.S. federal government guarantees to be impaired loans for the purpose of calculating the allowance for loan and lease losses.

Loan modifications that are considered TDR loans completed during 2018, 2017 and 2016 were as follows:

	Year Ended December 31, 2018				
	Number of contracts		Pre-modification Outstanding Recorded Investment		Post-modification Outstanding Recorded Investment
(In thousands)					
Troubled Debt Restructurings:					
Non-FHA/VA residential mortgage loans	104	$	14,827	$	14,159
Commercial Mortgage loans	11		138,994		138,785
Commercial and Industrial loans	10		9,141		8,786
Construction loans:					
Land	1		97		97
Construction-residential	1		587		558
Consumer loans - Auto	285		4,500		4,489
Finance leases	48		1,001		987
Consumer loans - Other	768		3,935		3,996
Total Troubled Debt Restructurings	1,228	$	173,082	$	171,857

	Year ended December 31, 2017				
	Number of contracts		Pre-modification Outstanding Recorded Investment		Post-modification Outstanding Recorded Investment
(In thousands)					
Troubled Debt Restructurings:					
Non-FHA/VA residential mortgage loans	132	$	19,484	$	19,263
Commercial Mortgage loans	13		25,722		25,018
Commercial and Industrial loans	21		39,428		39,338
Construction loans:					
Land	4		122		125

Consumer loans - Auto	426		6,451		6,451
Finance leases	22		548		548
Consumer loans - Other	657		3,041		3,094
Total Troubled Debt Restructurings	1,275	$	94,796	$	93,837

220

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

	Year ended December 31, 2016		
(In thousands)	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Non-FHA/VA residential mortgage loans	209	$ 30,940	$ 29,668
Commercial Mortgage loans	11	5,710	5,739
Commercial and Industrial loans	25	22,182	22,184
Construction loans:			
Land	9	6,759	6,756
Consumer loans - Auto	744	13,141	13,141
Finance leases	74	1,878	1,878
Consumer loans - Other	1,156	5,496	5,576
Total Troubled Debt Restructurings	2,228	$ 86,106	$ 84,942

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

Loan modifications considered TDR loans that defaulted during the years ended December 31, 2018, 2017, and 2016, and had become TDR during the 12-months preceding the default date, were as follows:

	Year ended December 31,					
	2018		2017		2016	
(In thousands)	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
Non-FHA/VA residential mortgage loans	15	$ 1,994	46	$ 5,355	50	$ 7,673
Commercial Mortgage loans	-	-	1	57	-	-
Consumer loans - Auto	62	1,003	14	207	51	764
Finance leases	1	22	1	39	2	43
Consumer loans - Other	56	206	99	387	119	454
Total	134	$ 3,225	161	$ 6,045	222	$ 8,934

221

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

For certain TDR loans, the Corporation splits the loans into two new notes, A and B notes. The A note is restructured to comply with the Corporation's lending standards at current market rates, and is tailored to suit the customer's ability to make timely interest and principal payments. The B note includes the granting of the concession to the borrower and varies by situation. The B note is charged off but the obligation is not forgiven to the borrower, and any payments collected are accounted for as recoveries. At the time of the restructuring, the A note is identified and classified as a TDR loan. If the loan performs for at least six months according to the modified terms, the A note may be returned to accrual status. The borrower's payment performance prior to the restructuring is included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of the restructuring. In the periods following the calendar year in which a loan is restructured, the A note may no longer be reported as a TDR loan if it is in accrual status, is in compliance with its modified terms, and yields a market rate (as determined and documented at the time of the restructuring).

The 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 2018, 2017 and 2016:

(In thousands)	December 31, 2018		December 31, 2017		December 31, 2016	
Beginning balance	$	35,577	$	36,971	$	39,329
New TDR loan splits		32,104		-		-
Paid-off and partial payments		(33,841)		(1,394)		(2,358)
Ending balance	$	33,840	$	35,577	$	36,971

(In thousands)	December 31, 2018		December 31, 2017		December 31, 2016	
Allowance for loan losses at the beginning of the year	$	3,846	$	5,141	$	862
(Release) charges to the provision for loan losses		(10,789)		(1,295)		4,279
Net loan loss recoveries		7,416		-		-
Allowance for loan losses at the end of the year	$	473	$	3,846	$	5,141

Approximately $31.3 million of the loans restructured using the A/B note restructure workout strategy were in accrual status as of December 31, 2018. These loans continue to be individually evaluated for impairment purposes.

222

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 9 – ALLOWANCE FOR LOAN AND LEASE LOSSES

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

Year Ended December 31, 2018	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial and Industrial Loans	Construction Loans	Consumer Loans	Total
(In thousands)						
Allowance for loan and lease losses:						
Beginning balance	$ 58,975	$ 48,493	$ 48,871	$ 4,522	$ 70,982	$ 231,843
Charge-offs	(24,775)	(23,911)	(9,704)	(8,296)	(50,106)	(116,792)
Recoveries	3,392	7,925	1,819	334	8,588	22,058
Provision (release)	13,202	23,074	(8,440)	7,032	24,385	59,253
Ending balance	$ 50,794	$ 55,581	$ 32,546	$ 3,592	$ 53,849	$ 196,362
Ending balance: specific reserve for impaired loans	$ 19,965	$ 17,684	$ 9,693	$ 760	$ 5,874	$ 53,976
Ending balance: purchased credit-impaired loans (1)	$ 10,954	$ 400	$ -	$ -	$ -	$ 11,354
Ending balance: general allowance	$ 19,875	$ 37,497	$ 22,853	$ 2,832	$ 47,975	$ 131,032
Loans held for investment:						
Ending balance	$ 3,163,208	$ 1,522,662	$ 2,148,111	$ 79,429	$ 1,944,713	$ 8,858,123
Ending balance: impaired loans	$ 403,732	$ 227,426	$ 91,192	$ 6,593	$ 31,326	$ 760,269
Ending balance: purchased credit-impaired loans	$ 143,176	$ 3,464	$ -	$ -	$ -	$ 146,640
Ending balance: loans with general allowance	$ 2,616,300	$ 1,291,772	$ 2,056,919	$ 72,836	$ 1,913,387	$ 7,951,214

Year Ended December 31, 2017	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial and Industrial Loans	Construction Loans	Consumer Loans	Total
(In thousands)						
Allowance for loan and lease losses:						
Beginning balance	$ 33,980	$ 57,261	$ 61,953	$ 2,562	$ 49,847	$ 205,603
Charge-offs	(28,186)	(39,092)	(19,855)	(3,607)	(44,030)	(134,770)
Recoveries	2,437	270	5,755	732	7,562	16,756
Provision	50,744	30,054	1,018	4,835	57,603	144,254
Ending balance	$ 58,975	$ 48,493	$ 48,871	$ 4,522	$ 70,982	$ 231,843
Ending balance: specific reserve for impaired loans	$ 22,086	$ 9,783	$ 12,359	$ 2,017	$ 5,165	$ 51,410
	$ 10,873	$ 378	$ -	$ -	$ -	$ 11,251

Ending balance: purchased credit-impaired loans (1)												
Ending balance: general allowance	$	26,016	$	38,332	$	36,512	$	2,505	$	65,817	$	169,182
Loans held for investment:												
Ending balance	$	3,290,957	$	1,614,972	$	2,083,253	$	111,397	$	1,749,897	$	8,850,476
Ending balance: impaired loans	$	433,434	$	152,914	$	118,300	$	47,266	$	38,394	$	790,308
Ending balance: purchased credit-impaired loans	$	153,991	$	4,183	$	-	$	-	$	-	$	158,174
Ending balance: loans with general allowance	$	2,703,532	$	1,457,875	$	1,964,953	$	64,131	$	1,711,503	$	7,901,994

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Year Ended December 31, 2016	**Residential Mortgage Loans**	**Commercial Mortgage Loans**	**Commercial and Industrial Loans**	**Construction Loans**	**Consumer Loans**	**Total**
(In thousands)						
Allowance for loan and lease losses:						
Beginning balance	$ 39,570	$ 68,211	$ 68,768	$ 3,519	$ 60,642	$ 240,710
Charge-offs	(33,621)	(20,454)	(26,579)	(1,770)	(54,504)	(136,928)
Recoveries	2,941	816	2,689	316	8,326	15,088
Provision	25,090	8,688	17,075	497	35,383	86,733
Ending balance	$ 33,980	$ 57,261	$ 61,953	$ 2,562	$ 49,847	$ 205,603
Ending balance: specific reserve for impaired loans	$ 8,633	$ 26,172	$ 22,638	$ 1,405	$ 5,573	$ 64,421
Ending balance: purchased credit-impaired loans (1)	$ 6,632	$ 225	$ -	$ -	$ -	$ 6,857
Ending balance: general allowance	$ 18,715	$ 30,864	$ 39,315	$ 1,157	$ 44,274	$ 134,325
Loans held for investment:						
Ending balance	$ 3,296,031	$ 1,568,808	$ 2,180,455	$ 124,951	$ 1,716,628	$ 8,886,873
Ending balance: impaired loans	$ 442,267	$ 194,391	$ 153,543	$ 53,291	$ 44,413	$ 887,905
Ending balance: purchased credit-impaired loans	$ 162,676	$ 3,142	$ -	$ -	$ -	$ 165,818
Ending balance: loans with general allowance	$ 2,691,088	$ 1,371,275	$ 2,026,912	$ 71,660	$ 1,672,215	$ 7,833,150

(1) Refer to Note 8 - Loans Held for Investment - PCI Loans for additional information about changes in the allowance for loan losses related to PCI loans.

224

The tables below present the allowance for loan and lease losses and the carrying value of loans by portfolio segment as of December 31, 2018 and 2017:

As of December 31, 2018 (Dollars in thousands)	**Residential Mortgage Loans**	**Commercial Mortgage Loans**	**Commercial and Industrial Loans**	**Construction Loans**	**Consumer Loans**	**Total**
Impaired loans without specific reserves:						
Principal balance of loans, net of charge-offs	$ 110,238	$ 43,358	$ 30,030	$ 2,431	$ 2,340	$ 188,397
Impaired loans with specific reserves:						
Principal balance of loans, net of charge-offs	293,494	184,068	61,162	4,162	28,986	571,872
Allowance for loan and lease losses	19,965	17,684	9,693	760	5,874	53,976
Allowance for loan and lease losses to principal balance	6.80%	9.61%	15.85%	18.26%	20.26%	9.44
PCI loans:						
Carrying value of PCI loans	143,176	3,464	-	-	-	146,640
Allowance for PCI loans	10,954	400	-	-	-	11,354
Allowance for PCI loans to carrying value	7.65%	11.55%	-	-	-	7.74
Loans with general allowance:						
Principal balance of loans	2,616,300	1,291,772	2,056,919	72,836	1,913,387	7,951,214
Allowance for loan and lease losses	19,875	37,497	22,853	2,832	47,975	131,032
Allowance for loan and lease losses to principal balance	0.76%	2.90%	1.11%	3.89%	2.51%	1.65
Total loans held for investment:						
Principal balance of loans	$ 3,163,208	$ 1,522,662	$ 2,148,111	$ 79,429	$ 1,944,713	$ 8,858,123
Allowance for loan and lease losses	50,794	55,581	32,546	3,592	53,849	196,362
Allowance for loan and lease losses to principal balance (1)	1.61%	3.65%	1.52%	4.52%	2.77%	2.22

(Dollars in thousands)	**Residential Mortgage Loans**	**Commercial Mortgage Loans**	**Commercial and Industrial Loans**	**Construction Loans**	**Consumer Loans**	**Total**
As of December 31, 2017						
Impaired loans without specific reserves:						
Principal balance of loans, net of charge-offs	$ 116,818	$ 65,100	$ 28,292	$ 48	$ 2,788	$ 213,04
Impaired loans with specific reserves:						
Principal balance of loans, net of charge-offs	316,616	87,814	90,008	47,218	35,606	577,26
Allowance for loan and lease losses	22,086	9,783	12,359	2,017	5,165	51,41

Allowance for loan and lease losses to principal balance	6.98%	11.14%	13.73%	4.27%	14.51%	8.9
PCI loans:						
Carrying value of PCI loans	153,991	4,183	-	-	-	158,17
Allowance for PCI loans	10,873	378	-	-	-	11,25
Allowance for PCI loans to carrying value	7.06%	9.04%	-	-	-	7.1
Loans with general allowance:						
Principal balance of loans	2,703,532	1,457,875	1,964,953	64,131	1,711,503	7,901,99
Allowance for loan and lease losses	26,016	38,332	36,512	2,505	65,817	169,18
Allowance for loan and lease losses to principal balance	0.96%	2.63%	1.86%	3.91%	3.85%	2.1
Total loans held for investment:						
Principal balance of loans	$ 3,290,957	$ 1,614,972	$ 2,083,253	$ 111,397	$ 1,749,897	$ 8,850,47
Allowance for loan and lease losses	58,975	48,493	48,871	4,522	70,982	231,84
Allowance for loan and lease losses to principal balance (1)	1.79%	3.00%	2.35%	4.06%	4.06%	2.6

(1) Loans used in the denominator include PCI loans of $146.6 million and $158.2 million as of December 31, 2018 and 2017, respectively. However, the Corporation separately tracks and reports PCI loans and excludes these loans from the amounts of nonaccrual loans, impaired loans, TDRs and non-performing assets.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

As of December 31, 2018, the Corporation maintained a $0.4 million reserve for unfunded loan commitments (compared to $0.7 million as of December 31, 2017), mainly related to outstanding commitments on floor plan revolving lines of credit. The reserve for unfunded loan commitments is an estimate of the losses inherent in off-balance sheet loan commitments to borrowers that are experiencing financial difficulties at the balance sheet date. It is calculated by multiplying an estimated loss factor by an estimated probability of funding, and then by the period-end amounts for unfunded commitments. The reserve for unfunded loan commitments is included as part of accounts payable and other liabilities in the consolidated statements of financial condition and any changes to the reserve is included as part of other non-interest expenses in the consolidated statements of income.

During the second quarter of 2018, the Corporation implemented certain enhancements to the methodology for the calculation of the allowance for commercial loans, which include, among others, a revised procedure whereby historical loss rates for each commercial loan regulatory-based credit risk category (*i.e.*, pass, special mention, substandard, and doubtful) are now calculated using the historical charge-offs and portfolio balances over their average loss emergence period (the “raw loss rate”) for each credit risk classification. However, when not enough loss experience is observed in a particular risk-rated category and the calculation results in a loss rate for such risk-rated category that is lower than the loss rate of a less severe risk-rated category, the Corporation now uses the loss rate of such less severe category.

As a result of these revisions, the Corporation’s method for determining the allowance for loan losses differs from the method that it used as of March 31, 2018, which was to allocate historical losses and portfolio balances of special mention loans to pass or substandard categories based on the historical proportion of loans in this risk category that ultimately cured or became uncollectible, and the method that it used as of December 31, 2017, which was to use blended loss rates for commercial loans risk-rated special mention, substandard, and doubtful.

In addition, during the second quarter of 2018, the Corporation implemented refinements to the measurement of qualitative factors in the estimation process of the allowance for loan losses for commercial and consumer loans, primarily consisting of the incorporation of a basis point adjustment derived from the difference between the average raw loss rate and the highest loss rates observed during a look-back period that management determined was appropriate to use for each region to identify any relevant effect during an economic cycle.

Although the net effect of these refinements was immaterial to the total provision expense, on a portfolio basis, these enhancements resulted in a $1.6 million decrease in the provision for commercial and construction loans, offset by a $1.6 million increase in the provision for consumer loans in the second quarter of 2018.

Hurricane-Related Qualitative Allowance for Loan and Lease Losses

As described in Note 2 – Effects of Natural Disasters, two strong hurricanes affected the Corporation's service areas during September 2017. These hurricanes caused widespread property damage, flooding, power outages, and water and communication service interruptions, and severely disrupted normal economic activity in the affected areas. During the third quarter of 2017, the Corporation recorded a $66.5 million charge to the provision related to the establishment of qualitative reserves associated with the effects of Hurricanes Irma and Maria. Models were developed based on a regression modeling approach in which relationships between portfolio-level loss rates and key economic indicators were derived based on historical behavior. Accordingly, the qualitative reserves were initially determined based on the estimated effect that the hurricanes could have on employment levels and economic activity in the Corporation's service areas, and the time that it could take for the affected regions to return to a more normalized operating environment. For large commercial and construction loan relationships, loan officers performed individual reviews of the effect of the hurricanes on these borrowers' sources of repayments. These large relationships, that represented 80% of the outstanding balance of the Corporation's commercial and construction loan portfolio, were analyzed and divided into three hurricane-affected categories (*i.e.*, Low, Medium and High). This stratification was used to stress the general reserve loss factors applicable to these loans to reflect higher default probabilities than those reflected in the historical data. During 2018, the Corporation performed additional procedures to evaluate the adequacy of the qualitative reserve, including the consideration of updated payment patterns and probability of default credit risk analyses applied to consumer loan borrowers subject to payment deferral programs that expired early in 2018. For the determination of the hurricane-related qualitative reserve for residential mortgage loans as of December 31, 2018, the Corporation stressed the loss factors derived from its base methodology by incorporating assumptions of further deterioration in the housing price index and higher loan modification levels. Although the foreclosure moratoriums extended by the FHA to hurricane-affected individuals ended on September 15, 2018, there are likely to be additional delays in foreclosure actions due to court related backlogs. For the determination of the hurricane-related qualitative reserve for commercial and construction loans not individually reviewed as of December 31, 2018, the Corporation segregated the portfolio based on delinquency levels and stressed the general reserve loss factors applicable to 30-89 days past due loans to reflect higher default probabilities. As of December 31, 2018, the hurricane-related qualitative reserve was $19.2 million (2017 - $55.6 million), composed of $17.2 million for Puerto Rico (2017 -

$50.2 million) and $2.0 million for the Virgin Islands (2017 - $5.4 million). On a portfolio basis, the hurricane-related qualitative reserve as of December 31, 2018 and 2017 was composed of: (i) $8.8 million for residential mortgage loans (2017 - $9.2 million); (ii) $3.4 million for commercial and industrial loans (2017 - $13.1 million); (iii) $3.8 million for commercial mortgage loans (2017 - $7.5 million); (iv) $0 for construction loans (2017 - $0.7 million); and (v) $3.2 million for consumer loans (2017 - $25.0 million). Refer to Note 1 – Nature of Business and Summary of Significant Accounting Policies, for additional information about the Corporation's approach to estimating the hurricane-related qualitative reserve.

Relationship officers have continued to closely monitor the performance of hurricane-affected commercial loan customers during 2018. Information provided by these commercial loan officers, including information derived from regularly scheduled annual reviews, and statistics on the performance of consumer and residential credits were factored into the determination of the allowance for loan and lease losses as of December 31, 2018. Although the identification and evaluation of hurricane-affected credits has been completed, management's assessment of the hurricanes' effect is still subject to uncertainties, both those specific to some individual customers, such as the resolution of insurance claims, and those applicable to the overall economic prospects of the hurricane-affected areas as a whole.

During 2018, the Corporation recorded a net loan loss reserve release of $16.9 million in connection with revised estimates associated with the effects of the hurricanes. In addition to the above-mentioned updated assessments of financial performance and repayment prospects of certain individually-assessed commercial credits and updated payment patterns and probability of default credit risk analyses applied to consumer borrowers that were subject to payment deferral programs, the reserve releases in 2018 reflect the effect of payments received during 2018 that reduced the balance of the consumer and residential mortgage loan portfolios outstanding on the dates of the hurricanes. The individual review of large commercial loans also resulted in downgrades in the credit risk classification of certain loans and their hurricane-related qualitative reserves of approximately $5.7 million were transferred to the general reserve and the reserve for such loans are now determined following the methodology applicable to criticized and adversely classified loans, as appropriate. In addition, approximately $10.9 million of the consumer loan charge-offs recorded in 2018 were taken against previously-established hurricane-related qualitative reserves associated with Hurricanes Irma and Maria. As of December 31, 2018, the hurricane-related qualitative allowance amounted to $19.2 million (compared to $55.6 million as of December 31. 2017). With the ongoing collection of information on individual commercial customers and statistics on the consumer and residential mortgage loans portfolios, the loss estimate will be revised as needed.

NOTE 10 – LOANS HELD FOR SALE

The Corporation's loans held-for-sale portfolio as of the dates indicated was composed of:

	December 31,			
	2018		2017	
(In thousands)				
Residential mortgage loans	$	27,075	$	24,690
Construction loans (1)		3,015		8,290
Commercial and Industrial loans (1)		1,725		-
Commercial mortgage loans (1)		11,371		-
Total	$	43,186	$	32,980

(1) During the first and third quarters of 2018, the Corporation transferred $74.4 million (net of fair value write-downs of $22.2 million recorded at the time of transfers) in nonaccrual loans to held for sale. Loans transferred to held for sale consisted of nonaccrual commercial mortgage loans totaling $39.6 million (net of fair value write-downs of $13.8 million), nonaccrual construction loans totaling $33.0 million (net of fair value write-downs of $6.7 million) and nonaccrual commercial and industrial loans totaling $1.8 million (net of fair value write-downs of $1.7 million). Approximately $27.2 million of the commercial mortgage loans transferred to loans held for sale and $30.0 million of the construction loans transferred to loans held for sale were eventually sold during the second, third, and fourth quarters of 2018.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 11 – OTHER REAL ESTATE OWNED

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

	December 31,	
(In thousands)	2018	2017
OREO		
OREO balances, carrying value:		
Residential (1)	$ 49,239	$ 54,381
Commercial	71,838	82,871
Construction	10,325	10,688
Total	$ 131,402	$ 147,940

(1) Excludes $14.4 million and $21.3 million as of December 31, 2018 and 2017, respectively, of foreclosures that meet the conditions of ASC Topic 310-40 and are presented as a receivable (other assets) in the statement of financial condition.

NOTE 12 – RELATED-PARTY TRANSACTIONS

The Corporation granted loans to its directors, executive officers, and certain related individuals or entities in the ordinary course of business. The movement and balance of these loans were as follows:

(In thousands)	Amount
Balance at December 31, 2016	$ 1,208
New loans	65
Payments	(189)
Other changes	-
Balance at December 31, 2017	1,084
New loans	57
Payments	(117)

Other changes		-
Balance at December 31, 2018	$	1,024

These loans were made subject to the provisions of Regulation O-"Loans to Executive Officers, Directors and Principal Shareholders of Member Banks," which governs the permissible lending relationships between a financial institution and its executive officers, directors, principal shareholders, their families and related interests. Amounts related to changes in the status of those who are considered related parties are reported as other changes. There were no changes in the status of related parties during 2018 and 2017.

From time to time, the Corporation, in the ordinary course of its business, obtains services from related parties or makes contributions to non-profit organizations that have some association with the Corporation. Management believes the terms of such arrangements are consistent with arrangements entered into with independent third parties.

228

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 13 – PREMISES AND EQUIPMENT

Premises and equipment comprise:

	Useful Life In Years	As of December 31, 2018		2017	
(Dollars in thousands)					
Buildings and improvements	10-35	$	131,206	$	132,008
Leasehold improvements	1-10		54,734		53,866
Furniture and equipment	2-10		176,116		166,853
			362,056		352,727
Accumulated depreciation and amortization			(256,355)		(245,777)
			105,701		106,950
Land			24,640		24,640
Projects in progress			17,473		10,305
Total premises and equipment, net		$	147,814	$	141,895

Depreciation and amortization expense amounted to $15.0 million, $16.4 million, and $17.6 million for the years ended December 31, 2018, 2017, and 2016, respectively.

The Corporation identified impairment to several of its facilities and equipment in the areas affected by Hurricanes Irma and Maria. Losses related to the damaged facilities and equipment were charged against earnings in 2018 and 2017, and included as a component of "Other non-interest income" in the consolidated statements of income. The losses were determined with information available as to carrying amounts of impaired assets and the extent of the damage sustained. Management identified asset impairments of approximately $1.3 million and $0.6 million as of December 31, 2018 and 2017, respectively. The Corporation maintains insurance policies for casualty losses that provide for replacement value coverage.

During 2018, the Corporation received insurance proceeds of $2.0 million related to losses incurred at some facilities. The insurance proceeds were recorded against impairment losses. Insurance recoveries in excess of losses measured, amounting to $0.5 million for 2018, were recognized as a gain from insurance proceeds and also reported as part of "Other non-interest income" in the consolidated statement of income.

229

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 14 – GOODWILL AND OTHER INTANGIBLES

Goodwill as of December 31, 2018 and 2017 amounted to $28.1 million, recognized as part of "Other Assets" in the consolidated statements of financial condition. The Corporation conducted its annual evaluation of goodwill and other intangibles during the fourth quarter of 2018. The Corporation's goodwill is related to the U.S. (Florida) reporting unit.

The Corporation bypassed the qualitative assessment in 2018 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 analyses under both the market and discounted cash flow approaches, the estimated fair value of the reporting unit exceeded the carrying amount of the entity, including goodwill at the evaluation date. Goodwill was not impaired as of December 31, 2018 or 2017, nor was any goodwill written off due to impairment during 2018, 2017, or 2016.

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 ($5.7 million as of December 31, 2018 and $8.0 million as of December 31, 2017), which is being amortized over the remaining estimated life of 2.9 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 of $4.3 million (2017 - $5.5 million) primarily consists of the core deposit acquired in the February 2015 Doral Bank transaction.

In the first quarter of 2016, FirstBank Insurance Agency acquired certain insurance customer accounts and related customer records and recognized an insurance customer relationship intangible of $1.1 million ($0.6 million as of December 31, 2018 and $0.8 million as of December 31. 2017), which is being amortized over the remaining estimated life of 4.0 years on a straight-line basis. The acquired accounts have a direct relationship to the previous mortgage loan portfolio acquisitions from Doral Bank and Doral Financial in 2015 and 2014.

230

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	As of December 31,			
		2018		2017
(Dollars in thousands)				
Core deposit intangible:				
Gross amount	$	51,664	$	51,664
Accumulated amortization [1]		(47,329)		(46,186)
Net carrying amount	$	4,335	$	5,478
Remaining amortization period		6.0 years		7.0 years
Purchased credit card relationship intangible:				
Gross amount	$	24,465	$	24,465
Accumulated amortization [2]		(18,763)		(16,465)
Net carrying amount	$	5,702	$	8,000
Remaining amortization period		2.9 years		3.9 years
Insurance customer relationship intangible:				
Gross amount	$	1,067	$	1,067
Accumulated amortization [3]		(445)		(292)
Net carrying amount	$	622	$	775
Remaining amortization period		4.0 years		5.0 years

(1) For the years ended December 31, 2018, 2017 and 2016, the amortization expense of core deposit intangibles amounted to $1.1 million, $1.7 million and $2.0 million, respectively.
(2) For the years ended December 31, 2018, 2017 and 2016, the amortization expense of the purchased credit card relationship intangible amounted to $2.3 million, $2.5 million and $2.8 million, respectively.
(3) For the years ended December 31, 2018, 2017 and 2016, the amortization expense of the insurance customer relationship intangible amounted to $0.2 million, $0.2 million and $0.1 million, respectively.

The estimated aggregate annual amortization expense related to the intangible assets for future periods is as follows:

		Amount
(In thousands)		
2019	$	3,088
2020		2,851
2021		2,658
2022		915
2023		622

2024 and after	525
	231

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 15 – NON CONSOLIDATED VARIABLE INTEREST ENTITIES (“VIE”) AND SERVICING ASSETS

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

When evaluating the need to consolidate counterparties to which the Corporation has transferred assets, or with which the Corporation has entered into other transactions, the Corporation first determines if the counterparty is an entity for which a variable interest exists. If no scope exception is applicable and a variable interest exists, the Corporation then evaluates if it is the primary beneficiary of the VIE and whether the entity should be consolidated or not.

Below is a summary of transactions with 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, under seller/servicer agreements, the Corporation is required to service the loans in accordance with the issuers’ servicing guidelines and standards. As of December 31, 2018, the Corporation serviced loans securitized through GNMA with a principal balance of $1.7 billion.

Trust-Preferred Securities

In 2004, FBP Statutory Trust I, a financing trust that is wholly owned by the Corporation, sold to institutional investors $100 million of its variable-rate trust-preferred securities. FBP Statutory Trust I used 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, to purchase $103.1 million aggregate principal amount of the Corporation’s Junior Subordinated Deferrable Debentures. Also in 2004, FBP Statutory Trust II, a financing trust that is wholly owned by the Corporation, sold to institutional investors $125 million of its variable-rate trust-preferred securities. FBP

Statutory Trust II used 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, to purchase $128.9 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures. The debentures are presented in the Corporation's consolidated statement of financial condition as Other Borrowings, net of related issuance costs. The variable-rate trust-preferred securities are fully and unconditionally guaranteed by the Corporation. The Junior Subordinated Deferrable Debentures issued by the Corporation in April 2004 and September 2004 mature on June 17, 2034 and September 20, 2034, respectively; however, under certain circumstances, the maturity of Junior Subordinated Deferrable Debentures may be shortened (such shortening would result in a mandatory redemption of the variable rate trust-preferred securities).

During the first quarter of 2018, the Corporation completed the repurchase of $23.8 million of trust-preferred securities of the FBP Statutory Trust I that were auctioned in a public sale at which the Corporation was invited to participate. The Corporation's winning bid equated to 90% of the $23.8 million par value. The 10% discount resulted in a gain of approximately $2.3 million. In addition, during the third quarter of 2017, the Corporation completed the repurchase of $7.3 million of trust-preferred securities of the FBP Statutory Trust I that were offered to the Corporation by an investment banking firm. The Corporation's purchase price equated to 81% of the $7.3 million par value. The 19% discount, plus accrued interest, resulted in a gain of approximately $1.4 million. In a separate transaction, during the first quarter of 2016, the Corporation completed the repurchase of $10 million of trust-preferred securities of the FBP Statutory Trust II that were auctioned in a public sale at which the Corporation was invited to participate. The Corporation's winning bid equated to 70% of the $10 million par value. The 30% discount, plus accrued interest, resulted in a gain of approximately $4.2 million. These gains are reflected in the statement of income as a "Gain on early extinguishment of debt".

The Collins Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act eliminated certain trust-preferred securities from Tier 1 Capital; however, these instruments may remain in Tier 2 capital until the instruments are redeemed or mature. Under the indentures, the Corporation has the right, from time to time, and without causing an event of default, to defer payments of interest on the Junior Subordinated Deferrable Debentures by extending the interest payment period at any time and from time to time during the term of the subordinated debentures for up to twenty consecutive quarterly periods. During the second quarter of 2016, the Corporation, having received approval from the Federal Reserve, paid $31.2 million for all of the accrued but deferred interest payments plus the interest for the second quarter of 2016 on the Corporation's subordinated debentures associated with its trust-preferred securities. Subsequently, the Corporation has received quarterly approvals that have enabled it to make scheduled quarterly interest payments. As of December 31, 2018, the Corporation was current on all interest payments due on its subordinated debt. In October 2017, the New York FED terminated the formal written agreement (the "Written Agreement") entered into on June 3, 2010

by the Corporation and the Reserve Bank. However, the Corporation has agreed with its regulators to continue to obtain approval before paying dividends, receiving dividends from the Bank, making payments on subordinated debt or trust-preferred securities, incurring or guaranteeing debt or purchasing or redeeming any corporate stock. The Corporation has received approval to make the subordinated debentures' quarterly payment through December 2019, subject to conditions established in the agreement with regulators.

Grantor Trusts

During 2004 and 2005, an unaffiliated party, referred to in this subsection as the seller, established a series of statutory trusts to effect the securitization of mortgage loans and the sale of trust certificates (the "Grantor Trusts"). 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 trust certificates are variable-rate securities indexed to 90-day LIBOR plus a spread. The principal payments from the underlying loans are remitted to a paying agent (servicer), who then remits interest to the Bank. Interest income is shared to a certain extent with the FDIC, which has an interest only strip ("IO") tied to the cash flows of the underlying loans and is entitled to receive the excess of the interest income less a servicing fee over the variable rate income that the Bank earns on the securities. This IO is limited to the weighted-average coupon on the securities. The FDIC became the owner of the IO upon its intervention of the seller, a failed financial institution. No recourse agreement exists, and the Bank, as a sole holder of the certificates, absorbs all risks from losses on non-accruing loans and repossessed collateral. As of December 31, 2018, the amortized cost and fair value of the Grantor Trusts amounted to $19.3 million and $13.9 million, respectively, with a weighted-average yield of 4.89%, which is included as part of the Corporation's available-for-sale investment securities portfolio.

Investment in unconsolidated entity

On February 16, 2011, FirstBank sold an asset portfolio consisting of performing and nonaccrual 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 matured in February 2018 and was refinanced and consolidated with other outstanding loans of CPG/GS in the second quarter of 2018. As of December 31, 2018, the carrying amount of the refinanced loan was $6.2 million, which was included in the Corporation's commercial mortgage loans held for investment portfolio. This loan has a three-year maturity, bears a fixed-interest rate, and is primarily secured by income-producing real estate properties and certain residential units.

FirstBank's equity interest in CPG/GS is accounted for under the equity method. FirstBank recorded a loss on its interest in CPG/GS in 2014 that reduced to zero the carrying amount of the Bank's investment in CPG/GS. No negative investment needs to be reported as the Bank has no legal obligation or commitment to provide further financial support to this entity; thus, no further losses have been or will be recorded on this investment.

Cash proceeds received by CPG/GS have been first used to cover operating expenses and debt service payments, including those related to the refinanced loan 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%, which has not occurred, 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 affect the entity's economic performance and the obligation to absorb losses of, or the right to receive benefits from, CPG/GS 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 or influence the loan portfolio, foreclosure proceedings, or the construction and sale of the property; therefore, the Bank concluded that it is not the primary beneficiary of CPG/GS.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Servicing Assets

The Corporation sells residential mortgage loans to GNMA, which generally securitizes the transferred loans into mortgage-backed securities. Also, certain conventional conforming loans are sold to FNMA or FHLMC with servicing retained. The Corporation recognizes as separate assets the rights to service loans for others, whether those servicing assets are originated or purchased.

The changes in servicing assets are shown below:

	Year Ended December 31,		
	2018	2017	2016
(In thousands)			
Balance at beginning of year	$ 25,255	$ 26,244	$ 24,282
Capitalization of servicing assets	3,864	3,318	5,260
Amortization	(2,895)	(3,091)	(3,229)
Temporary impairment recoveries (charges), net	1,289	(1,611)	(325)
Other (1)	(85)	395	256
Balance at end of year	$ 27,428	$ 25,255	$ 26,244

(1) Amount represents adjustments 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 were as follows:

	Year ended December 31,		
	2018	2017	2016
(In thousands)			
Balance at beginning of year	$ 1,451	$ 461	$ 136
Temporary impairment charges	123	1,611	466
OTTI of servicing assets	(132)	(621)	-
Recoveries	(1,412)	-	(141)
Balance at end of year	$ 30	$ 1,451	$ 461

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The components of net servicing income are shown below:

	Year ended December 31, 2018	2017	2016
(In thousands)			
Servicing fees	$ 8,704	$ 7,630	$ 7,606
Late charges and prepayment penalties	510	405	674
Adjustment for loans repurchased	(85)	395	256
Other	(8)	(35)	(1)
Servicing income, gross	9,121	8,395	8,535
Amortization and impairment of servicing assets	(1,606)	(4,702)	(3,554)
Servicing income, net	$ 7,515	$ 3,693	$ 4,981

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
2018:		
Constant prepayment rate:		
Government-guaranteed mortgage loans	6.0%	5.6%
Conventional conforming mortgage loans	6.5%	6.2%
Conventional non-conforming mortgage loans	10.3%	9.1%
Discount rate:		
Government-guaranteed mortgage loans	12.0%	12.0%
Conventional conforming mortgage loans	10.0%	10.0%
Conventional non-conforming mortgage loans	14.3%	14.3%
2017:		
Constant prepayment rate:		
Government-guaranteed mortgage loans	6.2%	6.0%
Conventional conforming mortgage loans	6.7%	6.3%
Conventional non-conforming mortgage loans	9.5%	9.1%
Discount rate:		
Government-guaranteed mortgage loans	12.0%	12.0%
Conventional conforming mortgage loans	10.0%	10.0%
Conventional non-conforming mortgage loans	14.3%	14.3%
2016:		
Constant prepayment rate:		
Government-guaranteed mortgage loans	7.6%	5.9%
Conventional conforming mortgage loans	8.0%	6.3%
Conventional non-conforming mortgage loans	14.1%	9.3%

Discount rate:		
Government-guaranteed mortgage loans	12.0%	11.5%
Conventional conforming mortgage loans	10.0%	9.5%
Conventional non-conforming mortgage loans	14.3%	13.8%

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The weighted averages of the key economic assumptions that the Corporation used in its valuation model and the sensitivity of the current fair value to immediate 10% and 20% adverse changes in those assumptions for mortgage loans as of December 31, 2018 were as follows:

(Dollars in thousands)		
Carrying amount of servicing assets	$	27,428
Fair value	$	31,738
Weighted-average expected life (in years)		8.45
Constant prepayment rate (weighted-average annual rate)		6.26%
Decrease in fair value due to 10% adverse change	$	747
Decrease in fair value due to 20% adverse change	$	1,462
Discount rate (weighted-average annual rate)		11.25%
Decrease in fair value due to 10% adverse change	$	1,528
Decrease in fair value due to 20% adverse change	$	2,930

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

NOTE 16 – DEPOSITS AND RELATED INTEREST

The following table summarizes deposit balances as of the dates indicated:

	December 31,			
		2018		**2017**
(In thousands)				
Type of account and interest rate:				
Non-interest-bearing checking accounts	$	2,395,481	$	1,833,665
Interest-bearing savings accounts - 0.05% to 0.40% (2017- 0.05% to 0.40%)		2,334,949		2,401,385
Interest-bearing checking accounts - 0.05% to 1.00% (2017- 0.05% to 1.00%)		1,304,043		1,207,511
Certificates of deposit- 0.10% to 4.00% (2017- 0.10% to 4.00%)		2,404,644		2,429,585
Brokered certificates of deposit- 1.10% to 3.00% (2017- 0.85% to 2.80%)		555,597		1,150,485

	$ 8,994,714	$ 9,022,631

The weighted-average interest rate on total interest-bearing deposits as of December 31, 2018 and 2017 was 1.03% and 0.97%, respectively.

As of December 31, 2018, the aggregate amount of unplanned overdrafts of demand deposits that were reclassified as loans amounted to $2.1 million (2017 - $1.7 million). Pre-arranged overdrafts lines of credit amounted to $21.7 million as of December 31, 2018 (2017- $15.2 million).

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following table presents the contractual maturities of CDs, including brokered CDs, as of December 31, 2018:

(In thousands)		Total
Three months or less	$	516,484
Over three months to six months		422,723
Over six months to one year		726,199
Over one year to two years		643,293
Over two years to three years		321,978
Over three years to four years		180,994
Over four years to five years		144,951
Over five years		3,619
Total	$	2,960,241

As of December 31, 2018, CDs in denominations of $100,000 or higher amounted to $2.2 billion (2017- $2.8 billion) including brokered CDs of $555.6 million (2017 - $1.2 billion) at a weighted-average rate of 1.88% (2017 - 1.50%) issued to deposit brokers in the form of large certificates of deposits that are generally participated out by brokers in shares of less than the FDIC insurance limit. As of December 31, 2018, unamortized broker placement fees amounted to $1.1 million (2017 - $2.2 million), which are amortized over the contractual maturity of the brokered CDs under the interest method.

Brokered CDs mature as follows:

(In thousands)		December 31, 2018
Three months or less	$	86,024
Over three months to six months		42,879
Over six months to one year		130,692
One to three years		249,284
Three to five years		45,336
Over five years		1,382
Total	$	555,597

As of December 31, 2018, deposit accounts issued to government agencies amounted to $900.8 million (2017-$652.0 million). These deposits in Puerto Rico and the U.S. Virgin Islands are insured by the FDIC up to the applicable limits, generally $250,000. The uninsured portions were collateralized by securities and loans with an

amortized cost of $615.7 million (2017 - $562.5 million) and an estimated market value of $592.9 million (2017 - $542.9 million). In addition, as of December 31, 2018, the Corporation used $182.0 million in letters of credit issued by the FHLB as pledges for public deposits in the Virgin Islands. As of December 31, 2018, the Corporation had $677.3 million of government deposits in Puerto Rico (2017 - $490.3 million) and $223.4 million in the Virgin Islands (2017 - $161.7 million).

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

A table showing interest expense on deposits follows:

	Year Ended December 31,		
	2018	**2017**	**2016**
(In thousands)			
Interest-bearing checking accounts	$ 5,208	$ 4,566	$ 4,914
Savings	14,298	12,520	12,392
Certificates of deposit	33,652	30,277	28,068
Brokered certificates of deposit	14,493	19,174	21,928
Total	$ 67,651	$ 66,537	$ 67,302

The total interest expense on deposits includes the amortization of broker placement fees related to brokered CDs amounting to $1.2 million, $1.9 million, and $2.9 million for 2018, 2017 and 2016, respectively. For 2018, 2017 and 2016, total interest expense includes $9 thousand, $0.1 million, and $0.2 million, respectively, for the accretion of premiums related to time deposits assumed in the Doral Bank transaction in 2015.

NOTE 17 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase (repurchase agreements) as of the dates indicated consisted of the following:

	December, 31	
	2018	**2017**
(Dollars in thousands)		
Short-term fixed-rate repurchase agreement with a rate of 2.85% (December 31, 2017 - 1.53%)	$ 50,086	$ 100,000
Long-term fixed-rate repurchase agreements, interest rate of 2.26% (December 31, 2017: interest ranging from 1.96% to 2.26%) (1)(2)	100,000	200,000
	$ 150,086	$ 300,000

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

(2) During the third quarter of 2018, the call option on a $100 million repurchase agreement that carried a cost of 1.96% was exercised. Subsequent to December 31, 2018, the lender had the option to call another repurchase agreement, which was not exercised.

The weighted-average interest rates on repurchase agreements as of December 31, 2018 and 2017 were 2.46% and 1.92%, respectively. Accrued interest payable on repurchase agreements amounted to $2.8 million and $1.8 million as of December 31, 2018 and 2017, respectively.

Repurchase agreements mature as follows:

(In thousands)		December 31, 2018
Three months or less	$	50,086
Over three to four years		100,000
Total	$	150,086

238

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following securities were sold under agreements to repurchase:

	December 31, 2018			
Underlying Securities (In thousands)	**Amortized Cost of Underlying Securities**	**Balance of Borrowing**	**Approximate Fair Value of Underlying Securities**	**Weighted Average Interest Rate of Security**
U.S. government-sponsored agencies	$ 31,396	$ 25,276	$ 30,958	1.55%
Mortgage-backed securities	155,963	124,810	151,777	2.39%
Total	$ 187,359	$ 150,086	$ 182,735	
Accrued interest receivable	$ 483			

	December 31, 2017			
Underlying Securities (In thousands)	**Amortized Cost of Underlying Securities**	**Balance of Borrowing**	**Approximate Fair Value of Underlying Securities**	**Weighted Average Interest Rate of Security**
U.S. government-sponsored agencies	$ 132,637	$ 127,801	$ 131,271	1.39%
Mortgage-backed securities	222,325	172,199	218,852	2.29%
Total	$ 354,962	$ 300,000	$ 350,123	
Accrued interest receivable	$ 1,060			

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The maximum aggregate balance outstanding at any month-end during 2018 was $200 million (2017 - $300 million). The average balance during 2018 was $166.0 million (2017 - $300 million). The weighted-average interest rate during 2018 and 2017 was 5.66% and 3.64%, respectively, considering negative market rates on reverse repurchase agreements.

As of December 31, 2018 and 2017, the securities underlying such agreements were delivered to the dealers with which the repurchase agreements were transacted.

Repurchase agreements as of December 31, 2018, grouped by counterparty, were as follows:

Counterparty		Amount	Weighted-Average Maturity (In Months)
(Dollars in thousands)			
JP Morgan Chase	$	150,086	35

NOTE 18 – ADVANCES FROM THE FEDERAL HOME LOAN BANK (FHLB)

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

		December 31, 2018		December 31, 2017
(Dollars in thousands)				
Long-term fixed-rate advances from FHLB, with a weighted-average interest rate of 2.07% (December 31, 2017 - 1.91%)	$	740,000	$	715,000

Advances from FHLB mature as follows:

		December 31, 2018
(In thousands)		
Over six months to one year	$	205,000
Over one to three years		335,000

Over three to five years		200,000
Total	$	740,000

240

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Advances are received from the FHLB under an Advances, Collateral Pledge, and Security Agreement (the "Collateral Agreement"). Under the Collateral Agreement, the Corporation is required to maintain a minimum amount of qualifying mortgage collateral with a market value of generally 125% or higher than the outstanding advances. As of December 31, 2018, the estimated value of specific mortgage loans pledged as collateral amounted to $1.3 billion (2017 - $1.4 billion), as computed by the FHLB for collateral purposes. The carrying value of such loans as of December 31, 2018 amounted to $1.7 billion (2017 - $1.7 billion). As of December 31, 2018, the Corporation had additional capacity of approximately $422.2 million on this credit facility based on collateral pledged at the FHLB, including a haircut reflecting the perceived risk associated with the collateral. Haircut refers to the percentage by which an asset's market value is reduced for the purpose of collateral levels. Advances may be repaid prior to maturity, in whole or in part, at the option of the borrower upon payment of any applicable fee specified in the contract governing such advance. In calculating the fee, due consideration is given to (i) all relevant factors, including, but not limited to, any and all applicable costs of repurchasing and/or prepaying any associated liabilities and/or hedges entered into with respect to the applicable advance; (ii) the financial characteristics, in their entirety, of the advance being prepaid; and (iii), in the case of adjustable-rate advances, the expected future earnings of the replacement borrowing as long as the replacement borrowing is at least equal to the original advance's par amount and the replacement borrowing's tenor is at least equal to the remaining maturity of the prepaid advance.

NOTE 19 – OTHER BORROWINGS

Other borrowings, as of the indicated dates, consist of:

(In thousands)		**December 31, 2018**		**December 31, 2017**
Junior subordinated debentures due in 2034, interest-bearing at a floating rate of 2.75% over 3-month LIBOR (5.54% as of December 31, 2018 and 4.35% as of December 31, 2017) (1)	$	65,593	$	90,078
Junior subordinated debentures due in 2034, interest-bearing at a floating rate of 2.50% over 3-month LIBOR (5.29% as of December 31, 2018 and 4.12% as of December 31, 2017)		118,557		118,557
	$	184,150	$	208,635

(1) Refer to Note 15 - Non-Consolidated Variable Interest Entities and Servicing Assets-Trust-Preferred Securities, for additional information about the Corporation's repurchase and cancellation in the first quarter of 2018 of $23.8 million in trust-preferred securities associated with these junior subordinated debentures.

241

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 20 – EARNINGS PER COMMON SHARE

The calculation of earnings per common share for the years ended December 31, 2018, 2017, and 2016 are as follows:

	Year Ended December 31,		
	2018	**2017**	**2016**
(In thousands, except per share information)			
Net income	$ 201,608	$ 66,956	$ 93,229
Less: Preferred stock dividends	(2,676)	(2,676)	(223)
Net income attributable to common stockholders	$ 198,932	$ 64,280	$ 93,006
Weighted-Average Shares:			
Average common shares outstanding	215,709	213,963	212,818
Average potential dilutive common shares	968	2,155	2,976
Average common shares outstanding - assuming dilution	216,677	216,118	215,794
Earnings per common share:			
Basic	$ 0.92	$ 0.30	$ 0.44
Diluted	$ 0.92	$ 0.30	$ 0.43

Earnings per common share is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares issued and outstanding. Net income attributable to common stockholders represents net income adjusted for any preferred stock dividends, including any dividends declared, and any cumulative dividends related to the current dividend period that have not been declared as of the end of the period. Basic weighted-average common shares outstanding exclude unvested shares of restricted stock that do not contain non-forfeitable dividend rights.

Potential dilutive common shares consist of unvested shares of restricted stock that do not contain non-forfeitable dividend rights, performance units that do not contain non-forfeitable dividend rights if the performance condition is met as of the end of the reporting period, warrants outstanding during the period and common stock issued under the

assumed exercise of stock options using the treasury stock method. This method assumes that the potential dilutive common shares are issued and outstanding and the proceeds from the exercise, in addition to the amount of compensation cost attributable to future services, are used to purchase common stock at the exercise date. The difference between the numbers of potential dilutive shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Unvested shares of restricted stock and performance units that do not contain non-forfeitable dividend rights, stock options, and warrants outstanding during the period that result in lower potential dilutive shares issued than shares purchased under the treasury stock method, are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect on earnings per share. Stock options not included in the computation of outstanding shares because they were antidilutive amounted to 34,989 as of December 31, 2016. There were no stock options outstanding as of December 31, 2018 and 2017.

On May 17, 2018, the U.S. Treasury exercised its warrant to purchase 1,285,899 shares of the Corporation’s common stock on cashless basis, resulting in the issuance of 730,571 shares of common stock.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 21 – STOCK-BASED COMPENSATION

On May 24, 2016, the Corporation's stockholders approved the amendment and restatement of the First BanCorp. Omnibus Incentive Plan, as amended (the "Omnibus Plan"), to, among other things, increase the number of shares of common stock reserved for issuance under the Omnibus Plan, extend the term of the Omnibus Plan to May 24, 2026 and re-approve the material terms of the performance goals under the Omnibus Plan for purposes of the then effective Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended. The Omnibus Plan provides for equity-based compensation incentives (the "awards") through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, cash-based awards and other stock-based awards. The Omnibus Plan authorizes the issuance of up to 14,169,807 shares of common stock, subject to adjustments for stock splits, reorganizations and other similar events. As of December 31, 2018, 6,897,855 authorized shares of common stock were available for issuance under the Omnibus Plan. The Corporation's Board of Directors, based on the recommendation of the Corporation's Compensation and Benefits Committee, has the power and authority to determine those eligible to receive awards and to establish the terms and conditions of any awards, subject to various limits and vesting restrictions that apply to individual and aggregate awards.

Restricted Stock

Under the Omnibus Plan, the Corporation may grant restricted stock to plan participants, subject to forfeiture upon the occurrence of certain events until the dates specified in the participant's award agreement. While the restricted stock is subject to forfeiture and does not contain non-forfeitable dividend rights, restricted stock participants may exercise full voting rights. The restricted stock granted under the Omnibus Plan is typically subject to a vesting period. During 2018, the Corporation awarded to its independent directors 65,447 shares of restricted stock that are subject to a one-year vesting period. In addition, during 2018, the Corporation awarded 342,439 shares of restricted stock to employees; fifty percent (50%) of those shares vest in two years from the grant date and the remaining (50%) vest in three years from the grant date. Included in those 342,439 shares of restricted stock were 20,447 shares granted to retirement-eligible employees at the grant date. The total expense determined for the restricted stock awarded to retirement-eligible employees was charged against earnings at the grant date. The fair value of the shares of restricted stock granted in 2018 was based on the market price of the Corporation's outstanding common stock on the date of the grant.

The following table summarizes the restricted stock activity in 2018 under the Omnibus Plan:

	2018	
	Number of shares of restricted	**Weighted-Average Grant Date**

	stock		Fair Value
Non-vested shares at beginning of year	1,816,968	$	2.76
Granted	407,886		6.71
Forfeited	(16,000)		4.31
Vested	(1,244,744)		2.47
Non-vested shares at end of year	964,110	$	4.79

For the years ended December 31, 2018, 2017 and 2016, the Corporation recognized $3.4 million, $4.0 million and $3.9 million, respectively, of stock-based compensation expense related to restricted stock awards. As of December 31, 2018, there was $2.2 million of total unrecognized compensation cost related to non-vested shares of restricted stock. The weighted average period over which the Corporation expects to recognize such cost is 1.3 years.

During 2017, the Corporation awarded to its independent directors 148,424 shares of restricted stock subject to a one-year vesting period. In addition, during 2017, the Corporation awarded 951,332 shares of restricted stock to employees subject to a vesting period of two years. Included in those 951,332 shares of restricted stock were 838,332 shares granted in the first quarter of 2017 to certain senior officers consistent with the requirements of the Troubled Asset Relief Program ("TARP") Interim Final Rule. On May 10, 2017, the United States Department of the Treasury (the "U.S. Treasury") announced that it had sold all of its remaining 10,291,553 shares of the Corporation's common stock. As a result of the sale by U.S. Treasury, the Corporation ceased being subject to the compensation-related restrictions under TARP, which substantially limited the Corporation's ability to award short-term and long-term incentives to the Corporation's executives, and the Corporation's senior officers are no longer subject to the transferability restrictions on their shares of restricted stock. However, since the U.S. Treasury did not recover the full amount of its original investment under TARP, the senior officers

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

forfeited 2,370,571, or 50%, of their outstanding shares of restricted stock, resulting in a reduction in the number of common shares outstanding.

The Corporation accounted for the restricted stock that it granted in 2017 prior to the U.S. Treasury's sale of its shares at a discount from the market price of the Corporation's outstanding common stock on the date of the grant. For the 838,332 shares of restricted stock granted under the TARP requirements, the market price was discounted assuming that 50% of the shares of restricted stock would become freely transferable and the remaining 50% would be forfeited, resulting in a fair value of $2.71 for each share of restricted stock granted under TARP requirements.

Stock-based compensation accounting guidance requires the Corporation to reverse compensation expense for any awards that are forfeited due to employee or director turnover. Quarterly changes in the estimated forfeiture rate may have a significant effect on stock-based compensation, as the effect of adjusting the rate for all expense amortization is recognized in the period in which the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease in the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase in the expense recognized in the financial statements. The estimated forfeiture rate did not change as a result of the restricted shares forfeited in connection with the aforementioned U.S. Treasury's sale of the Corporation's common stock.

Performance Units

Under the Omnibus Plan, the Corporation may award performance units to Omnibus Plan participants. During 2018, the Corporation granted 304,408 units to executives, with each unit representing the value of one share of the Corporation's common stock. The performance units granted are for the performance period beginning January 1, 2018 and ending on December 31, 2020 and are subject to a three-year requisite service period. These awards do not contain non-forfeitable rights to dividend equivalent amounts and can only be settled in shares of the Corporation's common stock. Included in those 304,408 performance units were 29,171 units granted to retirement-eligible executives at the grant date. The performance units will vest based on the achievement of a pre-established tangible book value per share target as of December 31, 2020. All of the performance units will vest if performance is at the pre-established performance target level or above. However, the participants may vest on 50% of the awards to the extent that performance is below the target but at 80% of the pre-established performance target level (the 80% minimum threshold), which is measured based upon the growth in the tangible book value during the performance cycle. If performance is between the 80% minimum threshold and the pre-established performance target level, the participants will vest on a proportional amount. No performance units will vest if performance is below the 80% minimum threshold.

The fair value of the performance units awarded during 2018 was based on the market price of the Corporation's outstanding common stock on the date of the grant. For the year ended December 31, 2018, the Corporation recognized $0.6 million of stock-based compensation related to performance units. As of December 31, 2018, there was $1.3 million of total unrecognized compensation cost related to unvested performance units that the Corporation expects to recognize over the three-year requisite service period. The total expense determined for the performance units awarded to retirement-eligible executives was charged against earnings at the grant date. The total amount of compensation expense recognized reflects management's assessment of the probability that the pre-established performance goal will be achieved. A cumulative adjustment to compensation expense is recognized in the current period to reflect any changes in the probability of achievement of the performance goals.

Salary stock

Also, effective April 1, 2013, the Corporation's Board of Directors determined to increase the salary amounts paid to certain executive officers, primarily by paying the increased salary amounts in the form of shares of the Corporation's common stock issued under the Omnibus Plan, instead of cash. During 2018, the Corporation issued 268,709 shares of common stock (as compared to 582,193 shares during 2017) with a weighted-average market value of $6.51 (as compared to a weighted average market value of $5.64 during 2017) as salary stock compensation. This resulted in a compensation expense of $1.7 million recorded in 2018 (as compared to $3.3 million during 2017). Effective July 1, 2018, the payment of additional salary amounts in the form of stock was eliminated in accordance with the previously disclosed revised executive compensation program.

For 2018, the Corporation withheld 96,377 shares (2017 – 195,789 shares) from the common stock paid to certain senior officers as additional compensation and 337,689 shares of restricted stock that vested during 2018 (2017- 243,102 shares) to cover employees' payroll and income tax withholding liabilities; these shares are held as treasury shares. The Corporation paid in cash any fractional share of salary stock to which the officer was entitled. In the consolidated financial statements, the Corporation treats shares withheld for tax purposes as common stock repurchases..

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 22 – STOCKHOLDERS' EQUITY

Common Stock

As of December 31, 2018 and 2017, the Corporation had 2,000,000,000 authorized shares of common stock with a par value of $0.10 per share. As of December 31, 2018 and 2017, there were 221,789,509 and 220,382,343 shares issued, respectively, and 217,235,140 and 216,278,040, shares outstanding, respectively. Refer to Note 21 – Stock-Based Compensation, for information about transactions related to common stock under the Omnibus Plan.

On November 14, 2018, for the first time since June 2009, the Corporation's Board of Directors, after receiving regulatory approval, declared a quarterly cash dividend of $0.03 per common share which was paid on December 14, 2018, to common stockholders of record on November 30, 2018. Total cash dividends paid on shares of common stock amounted to $6.5 million for 2018. The Corporation has received regulatory approval to pay quarterly dividends on common stock through December 2019, subject to conditions established in the agreement with regulators. The Corporation intends to request approval in future periods to continue quarterly dividend payments on common stock.

On May 17, 2018, the U.S. Treasury exercised its warrant to purchase 1,285,899 shares of the Corporation's stock on a cashless basis resulting in the issuance of 730,571 shares of common stock and the use of 555,328 shares to cover the strike price of the transaction. Cash paid in lieu of fractional shares was $6.58.

On May 10, 2017, the U.S. Treasury announced that it sold all of its remaining 10,291,553 shares of the Corporation's common stock. Since the U.S. Treasury did not recover the full amount of its original investment under TARP, 2,370,571 outstanding restricted shares held by the Corporation's employees were forfeited, resulting in a reduction in the number of common shares outstanding.

On February 7, 2017, funds affiliated with Thomas H. Lee Partners, L.P. ("THL") and funds managed by Oaktree Capital Management ("Oaktree") sold 20 million shares (10 million shares each) of the Corporation's common stock. Subsequently, the underwriters exercised their option to purchase an additional 3 million shares of the Corporation's common stock from the selling stockholders. Also, on August 3, 2017, THL and Oaktree participated in another secondary offering of the Corporation's common stock in which they sold an aggregate of 20 million shares (10 million shares each) of common stock. The Corporation did not receive any proceeds from these offerings. As of December 31, 2018, each of THL and Oaktree owned less than 5% of the Corporation's common stock.

Preferred Stock

The Corporation has 50,000,000 authorized shares of preferred stock with a par value of $1.00, redeemable at the Corporation's option, subject to certain terms. This stock may be issued in series and the shares of each series have such rights and preferences as are fixed by the Board of Directors when authorizing the issuance of that particular series. As of December 31, 2018, the Corporation has five outstanding series of non-convertible, non-cumulative preferred stock: 7.125% non-cumulative perpetual monthly income preferred stock, Series A; 8.35% non-cumulative perpetual monthly income preferred stock, Series B; 7.40% non-cumulative perpetual monthly income preferred stock, Series C; 7.25% non-cumulative perpetual monthly income preferred stock, Series D; and 7.00% non-cumulative perpetual monthly income preferred stock, Series E. The liquidation value per share is $25.

Effective January 17, 2012, the Corporation delisted all of its outstanding series of non-convertible, non-cumulative preferred stock from the New York Stock Exchange. The Corporation has not arranged for listing and/or registration on another national securities exchange or for quotation of the Series A through E Preferred Stock in a quotation medium. In December 2016, for the first time since July 2009, the Corporation paid dividends on its non-cumulative perpetual monthly income preferred stock, after receiving regulatory approval. Since then, the Corporation has continued to pay monthly dividend payments on the non-cumulative perpetual monthly income preferred stock. The Corporation has received regulatory approval to pay the monthly dividends on the Corporation's Series A through E Preferred Stock through December 2019, subject to conditions established in the agreement with regulators. The Corporation intends to request approval in future periods to continue monthly dividend payments on the non-cumulative perpetual monthly income preferred stock.

On October 3, 2017, the Federal Reserve terminated the Written Agreement entered into on June 3, 2010 by the Corporation and the Federal Reserve. However, the Corporation has agreed with its regulators to continue to obtain approval before paying dividends, receiving dividends from the Bank, making payments on subordinated debt or trust preferred securities, incurring or guaranteeing debt or purchasing or redeeming any corporate stock.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Treasury stock

During 2018 and 2017, the Corporation withheld an aggregate of 434,066 shares and 438,891 shares, respectively, of the common stock paid to certain senior officers as additional compensation and restricted stock that vested during 2018 and 2017 to cover employees' payroll and income tax withholding liabilities; these shares are held as treasury stock. As of December 31, 2018 and 2017, the Corporation had 4,554,369 and 4,104,303 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 a legal surplus reserve until such surplus equals the total of paid-in capital on common and preferred stock. Amounts transferred to the legal surplus reserve from the retained earnings account are not available for distribution to the Corporation, including for payment as dividends to the stockholders, without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The Puerto Rico Banking Law provides that, when the expenditures of a Puerto Rico commercial bank are greater than receipts, the excess of the expenditures over receipts must be charged against the undistributed profits of the bank, and the balance, if any, must be charged against the legal surplus reserve, as a reduction thereof. If there is no legal surplus reserve sufficient to cover such balance in whole or in part, the outstanding amount must be charged against the capital account and the Bank cannot pay dividends until it can replenish the legal surplus reserve to an amount of at least 20% of the original capital contributed. During 2018 and 2017, $20.5 million and $7.3 million, respectively, were transferred to the legal surplus reserve. FirstBank's legal surplus reserve, included as part of retained earnings in the Corporation's consolidated statement of financial condition, amounted to $80.2 million and $59.7 million as of December 31, 2018 and 2017, respectively.

NOTE 23 – EMPLOYEES' BENEFIT PLAN

FirstBank provides contributory retirement plans pursuant to Section 1081.01 of the Puerto Rico Internal Revenue Code of 2011 for Puerto Rico employees and Section 401(k) of the U.S. Internal Revenue Code for USVI and U.S. employees (the "Plans"). All employees are eligible to participate in the Plans after three months of service for purposes of making elective deferral contributions and one year of service for purposes of sharing in the Bank's matching, qualified matching, and qualified nonelective contributions. Under the provisions of the Plans, the Bank contributes 50% of the first 6% of the participant's compensation contributed to the Plans on a pretax basis. The matching contribution of fifty cents for every dollar of the employee's contribution is comprised of: (i) twenty-five cents for every dollar of the employee's contribution up to 6% of the employee's eligible compensation to be paid to the

Plan as of each bi-weekly payroll; and, (ii) an additional twenty-five cents for every dollar of the employee's contribution up to 6% of the employee's eligible compensation to be deposited as a lump sum as of the second payroll of the month of January of the Plan Year following that in which the elective deferrals were made. Puerto Rico employees were permitted to contribute up to $15,000 for each of 2018, 2017 and 2016 (USVI and U.S. employees - $18,500 for 2018 and $18,000 for each of 2017 and 2016). Additional contributions to the Plans are voluntarily made by the Bank as determined by its Board of Directors. No additional discretionary contributions were made for the years ended December 31, 2018, 2017 and 2016. The Bank had a total plan expense of $1.5 million for the year ended December 31, 2018, $0.9 million for 2017, and $1.1 million for 2016.

NOTE 24 –OTHER NON-INTEREST EXPENSES

A detail of other non-interest expenses is as follows:

	Year Ended December 31,		
	2018	**2017**	**2016**
(In thousands)			
Supplies and printing	$ 2,177	$ 1,990	$ 1,502
(Release) provision for unfunded lending commitments	(264)	(928)	1,173
Amortization of intangible assets	3,593	4,403	4,896
Servicing and processing fees	4,991	4,421	4,604
Write-down and losses on sale of non-real estate repossessed properties	62	253	689
Insurance and supervisory fees	4,602	4,809	4,865
Other	6,914	7,203	8,022
Total	$ 22,075	$ 22,151	$ 25,751

246

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 25 –OTHER NON-INTEREST INCOME

A detail of other non-interest income is as follows:

	Year Ended		
(In thousands)	2018	2017	2016
Non-deferrable loan fees	$ 2,384	$ 2,109	$ 3,346
Commissions and fees-broker-dealer-related	-	-	789
Merchant-related income	5,244	4,209	4,095
ATM and POS fees	9,515	8,929	8,462
Credit and debit card interchange and other fees	9,598	7,587	7,492
Mail and cable transmission commissions	2,101	1,729	1,740
Fair value adjustments and losses on sales of commercial and construction loans held for sale	(3,186)	-	-
Gain from sales of fixed-assets	1,366	149	591
Gain from insurance proceeds	537	-	-
Other	5,183	4,142	4,385
Total	$ 32,742	$ 28,854	$ 30,900

NOTE 26 – INCOME TAXES

Income tax expense includes Puerto Rico and USVI income taxes as well as applicable U.S. federal and state taxes. The Corporation is subject to Puerto Rico income tax on its income from all sources. As a Puerto Rico corporation, First BanCorp. is treated as a foreign corporation for U.S. and USVI income tax purposes and, accordingly, 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 jurisdictions. Any such tax paid in the U.S. and USVI is also creditable against the Corporation's Puerto Rico tax liability, subject to certain conditions and limitations.

Under the Puerto Rico Internal Revenue Code of 2011, as amended (the "2011 PR Code"), the Corporation and its subsidiaries are treated as separate taxable entities and are generally not entitled to file consolidated tax returns and, thus, the Corporation is generally not entitled 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. Pursuant to the 2011 PR Code, the carryforward period for NOLs incurred during taxable years that commenced after December 31, 2004 and ended before January 1, 2013 is 12 years; for NOLs incurred during taxable years commencing after

December 31, 2012 the carryover period is 10 years. The 2011 PR Code allows an entity organized as a limited liability company to elect to become a non-taxable "pass-through" entity and utilize losses to offset income from other "pass-through" entities, subject to certain limitations, with the remaining net income passing-through to its partner entities. The 2011 PR Code also 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.

On March 1, 2017, the Corporation completed the applicable regulatory filings to change the tax status of its subsidiary, First Federal Finance, from a taxable corporation to a non-taxable "pass-through" entity. This election has allowed the Corporation to realize tax benefits of its deferred tax assets associated with pass-through ordinary net operating losses available at the banking subsidiary, FirstBank, which were subject to a full valuation allowance as of December 31, 2016, against now pass-through ordinary income from this profitable subsidiary.

On March 1, 2017, the Corporation also completed the applicable regulatory filings to change the tax status of its subsidiary, FirstBank Insurance, from a taxable corporation to a non-taxable "pass-through" entity. This election has allowed the Corporation to offset pass-through income earned by FirstBank Insurance with net operating losses available at the Holding Company level.

On December 22, 2017, the United States President signed H.R.1, The Tax Cuts and Jobs Acts, effective January 1, 2018, which includes an overhaul of individual, business and international taxes and has affected our branch operations in the U.S. and the USVI. The bill includes measures reducing corporate taxes from 35% to 21%, a repeal of the corporate alternative minimum tax regime, changes to business deductions and NOLs, a 15.5% tax on mandatory repatriation of liquid assets, 10% tax on base erosion payments,

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

and a minimum 10.5% tax on inclusion of global intangible low-tax income by U.S. shareholders, among other significant changes. The main provisions affecting our operations in the U.S. and the USVI for the year 2018 include: the change in tax rate to 21%, the limitation to the amount certain financial institutions may deduct for premiums paid to the FDIC, and changes in permanent differences, such as meals and entertainment deductions. Other significant provisions, such as the base erosion and anti-abuse tax, do not affect the Corporation's U.S. and USVI branch operations since these operations' receipts do not exceed the annual threshold of U.S. effectively connected gross receipts.

On December 10, 2018, the Governor of Puerto Rico signed into Law Act 257 ("Act 257") to amend some of the provisions of the 2011 PR Code, as amended. Act 257 introduces various changes to the current income tax regime in the case of individuals and corporations, and the sales and use taxes that are effective January 1, 2019, including, among others, (i) a reduction in the Puerto Rico corporate tax rate from 39% to 37.5%; (ii) an increase in the net operating and capital losses usage limitation from 80% to 90%; (iii) amendments to the provisions related to "pass-through" entities that provide that corporations that own 50% or more of a partnership will not be able to claim a current or carryover non partnership NOLs deduction against a partnership distributable share, adversely impacting the above described tax action taken in 2017 for FirstBank Insurance; and (iv) other limitations on certain deductions such as meals and entertainment deductions. The PROMESA oversight board accepted the required certification submitted by the Legislature of Puerto Rico (the "Compliance Certification") acknowledging that Act 257 is not significantly inconsistent with the Commonwealth's Fiscal Plan as it applies to Articles 1 through 131 and 164-165 of Act 257. However, the PROMESA oversight board expressed concerns regarding certain provisions of Act 257, specifically Articles 132 through 163, regarding the video lottery terminals that operate outside casinos in Puerto Rico. It is not yet determined whether Act 257 will be further amended to accommodate any mandate from the PROMESA oversight board.

The Corporation has maintained an effective tax rate lower than the maximum statutory rate, mainly by investing in government obligations and MBS 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 rate to the extent that the IBE's net income exceeds 20% of the bank's total net taxable income.

The components of income tax (benefit) expense are summarized below:

	Year Ended December 31,		
	2018	**2017**	**2016**

(In thousands)						
Current income tax expense	$	14,073	$	8,179	$	13,151
Deferred income tax expense (benefit):						
Adjustment for enacted changes in tax law		15,402		138		(20)
Reversal of deferred tax asset valuation allowance		(63,228)		(1,792)		-
Other deferred income tax expense (benefit)		22,783		(11,498)		23,899
Total income tax (benefit) expense	$	(10,970)	$	(4,973)	$	37,030

248

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The differences between the income tax expense applicable to income before the provision for income taxes and the amount computed by applying the statutory tax rate in Puerto Rico were as follows:

	Year Ended December 31,					
	2018		2017		2016	
(Dollars in thousands)	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed income tax at statutory rate	$ 74,349	39.0 %	$ 24,173	39.0 %	$ 50,801	39.0 %
Federal and state taxes	3,768	2.0 %	2,335	3.8 %	-	- %
Benefit of net exempt income	(22,782)	(12.0) %	(16,596)	(26.8) %	(14,995)	(11.5) %
Disallowed NOL carryforward resulting from net exempt income	14,904	7.8 %	5,091	8.2 %	6,396	4.9 %
Deferred tax valuation allowance	(90,521)	(47.5) %	(10,037)	(16.2) %	(5,976)	(4.6) %
Adjustments in net deferred tax assets due to changes in enacted tax rates	15,402	8.1 %	138	0.2 %	(20)	- %
Change in tax status of subsidiaries	-	- %	(13,161)	(21.2) %	-	- %
Share-based compensation windfall	(1,595)	(0.8) %	(40)	- %	92	0.1 %
Effect of capital losses subject to preferential rates	-	- %	2,102	3.4 %	727	0.6 %
Non deductible expenses and other permanent differences	(839)	(0.4) %	(470)	(0.8) %	(1,720)	(1.2) %
Tax return to provision adjustments	4	- %	607	1.0 %	434	0.3 %
Other-net	(3,660)	(1.9) %	885	1.4 %	1,291	1.0 %
Total income tax (benefit) expense	$ (10,970)	(5.7) %	$ (4,973)	(8.0) %	$ 37,030	28.6 %

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Significant components of the Corporation's deferred tax assets and liabilities as of December 31, 2018 and 2017 were as follows:

	December 31,			
		2018		2017
(In thousands)				
Deferred tax asset:				
Net operating loss carryforward	$	316,059	$	376,423
Allowance for loan and lease losses		75,010		94,111
Alternative Minimum Tax credits available for carryforward		9,238		6,598
Unrealized loss on OREO valuation		15,405		14,784
Unrealized loss on available-for-sale securities, net		189		-
Settlement payment-closing agreement		7,031		7,313
Legal and other reserves		3,293		2,333
Reserve for insurance premium cancellations		610		635
Other		7,526		8,326
Total gross deferred tax assets		434,361		510,523
Deferred tax liabilities:				
Differences between the assigned values and tax bases of assets and liabilities recognized in purchase business combinations		4,192		5,143
Servicing assets		9,143		8,625
Unrealized gain on available-for-sale securities, net		-		1,306
Other		514		9,457
Total gross deferred tax liabilities		13,849		24,531
Valuation allowance		(100,661)		(191,183)
Net deferred tax asset	$	319,851	$	294,809

Accounting for income taxes requires that companies assess whether a valuation allowance should be recorded against their deferred tax asset based on an assessment of the amount of the deferred tax asset that is “more likely than not” to be realized. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized. Management assesses the valuation allowance recorded against deferred tax assets at each reporting date. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires the evaluation of positive and negative evidence that can be objectively verified. Consideration must be given to all sources of taxable income available to realize the deferred tax asset, including, as applicable, the future reversal of existing temporary differences, future taxable income forecasts exclusive of the reversal of temporary differences and carryforwards, and tax planning strategies. In estimating taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial, and regulatory guidance.

After completion of the deferred tax asset valuation allowance analysis for the fourth quarter of 2018, management concluded that, as of December 31, 2018, it is more likely than not that FirstBank, the banking subsidiary, will generate sufficient taxable income within the applicable NOL carry-forward periods to realize $220.5 million of its deferred tax assets related to NOLs and, therefore, reversed $63.2 million of the valuation allowance. The decision to partially reverse the valuation allowance was reached after weighting all of the evidence and determining that the positive evidence out weighted the negative evidence. The positive evidence considered by management in arriving at its conclusion to reverse part of the deferred tax asset valuation allowance includes factors such as: FirstBank's three-year cumulative income position; the continued profitability following the hurricane events in 2017; and forecasts of future profitability, under several potential scenarios, that support significant utilization of NOLs prior to their expiration ranging between the years 2021 through 2024. The negative evidence considered by management includes: uncertainties around the state of the Puerto Rico economy, including the effect of hurricane recovery funds together with Puerto Rico government debt renegotiation efforts and the ultimate sustainability of the approved Fiscal Plan; and consideration of the Corporation's still elevated levels of non-performing assets.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Management's estimate of future taxable income is based on internal projections that consider historical performance, multiple internal scenarios and assumptions, as well as external data that management believes is reasonable. If events are identified that affect the Corporation's ability to utilize its deferred tax assets, the analysis will be updated to determine if any adjustments to the valuation allowance are required. If actual results differ significantly from the current estimates of future taxable income, even if caused by adverse macro-economic conditions, the remaining valuation allowance may need to be increased. Such an increase could have a material adverse effect on the Corporation's financial condition and results of operations. Conversely, a higher than projected proportion of taxable income to exempt income could lead to a higher usage of available NOLs and a lower amount of disallowed NOLs from projected levels of tax-exempt income, per the 2011 PR code, which in turn could result in further releases to the deferred tax valuation allowance; any such decreases could have a material positive effect on the Corporation's financial condition and results of operations.

As of December 31, 2018, approximately $104 million of the deferred tax assets of the Corporation are attributable to temporary differences or tax credit carry-forwards that have no expiration date, compared to $125.6 million in 2017. The valuation allowance attributable to FirstBank's deferred tax assets of $68.1 million as of December 31, 2018 is related to the estimated NOL disallowance attributable to projected levels of tax-exempt income; NOLs attributable to the Virgin Islands jurisdiction; and capital losses. The remaining balance of $32.6 million of the deferred tax asset valuation allowance non-attributable to FirstBank is mainly related to NOLs and capital losses at the Holding Company and the Bank's subsidiary First Management of Puerto Rico. The Corporation will continue to provide a valuation allowance against its deferred tax assets in each applicable tax jurisdiction until the need for a valuation allowance is eliminated. The need for a valuation allowance is eliminated when the Corporation determines that it is more likely than not the deferred tax assets will be realized. The ability to recognize the remaining deferred tax assets that continue to be subject to a valuation allowance will be evaluated on a quarterly basis to determine if there are any significant events that would affect the ability to utilize these deferred tax assets.

The Corporation has U.S. and USVI sourced NOL carryforwards. Section 382 of the U.S. Internal Revenue Code (the "Section 382") limits the ability to utilize U.S. and USVI NOLs for income tax purposes in such jurisdictions following an event that is considered to be an ownership change. Generally, an "ownership change" occurs when certain shareholders increase their aggregate ownership by more than 50 percentage points over their lowest ownership percentage over a three-year testing period. Upon the occurrence of a Section 382 ownership change, the use of NOLs attributable to the period prior to the ownership change is subject to limitations and only a portion of the U.S. and USVI NOLs may be used by the Corporation to offset its annual U.S. and USVI taxable income, if any.

During 2017, the Corporation completed a formal ownership change analysis within the meaning of Section 382 covering a comprehensive period, and concluded that an ownership change occurred during such period. The ownership change and resulting Section 382 limitation did not cause a U.S. or USVI income tax liability or material income tax expense related to periods prior to 2017 since the Corporation had sufficient post-ownership change NOLs in those jurisdictions to offset taxable income. The Section 382 limitation resulted in higher U.S. and USVI income tax liabilities than we would have incurred in the absence of such limitation. The Corporation has mitigated to an

extent the adverse effects associated with the Section 382 limitation as any such tax paid in the U.S. or USVI can be creditable against Puerto Rico tax liabilities or taken as a deduction against taxable income. However, our ability to reduce our Puerto Rico tax liability through such a credit or deduction depends on our tax profile at each annual taxable period, which is dependent on various factors. For the 2018 and 2017 year, and as a result of the Section 382 limitation, the Corporation incurred an income tax expense of approximately $3.8 million and $2.3 million, respectively, related to its U.S. operations. The limitation did not impact the USVI operations for the years 2018 and 2017.

As of December 31, 2018, the Corporation did not have UTBs recorded on its books. The Corporation classifies all interest and penalties, if any, related to tax uncertainties as income tax expense. Audit periods remain open for review until the statute of limitations has passed. The statute of limitations under the 2011 PR code is four years; the statute of limitations for U.S. and USVI income tax purposes is three years after a tax return is due or filed, whichever is later, for each. 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 U.S. and USVI income tax purposes, all tax years subsequent to 2014 remain open to examination. For Puerto Rico tax purposes, all tax years subsequent to 2013 remain open to examination.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 27 – OTHER COMPREHENSIVE LOSS

The following table presents changes in accumulated other comprehensive loss for the years ended December 31, 2018, 2017 and 2016:

	Changes in Accumulated Other Comprehensive Loss by Component (1) Year ended December 31,		
	2018	**2017**	**2016**
(In thousands)			
Unrealized net holding losses on debt securities			
Beginning balance	$ (20,609)	$ (34,383)	$ (27,749)
Other comprehensive (loss) income	(19,806)	13,774	(6,634)
Ending balance	$ (40,415)	$ (20,609)	$ (34,383)
Unrealized holding losses on equity securities			
Beginning balance	$ (6)	$ (7)	$ -
Reclassification to retained earnings per ASU 2016-01	6	-	-
Other comprehensive income	-	1	(7)
Ending balance	$ -	$ (6)	$ (7)

(1) All amounts presented are net of tax.

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the years ended December 31, 2018, 2017 and 2016:

	Affected Line Item in the Consolidated Statements of Income	Reclassifications Out of Accumulated Other Comprehensive Loss Year ended December 31,		
		2018	**2017**	**2016**
(In thousands)				
Unrealized holding losses on debt securities				
Realized (loss) gain on sale of debt securities	Net (loss) gain on sale of investments	$ (34)	$ 371	$ 6,104
OTTI on debt securities	Net impairment losses on available-for-sale debt securities	(50)	(12,231)	(6,687)
	Total before tax	$ (84)	$ (11,860)	$ (583)
	Income tax	-	-	-
	Total, net of tax	$ (84)	$ (11,860)	$ (583)

252

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 28 – LEASE COMMITMENTS

As of December 31, 2018, certain premises are leased with terms expiring through the year 2050. The Corporation has the option to renew or extend certain leases beyond the original term. Some of these leases require the payment of insurance, increases in property taxes, and other incidental costs. As of December 31, 2018, the obligation under various leases is as follows:

		Amount
(In thousands)		
2019	$	9,640
2020		8,869
2021		8,101
2022		7,086
2023		5,488
2024 and later years		36,444
Total	$	75,628

Rental expense for offices and premises included in occupancy and equipment expense was $11.3 million in 2018 (2017 - $11.7 million; 2016- $11.3 million).

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 29 – 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) MBS 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 by using pricing models for which the determination of fair value requires significant management judgments estimation.

Financial Instruments Recorded at Fair Value on a Recurring Basis

Investment securities available for sale and marketable equity securities held at fair value

The fair value of investment securities was the market value based on quoted market prices (as is the case with Treasury notes, non-callable U.S. Agency debt securities, and equity securities with readily determinable fair values), when available (Level 1), or, when available, market prices for identical or comparable assets (as is the case with MBS and callable U.S. agency debt) that are based on observable market parameters, including benchmark yields, reported trades, quotes from brokers or dealers, issuer spreads, bids, offers and reference data, including market research operations (Level 2). Observable prices in the market already consider the risk of nonperformance. If listed prices or quotes are not available, fair value is based upon discounted cash flow models that use unobservable inputs due to the limited market activity of the instrument, as is the case with certain private label MBS held by the Corporation (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. On interest caps, only the seller's credit risk is considered. The caps were valued using a discounted cash flow approach based on the related LIBOR and swap rate for each cash flow.

A credit spread is considered for those derivative instruments that are not secured. The cumulative mark-to-market effect of credit risk in the valuation of derivative instruments in 2018, 2017 and 2016 was immaterial.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	As of December 31, 2018 Fair Value Measurements Using				**As of December 31, 2017 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 :								
Equity securities (1)	$ -	$ -	$ -	$ -	$ 418	$ -	$ -	$ 418
U.S. Treasury Securities	7,456	-	-	7,456	7,401	-	-	7,401
Noncallable U.S. agency debt securities	-	319,124	-	319,124	-	361,971	-	361,971
Callable U.S. agency debt securities and MBS	-	1,594,622	-	1,594,622	-	1,497,253	-	1,497,253
Puerto Rico government obligations	-	4,128	2,824	6,952	-	4,118	2,695	6,813
Private label MBS	-	-	13,914	13,914	-	-	17,060	17,060
Other investments	-	-	500	500	-	-	100	100
Equity securities (1)	418	-	-	418	-	-	-	-
Derivatives, included in assets:								
Purchased interest rate cap agreements	-	623	-	623	-	305	-	305
Forward contracts	-	-	-	-	-	7	-	7
Interest rate lock commitments	-	383	-	383	-	-	-	-
Forward loan sales commitments	-	12	-	12	-	-	-	-
Liabilities:								
Derivatives, included in liabilities:								
Written interest rate cap agreements	-	617	-	617	-	305	-	305
Forward contracts	-	383	-	383	-	19	-	19

(1) As of January 1, 2018, the Corporation adopted ASU 2016-01, resulting in the reclassification of equity securities from available-for-sale investment securities to other investment securities. As of December 31, 2017, equity securities had a net unrealized loss of $6 thousand.

The table below presents a reconciliation of the beginning and ending balances of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2018, 2017, and 2016:

Level 3 Instruments Only	**2018 Securities Available for Sale (1)**	**2017 Securities Available for Sale (1)**	**2016 Securities Available for Sale (1)**
(In thousands)			
Beginning balance	$ 19,855	$ 22,914	$ 27,297
Total gain (losses) (realized/unrealized):			
Included in earnings	(50)	-	(387)
Included in other comprehensive income	222	2,777	1,586
Purchases	500	-	-
Principal repayments and amortization	(3,289)	(5,836)	(5,582)
Ending balance	$ 17,238	$ 19,855	$ 22,914

(1) Amounts mostly related to private label MBS.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The table below presents qualitative information for significant assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2018 and 2017:

	December 31, 2018			
(In thousands)	Fair Value	Valuation Technique	Unobservable Input	Range
Investment securities available for sale:				
Private label MBS	$ 13,914	Discounted cash flows	Discount rate	14.5%
			Prepayment rate	3.3% - 20.9% (Weighted-Average 11.4%)
			Projected Cumulative Loss Rate	0.0% - 6.8% (Weighted-Average 3%)
Puerto Rico government obligations	2,824	Discounted cash flows	Discount rate	6.28%
			Prepayment rate	3.00%

	December 31, 2017			
(In thousands)	Fair Value	Valuation Technique	Unobservable Input	Range
Investment securities available-for-sale:				
Private label MBS	$ 17,060	Discounted cash flows	Discount rate	14.0%
			Prepayment rate	12.0 - 29.0% (Weighted Average 16.4%)
			Projected Cumulative Loss Rate	0% - 6.8% (Weighted Average 3.0%)
Puerto Rico government obligations	2,695	Discounted cash flows	Discount rate	6.61%
			Prepayment rate	3.00%

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Information about Sensitivity to Changes in Significant Unobservable Inputs

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

Puerto Rico Government Obligations: The significant unobservable input used in the fair value measurement is the assumed prepayment rate of the underlying residential mortgage loans that collateralize these obligations that are guaranteed by the Puerto Rico Housing Finance Authority. A significant increase (decrease) in the assumed rate would lead to a higher (lower) fair value estimate. The fair value of these bonds was based on a discounted cash flow analysis that contemplates the credit quality of the holder of second mortgages and a discount for liquidity constraints on the bonds considering the absence of an active market for them. Due to the guarantee of the Puerto Rico Housing Finance Authority and other applicable contractual safeguards, no additional credit spread is applied for debt service default.

The table below summarizes changes in unrealized gains and losses recorded in earnings for the years ended December 31, 2018, 2017, and 2016 for Level 3 assets and liabilities that are still held at the end of each year:

Level 3 Instruments Only	**Changes in Unrealized Losses (Year Ended December 31, 2018) Securities Available for Sale**	**Changes in Unrealized Losses (Year Ended December 31, 2017) Securities Available for Sale**	**Changes in Unrealized Losses (Year Ended December 31, 2016) Securities Available for Sale**
(In thousands)			
Changes in unrealized losses relating to assets still held at reporting date:			
Net impairment losses on available-for-sale investment securities (credit component)	$ (50)	$ -	$ (387)

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

As of December 31, 2018, impairment or valuation adjustments were recorded for assets recognized at fair value on a non-recurring basis as shown in the following table:

	Carrying value as of December 31, 2018			(Losses) recorded for the Year Ended December 31, 2018
	Level 1	Level 2	Level 3	
(In thousands)				
Loans receivable (1)	$ -	$ -	$ 365,726	$ (29,799)
OREO (2)	-	-	131,402	(11,499)
Loans held for sale (3)	-	-	16,111	(10,102)

(1) Consists mainly of impaired commercial and construction loans. The impairments were generally measured based on the fair value of the collateral. The fair values were derived from external appraisals that took 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 values were derived from appraisals that took 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), which are not market observable. Losses were related to market valuation adjustments after the transfer of the loans to the OREO portfolio.

(3) Nonaccrual commercial and construction loans transferred to held for sale in 2018 and still in inventory at year end. The value of these loans was primarily derived from broker price opinions that the Corporation considered.

As of December 31, 2017, impairment or valuation adjustments were recorded for assets recognized at fair value on a non-recurring basis as shown in the following table:

	Carrying value as of December 31, 2017			(Losses) recorded for the Year Ended December 31, 2017
	Level 1	Level 2	Level 3	
(In thousands)				
Loans receivable (1)	$ -	$ -	$ 410,428	$ (39,493)
OREO (2)	-	-	147,940	(8,511)
Mortgage servicing rights (3)	-	-	25,255	(1,611)

(1) Consists mainly of impaired commercial and construction loans. The impairments were generally measured based on the fair value of the collateral. The fair values were 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 values were derived from appraisals that took 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), which are not market observable. Losses were related to market valuation adjustments after the transfer of the loans to the OREO portfolio.

(3) Fair value adjustments to mortgage servicing rights were mainly due to assumptions associated with mortgage prepayment rates. The Corporation carries its mortgage servicing rights at the lower of cost or market, measured at fair value on a non-recurring basis. Assumptions for the value of mortgage servicing rights include: Prepayment rate 6.30%, Discount rate 11.23%.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

As of December 31, 2016, impairment or valuation adjustments were recorded for assets recognized at fair value on a nonrecurring basis as shown in the following table:

	Carrying value as of December 31, 2016			**(Losses) recorded for the Year Ended December 31, 2016**
(In thousands)	**Level 1**	**Level 2**	**Level 3**	
Loans receivable (1)	$ -	$ -	$ 442,081	$ (49,884)
OREO (2)	-	-	137,681	(7,873)
Mortgage servicing rights (3)	-	-	26,244	(325)

(1) Consists mainly of impaired commercial and construction loans. The impairments were generally measured based on the fair value of the collateral. The fair values were derived from external appraisals that took 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 values were derived from appraisals that took 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), which 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 6.12%, Discount rate 11.19%.

Qualitative information regarding the fair value measurements for Level 3 financial instruments as of December 31, 2018 are as follows:

	December 31, 2018	
	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

The following tables present the carrying value, estimated fair value and estimated fair value level of the hierarchy of financial instruments as of December 31, 2018 and 2017:

(In thousands)	Total Carrying Amount in Statement of Financial Condition December 31, 2018	Fair Value Estimate December 31, 2018	Level 1	Level 2	Level 3
Assets:					
Cash and due from banks and money market investments (amortized cost)	$ 586,203	$ 586,203	$ 586,203	$ -	$ -
Investment securities available for sale (fair value)	1,942,568	1,942,568	7,456	1,917,874	17,238
Investment securities held to maturity (amortized cost)	144,815	125,658	-	-	125,658
Equity securities (fair value)	44,530	44,530	418	44,112	-
Loans held for sale (lower of cost or market)	43,186	43,831	-	27,720	16,111
Loans, held for investment (amortized cost)	8,858,123				
Less: allowance for loan and lease losses	(196,362)				
Loans held for investment, net of allowance	$ 8,661,761	8,213,144	-	-	8,213,144
Derivatives, included in assets (fair value)	1,018	1,018	-	1,018	-
Liabilities:					
Deposits (amortized cost)	8,994,714	9,005,679	-	9,005,679	-
Securities sold under agreements to repurchase (amortized cost)	150,086	169,366	-	169,366	-
Advances from FHLB (amortized cost)	740,000	730,253	-	730,253	-
Other borrowings (amortized cost)	184,150	177,201	-	-	177,201
Derivatives, included in liabilities (fair value)	1,000	1,000	-	1,000	-

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(In thousands)	Total Carrying Amount in Statement of Financial Condition December 31, 2017	Fair Value Estimate December 31, 2017	Level 1	Level 2	Level 3
Assets:					
Cash and due from banks and money market investments (amortized cost)	$ 716,395	$ 716,395	$ 716,395	$ -	$ -
Investment securities available for sale (fair value)	1,891,016	1,891,016	7,819	1,863,342	19,855
Investment securities held to maturity (amortized cost)	150,627	131,032	-	-	131,032
Equity Securities (fair value)	43,119	43,119	-	43,119	-
Loans held for sale (lower of cost or market)	32,980	34,979	-	25,237	9,742
Loans held for investment (amortized cost)	8,850,476				
Less: allowance for loan and lease losses	(231,843)				
Loans held for investment, net of allowance	$ 8,618,633	8,372,865	-	-	8,372,865
Derivatives, included in assets (fair value)	312	312	-	312	-
Liabilities:					
Deposits (amortized cost)	9,022,631	9,026,600	-	9,026,600	-
Securities sold under agreements to repurchase (amortized cost)	300,000	325,913	-	325,913	-
Advances from FHLB (amortized cost)	715,000	707,272	-	707,272	-
Other borrowings (amortized cost)	208,635	189,424	-	-	189,424
Derivatives, included in liabilities (fair value)	324	324	-	324	-

The short-term nature of certain assets and liabilities result in their carrying value approximating fair value. These include cash and due from banks and other short-term assets, such as FHLB stock. Certain assets, the most significant being premises and equipment, mortgage servicing rights, deposits base, and other customer relationship intangibles, are not considered financial instruments and are not included above. Accordingly, this fair value information is not intended to, and does not, represent the Corporation's underlying value. Many of these assets and liabilities subject to the disclosure requirements are not actively traded, requiring management to estimate fair values. These estimates necessarily involve the use of judgment about a wide variety of factors, including but not limited to, relevancy of market prices of comparable instruments, expected futures cash flows, and appropriate discount rates.

260

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 30 – REVENUE FROM CONTRACTS WITH CUSTOMERS

As noted in Note 1 – Nature of Business and Significant Accounting Policies, the Corporation adopted the provisions of ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASC Topic 606”), on January 1, 2018. Results for reporting periods beginning after December 31, 2017 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with ASC Topic 605, “Revenue Recognition.”

Revenue Recognition

In accordance with ASC Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration to which the Corporation expects to be entitled in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of ASC Topic 606, the Corporation performs the following five steps: (i) identifies the contract(s) with a customer; (ii) identifies the performance obligations in the contract; (iii) determines the transaction price; (iv) allocates the transaction price to the performance obligations in the contract; and (v) recognizes revenue when (or as) the Corporation satisfies a performance obligation. The Corporation only applies the five-step model to contracts when it is probable that the entity will collect the consideration to which it is entitled in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC Topic 606, the Corporation assesses the goods or services that are promised within each contract and identifies those that contain performance obligations, and assesses whether each promised good or service is distinct. The Corporation then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Disaggregation of Revenue

The following table summarizes the Corporation’s revenue, which includes net interest income on financial instruments and non-interest income, disaggregated by type of service and business segments for the year ended December 31, 2018:

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total

Year ended December 31, 2018:							
Net interest income (1)	**$ 79,389**	**$ 217,933**	**$ 78,675**	**$ 61,628**	**$ 59,056**	**$ 28,702**	**$ 525,383**
Service charges and fees on deposit accounts	-	13,332	4,965	-	559	2,812	21,668
Insurance commissions	-	7,889	-	-	87	455	8,431
Merchant-related income	-	3,561	748	-	-	934	5,243
Credit and debit card fees	-	17,538	1,225	-	618	2,061	21,442
Other service charges and fees	252	4,391	1,280	71	1,351	525	7,870
Not in scope of Topic 606 (1)	16,821	995	(3,060)	2,434	405	61	17,656
Total non-interest income	17,073	47,706	5,158	2,505	3,020	6,848	82,310
Total Revenue	**$ 96,462**	**$ 265,639**	**$ 83,833**	**$ 64,133**	**$ 62,076**	**$ 35,550**	**$ 607,693**

(1) Most of the Corporation's revenue is not within the scope of ASU No. 2014-09, *Revenue from Contracts with Customers*. The guidance explicitly excludes net interest income from financial assets and liabilities, as well as other noninterest income from loans, leases, investment securities and derivative financial instruments.

261

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

For 2018, substantially all of the Corporation's revenue under the scope of Topic 606 was related to performance obligations satisfied at a point in time.

The following is a discussion of revenues within the scope of ASC Topic 606.

Service Charges and Fees on Deposit Accounts

Service charges and fees on deposit accounts relate to fees generated from a variety of deposit products and services rendered to customers. Charges include, but are not limited to, overdraft fees, non-sufficient fund fees, dormant fees and monthly service charges. Such fees are recognized concurrently with the event on a daily basis or on a monthly basis depending upon the customer's cycle date. These depository arrangements are considered day-to-day contracts that do not extend beyond the services performed, as customers have the right to terminate these contracts with no penalty or, if any, nonsubstantive penalties. As a consequence, the income recognition under the standard is not different from the Corporation's practice before the adoption of this guidance.

Insurance Commissions

For insurance commissions, which include regular and contingent commissions paid to the Corporation's insurance agency, the agreements contain a performance obligation related to the sale/issuance of the policy and ancillary administrative post-issuance support. The performance obligation will be satisfied as the policies are issued and revenue will be recognized at that point in time. In addition, contingent commission income was found to be constrained, as defined under the new standard. Contingent commission income will be included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur or payments are received, which is consistent with the Corporation's practice before the adoption of this guidance. For 2018, the Corporation recognized revenue of $2.4 million as payments were received and constraints were released.

Merchant-related Income

For merchant-related income, the determination of which included the consideration of a 2015 sale of merchant contracts that involved sales of point of sale ("POS") terminals and entry into a marketing alliance under a revenue-sharing agreement, the Corporation concluded that control of the POS terminals and merchant contracts was transferred to the customer at the contract's inception. With respect to the related revenue-sharing agreement, the

Corporation satisfies the marketing alliance performance obligation over the life of the contract, and the associated transaction price is recognized as the entity performs and any constraints over the variable consideration are resolved. There was no material change in the timing or measurement of revenues. The overall effect on an ongoing basis of the new revenue guidance, as compared the Corporation's practice before the adoption of this guidance, is expected to be immaterial.

Credit and Debit Card Fees

Credit and debit card fees primarily represent revenues earned from interchange fees and ATM fees. Interchange and network revenues are earned on credit and debit card transactions conducted with payment networks. ATM fees are primarily earned as a result of surcharges assessed to non-FirstBank customers who use a FirstBank ATM. Such fees are generally recognized concurrently with the delivery of services on a daily basis. As a consequence, the income recognition is unchanged from the Corporation's practice before the adoption of this guidance.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Other Fees

Other fees primarily include revenues generated from wire transfers, lockboxes, and bank issuances of checks. Such fees are recognized concurrently with the event or on a monthly basis.

Contract Balances

A contract liability is an entity's obligation to transfer goods or services to a customer in exchange for consideration from the customer. As mentioned above, during 2015, the Bank entered into a long-term strategic marketing alliance with another entity to which the Bank sold its merchant contracts portfolio and related POS terminals. Merchant services are marketed through FirstBank's branches and offices in Puerto Rico and the Virgin Islands. Under the marketing and referral agreement, FirstBank shares with this entity revenues generated by the merchant contracts over the term of the 10-year agreement. As of December 31, 2018 and 2017, this contract liability amounted to $2.1 million and $2.4 million, respectively, which will be recognized over the remaining term of the contract. For 2018, the Corporation recognized revenue and contract liabilities decreased by approximately $0.3 million due to the completion of performance over time. There were no changes in contract liabilities due to changes in transaction price estimates.

A contract asset is the right to consideration for transferred goods or services when the amount is conditioned on something other than the passage of time. As of December 31, 2018 and 2017, there were no receivables from contracts with customers or contract assets recorded on the Corporation's consolidated financial statements.

Other

Except for the contract liabilities noted above, the Corporation did not have any significant performance obligations as of December 31, 2018. The Corporation also did not have any material contract acquisition costs and did not make any significant judgments or estimates in recognizing revenue for financial reporting purposes.

NOTE 31 – SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

Supplemental cash flow information is as follows:

	Year Ended December 31,		
	2018	**2017**	**2016**
(In thousands)			
Cash paid for:			
Interest on borrowings	$ 98,194	$ 93,634	$ 127,707
Income tax	7,175	4,037	3,198
Non-cash investing and financing activities:			
Additions to OREO	48,767	47,711	47,808
Additions to auto and other repossessed assets	52,023	40,987	52,628
Capitalization of servicing assets	3,864	3,318	5,260
Loan securitizations	233,175	235,074	338,333
Loans held for investment transferred to held for sale	90,319	-	10,332
Loans held for sale transferred to held for investment	2,179	10,234	1,443
Property plant and equipment transferred to other assets	-	1,185	1,221

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 32 – REGULATORY MATTERS, COMMITMENTS, AND CONTINGENCIES

The Corporation and FirstBank are each 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 and activities. 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 and FirstBank's assets, 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.

On October 3, 2017, the New York FED terminated the Written Agreement entered into on June 3, 2010 by the Corporation and the New York FED. However, the Corporation has agreed with the New York FED to continue to obtain the approval of the New York FED before paying dividends, receiving dividends from the Bank, making payments on subordinated debt or trust-preferred securities, incurring or guaranteeing debt or purchasing or redeeming any corporate stock.

Although the Corporation and FirstBank became subject to the U.S. Basel III capital rules ("Basel III rules") beginning on January 1, 2015, certain requirements of the Basel III rules are being phased-in over several years and, in general, were fully effective as of January 1, 2019. However, certain elements of the new rules have been deferred by the federal banking agencies. The Corporation and FirstBank compute risk-weighted assets using the Standardized Approach required by the Basel III rules.

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

Under the fully phased-in Basel III rules, in order to be considered adequately capitalized and not subject to the above described limitations, the Corporation is required to maintain: (i) a minimum CET1 capital to risk-weighted assets ratio of at least 4.5%, plus the 2.5% "capital conservation buffer," resulting in a required minimum CET1 ratio of at

least 7%; (ii) a minimum ratio of total Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum Tier 1 capital ratio of 8.5%; (iii) a minimum ratio of total Tier 1 plus Tier 2 capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer, resulting in a required minimum total capital ratio of 10.5%; and (iv) a required minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average on-balance sheet (non-risk adjusted) assets.

In addition, as required under the Basel III rules, the Corporation's trust-preferred securities ("TRuPs") were fully phased out from Tier 1 capital as of January 1, 2016. However, the Corporation's TRuPs may continue to be included in Tier 2 capital until the instruments are redeemed or mature.

On November 21, 2017, the Federal Reserve Board, the FDIC, and the Office of the Comptroller of the Currency finalized an extension of the phase-in of certain Basel III capital rules for banks not using the Basel advanced approaches capital rule. The extension, which was effective on January 1, 2018, pauses the full transition to the Basel III treatment of mortgage servicing assets, certain deferred tax assets, and investments in the capital of unconsolidated financial institutions and minority interests, pending the banking agencies' broader efforts, announced in September 2017, to simplify the regulatory capital rules that apply to banking organizations that are not subject to the advanced approaches capital rules. Because the advanced approaches rules apply to banking organizations with more than $250 billion in total consolidated assets or at least $10 billion in total on-balance sheet foreign exposure, the extension relief applies broadly to community, midsize, and regional banks, including the Corporation and FirstBank.

Please refer to the discussion in "Part I – Item 7 – Business – Supervision and Regulation" included in the Corporation's 2018 Form 10-K for a more complete discussion of supervision and regulatory matters and activities that affect the Corporation and its subsidiaries.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The regulatory capital positions of the Corporation and FirstBank as of December 31, 2018 and 2017 were as follows:

			Regulatory Requirements			
	Actual		**For Capital Adequacy Purposes**		**To be Well-Capitalized-General Thresholds**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
(Dollars in thousands)						
As of December 31, 2018						
Total Capital (to Risk-Weighted Assets)						
First BanCorp.	$ 2,118,940	24.00%	$ 706,418	8.0%	N/A	N/A
FirstBank	$ 2,075,894	23.51%	$ 706,426	8.0%	$ 883,032	10.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)						
First BanCorp.	$ 1,792,880	20.30%	397,360	4.5%	N/A	N/A
FirstBank	$ 1,656,563	18.76%	397,365	4.5%	573,971	6.5%
Tier I Capital (to Risk-Weighted Assets)						
First BanCorp.	$ 1,828,984	20.71%	$ 529,814	6.0%	N/A	N/A
FirstBank	$ 1,964,563	22.25%	$ 529,819	6.0%	$ 706,426	8.0%
Leverage ratio						
First BanCorp.	$ 1,828,984	15.37%	$ 475,924	4.0%	N/A	N/A
FirstBank	$ 1,964,563	16.53%	$ 475,490	4.0%	$ 594,362	5.0%
At December 31, 2017						
Total Capital (to Risk-Weighted Assets)						
First BanCorp.	$ 1,989,873	22.53%	$ 706,432	8.0%	N/A	N/A
FirstBank	$ 1,947,627	22.06%	$ 706,218	8.0%	$ 882,772	10.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)						
First BanCorp.	$ 1,674,164	18.96%	$ 397,368	4.5%	N/A	N/A
FirstBank	$ 1,562,431	17.70%	$ 397,248	4.5%	$ 573,802	6.5%
Tier I Capital (to						

Risk-Weighted Assets)									
First BanCorp.	$	1,675,282	18.97%	$	529,824	6.0%		N/A	N/A
FirstBank	$	1,835,445	20.79%	$	529,663	6.0%	$	706,218	8.0%
Leverage ratio									
First BanCorp.	$	1,675,282	14.03%	$	477,643	4.0%		N/A	N/A
FirstBank	$	1,835,445	15.39%	$	477,056	4.0%	$	596,320	5.0%

265

Supplemental cash flow information is as follows:

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following table summarizes commitments to extend credit and standby letters of credit as of the indicated dates:

	December 31,	
	2018	**2017**
(In thousands)		
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Construction undisbursed funds	$ 160,905	$ 77,649
Unused personal lines of credit	722,510	710,607
Commercial lines of credit	455,344	471,732
Commercial letters of credit	69,664	46,728
Standby letters of credit	2,865	2,691

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. Management uses the same credit policies and approval process in entering into commitments and conditional obligations as it does for on-balance sheet instruments.

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.

In general, commercial and standby letters of credit are issued to facilitate foreign and domestic trade transactions. Normally, commercial and standby letters of credit are short-term commitments used to finance commercial contracts for the shipment of goods. The collateral for these letters of credit includes cash or available commercial lines of credit. The fair value of commercial and standby letters of credit is based on the fees currently charged for such agreements, which, as of December 31, 2018 and 2017, was not significant.

The Corporation obtained from GNMA commitment authority to issue GNMA mortgage-backed securities. Under this program, for 2018, the Corporation sold approximately $233.2 million (2017 - $235.1 million) of FHA/VA mortgage loan production into GNMA mortgage-backed securities.

Supplemental cash flow information is as follows:

As of December 31, 2018, First BanCorp. and its subsidiaries were defendants in various legal proceedings arising in the ordinary course of business. On at least a quarterly basis, the Corporation assesses its liabilities and contingencies in connection with threatened and outstanding legal cases, matters and proceedings, utilizing the latest information available. For cases, matters and proceedings where it is both probable the Corporation will incur a loss and the amount can be reasonably estimated, the Corporation establishes an accrual for the loss. Once established, the accrual is adjusted as appropriate to reflect any relevant developments. For cases, matters or proceedings where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established.

Any estimate involves significant judgment, given the varying stages of the proceedings (including the fact that some of them are currently in preliminary stages), the existence in some of the current proceedings of multiple defendants whose share of liability has yet to be determined, the numerous unresolved issues in the proceedings, and the inherent uncertainty of the various potential outcomes of such proceedings. Accordingly, the Corporation's estimate will change from time-to-time, and actual losses may be more or less than the current estimate.

While the final outcome of legal cases, matters, and proceedings is inherently uncertain, based on information currently available, management believes that the final disposition of the Corporation's legal cases, matters or proceedings, to the extent not previously provided for, will not have a material negative adverse effect on the Corporation's consolidated financial position as a whole.

If management believes that, based on available information, it is at least reasonably possible that a material loss (or additional material loss in excess of any accrual) will be incurred in connection with any legal actions, the Corporation discloses an estimate of the possible loss or range of loss, either individually or in the aggregate, as appropriate, if such an estimate can be made, or discloses

266

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

that an estimate cannot be made. Based on the Corporation’s assessment as of December 31, 2018, no such disclosures were necessary. However in the event of unexpected future developments, it is possible that the ultimate resolution of these cases, matters and proceedings, if unfavorable, may be material to the Corporation’s consolidated financial position on a particular period.

Set forth below is a description of the Corporation’s significant legal proceedings:

Ramírez Torres, et al. v. Banco Popular de Puerto Rico, et al. FirstBank Puerto Rico has been named Defendant in this Class Action Complaint, filed of February 17, 2017 at the Court of First Instance in San Juan, Puerto Rico. The Complaint seeks damages and preliminary injunctive relief on behalf of the purported class against Banco Popular de Puerto Rico and other financial institutions with insurance agency subsidiaries in Puerto Rico. Plaintiffs allege that Defendants have been unjustly enriched by failing to reimburse them for "good experience" commissions allegedly paid by Antilles Insurance Company and Puerto Rico Home Insurance Company. On March 30, 2017, FirstBank Puerto Rico filed a Motion to Dismiss and a Motion for Declaratory Judgment and Third Party Complaint against Antilles Insurance Company and the Insurance Commissioner's Office. All other Defendants filed Motions to Dismiss. Antilles Insurance Company filed a Motion against the Third Party Complaint filed by FirstBank Puerto Rico, which FirstBank Puerto Rico opposed. The Insurance Commissioner's Office filed a Motion for Summary Judgment. On July 28, 2017, the Court issued a Judgment granting the Motions to Dismiss filed by Defendants, dismissing the Complaint with prejudice, except the Third Party Complaint filed by FirstBank Puerto Rico which was dismissed without prejudice. On August 30, 2017, Plaintiffs filed an Appeal before the Puerto Rico Court of Appeals and FirstBank Puerto Rico filed its Opposition to Plaintiffs Appeal. On March 20, 2018, the Court of Appeals entered a Judgment revoking the lower court judgment. Oriental Bank filed for Reconsideration, which was denied. All other Defendants filed writs of Certiorari before the Puerto Rico Supreme Court on May 29, 2018. On June 26, 2018, the Puerto Rico Supreme Court issued Resolutions denying all writs of Certiorari filed by Defendants. Oriental Bank and Banco Popular were the only two banks that filed for reconsideration. Motions for Reconsideration were denied on October 10, 2018. Oriental Bank filed a Second Motion for Reconsideration on October 12, 2018. All Motions for Reconsideration have been denied. Case remanded to the Court of First Instance for the continuation of proceedings. No further motions have been filed by any of the Parties.

NOTE 33 – 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 will adversely affect the Corporation’s net interest income from its loan and investment portfolios. 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, cash flow hedge or economic undesignated hedge when it enters into the derivative contract. As of December 31, 2018 and 2017, 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.

Forward Contracts - Forward contracts are primarily sales of to-be-announced ("TBA") MBS 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 that provide for delivery of a security within the time frame 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. Also reported as forward contracts are mandatory mortgage loan sales commitments entered into with GSEs that require or permit net settlement via a pair-off transaction or the payment of a pair-off fee. Unrealized gains (losses) are recognized as part of mortgage banking activities in the consolidated statement of income.

Interest Rate Lock Commitments - Interest rate lock commitments are agreements under which the Corporation agrees to extend credit to a borrower under certain specified terms and conditions in which the interest rate and the maximum amount of the loan are set prior to funding. Under the agreement, the Corporation commits to lend funds to a potential borrower generally on a fixed rate basis, regardless of whether interest rates change in the market.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

To satisfy the needs of its customers, the Corporation may enter into non-hedging transactions. In these transactions, the Corporation generally 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 enters 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 [1] As of December 31,			
		2018		2017
(In thousands)				
Undesignated economic hedges:				
Interest rate contracts:				
Written interest rate cap agreements	$	68,510	$	91,010
Purchased interest rate cap agreements		68,510		91,010
Interest rate lock commitments		11,722		-
Forward Contracts:				
Sale of TBA GNMA MBS pools		33,000		26,000
Forward loan sales commitments		6,339		-
	$	188,081	$	208,020

(1) Notional amounts are presented on a gross basis with no netting of offsetting exposure positions.

The following table summarizes for derivative instruments their fair values and location in the consolidated statements of financial condition:

	Asset Derivatives			Liability Derivatives		
	Statement of Financial Condition	December 31, 2018	December 31, 2017	Statement of	December 31, 2018	December 31, 2017

(In thousands)	Location	Fair Value	Fair Value	Financial Condition Location	Fair Value	Fair Value
Undesignated economic hedges:						
Interest rate contracts:						
Written interest rate cap agreements	Other assets	$ -	$ -	Accounts payable and other liabilities	$ 617	$ 305
Purchased interest rate cap agreements	Other assets	623	305	Accounts payable and other liabilities	-	-
Interest rate lock commitments	Other assets	383	-		-	-
Forward Contracts:						
Sales of TBA GNMA MBS pools	Other assets	-	7	Accounts payable and other liabilities	383	19
Forward loan sales commitments	Other assets	12	-		-	-
		$ 1,018	$ 312		$ 1,000	$ 324

268

Supplemental cash flow information is as follows:

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Location of Unrealized Gain (loss) Recognized in Statement of Income on Derivatives	Gain (or Loss) Year ended December 31, 2018	2017	2016
		(In thousands)		
Undesignated economic hedges:				
Interest rate contracts:				
Written and purchased interest rate cap agreements	Interest income - Loans	$ 22	$ (2)	$ -
Interest rate lock commitments	Mortgage Banking Activities	383	-	-
Forward contracts:				
Sales of TBA GNMA MBS pools	Mortgage Banking Activities	(371)	189	(78)
Forward loan sales commitments	Mortgage Banking Activities	12	-	-
Total gain (loss) on derivatives		$ 46	$ 187	$ (78)

Derivative instruments 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, and the level of interest rates, as well as the expectations for rates in the future.

As of December 31, 2018, the Corporation has not entered into any derivative instrument containing credit-risk-related contingent features.

Credit and Market Risk of Derivatives

The Corporation uses derivative instruments to manage interest rate risk. By using derivative instruments, the Corporation is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the extent of the Corporation's fair value gain on the derivative. When the fair value of a derivative instrument contract is positive, this generally indicates that the counterparty owes the Corporation which, therefore, creates a credit risk for the Corporation. When the fair value of a derivative instrument contract is negative, the Corporation owes the counterparty and, therefore, it has no credit risk. The Corporation minimizes its credit risk in derivative instruments by entering into transactions with reputable broker dealers (financial institutions) that are reviewed periodically by the Management Investment and Asset Liability Committee of the Corporation (the "MIALCO") and by the Board of Directors. The Corporation also has a policy of requiring that all derivative instrument contracts be governed by an International Swaps and Derivatives Association Master Agreement, which includes a provision for netting. The

Corporation has a policy of diversifying derivatives counterparties to reduce the consequences of counterparty default.

The Corporation has credit risk of $1.0 million as of December 31, 2018 (2017 — $0.3 million) related to derivative instruments with positive fair values. The credit risk does not consider the value of any collateral and the effects of legally enforceable master netting agreements. There were no credit losses associated with derivative instruments recognized in 2018, 2017, or 2016.

Market risk is the adverse effect that a change in interest rates or implied volatility rates has on the value of a financial instrument. The Corporation manages the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken.

The Corporation's derivative activities are monitored by the MIALCO as part of its risk-management oversight of the Corporation's treasury functions.

Supplemental cash flow information is as follows:

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 34 – 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 amounts owed under the related agreement and any other amount or obligation owed with respect to 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

As of December 31, 2018

	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	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral	Net Amount
(In thousands)						
Description						
Derivatives	$ 623	$ -	$ 623	$ -	$ (623)	$ -
Securities purchased under agreement to resell	200,000	(200,000)	-	-	-	-
Total	$ 200,623	$ (200,000)	$ 623	$ -	$ (623)	$ -

As of December 31, 2017

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral	Net Amount

			Position			
(In thousands)						
Description						
Derivatives	$ 305	$ -	$ 305	$ (305)	$ -	$ -
Securities purchased under agreement to resell	200,000	(200,000)	-	-	-	-
Total	$ 200,305	$ (200,000)	$ 305	$ (305)	$ -	$ -

Supplemental cash flow information is as follows:

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Offsetting of Financial Liabilities and Derivative Liabilities

As of December 31, 2018

(In thousands)	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	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral	Net Amount
Description						
Securities sold under agreements to repurchase	$ 350,086	$ (200,000)	$ 150,086	$ (150,086)	$ -	$ -

As of December 31, 2017

(In thousands)	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	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral	Net Amount
Description						
Securities sold under agreements to repurchase	$ 500,000	$ (200,000)	$ 300,000	$ (300,000)	$ -	$ -

NOTE 35 – 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 based primarily on the Corporation’s lines of business for its operations in Puerto Rico, the Corporation’s principal market, and by geographic areas for its operations outside of Puerto Rico. As of December 31, 2018, 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. Other factors, such as the Corporation’s organizational chart, nature of the products, distribution channels, and the economic characteristics of the products, were also considered in the determination of the reportable segments.

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 that are 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. 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,” to the consolidated financial statements.

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

The following table presents information about the reportable segments for the years ended December 31, 2018, 2017, and 201

	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate Banking	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
(In thousands)							
For the year ended December 31, 2018:							
Interest income	$ 127,042	$ 181,166	$ 138,706	$ 61,913	$ 83,971	$ 32,169	$ 624,9
Net (charge) credit for transfer of funds	(47,653)	65,092	(60,031)	44,540	(1,948)	-	
Interest expense	-	(28,325)	-	(44,825)	(22,967)	(3,467)	(99,5
Net interest income	79,389	217,933	78,675	61,628	59,056	28,702	525,3
Provision for loan and lease losses	(13,083)	(23,516)	(4,804)	-	(11,882)	(5,968)	(59,2
Non-interest income	17,073	47,706	5,158	2,505	3,020	6,848	82,3
Direct non-interest expenses	(38,213)	(112,176)	(32,371)	(2,966)	(33,566)	(30,963)	(250,2
Segment income	$ 45,166	$ 129,947	$ 46,658	$ 61,167	$ 16,628	$ (1,381)	$ 298,
Average earnings assets	$ 2,258,974	$ 1,636,002	$ 2,530,635	$ 2,552,130	$ 1,750,155	$ 537,574	$ 11,265,4

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate Banking	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
For the year ended December 31, 2017:							
Interest income	$ 131,718	$ 173,690	$ 128,871	$ 48,071	$ 69,760	$ 36,313	$ 588,4
Net (charge) credit for transfer of funds	(45,759)	27,475	(36,904)	56,865	(1,677)	-	
Interest expense	-	(25,240)	-	(49,577)	(18,902)	(3,153)	(96,8
Net interest income	85,959	175,925	91,967	55,359	49,181	33,160	491,5
Provision for loan and lease losses	(47,713)	(53,778)	(33,296)	-	(3,644)	(5,823)	(144,2
Non-interest income (loss)	12,825	43,924	7,176	(10,206)	2,664	6,004	62,3
Direct non-interest expenses	(36,403)	(108,165)	(35,142)	(3,376)	(32,197)	(26,994)	(242,2
Segment income	$ 14,668	$ 57,906	$ 30,705	$ 41,777	$ 16,004	$ 6,347	$ 167,4
Average earnings assets	$ 2,451,655	$ 1,749,148	$ 2,489,948	$ 2,215,551	$ 1,525,191	$ 603,835	$ 11,035,3

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate Banking	Treasury and Investments	United States Operations	Virgin Islands Operations	Tota
For the year ended December 31, 2016:							
Interest income	$ 138,955	$ 179,485	$ 123,084	$ 50,372	$ 56,037	$ 37,359	$ 585
Net (charge) credit for transfer of funds	(49,435)	13,996	(26,364)	60,787	1,016	-	
Interest expense	-	(24,787)	-	(57,924)	(15,240)	(3,223)	(101
Net interest income	89,520	168,694	96,720	53,235	41,813	34,136	484
(Provision) release for loan and lease losses	(24,873)	(34,246)	(28,578)	-	1,369	(405)	(86
Non-interest income	19,531	44,535	7,811	5,423	3,554	7,100	87
Direct non-interest expenses	(38,170)	(112,787)	(40,676)	(4,047)	(30,678)	(27,596)	(253
Segment income (loss)	$ 46,008	$ 66,196	$ 35,277	$ 54,611	$ 16,058	$ 13,235	$ 231
Average earnings assets	$ 2,562,245	$ 1,951,214	$ 2,497,037	$ 2,616,877	$ 1,226,633	$ 612,570	$ 11,466

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

	Year Ended December 31,		
	2018	2017	2016
(In thousands)			
Net income:			
Total income for segments and other	$ 298,185	$ 167,407	$ 231,385
Other operating expenses (1)	(107,547)	(105,424)	(101,126)
Income before income taxes	190,638	61,983	130,259
Income tax (benefit) expense	(10,970)	(4,973)	37,030
Total consolidated net income	$ 201,608	$ 66,956	$ 93,229
Average assets:			
Total average earning assets for segments	$ 11,265,470	$ 11,035,328	$ 11,466,576
Average non-earning assets	940,731	937,950	923,566
Total consolidated average assets	$ 12,206,201	$ 11,973,278	$ 12,390,142

(1) 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.

274

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following table presents revenues (interest income plus non-interest income) and selected balance sheet data by geography based on the location in which the transaction is originated:

(In thousands)		2018		2017		2016
Revenues:						
Puerto Rico	$	581,269	$	536,069	$	568,180
United States		86,991		72,424		60,607
Virgin Islands		39,017		42,317		44,459
Total consolidated revenues	$	707,277	$	650,810	$	673,246
Selected Balance Sheet Information:						
Total assets:						
Puerto Rico	$	9,797,267	$	9,871,272	$	9,765,530
United States		1,940,633		1,780,654		1,499,548
Virgin Islands		505,661		609,342		657,377
Loans:						
Puerto Rico	$	6,586,033	$	6,633,432	$	6,926,719
United States		1,834,088		1,665,448		1,382,440
Virgin Islands		481,188		584,576		627,720
Deposits:						
Puerto Rico (1)	$	6,208,531	$	6,268,056	$	6,291,353
United States (2)		1,519,362		1,637,941		1,564,839
Virgin Islands		1,266,821		1,116,634		975,013

(1)For 2018, 2017, and 2016, includes $441.1 million, $1.0 billion, and $1.4 billion, respectively, of brokered CDs allocated to Puerto Rico operations.
(2)For 2018, 2017, and 2016 includes $114.5 million, $158.0 million, and $60.1 million, respectively, of brokered CDs allocated to the United States operations.

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

NOTE 36- FIRST BANCORP. (HOLDING COMPANY ONLY) FINANCIAL INFORMATION

The following condensed financial information presents the financial position of the Holding Company only as of December 31, 2018 and 2017, and the results of its operations and cash flows for the years ended December 31, 2018, 2017, and 2016:

Statements of Financial Condition

	As of December 31,			
	2018		2017	
(In thousands)				
Assets				
Cash and due from banks	$	10,984	$	20,864
Money market investments		6,111		6,111
Other investment securities		285		285
Loans held for investment, net		-		191
Investment in First Bank Puerto Rico, at equity		2,179,655		2,028,641
Investment in First Bank Insurance Agency, at equity		17,780		12,400
Investment in FBP Statutory Trust I		1,963		2,698
Investment in FBP Statutory Trust II		3,561		3,561
Other assets		12,219		3,799
Total assets	$	2,232,558	$	2,078,550
Liabilities and Stockholders' Equity				
Liabilities:				
Other borrowings	$	184,150	$	208,635
Accounts payable and other liabilities		3,704		818
Total liabilities		187,854		209,453
Stockholders' equity		2,044,704		1,869,097
Total liabilities and stockholders' equity	$	2,232,558	$	2,078,550

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Statements of Income

(In thousands)	Year Ended December 31, 2018	2017	2016
Income			
Interest income on money market investments	$ 20	$ 20	$ 20
Interest income on loans	105	-	-
Dividend income from banking subsidiaries	37,784	7,200	34,876
Dividend income from non-banking subsidiaries	-	3,000	7,000
Other income	275	262	241
	38,184	10,482	42,137
Expense			
Other borrowings	8,983	8,284	7,705
Other operating expenses	2,489	3,175	3,481
	11,472	11,459	11,186
Gain on early extinguishment of debt	2,316	1,391	4,217
Income before income taxes and equity in undistributed earnings of subsidiaries	29,028	414	35,168
Income tax expense	-	45	-
Equity in undistributed earnings of subsidiaries	172,580	66,587	58,061
Net income	$ 201,608	$ 66,956	$ 93,229
Other comprehensive (loss) income, net of tax	(19,806)	13,775	(6,641)
Comprehensive income	$ 181,802	$ 80,731	$ 86,588

FIRST BANCORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Statements of Cash Flows

	Year Ended December 31,		
	2018	**2017**	**2016**
(In thousands)			
Cash flows from operating activities:			
Net income	$ 201,608	$ 66,956	$ 93,229
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation	2,202	3,769	3,563
Equity in undistributed earnings of subsidiaries	(172,580)	(66,587)	(58,061)
Gain on early extinguishment of debt	(2,316)	(1,391)	(4,217)
Accretion of discount on loans	(4)	(14)	(11)
Net (increase) decrease in other assets	(8,417)	(8)	802
Net increase (decrease) in other liabilities	2,890	(201)	(26,685)
Net cash provided by operating activities	23,383	2,524	8,620
Cash flows from investing activities:			
Principal collected on loans	191	50	50
Net cash provided by investing activities	191	50	50
Cash flows from financing activities:			
Repurchase of common stock	(2,827)	(2,497)	(1,132)
Repayment of junior subordinated debentures	(21,434)	(5,930)	(7,025)
Dividends paid on common stock	(6,517)	-	-
Dividends paid on preferred stock	(2,676)	(2,676)	(223)
Net cash used in financing activities	(33,454)	(11,103)	(8,380)
Net (decrease) increase in cash and cash equivalents	(9,880)	(8,529)	290
Cash and cash equivalents at beginning of the year	26,975	35,504	35,214
Cash and cash equivalents at end of year	$ 17,095	$ 26,975	$ 35,504
Cash and cash equivalents include:			
Cash and due from banks	$ 10,984	$ 20,864	$ 29,393
Money market instruments	6,111	6,111	6,111
	$		