FIRST BANCORP /PR/
Form 10-Q
May 10, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

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

For the transition period from ______ to _______

COMMISSION FILE NUMBER 001-14793

First BanCorp.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filero

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

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registered has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act.

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

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

Common stock: 216,406,013 shares outstanding as of April 30, 2018.

FIRST BANCORP.

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Forward Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the safe harbor created by such sections. When used in this Form 10-Q or future filings by First BanCorp. (the “Corporation”) with the U.S. Securities and Exchange Commission (“SEC”), in the Corporation’s press releases or in other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases “would,” “intends,” “will likely result,” “expect,” “should,” “anticipate,” “look forward,” “believes,” and other terms of similar meaning or import in connection with any discussion of future operating, financial or other performance are meant to identify “forward-looking statements.”

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

The two hurricanes that affected the Corporation’s service areas in 2017 are discussed below in Note 2 to the financial statements and in various sections of “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These events caused significant uncertainties, the outcome of which will impact the Corporation’s future results.

Factors that could cause actual results to differ from those expressed in the Corporation’s forward-looking statements include, but are not limited to, risks described or referenced below in Part II, Item 1A. “Risk Factors” and the following:

- the actual pace and magnitude of economic recovery in the Corporation’s service areas that were affected by two hurricanes during 2017 compared to Management’s current views on the economic recovery;

- uncertainties about the effectiveness and the timing of the completion of the rebuilding taking place in the regions affected by the hurricanes, including the rebuilding of the public infrastructure, such as Puerto Rico’s power grid, how and the extent to which government, private or philanthropic funds will be invested in the affected communities, how many displaced individuals will return to their homes in both the short- and long-term, and what other demographic changes will take place, if any;

- uncertainty as to the ultimate outcomes of actions taken, or those that may be taken, by the Puerto Rico government, or the oversight board established by the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") to address Puerto Rico's financial problems, including the filing of a form bankruptcy under Title III of PROMESA, which provides a court debt restructuring process similar to U.S. bankruptcy protection, and the effects of measures included in the Puerto Rico government fiscal plan, or any revisions to it, on our clients and loan portfolios;

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

- uncertainty about whether the Federal Reserve Bank of New York (the "New York FED" or "Federal Reserve") will continue to provide approvals for receiving dividends from the Corporation's subsidiary, FirstBank Puerto Rico ("FirstBank" or the "Bank"), or making payments of dividends on non-cumulative perpetual preferred stock, or payments on trust preferred securities or subordinated debt, incurring, increasing or guaranteeing debt or repurchasing any capital securities, despite the consents that have enabled the Corporation to receive quarterly dividends from FirstBank since the second quarter of 2016, to pay quarterly interest payments on the Corporation's subordinated debentures associated with its trust preferred securities since the second quarter of 2016, and to pay monthly dividends on the non-cumulative perpetual preferred stock since December 2016;

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

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

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

- the risk of not being able to fulfill the Corporation's cash obligations or resume paying dividends to the Corporation's common stockholders in the future due to the Corporation's need to receive regulatory approvals to declare or pay any dividends and to take dividends or any other form of payment representing a reduction in capital from FirstBank or FirstBank's failure to generate sufficient cash flow to make a dividend payment to the Corporation;

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

- the ability of FirstBank to realize the benefits of its net deferred tax assets;

- adverse changes in general economic conditions in Puerto Rico, the United States ("U.S."), the U.S. Virgin Islands ("USVI"), and the British Virgin Islands ("BVI"), including the interest rate environment, market liquidity, housing absorption rates, real estate prices, and disruptions in the U.S. capital markets, which reduced interest margins and affected funding sources, and have affected demand for all of the Corporation's products and services and reduced the Corporation's revenues and earnings and the value of the Corporation's assets, and may continue to have these effects;

- an adverse change in the Corporation’s ability to attract new clients and retain existing ones;

- the risk that additional portions of the unrealized losses in the Corporation’s investment portfolio are determined to be other-than-temporary, including additional impairments on the Corporation’s remaining $8.1 million of the Puerto Rico government’s debt securities;

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

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

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

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

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

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

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

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

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

- general competitive factors and industry consolidation.

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

Investors should refer to the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2017, as well as “Part II, Item 1A, Risk Factors,” in this Quarterly Report on Form 10-Q, for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

(In thousands, except for share information)	March 31, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$ 743,409	$ 705,980
Money market investments:		
Time deposits with other financial institutions	3,126	3,126
Other short-term investments	97,289	7,289
Total money market investments	100,415	10,415
Investment securities available for sale, at fair value:		
Securities pledged that can be repledged	242,738	350,123
Other investment securities	1,572,766	1,540,893
Total investment securities available for sale	1,815,504	1,891,016
Investment securities held to maturity, at amortized cost:		
Securities pledged that can be repledged	-	-
Other investment securities	150,486	150,627
Total investment securities held to maturity, fair value of $134,856 (2017- $131,032)	150,486	150,627
Other investment securities	43,532	43,119
Loans, net of allowance for loan and lease losses of $225,856 (2017 - $231,843)	8,470,034	8,618,633
Loans held for sale, at lower of cost or market	91,375	32,980
Total loans, net	8,561,409	8,651,613
Premises and equipment, net	143,115	141,895
Other real estate owned	154,639	147,940
Accrued interest receivable on loans and investments	44,093	57,172
Other assets	443,784	461,491
Total assets	$ 12,200,386	$ 12,261,268
LIABILITIES		
Non-interest-bearing deposits	$ 2,019,823	$ 1,833,665
Interest-bearing deposits	7,046,642	7,188,966
Total deposits	9,066,465	9,022,631
Securities sold under agreements to repurchase	200,000	300,000
Advances from the Federal Home Loan Bank ("FHLB")	715,000	715,000
Other borrowings	184,150	208,635
Accounts payable and other liabilities	157,667	145,905
Total liabilities	10,323,282	10,392,171

STOCKHOLDERS EQUITY		
Preferred stock, authorized, 50,000,000 shares:		
Non-cumulative Perpetual Monthly Income Preferred Stock:		
issued 22,004,000 shares, outstanding 1,444,146 shares, aggregate liquidation value of $36,104	36,104	36,104
Common stock, $0.10 par value, authorized, 2,000,000,000 shares; issued, 220,877,719 shares (2017 - 220,382,343 shares issued)	22,088	22,038
Less: Treasury stock (at par value)	(449)	(410)
Common stock outstanding, 216,390,329 shares outstanding (2017 - 216,278,040 shares outstanding)	21,639	21,628
Additional paid-in capital	936,342	936,772
Retained earnings, includes legal surplus reserve of $59,693	927,681	895,208
Accumulated other comprehensive loss, net of tax of $7,752	(44,662)	(20,615)
Total stockholders equity	1,877,104	1,869,097
Total liabilities and stockholders equity	$ 12,200,386	$ 12,261,268

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Quarter Ended	
	March 31, 2018	March 31, 2017
(In thousands, except per share information)		
Interest and dividend income:		
Loans	$ 133,175	$ 131,442
Investment securities	13,987	13,302
Money market investments and interest-bearing cash accounts	2,256	484
Total interest income	149,418	145,228
Interest expense:		
Deposits	16,971	15,972
Securities sold under agreements to repurchase	2,297	2,623
Advances from FHLB	3,372	2,122
Other borrowings	2,085	1,962
Total interest expense	24,725	22,679
Net interest income	124,693	122,549
Provision for loan and lease losses	20,544	25,442
Net interest income after provision for loan and lease losses	104,149	97,107
Non-interest income:		
Service charges and fees on deposit accounts	5,088	5,790
Mortgage banking activities	4,165	3,616
Other-than-temporary impairment ("OTTI") losses on available-for-sale debt securities:		
Total other-than-temporary impairment losses	-	(12,231)
Portion of other-than-temporary impairment recognized in other comprehensive income ("OCI")	-	-
Net impairment losses on available-for-sale debt securities	-	(12,231)
Gain on early extinguishment of debt	2,316	-
Insurance commission income	3,355	3,587
Other non-interest income	7,860	7,481
Total non-interest income	22,784	8,243
Non-interest expenses:		
Employees' compensation and benefits	40,684	38,653
Occupancy and equipment	15,105	14,088
Business promotion	2,576	3,281
Professional fees	10,060	10,956
Taxes, other than income taxes	3,856	3,676
Insurance and supervisory fees	3,855	4,909
Net loss on other real estate owned ("OREO") and OREO operations	190	4,076
Credit and debit card processing expenses	3,537	2,831
Communications	1,482	1,543
Other non-interest expenses	4,682	3,869
Total non-interest expenses	86,027	87,882
Income before income taxes	40,906	17,468

Income tax (expense) benefit		(7,758)		8,073
Net income	$	33,148	$	25,541
Net income attributable to common stockholders	$	32,479	$	24,872
Net income per common share:				
Basic	$	0.15	$	0.12
Diluted	$	0.15	$	0.11
Dividends declared per common share	$	-	$	-

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

		Quarter Ended		
		March 31, 2018		March 31 2017
(In thousands)				
Net income	$	33,148	$	25,54
Available-for-sale debt securities on which an other-than-temporary impairment has been recognized:				
Unrealized gain (loss) on debt securities on which an other-than-temporary impairment has been recognized		496		(2,930
Reclassification adjustment for other-than-temporary impairment on debt securities included in net income		-		12,23
All other unrealized holding (losses) gains on available-for-sale securities arising during the period		(24,549)		1,39
Amount reclassified out of accumulated other comprehensive loss per Accounting Standards Update ("ASU") 2016-01		6		
Other comprehensive (loss) income for the period		(24,047)		10,69
Total comprehensive income	$	9,101	$	36,23

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Quarter Ended	
	March 31, 2018	March 31, 2017
(In thousands)		
Cash flows from operating activities:		
Net income	$ 33,148	$ 25,541
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,922	4,141
Amortization of intangible assets	1,006	1,121
Provision for loan and lease losses	20,544	25,442
Deferred income tax expense (benefit)	5,472	(6,016)
Stock-based compensation	2,205	1,734
Other-than-temporary impairments on debt securities	-	12,231
Gain on early extinguishment of debt	(2,316)	-
Unrealized loss on derivative instruments	52	57
Net (gain) loss on sales of premises and equipment and other assets	(847)	9
Net gain on sales of loans	(1,096)	(1,472)
Net amortization/accretion of premiums, discounts, and deferred loan fees and costs	(2,095)	(2,031)
Originations and purchases of loans held for sale	(65,984)	(81,389)
Sales and repayments of loans held for sale	76,163	86,924
Loans held for sale valuation adjustment	558	-
Amortization of broker placement fees	367	527
Net amortization/accretion of premium and discounts on investment securities	476	461
Decrease in accrued interest receivable	13,061	3,413
Increase in accrued interest payable	8	174
Decrease in other assets	10,566	5,419
Increase in other liabilities	166	8,517
Net cash provided by operating activities	95,376	84,803
Cash flows from investing activities:		
Principal collected on loans	590,753	669,615
Loans originated and purchased	(550,257)	(704,175)
Proceeds from sales of loans held for investment	13,274	53,245
Proceeds from sales of repossessed assets	10,559	12,159
Purchases of available-for-sale securities	(49,626)	(5,003)
Proceeds from principal repayments and maturities of available-for-sale securities	100,195	53,830
Proceeds from principal repayments of held-to-maturity securities	141	141
Additions to premises and equipment	(5,142)	(2,840)
Proceeds from sale of premises and equipment and other assets	1,857	637
Net redemptions of other equity securities	-	4,500
Net cash provided by investing activities	111,754	82,109
Cash flows from financing activities:		
Net increase in deposits	45,026	58,722

Change in securities sold under agreements to repurchase	(100,000)	-
Net FHLB advances paid	-	(100,000)
Repayment of junior subordinated debentures	(21,434)	-
Repurchase of outstanding common stock	(2,624)	(528)
Dividends paid on preferred stock	(669)	(669)
Net cash used in financing activities	(79,701)	(42,475)
Net increase in cash and cash equivalents	127,429	124,437
Cash and cash equivalents at beginning of period	716,395	299,685
Cash and cash equivalents at end of period	$ 843,824	$ 424,122
Cash and cash equivalents include:		
Cash and due from banks	$ 743,409	$ 414,034
Money market instruments	100,415	10,088
	$ 843,824	$ 424,122

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

(In thousands)	Quarter Ended March 31, 2018	Quarter Ended March 31, 2017
Preferred Stock	$ 36,104	$ 36,104
Common Stock outstanding:		
Balance at beginning of period	21,628	21,745
Common stock issued as compensation	15	14
Common stock withheld for taxes	(38)	(11)
Restricted stock grants	34	95
Balance at end of period	21,639	21,843
Additional Paid-In-Capital:		
Balance at beginning of period	936,772	931,856
Stock-based compensation	2,205	1,734
Common stock withheld for taxes	(2,586)	(517)
Restricted stock grants	(34)	(95)
Common stock issued as compensation	(15)	(14)
Balance at end of period	936,342	932,964
Retained Earnings:		
Balance at beginning of period	895,208	830,928
Net income	33,148	25,541
Dividends on preferred stock	(669)	(669)
Amount reclassified from accumulated other comprehensive loss per ASU 2016-01	(6)	-
Balance at end of period	927,681	855,800
Accumulated Other Comprehensive (Loss) Income, net of tax:		
Balance at beginning of period	(20,615)	(34,390)
Other comprehensive (loss) income, net of tax	(24,047)	10,696
Balance at end of period	(44,662)	(23,694)
Total stockholders equity	$ 1,877,104	$ 1,823,017

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements (unaudited) of First BanCorp. (the "Corporation") have been prepared in conformity with the accounting policies stated in the Corporation's Audited Consolidated Financial Statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2017. Certain information and note disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted from these statements pursuant to the rules and regulations of the SEC and, accordingly, these financial statements should be read in conjunction with the Audited Consolidated Financial Statements of the Corporation for the year ended December 31, 2017, which are included in the Corporation's 2017 Annual Report on Form 10-K. All adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the statement of financial position, results of operations and cash flows for the interim periods have been reflected. All significant intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the quarter ended March 31, 2018 are not necessarily indicative of the results to be expected for the entire year.

Adoption of New Accounting Requirements and Recently Issued but Not Yet Effective Accounting Requirements

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

Revenue Recognition

In May 2014, the FASB updated the Accounting Standards Codification (the "Codification" or the "ASC") to create a new, principles-based revenue recognition framework. This guidance requires entities to recognize revenues when they transfer promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance describes a 5-step process that entities

can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information.

The Corporation adopted the guidance on January 1, 2018 using a modified retrospective method, in which the guidance applies to existing contracts in effect at January 1, 2018 and new contracts entered into after this date. Most of the Corporation's revenue, including net interest income, gain on sale of loans, and mortgage servicing fees is explicitly out of scope of the new revenue recognition guidance. The Corporation conducted an assessment of the revenue streams that were potentially affected by the new guidance and reviewed contracts in scope to ensure compliance with the new guidance.

The Corporation has identified service charges on deposits and related cash management services, insurance commissions, merchant-related income, and card interchange income as its most significant revenue streams within the scope of the standard. For the revenue streams that were found in scope, management reviewed in detail its most significant contracts with corresponding customers. The adoption of this guidance did not have a material effect on the Corporation's consolidated financial statements. However, additional disclosures required by the standard have been included in Note 22 – Revenue from Contracts with Customers, to the Corporation's consolidated financial statements.

Recognition and Measurement of Financial Assets and Liabilities

In January 2016, the FASB updated the Codification to require an entity to: (i) measure equity investments at fair value through net income, with certain exceptions, thus, eliminating eligibility for the available-for-sale category; (ii) present in OCI the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price; and (v) assess a valuation allowance on deferred tax assets related to unrealized losses of available-for-sale debt securities in combination with other deferred tax assets. The guidance provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment, adjusted for certain observable price changes. The guidance also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The adoption of this standard during the first quarter of 2018 did not have a material effect on the Corporation's consolidated financial statements.

Statement of Cash Flows Presentation – Restricted Cash

In August 2016 and November 2016, the FASB updated the Codification to provide specific guidance on the classification and presentation of certain cash payments and cash receipts, including changes in restricted cash, in the statement of cash flows. This guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Corporation adopted the provisions of this guidance during the first quarter of 2018 without any material effect on the Corporation's consolidated financial statements.

Income Tax Effect of Intra-Entity Transfers of Assets

In October 2016, the FASB updated the Codification to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. With this Update, entities are required to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Under current GAAP, the recognition of current and deferred income taxes for an intra-entity asset transfer is prohibited until the assets are sold to an outside party. This Update does not include new disclosure requirements; however, existing disclosure requirements might be applicable when accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. For example, GAAP requires an entity to disclose a comparison of income tax expense (benefit) with statutory expectations (a rate reconciliation for public entities or a description of the nature of each significant reconciling item for nonpublic entities) and also requires an entity to disclose the types of temporary differences and carryforwards that give rise to a significant portion of deferred income taxes. The Corporation adopted the provisions of this guidance during the first quarter of 2018 without any effect on the Corporation's consolidated financial statements.

Clarifying what Changes Qualify as a Modification of a Share-Based Payment Award

In May 2017, the FASB updated the codification to reduce the cost and complexity when applying ASC Topic 718, "Compensation – Stock Compensation," and standardize the practice of applying Topic 718 to financial reporting. Topic 718 prescribes the accounting treatment of a modification in the terms or conditions of a share-based payment award. The guidance clarifies what changes would qualify as a modification. This was done by better defining what does not constitute a modification. In order for a change to a share-based arrangement to not require Topic 718 modification treatment, all of the following must be met: (i) the fair value (or alternative measurement method used) of the modified award equals the fair value (or alternative measurement method used) of the original award immediately before the original award is modified; (ii) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (iii) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under this Update. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. The Corporation adopted the

provisions of this guidance on January 1, 2018 without any effect on the Corporation’s consolidated financial statements. The Corporation’s Omnibus Plan provides for equity-based compensation incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, cash-based awards and other stock-based awards. If any change occurs in the future to awards issued under the Omnibus Plan, the Corporation will evaluate it under this guidance.

Lease Accounting

In February 2016, the FASB updated the Codification to provide guidance for the financial reporting about leasing transactions. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, the guidance will require both types of leases to be recognized on the balance sheet. The guidance will also require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The guidance on leases will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early application is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period presented in the financial statements. As lessees, the Corporation has lease agreements for branch locations that are currently considered operating leases, and therefore are not recognized on the Corporation’s consolidated balance sheets. The Corporation expects that the new guidance will require these leases to be recognized on the consolidated balance sheets as a right-of-use asset with a corresponding lease liability. The Corporation continues to evaluate the effect that this guidance will have on the Corporation’s consolidated financial statements.

Accounting for Financial Instruments – Credit Losses

In June 2016, the FASB updated the Codification to introduce new guidance for the accounting for credit losses on instruments that includes an impairment model (known as the current expected credit loss (“CECL”) model) that is based on expected losses rather than incurred losses. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The CECL model will apply to: (1) financial assets subject to credit losses and measured at amortized cost and (2) certain off-balance sheet credit exposures. This includes loans, held-to-maturity debt securities, loan commitments, financial guarantees, and net investments in leases, as well as reinsurance and trade receivables. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses (“ECL”) should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Financial instruments with similar risk characteristics should be grouped together when estimating ECL. The guidance does not prescribe a specific method to make the estimate, so its application will require significant judgment.

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

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

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

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

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

The guidance will be effective for public business entities that are SEC filers in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption of the guidance will be permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

The Corporation has developed a transition roadmap in order to comply with the timely implementation of this new accounting framework. The Corporation has created a working group with members from multiple areas across the organization that is responsible for assessing the effect of the standard, evaluating interpretative issues, and evaluating the current credit loss models against the new guidance to determine any necessary changes and other related implementation activities. The working group provides periodic updates to the Corporation's CECL Management Committee, which has oversight responsibilities for the implementation efforts. The Corporation continues to evaluate the effect that this guidance, including the method of implementation, will have on its consolidated financial statements.

Subsequent Measurement of Goodwill

In January 2017, the FASB updated the Codification to simplify the subsequent measurement of goodwill by eliminating Step 2 from the current two-step goodwill impairment test. This guidance provides that a goodwill impairment test be conducted by comparing the fair value of a reporting unit with its carrying amount. Entities are to recognize an impairment charge for goodwill

equal to the excess of the carrying amount over the reporting unit's fair value. Entities have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The effect of this guidance will depend upon the performance of the reporting units and the market conditions affecting the fair value of each reporting unit going forward.

Amortization of Premiums and Discounts of Callable Debt Securities

In March 2017, the FASB updated the Codification to shorten the amortization period for certain purchased callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. With respect to securities held at a discount, the amendments do not require an accounting change; thus, the discount continues to be amortized to maturity. Under current GAAP, premiums and discounts on callable debt securities generally are amortized to the maturity date. An entity must have a large number of similar loans to consider estimates of future principal prepayments when applying the interest method. However, an entity that holds an individual callable debt security at a premium may not amortize that premium to the earliest call date. If that callable debt security is subsequently called, the entity records a loss equal to the unamortized premium. The amendments in this Update more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. In most cases, market participants price securities to the call date that produces the worst yield when the coupon is above current market rates (that is, the security is trading at a premium) and price securities to maturity when the coupon is below market rates (that is, the security is trading at a discount) in anticipation that the borrower will act in its economic best interest. As a result, the amendments more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this guidance is not expected to have a material effect on the Corporation's consolidated statement of financial condition or results of operations. As of March 31, 2018, the Corporation had $4.3 million of callable debt securities held at a premium (unamortized premium of $50 thousand).

Derivatives and Hedging

In August 2017, the FASB updated the Codification to: (i) expand hedge accounting for nonfinancial and financial risk components and amend measurement methodologies to more closely align hedge accounting with a company's risk management activities; (ii) decrease the complexity of preparing and understanding hedge results by eliminating the separate measurement and reporting of hedge ineffectiveness; (iii) enhance transparency, comparability, and understanding of hedge results through enhanced disclosures and changing the presentation of hedge results to align the effects of the hedging instrument and the hedged item; and (iv) reduce the cost and complexity of applying hedge accounting by simplifying the manner in which assessments of hedge effectiveness may be performed. This Update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The guidance requires companies to apply requirements to existing hedging relationships on the date of adoption, and the effect of the adoption should be reflected as of the beginning of the fiscal year of adoption. As of March 31, 2018, all of the derivatives held by the Corporation were considered economic undesignated hedges.

The adoption of this guidance is not expected to have a material effect on the Corporation's consolidated statement of financial condition or results of operations.

Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income

In February 2018, the FASB updated the Codification to provide entities with an option to reclassify tax effects that were stranded in accumulated other comprehensive income, pursuant to the recently enacted Tax Cuts and Jobs Act of 2017 (the "Tax Act"), to retained earnings. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. This guidance may be early adopted in any interim or annual period for which financial statements have not yet been issued and applied either in the period of adoption or retrospectively to each period in which the effect of the change in the corporate tax rate in the Tax Act is recognized. The adoption of this guidance is not expected to have an effect on the Corporation's consolidated financial statements.

NOTE 2 –UPDATE ON EFFECTS OF NATURAL DISASTERS

Two strong hurricanes affected the Corporation’s service areas during September 2017. The following summarizes the more significant continuing financial repercussions of these natural disasters for the Corporation and for its major subsidiary, FirstBank.

Credit Quality and Allowance for Loan and Lease Losses

Relationship officers continued to closely monitor the performance of hurricane-affected loan customers during the first quarter of 2018, and data became available on the performance of consumer and residential credits that had been under payment deferral programs. This information was factored into the determination of the allowance for loan and lease losses as of March 31, 2018. Although the identification and evaluation of hurricane-affected credits has been substantially 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 the first quarter of 2018, the Corporation recorded a net loan loss reserve release of approximately $6.4 million in connection with revised estimates associated with the effects of the hurricanes. The revised estimates were primarily attributable to updated assessments of financial performance and repayment prospects of certain individually-assessed commercial credits and lower reserve requirements resulting from payments received during the first quarter that reduced the balance of the consumer loan portfolio outstanding on the dates of the hurricanes.

As of March 31, 2018, the hurricane-related allowance amounted to $62.1 million (net of a $2.8 million charge-off taken on a hurricane-affected construction credit during the fourth quarter of 2017). With the resolution of uncertainties and the ongoing collection of information on individual commercial customers and statistics on the consumer and residential loan portfolios, the loss estimate will be revised as needed. Refer to Note 7, – Loans Held for Investment, to the consolidated financial statements for information about non-performing loans and early delinquency statistics.

Disaster Response Plan Costs, Casualty Losses and Related Insurance

The Corporation has incurred a variety of costs to operate in disaster response mode, and some facilities and their contents were damaged by the storms. The Corporation maintains insurance for casualty losses as well as for reasonable and necessary disaster response costs and certain revenue lost through business interruption. Most of the significant disaster response costs were incurred by the end of the first quarter of 2018. The cost were included, where appropriate, in an insurance claim receivable based on management’s understanding of the underlying coverage. An insurance claim receivable of $5.3 million was included as part of other assets as of March 31, 2018, and the Corporation has incurred $9.4 million of hurricane-related disaster response costs and casualty losses, including $1.6

million charged to operations in the first quarter of 2018. Impairments, recoverable expenses and expected recoveries are included as part of "Other non-interest income" in the statement of income. Management also believes that there is a possibility that some gains will be recognized with respect to casualty and lost revenue claims in future periods, but this is contingent on reaching agreement on the Corporation's claims with the insurance carriers.

Liquidity Management

The Corporation experienced rapid accumulation of deposits after the hurricanes in the fourth quarter of 2017 and the first quarter of 2018. Total deposits as of March 31, 2018, excluding brokered CDs, increased $238.3 million from December 31, 2017 and $599.8 million since September 30, 2017. The most significant increase was in non-interest-bearing demand deposits, which grew 10%, or $186.2 million from December 31, 2017 and $433.7 million, or 27%, since September 30, 2017. Hurricane-related factors, such as the effect of payment deferral programs available to customers, disaster relief funds, and settlement of insurance claims continue to contribute to this accumulation. Although management expects the balances accumulated by deposit customers in the hurricane-affected areas to reduce over time, it is difficult to predict when and to what degree, and there may be further growth as insurance claims are resolved and additional disaster-recovery funds are distributed.

NOTE 3 – EARNINGS PER COMMON SHARE

The calculations of earnings per common share for the quarters ended March 31, 2018 and 2017 are as follows:

	Quarter Ended	
	March 31, 2018	**March 31, 2017**
(In thousands, except per share information)		
Net income	$ 33,148	$ 25,541
Less: Preferred stock dividends	(669)	(669)
Net income attributable to common stockholders	$ 32,479	$ 24,872
Weighted-Average Shares:		
Average common shares outstanding	214,646	213,340
Average potential dilutive common shares	1,648	4,033
Average common shares outstanding-assuming dilution	216,294	217,373
Earnings per common share:		
Basic	$ 0.15	$ 0.12
Diluted	$ 0.15	$ 0.11

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 in met as of the end of the reporting period, and outstanding warrants 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, and outstanding warrants 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.

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NOTE 4 – 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 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 March 31, 2018, 7,063,074 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 the first quarter of 2018, the Corporation awarded 341,189 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 of the grant date. Included in those 341,189 shares of restricted stock were 20,447 shares granted to retirement-eligible employees at the grant date. The fair value of the shares of restricted stock granted in the first quarter of 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 the first quarter of 2018 under the Omnibus Plan:

	Quarter Ended March 31, 2018		
	Number of shares of restricted stock		**Weighted-Average Grant Date Fair Value**
Non-vested shares at beginning of period	1,816,968	$	2.76

Granted	341,189		6.29
Vested	(1,061,476)		2.02
Non-vested shares at March 31, 2018	1,096,681	$	4.58

For the quarters ended March 31, 2018 and 2017, the Corporation recognized $1.1 million and $0.9 million, respectively, of stock-based compensation expense related to restricted stock awards. As of March 31, 2018, there was $3.9 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 1.7 years. The total expense determined for restricted stock awards granted to retirement-eligible employees was charged against earnings at the grant date.

During the first quarter of 2017, the Corporation awarded 949,332 shares of restricted stock to employees subject to a vesting period of two years. Included in those 949,332 shares of restricted stock were 838,332 shares granted 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 the U.S. Treasury, the Corporation is no longer 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 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 U.S. Treasury continues to hold a warrant to purchase 1,285,899 shares of the Corporation’s common stock.

The fair value of the shares of restricted stock granted in the first quarter of 2017 was based on 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, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease in the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase in the expense recognized in the financial statements. 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 unit awards to Omnibus Plan participants. During the first quarter of 2018, the Corporation granted 304,408 unit awards to executives, with each unit representing the value of one share of the Corporation's common stock. The performance unit awards 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 unit awards were 29,171 units granted to retirement-eligible executives at the grant date. The performance unit 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). 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 unit awards granted in the first quarter of 2018 was based on the market price of the Corporation's outstanding common stock on the date of the grant. For the first quarter of 2018, the Corporation recognized $0.2 million of stock-based compensation related to performance unit awards. As of March 31, 2018, there was $1.7 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 unit awards granted 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 is recognized to compensation expense 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 the first quarter of 2018, the Corporation issued 154,187 shares of common stock (first quarter of 2017 – 135,692 shares) with a weighted average market value of $5.80 (first quarter of 2017 - $6.31) as salary stock compensation. This resulted in a compensation expense of $0.8 million recorded in each of the first quarter of 2018 and 2017.

During the quarter ended March 31, 2018, the Corporation withheld 56,131 shares (first quarter of 2017 – 45,710 shares) from the common stock paid to certain senior officers as additional compensation and 326,956 shares of the restricted stock that vested during the first quarter of 2018 (first quarter of 2017 – 52,590 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.

NOTE 5 – INVESTMENT SECURITIES

Investment Securities Available for Sale

The amortized cost, non-credit loss component of OTTI recorded in OCI, gross unrealized gains and losses recorded in OCI, approximate fair value, and weighted-average yield of investment securities available for sale by contractual maturities as of March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018					
		Noncredit Loss Component of OTTI Recorded in	Gross Unrealized			Weighted-
(Dollars in thousands)	Amortized cost	OCI	gains	losses	Fair value	average yield %
U.S. Treasury securities:						
Due within one year	$ 49,799	$ -	$ -	$ 22	$ 49,777	1.55
After 1 to 5 years	7,465	-	-	73	7,392	1.29
U.S. government-sponsored agencies obligations:						
Due within one year	72,484	-	-	242	72,242	1.08
After 1 to 5 years	309,459	-	-	4,996	304,463	1.42
After 5 to 10 years	133,471	-	26	2,736	130,761	2.74
After 10 years	39,190	-	-	254	38,936	2.07
Puerto Rico government obligations:						
After 5 to 10 years	4,052	-	22	-	4,074	3.14
After 10 years	4,035	-	-	1,301	2,734	6.97
United States and Puerto Rico government obligations	619,955	-	48	9,624	610,379	1.76

Mortgage-backed securities:						
Freddie Mac ("FHLMC") certificates:						
After 5 to 10 years	43,037	-	12	1,305	41,744	1.96
After 10 years	262,934	-	-	8,379	254,555	2.28
	305,971	-	12	9,684	296,299	2.23
Ginnie Mae ("GNMA") certificates:						
After 1 to 5 years	136	-	3	-	139	2.77
After 5 to 10 years	65,098	-	683	137	65,644	3.04
After 10 years	140,314	-	4,492	986	143,820	3.81
	205,548	-	5,178	1,123	209,603	3.57
Fannie Mae ("FNMA") certificates:						
After 1 to 5 years	15,735	-	177	195	15,717	2.89
After 5 to 10 years	109,562	-	-	4,279	105,283	1.76
After 10 years	531,560	-	1,818	14,320	519,058	2.52
	656,857	-	1,995	18,794	640,058	2.40
Collateralized mortgage obligations guaranteed by the FHLMC and GNMA						
After 1 to 5 years	8,154	-	8	11	8,151	2.53
After 10 years	34,619	-	321	-	34,940	2.53
	42,773	-	329	11	43,091	2.53
Other mortgage pass-through trust certificates:						
After 10 years	21,309	5,235	-	-	16,074	4.49
Total mortgage-backed securities	1,232,458	5,235	7,514	29,612	1,205,125	2.60
Total investment securities available for sale	$ 1,852,413	$ 5,235	$ 7,562	$ 39,236	$ 1,815,504	2.32

(Dollars in thousands)		December 31, 2017				
	Amortized cost	Noncredit Loss Component of OTTI Recorded in OCI	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted-average yield%
U.S. Treasury securities:						
After 1 to 5 years	$ 7,458	$ -	$ -	$ 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
Mortgage-backed securities:						
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 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 mortgage-backed securities	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 equity securities from available-for-sale investment securities to other investment securities.

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

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 March 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 March 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	$ -	$ -	$ 2,734	$ 1,301	$ 2,734	$ 1,301
U.S. Treasury and U.S. government agencies obligations	238,248	3,306	360,298	5,017	598,546	8,323
Mortgage-backed securities:						
FNMA	354,552	7,690	259,076	11,104	613,628	18,794
FHLMC	138,510	2,916	157,598	6,768	296,108	9,684
GNMA	68,490	1,123	-	-	68,490	1,123
Collateralized mortgage obligations issued or guaranteed by FHLMC and GNMA	5,907	11	-	-	5,907	11
Other mortgage pass-through trust certificates	-	-	16,074	5,235	16,074	5,235
	$ 805,707	$ 15,046	$ 795,780	$ 29,425	$ 1,601,487	$ 44,471

	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
Mortgage-backed securities:						
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 equity securities from available-for-sale investment securities to other investment securities.

Assessment for OTTI

Debt securities issued by U.S. government agencies, U.S. government-sponsored entities, and the U.S. Treasury accounted for approximately 98% of the total available-for-sale portfolio as of March 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:

	Quarter ended March 31,			
	2018		**2017**	
(In thousands)				
Total other-than-temporary impairment losses	$	-	$	(12,231)
Portion of other-than-temporary impairment recognized in OCI		-		-
Net impairment losses recognized in earnings [(1)]	$	-	$	(12,231)

(1)Credit losses on Puerto Rico government debt securities, recorded in the first quarter of 2017.

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

Cumulative OTTI credit losses recognized in earnings on securities still held

	December 31, 2017 Balance		Credit impairments recognized in earnings on securities that have been previously impaired		March 31, 2018 Balance	
(In thousands)						
Available-for-sale securities						
Private label MBS	$	6,792	$	-	$	6,792

	Cumulative OTTI credit losses recognized in earnings on securities still held					
	December 31, 2016 Balance		Credit impairments recognized in earnings on securities that have been previously impaired		March 31, 2017 Balance	
(In thousands)						
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	$	41,212

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). Approximately $12.2 million of the cumulative OTTI charges on these securities was recorded in the first quarter of 2017.

For the OTTI charge recorded on the Puerto Rico government debt securities in the first quarter of 2017, 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 consideration of 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 non-performing 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%).

In addition, the Corporation performed on OTTI assessment on its 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 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 March 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	15.2%	7.5% - 24.5%	16.4%	12.0% - 29.0%
Projected Cumulative Loss Rate	4%	0% - 9%	3%	0% - 6.8%

No OTTI charges on private label MBS were recorded in either the first quarter of 2018 or the first quarter of 2017.

Investments Held to Maturity

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

	March 31, 2018				
		Gross Unrealized			
	Amortized cost	gains	losses	Fair value	Weighted-average yield%
Puerto Rico Municipal Bonds:					
After 1 to 5 years	$ 3,712	$ -	$ 161	$ 3,551	5.39
After 5 to 10 years	39,523	-	2,703	36,820	5.35
After 10 years	107,251	-	12,766	94,485	5.21
Total investment securities held to maturity	$ 150,486	$ -	$ 15,630	$ 134,856	5.25

	December 31, 2017				
		Gross Unrealized			
	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

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

	As of March 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 Municipal Bonds	$ -	$ -	$ 134,856	$ 15,630	$ 134,856	$ 15,630

	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 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.

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 PROMESA oversight board has not designated any of Puerto Rico’s 78 municipalities as covered entities under PROMESA. However, while the fiscal plan recently 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 the recent hurricanes and 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 if 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 classified as money market investments in the consolidated statements of financial condition. As of March 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 – OTHER INVESTMENT SECURITIES

Institutions that are members of the FHLB system are required to maintain a minimum investment in FHLB stock. Such minimum investment is calculated as a percentage of aggregate outstanding mortgages, and 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 each March 31, 2018 and December 31, 2017, the Corporation had investments in FHLB stock with a book value of $40.9 million. The net realizable value is a reasonable proxy for the fair value of these instruments. Dividend income from FHLB stock for the quarters ended March 31, 2018 and 2017 was $0.7 million and $0.5 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 Federal Home Loan Banks are all privately capitalized and operated by their member stockholders. The system is supervised by the Federal Housing Finance Agency, which ensures that the Federal Home Loan Banks operate in a financially safe and sound manner, remain adequately capitalized and able to raise funds in the capital markets, and carry out their housing finance mission.

As of January 1, 2018, the Corporation adopted ASU 2016-01, resulting in the reclassification of equity securities with readily determinable fair value of approximately $0.4 million from available-for-sale investment securities to other investment securities. During the first quarter of 2018, the Corporation measured these equity securities at fair value through earnings resulting in the recognition of a market-to-market loss of $7 thousand recorded as part of other non-interest income in the statement of income.

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

NOTE 7 – LOANS HELD FOR INVESTMENT

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

(In thousands)		As of March 31, 2018		As of December 31, 2017
Residential mortgage loans, mainly secured by first mortgages	$	3,267,868	$	3,290,957
Commercial loans:				
Construction loans (1)		79,150		111,397
Commercial mortgage loans (1)		1,552,503		1,614,972
Commercial and Industrial loans (2)		2,061,773		2,083,253
Total Commercial loans		3,693,426		3,809,622
Finance leases		262,863		257,462
Consumer loans		1,471,733		1,492,435
Loans held for investment (2)		8,695,890		8,850,476
Allowance for loan and lease losses		(225,856)		(231,843)
Loans held for investment, net	$	8,470,034	$	8,618,633

(1) During the first quarter of 2018, the Corporation transferred $57.2 million (net of fair value write-downs of $9.7 million) in non-performing loans to held for sale. Loans transferred to held for sale consisted of a $30.0 million non-performing construction loan (net of a $5.1 million fair value write-down) and two non-performing commercial mortgage loans totaling $27.2 million (net of fair value write-downs of $4.6 million).

(2) As of March 31, 2018 and December 31, 2017, includes $823.2 million and $833.5 million, respectively, of commercial loans that are secured by real estate but are not dependent upon the real estate for repayment.

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

(In thousands)		As of March 31, 2018		As of December 31, 2017
Non-performing loans:				
Residential mortgage	$	171,380	$	178,291
Commercial mortgage (1)		115,179		156,493
Commercial and Industrial		85,325		85,839
Construction:				
Land		14,949		15,026
Construction-commercial (1)		-		35,100
Construction-residential		1,287		1,987
Consumer:				
Auto loans		13,453		10,211
Finance leases		1,801		1,237
Other consumer loans		8,603		5,370
Total non-performing loans held for investment (2)(3)(4)	$	411,977	$	489,554

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(1) During the first quarter of 2018, the Corporation transferred $57.2 million (net of fair value write-downs of $9.7 million) in non-performing loans to held for sale. Loans transferred to held for sale consisted of a $30.0 million non-performing construction loan (net of a $5.1 million fair value write-down) and two non-performing commercial mortgage loans totaling $27.2 million (net of fair value write-downs of $4.6 million).

(2) Excludes $64.9 million and $8.3 million of non-performing loans held for sale as of March 31, 2018 and December 31, 2017, respectively.

(3) Amount excludes purchased-credit impaired ("PCI") loans with a carrying value of approximately $155.3 million and $158.2 million as of March 31, 2018 and December 31, 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 non-performing due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using an estimated cash flow analysis.

(4) Non-performing loans exclude $366.4 million and $374.7 million of Troubled Debt Restructuring ("TDR") loans that are in compliance with the modified terms and in accrual status as of March 31, 2018 and December 31, 2017, respectively.

During the first quarter of 2018, the Corporation transferred to held for sale three non-performing commercial and construction loans. The aggregate recorded investment in these loans 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 for the first quarter of 2018. Loans transferred to held for sale consisted of a $30.0 million non-performing construction loan (net of a $5.1 million fair value write-down) and two non-performing commercial mortgage loans totaling $27.2 million (net of fair value write-downs of $4.6 million).

Adoption of New Accounting Requirements and Recently Issued but Not Yet Effective Accounting Requirements

Loans in Process of Foreclosure

As of March 31, 2018, the recorded investment of residential mortgage loans collateralized by residential real estate property that are in the process of foreclosure amounted to $152.3 million, including $22.7 million of loans insured by the FHA or guaranteed by the VA, and $18.2 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 (Puerto Rico, Florida and USVI) require the foreclosure to be processed through the state's court while foreclosure in non-judicial states (BVI) is processed without court intervention. Foreclosure timelines vary according to state 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 March 31, 2018

(In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 days or more Past Due (1)	Total Past Due	Purchased Credit-Impaired Loans	Current	Total loans held for investment	90 days past due and still accruing
Residential mortgage:								
FHA/VA and other government-guaranteed loans (2)(3)(4)	$ -	$ 3,665	$107,693	$111,358	$ -	$ 35,927	$ 147,285	$107,693
Other residential mortgage loans (4)	-	57,505	186,535	244,040	151,067	2,725,476	3,120,583	15,155
Commercial:								
Commercial and Industrial loans	13,137	2,419	86,095	101,651	-	1,960,122	2,061,773	770
Commercial mortgage loans (4)	-	49,807	119,156	168,963	4,214	1,379,326	1,552,503	3,977
Construction:								
Land (4)	-	12	17,108	17,120	-	9,330	26,450	2,159
Construction-commercial	-	1,012	-	1,012	-	45,227	46,239	-
Construction-residential (4)	-	-	2,488	2,488	-	3,973	6,461	1,201
Consumer:								
Auto loans	32,438	7,891	13,453	53,782	-	784,711	838,493	-
Finance leases	5,843	2,216	1,801	9,860	-	253,003	262,863	-
Other consumer loans	13,701	4,577	10,434	28,712	-	604,528	633,240	1,831
Total loans held for investment	$ 65,119	$129,104	$544,763	$738,986	$ 155,281	$7,801,623	$8,695,890	$132,786

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

(2) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as past-due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $30.6 million of residential mortgage loans insured by the FHA or guaranteed by the VA that are over 15 months delinquent, and are no longer accruing interest as of March 31, 2018.

(3) As of March 31, 2018, includes $73.3 million of defaulted loans collateralizing Government National Mortgage Association ("GNMA") securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.

(4) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage, commercial mortgage, and construction loans are considered past due when the borrower is in arrears two or more monthly payments. FHA/VA and other government-guaranteed loans, other residential mortgage loans, commercial mortgage loans, land loans, and construction-residential loans past due 30-59 days as of March 31, 2018 amounted to $6.8 million, $122.0 million, $5.2 million, $0.6 million, and $0.2 million respectively.

As of December 31, 2017

(In thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 days or more Past Due (1)**	**Total Past Due**	**Purchased Credit-Impaired Loans**	**Current**	**Total loans held for investment**	**90 days past due and still accruing (2) (3)**
Residential mortgage:								
FHA/VA and other government-guaranteed loans (2)(3)(4)	$ -	$ 6,792	$ 102,815	$ 109,607	$ -	$ 29,332	$ 138,939	$ 102,815
Other residential mortgage loans (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	-	-	35,100	35,100	-	41,456	76,556	-
	-	95	1,987	2,082	-	5,828	7,910	-

Construction-residential								
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

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

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

(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 and other 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.

The Corporation's credit quality indicators by loan type as of March 31, 2018 and December 31, 2017 are summarized below:

	Commercial Credit Exposure-Credit Risk Profile Based on Creditworthiness Category:				
March 31, 2018	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified (1)**	**Total Portfolio**
(In thousands)					
Commercial mortgage	$ 269,926	$ 2,117	$ -	$ 272,043	$ 1,552,503
Construction:					
Land	15,971	391	-	16,362	26,450
Construction-commercial	-	-	-	-	46,239
Construction-residential	1,287	-	-	1,287	6,461
Commercial and Industrial	144,205	7,745	729	152,679	2,061,773

	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 non-peforming loans held for sale of $64.9 million ($27.2 million commercial mortgage, $30.0 million construction-commercial, and $7.7 million construction-land) and $8.3 million (construction-land) as of March 31, 2018 and December 31, 2017, respectively.

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.

March 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	$ 147,285	$ 2,798,136	$ 825,040	$ 261,062	$ 624,637
Purchased Credit-Impaired (2)	-	151,067	-	-	-
Non-performing	-	171,380	13,453	1,801	8,603
Total	$ 147,285	$ 3,120,583	$ 838,493	$ 262,863	$ 633,240

(1) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA or guaranteed by the VA as 90 days past-due loans and still accruing as opposed to non-performing loans since the principal repayment is insured. This balance includes $30.6 million of residential mortgage loans insured by the FHA or guaranteed by the VA, which are over 15 months delinquent, and are no longer accruing interest as of March 31, 2018.

(2) PCI loans are excluded from non-performing statistics due to the application of the accretion method, under which these loans will accrete interest income over the remaining life of the loans using estimated cash flow 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	-	-	-
Non-performing	-	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 or guaranteed by the VA as 90 days past due loans and still accruing as opposed to non-performing loans since the principal repayment is insured. This balance includes $29.9 million of residential mortgage loans insured by the FHA or guaranteed by the VA that are over 15 months delinquent, and are no longer accruing interest as of December 31, 2017.

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

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

Impaired Loans

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Specific Allowance	Average Recorded Investment	Interest Income Recognized On Accrual Basis	Interest Income Recognized On Cash Basis
As of March 31, 2018						
With no related specific allowance recorded:						
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	94,817	126,672	-	95,274	723	170
Commercial:						
Commercial mortgage loans	60,811	99,837	-	61,445	82	37
Commercial and Industrial loans	24,712	27,679	-	24,825	246	11
Construction:						
Land	-	-	-	-	-	-
Construction-commercial	-	-	-	-	-	-
Construction-residential	-	-	-	-	-	-
Consumer:						
Auto loans	387	387	-	394	2	-
Finance leases	-	-	-	-	-	-
Other consumer loans	2,266	3,051	-	2,327	29	17
	$ 182,993	$ 257,626	$ -	$ 184,265	$ 1,082	$ 235
With a related specific allowance recorded:						
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	322,793	359,048	22,546	324,110	3,654	231
Commercial:						
Commercial mortgage loans	101,315	117,838	13,451	102,304	661	47
Commercial and Industrial loans	95,066	117,400	14,375	92,382	302	20
Construction:						
Land	11,815	20,001	1,432	11,864	25	8
Construction-commercial	-	-	-	-	-	-
Construction-residential	252	355	52	252	-	-
Consumer:						
Auto loans	20,424	20,424	3,379	20,943	397	-
Finance leases	1,876	1,876	84	1,958	35	-
Other consumer loans	9,746	10,092	1,611	9,913	283	27
	$ 563,287	$ 647,034	$ 56,930	$ 563,726	$ 5,357	$ 333
Total:						
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ -
Other residential mortgage loans	417,610	485,720	22,546	419,384	4,377	401
Commercial:						
Commercial mortgage loans	162,126	217,675	13,451	163,749	743	84
Commercial and Industrial loans	119,778	145,079	14,375	117,207	548	31

Construction:						
Land	11,815	20,001	1,432	11,864	25	8
Construction-commercial	-	-	-	-	-	-
Construction-residential	252	355	52	252	-	-
Consumer:						
Auto loans	20,811	20,811	3,379	21,337	399	-
Finance leases	1,876	1,876	84	1,958	35	-
Other consumer loans	12,012	13,143	1,611	12,240	312	44
	$ 746,280	$ 904,660	$ 56,930	$ 747,991	$ 6,439	$ 568

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Impaired Loans

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Specific Allowance	Average Recorded Investment
As of December 31, 2017				
With no related specific allowance recorded:				
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -
Other residential mortgage loans	116,818	154,048	-	120,241
Commercial:				
Commercial mortgage loans	65,100	100,612	-	86,563
Commercial and Industrial loans	28,292	31,254	-	28,567
Construction:				
Land	48	49	-	48
Construction-commercial	-	-	-	-
Construction-residential	-	-	-	-
Consumer:				
Auto loans	267	267	-	290
Finance leases	-	-	-	-
Other consumer loans	2,521	3,688	-	2,745
	$ 213,046	$ 289,918	$ -	$ 238,454
With a related specific allowance recorded:				
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -
Other residential mortgage loans	316,616	349,284	22,086	318,606
Commercial:				
Commercial mortgage loans	87,814	124,084	9,783	93,720
Commercial and Industrial loans	90,008	112,005	12,359	92,666
Construction:				
Land	11,865	19,973	1,402	14,126
Construction-commercial	35,101	38,595	560	35,996
Construction-residential	252	355	55	252
Consumer:				
Auto loans	22,338	22,338	3,665	24,328
Finance leases	2,184	2,184	104	2,428
Other consumer loans	11,084	11,830	1,396	11,579
	$ 577,262	$ 680,648	$ 51,410	$ 593,701
Total:				
FHA/VA-Guaranteed loans	$ -	$ -	$ -	$ -
Other residential mortgage loans	433,434	503,332	22,086	438,847
Commercial:				
Commercial mortgage loans	152,914	224,696	9,783	180,283
Commercial and Industrial loans	118,300	143,259	12,359	121,233
Construction:				
Land	11,913	20,022	1,402	14,174
Construction-commercial	35,101	38,595	560	35,996
Construction-residential	252	355	55	252
Consumer:				
Auto loans	22,605	22,605	3,665	24,618

Finance leases	2,184	2,184	104	2,428
Other consumer loans	13,605	15,518	1,396	14,324
	$ 790,308	$ 970,566	$ 51,410	$ 832,155

Interest income of approximately $6.9 million ($6.4 million on an accrual basis and $0.5 million on a cash basis) was recognized on impaired loans for the first quarter of 2017.

The following table shows the activity for impaired loans and the related specific reserve during the first quarter of 2018 and 2017:

	Quarter ended	
	March 31, 2018	March 31, 2017
Impaired Loans:	(In thousands)	
Balance at beginning of period	$ 790,308	$ 887,905
Loans determined impaired during the period	61,408	19,628
Charge-offs (1) (2)	(17,213)	(17,404)
Loans sold, net of charge-offs	(4,121)	(53,245)
Increases to existing impaired loans	6,998	541
Foreclosures	(11,675)	(9,457)
Loans no longer considered impaired	(1,507)	(892)
Loans transferred to held for sale	(57,213)	-
Paid in full or partial payments	(20,705)	(19,878)
Balance at end of period	$ 746,280	$ 807,198

(1) The first quarter of 2018 includes charge-offs totaling $9.7 million associated with the $57.2 million in non-performing loans transferred to held for sale.

(2) The first quarter of 2017 includes a charge-off of $10.7 million related to the sale of the PREPA credit line as further discussed below.

	Quarter ended	
	March 31, 2018	March 31, 2017
Specific Reserve:	(In thousands)	
Balance at beginning of period	$ 51,410	$ 64,421
Provision for loan losses	22,703	18,862
Net charge-offs	(17,183)	(16,972)
Balance at end of period	$ 56,930	$ 66,311

Purchased Credit Impaired Loans (PCI)

The Corporation acquired PCI loans accounted for under ASC 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 310-30. These previous transactions include the acquisition from Doral Financial in the second quarter of 2014 of all its rights, title and interest in first and second residential mortgages loans in full satisfaction of secured borrowings owed by such entity to FirstBank.

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

The carrying amounts of PCI loans were as follows:

	As of			
		March 31, 2018		**December 31, 2017**
(In thousands)				
Residential mortgage loans	$	151,067	$	153,991
Commercial mortgage loans		4,214		4,183
Total PCI loans	$	155,281	$	158,174
Allowance for loan losses		(11,251)		(11,251)
Total PCI loans, net of allowance for loan losses	$	144,030	$	146,923

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

As of March 31, 2018	**30-59 Days**	**60-89 Days**	**90 days or more**	**Total Past Due**	**Current**	**Total PCI loans**
(In thousands)						
Residential mortgage loans	$ -	$ 8,291	$ 27,025	$ 35,316	$ 115,751	$ 151,067
Commercial mortgage loans	-	-	3,234	3,234	980	4,214

Total (1)	$ -	$ 8,291	$ 30,259	$ 38,550	$ 116,731	$ 155,281

(1) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage and commercial mortgage loans are considered past due when the borrower is in arrears two or more monthly payments. PCI residential mortgage loans and commercial mortgage loans past due 30-59 days as of March 31, 2018 amounted to $13.5 million and $0.2 million, respectively.

As of December 31, 2017	**30-59 Days**	**60-89 Days**	**90 days or more**	**Total Past Due**	**Current**	**Total PCI loans**
(In thousands)						
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 commercial mortgage loans past due 30-59 days as of December 31, 2017 amounted to $28.1 million and $0.2 million, respectively

Initial Fair Value and Accretable Yield of PCI Loans

At acquisition, the Corporation estimated the cash flows the Corporation expected to collect on PCI loans. Under the accounting guidance for PCI loans, the difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the 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 March 31, 2018, the reserve related to PCI loans acquired from Doral Financial in 2014 and from Doral Bank in 2015 amounted to $11.3 million.

Changes in the accretable yield of PCI loans for the quarters ended March 31, 2018 and 2017 were as follows:

		March 31, 2018		**March 31, 2017**
(In thousands)				
Balance at beginning of period	$	103,682	$	116,462
Accretion recognized in earnings		(2,623)		(2,797)
Balance at end of period	$	101,059	$	113,665

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

(In thousands)	Quarter ended March 31, 2018	Quarter ended March 31, 2017
Balance at beginning of period	$ 158,174	$ 165,818
Accretion	2,623	2,797
Collections	(3,396)	(4,593)
Foreclosures	(2,120)	(922)
Ending balance	$ 155,281	$ 163,100
Allowance for loan losses	(11,251)	(6,857)
Ending balance, net of allowance for loan losses	$ 144,030	$ 156,243

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

(In thousands)	Quarter ended March 31, 2018	Quarter ended March 31, 2017
Balance at beginning of period	$ 11,251	$ 6,857
Provision for loan losses	-	-
Balance at the end of period	$ 11,251	$ 6,857

The outstanding principal balance of PCI loans, including amounts charged off by the Corporation, amounted to $192.0 million as of March 31, 2018 (December 31, 2017- $196.6 million).

Purchases and Sales of Loans

During the first quarter of 2018, the Corporation purchased $14.5 million of residential mortgage loans consistent with 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 government-sponsored entities ("GSEs"), such as FNMA and FHLMC, which generally securitize the transferred loans into mortgage-backed securities for sale into the secondary market. During the first quarter of 2018, the Corporation sold $54.4 million of FHA/VA mortgage loans to GNMA, which packaged them into mortgage-backed securities. Also during the first quarter of 2018, the Corporation sold approximately $20.1 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).

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 March 31, 2018 and December 31, 2017, rebooked GNMA delinquent loans included in the residential mortgage loan portfolio amounted to $73.3 million and $62.1 million, respectively.

During the first quarters of 2018 and 2017, the Corporation repurchased, pursuant to its repurchase option with GNMA, $1.1 million and $10.7 million, respectively, of loans previously sold to GNMA. The principal balance of these loans is fully guaranteed and the risk of loss related to the repurchased loans is generally limited to the difference between the delinquent interest payment advanced to GNMA, 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. During the fourth quarter of 2017, the Corporation requested and received approval from GNMA for the exclusion of loans in the areas affected by

Hurricanes Irma and Maria from calculations of delinquency and default ratios established in the GNMA Mortgage-Backed Securities Guide. The Corporation generally remediates any breach of representations and warranties related to the underwriting of such loans according to established GNMA guidelines without incurring losses. The Corporation does not maintain a liability for estimated losses as a result of breaches in representations and warranties.

Loan sales to FNMA and FHLMC are without recourse in relation to the future performance of the loans. The Corporation repurchased at par loans previously sold to FNMA and FHLMC in the amount of $3 thousand and $6 thousand during the first quarters of 2018 and 2017, 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 the first quarter of 2018, the Corporation sold a $5.6 million commercial and industrial adversely-classified loan in Puerto Rico, recording a charge-off of $1.3 million, and a $9.2 million commercial and industrial loan participation in the Florida region.

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 the first quarter of 2017.

Loan Portfolio Concentration

The Corporation's primary lending area is Puerto Rico. The Corporation's banking subsidiary, First Bank, also lends in the USVI and BVI markets and in the United States (principally in the state of Florida). Of the total gross loans held for investment of $8.7 billion as of March 31, 2018, credit risk concentration was approximately 75% in Puerto Rico, 19% in the United States, and 6% in the USVI and BVI.

As of March 31, 2018, the Corporation had $54.8 million outstanding loans extended to the Puerto Rico government, its municipalities and public corporations, compared to $55.9 million as of December 31, 2017. Approximately $33.1 million of the outstanding loans as of March 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 March 31, 2018 includes a $6.7 million loan extended to a unit of the central government, and a $15.0 million loan granted to an affiliate of PREPA.

Furthermore, as of March 31, 2018, the Corporation had three loans granted to the hotel industry in Puerto Rico that were previously guaranteed by the Puerto Rico Tourism Development Fund ("TDF") with an outstanding principal balance of $116.2 million (book value $61.6 million), compared to $120.2 million outstanding (book value of $70.8 million) as of December 31, 2017. Historically, the borrower and the operations of the underlying collateral of these loans have been the primary sources of repayment and the TDF, which is a subsidiary of the GDB, provided a secondary guarantee for payment performance. As part of agreements executed in the second quarter of 2017 and first quarter of 2018, the TDF paid $7.6 million and $4.0 million, respectively, to honor a portion of its guarantee on these loans. As provided in the agreements, the cash payments received by the Corporation released the TDF from its liability as a guarantor of these loans. All three of the commercial mortgage loans previously guaranteed by the TDF have been classified as non-performing and impaired since the first quarter of 2016, and interest payments have been applied against principal since then. In addition, the GDB agreed to issue to the Bank a fixed income financial instrument pursuant to the GDB's Restructuring Support Agreement approved by the PROMESA oversight board. During the first quarter of 2018, two of these three commercial mortgage loans, with an aggregate outstanding principal balance of $50.4 million (book value of $27.2 million) were transferred to held for sale.

In addition, the Corporation had $115.9 million in exposure to residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority. Residential mortgage loans guaranteed by the Puerto Rico Housing Finance Authority are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. The Puerto Rico government guarantees up to $75 million of the principal 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, 2015, the Puerto Rico Housing Finance Authority's mortgage loans insurance program covered loans in an aggregate of approximately $552 million. The regulations adopted by the Puerto Rico Housing Finance Authority require the establishment of adequate reserves to guarantee the solvency of the mortgage loan insurance fund. As of June 30, 2015, the most recent date as to which information is available, the Puerto Rico Housing Finance Authority had a restricted net position for such purposes of approximately $77.4 million.

The Corporation also has credit exposure to USVI government entities. As of March 31, 2018, the Corporation had $76.7 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 March 31, 2018, public corporations of the USVI owed approximately $53.5 million and an independent instrumentality of the USVI government owed approximately $23.2 million. As of March 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.

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 March 31, 2018, the Corporation's total TDR loans held for investment of $572.4 million consisted of $350.0 million of residential mortgage loans, $96.3 million of commercial and industrial loans, $85.8 million of commercial mortgage loans, $6.6 million of construction loans, and $33.7 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to $1.9 million as of March 31, 2018. In addition, the loans held for sale portfolio includes a $30.0 million TDR construction loan.

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 loan and would lose their homes in a foreclosure action absent some lender concession. Nevertheless, if the Corporation is not reasonably assured that the borrower will comply with its contractual commitment, properties are foreclosed.

Prior to permanently modifying a loan, the Corporation may enter into trial modifications with certain borrowers. Trial modifications generally represent a six-month period during which the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification. TDR loans that are participating in or that have been offered a binding trial modification are classified as TDRs when the trial offer is made and continue to be classified as TDRs regardless of whether the borrower enters into a permanent modification. As of March 31, 2018, the Corporation classified an additional $0.5 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 would be considered a concession. 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, timing of completion of projects, and other factors. If the borrower is not deemed to have financial difficulties, extensions, renewals, and restructurings are done in the normal course of business and not considered concessions, and the loans continue to be recorded as performing.

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

	March 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	$ 24,390	$ 8,396	$ 255,731	$ -	$ -	$ 61,463	$ 349,980
Commercial Mortgage loans	6,518	36,411	30,739	-	2,020	10,146	85,834
Commercial and Industrial loans	2,497	20,448	15,705	-	3,197	54,418	96,265
Construction loans:							
Land	17	3,860	2,177	-	-	324	6,378
Construction-commercial (2)	-	-	-	-	-	-	-
Construction-residential	-	-	-	-	-	217	217
Consumer loans - Auto	-	1,235	12,944	-	-	6,632	20,811
Finance leases	-	196	1,680	-	-	-	1,876
Consumer loans - Other	952	1,775	6,356	166	-	1,766	11,015
Total Troubled Debt Restructurings (2)	$ 34,374	$ 72,321	$ 325,332	$ 166	$ 5,217	$ 134,966	$ 572,376

(1) Other concessions granted by the Corporation included deferral of principal and/or interest payments for a period longer than what would be considered insignificant, payment plans under judicial stipulation, or a combination of the concessions listed in the table.
(2) Excludes TDRs held for sale amounting to $30.0 million as of March 31, 2018.

	December 31, 2017						
(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	$ 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 included 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.

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

	Quarter Ended	
	March 31, 2018	March 31, 2017
(In thousands)		
Beginning Balance of TDRs	$ 587,219	$ 647,048
New TDRs	43,419	40,899
Increases to existing TDRs	6,771	424
Charge-offs post modification (1) (2)	(9,171)	(14,662)
Sales, net of charge-offs	-	(53,245)
Foreclosures	(7,043)	(4,371)
TDR transferred to held for sale, net of charge-off	(30,000)	-
Paid-off and partial payments	(18,819)	(13,729)
Ending balance of TDRs	$ 572,376	$ 602,364

(1) The first quarter of 2018 includes a charge-off of $5.1 million associated with a $30.0 million construction loan transferred to held for sale.

(2) The first quarter of 2017 includes a charge-off of $10.7 million related to the sale of the PREPA credit line.

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 non-performing loan to performing status, if applicable, increase cash flows by providing for payments to be made by the borrower, and limit increases in foreclosure and OREO costs. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the Corporation is willing to accept for a new loan with comparable risk may not be reported as a TDR, or an impaired loan in the calendar years subsequent to the restructuring, if it is in compliance with its modified terms. The Corporation did not remove any loans from the TDR classification during the first quarter of 2018 and 2017.

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

	As of March 31, 2018		
(In thousands)	Accrual	Non-accrual (1)(2)	Total TDRs
Non-FHA/VA Residential Mortgage loans	$ 272,659	$ 77,321	$ 349,980
Commercial Mortgage loans	24,010	61,824	85,834
Commercial and Industrial loans	43,251	53,014	96,265
Construction loans:			
Land	1,197	5,181	6,378
Construction-commercial (2)	-	-	-
Construction-residential	-	217	217
Consumer loans - Auto	14,082	6,729	20,811
Finance leases	1,653	223	1,876
Consumer loans - Other	9,570	1,445	11,015
Total Troubled Debt Restructurings	$ 366,422	$ 205,954	$ 572,376

(1) Included in non-accrual loans are $53.2 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 a $30.0 million non-performing construction loans transferred to held for sale during the first quarter of 2018.

	As of December 31, 2017		
(In thousands)	Accrual	Non-accrual (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 non-accrual loans are $88.6 million in loans that are performing under the terms of the restructuring agreement but are reported in non-accrual status until the restructured loans meet the

criteria of sustained payment performance under the revised terms for reinstatement to accrual status and are deemed fully collectible.

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

Loan modifications that are considered TDR loans completed during the first quarters of 2018 and 2017 were as follows:

	Quarter ended March 31, 2018		
(Dollars in thousands)	**Number of contracts**	**Pre-modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings:			
Non-FHA/VA Residential Mortgage loans	24	$ 2,608	$ 2,614
Commercial Mortgage loans	3	36,746	36,758
Commercial and Industrial loans	3	2,597	2,582
Consumer loans - Auto	45	680	680
Consumer loans - Other	136	785	785
Total Troubled Debt Restructurings	211	$ 43,416	$ 43,419

	Quarter ended March 31, 2017		
(Dollars in thousands)	**Number of contracts**	**Pre-modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings:			
Non-FHA/VA Residential Mortgage loans	40	$ 4,650	$ 4,508
Commercial Mortgage loans	6	22,438	22,198
Commercial and Industrial loans	3	10,748	10,748
Construction loans:			
Land	1	25	28
Consumer loans - Auto	152	2,247	2,247
Finance leases	8	186	186
Consumer loans - Other	210	969	984
Total Troubled Debt Restructurings	420	$ 41,263	$ 40,899

Recidivism, or the borrower defaulting on its obligation pursuant to a modified loan, results in the loan once again becoming a non-performing loan. Recidivism on a modified loan occurs at a notably higher rate than do defaults on

new origination loans, so modified loans present a higher risk of loss than do new origination loans. The Corporation considers a 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 quarters ended March 31, 2018 and March 31, 2017, and had become TDR during the 12-month period preceding the default date, were as follows:

	Quarter ended March 31,			
	2018		2017	
(Dollars in thousands)	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
Non-FHA/VA Residential Mortgage loans	4	$ 387	3	$ 277
Commercial Mortgage loans	-	-	1	57
Consumer loans - Auto	2	23	4	61
Finance leases	1	22	-	-
Consumer loans - Other	11	54	17	61
Total	18	$ 486	25	$ 456

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 recorded investment in loans held for investment restructured using the A/B note restructure workout strategy was approximately $35.6 million as of March 31, 2018. The following table provides additional information about the volume of this type of loan restructuring and the effect on the allowance for loan and lease losses in the first quarters of 2018 and 2017:

(In thousands)	March 31, 2018	March 31, 2017
Principal balance deemed collectible at end of period	$ 35,553	$ 36,564
Amount charged off	$ -	$ -
Charges to the provision for loan losses	$ 1,412	$ 915
Allowance for loan losses at end of period	$ 5,258	$ 6,056

Approximately $3.1 million of the loans restructured using the A/B note restructure workout strategy were in accrual status as of March 31, 2018. These loans continue to be individually evaluated for impairment purposes.

NOTE 8 – ALLOWANCE FOR LOAN AND LEASE LOSSES

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

(In thousands) **Quarter ended March 31, 2018**	**Residential Mortgage Loans**	**Commercial Mortgage Loans**	**Commercial & Industrial Loans**	**Construction Loans**	**Consumer Loans**	**Total**
Allowance for loan and lease losses:						
Beginning balance	$ 58,975	$ 48,493	$ 48,871	$ 4,522	$ 70,982	$ 231,843
Charge-offs	(3,371)	(6,810)	(1,930)	(5,177)	(12,072)	(29,360)
Recoveries	335	49	62	13	2,370	2,829
Provision	447	8,661	656	4,764	6,016	20,544
Ending balance	$ 56,386	$ 50,393	$ 47,659	$ 4,122	$ 67,296	$ 225,856
Ending balance: specific reserve for impaired loans	$ 22,546	$ 13,451	$ 14,375	$ 1,484	$ 5,074	$ 56,930
Ending balance: purchased credit-impaired loans (1)	$ 10,873	$ 378	$ -	$ -	$ -	$ 11,251
Ending balance: general allowance	$ 22,967	$ 36,564	$ 33,284	$ 2,638	$ 62,222	$ 157,675
Loans held for investment:						
Ending balance	$ 3,267,868	$ 1,552,503	$ 2,061,773	$ 79,150	$ 1,734,596	$ 8,695,890
Ending balance: impaired loans	$ 417,610	$ 162,126	$ 119,778	$ 12,067	$ 34,699	$ 746,280
Ending balance: purchased credit-impaired loans	$ 151,067	$ 4,214	$ -	$ -	$ -	$ 155,281
Ending balance: loans with general allowance	$ 2,699,191	$ 1,386,163	$ 1,941,995	$ 67,083	$ 1,699,897	$ 7,794,329

(In thousands) **Quarter ended March 31, 2017**	**Residential Mortgage Loans**	**Commercial Mortgage Loans**	**Commercial & Industrial Loans**	**Construction Loans**	**Consumer Loans**	**Total**
Allowance for loan and lease losses:						
Beginning balance	$ 33,980	$ 57,261	$ 61,953	$ 2,562	$ 49,847	$ 205,603
Charge-offs	(8,225)	(1,362)	(12,052)	(63)	(11,192)	(32,894)
Recoveries	749	30	875	445	2,981	5,080
Provision (release)	9,271	12,539	(4,806)	942	7,496	25,442
Ending balance	$ 35,775	$ 68,468	$ 45,970	$ 3,886	$ 49,132	$ 203,231
Ending balance: specific reserve for impaired loans	$ 8,551	$ 36,638	$ 12,711	$ 2,835	$ 5,576	$ 66,311
Ending balance: purchased credit-impaired loans (1)	$ 6,545	$ 312	$ -	$ -	$ -	$ 6,857
Ending balance: general allowance	$ 20,679	$ 31,518	$ 33,259	$ 1,051	$ 43,556	$ 130,063

Loans held for investment:						
Ending balance	$ 3,272,598	$ 1,596,176	$ 2,108,532	$ 137,887	$ 1,707,156	$ 8,822,349
Ending balance: impaired loans	$ 432,798	$ 193,035	$ 86,059	$ 51,801	$ 43,505	$ 807,198
Ending balance: purchased credit-impaired loans	$ 158,940	$ 4,160	$ -	$ -	$ -	$ 163,100
Ending balance: loans with general allowance	$ 2,680,860	$ 1,398,981	$ 2,022,473	$ 86,086	$ 1,663,651	$ 7,852,051

(1) Refer to Note 7 - Loans Held for Investment-PCI Loans for a detail of changes in the allowance for loan losses related to PCI loans.

As of March 31, 2018, the Corporation maintained a $0.6 million reserve for unfunded loan commitments (December 31, 2017 - $0.7 million), 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 statement of financial condition and any change to the reserve is included as part of other non-interest expenses in the consolidated statements of income.

During the first quarter of 2018, the Corporation implemented enhancements to the methodology behind the calculation of the allowance for commercial loans, which includes, among others, the following: (i) a revised procedure to determine the historical loss rates applicable for each commercial loan regulatory-based credit risk categories (i.e., pass, special mention, substandard and doubtful) that changed the previous blending of loss rates for loans risk-rated special mention, substandard and doubtful with an aggregation methodology whereas historical losses and portfolio balances of special mention loans are allocated to pass or substandard categories based on the historical proportion of the loans in this risk category that ultimate cured or resulted uncollectible; (ii) a quarterly sensitivity analysis using actual historical loss rates for loans risk-rated pass, special mention and substandard to compare the results of such sensitivity to the calculated reserves under the revised procedure, and (iii) establishment of sensitivity thresholds that could trigger further reviews and/or adjustments prior to reaching a conclusion as to the adequacy of the allowance for loan and lease losses for the Corporation’s commercial portfolios.

The comparison of the revised procedure with the sensitivity analysis resulted in an immaterial increase to the qualitative reserve for commercial mortgage loans that was recorded as of March 31, 2018. The Corporation engaged an independent third party to assess the allowance framework and the appropriateness of assumptions used in the analysis and expects such review to be completed during the second quarter of 2018.

Refer to Note 2, – “*Updates on Effects of Natural Disasters,”* for information about changes to the hurricane-related allowance established by the Corporation in 2017.

NOTE 9 – LOANS HELD FOR SALE

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

	As of	
	March 31, 2018	**December 31, 2017**

(In thousands)				
Residential mortgage loans	$	26,430	$	24,690
Construction loans (1)		37,732		8,290
Commercial mortgage loans (1)		27,213		-
Total (1)	$	91,375	$	32,980

(1) During the first quarter of 2018, the Corporation transferred $57.2 million (net of fair value write-downs of $9.7 million) in non-performing loans to held for sale. Loans transferred to held for sales consisted of a $30.0 million non-performing construction loan (net of a $5.1 million fair value write-down) and two non-performing commercial mortgage loans totaling $27.2 million (net of fair value write-downs of $4.6 million).

NOTE 10 – OTHER REAL ESTATE OWNED

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

		March 31, 2018		December 31, 2017
(In thousands)				
OREO				
OREO balances, carrying value:				
Residential (1)	$	60,240	$	54,381
Commercial		83,911		82,871
Construction		10,488		10,688
Total	$	154,639	$	147,940

(1) Excludes $17.8 million and $21.3 million as of March 31, 2018 and December 31, 2017, respectively, of foreclosures that meet the conditions of ASC 310-40 and are presented as a receivable (other assets) in the statement of financial condition.

NOTE 11 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

One of the market risks facing the Corporation is interest rate risk, which includes the risk that changes in interest rates will result in changes in the value of the Corporation's assets or liabilities and 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 March 31, 2018 and December 31, 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 sales of to-be-announced ("TBA") mortgage-backed securities that will settle over the standard delivery date and do not qualify as "regular way" security trades. Regular-way security trades are contracts that have no net settlement provision and no market mechanism to facilitate net settlement and 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. Unrealized gains (losses) are recognized as part of mortgage banking activities in the consolidated statement of income.

To satisfy the needs of its customers, the Corporation may enter into non-hedging transactions. On 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)	
(In thousands)	As of March 31, 2018	As of December 31, 2017
Undesignated economic hedges:		
Interest rate contracts:		
Written interest rate cap agreements	$ 90,510	$ 91,010
Purchased interest rate cap agreements	90,510	91,010
Forward Contracts:		
Sale of TBA GNMA MBS pools	25,000	26,000
	$ 206,020	$ 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		
(In thousands)	Statement of Financial Condition Location	March 31, 2018 Fair Value	December 31, 2017 Fair Value	Statement of Financial Condition Location	March 31, 2018 Fair Value	December 31, 2017 Fair Value
Undesignated economic hedges:						
Interest rate contracts:						
Written interest rate cap agreements	Other assets	$ -	$ -	Accounts payable and other liabilities	$ 668	$ 305
Purchased interest rate cap agreements	Other assets	668	305	Accounts payable and other liabilities	-	-
Forward Contracts:						
Sales of TBA GNMA MBS pools	Other assets	3	7	Accounts payable and other liabilities	67	19
		$ 671	$ 312		$ 735	$ 324

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

	Location of Loss Recognized in Statement of Income on Derivatives	(Loss) Quarter Ended March 31, 2018	2017
		(In thousands)	
UNDESIGNATED ECONOMIC HEDGES:			
Interest rate contracts:			
Written and purchased interest rate cap agreements	Interest income - Loans	$ -	$ (1)
Forward contracts:			
Sales of TBA GNMA MBS pools	Mortgage Banking Activities	(52)	(56)
Total loss on derivatives		$ (52)	$ (57)

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 March 31, 2018, the Corporation had not entered into any derivative instrument containing credit-risk-related contingent features.

NOTE 12 – OFFSETTING OF ASSETS AND LIABILITIES

The Corporation enters into master agreements with counterparties, primarily related to derivatives and repurchase agreements, that may allow for netting of exposures in the event of default. In an event of default, each party has a right of set-off against the other party for 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 March 31, 2018

				Gross Amounts Not Offset in the Statement of Financial Position		
(In thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral	Net Amount
Description						
Derivatives	$ 668	$ -	$ 668	$ (45)	$ (623)	$ -
Securities purchased under agreements to resell	200,000	(200,000)	-	-	-	-
Total	$ 200,668	$ (200,000)	$ 668	$ (45)	$ (623)	$ -

As of December 31, 2017

				Gross Amounts Not Offset in the Statement of Financial Position
	Gross Amounts	Gross Amounts	Net Amounts of	

(In thousands) **Description**	**of Recognized Assets**	**Offset in the Statement of Financial Position**	**Assets Presented in the Statement of Financial Position**	**Financial Instruments**	**Cash Collateral**	**Net Amount**
Derivatives	$ 305	$ -	$ 305	$ (305)	$ -	$ -
Securities purchased under agreements to resell	200,000	(200,000)	-	-	-	-
Total	$ 200,305	$ (200,000)	$ 305	$ (305)	$ -	$ -

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Offsetting of Financial Liabilities and Derivative Liabilities

As of March 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	$ 400,000	$ (200,000)	$ 200,000	$ (200,000)	$ -	$ -

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 13 – GOODWILL AND OTHER INTANGIBLES

Goodwill as of March 31, 2018 and December 31, 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 2017. The Corporation's goodwill is related to the acquisition of FirstBank Florida in 2005.

There have been no significant events related to the Florida reporting unit that could indicate potential goodwill impairment since the date of the last evaluation; therefore, no goodwill impairment evaluation was performed during the first quarter of 2018. Goodwill and other indefinite life intangibles are reviewed at least annually for impairment.

In connection with the acquisition of the FirstBank-branded credit card loan portfolio, in the second quarter of 2012, the Corporation recognized a purchased credit card relationship intangible of $24.5 million, which is being amortized over the remaining estimated life of 3.6 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 includes the core deposit intangible acquired in the February 2015 Doral Bank transaction amounting to $3.6 million as of March 31, 2018.

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 ($0.7 million as of March 31, 2018), which is being amortized over the next 4.7 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.

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 March 31, 2018		**As of December 31, 2017**
(Dollars in thousands)				
Core deposit intangible:				
Gross amount, beginning of period	$	51,664	$	51,664
Accumulated amortization [(1)]		(46,580)		(46,186)

Net carrying amount	$	5,084	$	5,478
Remaining amortization period		6.8 years		7.0 years
Purchased credit card relationship intangible:				
Gross amount	$	24,465	$	24,465
Accumulated amortization [2]		(17,039)		(16,465)
Net carrying amount	$	7,426	$	8,000
Remaining amortization period		3.6 years		3.9 years
Insurance customer relationship intangible:				
Gross amount	$	1,067	$	1,067
Accumulated amortization [3]		(330)		(292)
Net carrying amount	$	737	$	775
Remaining amortization period		4.7 years		5.0 years

(1) For the quarters ended March 31, 2018 and 2017, the amortization expense of core deposit intangibles amounted to $0.4 million and $0.5 million, respectively.
(2) For each of the quarters ended March 31, 2018 and 2017, the amortization expense of the purchased credit card relationship intangible amounted to $0.6 million.
(3) For each of the quarters ended March 31, 2018 and 2017, the amortization expense of the insurance customer relationship intangible amounted to $38 thousand.

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

		Amount (In thousands)
2018	$	2,585
2019		3,088
2020		2,851
2021		2,658
2020		915
2023 and after		1,150

NOTE 14 – 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 transfers of financial assets to VIEs for which the Corporation has retained some level of continuing involvement:

GNMA

The Corporation typically transfers first lien residential mortgage loans in conjunction with GNMA securitization transactions in which the loans are exchanged for cash or securities that are readily-redeemed for cash proceeds and servicing rights. The securities issued through these transactions are guaranteed by the issuer and, under seller/servicer agreements, the Corporation is required to service the loans in accordance with the issuers' servicing guidelines and standards. As of March 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 repurchased and cancelled the repurchased trust preferred securities, resulting in a commensurate reduction in the related Floating Rate Junior Subordinated Debentures. The Corporation's winning bid equated to 90% of the $23.8 million par value. The 10% discount resulted in a gain of approximately $2.3 million, which is 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 March 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 between 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 for June 30, 2018.

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 securities are variable-rate securities indexed to 90-day LIBOR plus a spread. The principal payments from the underlying loans are remitted to a paying agent (servicer), who then remits interest to the Bank. Interest income is shared to a certain extent with the FDIC, which has an interest only strip (“IO”) tied to the cash flows of the underlying loans and is entitled to receive the excess of the interest income less a servicing fee over the variable-rate income that the Bank earns on the securities. This IO is limited to the weighted-average coupon on the securities. The FDIC became the owner of the IO upon its intervention of the seller, a failed financial institution. No recourse agreement exists, and the Bank, as the sole holder of the certificates, absorbs all risks from losses on non-accruing loans and repossessed collateral. As of March 31, 2018, the amortized cost and fair value of the Grantor Trusts amounted to $21.3 million and $16.1 million, respectively, with a weighted average yield of 4.49%.

Investment in unconsolidated entity

On February 16, 2011, FirstBank sold an asset portfolio consisting of performing and non-performing construction, commercial mortgage and commercial and industrial loans with an aggregate book value of $269.3 million to CPG/GS, an entity organized under the laws of the Commonwealth of Puerto Rico and majority owned by PRLP Ventures LLC ("PRLP"), a company created by Goldman, Sachs & Co. and Caribbean Property Group. In connection with the sale, the Corporation received $88.5 million in cash and a 35% interest in CPG/GS, and made a loan in the amount of $136.1 million representing seller financing provided by FirstBank. The loan has a seven-year maturity and bears variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity's

assets as well as PRLP's 65% ownership interest in CPG/GS. As of March 31, 2018, the carrying amount of the loan was $4.1 million, which was included in the Corporation's commercial and industrial loans held for investment portfolio. The loan matured in February 2018 and is in the process of refinancing. As of March 31, 2018, the loan is current on its interest payments. FirstBank's equity interest in CPG/GS is accounted for under the equity method. The loss recorded in 2014 reduced to zero the carrying amount of the Bank's investment in CPG/GS. No negative investment needs to be reported as the Bank has no legal obligation or commitment to provide further financial support to this entity; thus, no further losses have been or will be recorded on this investment.

FirstBank also provided an $80 million advance facility to CPG/GS to fund unfunded commitments and costs to complete projects under construction, which was fully disbursed in 2011, and a $20 million working capital line of credit to fund certain expenses of CPG/GS. The working capital line expired in September 2016. During 2012, CPG/GS repaid the outstanding balance of the advance facility to fund unfunded commitments, and the funds became available for rewithdrawal under a one-time revolver agreement. This facility loan bears variable interest at 30-day LIBOR plus 300 basis points. As of March 31, 2018, the carrying value of the amount outstanding under the revolver agreement was $6.8 million, which was included in the Corporation's commercial and industrial loans held for investment portfolio.

Cash proceeds received by CPG/GS have been first used to cover operating expenses and debt service payments, including those related to the note receivable, and the revolver agreement, 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 impact the entity's economic performance and the obligation to absorb losses of CPG/GS that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. The Bank determined that it does not have the power to direct the activities that most significantly impact the economic performance of CPG/GS as it does not have the right to manage the loan portfolio, impact foreclosure proceedings, or manage the construction and sale of the property; therefore, the Bank concluded that it is not the primary beneficiary of CPG/GS.

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:

	Quarter ended	
	March 31, 2018	**March 31, 2017**
(In thousands)		
Balance at beginning of period	$ 25,255	$ 26,244
Capitalization of servicing assets	887	875
Amortization	(737)	(788)
Adjustment to fair value	713	(160)
Other (1)	17	159
Balance at end of period	$ 26,135	$ 26,330

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

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

Changes in the impairment allowance were as follows:

Quarter ended

(In thousands)		March 31, 2018		March 31, 2017
Balance at beginning of period	$	1,451	$	461
Temporary impairment charges		17		160
OTTI of servicing assets		(65)		(621)
Recoveries		(730)		-
Balance at end of period	$	673	$	-

The components of net servicing income are shown below:

	Quarter ended	
	March 31, 2018	March 31, 2017
	(In thousands)	
Servicing fees	$ 2,120	$ 2,024
Late charges and prepayment penalties	120	99
Adjustment for loans repurchased	17	159
Other	-	(7)
Servicing income, gross	2,257	2,275
Amortization and impairment of servicing assets	(24)	(948)
Servicing income, net	$ 2,233	$ 1,327

The Corporation's servicing assets are subject to prepayment and interest rate risks. As of March 31, 2018, fair values of the Corporation's servicing assets were based on a valuation model that incorporates market-driven assumptions regarding discount rates and mortgage prepayment rates, adjusted by the particular characteristics of the Corporation's servicing portfolio. The Corporation used constant prepayment rate assumptions for the Corporation's servicing assets for the government-guaranteed mortgage loans of 5.6% and 6.0% for the quarters ended March 31, 2018 and 2017, respectively. For conventional conforming mortgage loans, the Corporation used 6.2% and 6.3% for the quarters ended March 31, 2018 and 2017, respectively, and, for the conventional non-conforming mortgage loans, the Corporation used 9.1% and 9.5% for the quarters ended March 31, 2018 and 2017, respectively. Discount rate assumptions used were 12% for government-guaranteed mortgage loans; 10% for conventional conforming mortgage loans; and 14.3% for conventional non-conforming mortgage loans for each of the quarters ended March 31, 2018 and 2017.

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 March 31, 2018 were as follows:

	(Dollars in thousands)
Carrying amount of servicing assets	$ 26,135
Fair value	$ 30,720
Weighted-average expected life (in years)	8.56
Constant prepayment rate (weighted-average annual rate)	5.89%
Decrease in fair value due to 10% adverse change	$ 725
Decrease in fair value due to 20% adverse change	$ 1,421
Discount rate (weighted-average annual rate)	11.23%
Decrease in fair value due to 10% adverse change	$ 1,503
Decrease in fair value due to 20% adverse change	$ 2,876

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

NOTE 15 – DEPOSITS

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

(In thousands)		March 31, 2018		December 31, 2017
Type of account:				
Non-interest bearing checking accounts	$	2,019,823	$	1,833,665
Savings accounts		2,413,446		2,401,385
Interest-bearing checking accounts		1,242,957		1,207,511
Certificates of deposit		2,434,162		2,429,585
Brokered certificates of deposit (CDs)		956,077		1,150,485
	$	9,066,465	$	9,022,631

Brokered CDs mature as follows:

(In thousands)		March 31, 2018
Three months or less	$	133,119
Over three months to six months		149,170
Over six months to one year		265,986
Over one year but less than three years		316,191
Three to five years		90,231
Over five years		1,380
Total	$	956,077

The following are the components of interest expense on deposits:

	Quarter Ended			
(In thousands)		March 31, 2018		March 31, 2017
Interest expense on deposits	$	16,607	$	15,468
Accretion of premium from acquisition		(3)		(23)
Amortization of broker placement fees		367		527
Interest expense on deposits	$	16,971	$	15,972

NOTE 16 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

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

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

(2)As of March 31, 2018, includes $200 million with an average rate of 2.11% that lenders have the right to call before their contractual maturities at various dates beginning on May 6, 2018. Subsequent to March 31, 2018, no lender has exercised its call option on repurchase agreements.

Repurchase agreements mature as follows:

	March 31, 2018 (In thousands)	
Three to four years		200,000
Total	$	200,000

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

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

(Dollars in thousands) Counterparty	Amount		Weighted-Average Maturity (In Months)
JP Morgan Chase	$	200,000	46

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

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

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

Advances from FHLB mature as follows:

(In thousands)	March 31, 2018
Over three months to six months	$ 25,000
Over six months to one year	70,000
Over one to three years	300,000
Over three to five years	320,000
Total	$ 715,000

As of March 31, 2018, the Corporation had additional capacity of approximately $689.5 million on this credit facility based on collateral pledged at the FHLB, including a haircut reflecting the perceived risk associated with the collateral.

NOTE 18 – OTHER BORROWINGS

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

	March 31, 2018	December 31, 2017
	(In thousands)	
Junior subordinated debentures due in 2034, interest-bearing at a floating rate of 2.75% over 3-month LIBOR (4.92% as of March 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 (4.70% as of March 31, 2018 and 4.12% as of December 31, 2017)		118,557		118,557
	$	184,150	$	208,635

(1) Refer to Note 14, - "Non-Consolidated Variable Interest Entities and Servicing Assets-Trust Preferred Securities," for additional information about the Corporation repurchase and cancellation in the first quarter of 2018 of $23.8 million in trust-preferred securities associated with these junior subordinated debentures.

NOTE 19 – STOCKHOLDERS' EQUITY

Common Stock

As of March 31, 2018 and December 31, 2017, the Corporation had 2,000,000,000 authorized shares of common stock with a par value of $0.10 per share. As of March 31, 2018 and December 31, 2017, there were 220,877,719 and 220,382,343 shares issued, respectively, and 216,390,329 and 216,278,040 shares outstanding, respectively. Refer to Note 4 for information about transactions related to common stock under the Omnibus Plan.

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 March 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 intends to request approval in future periods to continue 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 June 2018.

On October 3, 2017, the Federal Reserve terminated the Written Agreement entered into on June 3, 2010 between 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.

Treasury stock

During the first quarter of 2018 and 2017, the Corporation withheld an aggregate of 383,087 shares and 98,300 shares, respectively, of the common stock paid to certain senior officers as additional compensation and restricted stock that vested during the first quarter of 2018 and 2017 to cover employees' payroll and income tax withholding liabilities; these shares are held as treasury stock. As of March 31, 2018 and December 31, 2017, the Corporation had 4,487,390 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 the fourth quarter of 2017, $7.3 million was 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 $59.7 million as of March 31, 2018. There were no transfers to the legal surplus reserve during the quarter ended March 31, 2018.

NOTE 20 - INCOME TAXES

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

Under the Puerto Rico Internal Revenue Code of 2011, as amended (the "2011 PR Code"), the Corporation and its subsidiaries are treated as separate taxable entities and are 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. The 2011 PR Code allows entities organized as limited liability companies to perform an election 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 allows 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 allows the Corporation to offset pass-through income projected to be earned by FirstBank Insurance with net operating losses available at the Holding Company level.

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

For the first quarter of 2018, the Corporation recorded a income tax expense of $7.8 million, compared to an income tax benefit of $8.1 million for the same period in 2017. The variance was mostly attributable to a $13.2 million tax benefit recorded in the first quarter of 2017 as a result of the above discussed change in tax status of certain subsidiaries from taxable corporations to limited liability companies that elected to be treated as partnerships for income tax purposes in Puerto Rico, higher pre-tax earnings in the first quarter of 2018, and a higher estimated effective tax rate for 2018.

For the quarter ended March 31, 2018, the Corporation calculated the provision for income taxes by applying the estimated annual effective tax rate for the full fiscal year to ordinary income or loss. In the computation of the consolidated worldwide annual estimated effective tax rate, ASC 740-270 requires the exclusion of legal entities with pre-tax losses from which a tax benefit cannot be recognized. The Corporation's estimated annual effective tax rate in the first quarter of 2018, excluding entities from which a tax benefit cannot be recognized and discrete items, was 27% compared to 24% for the first quarter of 2017. The estimated annual effective tax rate including all entities for 2018 was 19% (23% excluding discrete items) compared to 13% for the first quarter of 2017 (25% excluding discrete items, primarily the tax benefit resulting from the previously mentioned change in the tax status of the two subsidiaries).

The Corporation's net deferred tax asset amounted to $289.3 million as of March 31, 2018, net of a valuation allowance of $186.1 million, and management concluded, based upon the assessment of all positive and negative evidence, that it is more likely than not that the Corporation will generate sufficient taxable income within the applicable NOL carry-forward periods to realize such amount. The net deferred tax asset of the Corporation's banking subsidiary, FirstBank, amounted to $289.2 million as of March 31, 2018, net of a valuation allowance of $150.0 million, compared to net deferred tax asset of $294.7 million, net of a valuation allowance of $150.7 million, as of December 31, 2017.

During the third quarter of 2017, the Corporation completed a formal ownership change analysis within the meaning of Section 382 of the U.S. Internal Revenue Code ("Section 382") covering a comprehensive period, and concluded that an ownership change occurred during such period. Section 382 limits the ability to utilize U.S. and USVI NOLs for income tax purposes at such jurisdictions following an event of an ownership change. The Section 382 limitation could result in higher U.S. and USVI liabilities in the future than we would incur in the absence of such limitation. As of March 31, 2018, and as a result of the Section 382 limitation, the Corporation incurred an income tax expense of approximately $1.6 million related to its U.S. operations. The limitation did not affect the USVI operations in the first quarter of 2018. Prospectively, the Corporation expects that it will be able to mitigate the adverse effects associated with the Section 382 limitation as any such tax paid in the U.S. or USVI could be creditable against Puerto Rico tax liabilities or taken as 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.

As of March 31, 2018, the Corporation did not have Unrecognized Tax Benefits ("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 2012 remain open to examination. For Puerto Rico tax purposes, all tax years subsequent to 2012 remain open to examination.

On December 22, 2017, the United States president signed H.R.1, The Tax Cuts and Jobs Acts, 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, 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 in the first quarter for 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 the 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.

NOTE 21 – FAIR VALUE

Fair Value Measurement

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

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

For the first quarter of 2018, there were no transfers into or out of Level 1, Level 2 or Level 3 of the fair value hierarchy.

Financial Instruments Recorded at Fair Value on a Recurring Basis

Investment securities available for sale

The fair value of investment securities was the market value based on quoted market prices (as is the case with Treasury notes and non-callable U.S. Agency debt securities), when available (Level 1), or, when available, market prices for identical or comparable assets (as is the case with MBS and callable U.S. agency debt) that are based on observable market parameters, including benchmark yields, reported trades, quotes from brokers or dealers, issuer spreads, bids, offers and reference data, including market research operations (Level 2). Observable prices in the market already consider the risk of nonperformance. 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).

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

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

Derivative instruments

The fair value of most of the Corporation's derivative instruments is based on observable market parameters and takes into consideration the credit risk component of paying counterparties, when appropriate. 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 for the quarters ended March 31, 2018 and 2017 was immaterial.

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

	As of March 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	57,169	-	-	57,169	7,401	-	-	7,401
Noncallable U.S. agency debt	-	329,170	-	329,170	-	361,971	-	361,971
Callable U.S. agency debt and MBS	-	1,406,283	-	1,406,283	-	1,497,253	-	1,497,253
Puerto Rico government obligations	-	4,074	2,734	6,808	-	4,118	2,695	6,813
Private label MBS	-	-	16,074	16,074	-	-	17,060	17,060
Other investments	-	-	-	-	-	-	100	100
Equity securities (1)	413	-	-	413	-	-	-	-
Derivatives, included in assets:								
Purchased interest rate cap agreements	-	668	-	668	-	305	-	305
Forward contracts	-	3	-	3	-	7	-	7
Liabilities:								
Derivatives, included in								

liabilities:								
Written interest rate cap agreement	-	668	-	668	-	305	-	305
Forward contracts	-	67	-	67	-	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 quarters ended March 31, 2018 and 2017.

	Quarter ended March 31,			
	2018		2017	
Level 3 Instruments Only (In thousands)	**Securities Available For Sale**[(1)]		**Securities Available For Sale**[(1)]	
Beginning balance	$	19,855		22,914
Total gains (losses) (realized/unrealized):				
Included in other comprehensive income		472		518
Principal repayments and amortization		(1,519)		(2,050)
Ending balance	$	18,808	$	21,382

(1) Amounts mostly related to private label MBS.

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 March 31, 2018:

	March 31, 2018			
(In thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range**
Investment securities available-for-sale:				
Private label MBS	$ 16,074	Discounted cash flows	Discount rate	14.5%
			Prepayment rate	7.5% - 24.5% (Weighted Average 15.2%)
			Projected Cumulative Loss Rate	0.00% - 9.0% (Weighted Average 4.0%)
Puerto Rico government obligations	2,734	Discounted cash flows	Discount rate	6.24%
			Prepayment rate	3.00%

Information about Sensitivity to Changes in Significant Unobservable Inputs

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

Puerto Rico Government Obligations: The significant unobservable input used in the fair value measurement is the assumed prepayment rate of the underlying residential mortgage loans 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 services default.

There were no changes in unrealized gains and losses recorded in earnings for the quarters ended March 31, 2018 and 2017 for Level 3 assets and liabilities that were still held at the end of each period.

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 March 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 March 31, 2018			(Losses) Gains recorded for the Quarter Ended March 31, 2018
	Level 1	**Level 2**	**Level 3**	
(In thousands)				
Loans receivable (1)	$ -	$ -	$ 392,493	$ (4,224)
Other real estate owned (2)	-	-	154,639	(287)
Mortgage servicing rights (3)	-	-	26,135	713

Loans held for sale (4)	-	-	64,945	(6,203)

(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 take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g., absorption rates and net operating income of income producing properties), 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 5.89%, Discount Rate 11.23%.

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

As of March 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:

(In thousands)	Carrying value as of March 31, 2017			(Losses) recorded for the Quarter Ended March 31, 2017
	Level 1	Level 2	Level 3	
Loans receivable (1)	$ -	$ -	$ 430,162	$ (15,211)
Other real estate owned (2)	-	-	137,784	(4,180)
Mortgage servicing rights (3)	-	-	26,330	(160)

(1) Consists mainly of impaired commercial and construction loans. The impairments were generally measured based on the fair value of the underlying 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 take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g., absorption rates and net operating income of income producing properties), 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 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 6.17%, Discount Rate 11.20%.

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

	March 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
Mortgage servicing rights	Discounted Cash Flows	Weighted average prepayment rate of 5.89%; weighted average discount rate of 11.23%

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

Cash and due from banks and money market investments

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

Investment securities held to maturity

Investment securities held to maturity consist of financing arrangements with Puerto Rico municipalities issued in bond form but underwritten as loans with features that are typically found in commercial loan transactions. These obligations typically are not issued in bearer form, nor are they registered with the SEC and are not rated by external credit agencies. The fair value of these financing arrangements was based on a discounted cash flow analysis using risk-adjusted discount rates (Level 3). A security with similar characteristics traded in the open market is used as a proxy for each municipal bond. Then the cash flow is discounted at the average spread over the discount curve exhibited by the proxy security at the end of each quarter.

Other investment securities

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

Loans receivable, including loans held for sale

The fair value of loans held for investment and of mortgage loans held for sale is estimated using discounted cash flow analyses, based on interest rates currently being offered for loans with similar terms and credit quality and with adjustments that the Corporation's management believes a market participant would consider in determining fair value. Loans are classified by type, such as commercial, residential mortgage, and automobile. These asset categories are further segmented into fixed- and adjustable-rate categories. Valuations are carried out based on categories and not on a loan-by-loan basis. Prepayment assumptions are considered for non-residential loans. For residential mortgage loans, prepayment estimates are based on a prepayment model that combined both a historical calibration and current market prepayment expectations. Discount rates are based on the U.S. Treasury and LIBOR/Swap Yield Curves at the date of the analysis, and included appropriate adjustments for expected credit losses and liquidity.

Deposits

The estimated fair value of demand deposits and savings accounts, which are deposits with no defined maturities, equals the amount payable on demand at the reporting date. The fair values of retail fixed-rate time deposits and brokered CDs, with stated maturities, are based on the present value of the future cash flows expected to be paid on the deposits. The discount rates used were based on retail and brokered CDs market rates as of March 31, 2018. The cash flows were based on contractual maturities; no early repayments were assumed.

Securities sold under agreements to repurchase

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

Advances from FHLB

The fair value of advances from the FHLB is estimated using exit price indications provided by the counterparty. Advances from the FHLB are fully collateralized by mortgage loans and, to a lesser extent, investment securities.

Other borrowings

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

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

(In thousands)	Total Carrying Amount in Statement of Financial Condition March 31, 2018	Fair Value Estimate March 31, 2018	Level 1	Level 2	Level 3
Assets:					
Cash and due from banks and money market investments (amortized cost)	$ 843,824	$ 843,824	$ 843,824	$ -	$ -
Investment securities available for sale (fair value)	1,815,504	1,815,504	57,169	1,739,527	18,808
Investment securities held to maturity (amortized cost)	150,486	134,856	-	-	134,856
Equity Securities (fair value)	413	413	413	-	-
Other investment securities (amortized cost)	43,119	43,119	-	43,119	-
Loans held for sale (lower of cost or market)	91,375	91,736	-	26,791	64,945
Loans held for investment (amortized cost)	8,695,890				
Less: allowance for loan and lease losses	(225,856)				
Loans held for investment, net of allowance	$ 8,470,034	8,262,128	-	-	8,262,128
Derivatives, included in assets (fair value)	668	668	-	668	-
Liabilities:					
Deposits (amortized cost)	9,066,465	9,070,024	-	9,070,024	-
Securities sold under agreements to repurchase (amortized cost)	200,000	226,076	-	226,076	-
Advances from FHLB (amortized cost)	715,000	701,079	-	701,079	-
Other borrowings (amortized cost)	184,150	171,378	-	-	171,378
Derivatives, included in liabilities (fair value)	735	735	-	735	-

(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
Other investment securities (amortized cost)	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.

NOTE 22 – REVENUE FROM CONTRACTS WITH CUSTOMERS

As noted in Note 1, the Corporation adopted the provisions of ASU No. 2014-09, *Revenue from Contracts with Customers (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 Topic 605.

Revenue Recognition

In accordance with 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 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 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 quarter ended March 31, 2018:

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
For the quarter ended March 31, 2018:							
Net interest income (1)	**$ 21,205**	**$ 51,049**	**$ 18,920**	**$ 12,518**	**$ 13,392**	**$ 7,609**	**$ 124,693**

Service charges and fees on deposit accounts	-	3,165	1,092	-	134	697	5,088
Insurance commissions	-	3,144	-	-	12	199	3,355
Merchant-related income	-	645	161	-	-	185	991
Credit and debit card fees	-	4,169	255	-	128	542	5,094
Other service charges and fees	33	800	300	-	1,039	82	2,254
Not in scope of Topic 606 (1)	4,051	7	(549)	2,378	95	20	6,002
Total non-interest income	4,084	11,930	1,259	2,378	1,408	1,725	22,784
Total Revenue	**$ 25,289**	**$ 62,979**	**$ 20,179**	**$ 14,896**	**$ 14,800**	**$ 9,334**	**$ 147,477**

(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.

For the three months ended March 31, 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 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 for 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 the quarter ended March 31, 2018, the Corporation recognized revenue of $2.1 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.

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 for which the entity has received consideration (or the amount is due) 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 March 31, 2018 and December 31, 2017, this contract liability amounted to $2.3 million and $2.4 million, respectively, which will be recognized over the remaining term of the contract. For the quarter ended March 31, 2018, the Corporation recognized revenue and contract liabilities decreased by approximately $0.1 million due to the passage of 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 March 31, 2018 and December 31, 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 March 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 23 – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is as follows:

	Quarter Ended March 31,	
(In thousands)	2018	2017
Cash paid for:		
Interest on borrowings	$ 24,353	$ 22,001
Non-cash investing and financing activities:		
Additions to OREO	15,867	13,597
Additions to auto and other repossessed assets	17,508	11,516
Capitalization of servicing assets	887	875
Loan securitizations	54,382	60,525
Loans held for investment transferred to held for sale	67,937	-
Property plant and equipment transferred to other assets	-	1,185

NOTE 24 – 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 March 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 product were also considered in the determination of the reportable segment.

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 also lends funds to the Commercial and Corporate Banking, Mortgage Banking and Consumer (Retail) Banking segments to finance their lending resources and also borrows from those segments. The Consumer (Retail) Banking and the United States Operations segments also lend funds to the other segments. The interest rates charged or credited by Treasury and Investments, the Consumer (Retail) Banking, and the United States Operations segments are allocated based on market rates. The difference between the allocated interest income or expense and the Corporation's actual net interest income from centralized management of funding costs is reported in the Treasury and Investments segment. The United States Operations segment consists of all banking activities conducted by FirstBank in the United States mainland, including commercial and retail banking services. The Virgin Islands Operations segment consists of all banking activities conducted by the Corporation in the USVI and BVI, including commercial and retail banking services.

The accounting policies of the segments are the same as those referred to in Note 1, "Nature of Business and Summary of Significant Accounting Policies," in the audited consolidated financial statements of the Corporation for the year ended December 31, 2017, which are included in the Corporation's 2017 Annual Report on Form 10-K.

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

The following table presents information about the reportable segments:

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Tota
For the quarter ended March 31, 2018:							
Interest income	$ 32,321	$ 42,550	$ 32,337	$ 14,254	$ 19,527	$ 8,429	$ 149
Net (charge) credit for transfer of funds	(11,116)	15,222	(13,417)	9,974	(663)	-	
Interest expense	-	(6,723)	-	(11,710)	(5,472)	(820)	(24,
Net interest income	21,205	51,049	18,920	12,518	13,392	7,609	124
Provision for loan and lease losses	(381)	(5,793)	(6,800)	-	(1,459)	(6,111)	(20,
Non-interest income	4,084	11,930	1,259	2,378	1,408	1,725	22
Direct non-interest expenses	(7,720)	(26,901)	(6,714)	(948)	(7,956)	(7,622)	(57,
Segment income (loss)	$ 17,188	$ 30,285	$ 6,665	$ 13,948	$ 5,385	$ (4,399)	$ 69
Average earnings assets	$ 2,293,482	$ 1,566,795	$ 2,632,220	$ 2,470,830	$ 1,709,918	$ 571,199	$ 11,244

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Tota
For the quarter ended March 31, 2017:							
Interest income	$ 33,958	$ 42,917	$ 29,411	$ 13,757	$ 15,789	$ 9,396	$ 145
Net (charge) credit for transfer of funds	(11,698)	4,909	(9,318)	16,233	(126)	-	
Interest expense	-	(5,900)	-	(11,806)	(4,195)	(778)	(22,
Net interest income	22,260	41,926	20,093	18,184	11,468	8,618	122
(Provision) release for loan and lease losses	(8,936)	(7,142)	(8,055)	-	35	(1,344)	(25,
Non-interest income (loss)	3,586	13,379	1,237	(12,170)	505	1,706	8
Direct non-interest expenses	(9,879)	(27,418)	(9,367)	(1,207)	(7,859)	(6,750)	(62,
Segment income	$ 7,031	$ 20,745	$ 3,908	$ 4,807	$ 4,149	$ 2,230	$ 42
Average earnings assets	$ 2,500,750	$ 1,775,931	$ 2,548,936	$ 2,157,882	$ 1,393,215	$ 617,820	$ 10,994

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

	Quarter Ended March 31, 2018	2017
Net income:		
Total income for segments and other	$ 69,072	$ 42,870