

FIRST BANCORP /PR/
Form 10-Q
November 08, 2018

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 001-14793

First BanCorp.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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(State or other jurisdiction of
incorporation or organization)

(I.R.S. employer
identification number)

1519 Ponce de León Avenue, Stop 23

00908

Santurce, Puerto Rico

(Zip Code)

(Address of principal executive offices)

(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 every Interactive Data File required to be submitted 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 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 an 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 filer

Non-accelerated filer

Smaller reporting

company

Emerging

growth company

If an emerging growth company, indicate by check mark if the registrant 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 Exchange 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: 217,240,844 shares outstanding as of October 31, 2018.

**FIRST BANCORP.
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SIGNATURES

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,” “we,” “us,” or “our”) with the U.S. Securities and Exchange Commission (the “SEC”), in the Corporation’s press releases or in other public or stockholder communications made by the Corporation, or in oral statements made on behalf of the Corporation 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 of similar meaning or import in connection with any discussion of future operating, financial or other performance are meant to identify “forward-looking statements.”

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

Factors that 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:

- changes in economic and business conditions, including those caused by past or future natural disasters, that directly or indirectly affect the financial health of the Corporation’s customer base in the geographic areas we serve;
- the actual pace and magnitude of economic recovery in the Corporation’s service areas that were affected by Hurricanes Maria and Irma during 2017 compared to management’s current views on the economic recovery;
- 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 the Commonwealth of Puerto Rico’s financial problems, including the filing of a form of 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;

- 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 economic 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 (the “USVI”), and the British Virgin Islands (the “BVI”), including the interest rate environment, market liquidity, housing absorption rates, real estate prices, and disruptions in the U.S. capital markets, which may reduce interest margins, affect funding sources and demand for all of the Corporation’s products and services, and may reduce the Corporation’s revenues and earnings and the value of the Corporation’s assets;
- 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 exposure to Puerto Rico government’s available-for-sale debt securities;
- uncertainty about legislative, tax or regulatory 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 (the “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 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)

	September	December
	30, 2018	31, 2017
(In thousands, except for share information)		
ASSETS		
Cash and due from banks	\$ 559,182	\$ 705,980
Money market investments:		
Time deposits with other financial institutions	300	3,126
Other short-term investments	97,290	7,289
Total money market investments	97,590	10,415
Investment securities available for sale, at fair value:		
Securities pledged with creditors' right to repledge	130,627	350,123
Other investment securities available for sale	1,880,594	1,540,893
Total investment securities available for sale	2,011,221	1,891,016
Investment securities held to maturity, at amortized cost (fair value 2018 - \$131,703; 2017- \$131,032)	144,799	150,627
Equity securities	42,274	43,119
Loans, net of allowance for loan and lease losses of \$200,563 (2017 - \$231,843)	8,516,390	8,618,633
Loans held for sale, at lower of cost or market	65,739	32,980
Total loans, net	8,582,129	8,651,613
Premises and equipment, net	147,154	141,895
Other real estate owned (OREO)	135,218	147,940
Accrued interest receivable on loans and investments	47,327	57,172
Other assets	442,806	461,491
Total assets	\$ 12,209,700	\$ 12,261,268
LIABILITIES		
Non-interest-bearing deposits	\$ 2,321,050	\$ 1,833,665
Interest-bearing deposits	6,827,193	7,188,966
Total deposits	9,148,243	9,022,631
Securities sold under agreements to repurchase	100,000	300,000
Advances from the Federal Home Loan Bank (FHLB)	690,000	715,000
Other borrowings	184,150	208,635
Accounts payable and other liabilities	159,892	145,905
Total liabilities	10,282,285	10,392,171
STOCKHOLDERS EQUITY		
Preferred stock, authorized, 50,000,000 shares:		
Non-cumulative Perpetual Monthly Income Preferred Stock: 22,004,000		

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shares issued, 1,444,146 shares outstanding, aggregate liquidation value of \$36,104	36,104	36,104
Common stock, \$0.10 par value, authorized, 2,000,000,000 shares; 221,789,509 shares issued (2017 - 220,382,343 shares issued)	22,179	22,038
Less: Treasury stock (at par value)	(455)	(410)
Common stock outstanding, 217,240,844 shares outstanding (2017 - 216,278,040 shares outstanding)	21,724	21,628
Additional paid-in capital	938,776	936,772
Retained earnings, includes legal surplus reserve of \$59,693	993,698	895,208
Accumulated other comprehensive loss, net of tax of \$7,752 as of each September 30, 2018 and December 31, 2017	(62,887)	(20,615)
Total stockholders equity	1,927,415	1,869,097
Total liabilities and stockholders equity	\$ 12,209,700	\$ 12,261,268

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	Quarter Ended		Nine-Month Period Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
(In thousands, except per share information)				
Interest and dividend income:				
Loans	\$ 139,205	\$ 134,593	\$ 409,918	\$ 390,800
Investment securities	15,121	12,109	43,840	38,100
Money market investments and interest-bearing cash accounts	3,166	1,293	8,785	7,800
Total interest income	157,492	147,995	462,543	436,700
Interest expense:				
Deposits	16,979	16,898	50,924	49,800
Securities sold under agreements to repurchase	2,333	2,917	7,173	7,173
Advances from FHLB	3,344	3,209	10,126	10,126
Other borrowings	2,315	2,139	6,635	6,635
Total interest expense	24,971	25,163	74,858	73,734
Net interest income	132,521	122,832	387,685	362,966
Provision for loan and lease losses				
Net interest income after provision for loan and lease losses	120,997	47,819	336,081	289,232
Non-interest income:				
Service charges and fees on deposit accounts	5,581	5,797	16,013	16,013
Mortgage banking activities	4,551	3,117	13,551	13,551
Net gain on sale of investments	-	-	-	-
Other-than-temporary impairment (“OTTI”) losses on available-for-sale debt securities:				
Total OTTI losses	-	-	-	(12,000)
Portion of OTTI recognized in other comprehensive income (“OCI”)	-	-	-	-
Net impairment losses on available-for-sale debt securities	-	-	-	(12,000)
Gain on early extinguishment of debt	-	1,391	2,316	2,316
Insurance commission income	1,493	1,377	6,628	6,628
Other non-interest income	6,898	6,963	23,271	23,271
Total non-interest income	18,523	18,645	61,779	49,178
Non-interest expenses:				
Employees’ compensation and benefits	39,243	37,128	119,482	119,482
Occupancy and equipment	14,660	13,745	43,511	43,511
Business promotion	3,860	3,244	10,452	10,452
Professional fees	11,502	12,023	31,755	31,755
Taxes, other than income taxes	3,534	3,763	11,027	11,027
FDIC deposit insurance	2,067	3,179	7,159	7,159
Net loss on OREO and OREO expenses	4,360	1,351	10,205	10,205
Credit and debit card processing expenses	4,147	3,737	11,450	11,450
Communications	1,642	1,603	4,706	4,706
Other non-interest expenses	5,850	5,841	17,361	17,361
Total non-interest expenses	90,865	85,614	267,108	267,108
Income (loss) before income taxes	48,655	(19,150)	130,752	30,124
Income tax (expense) benefit	(12,332)	8,398	(30,249)	(30,249)
Net income (loss)	\$ 36,323	\$ (10,752)	\$ 100,503	\$ (97,085)

Net income (loss) attributable to common stockholders	\$ 35,654	\$ (11,421)	\$ 98,496	\$ 4
Net income (loss) per common share:				
Basic	\$ 0.16	\$ (0.05)	\$ 0.46	\$
Diluted	\$ 0.16	\$ (0.05)	\$ 0.45	\$

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Quarter Ended		Nine-Month Period	
	September 30,		Ended	
	2018	2017	September 30,	2017
(In thousands)				
Net income (loss)	\$ 36,323	\$ (10,752)	\$ 100,503	\$ 42,787
Amount reclassified out of accumulated other comprehensive loss per Accounting Standards Update (“ASU”) 2016-01	-	-	6	-
Other comprehensive (loss) income:				
Unrealized gain (loss) on debt securities on which an OTTI has been recognized	62	647	264	(1,156)
Reduction of non-credit OTTI component on securities sold	-	-	-	5,678
Reclassification adjustments for net gain included in net income	-	-	-	(371)
Reclassification adjustment for OTTI on debt securities included in net income	-	-	-	12,231
All other unrealized holding (losses) gains on available-for-sale securities arising during the period	(10,842)	3,072	(42,542)	7,098
Other comprehensive (loss) income for the period	(10,780)	3,719	(42,272)	23,480
Total comprehensive income (loss)	\$ 25,543	\$ (7,033)	\$ 58,231	\$ 66,267

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine-Month Period Ended	
	September	September
	30,	30,
	2018	2017
(In thousands)		
Cash flows from operating activities:		
Net income	\$ 100,503	\$ 42,787
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,308	12,263
Amortization of intangible assets	2,731	3,325
Provision for loan and lease losses	51,604	118,551
Deferred income tax expense (benefit)	22,549	(18,094)
Stock-based compensation	4,921	5,423
Gain on sale of investments	-	(371)
OTTI on debt securities	-	12,231
Unrealized gain on derivative instruments	(108)	(272)
Gain on early extinguishment of debt	(2,316)	(1,391)
Net gain on sales of premises and equipment and other assets	(1,344)	(146)
Gain from insurance proceeds	(478)	-
Net gain on sales of loans	(1,281)	(5,348)
Net amortization/accretion of premiums, discounts and deferred loan fees and costs	(6,027)	(6,331)
Originations and purchases of loans held for sale	(244,261)	(257,997)
Sales and repayments of loans held for sale	265,528	275,855
Amortization of broker placement fees	948	1,461
Net amortization/accretion of premium and discounts on investment securities	2,187	1,283
Decrease (increase) in accrued interest receivable	9,732	(4,791)
(Decrease) increase in accrued interest payable	(756)	1,030
(Increase) decrease in other assets	(1,870)	5,566
Increase in other liabilities	253	9,604
Net cash provided by operating activities	213,823	194,638
Cash flows from investing activities:		
Principal collected on loans	1,880,633	1,920,088
Loans originated and purchased	(1,949,453)	(2,092,161)
Proceeds from sales of loans held for investment	55,526	53,245
Proceeds from sales of repossessed assets	37,343	28,004
Proceeds from sales of available-for-sale securities	-	23,408
Purchases of available-for-sale securities	(475,077)	(53,208)
Proceeds from principal repayments and maturities of available-for-sale securities	309,994	172,493
Proceeds from principal repayments of held-to-maturity securities	5,828	5,563
Additions to premises and equipment	(16,118)	(7,607)
Proceeds from sale of premises and equipment and other assets	2,508	2,040
Net redemptions/purchase of other investment securities	1,256	(9,127)
Proceeds from the settlement of insurance claims	7,614	-
Net cash (used in) provided by investing activities	(139,946)	42,738

Cash flows from financing activities:

Net increase (decrease) in deposits	117,762	(34,754)
Repayment of securities sold under agreements to repurchase	(200,000)	-
Net FHLB advances (repayments) proceeds	(25,000)	245,000
Repayment of junior subordinated debentures	(21,434)	(5,930)
Repurchase of outstanding common stock	(2,821)	(2,176)
Dividends paid on preferred stock	(2,007)	(2,007)
Net cash (used in) provided by financing activities	(133,500)	200,133
Net (decrease) increase in cash and cash equivalents	(59,623)	437,509
Cash and cash equivalents at beginning of period	716,395	299,685
Cash and cash equivalents at end of period	\$ 656,772	\$ 737,194
Cash and cash equivalents include:		
Cash and due from banks	\$ 559,182	\$ 726,779
Money market instruments	97,590	10,415
	\$ 656,772	\$ 737,194

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Nine-Month Period Ended	
	September	September
	30,	30,
	2018	2017
(In thousands)		
Preferred Stock	\$ 36,104	\$ 36,104
Common Stock outstanding:		
Balance at beginning of period	21,628	21,745
Common stock issued as compensation	27	43
Common stock issued for exercised warrants	73	-
Common stock withheld for taxes	(43)	(39)
Restricted stock grants	40	109
Restricted stock forfeited	(1)	(240)
Balance at end of period	21,724	21,618
Additional Paid-In-Capital:		
Balance at beginning of period	936,772	931,856
Stock-based compensation	4,921	5,423
Common stock issued for exercised warrants	(73)	-
Common stock withheld for taxes	(2,778)	(2,136)
Restricted stock grants	(40)	(109)
Common stock issued as compensation	(27)	(43)
Restricted stock forfeited	1	240
Balance at end of period	938,776	935,231
Retained Earnings:		
Balance at beginning of period	895,208	830,928
Net income	100,503	42,787
Dividends on preferred stock	(2,007)	(2,007)
Amount reclassified from accumulated other comprehensive loss per ASU 2016-01	(6)	-
Balance at end of period	993,698	871,708
Accumulated Other Comprehensive Income (Loss), net of tax:		
Balance at beginning of period	(20,615)	(34,390)
Other comprehensive (loss) income, net of tax	(42,272)	23,480
Balance at end of period	(62,887)	(10,910)
 Total stockholders' equity	 \$ 1,927,415	 \$ 1,853,751

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 (the “2017 Annual Report on Form 10-K”). 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 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 and nine-month period ended September 30, 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

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

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 23 – 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 issued ASU 2016-01, 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 must 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 prior GAAP, the recognition of current and deferred income taxes for an intra-entity asset transfer was prohibited until the assets were 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” (“ASC Topic 718”), and standardize the practice of applying ASC Topic 718 to financial reporting. ASC 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 not to require ASC Topic 718 modification treatment, all of the following must be met: (i) the fair value (or alternative measurement method used) of the modified award must equal 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 must be 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 must be the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in ASC Topic 718 apply regardless of whether an entity is required to apply modification accounting under this update. The amendments in this update must 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 replace ASC 840, “Leases (Topic 840)” (“ASC Topic 840”), with new guidance for the financial reporting about leasing transactions. Under the new guidance, a lessee will be required to recognize a right-of-use asset (“ROU”) and a lease liability 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 the recognition of only capital leases 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 information and additional information about the amounts recorded in the financial statements. The FASB issued an update in January 2018 providing an optional transition practical expedient under which an entity need not evaluate under new ASC Topic 842, “Leases” (“ASC Topic 842”), land easements that existed or expired before the entity’s adoption of ASC Topic 842 and were not previously accounted for as leases. In addition, the FASB issued an update in July 2018 that provides entities with an additional and optional transition method that allows entities to apply the transition provisions of the new leases standard at the adoption date, instead of at the earliest comparative period presented. If elected, comparative periods will continue to be presented in accordance with ASC Topic 840. Also, the amendments provide lessors with a practical expedient, by class of underlying asset, to not separate non lease components, subject to certain circumstances. Also in July 2018, the FASB issued an update that makes various technical corrections to clarify how to apply certain aspects of the new leases standard such as reassessment of lease classification, variable lease payments that depend on an index or a rate, lease term and purchase options, and certain transition adjustments, among others. 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 adoption is permitted.

The update is expected to affect the Corporation’s consolidated financial statements since the Corporation has operating and lease arrangements for which it is a lessee. The Corporation will elect the optional transition method described above to initially apply the new leases standard as of January 1, 2019. On the other hand, the Corporation does not expect to elect the optional practical expedient provided to lessors. The Corporation expects to recognize lease liabilities of approximately \$0.1 billion or 1% of total assets, with a corresponding recognition of ROU assets on its operating leases.

Accounting for Financial Instruments – Credit Losses

In June 2016, the FASB updated the Codification to introduce new guidance for the accounting for credit losses. The guidance 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 will apply 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 will 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 will be no effect on 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 Topic 310-30, “Receivables,” 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, among other things, 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 an actionable and detailed project plan in order to comply on a timely basis with the 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. The Corporation does not expect to early adopt this guidance.

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 shall 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 a 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 that have goodwill 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 September 30, 2018, the Corporation had \$4.1 million of callable debt securities held at a premium (unamortized premium of \$13 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 a change in 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 September 30, 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 to retained earnings, tax effects that were stranded in accumulated other comprehensive income, pursuant to the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). 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 will not have a material effect on the Corporation’s consolidated financial statements.

Improvements to Nonemployee Share-Based Payment Accounting

In June 2018, the FASB updated the Codification as part of a simplification initiative to expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees and to address and improve aspects of the accounting for non-employee share-based payment transactions. The amendments will be effective for interim and annual reporting periods beginning after December 15, 2018. The adoption of this guidance is not expected to have an effect on the Corporation’s consolidated financial statements.

Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB updated the Codification and amended ASC Topic 820, “Fair Value Measurement and Disclosures,” to add, remove, and modify fair value measurement disclosures requirements. The disclosure requirements that are removed for public entities include: (i) transfers between Level 1 and Level 2 of the fair value hierarchy; (ii) the policy for determining when transfers between any of the three levels have occurred; and (iii) the valuation processes used for Level 3 measurements. The disclosure requirements that are modified for public entities include: (i) for certain investments in entities that calculate the net asset value, revisions to require disclosures about the timing of liquidation and lapses of redemption restrictions, if the latter has been communicated to the reporting entity; and (ii) revisions to clarify that the Level 3 measurement uncertainty disclosure should communicate information about the uncertainty at the balance sheet date. The additional or new disclosure requirements include: (i) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 instruments held at the balance sheet date; and (ii) the range and weighted average of significant unobservable inputs used for Level 3 measurements, but adds an option to disclose other quantitative information in place of the weighted average to the extent that it would be a more reasonable and rational method to reflect the distribution of certain unobservable inputs.

This update is effective for all entities in fiscal years, including interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for any of the removed or modified disclosures immediately even if adoption of the new disclosures is delayed until the effective date. In the third quarter of 2018, the Corporation early adopted the disclosure requirements that were removed or modified by this guidance.

Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract

In August 2018, the FASB amended the Codification to address a customer’s accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and post implementation stages are expensed as the activities are performed. The amendments in this update also require the entity to expense the capitalized implementation costs over the term of the hosting arrangement. Expenses related to the capitalized implementation costs will be presented in the same line item in the statement of income as the fees associated with the service of the arrangement and payments for capitalized implementation costs will be classified in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. With this update, the entity is also required to present the capitalized implementation costs in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented.

An entity can choose between prospective and retrospective transition. For the corporation, this guidance will be effective for fiscal years beginning after December 15, 2019, and interim periods within. Early adoption is permitted, including in an interim period. The adoption of this guidance is not expected to have a material effect on the Corporation's consolidated statement of financial condition, results of operations or cash flows.

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 commercial loan customers during 2018. Information provided by these commercial loan officers and statistics on the performance of consumer and residential credits were factored into the determination of the allowance for loan and lease losses as of September 30, 2018. Although the identification and evaluation of hurricane-affected credits has been completed, management's assessment of the hurricanes' effect is still subject to uncertainties, both those specific to some individual customers, such as the resolution of insurance claims, and those applicable to the overall economic prospects of the hurricane-affected areas as a whole. During the third quarter and nine-month period ended September 30, 2018, the Corporation recorded a net loan loss reserve release of approximately \$2.8 million and \$11.2 million, respectively, 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, updated payment patterns and probability of default credit risk analyses applied to consumer borrowers, and lower reserve requirements resulting from payments received during the first nine months of 2018 that reduced the balance of the consumer and residential mortgage loan portfolios outstanding on the dates of the hurricanes. In addition, during the third quarter of 2018, consumer loan charge-offs totaling \$10.9 million were taken against previously established hurricane-related qualitative reserves. These charge offs were directly linked to the performance of consumer borrowers that were subject to payment deferral programs.

As of September 30, 2018, the hurricane-related qualitative allowance amounted to \$24.9 million (December 31, 2017 - \$55.6 million). With the future 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 8 - Allowance for Loan and Lease Losses, to the consolidated financial statements for information about the determination of the hurricane-related qualitative reserves.

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, including certain OREO properties, 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. Insurance claim receivables were established for some of the individual costs, when incurred, based on management's understanding of the underlying coverage and when realization of the claim was deemed probable. During the first nine months of 2018, the Corporation reached settlement on certain insurance claims arising from the hurricanes. As a result, the Corporation received insurance proceeds of approximately \$6.8 million, primarily related to repairs and maintenance costs incurred on some facilities, including certain OREO properties, and \$0.8 million related to a loan receivable fully charged-off in prior periods. The insurance proceeds were recorded against incurred losses, previously-established accounts receivable, or loan recoveries, as applicable. Insurance recoveries are

recorded in the same income statement caption as the incurred losses. Recoveries from insurance proceeds in excess of losses incurred, amounting to \$0.5 million for the first nine months of 2018, were recognized as a gain from insurance proceeds and reported as part of “other non-interest income” in the statement of income (loss). As of September 30, 2018, the Corporation still had an insurance claim receivable of \$4.2 million, included as part of “other assets” in the statement of financial condition. 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 nine months of 2018. Total deposits as of September 30, 2018, excluding brokered CDs, increased \$602.4 million from December 31, 2017 and \$963.9 million since September 30, 2017. The most significant increase was in non-interest-bearing demand deposits, which grew 27%, or \$487.4 million, from December 31, 2017 and 46%, or \$734.9 million, since September 30, 2017. Hurricane-related factors, such as the effect of disaster relief funds and settlements of insurance claims, contributed to this growth. 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 and nine-month periods ended September 30, 2018 and 2017 are as follows:

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2018	2017	2018	2017
(In thousands, except per share information)				
Net income (loss)	\$ 36,323	\$ (10,752)	\$ 100,503	\$ 42,787
Less: Preferred stock dividends	(669)	(669)	(2,007)	(2,007)
Net income (loss) attributable to common stockholders	\$ 35,654	\$ (11,421)	\$ 98,496	\$ 40,780
Weighted-Average Shares:				
Average common shares outstanding	216,149	214,187	215,516	213,812
Average potential dilutive common shares	626	-	1,068	2,322
Average common shares outstanding - assuming dilution	216,775	214,187	216,584	216,134
Earnings (loss) per common share:				
Basic	\$ 0.16	\$ (0.05)	\$ 0.46	\$ 0.19
Diluted	\$ 0.16	\$ (0.05)	\$ 0.45	\$ 0.19

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

Potential dilutive common shares consist of unvested shares of restricted stock that do not contain non-forfeitable dividend rights, performance units that do not contain non-forfeitable dividend rights if the performance condition is met as of the end of the reporting period, and warrants outstanding during the period 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 warrants outstanding during the period that result in lower potential dilutive shares issued than shares purchased under the treasury stock method, are not included in the computation of dilutive earnings per share since their

inclusion would have an antidilutive effect on earnings per share.

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

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 effective Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended. The Omnibus Plan provides for equity-based compensation incentives (the "awards") through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, cash-based awards and other stock-based awards. The Omnibus Plan authorizes the issuance of up to 14,169,807 shares of common stock, subject to adjustments for stock splits, reorganizations, and other similar events. As of September 30, 2018, 6,892,855 authorized shares of common stock were available for issuance under the Omnibus Plan. The Corporation's Board of Directors, based on the recommendation of the Corporation's Compensation and Benefits Committee, has the power and authority to determine those eligible to receive awards and to establish the terms and conditions of any awards, subject to various limits and vesting restrictions that apply to individual and aggregate awards.

Restricted Stock

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

	Nine-Month Period Ended September 30, 2018	
	Number of shares of restricted stock	Weighted-Average Grant Date Fair Value
Non-vested shares at beginning of year	1,816,968	\$ 2.76

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Granted	407,886		6.71
Forfeited	(11,000)		3.65
Vested	(1,234,180)		2.45
Non-vested shares at September 30, 2018	979,674	\$	4.79

For the quarter and nine-month period ended September 30, 2018, the Corporation recognized \$0.8 million and \$2.7 million, respectively, of stock-based compensation expense related to restricted stock awards, compared to \$1.0 million and \$3.0 million for the same periods in 2017, respectively. As of September 30, 2018, there was \$2.9 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 1.4 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 nine months of 2017, the Corporation awarded to its independent directors 140,360 shares of restricted stock subject to a one-year vesting period. In addition, during the first nine months of 2017, the Corporation awarded 951,332 shares of restricted stock to employees subject to a vesting period of two years. Included in those 951,332 shares of restricted stock were 838,332 shares granted in the first quarter of 2017 to certain senior officers consistent with the requirements of the Troubled Asset Relief Program (“TARP”) Interim Final Rule. On May 10, 2017, the United States Department of the Treasury (the “U.S. Treasury”) announced that it had sold all of its remaining 10,291,553 shares of the Corporation’s common stock. As a result of the sale by the U.S. Treasury, the Corporation ceased being subject to the compensation-related restrictions under TARP, which substantially limited the Corporation’s ability to award short-term and long-term incentives to the Corporation’s executives, and the Corporation’s senior officers are no longer subject to the transferability restrictions on their shares of restricted stock. However, since the U.S. Treasury did not recover the full amount of its original investment under TARP, the senior officers forfeited 2,370,571, or 50%, of their outstanding shares of restricted stock, resulting in a reduction in the number of common shares outstanding.

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

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

Performance Units

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

The fair value of the performance units awarded during the first nine months of 2018 was based on the market price of the Corporation's outstanding common stock on the date of the grant. For the quarter and the first nine months of 2018, the Corporation recognized \$0.1 million and \$0.5 million, respectively, of stock-based compensation related to performance units. As of September 30, 2018, there was \$1.4 million of total unrecognized compensation cost related to unvested performance units that the Corporation expects to recognize over the three-year requisite service period. The total expense determined for the performance units awarded to retirement-eligible executives was charged against earnings at the grant date. The total amount of compensation expense recognized reflects management's assessment of the probability that the pre-established performance goal will be achieved. A cumulative adjustment to compensation expense is recognized in the current period to reflect any changes in the probability of achievement of the performance goals.

Salary stock

Also, effective April 1, 2013, the Corporation's Board of Directors determined to increase the salary amounts paid to certain executive officers, primarily by paying the increased salary amounts in the form of shares of the Corporation's common stock issued under the Omnibus Plan, instead of cash. During 2018, the Corporation issued 268,709 shares of common stock (as compared to 427,940 shares during the first nine months of 2017) with a weighted average market value of \$6.51 (as compared to a weighted average market value of \$5.88 during the first nine months of 2017) as salary stock compensation. This resulted in a compensation expense of \$1.7 million recorded in 2018 (as compared to \$2.5 million during the first nine months of 2017). Effective July 1, 2018, the payment of additional salary amounts in the form of stock was eliminated in accordance with the previously disclosed revised executive compensation program.

For 2018, the Corporation withheld 96,377 shares (first nine months of 2017 – 143,509 shares) from the common stock paid to certain senior officers as additional compensation and 336,985 shares of restricted stock that vested during the first nine months of 2018 (first nine months of 2017 – 243,102) 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, estimated fair value, and weighted-average yield of investment securities available for sale by contractual maturities as of September 30, 2018 and December 31, 2017 were as follows:

	Amortized cost	Noncredit Loss Component of OTTI Recorded in OCI	September 30, 2018		Fair value	Weighted- average yield%
			Gross Unrealized gains	losses		
(Dollars in thousands)						
U.S. Treasury securities:						
Due within one year	\$ 7,481	\$ -	\$ -	\$ 55	\$ 7,426	1.29
U.S. government-sponsored agencies obligations:						
Due within one year	156,575	-	-	1,584	154,991	1.25
After 1 to 5 years	236,368	-	-	4,480	231,888	1.82
After 5 to 10 years	191,119	-	47	5,505	185,661	2.94
After 10 years	43,638	-	-	241	43,397	2.50
Puerto Rico government obligations:						
After 5 to 10 years	4,013	-	129	-	4,142	3.14
After 10 years	4,111	-	-	1,313	2,798	6.97
United States and Puerto Rico government obligations	643,305	-	176	13,178	630,303	2.10
Mortgage-backed securities ("MBS"):						
Freddie Mac ("FHLMC") certificates:						
After 5 to 10 years	96,598	-	8	3,527	93,079	2.09
After 10 years	274,233	-	-	9,636	264,597	2.50

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	370,831	-	8	13,163	357,676	2.39
Ginnie Mae (“GNMA”) certificates:						
After 1 to 5 years	160	-	2	-	162	3.52
After 5 to 10 years	65,411	-	305	714	65,002	2.89
After 10 years	122,975	-	2,962	1,030	124,907	3.93
	188,546	-	3,269	1,744	190,071	3.57
Fannie Mae (“FNMA”) certificates:						
Due within one year	379	-	8	-	387	1.91
After 1 to 5 years	25,872	-	-	468	25,404	2.75
After 5 to 10 years	191,965	-	-	6,982	184,983	2.22
After 10 years	557,882	-	1,055	18,909	540,028	2.65
	776,098	-	1,063	26,359	750,802	2.55
Collateralized mortgage obligations guaranteed by the FHLMC and GNMA:						
After 1 to 5 years	7,462	-	4	10	7,456	2.91
After 10 years	59,575	-	348	81	59,842	3.07
	67,037	-	352	91	67,298	3.05
Other mortgage pass-through trust certificates:						
After 10 years	20,038	5,467	-	-	14,571	4.57
Total MBS	1,422,550	5,467	4,692	41,357	1,380,418	2.70
Other						
After 1 to 5 years	500	-	-	-	500	2.96
Total investment securities available for sale	\$ 2,066,355	\$ 5,467	\$ 4,868	\$ 54,535	\$ 2,011,221	2.51

	Amortized cost	Noncredit Loss Component of OTTI Recorded in OCI	December 31, 2017		Fair value	Weighted- average yield%
			Gross Unrealized gains	losses		
(Dollars in thousands)						
U.S. Treasury securities:						
After 1 to 5 years	\$ 7,458	\$ -	\$ -	\$ 57	\$ 7,401	1.29
U.S. government-sponsored agencies obligations:						
Due within one year	122,471	-	-	319	122,152	1.06
After 1 to 5 years	309,472	-	28	3,735	305,765	1.42
After 5 to 10 years	133,451	-	117	319	133,249	2.72
After 10 years	40,769	-	1	149	40,621	1.84
Puerto Rico government obligations:						
After 5 to 10 years	4,071	-	47	-	4,118	3.14
After 10 years	3,972	-	-	1,277	2,695	6.97
United States and Puerto Rico government obligations	621,664	-	193	5,856	616,001	1.70
MBS:						
FHLMC certificates:						
After 5 to 10 years	18,658	-	14	63	18,609	2.14
After 10 years	297,733	-	217	4,853	293,097	2.23
	316,391	-	231	4,916	311,706	2.23

GNMA						
certificates:						
After 1 to 5 years	81	-	1	-	82	3.23
After 5 to 10 years	69,661	-	1,244	-	70,905	3.05
After 10 years	145,067	-	5,910	334	150,643	3.81
	214,809	-	7,155	334	221,630	3.56
FNMA certificates:						
After 1 to 5 years	20,831	-	294	109	21,016	2.69
After 5 to 10 years	49,934	-	-	818	49,116	1.83
After 10 years	613,129	-	3,180	6,401	609,908	2.43
	683,894	-	3,474	7,328	680,040	2.39
Collateralized mortgage obligations issued or guaranteed by the FHLMC and GNMA:						
After 1 to 5 years	5,918	-	14	-	5,932	2.21
After 5 to 10 years	2,556	-	11	-	2,567	2.23
After 10 years	35,331	-	231	-	35,562	2.22
	43,805	-	256	-	44,061	2.22
Other mortgage pass-through trust certificates:						
After 10 years	22,791	5,731	-	-	17,060	2.44
Total MBS	1,281,690	5,731	11,116	12,578	1,274,497	2.54
Other						
Due within one year	100	-	-	-	100	1.48
Equity securities (1)	424	-	-	6	418	2.11
Total investment securities						
available for sale	\$ 1,903,878	\$ 5,731	\$ 11,309	\$ 18,440	\$ 1,891,016	2.27

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

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

The 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 September 30, 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 September 30, 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	\$ -	\$ -	\$ 2,798	\$ 1,313	\$ 2,798	\$ 1,313
U.S. Treasury and U.S. government agencies obligations	251,555	5,585	366,761	6,280	618,316	11,865
MBS:						
FNMA	342,334	6,489	369,408	19,870	711,742	26,359
FHLMC	183,780	3,508	173,733	9,655	357,513	13,163
GNMA	34,354	491	32,999	1,253	67,353	1,744
Collateralized mortgage obligations issued or guaranteed by FHLMC and GNMA	31,963	91	-	-	31,963	91
Other mortgage pass-through trust certificates	-	-	14,571	5,467	14,571	5,467
	\$ 843,986	\$ 16,164	\$ 960,270	\$ 43,838	\$ 1,804,256	\$ 60,002

	As of December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
Debt securities:						
Puerto Rico-government obligations	\$ -	\$ -	\$ 2,695	\$ 1,277	\$ 2,695	\$ 1,277
U.S. Treasury and U.S. government agencies obligations	136,459	494	362,050	4,085	498,509	4,579

MBS:

FNMA	189,699	1,705	274,963	5,623	464,662	7,328
FHLMC	91,174	590	166,331	4,326	257,505	4,916
GNMA	39,145	334	-	-	39,145	334
Other mortgage pass-through trust certificates	-	-	17,060	5,731	17,060	5,731
Equity securities (1)	-	-	407	6	407	6
	\$ 456,477	\$ 3,123	\$ 823,506	\$ 21,048	\$ 1,279,983	\$ 24,171

- (1) As of January 1, 2018, the Corporation adopted ASU 2016-01, resulting in the reclassification of \$0.4 million in equity securities from available-for-sale investment securities to 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 99% of the total available-for-sale portfolio as of September 30, 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 September 30,		Nine-Month Period Ended September 30,	
	2018	2017	2018	2017
(In thousands)				
Total OTTI losses	\$ -	\$ -	\$ -	\$ (12,231)
Portion of OTTI 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				
	June 30,	Credit impairments	Credit loss	September
	2018	recognized in	reductions for	30,
	Balance	earnings on	securities sold	2018
		securities that have	during the	Balance
		been	period	
		previously impaired		
(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,	Credit	Credit loss	September
	2017	impairments	reductions for	30,
	Balance	recognized in	securities sold	2018
		earnings on	during the period	Balance
		securities that		
		have been		
		previously		
		impaired		
(In thousands)				
Available-for-sale securities				
Private label MBS	\$ 6,792	\$ -	\$ -	\$ 6,792

Cumulative OTTI credit losses recognized in earnings on securities still held				
	June 30,	Credit impairments	Credit loss	September 30,
	2017	recognized in	reductions	2017
	Balance	earnings	for securities	Balance
		on securities that have	sold	
		been	during the	
		previously impaired	period	
(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,	Credit impairments	Credit loss	September
	2016	recognized in	reductions	30,
	Balance	earnings	for securities sold	2017
		on securities that	during the period	Balance
		have been		
		previously impaired		
(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	\$ (34,420)	\$ 6,792

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 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 included, 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 an 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 high FICO scores (over 700) and

moderate loan-to-value ratios (under 80%), as well as moderate delinquency levels.

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

	As of September 30, 2018		As of December 31, 2017	
	Weighted Average	Range	Weighted Average	Range
Discount rate	14.8%	14.8%	14.0%	14.0%
Prepayment rate	11.7%	3.5% - 22.5%	16.4%	12.0% - 29.0%
Projected Cumulative Loss Rate	4%	0% - 7.8%	3%	0% - 6.8%

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

Investments Held to Maturity

The amortized cost, gross unrecognized gains and losses, estimated fair value, weighted-average yield and contractual maturities of investment securities held to maturity as of September 30, 2018 and December 31, 2017 were as follows:

September 30, 2018						
Gross Unrecognized						
	Amortized cost	gains	losses	Fair value	Weighted- average yield%	
Puerto Rico Municipal Bonds:						
After 1 to 5 years	\$ 6,096	\$ -	\$ 364	\$ 5,732	4.73	
After 5 to 10 years	53,006	-	3,374	49,632	5.94	
After 10 years	85,697	-	9,358	76,339	5.78	
Total investment securities held to maturity	\$ 144,799	\$ -	\$ 13,096	\$ 131,703	5.79	

December 31, 2017						
Gross Unrecognized						
	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 unrecognized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrecognized loss position, as of September 30, 2018 and December 31, 2017:

	As of September 30, 2018						
	Less than 12 months		12 months or more		Total		
	Unrecognized		Unrecognized		Unrecognized		
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses	
(In thousands)							
Debt securities:							
Puerto Rico Municipal Bonds	\$ -	\$ -	\$ 131,703	\$ 13,096	\$ 131,703	\$ 13,096	
	As of December 31, 2017						
	Less than 12 months		12 months or more		Total		
	Unrecognized		Unrecognized		Unrecognized		
	Fair Value	Losses	Fair Value	Losses	Fair Value	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.

All of the Puerto Rico Municipal Bonds are performing and current as to scheduled contractual payments as of September 30, 2018. Approximately 70% of the held-to-maturity municipal bonds were issued by three of the largest municipalities in Puerto Rico. The vast majority of revenues of these three municipalities is independent of the Puerto Rico central government. These obligations typically are not issued in bearer form, nor are they registered with the SEC, and are not rated by external credit agencies. In most cases, these bonds have priority over the payment of operating costs and expenses of the municipality, which are required by law to levy special property taxes in such amounts as are required for the payment of all of their respective general obligation bonds and loans. The Corporation performs periodic credit quality reviews on these issuers. Based on the quarterly analysis performed, management concluded that no individual debt security held to maturity was other-than-temporarily impaired as of September 30, 2018.

The PROMESA oversight board has not designated any of Puerto Rico's 78 municipalities as covered entities under PROMESA. However, while the latest fiscal plan certified by the PROMESA oversight board did not contemplate a restructuring of the debt of Puerto Rico's municipalities, the plan did call for the gradual elimination of

budgetary subsidies provided to municipalities by the central government. Furthermore, municipalities are also likely to be affected by the negative economic and other effects resulting from expense, revenue or cash management measures taken by the Puerto Rico government to address its fiscal and liquidity shortfalls, or measures included in fiscal plans of other government entities, such as the fiscal plans of the GDB and the Puerto Rico Electric Power Authority (“PREPA”). Given the uncertain effect that the negative fiscal situation of the Puerto Rico central government and the measures taken, or to be taken, by other government entities may have on municipalities, the Corporation cannot be certain whether future impairment charges will be required relating to these securities.

From time to time, the Corporation has securities held to maturity with an original maturity of three months or less that are considered cash and cash equivalents and are classified as money market investments in the consolidated statements of financial condition. As of September 30, 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 September 30, 2018 and December 31, 2017, the Corporation had investments in FHLB stock with a book value of \$39.7 million and \$40.9 million, respectively. Dividend income from FHLB stock for the quarters ended September 30, 2018 and 2017 was \$0.7 million and \$0.5 million, respectively, and for the nine-month periods ended September 30, 2018 and 2017 was \$2.0 million and \$1.5 million, respectively.

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

On January 1, 2018, the Corporation adopted ASU 2016-01, resulting in the reclassification of equity securities with a readily determinable fair value of approximately \$0.4 million from available-for-sale investment securities to other investment securities. During the third quarter and nine-month period ended September 30, 2018, the Corporation measured these equity securities at fair value through earnings resulting in the recognition of marked-to-market losses of \$3 thousand and \$13 thousand, respectively, recorded as part of other non-interest income in the statement of income.

The Corporation has other equity securities that do not have readily available fair values. The aggregate carrying value of such securities as of September 30, 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:

	As of		As of
	September 30, 2018		December 31, 2017
(In thousands)			
Residential mortgage loans, mainly secured by first mortgages	\$ 3,207,981	\$	3,290,957
Commercial loans:			
Construction loans (1)	82,862		111,397
Commercial mortgage loans (1)	1,506,502		1,614,972
Commercial and Industrial loans (1)(2)	2,068,256		2,083,253
Total commercial loans	3,657,620		3,809,622
Finance leases	311,180		257,462
Consumer loans	1,540,172		1,492,435
Loans held for investment	8,716,953		8,850,476
Allowance for loan and lease losses	(200,563)		(231,843)
Loans held for investment, net	\$ 8,516,390	\$	8,618,633

- (1) During the first nine months of 2018, the Corporation transferred \$74.4 million (net of fair value write-downs of \$22.2 million recorded at the time of transfers) in non-performing loans to held for sale. Loans transferred to held for sale consisted of non-performing commercial mortgage loans totaling \$39.6 million (net of fair value write-downs of \$13.8 million), non-performing construction loans totaling \$33.0 million (net of fair value write-downs of \$6.7 million) and non-performing commercial and industrial loans totaling \$1.8 million (net of fair value write-downs of \$1.7 million). Approximately \$27.2 million of the commercial mortgage loans transferred to loan held for sale were eventually sold during the second quarter and third quarters of 2018.
- (2) As of September 30, 2018 and December 31, 2017, \$802.7 million and \$833.5 million, respectively, of commercial loans were 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 September 30, 2018	As of December 31, 2017
Non-performing loans:		
Residential mortgage	\$ 156,685	\$ 178,291
Commercial mortgage (1)	117,397	156,493
Commercial and Industrial (1)	34,551	85,839
Construction:		
Land (1)	6,922	15,026
Construction-commercial (1)	-	35,100
Construction-residential	2,149	1,987
Consumer:		
Auto loans	12,258	10,211
Finance leases	1,443	1,237
Other consumer loans	7,963	5,370
Total non-performing loans held for investment (2)(3)(4)	\$ 339,368	\$ 489,554

- (1) During the first nine months of 2018, the Corporation transferred \$74.4 million (net of fair value write-downs of \$22.2 million recorded at the time of transfers) in non-performing loans to held for sale. Loans transferred to held for sale consisted of non-performing commercial mortgage loans totaling \$39.6 million (net of fair value write-downs of \$13.8 million), non-performing construction loans totaling \$33.0 million (net of fair value write-downs of \$6.7 million) and non-performing commercial and industrial loans totaling \$1.8 million (net of fair value write-downs of \$1.7 million). Approximately \$27.2 million of the commercial mortgage loans transferred to loan held for sale were eventually sold during the second quarter and third quarters of 2018.
- (2) Excludes \$44.2 million and \$8.3 million of non-performing loans held for sale as of September 30, 2018 and December 31, 2017, respectively.
- (3) Amount excludes purchased-credit impaired (“PCI”) loans with a carrying value of approximately \$149.1 million and \$158.2 million as of September 30, 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 \$510.8 million and \$374.7 million of Troubled Debt Restructuring (“TDR”) loans that are in compliance with modified terms and in accrual status as of September 30, 2018 and December 31, 2017, respectively.

During the first quarter of 2018, the Corporation transferred to held for sale several non-performing commercial and construction loans. The aggregate recorded investment in these loans of \$66.9 million was written down to \$57.2 million, which resulted in charge-offs of \$9.7 million, of which \$4.1 million was taken against previously-established reserves for loan losses, resulting in a charge to the provision for loan and lease losses of \$5.6 million in the first quarter of 2018. Subsequent to the end of the first quarter of 2018, the Corporation sold \$27.2 million of the loans transferred to held for sale in separate transactions and a \$7.7 million non-performing construction loan held for sale

that resulted in the recognition of an additional aggregate net loss of \$2.7 million recorded as part of “other non-interest income” in the consolidated statement of income (loss).

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

Loans in Process of Foreclosure

As of September 30, 2018, the recorded investment of residential mortgage loans collateralized by residential real estate property that are in the process of foreclosure amounted to \$154.9 million, including \$23.5 million of loans insured by the FHA or guaranteed by the Veterans Administration (“VA”), and \$20.0 million of PCI loans. The Corporation commences the foreclosure process on residential real estate loans when a borrower becomes 120 days delinquent in accordance with the guidelines of the Consumer Financial Protection Bureau (“CFPB”). Foreclosure procedures and timelines vary depending on whether the property is located in a judicial or non-judicial state. Judicial states (i.e., Puerto Rico, Florida and the USVI) require the foreclosure to be processed through the state’s court while foreclosure in non-judicial states (i.e., the BVI) is processed without court intervention. Foreclosure timelines vary according to 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 September 30, 2018 (In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 days or more Past Due (1)(2)(3)	Total Past Due	Purchased Credit-Impaired Loans	Current	Total loans held for investment	90 days past due and still accruing (1)(2)(3)
Residential mortgage: FHA/VA government-guaranteed loans (2) (3) (4)	\$ -	\$ 3,206	\$ 107,869	\$ 111,075	\$ -	\$ 39,696	\$ 150,771	\$ 107,869
Other residential mortgage loans (2)(4)	-	64,015	171,893	235,908	145,203	2,676,099	3,057,210	15,208
Commercial: Commercial and Industrial loans	1,729	392	38,998	41,119	-	2,027,137	2,068,256	4,447
Commercial mortgage loans (4)	-	1,192	120,456	121,648	3,919	1,380,935	1,506,502	3,059
Construction: Land (4)	-	51	6,922	6,973	-	14,331	21,304	-
Construction-commercial	-	1,089	-	1,089	-	52,881	53,970	-
Construction-residential	-	-	2,149	2,149	-	5,439	7,588	-
Consumer: Auto loans	35,122	7,047	12,258	54,427	-	840,801	895,228	-
Finance leases	5,451	1,839	1,443	8,733	-	302,447	311,180	-
Other consumer loans	7,773	4,885	11,673	24,331	-	620,613	644,944	3,710
Total loans held for investment	\$ 50,075	\$ 83,716	\$ 473,661	\$ 607,452	\$ 149,122	\$ 7,960,379	\$ 8,716,953	\$ 134,293

- (1) Includes non-performing loans and accruing loans that were contractually delinquent 90 days or more (i.e., FHA/VA guaranteed loans and credit cards). Credit card loans continue to accrue finance charges and fees until charged-off at 180 days.
- (2) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA, guaranteed by the VA, and other government-insured loans as past-due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include \$33.9 million of residential mortgage loans insured by the FHA that were over 15 months delinquent, and were no longer accruing interest as of September 30, 2018, taking into consideration the FHA interest curtailment process.

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- (3) As of September 30, 2018, includes \$75.9 million of defaulted loans collateralizing GNMA securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.
- (4) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage, commercial mortgage, and construction loans are considered past due when the borrower is in arrears on two or more monthly payments. FHA/VA government-guaranteed loans, other residential mortgage loans, commercial mortgage loans and land loans past due 30-59 days as of September 30, 2018 amounted to \$7.0 million, \$108.1 million, \$4.2 million and \$0.1 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)(2)(3)	Total Past Due	Purchased Credit- Impaired Loans	Current	Total loans held for investment	90 days past due and still accruing (1)(2)(3)
Residential mortgage: FHA/VA government-guaranteed loans (2) (3) (4)	\$ -	\$ 6,792	\$ 102,815	\$ 109,607	\$ -	\$ 29,332	\$ 138,939	\$ 102,815
Other residential mortgage loans (2)(4)	-	92,502	193,750	286,252	153,991	2,711,775	3,152,018	15,459
Commercial: Commercial and Industrial loans	8,971	576	88,156	97,703	-	1,985,550	2,083,253	2,317
Commercial mortgage loans (4)	-	7,525	163,180	170,705	4,183	1,440,084	1,614,972	6,687
Construction: Land (4)	-	124	15,177	15,301	-	11,630	26,931	151
Construction-commercial	-	-	35,100	35,100	-	41,456	76,556	-
Construction-residential	-	95	1,987	2,082	-	5,828	7,910	-
Consumer: Auto loans	57,560	23,783	10,211	91,554	-	752,777	844,331	-
Finance leases	10,549	3,484	1,237	15,270	-	242,192	257,462	-
Other consumer loans	10,776	5,052	9,361	25,189	-	622,915	648,104	3,991
Total loans held for	\$ 87,856	\$ 139,933	\$ 620,974	\$ 848,763	\$ 158,174	\$ 7,843,539	\$ 8,850,476	\$ 131,420

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

investment

- (1) Includes non-performing loans and accruing loans that were contractually delinquent 90 days or more (i.e., FHA/VA guaranteed loans and credit cards). Credit card loans continue to accrue finance charges and fees until charged-off at 180 days.
- (2) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA, guaranteed by the VA, and other government-insured loans as past-due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include \$29.9 million of residential mortgage loans insured by the FHA that were over 15 months delinquent, and were no longer accruing interest as of December 31, 2017, taking into consideration the FHA interest curtailment process.
- (3) As of December 31, 2017, includes \$62.1 million of defaulted loans collateralizing GNMA securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.
- (4) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage, commercial mortgage, and construction loans are considered past due when the borrower is in arrears on two or more monthly payments. FHA/VA government-guaranteed loans, other residential mortgage loans, commercial mortgage loans, and land loans past due 30-59 days as of December 31, 2017 amounted to \$6.0 million, \$224.0 million, \$9.0 million, and \$2.5 million, respectively.

The Corporation's credit quality indicators by loan type as of September 30, 2018 and December 31, 2017 are summarized below:

**Commercial Credit Exposure - Credit Risk Profile Based on Creditworthiness
Category:**

September 30, 2018 (In thousands)	Substandard	Doubtful	Loss	Total Adversely Classified (1)	Total Portfolio
Commercial mortgage	\$ 262,519	\$ 7,927	\$ -	\$ 270,446	\$ 1,506,502
Construction:					
Land	5,658	-	-	5,658	21,304
Construction - commercial	3,458	-	-	3,458	53,970
Construction - residential	1,194	-	-	1,194	7,588
Commercial and Industrial	96,993	4,659	394	102,046	2,068,256

**Commercial Credit Exposure - Credit Risk Profile Based on Creditworthiness
Category:**

December 31, 2017 (In thousands)	Substandard	Doubtful	Loss	Total Adversely Classified (1)	Total Portfolio
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

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

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Construction - residential	1,987	-	-	1,987	7,910
Commercial and Industrial	154,416	3,854	676	158,946	2,083,253

(1) Excludes non-performing loans held for sale of \$44.2 million (\$12.4 million commercial mortgage, \$30.0 million construction-commercial, and \$1.8 million construction-land) and \$8.3 million (construction-land) as of September 30, 2018 and December 31, 2017, respectively.

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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.

The Corporation periodically reviews its loans classification to evaluate if they are properly classified, and to determine impairment, if any. The frequency of these reviews will depend on the amount of the aggregate outstanding debt, and the risk rating classification of the obligor. In addition, during the renewal and annual review process of applicable credit facilities, the Corporation evaluates the corresponding loan grades.

The Corporation has a Loan Review Group that reports directly to the Corporation’s Risk Management Committee and administratively to the Chief Risk Officer, which performs annual comprehensive credit process reviews of the Bank’s commercial portfolios. This group evaluates the credit risk profile of portfolios, including the assessment of the risk rating representative of the current credit quality of the loans, and the evaluation of collateral documentation. The monitoring performed by this group contributes to the assessment of compliance with credit policies and underwriting standards, the determination of the current level of credit risk, the evaluation of the effectiveness of the credit management process and the identification of control deficiencies that may arise in the credit-granting process. Based on its findings, the Loan Review Group recommends corrective actions, if necessary, that help in maintaining a sound credit process. The Loan Review Group reports the results of the credit process reviews to the Risk Management Committee of the Corporation’s Board of Directors.

Consumer Credit Exposure - Credit Risk Profile Based on Payment Activity
Residential Real Estate Consumer

September 30, 2018

Auto

	FHA/VA/ Guaranteed (1)	Other residential loans		Finance Leases	Other Consumer
(In thousands)					
Performing	\$ 150,771	\$ 2,755,322	\$ 882,970	\$ 309,737	\$ 636,981
Purchased	-	145,203	-	-	-
Credit-Impaired (2)					
Non-performing	-	156,685	12,258	1,443	7,963
Total	\$ 150,771	\$ 3,057,210	\$ 895,228	\$ 311,180	\$ 644,944

- (1) It is the Corporation's policy to report delinquent residential mortgage loans insured by the FHA, guaranteed by the VA, and other government-insured loans as 90 days past-due loans and still accruing as opposed to non-performing loans since the principal repayment is insured. This balance includes \$33.9 million of residential mortgage loans insured by the FHA that were over 15 months delinquent, and were no longer accruing interest as of September 30, 2018, taking into consideration the FHA interest curtailment process.
- (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.

	Consumer Credit Exposure - Credit Risk Profile Based on Payment Activity				
	FHA/VA/ Guaranteed (1)	Other residential loans	Auto	Finance Leases	Other Consumer
December 31, 2017					
(In thousands)					
Performing	\$ 138,939	\$ 2,819,736	\$ 834,120	\$ 256,225	\$ 642,734
Purchased	-	153,991	-	-	-
Credit-Impaired (2)					
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, guaranteed by the VA, and other government-insured loans 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 that were over 15 months delinquent, and were no longer accruing interest as of December 31, 2017, taking into consideration the FHA interest curtailment process.
- (2) PCI loans are excluded from 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

	Impaired Loans - With a Related Specific Allowance		Impaired Loans With No Related Specific Allowance		Impaired Loans Total			
	Unpaid Recorded Investment Balance	Related Specific Allowance	Unpaid Recorded Investment Balance	Related Specific Allowance	Unpaid Recorded Investment Balance	Related Specific Allowance	Unpaid Recorded Investment Balance	Related Specific Allowance
(In thousands)								
As of September 30, 2018								
FHA/VA-Guaranteed loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other residential mortgage loans	291,419	321,120	18,482	117,375	159,220	408,794	480,340	18,482
Commercial:								
Commercial mortgage loans	169,787	184,019	17,044	73,433	79,245	243,220	263,264	17,044
Commercial and Industrial loans	62,361	74,519	10,798	34,793	52,776	97,154	127,295	10,798
Construction:								
Land	4,972	5,872	750	160	337	5,132	6,209	750
Construction-commercial	-	-	-	-	-	-	-	-
Construction-residential	809	942	156	956	1,531	1,765	2,473	156
Consumer:								
Auto loans	18,623	18,623	3,664	269	269	18,892	18,892	3,664
Finance leases	1,372	1,372	122	-	-	1,372	1,372	122
Other consumer loans	9,761	10,498	2,297	1,920	2,281	11,681	12,779	2,297
	\$ 559,104	\$ 616,965	\$ 53,313	\$ 228,906	\$ 295,659	\$ 788,010	\$ 912,624	\$ 53,313

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

	Average Recorded Investment	Interest Income on Accrual Basis	Interest Income on Cash Basis	Total Interest Income
(In thousands)				
For the quarter ended September 30, 2018				
FHA/VA-Guaranteed loans	\$ -	\$ -	\$ -	\$ -
Other residential mortgage loans	411,393	4,641	410	5,051
Commercial:				
Commercial mortgage loans	244,802	2,198	656	2,854
Commercial and Industrial loans	98,903	557	2	559
Construction:				
Land	5,204	23	5	28
Construction-commercial	-	-	-	-
Construction-residential	1,766	-	-	-
Consumer:				
Auto loans	19,479	362	-	362
Finance leases	1,444	27	-	27
Other consumer loans	11,925	274	53	327
	\$ 794,916	\$ 8,082	\$ 1,126	\$ 9,208

	Average Recorded Investment	Interest Income on Accrual Basis	Interest Income on Cash Basis	Total Interest Income
(In thousands)				
For the quarter ended September 30, 2017				
FHA/VA-Guaranteed loans	\$ -	\$ -	\$ -	\$ -
Other residential mortgage loans	427,858	4,409	402	4,811
Commercial:				
Commercial mortgage loans	158,438	764	85	849
Commercial and Industrial loans	110,184	454	174	628
Construction:				
Land	14,634	122	9	131
Construction-commercial	35,520	-	-	-
Construction-residential	252	-	-	-
Consumer:				
Auto loans	24,049	462	-	462
Finance leases	2,354	43	-	43
Other consumer loans	14,268	388	40	428
	\$ 787,557	\$ 6,642	\$ 710	\$ 7,352

	Average Recorded Investment	Interest Income on Accrual Basis	Interest Income on Cash Basis	Total Interest Income
(In thousands)				
Nine-month Period Ended September 30, 2018				
FHA/VA-Guaranteed loans	\$ -	\$ -	\$ -	\$ -
Other residential mortgage loans	415,561	13,369	1,080	14,449
Commercial:				
Commercial mortgage loans	248,919	2,775	2,038	4,813
Commercial and Industrial loans	102,410	1,438	6	1,444
Construction:				
Land	5,260	70	20	90
Construction-commercial	-	-	-	-
Construction-residential	1,765	-	-	-
Consumer:				
Auto loans	20,527	1,122	-	1,122
Finance leases	1,582	84	-	84
Other consumer loans	12,353	754	127	881
	\$ 808,377	\$ 19,612	\$ 3,271	\$ 22,883

	Average Recorded Investment	Interest Income on Accrual Basis	Interest Income on Cash Basis	Total Interest Income
(In thousands)				
Nine-Month Period Ended September 30, 2017				
FHA/VA-Guaranteed loans	\$ -	\$ -	\$ -	\$ -
Other residential mortgage loans	431,741	13,170	1,548	14,718
Commercial:				
Commercial mortgage loans	176,757	1,621	287	1,908
Commercial and Industrial loans	112,642	952	211	1,163
Construction:				

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Land	14,800	358	32	390
Construction-commercial	36,101	-	-	-
Construction-residential	252	-	-	-
Consumer:				
Auto loans	25,274	1,357	-	1,357
Finance leases	2,532	140	-	140
Other consumer loans	14,441	1,027	105	1,132
	\$ 814,540	\$ 18,625	\$ 2,183	\$ 20,808

The following tables show the activity for impaired loans and the related specific reserve for the quarters and nine-month periods ended September 30, 2018 and 2017:

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2018	2017	2018	2017
(In thousands)				
Impaired Loans:				
Balance at beginning of period	\$ 740,134	\$ 735,625	\$ 790,308	\$ 887,905
Loans determined impaired during the period	119,064	71,884	214,745	110,488
Charge-offs (1)(2)	(18,035)	(6,472)	(48,455)	(66,959)
Loans sold, net of charge-offs	-	-	(4,121)	(53,245)
Increases to existing impaired loans	128	3,215	7,203	4,454
Foreclosures	(8,293)	(5,657)	(27,745)	(36,347)
Loans no longer considered impaired	(1,146)	(542)	(5,086)	(3,324)
Loans transferred to held for sale	(16,839)	-	(74,052)	-
Paid in full, partial payments and other	(27,003)	(18,794)	(64,787)	(63,713)
Balance at end of period	\$ 788,010	\$ 779,259	\$ 788,010	\$ 779,259

- (1) For the quarter ended September 30, 2018, includes charge-offs totaling \$12.5 million associated with the \$17.2 million in non-performing loans transferred to held for sale in the third quarter of 2018.
- (2) For the nine-month period ended September 30, 2018, includes charge-offs totaling \$22.2 million associated with the \$74.4 million in non-performing loans transferred to held for sale during the first nine-months of 2018.

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2018	2017	2018	2017
(In thousands)				
Specific Reserve:				
Balance at beginning of period	\$ 49,514	\$ 40,794	\$ 51,410	64,421
Provision for loan losses	21,821	13,819	50,277	50,014
Net charge-offs	(18,022)	(6,458)	(48,374)	(66,280)
Balance at end of period	\$ 53,313	\$ 48,155	\$ 53,313	\$ 48,155

Purchased Credit Impaired Loans (PCI)

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

Under ASC Topic 310-30, the acquired PCI loans were aggregated into pools based on similar characteristics (i.e., delinquency status and loan terms). Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Since the loans are accounted for under ASC Topic 310-30, they are not considered 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:

		September 30, 2018	As of	December 31, 2017
(In thousands)				
Residential mortgage loans	\$	145,203	\$	153,991
Commercial mortgage loans		3,919		4,183
Total PCI loans	\$	149,122	\$	158,174
Allowance for loan losses		(11,354)		(11,251)
Total PCI loans, net of allowance for loan losses	\$	137,768	\$	146,923

The following tables present PCI loans by past due status as of September 30, 2018 and December 31, 2017:

As of September 30, 2018	30-59 Days	60-89 Days	90 days or more	Total Past Due	Current	Total PCI loans
(In thousands)						
Residential mortgage loans	\$ -	\$ 7,823	\$ 28,179	\$ 36,002	\$ 109,201	\$ 145,203
Commercial mortgage loans	-	-	2,960	2,960	959	3,919

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

Total (1)	\$ -	\$ 7,823	\$ 31,139	\$ 38,962	\$ 110,160	\$ 149,122
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(1) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve Board, residential mortgage and commercial mortgage loans are considered past due when the borrower is in arrears two or more monthly payments. PCI residential mortgage loans past due 30-59 days as of September 30, 2018 amounted to \$12.3 million. No PCI commercial mortgage loan was 30-59 days past due as of September 30, 2018.

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

Changes in Accretable Yield of Acquired Loans

Subsequent to the acquisition of loans, the Corporation is required to periodically evaluate its estimate of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and non-accretable difference or reclassifications from non-accretable yield to accretable yield. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized in the Corporation's provision for loan and lease losses, resulting in an increase to the allowance for loan and lease losses. As of September 30, 2018, the reserve related to PCI loans acquired from Doral Financial in 2014 and from Doral Bank in 2015 amounted to \$11.4 million.

Changes in the accretable yield of PCI loans for the quarters and nine-month periods ended September 30, 2018 and 2017 were as follows:

	Quarter Ended		Nine-Month Period Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
(In thousands)				
Balance at beginning of period	\$ 98,489	\$ 108,971	\$ 103,682	\$ 116,462
Accretion recognized in earnings	(2,524)	(2,656)	(7,717)	(8,177)
Reclassification (to) from non-accretable	-	-	-	(1,970)
Balance at end of period	\$ 95,965	\$ 106,315	\$ 95,965	\$ 106,315

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

	Quarter Ended		Nine-Month Period Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
(In thousands)				
Balance at beginning of period	\$ 152,242	\$ 160,368	\$ 158,174	\$ 165,818
Accretion	2,524	2,656	7,717	8,177
Collections	(4,835)	(4,225)	(12,590)	(13,327)
Foreclosures	(809)	(1,005)	(4,179)	(2,874)
Ending balance	\$ 149,122	\$ 157,794	\$ 149,122	\$ 157,794
Allowance for loan losses	(11,354)	(10,235)	(11,354)	(10,235)
Ending balance, net of allowance for loan losses	\$ 137,768	\$ 147,559	\$ 137,768	\$ 147,559

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

	Quarter Ended		Nine-Month Period Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
(In thousands)				
Balance at beginning of period	\$ 11,354	\$ 9,446	\$ 11,251	\$ 6,857
Provision for loan losses	-	789	103	3,378
Balance at the end of period	\$ 11,354	\$ 10,235	\$ 11,354	\$ 10,235

The outstanding principal balance of PCI loans, including amounts charged off by the Corporation, amounted to \$184.2 million as of September 30, 2018 (compared to - \$196.6 million as of December 31, 2017).

Purchases and Sales of Loans

During the first nine months of 2018, the Corporation purchased \$39.3 million of residential mortgage loans as part of a strategic program to purchase ongoing residential mortgage loan production from mortgage bankers in Puerto Rico. In general, the loans purchased from mortgage bankers were conforming residential mortgage loans. Purchases of conforming residential mortgage loans provide the Corporation the flexibility to retain or sell the loans, including through securitization transactions, depending upon the Corporation's interest rate risk management strategies. When the Corporation sells such loans, it generally keeps the servicing of the loans.

In the ordinary course of business, the Corporation sells residential mortgage loans (originated or purchased) to GNMA and government-sponsored entities ("GSEs"), such as FNMA and FHLMC, which generally securitize the transferred loans into MBS for sale into the secondary market. During the first nine months of 2018, the Corporation sold \$181.2 million of FHA/VA mortgage loans to GNMA, which packaged them into MBS. Also, during the first nine months of 2018, the Corporation sold approximately \$78.9 million of performing residential mortgage loans to FNMA and FHLMC. The Corporation's continuing involvement in these sold loans consists primarily of servicing the loans. In addition, the Corporation agreed to repurchase loans when it breaches any of the representations and warranties included in the sale agreement. These representations and warranties are consistent with the GSEs' selling and servicing guidelines (i.e., ensuring that the mortgage was properly underwritten according to established guidelines). The total amount of loans sold in the secondary market included \$9.8 million of seasoned residential mortgage loans sold to FNMA in the second quarter of 2018.

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

Under ASC Topic 860, *Transfer and Servicing*, once the Corporation has the unilateral ability to repurchase the delinquent loan, it is considered to have regained effective control over the loan and is required to recognize the loan and a corresponding repurchase liability on the balance sheet regardless of the Corporation's intent to repurchase the loan. As of September 30, 2018 and December 31, 2017, rebooked GNMA delinquent loans included in the residential mortgage loan portfolio amounted to \$75.9 million and \$62.1 million, respectively.

During the first nine months of 2018 and 2017, the Corporation repurchased, pursuant to its repurchase option with GNMA, \$11.0 million and \$24.7 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's estimate of losses related to breaches in representations and warranties is zero as of September 30, 2018.

Loan sales to FNMA and FHLMC are without recourse in relation to the future performance of the loans. The Corporation repurchased at par loans previously sold to FNMA and FHLMC in the amount of \$0.1 million and \$27 thousand during the first nine months 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 nine months of 2018, the Corporation purchased a \$21.4 million commercial and industrial loan participation. Also, during the first nine months 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), a \$9.2 million commercial and industrial loan participation in the Florida region, and \$34.9 million in non-performing commercial and construction loans in Puerto Rico, as further discussed above.

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, FirstBank, also lends in the USVI and BVI markets and in the United States (principally in the state of Florida). Of the total gross loans held for investment of \$8.7 billion as of September 30, 2018, credit risk concentration was approximately 74% in Puerto Rico, 20% in the United States, and 6% in the USVI and BVI.

As of September 30, 2018, the Corporation had \$68.5 million outstanding in loans extended to the Puerto Rico government, its municipalities and public corporations, compared to \$55.9 million as of December 31, 2017. Approximately \$47.2 million of the outstanding loans as of September 30, 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 September 30, 2018 included a \$6.7 million loan extended to a unit of the central government, and a \$14.7 million loan granted to an affiliate of PREPA.

In addition, as of September 30, 2018, the Corporation had \$113.3 million in exposure to residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority. Residential mortgage loans guaranteed by the Puerto Rico Housing Finance Authority are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. The Puerto Rico government guarantees up to \$75 million of the principal under the mortgage loan insurance program. According to the most recently-released audited financial statements of the Puerto Rico Housing Finance Authority, as of June 30, 2016, the Puerto Rico Housing Finance Authority's mortgage loans insurance program covered loans in an aggregate of approximately \$576 million. The regulations adopted by the Puerto Rico Housing Finance Authority require the establishment of adequate reserves to guarantee the solvency of the mortgage loan insurance fund. As of June 30, 2016, the most recent date as to which information is available, the Puerto Rico Housing Finance Authority had a restricted net position for such purposes of approximately \$77.4 million.

The Corporation also has credit exposure to USVI government entities. As of September 30, 2018, the Corporation had \$69.4 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 September 30, 2018, public corporations of the USVI owed approximately \$46.1 million and an independent instrumentality of the USVI government owed approximately \$23.2 million. As of September 30, 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 September 30, 2018, the Corporation's total TDR loans held for investment of \$625.7 million consisted of \$340.3 million of residential mortgage loans, \$79.7 million of commercial and industrial loans, \$169.2 million of commercial mortgage loans, \$5.8 million of construction loans, and \$30.7 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to \$0.4 million as of September 30, 2018.

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

Prior to permanently modifying a loan, the Corporation may enter into trial modifications with certain borrowers. Trial modifications generally represent a six-month period during which the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification. TDR loans that are participating in or that have been offered a binding trial modification are classified as TDRs when the trial offer is made and continue to be classified as TDRs regardless of whether the borrower enters into a permanent modification. As of September 30, 2018, the Corporation classified an additional \$5.5 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 are considered to be concessions. The Corporation mitigates loan defaults for these loan portfolios through its collection function. The function's objective is to minimize both early stage delinquencies and losses upon default of loans in these portfolios. In the case of the commercial and industrial, commercial mortgage, and construction loan portfolios, the Corporation's Special Asset Group ("SAG") focuses on strategies for the accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of OREO.

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

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

	September 30, 2018						
			Combination of reduction in interest rate and extension of maturity	Forgiveness of principal and/or interest	Forbearance Agreement	Other ⁽¹⁾	Total
	Interest rate below market	Maturity or term extension					
(In thousands)							
Troubled Debt Restructurings:							
Non - FHA/VA residential mortgage loans	\$ 24,053	\$ 11,496	\$ 245,022	\$ -	\$ 158	\$ 59,540	\$ 340,269
Commercial Mortgage loans ⁽²⁾	4,400	30,980	124,493	-	-	9,332	169,205
Commercial and Industrial loans ⁽³⁾	688	19,963	13,323	-	4,225	41,512	79,711
Construction loans:							
Land	16	104	2,016	-	-	339	2,475
Construction-commercial ⁽⁴⁾	-	3,102	-	-	-	217	3,319
Construction-residential	-	-	-	-	-	-	-
Consumer loans - Auto	-	1,627	11,066	-	-	6,199	18,892
Finance leases	-	116	1,256	-	-	-	1,372
Consumer loans - Other	1,299	1,398	5,772	228	-	1,780	10,477
Total Troubled Debt Restructurings	\$ 30,456	\$ 68,786	\$ 402,948	\$ 228	\$ 4,383	\$ 118,919	\$ 625,720

- (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 commercial mortgage TDR loans held for sale amounting to \$3.6 million as of September 30, 2018.
- (3) Excludes commercial and industrial TDR loans held for sale amounting to \$0.9 million as of September 30, 2018.
- (4) Excludes a construction TDR loan held for sale of \$27.0 million as of September 30, 2018.

December 31, 2017

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

- (1) Other concessions granted by the Corporation 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 September 30,		Nine-Month Period Ended September 30,	
	2018	2017	2018	2017
(In thousands)				
Beginning balance of TDRs	\$ 557,196	\$ 568,543	\$ 587,219	\$ 647,048
New TDRs	107,357	29,101	164,004	83,368
Increases to existing TDRs	78	2,650	6,924	3,404
Charge-offs post modification (1)(2)(3)	(7,549)	(2,949)	(25,336)	(26,976)
Sales, net of charge-offs	-	-	-	(53,245)
Foreclosures	(4,898)	(3,564)	(15,700)	(24,085)
TDR transferred to held for sale, net of charge-offs	(4,541)	-	(34,541)	-
Paid-off, partial payments and other	(21,923)	(7,986)	(56,850)	(43,719)
Ending balance of TDRs	\$ 625,720	\$ 585,795	\$ 625,720	\$ 585,795

- (1) The quarter ended September 30, 2018 includes charge-offs of \$3.4 million associated with \$4.5 million in commercial loans transferred to held for sale.
- (2) The nine-month period ended September 30, 2018 includes charge-offs totaling \$8.5 million associated with \$34.5 million in commercial and construction loans transferred to held for sale.
- (3) The nine-month period ended September 30, 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 nine months of 2018 and 2017, other than a \$9.9 million loan refinanced at market terms as the borrower was no longer experiencing financial difficulties and the refinancing does not contain any concession to the borrower. This refinancing was included as part of "paid-off, partial payments and other" in the above table.

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

As of September 30, 2018

(In thousands)	Accrual	Nonaccrual (1)	Total TDRs
Non-FHA/VA residential mortgage loans	\$ 270,067	\$ 70,202	\$ 340,269
Commercial Mortgage loans (2)	146,293	22,912	169,205
Commercial and Industrial loans (3)	70,416	9,295	79,711
Construction loans:			
Land	1,080	3,939	5,019
Construction-commercial (4)	-	-	-
Construction-residential	-	775	775
Consumer loans - Auto	12,541	6,350	18,891
Finance leases	1,273	99	1,372
Consumer loans - Other	9,176	1,302	10,478
Total Troubled Debt Restructurings	\$ 510,846	\$ 114,874	\$ 625,720

- (1) Included in non-accrual loans are \$20.7 million in loans that were performing under the terms of the restructuring agreement but are reported in nonaccrual status until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and are deemed fully collectible.
- (2) Excludes commercial mortgage TDR loans held for sale amounting to \$3.6 million as of September 30, 2018.
- (3) Excludes commercial and industrial TDR loans held for sale amounting to \$0.9 million as of September 30, 2018.
- (4) Excludes a construction TDR loan held for sale of \$27.0 million as of September 30, 2018.

As of December 31, 2017

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

- (1) Included in non-accrual loans are \$88.6 million in loans that were 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 government-guaranteed (e.g., FHA/VA loans) totaling \$60.7 million as of September 30, 2018 (compared with \$62.1 million as of December 31, 2017). The Corporation excludes FHA/VA guaranteed loans from TDR loan statistics given that, in the event that the borrower defaults on the loan, the principal and interest (at the specified debenture rate) are guaranteed by the U.S. government; therefore, the risk of loss on these types of loans is very low. The Corporation does not consider loans with U.S. federal government guarantees to be impaired loans for the purpose of calculating the allowance for loan and lease losses.

Loan modifications that are considered TDR loans completed during the quarters and nine-month periods ended September 30, 2018 and 2017, were as follows:

	Number of contracts	Quarter Ended September 30, 2018	
		Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(Dollars in thousands)			
Troubled Debt Restructurings:			
Non-FHA/VA residential mortgage loans	27	\$ 6,316	\$ 5,729
Commercial Mortgage loans	4	96,088	95,867
Commercial and Industrial loans	2	2,800	2,786
Construction loans:			
Construction-residential	1	587	558
Consumer loans - Auto	74	1,281	1,281
Finance leases	5	82	80
Consumer loans - Other	198	1,038	1,056
Total Troubled Debt Restructurings	311	\$ 108,192	\$ 107,357

	Number of contracts	Nine-Month Period Ended September 30, 2018	
		Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
(Dollars in thousands)			
Troubled Debt Restructurings:			
Non-FHA/VA residential mortgage loans	70	\$ 10,958	\$ 10,277
Commercial Mortgage loans	9	138,599	138,390
Commercial and Industrial loans	8	8,850	8,496
Construction loans:			
Land	1	97	97
Construction-residential	1	587	558
Consumer loans - Auto	195	3,206	3,200
Finance leases	5	82	80
Consumer loans - Other	565	2,857	2,906
Total Troubled Debt Restructurings	854	\$ 165,236	\$ 164,004

Quarter Ended September 30, 2017

		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	Number of contracts		
(Dollars in thousands)			
Troubled Debt Restructurings:			
Non-FHA/VA residential mortgage loans	25	\$ 3,358	\$ 3,358
Commercial Mortgage loans	4	2,569	2,318
Commercial and Industrial loans	8	21,079	21,019
Construction loans:			
Land	1	18	18
Consumer loans - Auto	109	1,568	1,568
Consumer loans - Other	199	796	820
Total Troubled Debt Restructurings	346	\$ 29,388	\$ 29,101

Nine-Month Period Ended September 30, 2017

		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	Number of contracts		
(Dollars in thousands)			
Troubled Debt Restructurings:			
Non-FHA/VA residential mortgage loans	113	\$ 17,585	\$ 17,349
Commercial Mortgage loans	12	25,274	24,783
Commercial and Industrial loans	13	32,153	32,093
Construction loans:			
Land	2	43	46
Consumer loans - Auto	383	5,741	5,741
Finance leases	22	548	548
Consumer loans - Other	602	2,756	2,808
Total Troubled Debt Restructurings	1,147	\$ 84,100	\$ 83,368

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 and nine-month periods ended September 30, 2018 and 2017, and had become TDR during the 12-months preceding the default date, were as follows:

	Quarter Ended September 30,			
	2018		2017	
	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
(Dollars in thousands)				
Non-FHA/VA residential mortgage loans	3	\$ 338	16	\$ 1,795
Consumer loans - Auto	34	559	4	59
Consumer loans - Other	18	59	53	223
Total	55	\$ 956	73	\$ 2,077

	Nine-Month Period Ended September 30,			
	2018		2017	
	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
(Dollars in thousands)				
Non-FHA/VA residential mortgage loans	13	\$ 1,406	38	\$ 4,686
Commercial Mortgage loans	-	-	1	57
Consumer loans - Auto	67	1,096	13	189
Consumer loans - Other	57	213	99	387
Finance leases	1	22	-	-
Total	138	\$ 2,737	151	\$ 5,319

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

The following table provides additional information about the volume of this type of loan restructuring as of September 30, 2018 and 2017 and the effect on the allowance for loan and lease losses in the first nine months of 2018 and 2017:

	September 30, 2018	September 30, 2017
(In thousands)		
Principal balance deemed collectible at end of period	\$ 65,706	\$ 35,603
Amount charged off	\$ 1,137	\$ -
Charges (release) to the provision for loan losses	\$ 1,407	\$ (1,080)
Allowance for loan losses at end of period	\$ 4,116	\$ 4,061

Approximately \$63.1 million of the loans restructured using the A/B note restructure workout strategy were in accrual status as of September 30, 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:

	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
(In thousands)						
Quarter ended						
September 30, 2018						
Allowance for loan and lease losses:						
Beginning balance	\$ 55,130	\$ 48,718	\$ 44,000	\$ 3,949	\$ 70,238	\$ 222,035
Charge-offs	(8,316)	(9,850)	(2,242)	(2,192)	(13,712)	(36,312)
Recoveries	833	291	127	14	2,051	3,316
Provision	360	10,111	2,281	1,308	(2,536)	11,524
Ending balance	\$ 48,007	\$ 49,270	\$ 44,166	\$ 3,079	\$ 56,041	\$ 200,563
Ending balance: specific reserve for impaired loans	\$ 18,482	\$ 17,044	\$ 10,798	\$ 906	\$ 6,083	\$ 53,313
Ending balance: purchased credit-impaired loans (1)	\$ 10,954	\$ 400	\$ -	\$ -	\$ -	\$ 11,354
Ending balance: general allowance	\$ 18,571	\$ 31,826	\$ 33,368	\$ 2,173	\$ 49,958	\$ 135,896
Loans held for investment:						
Ending balance	\$ 3,207,981	\$ 1,506,502	\$ 2,068,256	\$ 82,862	\$ 1,851,352	\$ 8,716,953
Ending balance: impaired loans	\$ 408,794	\$ 243,220	\$ 97,154	\$ 6,897	\$ 31,945	\$ 788,010
Ending balance: purchased credit-impaired loans	\$ 145,203	\$ 3,919	\$ -	\$ -	\$ -	\$ 149,122
Ending balance: loans with general allowance	\$ 2,653,984	\$ 1,259,363	\$ 1,971,102	\$ 75,965	\$ 1,819,407	\$ 7,779,821
	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
(In thousands)						
Nine-Month Period Ended						
September 30, 2018						
Allowance for loan and lease losses:						
Beginning balance	\$ 58,975	\$ 48,493	\$ 48,871	\$ 4,522	\$ 70,982	\$ 231,843

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Charge-offs	(17,231)	(20,557)	(9,282)	(8,187)	(38,111)	(93,368)
Recoveries	1,857	378	1,565	165	6,519	10,484
Provision	4,406	20,956	3,012	6,579	16,651	51,604
Ending balance	\$ 48,007	\$ 49,270	\$ 44,166	\$ 3,079	\$ 56,041	\$ 200,563
Ending balance: specific reserve for impaired loans	\$ 18,482	\$ 17,044	\$ 10,798	\$ 906	\$ 6,083	\$ 53,313
Ending balance: purchased credit-impaired loans (1)	\$ 10,954	\$ 400	\$ -	\$ -	\$ -	\$ 11,354
Ending balance: general allowance	\$ 18,571	\$ 31,826	\$ 33,368	\$ 2,173	\$ 49,958	\$ 135,896
Loans held for investment:						
Ending balance	\$ 3,207,981	\$ 1,506,502	\$ 2,068,256	\$ 82,862	\$ 1,851,352	\$ 8,716,953
Ending balance: impaired loans	\$ 408,794	\$ 243,220	\$ 97,154	\$ 6,897	\$ 31,945	\$ 788,010
Ending balance: purchased credit-impaired loans	\$ 145,203	\$ 3,919	\$ -	\$ -	\$ -	\$ 149,122
Ending balance: loans with general allowance	\$ 2,653,984	\$ 1,259,363	\$ 1,971,102	\$ 75,965	\$ 1,819,407	\$ 7,779,821

	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
(In thousands)						
Quarter ended September 30, 2017						
Allowance for loan and lease losses:						
Beginning balance	\$ 40,587	\$ 38,576	\$ 42,082	\$ 3,736	\$ 48,504	\$ 173,485
Charge-offs	(7,177)	(266)	(738)	(47)	(11,141)	(19,369)
Recoveries	321	43	114	16	1,247	1,741
Provision (release)	23,321	17,590	(1,079)	242	34,939	75,013
Ending balance	\$ 57,052	\$ 55,943	\$ 40,379	\$ 3,947	\$ 73,549	\$ 230,870
Ending balance: specific reserve for impaired loans	\$ 19,417	\$ 10,456	\$ 11,240	\$ 1,865	\$ 5,177	\$ 48,155
Ending balance: purchased credit-impaired loans (1)	\$ 9,863	\$ 372	\$ -	\$ -	\$ -	\$ 10,235
Ending balance: general allowance	\$ 27,772	\$ 45,115	\$ 29,139	\$ 2,082	\$ 68,372	\$ 172,480
Loans held for investment:						
Ending balance	\$ 3,274,340	\$ 1,601,638	\$ 2,144,236	\$ 129,460	\$ 1,727,540	\$ 8,877,214
Ending balance: impaired loans	\$ 425,835	\$ 153,875	\$ 110,939	\$ 50,373	\$ 38,237	\$ 779,259
Ending balance: purchased credit-impaired loans	\$ 153,609	\$ 4,185	\$ -	\$ -	\$ -	\$ 157,794
Ending balance: loans with general allowance	\$ 2,694,896	\$ 1,443,578	\$ 2,033,297	\$ 79,087	\$ 1,689,303	\$ 7,940,161

	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
(In thousands)						
Nine-Month Period Ended September 30, 2017						
Allowance for loan and lease losses:						
Beginning balance	\$ 33,980	\$ 57,261	\$ 61,953	\$ 2,562	\$ 49,847	\$ 205,603
Charge-offs	(22,369)	(32,123)	(19,168)	(705)	(33,386)	(107,751)
Recoveries	1,961	151	5,613	594	6,148	14,467
Provision (release)	43,480	30,654	(8,019)	1,496	50,940	118,551
Ending balance	\$ 57,052	\$ 55,943	\$ 40,379	\$ 3,947	\$ 73,549	\$ 230,870
	\$ 19,417	\$ 10,456	\$ 11,240	\$ 1,865	\$ 5,177	\$ 48,155

Ending balance: specific reserve for impaired loans								
Ending balance: purchased credit-impaired loans (1)	\$ 9,863	\$ 372	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,235
Ending balance: general allowance	\$ 27,772	\$ 45,115	\$ 29,139	\$ 2,082	\$ 68,372	\$ 172,480		
Loans held for investment:								
Ending balance	\$ 3,274,340	\$ 1,601,638	\$ 2,144,236	\$ 129,460	\$ 1,727,540	\$ 8,877,214		
Ending balance: impaired loans	\$ 425,835	\$ 153,875	\$ 110,939	\$ 50,373	\$ 38,237	\$ 779,259		
Ending balance: purchased credit-impaired loans	\$ 153,609	\$ 4,185	\$ -	\$ -	\$ -	\$ 157,794		
Ending balance: loans with general allowance	\$ 2,694,896	\$ 1,443,578	\$ 2,033,297	\$ 79,087	\$ 1,689,303	\$ 7,940,161		

(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.

The tables below present the allowance for loan and lease losses and the carrying value of loans by portfolio segment as of September 30, 2018 and December 31, 2017:

As of September 30, 2018

(Dollars in thousands)	Commercial					Total
	Residential Mortgage Loans	Commercial Mortgage Loans	& Industrial Loans	Construction Loans	Consumer Loans	
Impaired loans without specific reserves:						
Principal balance of loans, net of charge-offs	\$ 117,375	\$ 73,433	\$ 34,793	\$ 1,116	\$ 2,189	\$ 220,836
Impaired loans with specific reserves:						
Principal balance of loans, net of charge-offs	291,419	169,787	62,361	5,781	29,756	559,004
Allowance for loan and lease losses	18,482	17,044	10,798	906	6,083	53,313
Allowance for loan and lease losses to principal balance	6.34%	10.04%	17.32%	15.67%	20.44%	
PCI loans:						
Carrying value of PCI loans	145,203	3,919	-	-	-	149,122
Allowance for PCI loans	10,954	400	-	-	-	11,354
Allowance for PCI loans to carrying value	7.54%	10.21%	-	-	-	
Loans with general allowance:						
Principal balance of loans	2,653,984	1,259,363	1,971,102	75,965	1,819,407	7,779,821
Allowance for loan and lease losses	18,571	31,826	33,368	2,173	49,958	135,896
Allowance for loan and lease losses to principal balance	0.70%	2.53%	1.69%	2.86%	2.75%	
Total loans held for investment:						
Principal balance of loans	\$ 3,207,981	\$ 1,506,502	\$ 2,068,256	\$ 82,862	\$ 1,851,352	\$ 8,737,853
Allowance for loan and lease losses	48,007	49,270	44,166	3,079	56,041	200,563
Allowance for loan and lease losses to principal balance (1)	1.50%	3.27%	2.14%	3.72%	3.03%	

As of December 31, 2017

(Dollars in thousands)	Commercial					Total
	Residential Mortgage Loans	Commercial Mortgage Loans	& Industrial Loans	Construction Loans	Consumer Loans	
Impaired loans without specific reserves:						
Principal balance of loans, net of charge-offs	\$ 116,818	\$ 65,100	\$ 28,292	\$ 48	\$ 2,788	\$ 213,046
Impaired loans with specific reserves:						
Principal balance of loans, net of charge-offs	316,616	87,814	90,008	47,218	35,606	577,262
Allowance for loan and lease losses	22,086	9,783	12,359	2,017	5,165	51,400
Allowance for loan and lease losses to principal balance	6.98%	11.14%	13.73%	4.27%	14.51%	
PCI loans:						
Carrying value of PCI loans	153,991	4,183	-	-	-	158,174

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

(1) Loans used in the denominator include PCI loans of \$149.1 million and \$158.2 million as of September 30, 2018 and December 31, 2017, respectively. However, the Corporation separately tracks and reports PCI loans and excludes these loans from the amount of non-performing loans, impaired loans, TDRs and non-performing assets.

As of September 30, 2018, the Corporation maintained a \$0.4 million reserve for unfunded loan commitments (compared to \$0.7 million as of December 31, 2017), mainly related to outstanding commitments on floor plan revolving lines of credit. The reserve for unfunded loan commitments is an estimate of the losses inherent in off-balance sheet loan commitments to borrowers that are experiencing financial difficulties at the balance sheet date. It is calculated by multiplying an estimated loss factor by an estimated probability of funding, and then by the period-end amounts for unfunded commitments. The reserve for unfunded loan commitments is included as part of accounts payable and other liabilities in the consolidated statements of financial condition and any change to the reserve is included as part of other non-interest expenses in the consolidated statements of income.

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

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

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

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

Hurricane-Related Qualitative Allowance for Loan and Lease Losses

As described in Note 2 – Update on Effects of Natural Disasters, two strong hurricanes affected the Corporation’s service areas during September 2017. These hurricanes caused widespread property damage, flooding, power outages, and water and communication service interruptions, and severely disrupted normal economic activity in the affected areas. During the third quarter of 2017, the Corporation recorded a \$66.5 million charge to the provision related to the establishment of qualitative reserves associated with the effects of Hurricanes Irma and Maria. Models were developed based on a regression modeling approach in which relationships between portfolio-level loss rates and key economic indicators were derived based on historical behavior. Accordingly, the qualitative reserves were determined based on the estimated effect that the hurricanes could have on employment levels and economic activity in the Corporation’s service areas, and the time that it could take for the affected regions to return to a more normalized operating environment. For large commercial and construction loan relationships, loan officers performed individual reviews of the effect of the hurricanes on these borrowers’ sources of repayments. These large relationships were analyzed and divided into three hurricane-affected categories (i.e., Low, Medium and High). This stratification was used to stress the general reserve loss factors applicable to these loans to reflect higher default probabilities than those reflected in the historical data. For commercial and construction loans not individually reviewed, as well as residential and consumer loans, the hurricane-related qualitative reserves were determined following the above-mentioned qualitative hurricane-related model, with resulting loss factors applied to the overall performing balance of each portfolio.

Relationship officers have continued to closely monitor the performance of hurricane-affected commercial loan customers during 2018. Information provided by these commercial loan officers, including information derived from regularly scheduled annual reviews, and statistics on the performance of consumer and residential credits were factored into the determination of the allowance for loan and lease losses as of September 30, 2018. Although the identification and evaluation of hurricane-affected credits has been completed, management’s assessment of the hurricanes’ effect is still subject to uncertainties, both those specific to some individual customers, such as the resolution of insurance claims, and those applicable to the overall economic prospects of the hurricane-affected areas as a whole. During the third quarter of 2018, the Corporation performed additional procedures to evaluate the adequacy of the qualitative reserves, including the consideration of updated payment patterns and probability of default credit risk analyses applied to consumer loan borrowers subject to payment deferral programs that expired early in 2018.

During the third quarter and nine-month period ended September 30, 2018, the Corporation recorded a net loan loss reserve release of \$2.8 million and \$11.2 million, respectively, in connection with revised estimates associated with the effects of the hurricanes. In addition to the above-mentioned updated assessments of financial performance and repayment prospects of certain individually-assessed commercial credits and updated payment patterns and probability of default credit risk analyses applied to consumer borrowers that were subject to payment deferral programs, the reserve releases in 2018 reflect the effect of payments received during the first nine months of 2018 that reduced the balance of the consumer and residential mortgage loan portfolios outstanding on the dates of the hurricanes. In addition, approximately \$10.9 million of the consumer loan charge-offs recorded in the third quarter and first nine months of 2018 were taken against previously-established hurricane-related qualitative reserves associated with Hurricanes Irma and Maria. As of September 30, 2018, the hurricane-related qualitative allowance amounted to \$24.9 million. With the ongoing collection of information on individual commercial customers and

statistics on the consumer and residential mortgage loans portfolios, the loss estimate will be revised as needed.

NOTE 9 – LOANS HELD FOR SALE

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

(In thousands)	September 30, 2018	December 31, 2017
Residential mortgage loans	\$ 21,562	\$ 24,690
Construction loans ⁽¹⁾	30,015	8,290
Commercial and Industrial loans ⁽¹⁾	1,790	-
Commercial mortgage loans ⁽¹⁾	12,372	-
Total	\$ 65,739	\$ 32,980

- (1) During the first nine months of 2018, the Corporation transferred \$74.4 million (net of fair value write-downs of \$22.2 million recorded at the time of transfers) in non-performing loans to held for sale. Loans transferred to held for sale consisted of non-performing commercial mortgage loans totaling \$39.6 million (net of fair value write-downs of \$13.8 million), non-performing construction loans totaling \$33.0 million (net of fair value write-downs of \$6.7 million) and non-performing commercial and industrial loans totaling \$1.8 million (net of fair value write-downs of \$1.7 million). Approximately \$27.2 million of the commercial mortgage loans transferred to loan held for sale were eventually sold during the second quarter and third quarters of 2018. In addition, during the third quarter of 2018, the Corporation sold the non-performing construction loan that was outstanding as of December 31, 2017 that was carried at a book value of \$7.7 million at the time of sale.

NOTE 10 – OTHER REAL ESTATE OWNED

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

(In thousands)	September 30, 2018	December 31, 2017
OREO		
OREO balances, carrying value:		
Residential ⁽¹⁾	\$ 49,287	\$ 54,381
Commercial	75,292	82,871
Construction	10,639	10,688

Total	\$	135,218	\$	147,940
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(1) Excludes \$14.5 million and \$21.3 million as of September 30, 2018 and December 31, 2017, respectively, of foreclosures that meet the conditions of ASC Topic 310-40 and are presented as a receivable (other assets) in the statement of financial condition.

NOTE 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 September 30, 2018 and December 31, 2017, all derivatives held by the Corporation were considered economic undesignated hedges. These undesignated hedges were 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") MBS that will settle over the standard delivery date and do not qualify as "regular way" security trades. Regular-way security trades are contracts that have no net settlement provision and no market mechanism to facilitate net settlement and that provide for delivery of a security within the time frame generally established by regulations or conventions in the market-place or exchange in which the transaction is being executed. The forward sales are considered derivative instruments that need to be marked-to-market. These securities are used to economically hedge the FHA/VA residential mortgage loan securitizations of the mortgage-banking operations. Also reported as forward contracts are mandatory mortgage loan sales commitments entered into with GSEs that require or permit net settlement via a pair-off transaction or the payment of a pair-off fee. Unrealized gains (losses) are recognized as part of mortgage banking activities in the consolidated statements of income.

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

In addition, the Corporation enters into certain contracts with embedded derivatives that do not require separate accounting as these are clearly and closely related to the economic characteristics of the host contract. When the

embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated, carried at fair value, and designated as a trading or non-hedging derivative instrument.

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

	Notional Amounts ⁽¹⁾	
	As of September 30, 2018	As of December 31, 2017
(In thousands)		
Undesignated economic hedges:		
Interest rate contracts:		
Written interest rate cap agreements	\$ 89,510	\$ 91,010
Purchased interest rate cap agreements	89,510	91,010
Forward Contracts:		
Sale of TBA GNMA MBS pools	28,000	26,000
Forward loan sales commitments	5,005	-
	\$ 212,025	\$ 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			
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017		
	Fair Value	Fair Value	Fair Value	Fair Value		
	Location	Location	Location	Location		
(In thousands)						
Undesignated economic hedges:						
Interest rate contracts:						
Written interest rate cap agreements	Other assets	\$ -	\$ -	Accounts payable and other liabilities	\$ 815	\$ 305
Purchased interest rate cap agreements	Other assets	815	305	Accounts payable and other liabilities	-	-
Forward Contracts:						
Sales of TBA GNMA MBS pools	Other assets	116	7	Accounts payable and other liabilities	20	19
Forward loan sales commitments	Other assets	-	-	Accounts payable and other liabilities	-	-
		\$ 931	\$ 312		\$ 835	\$ 324

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

	Location of (Loss) or Gain Recognized in Statement of Income on Derivatives	(Loss) or Gain Quarter Ended September 30,		(Loss) or Gain Nine-Month Period Ended September 30,	
		2018	2017	2018	2017
(In thousands)					
UNDESIGNATED ECONOMIC HEDGES:					
Interest rate contracts:					
Written and purchased interest rate cap agreements	Interest income - Loans	\$ -	\$ (1)	\$ -	\$ (2)
Forward contracts:					
Sales of TBA GNMA MBS pools	Mortgage Banking Activities	-	-	-	-
Forward loan sales commitments	Mortgage Banking Activities	211	(34)	108	274
Total (loss) gain on derivatives		\$ 211	\$ (35)	\$ 108	\$ 272

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 effect 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 September 30, 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 in respect of any other agreement or transaction between them. The following table presents information about the offsetting of financial assets and liabilities, as well as derivative assets and liabilities:

Offsetting of Financial Assets and Derivative Assets

As of September 30, 2018 (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	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral	Net Amount
Description						
Derivatives	\$ 815	\$ -	\$ 815	\$ -	\$ (815)	\$ -
Securities purchased under agreements to resell	200,000	(200,000)	-	-	-	-
Total	\$ 200,815	\$ (200,000)	\$ 815	\$ -	\$ (815)	\$ -

As of December 31, 2017	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral	Net Amount

**Position Statement
of
Financial
Position**

(In thousands)

Description

Derivatives	\$ 305	\$ -	\$ 305	\$ (305)	\$ -	\$ -
Securities purchased under agreements to resell	200,000	(200,000)	-	-	-	-
Total	\$ 200,305	\$ (200,000)	\$ 305	\$ (305)	\$ -	\$ -

Offsetting of Financial Liabilities and Derivative Liabilities

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