FIRST BANCORP /PR/
Form 10-Q
May 11, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

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

For the transition period from ______ to _______

COMMISSION FILE NUMBER 001-14793

First BanCorp.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

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

Yes þ Noo

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

Yes þ Noo

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

Large accelerated filer o	Accelerated filerþ
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

Common stock: 213,810,782 shares outstanding as of April 30, 2015.

FIRST BANCORP.

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Forward Looking Statements

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

First BanCorp. wishes to caution readers not to place undue reliance on any such "forward-looking statements," which speak only as of the date made, and to advise readers that various factors, including but not limited to the following, could cause actual results to differ materially from those expressed in, or implied by, such "forward-looking statements":

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

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

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

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

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

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

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

- a credit default by the Puerto Rico government or any of its public corporations or other instrumentalities, and recent and any future downgrades of the long-term and short-term debt ratings of the Puerto Rico government, which could exacerbate Puerto Rico's adverse economic conditions;

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

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

- the risk that any portion of the unrealized losses in the Corporation's investment portfolio is determined to be other-than-temporary, including unrealized losses on the Puerto Rico government's obligations;

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

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

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

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

- the impact on the Corporation's results of operations and financial condition of acquisitions and dispositions, including the recent acquisition of loans and branches of Doral Bank as well as the assumption of deposits at the branches;

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

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

- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") on the Corporation's businesses, business practices and cost of operations; and

- general competitive factors and industry consolidation.

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

Investors should refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014, as well as "Part II, Item 1A, Risk Factors" in this quarterly report on Form 10-Q, for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	March 31, 2015			December 31, 2014	
					(In thousands, except for share information)
ASSETS					
Cash and due from banks	$	767,471		$	779,147
Money market investments:					
Time deposits with other financial institutions		300			300
Other short-term investments		216,665			16,661
Total money market investments		216,965			16,961
Investment securities available for sale, at fair value:					
Securities pledged that can be repledged		1,001,725			1,025,966
Other investment securities		972,501			939,700
Total investment securities available for sale		1,974,226			1,965,666
Other equity securities		26,185			25,752
Loans, net of allowance for loan and lease losses of $226,064					
(2014 - $222,395)		9,259,308			9,040,041
Loans held for sale, at lower of cost or market		81,723			76,956
Total loans, net		9,341,031			9,116,997
Premises and equipment, net		166,799			166,926
Other real estate owned		122,628			124,003
Accrued interest receivable on loans and investments		49,302			50,796
Other assets		483,312			481,587
Total assets	$	13,147,919		$	12,727,835
LIABILITIES					
Non-interest-bearing deposits	$	1,175,943		$	900,616
Interest-bearing deposits		8,665,095			8,583,329
Total deposits		9,841,038			9,483,945
Securities sold under agreements to repurchase		900,000			900,000
Advances from the Federal Home Loan Bank (FHLB)		325,000			325,000
Other borrowings		231,959			231,959
Accounts payable and other liabilities		144,172			115,188
Total liabilities		11,442,169			11,056,092
STOCKHOLDERS' EQUITY					

Preferred stock, authorized, 50,000,000 shares:					
Non-cumulative Perpetual Monthly Income Preferred Stock:					
issued 22,004,000 shares, outstanding 1,444,146 shares, aggregate					
liquidation value of $36,104		36,104			36,104
Common stock, $0.10 par value, authorized, 2,000,000,000 shares;					
issued, 214,618,015 shares (2014 - 213,724,749 shares issued)		21,462			21,372
Less: Treasury stock (at par value)		(79)			(74)
Common stock outstanding, 213,827,258 shares outstanding (2014 - 212,984,700					
shares outstanding)		21,383			21,298
Additional paid-in capital		917,203			916,067
Retained earnings, includes legal surplus reserve of $40.0 million		742,271			716,625
Accumulated other comprehensive loss, net of tax of $7,752		(11,211)			(18,351)
Total stockholders' equity		1,705,750			1,671,743
Total liabilities and stockholders' equity	$	13,147,919		$	12,727,835
The accompanying notes are an integral part of these statements.					

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FIRST BANCORP.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Quarter Ended				
	March 31, 2015			March 31, 2014	
(In thousands, except per share information)					
Interest and dividend income:					
Loans	$	139,344		$	144,843
Investment securities		12,604			15,228
Money market investments		537			500
Total interest income		152,485			160,571
Interest expense:					
Deposits		17,694			20,299
Securities sold under agreements to repurchase		6,393			6,368
Advances from FHLB		934			824
Notes payable and other borrowings		1,817			1,760
Total interest expense		26,838			29,251
Net interest income		125,647			131,320
Provision for loan and lease losses		32,970			31,915
Net interest income after provision for loan and lease losses		92,677			99,405
Non-interest income:					
Service charges and fees on deposit accounts		4,555			4,127
Mortgage banking activities		3,618			3,368
Other-than-temporary impairment losses on available-for-sale debt securities:					
Total other-than-temporary impairment losses		-			-
Portion of other-than-temporary impairment losses previously recognized in					
other comprehensive income		(156)			-
Net impairment losses on available-for-sale debt securities		(156)			-
Equity in loss of unconsolidated entity		-			(6,610)
Insurance commission income		3,022			2,571
Bargain purchase gain		13,443			-
Other non-interest income		8,247			7,894
Total non-interest income		32,729			11,350
Non-interest expenses:					
Employees' compensation and benefits		35,654			32,898
Occupancy and equipment		14,349			14,318
Business promotion		2,868			3,973
Professional fees		15,218			10,493
Taxes, other than income taxes		3,001			4,575

Insurance and supervisory fees		6,860		10,990
Net loss on other real estate owned (OREO) and OREO operations		2,628		5,837
Credit and debit card processing expenses		3,957		3,824
Communications		1,608		1,879
Other non-interest expenses		5,585		3,998
Total non-interest expenses		91,728		92,785
Income before income taxes		33,678		17,970
Income tax expense		(8,032)		(887)
Net income	$	25,646	$	17,083
Net income attributable to common stockholders	$	25,646	$	17,462
Net income per common share:				
Basic	$	0.12	$	0.08
Diluted	$	0.12	$	0.08
Dividends declared per common share	$	-	$	-
The accompanying notes are an integral part of these statements.				

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FIRST BANCORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Quarter Ended			
		March 31, 2015		**March 31, 2014**
(In thousands)				
Net income	$	25,646	$	17,083
Available-for-sale debt securities on which an other-than-temporary impairment has been recognized:				
Subsequent unrealized gain on debt securities on which an other-than-temporary impairment has been recognized		689		913
Reclassification adjustment for other-than-temporary impairment on debt securities included in net income		156		-
All other unrealized holding gains on available-for-sale securities arising during the period		6,295		21,626
Other comprehensive income for the period, net of tax		7,140		22,539
Total comprehensive income	$	32,786	$	39,622

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Quarter Ended				
	March 31, 2015			March 31, 2014	
(In thousands)					
Cash flows from operating activities:					
Net income	$	25,646		$	17,083
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation		5,306			5,453
Amortization of intangible assets		1,093			1,235
Provision for loan and lease losses		32,970			31,915
Deferred income tax expense (benefit)		2,060			(700)
Stock-based compensation		1,457			717
Bargain purchase gain		(13,443)			-
Other-than-temporary impairments on debt securities		156			-
Equity in loss of unconsolidated entity		-			6,610
Derivative instruments and financial liabilities measured at fair value, unrealized loss (gain)		72			(148)
Gain on sale of premises and equipment and other assets		(194)			(25)
Net gain on sales of loans		(1,689)			(2,017)
Net amortization/accretion of premiums, discounts and deferred loan fees and costs		(673)			(477)
Originations and purchases of loans held for sale		(89,425)			(72,748)
Sales and repayments of loans held for sale		87,051			72,865
Amortization of broker placement fees		1,335			1,785
Net amortization/accretion of premium and discounts on investment securities		1,269			(284)
Increase in accrued income tax payable		5,481			1,476
Decrease in accrued interest receivable		1,953			4,992
Increase in accrued interest payable		1,000			2,106
(Increase) decrease in other assets		3,081			8,657
Increase (decrease) in other liabilities		11,007			(4,987)
Net cash provided by operating activities		75,513			73,508
Cash flows from investing activities:					
Principal collected on loans		751,062			776,086
Loans originated and purchased		(705,621)			(774,764)
Proceeds from sales of loans held for investment		2,230			16,558
Proceeds from sales of repossessed assets		18,446			12,262

Purchases of securities available for sale		(56,429)			(76,253)
Proceeds from principal repayments and maturities of securities available for sale		53,596			45,422
Additions to premises and equipment		(3,027)			(7,696)
Proceeds from sale of premises and equipment and other assets		2,492			25
Net cash received from acquisition		217,659			-
Purchases of other equity securities		(433)			-
Net cash provided by (used in) investing activities		279,975			(8,360)
Cash flows from financing activities:					
Net (decrease) increase in deposits		(166,924)			120,977
Repurchase of outstanding common stock		(236)			(246)
Issuance costs of common stock issued in exchange for preferred stock Series A through E		-			(53)
Net cash (used in) provided by financing activities		(167,160)			120,678
Net increase in cash and cash equivalents		188,328			185,826
Cash and cash equivalents at beginning of period		796,108			655,671
Cash and cash equivalents at end of period	$	984,436		$	841,497
Cash and cash equivalents include:					
Cash and due from banks	$	767,471		$	824,547
Money market instruments		216,965			16,950
	$	984,436		$	841,497
The accompanying notes are an integral part of these statements.					

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FIRST BANCORP.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Quarter Ended				
	March 31, 2015			March 31, 2014	
(In thousands)					
Preferred Stock					
Balance at beginning of period	$	36,104		$	63,047
Exchange of preferred stock- Series A through E		-			(6,237)
Balance at end of period		36,104			56,810
Common Stock outstanding:					
Balance at beginning of period		21,298			20,707
Common stock issued as compensation		8			6
Common stock withheld for taxes		(5)			(4)
Common stock issued in exchange for Series A through E preferred stock		-			107
Restricted stock grants		83			81
Restricted stock forfeited		(1)			-
Balance at end of period		21,383			20,897
Additional Paid-In-Capital:					
Balance at beginning of period		916,067			888,161
Stock-based compensation		1,457			717
Common stock withheld for taxes		(231)			(242)
Common stock issued in exchange for Series A through E preferred stock		-			5,538
Reversal of issuance costs of Series A through E preferred stock exchanged		-			213
Issuance costs of common stock issued in exchange for Series A through E preferred stock		-			(53)
Restricted stock grants		(83)			(81)
Common stock issued as compensation		(8)			(6)
Restricted stock forfeited		1			-
Balance at end of period		917,203			894,247
Retained Earnings:					
Balance at beginning of period		716,625			322,679
Net income		25,646			17,083

Excess of carrying amount of Series A though E preferred stock exchanged over					
fair value of new shares of common stock		-			379
Balance at end of period		742,271			340,141
Accumulated Other Comprehensive Income (Loss), net of tax:					
Balance at beginning of period		(18,351)			(78,736)
Other comprehensive income, net of tax		7,140			22,539
Balance at end of period		(11,211)			(56,197)
Total stockholders' equity	$	1,705,750		$	1,255,898
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, 2014. Certain information and note disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted from these statements pursuant to the rules and regulations of the SEC and, accordingly, these financial statements should be read in conjunction with the Audited Consolidated Financial Statements of the Corporation for the year ended December 31, 2014, which are included in the Corporation's 2014 Annual Report on Form 10-K. All adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the statement of financial position, results of operations and cash flows for the interim periods have been reflected. All significant intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the quarter ended March 31, 2015 are not necessarily indicative of the results to be expected for the entire year.

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

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

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

In May 2014, the FASB updated the Codification to create a new, principle-based revenue recognition framework. The Update is the culmination of efforts by the FASB and the International Accounting Standards Board to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance describes a 5-step process entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. The amendments are expect to become effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those reporting periods, as a result of the FASB's recent issuance of a proposal to defer the effective date of the standard by one year. Early adoption is not permitted. The Corporation is currently evaluating the impact that the adoption of this guidance will have on the presentation and disclosures in its financial statements.

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

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

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

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

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

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

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

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

NOTE 2 – BUSINESS COMBINATION

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

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

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

	Asset/Liabilities		
	(at Fair Value)		
	(In thousands)		
ASSETS			
Cash	$	217,659	
Loans		311,410	
Premises and equipment, net		5,450	
Core Deposit Intangible		5,820	
Total assets acquired		540,339	
LIABILITIES			
Deposits		523,517	
Other liabilities		3,379	
Net assets - Bargain purchase gain	$	13,443	

The application of the acquisition-method of accounting resulted in a bargain purchase gain of $13.4 million, which is included in non-interest income in the Corporation's consolidated statement of income for the quarter ended March 31, 2015, and a core deposit intangible of $5.8 million. The net after-tax gain of $8.2 million represents the excess of the estimated fair value of the assets acquired (including cash payments received from the FDIC) over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process.

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

Cash and due from banks – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. This balance primarily represents the cash settlement received from Popular for the net equity received, assets discount bid and other customary closing adjustments.

Loans – Fair values for loans were based on a discounted cash flow methodology that uses market-driven assumptions such as prepayment rate, default rate, and loss severity on a loan level basis. The forecasted cash flows are then discounted by yields observed in sales of similar portfolios in Puerto Rico and the continental U.S.

The Corporation evaluated the residential mortgage loans acquired and determined that $227.9 million are non-credit impaired purchased loans and have been accounted in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*, and were recorded with a premium of $1.3 million. The remaining approximately $93.3 million of residential mortgage loans excluded were considered purchased credit impaired loans within the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and were recorded with a $13.4 million discount. These purchased credit impaired loans will recognize interest income through accretion of the difference between the fair value of the loans and the expected cash flows.

Core deposit intangible – This intangible asset represents the value of the relationships that Doral Bank had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Corporation recorded $5.8 million of core deposit intangible.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition, equal the amount payable on demand at the acquisition date. The fair value adjustment of $0.8 million was applied for time deposits because the estimated weighted average interest rate of the assumed certificates of deposits were estimated to be above the current market rates.

ASC Topic 805 requires the measurement of all recognized assets acquired and liabilities assumed in a business combination at their acquisition-date fair values. Accordingly, the Corporation initially recorded amounts for the fair values of the assets acquired and liabilities assumed based on the best information available at the acquisition date. The Corporation may retrospectively adjust these amounts to reflect new information obtained during the measurement period (not to exceed 12 months) about facts and circumstances that existed as of the acquisition date that, if known, would have affected the acquisition-date fair value measurements. Any retrospective adjustments to acquisition date fair values will affect the bargain purchase gain recognized. During the first quarter of 2015, the Corporation incurred $3.9 million of expenses related to this transaction, primarily included in professional fees expenses in the consolidated statement of income, of which $2.1 million represents acquisition and conversion costs that are considered non-recurring in nature.

The Corporation's operating results for the quarter ended March 31, 2015, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. The Corporation also considered the pro forma requirements of ASC 805 and deemed it not necessary to provide pro forma financial statements as required under the standard for the Doral Bank transaction as is was not material to the Corporation.

NOTE 3 – EARNINGS PER COMMON SHARE

The calculations of earnings per common share for the quarters ended on March 31, 2015 and 2014 are as follows:

		Quarter Ended			
		March 31, 2015		**March 31, 2014**	
		(In thousands, except per share information)			
Net income		$	25,646	$	17,083
Favorable impact from issuing common stock in exchange for					
	Series A through E preferred stock (1)		-		379
Net income attributable to common stockholders		$	25,646	$	17,462
Weighted-Average Shares:					
	Average common shares outstanding		210,686		205,732
	Average potential dilutive common shares		2,060		1,144
	Average common shares outstanding-assuming dilution		212,746		206,876
Income per common share:					
	Basic	$	0.12	$	0.08
	Diluted	$	0.12	$	0.08

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

Earnings per common share is computed by dividing net income attributable to common stockholders by the weighted average number of common shares issued and outstanding. Net income attributable to common stockholders represents net income adjusted for any preferred stock dividends, including any dividends declared, and any cumulative dividends related to the current dividend period that have not been declared as of the end of the period. For the first quarter of 2014, net income attributable to common stockholders includes the one-time effect to retained earnings of the issuance of common stock in exchange for Series A through E preferred stock. This transaction is discussed in Note 19 to the unaudited consolidated financial statements. Basic weighted average common shares outstanding exclude unvested shares of restricted