

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 March 31, 2023

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)

Puerto Rico
(State or other jurisdiction of
incorporation or organization)

1519 Ponce de León Avenue, Stop 23
San Juan, Puerto Rico
(Address of principal executive offices)

66-0561882
(I.R.S. Employer
Identification No.)

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock (\$0.10 par value per share)	FBP	New York Stock Exchange

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: 179,788,698 shares outstanding as of May 1, 2023.

FIRST BANCORP.
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Forward-Looking Statements

This Quarterly Report on Form 10-Q (“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 by, or with the approval of, an authorized executive officer, the words or phrases “would,” “intends,” “will,” “expect,” “should,” “plans,” “forecast,” “anticipate,” “look forward,” “believes,” and other terms of similar meaning or import, or the negatives of these terms or variations of them, in connection with any discussion of future operating, financial or other performance are meant to identify “forward-looking statements.”

The Corporation cautions readers not to place undue reliance on any such “forward-looking statements,” which speak only as of the date made, and advises 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 results to differ from those expressed in the Corporation’s forward-looking statements include, but are not limited to, risks described or referenced in Part I, Item 1A, “Risk Factors,” in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2022 (the “2022 Annual Report on Form 10-K”) and the following:

- the impacts of rising interest rates and inflation on the Corporation, including a decrease in demand for new loan originations and refinancings, increased competition for borrowers, attrition in deposits, a reduction in the fair value of the Corporation’s debt securities portfolio, and an increase in non-interest expenses which would impact the Corporation’s earnings and may adversely impact origination volumes, liquidity, and financial performance;
- volatility in the financial services industry, including failures or rumored failures of other depository institutions, and actions taken by governmental agencies to stabilize the financial system, which could result in, among other things, bank deposit runoffs and liquidity constraints;
- the effect of continued changes in the fiscal and monetary policies and regulations of the United States (“U.S.”) federal government, the Puerto Rico government and other governments, including those determined by the Board of the Governors of the Federal Reserve System (the “Federal Reserve Board”), the Federal Reserve Bank of New York (the “New York FED” or the “FED”), the Federal Deposit Insurance Corporation (the “FDIC”), government-sponsored housing agencies and regulators in Puerto Rico, the U.S., and the U.S. Virgin Islands (the “USVI) and British Virgin Islands (the “BVI”);
- uncertainty as to the ability of the Corporation’s banking subsidiary, FirstBank Puerto Rico (“FirstBank” or the “Bank”), to retain its core deposits and generate sufficient cash flow through its wholesale funding sources, such as securities sold under agreements to repurchase, Federal Home Loan Bank (“FHLB”) advances, and brokered certificates of deposit (“brokered CDs”), which in turn affects its ability to make dividend payments to the Corporation and could result in selling certain investment securities portfolio at a loss;
- adverse changes in general economic conditions in Puerto Rico, the U.S., and the USVI and BVI, including in the interest rate environment, unemployment rates, market liquidity, housing absorption rates, real estate markets, and U.S. capital markets, which may affect funding sources, loan portfolio performance and credit quality, market prices of investment securities, and demand for the Corporation’s products and services, and which may reduce the Corporation’s revenues and earnings and the value of the Corporation’s assets;
- the impact of government financial assistance for hurricane recovery and other disaster relief on economic activity in Puerto Rico, and the timing and pace of disbursements of funds earmarked for disaster relief;
- the long-term economic and other effects of the COVID-19 pandemic and their impact on the Corporation’s business, operations, and financial condition;
- the ability of the Corporation, FirstBank, and third-party service providers to identify and prevent cyber-security incidents, such as data security breaches, ransomware, malware, “denial of service” attacks, “hacking,” identity theft, and state-sponsored cyberthreats, and the occurrence of and response to any, such as a recent security incident at one of our third-party vendors, which may result in misuse or misappropriation of confidential or proprietary information, disruption, or damage to our systems or those of third-party service providers, increased costs and losses or an adverse effect to our reputation;

- general competitive factors and other market risks as well as the implementation of strategic growth opportunities, including risks, uncertainties, and other factors or events related to any business acquisitions or dispositions;
- uncertainty as to the implementation of the debt restructuring plan of Puerto Rico (“Plan of Adjustment” or “PoA”) and the fiscal plan for Puerto Rico as certified on April 3, 2023 (the “2023 Fiscal Plan”) by the oversight board established by the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”), or any revisions to it, on our clients and loan portfolios, and any potential impact from future economic or political developments and tax regulations in Puerto Rico;
- the impact of changes in accounting standards, or assumptions in applying those standards, on forecasts of economic variables considered for the determination of the allowance for credit losses (“ACL”);
- the ability of FirstBank to realize the benefits of its net deferred tax assets;
- environmental, social, and governance matters, including our climate-related initiatives and commitments;
- the impacts of natural or man-made disasters, widespread health emergencies, geopolitical conflicts (including the ongoing conflict in Ukraine), terrorist attacks, or other catastrophic external events, including impacts of such events on general economic conditions and on the Corporation’s assumptions regarding forecasts of economic variables;
- the effect of changes in the interest rate environment, including uncertainty about the effect of the cessation of the London Interbank Offered Rate (“LIBOR”);
- any adverse change in the Corporation’s ability to attract and retain clients and gain acceptance from current and prospective customers for new products and services, including those related to the offering of digital banking and financial services;
- the risk that additional portions of the unrealized losses in the Corporation’s debt securities portfolio are determined to be credit-related, resulting in additional charges to the provision for credit losses on the Corporation’s available-for-sale debt securities portfolio;
- the impacts of applicable legislative, tax, or regulatory changes on the Corporation’s financial condition or performance;
- the risk of possible failure or circumvention of the Corporation’s internal controls and procedures and the risk that the Corporation’s risk management policies may not be adequate;
- the risk that the FDIC may further increase the deposit insurance premium and/or require special assessments, causing an additional increase in the Corporation’s non-interest expenses;
- any need to recognize impairments on the Corporation’s financial instruments, goodwill, and other intangible assets;
- the risk that the impact of the occurrence of any of these uncertainties on the Corporation’s capital would preclude further growth of FirstBank and preclude the Corporation’s Board of Directors (the “Board”) from declaring dividends; and
- uncertainty as to whether FirstBank will be able to continue 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.

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.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
(In thousands, except for share information)		
ASSETS		
Cash and due from banks	\$ 822,542	\$ 478,480
Money market investments:		
Time deposits with other financial institutions	300	300
Other short-term investments	759	1,725
Total money market investments	1,059	2,025
Available-for-sale debt securities, at fair value:		
Securities pledged with creditors' rights to repledge	181,009	81,103
Other available-for-sale debt securities	5,408,247	5,518,417
Total available-for-sale debt securities, at fair value (amortized cost of \$6,300,696 as of March 31, 2023, and \$6,398,197 as of December 31, 2022; ACL of \$449 as of March 31, 2023 and \$458 as of December 31, 2022)	5,589,256	5,599,520
Held-to-maturity debt securities, at amortized cost, net of ACL of \$7,646 as of March 31, 2023 and \$8,286 as of December 31, 2022 (fair value of \$419,752 as of March 31, 2023 and \$427,115 as of December 31, 2022)	423,749	429,251
Equity securities	66,714	55,289
Total investment securities	6,079,719	6,084,060
Loans, net of ACL of \$265,567 as of March 31, 2023 and \$260,464 as of December 31, 2022	11,312,418	11,292,361
Mortgage loans held for sale, at lower of cost or market	15,183	12,306
Total loans, net	11,327,601	11,304,667
Accrued interest receivable on loans and investments	63,841	69,730
Premises and equipment, net	137,580	142,935
Other real estate owned ("OREO")	32,862	31,641
Deferred tax asset, net	154,780	155,584
Goodwill	38,611	38,611
Other intangible assets	19,073	21,118
Other assets	299,446	305,633
Total assets	\$ 18,977,114	\$ 18,634,484
LIABILITIES		
Non-interest-bearing deposits	\$ 6,024,304	\$ 6,112,884
Interest-bearing deposits	10,027,661	10,030,583
Total deposits	16,051,965	16,143,467
Short-term securities sold under agreements to repurchase	172,982	75,133
Advances from the FHLB:		
Short-term	425,000	475,000
Long-term	500,000	200,000
Total advances from the FHLB	925,000	675,000
Other long-term borrowings	183,762	183,762
Accounts payable and other liabilities	237,812	231,582
Total liabilities	17,571,521	17,308,944
Commitments and contingencies (See Note 22)		
STOCKHOLDERS' EQUITY		
Common stock, \$0.10 par value, 2,000,000,000 shares authorized; 223,663,116 shares issued; 179,788,698 shares outstanding as of March 31, 2023 and 182,709,059 as of December 31, 2022	22,366	22,366
Additional paid-in capital	959,912	970,722
Retained earnings, includes legal surplus reserve of \$168,484	1,688,176	1,644,209
Treasury stock (at cost) of 43,874,418 shares as of March 31, 2023 and 40,954,057 shares as of December 31, 2022	(547,311)	(506,979)
Accumulated other comprehensive loss, net of tax of \$8,468	(717,550)	(804,778)
Total stockholders' equity	1,405,593	1,325,540
Total liabilities and stockholders' equity	\$ 18,977,114	\$ 18,634,484

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Quarter Ended March 31,	
	2023	2022
(In thousands, except per share information)		
Interest and dividend income:		
Loans	\$ 210,636	\$ 173,787
Investment securities	27,110	23,247
Money market investments and interest-bearing cash accounts	4,650	820
Total interest and dividend income	<u>242,396</u>	<u>197,854</u>
Interest expense:		
Deposits	29,885	7,652
Securities sold under agreements to repurchase:		
Short-term	1,069	-
Long-term	-	2,182
Advances from the FHLB:		
Short-term	4,341	-
Long-term	2,835	1,063
Other long-term borrowings	3,381	1,333
Total interest expense	<u>41,511</u>	<u>12,230</u>
Net interest income	200,885	185,624
Provision for credit losses - expense (benefit):		
Loans and finance leases	16,256	(16,989)
Unfunded loan commitments	(105)	(178)
Debt securities	(649)	3,365
Provision for credit losses - expense (benefit)	<u>15,502</u>	<u>(13,802)</u>
Net interest income after provision for credit losses	<u>185,383</u>	<u>199,426</u>
Non-interest income:		
Service charges and fees on deposit accounts	9,541	9,363
Mortgage banking activities	2,812	5,206
Insurance commission income	4,847	5,275
Card and processing income	10,918	9,681
Other non-interest income	4,400	3,333
Total non-interest income	<u>32,518</u>	<u>32,858</u>
Non-interest expenses:		
Employees' compensation and benefits	56,422	49,554
Occupancy and equipment	21,186	22,386
Business promotion	3,975	3,463
Professional service fees	11,973	10,594
Taxes, other than income taxes	5,112	5,018
FDIC deposit insurance	2,133	1,673
Net gain on OREO operations	(1,996)	(720)
Credit and debit card processing expenses	5,318	4,121
Communications	2,216	2,151
Other non-interest expenses	8,929	8,419
Total non-interest expenses	<u>115,268</u>	<u>106,659</u>
Income before income taxes	<u>102,633</u>	<u>125,625</u>
Income tax expense	<u>31,935</u>	<u>43,025</u>
Net income	<u>\$ 70,698</u>	<u>\$ 82,600</u>
Net income attributable to common stockholders	<u>\$ 70,698</u>	<u>\$ 82,600</u>
Net income per common share:		
Basic	<u>\$ 0.39</u>	<u>\$ 0.42</u>
Diluted	<u>\$ 0.39</u>	<u>\$ 0.41</u>

The accompanying notes are an integral part of these statements.

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

	Quarter Ended March 31,	
	2023	2022
(In thousands)		
Net income	\$ 70,698	\$ 82,600
Other comprehensive income (loss), net of tax:		
Available-for-sale debt securities:		
Net unrealized holding gains (losses) on debt securities	87,228	(331,834)
Other comprehensive income (loss) for the period, net of tax	87,228	(331,834)
Total comprehensive income (loss)	\$ 157,926	\$ (249,234)

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Quarter Ended March 31,	
	2023	2022
(In thousands)		
Cash flows from operating activities:		
Net income	\$ 70,698	\$ 82,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,080	5,872
Amortization of intangible assets	2,045	2,286
Provision for credit losses - expense (benefit)	15,502	(13,802)
Deferred income tax expense	1,564	31,707
Stock-based compensation	2,075	1,182
Unrealized loss (gain) on derivative instruments	3	(618)
Net gain on disposals or sales, and impairments of premises and equipment and other assets	(8)	(26)
Net gain on sales of loans and valuation adjustments	(766)	(2,461)
Net amortization of discounts, premiums, and deferred loan fees and costs	283	(2,933)
Originations and purchases of loans held for sale	(38,500)	(86,802)
Sales and repayments of loans held for sale	34,836	93,739
Amortization of broker placement fees	44	35
Net amortization of premiums and discounts on investment securities	630	1,690
Decrease in accrued interest receivable	8,566	3,919
Increase (decrease) in accrued interest payable	3,752	(906)
(Increase) decrease in other assets	168	352
Increase (decrease) increase in other liabilities	9,443	(1,000)
Net cash provided by operating activities	<u>115,415</u>	<u>114,834</u>
Cash flows from investing activities:		
Net disbursements on loans held for investment	(71,193)	(48,370)
Proceeds from sales of loans held for investment	2,552	1,306
Proceeds from sales of repossessed assets	12,347	9,361
Purchases of available-for-sale debt securities	-	(497,327)
Proceeds from principal repayments and maturities of available-for-sale debt securities	113,218	208,397
Proceeds from principal repayments and maturities of held-to-maturity debt securities	6,652	400
Additions to premises and equipment	(1,689)	(6,764)
Proceeds from sales of premises and equipment and other assets	8	26
Net purchases of other investments securities	(11,360)	(21)
Net cash provided by (used in) investing activities	<u>50,535</u>	<u>(332,992)</u>
Cash flows from financing activities:		
Net decrease in deposits	(92,354)	(456,211)
Net proceeds from short-term borrowings	47,849	-
Repayments of long-term borrowings	-	(100,000)
Proceeds from long-term borrowings	300,000	-
Repurchase of outstanding common stock	(53,217)	(52,713)
Dividends paid on common stock	(25,132)	(19,727)
Net cash provided by (used in) financing activities	<u>177,146</u>	<u>(628,651)</u>
Net increase (decrease) in cash and cash equivalents	343,096	(846,809)
Cash and cash equivalents at beginning of year	480,505	2,543,058
Cash and cash equivalents at end of period	<u>\$ 823,601</u>	<u>\$ 1,696,249</u>
Cash and cash equivalents include:		
Cash and due from banks	\$ 822,542	\$ 1,694,066
Money market investments	1,059	2,183
	<u>\$ 823,601</u>	<u>\$ 1,696,249</u>

The accompanying notes are an integral part of these statements.

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

	Quarter Ended March 31,	
	2023	2022
(In thousands, except per share information)		
Common Stock	\$ 22,366	\$ 22,366
Additional Paid-In Capital:		
Balance at beginning of period	970,722	972,547
Stock-based compensation expense	2,075	1,182
Common stock reissued under stock-based compensation plan	(13,139)	(6,980)
Restricted stock forfeited	254	22
Balance at end of period	959,912	966,771
Retained Earnings:		
Balance at beginning of period	1,644,209	1,427,295
Impact of adoption of Accounting Standards Update ("ASU") 2022-02 (See Note 1)	(1,357)	-
Net income	70,698	82,600
Dividends on common stock (2023 - \$0.14 per share; 2022 - \$0.10 per share)	(25,374)	(19,900)
Balance at end of period	1,688,176	1,489,995
Treasury Stock (at cost) (See Note 1):		
Balance at beginning of period	(506,979)	(236,442)
Common stock repurchases (See Note 14)	(53,217)	(52,713)
Common stock reissued under stock-based compensation plan	13,139	6,980
Restricted stock forfeited	(254)	(22)
Balance at end of period	(547,311)	(282,197)
Accumulated Other Comprehensive Loss, net of tax:		
Balance at beginning of period	(804,778)	(83,999)
Other comprehensive income (loss), net of tax	87,228	(331,834)
Balance at end of period	(717,550)	(415,833)
Total stockholders' equity	\$ 1,405,593	\$ 1,781,102

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
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NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements (unaudited) for the quarter ended March 31, 2023 (the “unaudited consolidated financial statements”) of First BanCorp. (the “Corporation”) have been prepared in conformity with the accounting policies stated in the Corporation’s Audited Consolidated Financial Statements for the fiscal year ended December 31, 2022 (the “audited consolidated financial statements”) included in the 2022 Annual Report on Form 10-K, as updated by the information contained in this report. 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, which are included in the 2022 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, 2023 are not necessarily indicative of the results to be expected for the entire year.

Adoption of New Accounting Requirements

Accounting Standards Update (“ASU”) 2022-02, “Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures”

Effective January 1, 2023, the Corporation adopted ASU 2022-02, which removed the existing measurement and disclosure requirements for Troubled Debt Restructured (“TDR”) loans, added additional disclosure requirements related to modifications provided to borrowers experiencing financial difficulty regardless of whether the refinancing is accounted for as a new loan, and amends the guidance on vintage disclosures to require disclosure of gross charge-offs by year of origination. Prior to adoption, a change in contractual terms of a loan where a borrower was experiencing financial difficulty and received a concession not available through other sources was required to be disclosed as a TDR, whereas now a borrower that is experiencing financial difficulty and there has been a direct change to the timing or amount of contractual cash flows in the form of principal forgiveness, interest rate reduction, an other-than-insignificant payment delay, a term extension, or any combination of these types of loan modifications in the current period needs to be disclosed. ASU 2022-02 did not amend the definition of financial difficulty.

Modifications of receivables are within the scope of ASU 2022-02 if they are accounted for in accordance with Accounting Standards Codification (“ASC”) 310-20. As such, finance leases are not within the scope of ASU 2022-02. Such modifications are evaluated following the requirements in ASC 310-20 to determine whether they should be accounted for as a new loan or a continuation of the existing loan.

ASU 2022-02 also eliminated the requirement to use a discounted cash flow method for TDRs for the determination of the ACL, and allows the option of a non-discounted cash flow portfolio-based approach for modified loans to borrowers experiencing financial difficulties.

The Corporation elected to apply a non-discounted cash flow, portfolio-based ACL approach for modified loans to borrowers experiencing financial difficulties for all portfolios, using a modified retrospective transition method. The adoption resulted in a net increase to the ACL of approximately \$2.1 million and a decrease to retained earnings of approximately \$1.3 million, after tax, predominantly driven by residential mortgage loans. The amount of defined modifications given to borrowers experiencing financial difficulty is disclosed in Note 3 – Loans Held for Investment, along with the financial impact of those modifications.

The Corporation was not impacted by the adoption of the following ASUs during the first quarter of 2023:

- ASU 2022-01, “Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method”
- ASU 2021-08, “Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities From Contracts With Customers”

Recently Issued Accounting Standards Not Yet Effective or Not Yet Adopted

Standard	Description	Effective Date	Effect on the financial statements
ASU 2023-02, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method"	In March 2023, the FASB issued ASU 2023-02 which, among other things, allows tax equity investments, regardless of the tax credit program from which the income tax credits are received, to be accounted for using the proportional amortization method if certain conditions are met and requires specific disclosures of such investments. The election needs to be made on a tax-credit-program-by-tax-credit-program basis.	January 1, 2024. Early adoption is permitted in any interim period.	The Corporation does not expect to be impacted by the amendments of this ASU since it does not hold tax equity investments.
ASU 2023-01, "Leases (Topic 842): Common Control Arrangements"	In March 2023, the FASB issued ASU 2023-01 which, among other things, generally requires a lessee in a common-control lease arrangement to amortize leasehold improvements over the useful life regardless of the lease term, subject to certain exceptions. In addition, a lessee that no longer controls the use of the underlying asset will account for the transfer of the underlying asset as an adjustment to equity.	January 1, 2024. Early adoption is permitted for both interim and annual financial statements that have not yet been made available for issuance.	The Corporation is evaluating the impact that this ASU will have on its financial statements. The Corporation does not expect to be materially impacted by the adoption of this ASU during the first quarter of 2024.

For other issued accounting standards not yet effective or not yet adopted, see Note 1 – Nature of Business and Summary of Significant Accounting Policies, to the audited consolidated financial statements included in the 2022 Annual Report on Form 10-K.

NOTE 2 – DEBT SECURITIES

Available-for-Sale Debt Securities

The amortized cost, gross unrealized gains and losses, ACL, estimated fair value, and weighted-average yield of available-for-sale debt securities by contractual maturities as of March 31, 2023 were as follows:

	March 31, 2023					
	Amortized cost (1)	Gross Unrealized		ACL	Fair value	Weighted-average yield%
		Gains	Losses			
(Dollars in thousands)						
U.S. Treasury securities:						
Due within one year	\$ 27,744	\$ -	\$ 890	\$ -	\$ 26,854	0.61
After 1 to 5 years	120,916	-	7,348	-	113,568	0.69
U.S. government-sponsored entities (“GSEs”) obligations:						
Due within one year	189,174	-	5,100	-	184,074	0.42
After 1 to 5 years	2,349,522	22	190,986	-	2,158,558	0.84
After 5 to 10 years	41,916	8	4,998	-	36,926	1.64
After 10 years	11,625	27	-	-	11,652	5.15
Puerto Rico government obligations:						
After 10 years (2)	3,302	-	733	366	2,203	-
United States and Puerto Rico government obligations	2,744,199	57	210,055	366	2,533,835	0.83
Mortgage-backed securities (“MBS”):						
Residential MBS:						
Freddie Mac (“FHLMC”) certificates:						
After 1 to 5 years	10,023	-	454	-	9,569	1.98
After 5 to 10 years	187,007	-	15,912	-	171,095	1.56
After 10 years	1,068,680	-	170,021	-	898,659	1.41
	1,265,710	-	186,387	-	1,079,323	1.44
Ginnie Mae (“GNMA”) certificates:						
Due within one year	3	-	-	-	3	2.42
After 1 to 5 years	23,293	-	1,253	-	22,040	1.31
After 5 to 10 years	33,939	-	2,720	-	31,219	1.69
After 10 years	225,680	119	24,080	-	201,719	2.58
	282,915	119	28,053	-	254,981	2.37
Fannie Mae (“FNMA”) certificates:						
After 1 to 5 years	24,446	-	1,249	-	23,197	1.72
After 5 to 10 years	353,397	-	28,963	-	324,434	1.74
After 10 years	1,133,757	104	168,025	-	965,836	1.37
	1,511,600	104	198,237	-	1,313,467	1.47
Collateralized mortgage obligations issued or guaranteed by the FHLMC, FNMA and GNMA (“CMOs”):						
After 10 years	296,022	-	52,540	-	243,482	1.49
Private label:						
After 10 years	7,695	-	2,210	83	5,402	7.25
Total Residential MBS	3,363,942	223	467,427	83	2,896,655	1.55
Commercial MBS:						
After 1 to 5 years	27,584	7	4,551	-	23,040	2.27
After 5 to 10 years	44,584	-	4,929	-	39,655	1.90
After 10 years	120,387	-	24,316	-	96,071	1.23
Total Commercial MBS	192,555	7	33,796	-	158,766	1.53
Total MBS	3,556,497	230	501,223	83	3,055,421	1.54
Total available-for-sale debt securities	\$ 6,300,696	\$ 287	\$ 711,278	\$ 449	\$ 5,589,256	1.23

(1) Excludes accrued interest receivable on available-for-sale debt securities that totaled \$10.7 million as of March 31, 2023 reported as part of accrued interest receivable on loans and investment securities in the consolidated statements of financial condition, and excluded from the estimate of credit losses.

(2) Consists of a residential pass-through MBS issued by the Puerto Rico Housing Finance Authority (“PRHFA”) that is collateralized by certain second mortgages originated under a program launched by the Puerto Rico government in 2010 and is in nonaccrual status based on the delinquency status of the underlying second mortgage loans collateral.

The amortized cost, gross unrealized gains and losses, ACL, estimated fair value, and weighted-average yield of available-for-sale debt securities by contractual maturities as of December 31, 2022 were as follows:

	December 31, 2022					
	Amortized cost ⁽¹⁾	Gross Unrealized		ACL	Fair value	Weighted-average yield%
		Gains	Losses			
(Dollars in thousands)						
U.S. Treasury securities:						
Due within one year	\$ 7,493	\$ -	\$ 309	\$ -	\$ 7,184	0.22
After 1 to 5 years	141,366	-	9,675	-	131,691	0.70
U.S. GSEs' obligations:						
Due within one year	129,018	-	4,036	-	124,982	0.32
After 1 to 5 years	2,395,273	22	227,724	-	2,167,571	0.83
After 5 to 10 years	56,251	13	7,670	-	48,594	1.54
After 10 years	12,170	36	-	-	12,206	4.62
Puerto Rico government obligations:						
After 10 years ⁽²⁾	3,331	-	755	375	2,201	-
United States and Puerto Rico government obligations	2,744,902	71	250,169	375	2,494,429	0.83
MBS:						
Residential MBS:						
FHLMC certificates:						
After 1 to 5 years	4,235	-	169	-	4,066	2.33
After 5 to 10 years	201,072	-	18,709	-	182,363	1.55
After 10 years	1,092,289	-	186,558	-	905,731	1.38
	1,297,596	-	205,436	-	1,092,160	1.41
GNMA certificates:						
Due within one year	5	-	-	-	5	1.73
After 1 to 5 years	15,508	-	622	-	14,886	2.00
After 5 to 10 years	45,322	1	3,809	-	41,514	1.31
After 10 years	232,632	51	27,169	-	205,514	2.47
	293,467	52	31,600	-	261,919	2.27
FNMA certificates:						
After 1 to 5 years	9,685	-	521	-	9,164	1.76
After 5 to 10 years	358,346	-	31,620	-	326,726	1.68
After 10 years	1,186,635	124	186,757	-	1,000,002	1.38
	1,554,666	124	218,898	-	1,335,892	1.45
CMOs:						
After 10 years	302,232	-	56,539	-	245,693	1.44
Private label:						
After 10 years	7,903	-	2,026	83	5,794	6.83
Total Residential MBS	3,455,864	176	514,499	83	2,941,458	1.52
Commercial MBS:						
After 1 to 5 years	30,578	-	4,463	-	26,115	2.43
After 5 to 10 years	44,889	-	5,603	-	39,286	1.89
After 10 years	121,464	-	23,732	-	97,732	1.23
Total Commercial MBS	196,931	-	33,798	-	163,133	1.56
Total MBS	3,652,795	176	548,297	83	3,104,591	1.52
Other						
Due within one year	500	-	-	-	500	0.84
Total available-for-sale debt securities	\$ 6,398,197	\$ 247	\$ 798,466	458	\$ 5,599,520	1.22

(1) Excludes accrued interest receivable on available-for-sale debt securities that totaled \$11.1 million as of December 31, 2022 reported as part of accrued interest receivable on loans and investment securities in the consolidated statements of financial condition, and excluded from the estimate of credit losses.

(2) Consists of a residential pass-through MBS issued by the PRHFA that is collateralized by certain second mortgages originated under a program launched by the Puerto Rico government in 2010 and is in nonaccrual status based on the delinquency status of the underlying second mortgage loans collateral.

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

The following tables present the fair value and gross unrealized losses of the Corporation's available-for-sale debt securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2023 and December 31, 2022. The tables also include debt securities for which an ACL was recorded.

	As of March 31, 2023					
	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:						
U.S. Treasury and U.S. GSEs' obligations	\$ 17,615	\$ 611	\$ 2,496,925	\$ 208,711	\$ 2,514,540	\$ 209,322
Puerto Rico government obligations	-	-	2,203	733 (1)	2,203	733
MBS:						
Residential MBS:						
FHLMC	21,354	710	1,057,950	185,677	1,079,304	186,387
GNMA	45,949	868	197,581	27,185	243,530	28,053
FNMA	41,186	1,741	1,262,700	196,496	1,303,886	198,237
CMOs	10,596	117	232,886	52,423	243,482	52,540
Private label	-	-	5,402	2,210 (1)	5,402	2,210
Commercial MBS	3,833	220	148,640	33,576	152,473	33,796
	<u>\$ 140,533</u>	<u>\$ 4,267</u>	<u>\$ 5,404,287</u>	<u>\$ 707,011</u>	<u>\$ 5,544,820</u>	<u>\$ 711,278</u>

(1) Unrealized losses do not include the credit loss component recorded as part of the ACL. As of March 31, 2023, the PRHFA bond and private label MBS had an ACL of \$0.4 million and \$0.1 million, respectively.

	As of December 31, 2022					
	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:						
U.S. Treasury and U.S. GSEs' obligations	\$ 298,313	\$ 18,057	\$ 2,174,724	\$ 231,357	\$ 2,473,037	\$ 249,414
Puerto Rico government obligations	-	-	2,201	755 (1)	2,201	755
MBS:						
Residential MBS:						
FHLMC	260,524	45,424	831,637	160,012	1,092,161	205,436
GNMA	74,829	3,433	179,854	28,167	254,683	31,600
FNMA	405,977	49,479	920,200	169,419	1,326,177	218,898
CMOs	45,370	6,735	200,323	49,804	245,693	56,539
Private label	-	-	5,794	2,026 (1)	5,794	2,026
Commercial MBS	30,179	2,215	132,953	31,583	163,132	33,798
	<u>\$ 1,115,192</u>	<u>\$ 125,343</u>	<u>\$ 4,447,686</u>	<u>\$ 673,123</u>	<u>\$ 5,562,878</u>	<u>\$ 798,466</u>

(1) Unrealized losses do not include the credit loss component recorded as part of the ACL. As of December 31, 2022, the PRHFA bond and private label MBS had an ACL of \$0.4 million and \$0.1 million, respectively.

Assessment for Credit Losses

Debt securities issued by U.S. government agencies, U.S. GSEs, and the U.S. Treasury, including notes and MBS, accounted for substantially all of the total available-for-sale portfolio as of March 31, 2023, and the Corporation expects no credit losses on these securities, given the explicit and implicit guarantees provided by the U.S. federal government. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Corporation does not have the intent to sell these U.S. government and agencies debt securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Corporation does not consider impairments on these securities to be credit related as of March 31, 2023. The Corporation's credit loss 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's available-for-sale MBS portfolio included private label MBS with a fair value of \$5.4 million, which had unrealized losses of approximately \$2.3 million as of March 31, 2023, of which \$0.1 million is due to credit deterioration and is part of the ACL. 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. Following the provisions of the Adjustable Interest Rate Act (the "LIBOR Act") and Regulation ZZ, the LIBOR reference on these contracts will automatically transition by operation of law to 3-month CME Term Secured Overnight Financing Rate ("SOFR"), plus a spread adjustment of 0.26161% on the first reset date after U.S. dollar ("USD") LIBOR ceases publication in June 2023. The underlying collateral is fixed-rate, single-family residential mortgage loans in the United States with original FICO scores over 700 and moderate loan-to-value ratios (under 80%), as well as moderate delinquency levels. As of March 31, 2023, the Corporation did not have the intent to sell these securities and determined that it is likely that it will not be required to sell the securities before anticipated recovery. The Corporation determined the ACL for private label MBS based on a risk-adjusted discounted cash flow methodology that considers the structure and terms of the instruments. The Corporation utilized probability of default ("PDs") and loss given default ("LGDs") that considered, among other things, historical payment performance, loan-to-value attributes, and relevant current and forward-looking macroeconomic variables, such as regional unemployment rates and the housing price index. Under this approach, expected cash flows (interest and principal) were discounted at the Treasury yield curve as of the reporting date. Significant assumptions in the valuation of the private label MBS were as follows:

	As of March 31, 2023			As of December 31, 2022		
	Weighted Average	Range Minimum Maximum		Weighted Average	Range Minimum Maximum	
Discount rate	16.0%	16.0%	16.0%	16.2%	16.2%	16.2%
Prepayment rate	9.2%	1.6%	12.6%	11.8%	1.5%	15.2%
Projected cumulative loss rate	5.2%	0.2%	14.9%	5.6%	0.3%	15.6%

The Corporation evaluates if a credit loss exists, primarily by monitoring adverse variances in the present value of expected cash flows. As of each of March 31, 2023 and December 31, 2022, the ACL for these private label MBS was \$ 0.1 million.

As of March 31, 2023, the Corporation's available-for-sale debt securities portfolio also included a residential pass-through MBS issued by the PRHFA, collateralized by certain second mortgages, with a fair value of \$2.2 million, which had an unrealized loss of approximately \$1.1 million. Approximately \$0.4 million of the unrealized losses was due to credit deterioration and is part of the ACL. The underlying second mortgage loans were originated under a program launched by the Puerto Rico government in 2010. This residential pass-through MBS was structured as a zero-coupon bond for the first ten years (until July 2019). The underlying source of repayment on this residential pass-through MBS are second mortgage loans in Puerto Rico. PRHFA, not the Puerto Rico government, provides a guarantee in the event of default and subsequent foreclosure of the properties underlying the second mortgage loans. During 2021, the Corporation placed this instrument in nonaccrual status based on the delinquency status of the underlying second mortgage loans collateral. The Corporation determined the ACL on this instrument based on a discounted cash flow methodology that considered the structure and terms of the debt security. The Corporation utilized PDs and LGDs that considered, among other things, historical payment performance, loan-to-value attributes, and relevant current and forward-looking macroeconomic variables, such as regional unemployment rates, the housing price index, and expected recovery from the PRHFA guarantee. Under this approach, expected cash flows (interest and principal) were discounted at the Treasury yield curve plus a spread as of the reporting date and compared to the amortized cost. In the event that the second mortgage loans default and the collateral is insufficient to satisfy the outstanding balance of this residential pass-through MBS, PRHFA's ability to honor its insurance will depend on, among other factors, the financial condition of PRHFA at the time such obligation becomes due and payable. Deterioration of the Puerto Rico economy or fiscal health of the PRHFA could impact the value of these securities, resulting in additional losses to the Corporation. As of March 31, 2023, the Corporation did not have the intent to sell this security and determined that it was likely that it will not be required to sell the security before its anticipated recovery.

The following tables present a roll-forward by major security type for the quarters ended March 31, 2023 and 2022 of the ACL on available-for-sale debt securities:

	Quarter Ended March 31, 2023		
	Private label MBS	Puerto Rico Government Obligations	Total
(In thousands)			
Beginning balance	\$ 83	\$ 375	\$ 458
Provision for credit losses - benefit	-	(9)	(9)
ACL on available-for-sale debt securities	<u>\$ 83</u>	<u>\$ 366</u>	<u>\$ 449</u>

	Quarter Ended March 31, 2022		
	Private label MBS	Puerto Rico Government Obligations	Total
(In thousands)			
Beginning balance	\$ 797	\$ 308	\$ 1,105
Provision for credit losses - benefit	(388)	-	(388)
Net charge-offs	(6)	-	(6)
ACL on available-for-sale debt securities	<u>\$ 403</u>	<u>\$ 308</u>	<u>\$ 711</u>

Held-to-Maturity Debt Securities

The amortized cost, gross unrecognized gains and losses, estimated fair value, ACL, weighted-average yield and contractual maturities of held-to-maturity debt securities as of March 31, 2023 and December 31, 2022 were as follows :

	March 31, 2023					
	Amortized cost (1)	Gross Unrecognized		Fair value	ACL	Weighted-average yield%
		Gains	Losses			
(Dollars in thousands)						
Puerto Rico municipal bonds:						
Due within one year	\$ 1,204	\$ -	\$ 10	\$ 1,194	\$ 24	5.70
After 1 to 5 years	42,633	679	1,001	42,311	659	6.74
After 5 to 10 years	55,940	1,482	603	56,819	2,918	7.10
After 10 years	66,023	-	1,804	64,219	4,045	8.12
Total Puerto Rico municipal bonds	165,800	2,161	3,418	164,543	7,646	7.40
MBS:						
Residential MBS:						
FHLMC certificates:						
After 5 to 10 years	\$ 20,129	\$ -	\$ 762	\$ 19,367	\$ -	3.03
After 10 years	19,176	-	596	18,580	-	4.30
	39,305	-	1,358	37,947	-	3.65
GNMA certificates:						
After 10 years	18,502	-	795	17,707	-	3.31
FNMA certificates:						
After 10 years	71,258	-	2,190	69,068	-	4.16
CMOs:						
After 10 years	32,522	-	1,154	31,368	-	3.49
Total Residential MBS	161,587	-	5,497	156,090	-	3.81
Commercial MBS:						
After 1 to 5 years	9,576	-	348	9,228	-	3.48
After 10 years	94,432	-	4,541	89,891	-	3.15
Total Commercial MBS	104,008	-	4,889	99,119	-	3.18
Total MBS	265,595	-	10,386	255,209	-	3.56
Total held-to-maturity debt securities	\$ 431,395	\$ 2,161	\$ 13,804	\$ 419,752	\$ 7,646	5.04

(1) Excludes accrued interest receivable on held-to-maturity debt securities that totaled \$3.7 million as of March 31, 2023, was reported as part of accrued interest receivable on loans and investment securities in the consolidated statements of financial condition, and is excluded from the estimate of credit losses.

December 31, 2022

	Amortized cost ⁽¹⁾	Gross Unrecognized		Fair value	ACL	Weighted-average yield%
		Gains	Losses			
(Dollars in thousands)						
Puerto Rico municipal bonds:						
Due within one year	\$ 1,202	\$ -	\$ 15	\$ 1,187	\$ 2	5.20
After 1 to 5 years	42,530	886	1,076	42,340	656	6.34
After 5 to 10 years	55,956	3,182	360	58,778	3,243	6.29
After 10 years	66,022	-	1,318	64,704	4,385	7.10
Total held-to-maturity debt securities	\$ 165,710	\$ 4,068	\$ 2,769	\$ 167,009	\$ 8,286	6.62
MBS:						
Residential MBS:						
FHLMC certificates:						
After 5 to 10 years	\$ 21,443	\$ -	\$ 746	\$ 20,697	\$ -	3.03
After 10 years	19,362	-	888	18,474	-	4.21
	40,805	-	1,634	39,171	-	3.59
GNMA certificates:						
After 10 years	19,131	-	943	18,188	-	3.35
FNMA certificates:						
After 10 years	72,347	-	3,155	69,192	-	4.14
CMOs:						
After 10 years	34,456	-	1,424	33,032	-	3.49
Total Residential MBS	166,739	-	7,156	159,583	-	3.78
Commercial MBS:						
After 1 to 5 years	9,621	-	396	9,225	-	3.48
After 10 years	95,467	-	4,169	91,298	-	3.15
Total Commercial MBS	105,088	-	4,565	100,523	-	3.18
Total MBS	271,827	-	11,721	260,106	-	3.55
Total held-to-maturity debt securities	\$ 437,537	\$ 4,068	\$ 14,490	\$ 427,115	\$ 8,286	4.71

(1) Excludes accrued interest receivable on held-to-maturity debt securities that totaled \$5.5 million as of December 31, 2022, was reported as part of accrued interest receivable on loans and investment securities in the consolidated statements of financial condition, and is excluded from the estimate of credit losses.

The following tables present the Corporation's held-to-maturity debt securities' fair value and gross unrecognized losses, aggregated by category and length of time that individual securities had been in a continuous unrecognized loss position, as of March 31, 2023 and December 31, 2022, including debt securities for which an ACL was recorded:

	As of March 31, 2023					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
(In thousands)						
Debt securities:						
Puerto Rico municipal bonds	\$ -	\$ -	\$ 108,266	\$ 3,418	\$ 108,266	\$ 3,418
MBS:						
Residential MBS:						
FHLMC certificates	37,947	1,358	-	-	37,947	1,358
GNMA certificates	17,707	795	-	-	17,707	795
FNMA certificates	69,068	2,190	-	-	69,068	2,190
CMOs	31,368	1,154	-	-	31,368	1,154
Commercial MBS	99,119	4,889	-	-	99,119	4,889
Total held-to-maturity debt securities	\$ 255,209	\$ 10,386	\$ 108,266	\$ 3,418	\$ 363,475	\$ 13,804

	As of December 31, 2022					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
(In thousands)						
Debt securities:						
Puerto Rico municipal bonds	\$ -	\$ -	\$ 98,797	\$ 2,769	\$ 98,797	\$ 2,769
MBS:						
Residential MBS:						
FHLMC certificates	39,171	1,634	-	-	39,171	1,634
GNMA certificates	18,188	943	-	-	18,188	943
FNMA certificates	69,192	3,155	-	-	69,192	3,155
CMOs	33,032	1,424	-	-	33,032	1,424
Commercial MBS	100,523	4,565	-	-	100,523	4,565
Total held-to-maturity debt securities	\$ 260,106	\$ 11,721	\$ 98,797	\$ 2,769	\$ 358,903	\$ 14,490

The Corporation classifies the held-to-maturity debt securities portfolio into the following major security types: MBS issued by GSEs and Puerto Rico municipal bonds. As of March 31, 2023, all of the MBS included in the held-to-maturity debt securities portfolio were issued by GSEs. The Corporation does not recognize an ACL for these securities since they are highly rated by major rating agencies and have a long history of no credit losses. In the case of Puerto Rico municipal bonds, the Corporation determines the ACL based on the product of a cumulative PD and LGD, and the amortized cost basis of the bonds over their remaining expected life as described in Note 1 – Nature of Business and Summary of Significant Accounting Policies, to the audited consolidated financial statements included in the 2022 Annual Report on Form 10-K.

The Corporation performs periodic credit quality reviews on these issuers. All of the Puerto Rico municipal bonds were current as to scheduled contractual payments as of March 31, 2023. A security is considered to be past due once it is 30 days contractually past due under the terms of the agreement. The Puerto Rico municipal bonds had an ACL of \$ 7.6 million as of March 31, 2023, compared to \$8.3 million as of December 31, 2022, mostly related to a reduction in qualitative reserves driven by updated financial information of certain bond issuers received during the first quarter of 2023.

The following table presents the activity in the ACL for held-to-maturity debt securities by major security type for the quarters ended March 31, 2023 and 2022:

	Puerto Rico Municipal Bonds	
	Quarter Ended	
(In thousands)	March 31, 2023	March 31, 2022
Beginning Balance	\$ 8,286	\$ 8,571
Provision for credit losses - (benefit) expense	(640)	3,753
ACL on held-to-maturity debt securities	<u>\$ 7,646</u>	<u>\$ 12,324</u>

During the second quarter of 2019, the oversight board established by PROMESA announced the designation of Puerto Rico’s 78 municipalities as covered instrumentalities under PROMESA. Municipalities may 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 situation, or measures included in its fiscal plan or fiscal plans of other government entities. Given the inherent uncertainties about the fiscal situation of the Puerto Rico central government, the COVID-19 pandemic, and the measures taken, or to be taken, by other government entities in response to economic and fiscal challenges on municipalities, the Corporation cannot be certain whether future charges to the ACL on these securities will be required.

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 March 31, 2023 and December 31, 2022, the Corporation had no outstanding securities held to maturity that were classified as cash and cash equivalents.

Credit Quality Indicators:

The held-to-maturity debt securities portfolio consisted of GSEs' MBS and financing arrangements with Puerto Rico municipalities issued in bond form. As previously mentioned, the Corporation expects no credit losses on GSEs MBS. The Puerto Rico municipal bonds are accounted for as securities but are underwritten as loans with features that are typically found in commercial loans. Accordingly, the Corporation monitors the credit quality of these municipal bonds through the use of internal credit-risk ratings, which are generally updated on a quarterly basis. The Corporation considers a municipal bond as a criticized asset if its risk rating is Special Mention, Substandard, Doubtful, or Loss. Puerto Rico municipal bonds that do not meet the criteria for classification as criticized assets are considered to be Pass-rated securities. For the definitions of the internal credit-risk ratings, see Note 3 – Debt Securities, to the audited consolidated financial statements included in the 2022 Annual Report on Form 10-K.

The Corporation periodically reviews its Puerto Rico municipal bonds to evaluate if they are properly classified, and to measure credit losses on these securities. The frequency of these reviews will depend on the amount of the aggregate outstanding debt, and the risk rating classification of the obligor.

The Corporation has a Loan Review Group that reports directly to the Corporation's Risk Management Committee and administratively to the Chief Risk Officer. The Loan Review Group performs annual comprehensive credit process reviews of the Bank's commercial loan portfolios, including the above-mentioned Puerto Rico municipal bonds accounted for as held-to-maturity debt securities. The objective of these loan reviews is to assess accuracy of the Bank's determination and maintenance of loan risk rating and its adherence to lending policies, practices and procedures. The monitoring performed by this group contributes to the assessment of compliance with credit policies and underwriting standards, the determination of the current level of credit risk, the evaluation of the effectiveness of the credit management process, and the identification of any deficiency that may arise in the credit-granting process. Based on its findings, the Loan Review Group recommends corrective actions, if necessary, that help in maintaining a sound credit process. The Loan Review Group reports the results of the credit process reviews to the Risk Management Committee.

As of March 31, 2023 and December 31, 2022, all Puerto Rico municipal bonds classified as held-to-maturity were classified as Pass.

NOTE 3 – LOANS HELD FOR INVESTMENT

The following table provides information about the loan portfolio held for investment by portfolio segment and disaggregated by geographic locations as of the indicated dates:

(In thousands)	As of March 31, 2023	As of December 31, 2022
Puerto Rico and Virgin Islands region:		
Residential mortgage loans, mainly secured by first mortgages	\$ 2,381,782	\$ 2,417,900
Construction loans	48,195	34,772
Commercial mortgage loans	1,829,173	1,834,204
Commercial and Industrial ("C&I") loans	1,941,228	1,860,109
Consumer loans	3,398,245	3,317,489
Loans held for investment	\$ 9,598,623	\$ 9,464,474
Florida region:		
Residential mortgage loans, mainly secured by first mortgages	\$ 429,746	\$ 429,390
Construction loans	95,469	98,181
Commercial mortgage loans	524,486	524,647
C&I loans	920,961	1,026,154
Consumer loans	8,700	9,979
Loans held for investment	\$ 1,979,362	\$ 2,088,351
Total:		
Residential mortgage loans, mainly secured by first mortgages	\$ 2,811,528	\$ 2,847,290
Construction loans	143,664	132,953
Commercial mortgage loans	2,353,659	2,358,851
C&I loans ⁽¹⁾	2,862,189	2,886,263
Consumer loans	3,406,945	3,327,468
Loans held for investment ⁽²⁾	11,577,985	11,552,825
ACL on loans and finance leases	(265,567)	(260,464)
Loans held for investment, net	\$ 11,312,418	\$ 11,292,361

(1) As of March 31, 2023 and December 31, 2022, includes \$837.8 million and \$838.5 million, respectively, of commercial loans that were secured by real estate and the primary source of repayment at origination was not dependent upon the real estate.

(2) Includes accretable fair value net purchase discounts of \$28.3 million and \$29.3 million as of March 31, 2023 and December 31, 2022, respectively.

The Corporation's aging of the loan portfolio held for investment, as well as information about nonaccrual loans with no ACL, by portfolio classes as of March 31, 2023 and December 31, 2022 are as follows:

As of March 31, 2023	Days Past Due and Accruing				Nonaccrual (4)	Total loans held for investment	Nonaccrual Loans with no ACL (5)
	Current	30-59	60-89	90+ (1)(2)(3)			
(In thousands)							
Residential mortgage loans, mainly secured by first mortgages:							
FHA/VA government-guaranteed loans (1)(3)(6)	\$ 67,977	\$ -	\$ 1,869	\$ 41,723	\$ -	\$ 111,569	\$ -
Conventional residential mortgage loans (2)(6)	2,626,542	-	23,367	13,640	36,410	2,699,959	2,250
Commercial loans:							
Construction loans	141,870	-	-	-	1,794	143,664	972
Commercial mortgage loans (2)(6)	2,323,116	509	507	7,929	21,598	2,353,659	15,787
C&I loans	2,840,568	1,438	424	6,355	13,404	2,862,189	1,858
Consumer loans:							
Auto loans	1,780,593	34,754	6,380	-	11,138	1,832,865	3,342
Finance leases	743,656	8,056	1,562	-	2,208	755,482	344
Personal loans	353,214	4,160	2,098	-	1,263	360,735	-
Credit cards	299,387	3,989	2,518	4,733	-	310,627	-
Other consumer loans	143,035	1,916	958	-	1,327	147,236	21
Total loans held for investment	\$ 11,319,958	\$ 54,822	\$ 39,683	\$ 74,380	\$ 89,142	\$ 11,577,985	\$ 24,574

- (1) It is the Corporation's policy to report delinquent Federal Housing Authority ("FHA")/Veterans Affairs ("VA") government-guaranteed residential mortgage loans as past-due loans 90 days and still accruing as opposed to nonaccrual loans. The Corporation continues accruing interest on these loans until they have passed the 15 months delinquency mark, taking into consideration the FHA interest curtailment process. These balances include \$25.9 million of residential mortgage loans guaranteed by the FHA that were over 15 months delinquent.
- (2) Includes purchased credit deteriorated ("PCD") loans previously accounted for under ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality" ("ASC Subtopic 310-30") for which the Corporation made the accounting policy election of maintaining pools of loans as "units of account" both at the time of adoption of CECL on January 1, 2020 and on an ongoing basis for credit loss measurement. These loans will continue to be excluded from nonaccrual loan statistics as long as the Corporation can reasonably estimate the timing and amount of cash flows expected to be collected on the loan pools. The portion of such loans contractually past due 90 days or more, amounting to \$10.4 million as of March 31, 2023 (\$9.4 million conventional residential mortgage loans and \$1.0 million commercial mortgage loans), is presented in the loans past due 90 days or more and still accruing category in the table above.
- (3) Include rebooked loans, which were previously pooled into GNMA securities, amounting to \$7.1 million as of March 31, 2023. Under the GNMA program, the Corporation has the option but not the obligation to repurchase loans that meet GNMA's specified delinquency criteria. For accounting purposes, these loans subject to the repurchase option are required to be reflected on the financial statements with an offsetting liability.
- (4) Nonaccrual loans in the Florida region amounted to \$15.2 million as of March 31, 2023, primarily nonaccrual residential mortgage loans and C&I loans.
- (5) Includes \$0.3 million of nonaccrual C&I loans with no ACL in the Florida region as of March 31, 2023.
- (6) 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, conventional residential mortgage loans, and commercial mortgage loans past due 30-59 days, but less than two payments in arrears, as of March 31, 2023 amounted to \$5.3 million, \$60.7 million, and \$1.1 million, respectively.

As of December 31, 2022

	Days Past Due and Accruing				Nonaccrual (4)	Total loans held for investment	Nonaccrual Loans with no ACL (5)
	Current	30-59	60-89	90+ (1)(2)(3)			
(In thousands)							
Residential mortgage loans, mainly secured by first mortgages:							
FHA/VA government-guaranteed loans (1)(3)(6)	\$ 67,116	\$ -	\$ 2,586	\$ 48,456	\$ -	\$ 118,158	\$ -
Conventional residential mortgage loans (2)(6)	2,643,909	-	25,630	16,821	42,772	2,729,132	2,292
Commercial loans:							
Construction loans	130,617	-	-	128	2,208	132,953	977
Commercial mortgage loans (2)(6)	2,330,094	300	2,367	3,771	22,319	2,358,851	15,991
C&I loans	2,868,989	1,984	1,128	6,332	7,830	2,886,263	3,300
Consumer loans:							
Auto loans	1,740,271	40,039	7,089	-	10,672	1,798,071	2,136
Finance leases	707,646	7,148	1,791	-	1,645	718,230	330
Personal loans	346,366	3,738	1,894	-	1,248	353,246	-
Credit cards	301,013	3,705	2,238	4,775	-	311,731	-
Other consumer loans	141,687	1,804	1,458	-	1,241	146,190	-
Total loans held for investment	\$ 11,277,708	\$ 58,718	\$ 46,181	\$ 80,283	\$ 89,935	\$ 11,552,825	\$ 25,026

- (1) It is the Corporation's policy to report delinquent FHA/VA government-guaranteed residential mortgage loans as past-due loans 90 days and still accruing as opposed to nonaccrual loans. The Corporation continues accruing interest on these loans until they have passed the 15 months delinquency mark, taking into consideration the FHA interest curtailment process. These balances include \$28.2 million of residential mortgage loans guaranteed by the FHA that were over 15 months delinquent.
- (2) Includes PCD loans previously accounted for under ASC Subtopic 310-30 for which the Corporation made the accounting policy election of maintaining pools of loans as "units of account" both at the time of adoption of CECL on January 1, 2020 and on an ongoing basis for credit loss measurement. These loans will continue to be excluded from nonaccrual loan statistics as long as the Corporation can reasonably estimate the timing and amount of cash flows expected to be collected on the loan pools. The portion of such loans contractually past due 90 days or more, amounting to \$12.0 million as of December 31, 2022 (\$11.0 million conventional residential mortgage loans and \$1.0 million commercial mortgage loans), is presented in the loans past due 90 days or more and still accruing category in the table above.
- (3) Include rebooked loans, which were previously pooled into GNMA securities, amounting to \$10.3 million as of December 31, 2022. Under the GNMA program, the Corporation has the option but not the obligation to repurchase loans that meet GNMA's specified delinquency criteria. For accounting purposes, these loans subject to the repurchase option are required to be reflected on the financial statements with an offsetting liability.
- (4) Nonaccrual loans in the Florida region amounted to \$8.3 million as of December 31, 2022, primarily nonaccrual residential mortgage loans.
- (5) Includes \$0.3 million of nonaccrual C&I loans with no ACL in the Florida region as of December 31, 2022.
- (6) 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, conventional residential mortgage loans, and commercial mortgage loans past due 30-59 days, but less than two payments in arrears, as of December 31, 2022 amounted to \$6.1 million, \$65.2 million, and \$1.6 million, respectively.

When a loan is placed on nonaccrual status, any accrued but uncollected interest income is reversed and charged against interest income and the amortization of any net deferred fees is suspended. The amount of accrued interest reversed against interest income totaled \$0.6 million and \$0.4 million for the quarters ended March 31, 2023 and 2022, respectively. For the quarters ended March 31, 2023 and 2022, the cash interest income recognized on nonaccrual loans amounted to \$0.5 million and \$0.4 million, respectively.

As of March 31, 2023, the recorded investment on residential mortgage loans collateralized by residential real estate property that were in the process of foreclosure amounted to \$62.6 million, including \$27.2 million of FHA/VA government-guaranteed mortgage loans, and \$8.8 million of PCD loans acquired prior to the adoption, on January 1, 2020, of CECL. The Corporation commences the foreclosure process on residential real estate loans when a borrower becomes 120 days delinquent. Foreclosure procedures and timelines vary depending on whether the property is located in a judicial or non-judicial state. Occasionally, foreclosures may be delayed due to, among other reasons, mandatory mediations, bankruptcy, court delays, and title issues.

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of the borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes non-homogeneous loans, such as commercial mortgage, C&I, and construction loans individually to classify the loans' credit risk. As mentioned above, the Corporation periodically reviews its commercial and construction loans to evaluate if they are properly classified. 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 uses the same definition for risk ratings as those described for Puerto Rico municipal bonds accounted for as held-to-maturity debt securities, as discussed in Note 3 – Debt Securities, to the audited consolidated financial statements included in the 2022 Annual Report on Form 10-K.

For residential mortgage and consumer loans, the Corporation also evaluates credit quality based on its interest accrual status.

Based on the most recent analysis performed, the amortized cost of commercial and construction loans by portfolio classes and by origination year based on the internal credit-risk category as of March 31, 2023, the gross charge-offs for the quarter ended March 31, 2023 by portfolio classes and by origination year, and the amortized cost of commercial and construction loans by portfolio classes based on the internal credit-risk category as of December 31, 2022, was as follows:

Puerto Rico and Virgin Islands region	As of March 31, 2023							Revolving Loans Amortized Cost Basis	Total	As of December 31, 2022
	Term Loans Amortized Cost Basis by Origination Year ⁽¹⁾									
(In thousands)	2023	2022	2021	2020	2019	Prior			Total	
CONSTRUCTION										
Risk Ratings:										
Pass	\$ 6,479	\$ 16,509	\$ 18,842	\$ -	\$ -	\$ 3,885	\$ -	\$ 45,715	\$	31,879
Criticized:										
Special Mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	2,480	-	2,480		2,893
Doubtful	-	-	-	-	-	-	-	-		-
Loss	-	-	-	-	-	-	-	-		-
Total construction loans	\$ 6,479	\$ 16,509	\$ 18,842	\$ -	\$ -	\$ 6,365	\$ -	\$ 48,195	\$	34,772
Charge-offs on construction loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$	-
COMMERCIAL MORTGAGE										
Risk Ratings:										
Pass	\$ 67,469	\$ 391,295	\$ 139,536	\$ 325,141	\$ 301,638	\$ 400,794	\$ 478	\$ 1,626,351	\$	1,655,728
Criticized:										
Special Mention	-	1,177	-	36,546	75	131,350	-	169,148		145,415
Substandard	-	132	-	-	2,797	30,745	-	33,674		33,061
Doubtful	-	-	-	-	-	-	-	-		-
Loss	-	-	-	-	-	-	-	-		-
Total commercial mortgage loans	\$ 67,469	\$ 392,604	\$ 139,536	\$ 361,687	\$ 304,510	\$ 562,889	\$ 478	\$ 1,829,173	\$	1,834,204
Charge-offs on commercial mortgage loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18	\$ -	\$ 18	\$	-
C&I										
Risk Ratings:										
Pass	\$ 70,739	\$ 303,603	\$ 188,155	\$ 181,284	\$ 308,225	\$ 254,283	\$ 565,758	\$ 1,872,047	\$	1,789,572
Criticized:										
Special Mention	-	132	839	-	1,029	12,885	32,322	47,207		43,224
Substandard	-	-	396	652	13,430	7,117	379	21,974		27,313
Doubtful	-	-	-	-	-	-	-	-		-
Loss	-	-	-	-	-	-	-	-		-
Total C&I loans	\$ 70,739	\$ 303,735	\$ 189,390	\$ 181,936	\$ 322,684	\$ 274,285	\$ 598,459	\$ 1,941,228	\$	1,860,109
Charge-offs on C&I loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63	\$ 55	\$ 118	\$	-

(1) Excludes accrued interest receivable.

Florida region	As of March 31, 2023							Revolving Loans Amortized Cost Basis	Total	As of December 31, 2022
	Term Loans									
	Amortized Cost Basis by Origination Year ⁽¹⁾									
	2023	2022	2021	2020	2019	Prior		Total	Total	
(In thousands)										
CONSTRUCTION										
Risk Ratings:										
Pass	\$ 107	\$ 50,019	\$ 42,867	\$ -	\$ -	\$ -	\$ 2,476	\$ 95,469	\$ 98,181	
Criticized:										
Special Mention	-	-	-	-	-	-	-	-	-	
Substandard	-	-	-	-	-	-	-	-	-	
Doubtful	-	-	-	-	-	-	-	-	-	
Loss	-	-	-	-	-	-	-	-	-	
Total construction loans	\$ 107	\$ 50,019	\$ 42,867	\$ -	\$ -	\$ -	\$ 2,476	\$ 95,469	\$ 98,181	
Charge-offs on construction loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
COMMERCIAL MORTGAGE										
Risk Ratings:										
Pass	\$ 3,529	\$ 177,392	\$ 70,147	\$ 41,024	\$ 51,320	\$ 140,177	\$ 19,551	\$ 503,140	\$ 503,184	
Criticized:										
Special Mention	-	-	-	6,947	13,231	-	-	20,178	20,295	
Substandard	-	-	-	1,168	-	-	-	1,168	1,168	
Doubtful	-	-	-	-	-	-	-	-	-	
Loss	-	-	-	-	-	-	-	-	-	
Total commercial mortgage loans	\$ 3,529	\$ 177,392	\$ 70,147	\$ 49,139	\$ 64,551	\$ 140,177	\$ 19,551	\$ 524,486	\$ 524,647	
Charge-offs on commercial mortgage loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
C&I										
Risk Ratings:										
Pass	\$ 36,642	\$ 276,868	\$ 134,512	\$ 75,953	\$ 183,443	\$ 72,650	\$ 92,816	\$ 872,884	\$ 979,151	
Criticized:										
Special Mention	-	-	19,677	-	5,974	11,725	-	37,376	17,905	
Substandard	-	-	-	264	195	2,854	300	3,613	29,098	
Doubtful	-	-	-	-	-	7,088	-	7,088	-	
Loss	-	-	-	-	-	-	-	-	-	
Total C&I loans	\$ 36,642	\$ 276,868	\$ 154,189	\$ 76,217	\$ 189,612	\$ 94,317	\$ 93,116	\$ 920,961	\$ 1,026,154	
Charge-offs on C&I loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

(1) Excludes accrued interest receivable.

Total	As of March 31, 2023								As of December 31, 2022
	Term Loans								
	Amortized Cost Basis by Origination Year (1)								
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total	Total
(In thousands)									
CONSTRUCTION									
Risk Ratings:									
Pass	\$ 6,586	\$ 66,528	\$ 61,709	\$ -	\$ -	\$ 3,885	\$ 2,476	\$ 141,184	\$ 130,060
Criticized:									
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	2,480	-	2,480	2,893
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total construction loans	\$ 6,586	\$ 66,528	\$ 61,709	\$ -	\$ -	\$ 6,365	\$ 2,476	\$ 143,664	\$ 132,953
Charge-offs on construction loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
COMMERCIAL MORTGAGE									
Risk Ratings:									
Pass	\$ 70,998	\$ 568,687	\$ 209,683	\$ 366,165	\$ 352,958	\$ 540,971	\$ 20,029	\$ 2,129,491	\$ 2,158,912
Criticized:									
Special Mention	-	1,177	-	43,493	13,306	131,350	-	189,326	165,710
Substandard	-	132	-	1,168	2,797	30,745	-	34,842	34,229
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total commercial mortgage loans	\$ 70,998	\$ 569,996	\$ 209,683	\$ 410,826	\$ 369,061	\$ 703,066	\$ 20,029	\$ 2,353,659	\$ 2,358,851
Charge-offs on commercial mortgage loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18	\$ -	\$ 18	\$ -
C&I									
Risk Ratings:									
Pass	\$ 107,381	\$ 580,471	\$ 322,667	\$ 257,237	\$ 491,668	\$ 326,933	\$ 658,574	\$ 2,744,931	\$ 2,768,723
Criticized:									
Special Mention	-	132	20,516	-	7,003	24,610	32,322	84,583	61,129
Substandard	-	-	396	916	13,625	9,971	679	25,587	56,411
Doubtful	-	-	-	-	-	7,088	-	7,088	-
Loss	-	-	-	-	-	-	-	-	-
Total C&I loans	\$ 107,381	\$ 580,603	\$ 343,579	\$ 258,153	\$ 512,296	\$ 368,602	\$ 691,575	\$ 2,862,189	\$ 2,886,263
Charge-offs on C&I loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63	\$ 55	\$ 118	\$ -

(1) Excludes accrued interest receivable.

The following tables present the amortized cost of residential mortgage loans by portfolio classes and by origination year based on accrual status as of March 31, 2023, the gross charge-offs for the quarter ended March 31, 2023 by portfolio classes and by origination year, and the amortized cost of residential mortgage loans by portfolio classes based on accrual status as of December 31, 2022:

	As of March 31, 2023						Revolving Loans Amortized Cost Basis	Total	As of December 31, 2022	Total
	Term Loans									
	Amortized Cost Basis by Origination Year ⁽¹⁾									
	2023	2022	2021	2020	2019	Prior				
(In thousands)										
Puerto Rico and Virgin Islands Region:										
FHA/VA government-guaranteed loans										
Accrual Status:										
Performing	\$ -	\$ 696	\$ 448	\$ 765	\$ 1,557	\$ 107,368	\$ -	\$ 110,834	\$ 117,416	
Non-Performing	-	-	-	-	-	-	-	-	-	-
Total FHA/VA government-guaranteed loans	\$ -	\$ 696	\$ 448	\$ 765	\$ 1,557	\$ 107,368	\$ -	\$ 110,834	\$ 117,416	
Conventional residential mortgage loans:										
Accrual Status:										
Performing	\$ 24,859	\$ 171,599	\$ 74,692	\$ 31,497	\$ 47,705	\$ 1,891,603	\$ -	\$ 2,241,955	\$ 2,265,013	
Non-Performing	-	-	35	-	-	28,958	-	28,993	35,471	
Total conventional residential mortgage loans	\$ 24,859	\$ 171,599	\$ 74,727	\$ 31,497	\$ 47,705	\$ 1,920,561	\$ -	\$ 2,270,948	\$ 2,300,484	
Total:										
Accrual Status:										
Performing	\$ 24,859	\$ 172,295	\$ 75,140	\$ 32,262	\$ 49,262	\$ 1,998,971	\$ -	\$ 2,352,789	\$ 2,382,429	
Non-Performing	-	-	35	-	-	28,958	-	28,993	35,471	
Total residential mortgage loans in Puerto Rico and Virgin Islands Region	\$ 24,859	\$ 172,295	\$ 75,175	\$ 32,262	\$ 49,262	\$ 2,027,929	\$ -	\$ 2,381,782	\$ 2,417,900	
Charge-offs on residential mortgage loans	\$ -	\$ -	\$ -	\$ 3	\$ -	\$ 980	\$ -	\$ 983		

(1) Excludes accrued interest receivable.

	As of March 31, 2023						Revolving Loans Amortized Cost Basis	Total	As of December 31, 2022	Total
	Term Loans									
	Amortized Cost Basis by Origination Year ⁽¹⁾									
	2023	2022	2021	2020	2019	Prior				
(In thousands)										
Florida Region:										
FHA/VA government-guaranteed loans										
Accrual Status:										
Performing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 735	\$ -	\$ 735	\$ 742	
Non-Performing	-	-	-	-	-	-	-	-	-	-
Total FHA/VA government-guaranteed loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 735	\$ -	\$ 735	\$ 742	
Conventional residential mortgage loans:										
Accrual Status:										
Performing	\$ 13,232	\$ 81,619	\$ 48,991	\$ 31,157	\$ 29,403	\$ 217,192	\$ -	\$ 421,594	\$ 421,347	
Non-Performing	-	-	-	-	265	7,152	-	7,417	7,301	
Total conventional residential mortgage loans	\$ 13,232	\$ 81,619	\$ 48,991	\$ 31,157	\$ 29,668	\$ 224,344	\$ -	\$ 429,011	\$ 428,648	
Total:										
Accrual Status:										
Performing	\$ 13,232	\$ 81,619	\$ 48,991	\$ 31,157	\$ 29,403	\$ 217,927	\$ -	\$ 422,329	\$ 422,089	
Non-Performing	-	-	-	-	265	7,152	-	7,417	7,301	
Total residential mortgage loans in Florida region	\$ 13,232	\$ 81,619	\$ 48,991	\$ 31,157	\$ 29,668	\$ 225,079	\$ -	\$ 429,746	\$ 429,390	
Charge-offs on residential mortgage loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		

(1) Excludes accrued interest receivable.

	As of March 31, 2023						Revolving Loans Amortized Cost Basis	Total	As of December 31, 2022	Total
	Term Loans									
	Amortized Cost Basis by Origination Year ⁽¹⁾									
2023	2022	2021	2020	2019	Prior					
(In thousands)										
Total:										
FHA/VA government-guaranteed loans										
Accrual Status:										
Performing	\$ -	\$ 696	\$ 448	\$ 765	\$ 1,557	\$ 108,103	\$ -	\$ 111,569	\$ 118,158	
Non-Performing	-	-	-	-	-	-	-	-	-	-
Total FHA/VA government-guaranteed loans	\$ -	\$ 696	\$ 448	\$ 765	\$ 1,557	\$ 108,103	\$ -	\$ 111,569	\$ 118,158	
Conventional residential mortgage loans:										
Accrual Status:										
Performing	\$ 38,091	\$ 253,218	\$ 123,683	\$ 62,654	\$ 77,108	\$ 2,108,795	\$ -	\$ 2,663,549	\$ 2,686,360	
Non-Performing	-	-	35	-	265	36,110	-	36,410	42,772	
Total conventional residential mortgage loans	\$ 38,091	\$ 253,218	\$ 123,718	\$ 62,654	\$ 77,373	\$ 2,144,905	\$ -	\$ 2,699,959	\$ 2,729,132	
Total:										
Accrual Status:										
Performing	\$ 38,091	\$ 253,914	\$ 124,131	\$ 63,419	\$ 78,665	\$ 2,216,898	\$ -	\$ 2,775,118	\$ 2,804,518	
Non-Performing	-	-	35	-	265	36,110	-	36,410	42,772	
Total residential mortgage loans	\$ 38,091	\$ 253,914	\$ 124,166	\$ 63,419	\$ 78,930	\$ 2,253,008	\$ -	\$ 2,811,528	\$ 2,847,290	
Charge-offs on residential mortgage loans	\$ -	\$ -	\$ -	\$ 3	\$ -	\$ 980	\$ -	\$ 983		

(1) Excludes accrued interest receivable.

The following tables present the amortized cost of consumer loans by portfolio classes and by origination year based on accrual status as of March 31, 2023, the gross charge-offs for the quarter ended March 31, 2023 by portfolio classes and by origination, and the amortized cost of consumer loans by portfolio classes based on accrual status as of December 31, 2022:

	As of March 31, 2023							Revolving Loans Amortized Cost Basis	Total	As of December 31, 2022
	Term Loans									
	Amortized Cost Basis by Origination Year ⁽¹⁾									
	2023	2022	2021	2020	2019	Prior				
(In thousands)										
Puerto Rico and Virgin Islands Regions:										
Auto loans:										
Accrual Status:										
Performing	\$ 165,925	\$ 638,402	\$ 478,373	\$ 234,358	\$ 186,331	\$ 115,561	\$ -	\$ 1,818,950	\$ 1,783,782	
Non-Performing	-	2,419	2,243	1,347	2,708	2,399	-	11,116	10,596	
Total auto loans	\$ 165,925	\$ 640,821	\$ 480,616	\$ 235,705	\$ 189,039	\$ 117,960	\$ -	\$ 1,830,066	\$ 1,794,378	
Charge-offs on auto loans	\$ 19	\$ 1,827	\$ 1,210	\$ 467	\$ 632	\$ 365	\$ -	\$ 4,520		
Finance leases:										
Accrual Status:										
Performing	\$ 78,870	\$ 282,486	\$ 183,061	\$ 82,206	\$ 74,421	\$ 52,230	\$ -	\$ 753,274	\$ 716,585	
Non-Performing	-	551	222	433	376	626	-	2,208	1,645	
Total finance leases	\$ 78,870	\$ 283,037	\$ 183,283	\$ 82,639	\$ 74,797	\$ 52,856	\$ -	\$ 755,482	\$ 718,230	
Charge-offs on finance leases	\$ -	\$ 227	\$ 270	\$ 97	\$ 185	\$ 200	\$ -	\$ 979		
Personal loans:										
Accrual Status:										
Performing	\$ 44,647	\$ 163,311	\$ 49,275	\$ 25,703	\$ 46,765	\$ 29,411	\$ -	\$ 359,112	\$ 351,664	
Non-Performing	-	490	188	117	229	239	-	1,263	1,248	
Total personal loans	\$ 44,647	\$ 163,801	\$ 49,463	\$ 25,820	\$ 46,994	\$ 29,650	\$ -	\$ 360,375	\$ 352,912	
Charge-offs on personal loans	\$ -	\$ 1,517	\$ 840	\$ 279	\$ 680	\$ 384	\$ -	\$ 3,700		
Credit cards:										
Accrual Status:										
Performing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 310,627	\$ 310,627	\$ 311,731	
Non-Performing	-	-	-	-	-	-	-	-	-	
Total credit cards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 310,627	\$ 310,627	\$ 311,731	
Charge-offs on credit cards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,057	\$ 4,057		
Other consumer loans:										
Accrual Status:										
Performing	\$ 23,413	\$ 66,230	\$ 17,612	\$ 8,219	\$ 9,851	\$ 6,468	\$ 8,700	\$ 140,493	\$ 139,116	
Non-Performing	-	540	171	59	104	230	98	1,202	1,122	
Total other consumer loans	\$ 23,413	\$ 66,770	\$ 17,783	\$ 8,278	\$ 9,955	\$ 6,698	\$ 8,798	\$ 141,695	\$ 140,238	
Charge-offs on other consumer loans	\$ 14	\$ 1,842	\$ 762	\$ 174	\$ 326	\$ 178	\$ 91	\$ 3,387		
Total:										
Performing	\$ 312,855	\$ 1,150,429	\$ 728,321	\$ 350,486	\$ 317,368	\$ 203,670	\$ 319,327	\$ 3,382,456	\$ 3,302,878	
Non-Performing	-	4,000	2,824	1,956	3,417	3,494	98	15,789	14,611	
Total consumer loans in Puerto Rico and Virgin Islands region	\$ 312,855	\$ 1,154,429	\$ 731,145	\$ 352,442	\$ 320,785	\$ 207,164	\$ 319,425	\$ 3,398,245	\$ 3,317,489	
Charge-offs on total consumer loans	\$ 33	\$ 5,413	\$ 3,082	\$ 1,017	\$ 1,823	\$ 1,127	\$ 4,148	\$ 16,643		

(1) Excludes accrued interest receivable.

	As of March 31, 2023							Revolving Loans Amortized Cost Basis	As of	
	Term Loans								December 31,	
	Amortized Cost Basis by Origination Year ⁽¹⁾								2022	
	2023	2022	2021	2020	2019	Prior	Total	Total		
(In thousands)										
Florida Region:										
Auto loans:										
Accrual Status:										
Performing	\$ -	\$ -	\$ -	\$ -	\$ 259	\$ 2,518	\$ -	\$ 2,777	\$ 3,617	
Non-Performing	-	-	-	-	-	22	-	22	76	
Total auto loans	\$ -	\$ -	\$ -	\$ -	\$ 259	\$ 2,540	\$ -	\$ 2,799	\$ 3,693	
Charge-offs on auto loans	\$ -	\$ -	\$ -	\$ -	\$ 8	\$ 147	\$ -	\$ 155		
Finance leases:										
Accrual Status:										
Performing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Non-Performing	-	-	-	-	-	-	-	-	-	
Total finance leases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Charge-offs on finance leases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Personal loans:										
Accrual Status:										
Performing	\$ 274	\$ 8	\$ 71	\$ 7	\$ -	\$ -	\$ -	\$ 360	\$ 334	
Non-Performing	-	-	-	-	-	-	-	-	-	
Total personal loans	\$ 274	\$ 8	\$ 71	\$ 7	\$ -	\$ -	\$ -	\$ 360	\$ 334	
Charge-offs on personal loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Credit cards:										
Accrual Status:										
Performing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Non-Performing	-	-	-	-	-	-	-	-	-	
Total credit cards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Charge-offs on credit cards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Other consumer loans:										
Accrual Status:										
Performing	\$ -	\$ 49	\$ 229	\$ 460	\$ -	\$ 2,455	\$ 2,223	\$ 5,416	\$ 5,833	
Non-Performing	-	-	-	-	-	21	104	125	119	
Total other consumer loans	\$ -	\$ 49	\$ 229	\$ 460	\$ -	\$ 2,476	\$ 2,327	\$ 5,541	\$ 5,952	
Charge-offs on other consumer loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Total:										
Performing	\$ 274	\$ 57	\$ 300	\$ 467	\$ 259	\$ 4,973	\$ 2,223	\$ 8,553	\$ 9,784	
Non-Performing	-	-	-	-	-	43	104	147	195	
Total consumer loans in Florida region	\$ 274	\$ 57	\$ 300	\$ 467	\$ 259	\$ 5,016	\$ 2,327	\$ 8,700	\$ 9,979	
Charge-offs on total consumer loans	\$ -	\$ -	\$ -	\$ -	\$ 8	\$ 147	\$ -	\$ 155		

(1) Excludes accrued interest receivable.

	As of March 31, 2023							Revolving Loans Amortized Cost Basis	As of	
	Term Loans						Total		Total	
	Amortized Cost Basis by Origination Year ⁽¹⁾									December 31, 2022
	2023	2022	2021	2020	2019	Prior				
(In thousands)										
Total:										
Auto loans:										
Accrual Status:										
Performing	\$ 165,925	\$ 638,402	\$ 478,373	\$ 234,358	\$ 186,590	\$ 118,079	\$ -	\$ 1,821,727	\$ 1,787,399	
Non-Performing	-	2,419	2,243	1,347	2,708	2,421	-	11,138	10,672	
Total auto loans	\$ 165,925	\$ 640,821	\$ 480,616	\$ 235,705	\$ 189,298	\$ 120,500	\$ -	\$ 1,832,865	\$ 1,798,071	
Charge-offs on auto loans	\$ 19	\$ 1,827	\$ 1,210	\$ 467	\$ 640	\$ 512	\$ -	\$ 4,675		
Finance leases:										
Accrual Status:										
Performing	\$ 78,870	\$ 282,486	\$ 183,061	\$ 82,206	\$ 74,421	\$ 52,230	\$ -	\$ 753,274	\$ 716,585	
Non-Performing	-	551	222	433	376	626	-	2,208	1,645	
Total finance leases	\$ 78,870	\$ 283,037	\$ 183,283	\$ 82,639	\$ 74,797	\$ 52,856	\$ -	\$ 755,482	\$ 718,230	
Charge-offs on finance leases	\$ -	\$ 227	\$ 270	\$ 97	\$ 185	\$ 200	\$ -	\$ 979		
Personal loans:										
Accrual Status:										
Performing	\$ 44,921	\$ 163,319	\$ 49,346	\$ 25,710	\$ 46,765	\$ 29,411	\$ -	\$ 359,472	\$ 351,998	
Non-Performing	-	490	188	117	229	239	-	1,263	1,248	
Total personal loans	\$ 44,921	\$ 163,809	\$ 49,534	\$ 25,827	\$ 46,994	\$ 29,650	\$ -	\$ 360,735	\$ 353,246	
Charge-offs on personal loans	\$ -	\$ 1,517	\$ 840	\$ 279	\$ 680	\$ 384	\$ -	\$ 3,700		
Credit cards:										
Accrual Status:										
Performing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 310,627	\$ 310,627	\$ 311,731	
Non-Performing	-	-	-	-	-	-	-	-	-	
Total credit cards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 310,627	\$ 310,627	\$ 311,731	
Charge-offs on credit cards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,057	\$ 4,057		
Other consumer loans:										
Accrual Status:										
Performing	\$ 23,413	\$ 66,279	\$ 17,841	\$ 8,679	\$ 9,851	\$ 8,923	\$ 10,923	\$ 145,909	\$ 144,949	
Non-Performing	-	540	171	59	104	251	202	1,327	1,241	
Total other consumer loans	\$ 23,413	\$ 66,819	\$ 18,012	\$ 8,738	\$ 9,955	\$ 9,174	\$ 11,125	\$ 147,236	\$ 146,190	
Charge-offs on other consumer loans	\$ 14	\$ 1,842	\$ 762	\$ 174	\$ 326	\$ 178	\$ 91	\$ 3,387		
Total:										
Performing	\$ 313,129	\$ 1,150,486	\$ 728,621	\$ 350,953	\$ 317,627	\$ 208,643	\$ 321,550	\$ 3,391,009	\$ 3,312,662	
Non-Performing	-	4,000	2,824	1,956	3,417	3,537	202	15,936	14,806	
Total consumer loans	\$ 313,129	\$ 1,154,486	\$ 731,445	\$ 352,909	\$ 321,044	\$ 212,180	\$ 321,752	\$ 3,406,945	\$ 3,327,468	
Charge-offs on total consumer loans	\$ 33	\$ 5,413	\$ 3,082	\$ 1,017	\$ 1,831	\$ 1,274	\$ 4,148	\$ 16,798		

(1) Excludes accrued interest receivable.

Accrued interest receivable on loans totaled \$49.4 million as of March 31, 2023 (\$53.1 million as of December 31, 2022), was reported as part of accrued interest receivable on loans and investment securities in the consolidated statements of financial condition and is excluded from the estimate of credit losses.

The following tables present information about collateral dependent loans that were individually evaluated for purposes of determining the ACL as of March 31, 2023 and December 31, 2022 :

As of March 31, 2023

	Collateral Dependent Loans - With Allowance		Collateral Dependent Loans - With No Related Allowance	Collateral Dependent Loans - Total	
	Amortized Cost	Related Allowance	Amortized Cost	Amortized Cost	Related Allowance
(In thousands)					
Residential mortgage loans:					
Conventional residential mortgage loans	\$ 34,257	\$ 2,410	\$ 152	\$ 34,409	\$ 2,410
Commercial loans:					
Construction loans	-	-	956	956	-
Commercial mortgage loans	2,449	896	61,851	64,300	896
C&I loans	1,789	347	13,331	15,120	347
Consumer loans:					
Personal loans	55	1	-	55	1
Other consumer loans	-	-	-	-	-
	<u>\$ 38,550</u>	<u>\$ 3,654</u>	<u>\$ 76,290</u>	<u>\$ 114,840</u>	<u>\$ 3,654</u>

As of December 31, 2022

	Collateral Dependent Loans - With Allowance		Collateral Dependent Loans - With No Related Allowance	Collateral Dependent Loans - Total	
	Amortized Cost	Related Allowance	Amortized Cost	Amortized Cost	Related Allowance
(In thousands)					
Residential mortgage loans:					
Conventional residential mortgage loans	\$ 36,206	\$ 2,571	\$ -	\$ 36,206	\$ 2,571
Commercial loans:					
Construction loans	-	-	956	956	-
Commercial mortgage loans	2,466	897	62,453	64,919	897
C&I loans	1,513	322	17,590	19,103	322
Consumer loans:					
Personal loans	56	1	64	120	1
Other consumer loans	207	29	-	207	29
	<u>\$ 40,448</u>	<u>\$ 3,820</u>	<u>\$ 81,063</u>	<u>\$ 121,511</u>	<u>\$ 3,820</u>

The allowance related to collateral dependent loans reported in the tables above includes qualitative adjustments applied to the loan portfolio that consider possible changes in circumstances that could ultimately impact credit losses and might not be reflected in historical data or forecasted data incorporated in the quantitative models. The underlying collateral for residential mortgage and consumer collateral dependent loans consisted of single-family residential properties, and for commercial and construction loans consisted primarily of office buildings, multifamily residential properties, and retail establishments. The weighted-average loan-to-value coverage for collateral dependent loans as of March 31, 2023 was 69%, compared to 70% as of December 31, 2022, which was not considered a significant change in the extent to which collateral secured these loans.

Purchases and Sales of Loans

In the ordinary course of business, the Corporation enters into securitization transactions and whole loan sales with GNMA and GSEs, such as FNMA and FHLMC. During the quarters ended March 31, 2023 and 2022, loans pooled into GNMA MBS amounted to approximately \$29.4 million and \$41.5 million, respectively, for which the Corporation recognized a net gain on sale of \$0.9 million and \$1.3 million, respectively. Also, during the quarter ended March 31, 2023, the Corporation sold approximately \$8.0 million of performing residential mortgage loans to FNMA, of which the Corporation recognized a net gain on sale of \$0.2 million. In addition, during the quarter ended March 31, 2022, the Corporation sold approximately \$50.0 million and \$2.4 million of performing residential mortgage loans to FNMA and FHLMC, respectively, of which the Corporation recognized a net gain on sale of \$2.1 million and \$0.1 million, respectively. The Corporation's continuing involvement with the loans that it sells consists primarily of servicing the loans. In addition, the Corporation agrees to repurchase loans if it breaches any of the representations and warranties included in the sale agreement. These representations and warranties are consistent with the GSEs' selling and servicing guidelines (i.e., ensuring that the mortgage was properly underwritten according to established guidelines).

For loans pooled into GNMA MBS, the Corporation, as servicer, holds an option to repurchase individual delinquent loans issued on or after January 1, 2003 when certain delinquency criteria are met. This option gives the Corporation the unilateral ability, but not the obligation, to repurchase the delinquent loans at par without prior authorization from GNMA. Since the Corporation is considered to have regained effective control over the loans, it is required to recognize the loans and a corresponding repurchase liability regardless of its intent to repurchase the loans. As of March 31, 2023 and December 31, 2022, rebooked GNMA delinquent loans that were included in the residential mortgage loan portfolio amounted to \$7.1 million and \$10.4 million, respectively.

During the quarters ended March 31, 2023 and 2022, the Corporation repurchased, pursuant to the aforementioned repurchase option, \$1.5 million and \$0.5 million, respectively, of loans previously pooled into GNMA MBS. The principal balance of these loans is fully guaranteed, and the risk of loss related to the repurchased loans is generally limited to the difference between the delinquent interest payment advanced to GNMA, which is computed at the loan's interest rate, and the interest payments reimbursed by FHA, which are computed at a pre-determined debenture rate. Repurchases of GNMA loans allow the Corporation, among other things, to maintain acceptable delinquency rates on outstanding GNMA pools and remain as a seller and servicer in good standing with GNMA. Historically, losses on these repurchases of GNMA delinquent loans have been immaterial and no provision has been made at the time of sale.

Loan sales to FNMA and FHLMC are without recourse in relation to the future performance of the loans. The Corporation's risk of loss with respect to these loans is also minimal as these repurchased loans are generally performing loans with documentation deficiencies.

No significant purchases of loans were executed during the first quarter of 2023. During the quarter ended March 31, 2022, the Corporation purchased certain C&I loan participations in the Florida region totaling \$46.4 million.

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 portfolio of \$11.6 billion as of March 31, 2023, credit risk concentration was approximately 80% in Puerto Rico, 17% in the U.S., and 3% in the USVI and BVI.

As of March 31, 2023, the Corporation had \$170.9 million outstanding in loans extended to the Puerto Rico government, its municipalities and public corporations, compared to \$169.8 million as of December 31, 2022. As of March 31, 2023, approximately \$102.7 million consisted of loans extended to municipalities in Puerto Rico that are general obligations supported by assigned property tax revenues, and \$28.0 million of loans which are supported by one or more specific sources of municipal revenues. The vast majority of revenues of the municipalities included in the Corporation's loan portfolio are independent of budgetary subsidies provided by the Puerto Rico central government. These municipalities are required by law to levy special property taxes in such amounts as are required to satisfy the payment of all of their respective general obligation bonds and notes. In addition to loans extended to municipalities, the Corporation's exposure to the Puerto Rico government as of March 31, 2023 included \$10.2 million in loans granted to an affiliate of the Puerto Rico Electric Power Authority ("PREPA") and \$30.0 million in loans to agencies or public corporations of the Puerto Rico government.

In addition, as of March 31, 2023, the Corporation had \$82.9 million in exposure to residential mortgage loans that are guaranteed by the PRHFA, a government instrumentality that has been designated as a covered entity under PROMESA, compared to \$84.7 million as of December 31, 2022. Residential mortgage loans guaranteed by the PRHFA are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default.

The Corporation also has credit exposure to USVI government entities. As of March 31, 2023, the Corporation had \$38.7 million in loans to USVI government public corporations, compared to \$38.0 million as of December 31, 2022. As of March 31, 2023, all loans were currently performing and up to date on principal and interest payments.

Loss Mitigation Program for Borrowers Experiencing Financial Difficulty

The Corporation provides homeownership preservation assistance to its customers through a loss mitigation program. Depending upon the nature of a borrower's financial condition, restructurings or loan modifications through this program are provided, as well as other restructurings of individual C&I, commercial mortgage, construction, and residential mortgage loans. The Corporation may also modify contractual terms to comply with regulations regarding the treatment of certain bankruptcy filings and discharge situations. See Note 1 – Basis of Presentation and Significant Accounting Policies, for additional information related to the accounting policies of loan modifications granted to borrowers experiencing financial difficulty.

The loan modifications granted to borrowers experiencing financial difficulty that are associated to payment delays typically include the following:

- Forbearance plans – Payments of either interest and/or principal are deferred for a pre-established period of time, generally not exceeding six months in any given year. The deferred interest and/or principal is repaid as either a lump sum payment at maturity date or by extending the loan's maturity date by the number of forbearance months granted.
- Payment plans – Borrowers are allowed to pay the regular monthly payment plus the pre-established delinquent amounts during a period generally not exceeding six months. At the end of the payment plan, the borrower is required to resume making its regularly scheduled loan payments.
- Trial modifications – These types of loan modifications are granted for residential mortgage loans. Borrowers continue making reduced monthly payments during the trial period, which is generally of up to six months. The reduced payments that are made by the borrower during the trial period will result in a payment delay with respect to the original contractual terms of the loan since the loan has not yet been contractually modified. After successful completion of the trial period, the mortgage loan is contractually modified.

Modifications in the form of a reduction in interest rate, term extension, an other-than-insignificant payment delay, or any combination of these types of loan modifications that have occurred in the current reporting period to a borrower experiencing financial difficulty are disclosed in the tables below.

The below disclosures relate to loan modifications granted to borrowers experiencing financial difficulty in which there was a change in the timing and/or amount of contractual cash flows in the form of any of the aforementioned types of modifications, including restructurings that resulted in a more-than-insignificant payment delay. These disclosures exclude \$0.9 million in restructured residential mortgage loans that are government-guaranteed (e.g., FHA/VA loans) and were modified during the quarter ended March 31, 2023.

The following table presents the amortized cost basis as of March 31, 2023 of loans modified to borrowers experiencing financial difficulty during the quarter ended March 31, 2023, by portfolio classes and type of modification granted, and the percentage of these modified loans relative to the total period-end amortized cost basis of receivables in the portfolio class:

	Quarter Ended March 31, 2023									
	Payment Delay Only									
	Forbearance	Payment Plan	Trial Modification	Interest Rate Reduction	Term Extension	Combination of Interest Rate Reduction and Term Extension	Forgiveness of principal and/or interest	Other	Total	Percentage of Total by Portfolio Classes
(In thousands)										
Conventional residential mortgage loans	\$ -	\$ -	\$ 332	\$ -	\$ 433	\$ 115	\$ -	\$ -	\$ 880	0.03%
Construction loans	-	-	-	-	-	-	-	-	-	-
Commercial mortgage loans	-	-	-	-	-	-	-	-	-	-
C&I loans	-	-	-	-	-	-	-	40 (1)	40	0.00%
Consumer loans:										
Auto loans	-	-	-	-	89	38	-	584 (1)	711	0.04%
Personal loans	-	-	-	-	28	14	-	-	42	0.01%
Credit cards	-	-	-	289 (2)	-	-	-	-	289	0.09%
Other consumer loans	-	-	-	-	132	60	-	26 (1)	218	0.15%
Total modifications	\$ -	\$ -	\$ 332	\$ 289	\$ 682	\$ 227	\$ -	\$ 650	\$ 2,180	

(1) Modification consists of court mandated reduction to 0% interest rate for remaining loan term to borrowers in bankruptcy proceedings unless dismissal occurs.

(2) Modification consists of reduction in interest rate and revocation of revolving line privileges.

The following table presents the financial effects of the modifications granted to borrowers experiencing financial difficulty during the quarter ended March 31, 2023, by portfolio classes, other than those associated to payment delay. The qualitative financial effects of the modifications associated to payment delay were discussed above, and as such, were excluded from the table below:

	Quarter Ended March 31, 2023				
	Combination of Interest Rate Reduction and Term Extension				Weighted-Average Forgiveness of Principal and/or Interest
	Weighted-Average Interest Rate Reduction (%)	Weighted-Average Term Extension (in months)	Weighted-Average Interest Rate Reduction (%)	Weighted-Average Term Extension (in months)	
(In thousands)					
Conventional residential mortgage loans	-	98	2.11%	141	\$ -
Construction loans	-	-	-	-	-
Commercial mortgage loans	-	-	-	-	-
C&I loans	-	-	-	-	-
Consumer loans:					
Auto loans	-	22	2.88%	28	-
Personal loans	-	30	3.36%	12	-
Credit cards	16.04%	-	-	-	-
Other consumer loans	-	27	1.96%	26	-

The following table presents the performance of loans modified during the quarter ended March 31, 2023 that were granted to borrowers experiencing financial difficulty, by portfolio classes:

	Quarter Ended March 31, 2023					
	30-59	60-89	90+	Total Delinquency	Current	Total
(In thousands)						
Conventional residential mortgage loans	\$ -	\$ -	\$ -	\$ -	\$ 880	\$ 880
Construction loans	-	-	-	-	-	-
Commercial mortgage loans	-	-	-	-	-	-
C&I loans	-	-	-	-	40	40
Consumer loans:						
Auto loans	44	138	-	182	529	711
Personal loans	-	-	-	-	42	42
Credit cards	103	89	-	192	97	289
Other consumer loans	-	-	-	-	218	218
Total modifications	\$ 147	\$ 227	\$ -	\$ 374	\$ 1,806	\$ 2,180

There were no loans modified to borrowers experiencing financial difficulty on or after January 1, 2023, which had a payment default (failure by the borrower to make payments of either principal, interest, or both for a period of 90 days or more) during the quarter ended March 31, 2023.

Troubled Debt Restructuring (“TDR”) Disclosures Prior to Adoption of ASU 2022-02

Prior to the adoption of ASU 2022-02, a restructuring of a loan constituted a TDR if the creditor, for economic or legal reason related to the borrower’s financial difficulties, grants a concession to the borrower that it would not otherwise consider. See Note 1 “Nature of Business and Summary of Significant Accounting Policies” and Note 4 “Loans Held for Investment” to the Consolidated Financial Statements in the 2022 Annual Report on Form 10-K for additional discussion of TDRs. The following tables present TDR loans completed during the quarter ended March 31, 2022:

	Quarter Ended March 31, 2022					
	Interest rate below market	Maturity or term extension	Combination of reduction in interest rate and extension of maturity	Forgiveness of principal and/or interest	Other ⁽¹⁾	Total
(In thousands)						
Conventional residential mortgage loans	\$ 215	\$ 731	\$ 190	\$ -	\$ 1,857	\$ 2,993
Construction loans	-	-	-	-	-	-
Commercial mortgage loans	-	-	-	-	-	-
C&I loans	-	-	-	-	5	5
Consumer loans:						
Auto loans	792	54	147	-	-	993
Finance leases	-	246	-	-	18	264
Personal loans	-	60	18	-	-	78
Credit cards ⁽²⁾	189	-	-	-	-	189
Other consumer loans	33	106	-	9	-	148
Total TDRs	\$ 1,229	\$ 1,197	\$ 355	\$ 9	\$ 1,880	\$ 4,670

(1) Other concessions granted by the Corporation include payment plans under judicial stipulation or loss mitigation programs, or a combination of two or more of the concessions listed in the table. Amounts included in Other that represent a combination of concessions are excluded from the amounts reported in the column for such individual concessions.

(2) Concession consists of reduction in interest rate and revocation of revolving line privileges.

	Quarter Ended March 31, 2022		
	Number of contracts	Pre-modification Amortized Cost	Post-modification Amortized Cost
(Dollars in thousands)			
Conventional residential mortgage loans	23	\$ 2,996	\$ 2,993
Construction loans	-	-	-
Commercial mortgage loans	-	-	-
C&I loans	1	5	5
Consumer loans:			
Auto loans	51	995	993
Finance leases	13	264	264
Personal loans	5	78	78
Credit Cards	44	189	189
Other consumer loans	27	146	148
Total TDRs	164	\$ 4,673	\$ 4,670

Loan modifications considered TDR loans that defaulted (failure by the borrower to make payments of either principal, interest, or both for a period of 90 days or more) during the quarter ended March 31, 2022, and had become TDR loans during the 12-months preceding the default date, were as follows:

	Quarter Ended March 31, 2022	
	Number of contracts	Amortized Cost
(Dollars in thousands)		
Conventional residential mortgage loans	3	\$ 389
Construction loans	-	-
Commercial mortgage loans	-	-
C&I loans	-	-
Consumer loans:		
Auto loans	24	522
Finance leases	1	16
Personal loans	-	-
Credit cards	11	79
Other consumer loans	2	11
Total TDRs	41	\$ 1,017

NOTE 4 – ALLOWANCE FOR CREDIT LOSSES FOR LOANS AND FINANCE LEASES

The following tables present the activity in the ACL on loans and finance leases by portfolio segment for the indicated periods:

	Residential Mortgage Loans	Construction Loans	Commercial Mortgage	Commercial & Industrial Loans	Consumer Loans	Total
Quarter Ended March 31, 2023						
(In thousands)						
ACL:						
Beginning balance	\$ 62,760	\$ 2,308	\$ 35,064	\$ 32,906	\$ 127,426	\$ 260,464
Impact of adoption of ASU 2022-02	2,056	-	-	7	53	2,116
Provision for credit losses - expense (benefit)	73	860	1,246	(1,650)	15,727	16,256
Charge-offs	(983)	-	(18)	(118)	(16,798)	(17,917)
Recoveries	497	63	168	90	3,830	4,648
Ending balance	\$ 64,403	\$ 3,231	\$ 36,460	\$ 31,235	\$ 130,238	\$ 265,567
Quarter Ended March 31, 2022						
(In thousands)						
ACL:						
Beginning balance	\$ 74,837	\$ 4,048	\$ 52,771	\$ 34,284	\$ 103,090	\$ 269,030
Provision for credit losses - (benefit) expense	(4,871)	(2,214)	(22,640)	1,755	10,981	(16,989)
Charge-offs	(2,528)	(44)	(37)	(290)	(9,816)	(12,715)
Recoveries	1,382	52	44	1,035	3,608	6,121
Ending balance	\$ 68,820	\$ 1,842	\$ 30,138	\$ 36,784	\$ 107,863	\$ 245,447

The Corporation estimates the ACL following the methodologies described in Note 1 – Nature of Business and Summary of Significant Accounting Policies, to the audited consolidated financial statements included in the 2022 Annual Report on Form 10-K, for each portfolio segment.

The Corporation applies probability weights to the baseline and alternative downside economic scenarios to estimate the ACL with the baseline scenario carrying the highest weight. The economic scenarios used in the ACL determination contained assumptions related to economic uncertainties associated with geopolitical instability, high inflation levels, and the expected path of interest rate increases by the FED.

As of March 31, 2023, the ACL for loans and finance leases was \$ 265.6 million, an increase of \$ 5.1 million, from \$ 260.5 million as of December 31, 2022. The ACL for commercial and construction loans remained relatively flat when compared to the previous quarter as a result of the following offsetting factors: reserve increases of \$ 5.0 million for a new nonaccrual commercial and industrial loan in the Florida region in the power generation industry; and \$ 1.1 million due to a less favorable economic outlook in the projection of certain forecasted macroeconomic variables, such as the commercial real estate price index (“CRE price index”); partially offset by reserve decreases of \$ 6.1 million associated with the receipt of updated financial information of certain borrowers and the repayment of a \$ 24.3 million adversely classified commercial and industrial participated loan in the Florida region. The ACL for consumer loans increased by \$ 2.9 million, primarily reflecting the effect of the increase in the size of the consumer loan portfolios and the increase in historical charge-off levels. The ACL for residential mortgage loans increased by \$ 1.6 million, in part due to a \$ 2.1 million cumulative increase in the ACL, due to the adoption of ASU 2022-02, for which the Corporation elected to discontinue the use of a discounted cash flow methodology for restructured accruing loans. This adjustment had a corresponding decrease, net of applicable taxes, in beginning retained earnings as of January 1, 2023. See Note 1 – Basis of Presentation and Significant Accounting Policies for information related to the adoption of ASU 2022-02 during the first quarter of 2023.

Total net charge-offs increased by \$ 6.7 million to \$ 13.3 million during the first quarter of 2023, when compared to the same period in 2022. The variance consisted of a \$ 6.8 million increase in net charge-offs on consumer and finance leases, reflected across all major portfolio classes, and a \$ 0.6 million decrease in net recoveries in the commercial and construction loan portfolios, partially offset by a \$ 0.7 million decrease in net charge-offs on residential mortgage loans.

The tables below present the ACL related to loans and finance leases and the carrying values of loans by portfolio segment as of March 31, 2023 and December 31, 2022:

As of March 31, 2023

	Residential Mortgage Loans	Construction Loans	Commercial Mortgage Loans	Commercial and Industrial Loans	Consumer Loans	Total
(Dollars in thousands)						
Total loans held for investment:						
Amortized cost of loans	\$ 2,811,528	\$ 143,664	\$ 2,353,659	\$ 2,862,189	\$ 3,406,945	\$ 11,577,985
Allowance for credit losses	64,403	3,231	36,460	31,235	130,238	265,567
Allowance for credit losses to amortized cost	2.29 %	2.25 %	1.55 %	1.09 %	3.82 %	2.29 %

As of December 31, 2022

	Residential Mortgage Loans	Construction Loans	Commercial Mortgage Loans	Commercial and Industrial Loans	Consumer Loans	Total
(Dollars in thousands)						
Total loans held for investment:						
Amortized cost of loans	\$ 2,847,290	\$ 132,953	\$ 2,358,851	\$ 2,886,263	\$ 3,327,468	\$ 11,552,825
Allowance for credit losses	62,760	2,308	35,064	32,906	127,426	260,464
Allowance for credit losses to amortized cost	2.20 %	1.74 %	1.49 %	1.14 %	3.83 %	2.25 %

In addition, the Corporation estimates expected credit losses over the contractual period in which the Corporation is exposed to credit risk via a contractual obligation to extend credit, such as unfunded loan commitments and standby letters of credit for commercial and construction loans, unless the obligation is unconditionally cancellable by the Corporation. See Note 22 – Regulatory Matters, Commitments, and Contingencies for information on off-balance sheet exposures as of March 31, 2023 and December 31, 2022. The Corporation estimates the ACL for these off-balance sheet exposures following the methodology described in Note 1 – Nature of Business and Summary of Accounting Policies, to the audited consolidated financial statements included in the 2022 Annual Report on Form 10-K. As of March 31, 2023, the ACL for off-balance sheet credit exposures decreased to \$4.2 million, from \$4.3 million as of December 31, 2022.

The following table presents the activity in the ACL for unfunded loan commitments and standby letters of credit for the quarters ended March 31, 2023 and 2022:

	Quarter Ended March 31,	
	2023	2022
(In thousands)		
Beginning Balance	\$ 4,273	\$ 1,537
Provision for credit losses - (benefit)	(105)	(178)
Ending balance	\$ 4,168	\$ 1,359

NOTE 5 – OTHER REAL ESTATE OWNED

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

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
(In thousands)		
OREO balances, carrying value:		
Residential (1)	\$ 24,984	\$ 24,025
Commercial	6,114	5,852
Construction	1,764	1,764
Total	<u>\$ 32,862</u>	<u>\$ 31,641</u>

(1) Excludes \$22.6 million and \$23.5 million as of March 31, 2023 and December 31, 2022, respectively, of foreclosures that met the conditions of ASC Subtopic 310-40 "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure," and are presented as a receivable as part of other assets in the consolidated statements of financial condition.

See Note 18 - Fair Value for information on write-downs recorded on OREO properties during the quarters ended March 31, 2023 and 2022.

NOTE 6 – GOODWILL AND OTHER INTANGIBLES

Goodwill

Goodwill as of each of March 31, 2023 and December 31, 2022 amounted to \$38.6 million. The Corporation's policy is to assess goodwill and other intangibles for impairment on an annual basis during the fourth quarter of each year, and more frequently if events or circumstances lead management to believe that the values of goodwill or other intangibles may be impaired. During the fourth quarter of 2022, management performed a qualitative analysis over the carrying amount of each relevant reporting units' goodwill and concluded that it is more-likely-than-not that the fair value of the reporting units exceeded their carrying value. This assessment involved identifying the inputs and assumptions that most affect fair value, including evaluating significant and relevant events impacting each reporting entity, and evaluating such factors to determine if a positive assertion can be made that it is more-likely-than-not that the fair value of the reporting units exceeded their carrying amount. As of December 31, 2022, the Corporation concluded that it is more-likely-than-not that the fair value of the reporting units exceeded their carrying value. The Corporation determined that there have been no significant events since the last annual assessment that could indicate potential goodwill impairment on reporting units for which the goodwill is allocated. As a result, no impairment charges for goodwill were recorded during the quarter ended March 31, 2023.

There were no changes in the carrying amount of goodwill during the quarter ended March 31, 2022.

Other Intangible Assets

The following table presents the gross amount and accumulated amortization of the Corporation's intangible assets subject to amortization as of the indicated dates:

	As of March 31, 2023	As of December 31, 2022
(Dollars in thousands)		
Core deposit intangible:		
Gross amount	\$ 87,544	\$ 87,544
Accumulated amortization	(68,557)	(66,644)
Net carrying amount	\$ 18,987	\$ 20,900
Remaining amortization period (in years)	6.8	7.0
Purchased credit card relationship intangible:		
Gross amount	\$ 3,800	\$ 3,800
Accumulated amortization	(3,714)	(3,595)
Net carrying amount	\$ 86	\$ 205
Remaining amortization period (in years)	0.4	0.7
Insurance customer relationship intangible:		
Gross amount	\$ -	\$ 1,067
Accumulated amortization	-	(1,054)
Net carrying amount	\$ -	\$ 13
Remaining amortization period (in years)	-	0.1

During the quarters ended March 31, 2023 and 2022, the Corporation recognized \$2.0 million and \$2.3 million, respectively, in amortization expense on its other intangibles subject to amortization.

The Corporation amortizes core deposit intangibles and customer relationship intangible based on the projected useful lives of the related deposits in the case of core deposit intangibles, and over the projected useful lives of the related client relationships in the case of the customer relationship intangible. The Corporation analyzes core deposit intangibles and the customer relationship intangible annually for impairment, or sooner if events and circumstances indicate possible impairment. Factors that may suggest impairment include customer attrition and run-off. Management is unaware of any events and/or circumstances that would indicate a possible impairment to the core deposit intangibles or the customer relationship intangible as of March 31, 2023.

The estimated aggregate annual amortization expense related to the intangible assets subject to amortization for future periods was as follows as of March 31, 2023:

(In thousands)		
2023	\$	5,691
2024		6,416
2025		3,509
2026		872
2027		872
2028 and after		1,713

NOTE 7 – NON-CONSOLIDATED VARIABLE INTEREST ENTITIES (“VIEs”) AND SERVICING ASSETS

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

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

Below is a summary of transactions with VIEs for which the Corporation has retained some level of continuing involvement:

Trust-Preferred Securities (“TRuPs”)

In April 2004, FBP Statutory Trust I, a financing trust that is wholly owned by the Corporation, sold to institutional investors \$ 100 million of its variable-rate TRuPs. FBP Statutory Trust I used the proceeds of the issuance, together with the proceeds of the purchase by the Corporation of \$3.1 million of FBP Statutory Trust I variable-rate common securities, to purchase \$103.1 million aggregate principal amount of the Corporation’s Junior Subordinated Deferrable Debentures. In September 2004, FBP Statutory Trust II, a financing trust that is wholly owned by the Corporation, sold to institutional investors \$125 million of its variable-rate TRuPs. FBP Statutory Trust II used the proceeds of the issuance, together with the proceeds of the purchase by the Corporation of \$3.9 million of FBP Statutory Trust II variable-rate common securities, to purchase \$128.9 million aggregate principal amount of the Corporation’s Junior Subordinated Deferrable Debentures. The debentures, net of related issuance costs, are presented in the Corporation’s consolidated statements of financial condition as other long-term borrowings. The variable-rate TRuPs are fully and unconditionally guaranteed by the Corporation. The Junior Subordinated Deferrable Debentures mature on June 17, 2034, and September 20, 2034, respectively; however, under certain circumstances, the maturity of Junior Subordinated Deferrable Debentures may be shortened (such shortening would result in a mandatory redemption of the variable-rate TRuPs). As of each of March 31, 2023 and December 31, 2022, these Junior Subordinated Deferrable Debentures amounted to \$183.8 million.

Under the indentures, the Corporation has the right, from time to time, and without causing an event of default, to defer payments of interest on the Junior Subordinated Deferrable Debentures by extending the interest payment period at any time and from time to time during the term of the subordinated debentures for up to twenty consecutive quarterly periods. As of March 31, 2023, the Corporation was current on all interest payments due on its subordinated debt.

Private Label MBS

During 2004 and 2005, an unaffiliated party, referred to in this subsection as the seller, established a series of statutory trusts to effect the securitization of mortgage loans and the sale of trust certificates (“private label MBS”). The seller initially provided the servicing for a fee, which is senior to the obligations to pay private label MBS holders. The seller then entered into a sales agreement through which it sold and issued the private label MBS in favor of the Corporation’s banking subsidiary, FirstBank. Currently, the Bank is the sole owner of these private label MBS; the servicing of the underlying residential mortgages that generate the principal and interest cash flows is performed by another third party, which receives a servicing fee. These private label MBS are variable-rate securities indexed to 3-month LIBOR plus a spread. As mentioned above in Note 2, Debt Securities, pursuant to the provisions of the LIBOR Act and Regulation ZZ, the LIBOR reference of these private label MBS shall be replaced by the 3-month CME Term SOFR rate plus a spread adjustment of 0.26161% on the first reset date after USD LIBOR ceases publication in June 2023. The principal payments from the underlying loans are remitted to a paying agent (servicer), who then remits interest to the Bank. Interest income is shared to a certain extent with the FDIC, which has an interest only strip (“IO”) tied to the cash flows of the underlying loans and is entitled to receive the excess of the interest income less a servicing fee over the variable rate income that the Bank earns on the securities. This IO is limited to the weighted-average coupon on the mortgage loans. The FDIC became the owner of the IO upon its intervention of the seller, a failed financial institution. No recourse agreement exists, and the Bank, as the sole holder of the securities, absorbs all risks from losses on non-accruing loans and repossessed collateral. As of March 31, 2023, the amortized cost and fair value of these private label MBS amounted to \$7.7 million and \$5.4 million, respectively, with a weighted average yield of 7.25%, which is included as part of the Corporation’s available-for-sale debt securities portfolio. As described in Note 2 – Debt Securities, the ACL on these private label MBS amounted to \$0.1 million as of March 31, 2023.

Servicing Assets (MSRs)

The Corporation typically transfers first lien residential mortgage loans in conjunction with GNMA securitization transactions in which the loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights. The securities issued through these transactions are guaranteed by GNMA and, under seller/servicer agreements, the Corporation is required to service the loans in accordance with the issuers’ servicing guidelines and standards. As of March 31, 2023, the Corporation serviced loans securitized through GNMA with a principal balance of \$2.1 billion. Also, certain conventional conforming loans are sold to FNMA or FHLMC with servicing retained. The Corporation recognizes as separate assets the rights to service loans for others, whether those servicing assets are originated or purchased. MSRs are included as part of other assets in the consolidated statements of financial condition.

The changes in MSRs are shown below for the indicated periods:

	Quarter Ended March 31,	
	2023	2022
(In thousands)		
Balance at beginning of year	\$ 29,037	\$ 30,986
Capitalization of servicing assets	532	1,130
Amortization	(1,128)	(1,330)
Temporary impairment recoveries	4	55
Other ⁽¹⁾	(14)	(88)
Balance at end of period	<u>\$ 28,431</u>	<u>\$ 30,753</u>

(1) Mainly represents adjustments related to the repurchase of loans serviced for others.

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

Changes in the impairment allowance were as follows for the indicated periods:

	Quarter Ended March 31,	
	2023	2022
(In thousands)		
Balance at beginning of year	\$ 12	\$ 78
Recoveries	(4)	(55)
Balance at end of period	<u>\$ 8</u>	<u>\$ 23</u>

The components of net servicing income, included as part of mortgage banking activities in the consolidated statements of income, are shown below for the indicated periods:

	Quarter Ended March 31,	
	2023	2022
(In thousands)		
Servicing fees	\$ 2,718	\$ 2,819
Late charges and prepayment penalties	199	194
Adjustment for loans repurchased	(14)	(88)
Servicing income, gross	2,903	2,925
Amortization and impairment of servicing assets	(1,124)	(1,275)
Servicing income, net	<u>\$ 1,779</u>	<u>\$ 1,650</u>

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

	<u>Weighted Average</u>	<u>Maximum</u>	<u>Minimum</u>
Quarter Ended March 31, 2023			
Constant prepayment rate:			
Government-guaranteed mortgage loans	6.7 %	11.6 %	4.8 %
Conventional conforming mortgage loans	7.7 %	16.0 %	3.8 %
Conventional non-conforming mortgage loans	5.7 %	7.0 %	2.1 %
Discount rate:			
Government-guaranteed mortgage loans	11.5 %	11.5 %	11.5 %
Conventional conforming mortgage loans	9.5 %	9.5 %	9.5 %
Conventional non-conforming mortgage loans	12.8 %	14.0 %	11.5 %
Quarter Ended March 31, 2022			
Constant prepayment rate:			
Government-guaranteed mortgage loans	6.7%	18.3 %	4.8 %
Conventional conforming mortgage loans	6.6%	18.4 %	3.4 %
Conventional non-conforming mortgage loans	6.6%	21.9 %	4.9 %
Discount rate:			
Government-guaranteed mortgage loans	12.0%	12.0 %	12.0 %
Conventional conforming mortgage loans	10.0%	10.0 %	10.0 %
Conventional non-conforming mortgage loans	12.3%	14.5 %	12.0 %

The weighted averages of the key economic assumptions that the Corporation used in its valuation model and the sensitivity of the current fair value to immediate 10% and 20% adverse changes in those assumptions for mortgage loans as of March 31, 2023 and December 31, 2022 were as follows:

	<u>March 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
(In thousands)		
Carrying amount of servicing assets	\$ 28,431	\$ 29,037
Fair value	\$ 45,270	\$ 44,710
Weighted-average expected life (in years)	7.80	7.80
Constant prepayment rate (weighted-average annual rate)	6.34 %	6.40 %
Decrease in fair value due to 10% adverse change	\$ 1,040	\$ 1,048
Decrease in fair value due to 20% adverse change	\$ 2,036	\$ 2,054
Discount rate (weighted-average annual rate)	10.70 %	10.69 %
Decrease in fair value due to 10% adverse change	\$ 1,960	\$ 1,925
Decrease in fair value due to 20% adverse change	\$ 3,770	\$ 3,704

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

NOTE 8 – DEPOSITS

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

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
(In thousands)		
Type of account and interest rate:		
Non-interest-bearing deposit accounts	\$ 6,024,304	\$ 6,112,884
Interest-bearing saving accounts	3,808,182	3,902,888
Interest-bearing checking accounts	3,547,963	3,770,993
Certificates of deposit (“CDs”)	2,418,611	2,250,876
Brokered CDs	252,905	105,826
Total	<u>\$ 16,051,965</u>	<u>\$ 16,143,467</u>

The following table presents the contractual maturities of CDs, including brokered CDs, as of March 31, 2023:

	<u>Total</u>
(In thousands)	
Three months or less	\$ 499,307
Over three months to six months	361,274
Over six months to one year	732,933
Over one year to two years	751,913
Over two years to three years	155,590
Over three years to four years	46,748
Over four years to five years	117,009
Over five years	6,742
Total	<u>\$ 2,671,516</u>

The following were the components of interest expense on deposits for the indicated periods:

	<u>Quarter Ended March 31,</u>	
	<u>2023</u>	<u>2022</u>
(In thousands)		
Interest expense on deposits	\$ 29,924	\$ 7,817
Accretion of premiums from acquisitions	(83)	(200)
Amortization of broker placement fees	44	35
Total	<u>\$ 29,885</u>	<u>\$ 7,652</u>

Total U.S. time deposits with balances of more than \$250,000 amounted to \$1.1 billion and \$1.0 billion as of March 31, 2023 and December 31, 2022, respectively. This amount does not include brokered CDs that are generally participated out by brokers in shares of less than the FDIC insurance limit. As of March 31, 2023 and December 31, 2022, unamortized broker placement fees amounted to \$0.4 million and \$0.3 million, respectively, which are amortized over the contractual maturity of the brokered CDs under the interest method.

NOTE 9 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (REPURCHASE AGREEMENTS)

Repurchase agreements as of the indicated dates consisted of the following:

(In thousands)	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Short-term Fixed-rate repurchase agreements ⁽¹⁾	\$ 172,982	\$ 75,133

(1) Weighted-average interest rate of 5.08% and 4.55% as of March 31, 2023 and December 31, 2022.

The \$75.1 million in repurchase agreements outstanding as of December 31, 2022 matured and were repaid during the first quarter of 2023. In addition, the Corporation added \$173.0 million in short-term repurchase agreements reflecting precautionary measures taken by management in light of recent instability in the banking sector.

Repurchase agreements mature as follows as of the indicated date:

(In thousands)	<u>March 31, 2023</u>
Within one month	\$ 172,982

As of March 31, 2023 and December 31, 2022, the securities underlying such agreements were delivered to the dealers with which the repurchase agreements were transacted. In accordance with the master agreements, in the event of default, repurchase agreements have a right of set-off against the other party for amounts owed under the related agreement and any other amount or obligation owed with respect to any other agreement or transaction between them. As of March 31, 2023 and December 31, 2022, repurchase agreements were fully collateralized and not offset in the consolidated statements of financial condition.

Repurchase agreements as of March 31, 2023, grouped by counterparty, were as follows:

<u>Counterparty</u>	<u>Amount</u>	<u>Weighted-Average Maturity (In Months)</u>
(Dollars in thousands)		
JP Morgan Chase	\$ 172,982	1

NOTE 10 – ADVANCES FROM THE FEDERAL HOME LOAN BANK (“FHLB ”)

The following is a summary of the advances from the FHLB as of the indicated dates:

	<u>March 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
(In thousands)		
Short-term Fixed-rate advances from the FHLB (1)	\$ 425,000	\$ 475,000
Long-term Fixed-rate advances from the FHLB (2)	500,000	200,000
	<u>\$ 925,000</u>	<u>\$ 675,000</u>

(1) Weighted-average interest rate of 5.04% and 4.56% as of March 31, 2023 and December 31, 2022, respectively.

(2) Weighted-average interest rate of 4.45% and 4.25% as of March 31, 2023 and December 31, 2022, respectively.

Advances from the FHLB mature as follows as of the indicated date:

	<u>March 31, 2023</u>
(In thousands)	
Within one month	\$ 425,000
Over one to five years	500,000
Total	<u>\$ 925,000</u>

During the first quarter of 2023, the Corporation added \$425.0 million of short-term FHLB advances at an average cost of 5.04% and \$300.0 million of long-term FHLB advances at an average cost of 4.59%, and repaid upon maturity \$475.0 million of short-term FHLB advances at an average cost of 4.56%.

NOTE 11 – OTHER LONG-TERM BORROWINGS

Junior Subordinated Debentures

Junior subordinated debentures, as of the indicated dates, consisted of:

	<u>March 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
(In thousands)		
Floating rate junior subordinated debentures (FBP Statutory Trust I) (1) (3) (4)	\$ 65,205	\$ 65,205
Floating rate junior subordinated debentures (FBP Statutory Trust II) (2) (3) (4)	118,557	118,557
	<u>\$ 183,762</u>	<u>\$ 183,762</u>

(1) Amount represents junior subordinated interest-bearing debentures due in 2034 with a floating interest rate of 2.75% over 3-month LIBOR (7.66% as of March 31, 2023 and 7.49% as of December 31, 2022).

(2) Amount represents junior subordinated interest-bearing debentures due in 2034 with a floating interest rate of 2.50% over 3-month LIBOR (7.46% as of March 31, 2023 and 7.25% as of December 31, 2022).

(3) Following the provisions of the LIBOR Act and Regulation ZZ, the LIBOR reference on these contracts will automatically transition by operation of law to three-month CME Term SOFR, plus a spread adjustment of 0.26161% on the first reset date after USD LIBOR ceases publication in June 2023.

(4) See Note 7 - Non-Consolidated Variable Interest Entities (“VIEs”) and Servicing Assets, for additional information on the nature and terms of these debentures.

NOTE 12 – EARNINGS PER COMMON SHARE

The calculations of earnings per common share for the quarters ended March 31, 2023 and 2022 are as follows:

	Quarter Ended March 31,	
	2023	2022
(In thousands, except per share information)		
Net income attributable to common stockholders	\$ 70,698	\$ 82,600
Weighted-Average Shares:		
Average common shares outstanding	180,215	198,130
Average potential dilutive common shares	1,021	1,407
Average common shares outstanding - assuming dilution	181,236	199,537
Earnings per common share:		
Basic	\$ 0.39	\$ 0.42
Diluted	\$ 0.39	\$ 0.41

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 but not yet paid, 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 and performance units (if any of the performance conditions are met as of the end of the reporting period), that do not contain non-forfeitable dividend or dividend equivalent rights using the treasury stock method. This method assumes that proceeds equal to the amount of compensation cost attributable to future services is used to repurchase shares on the open market at the average market price for the period. The difference between the number 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 outstanding during the period that result in lower potentially 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. There were no antidilutive shares of common stock during the quarters ended March 31, 2023 and 2022.

NOTE 13 – STOCK-BASED COMPENSATION

The First Bancorp Omnibus Incentive Plan (the “Omnibus Plan”), which is effective until May 24, 2026, provides for equity-based and non equity-based compensation incentives (the “awards”). The Omnibus Plan authorizes the issuance of up to 14,169,807 shares of common stock, subject to adjustments for stock splits, reorganizations and other similar events. As of March 31, 2023, there were 3,142,813 authorized shares of common stock available for issuance under the Omnibus Plan. The Board, based on the recommendation of the Compensation and Benefits Committee of the Board, 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, participants may exercise full voting rights with respect to the shares of restricted stock granted to them. The fair value of the shares of restricted stock granted was based on the market price of the Corporation’s common stock on the date of the respective grant. The shares of restricted stocks granted to employees are subject to the following vesting period: fifty percent (50%) of those shares vest on the two-year anniversary of the grant date and the remaining 50% vest on the three-year anniversary of the grant date. The shares of restricted stock granted to directors are generally subject to vesting on the one-year anniversary of the grant date. The Corporation issued 495,891 shares during the quarter ended March 31, 2023 in connection with restricted stock awards, which were reissued from treasury shares.

The following table summarizes the restricted stock activity under the Omnibus Plan during the quarters ended March 31, 2023 and 2022:

	Quarter ended March 31, 2023		Quarter ended March 31, 2022	
	Number of shares of restricted stock	Weighted- Average Grant Date Fair Value	Number of shares of restricted stock	Weighted- Average Grant Date Fair Value
Unvested shares outstanding at beginning of year	938,491	\$ 9.14	1,148,775	\$ 6.61
Granted (1)	495,891	11.99	299,440	13.15
Forfeited	(25,415)	9.98	(3,092)	6.69
Vested	(481,536)	5.93	(487,198)	5.72
Unvested shares outstanding at end of period	927,431	\$ 12.32	957,925	\$ 9.10

(1) For the quarter ended March 31, 2023, includes 3,502 shares of restricted stock awarded to independent directors and 492,389 shares of restricted stock awarded to employees, of which 33,718 shares were granted to retirement-eligible employees and thus charged to earnings as of the grant date. Includes for the quarter ended March 31, 2022, 3,048 shares of restricted stock awarded to independent directors and 296,392 shares of restricted stock awarded to employees, of which 6,084 shares were granted to retirement-eligible employees and thus charged to earnings as of the grant date.

For the quarters ended March 31, 2023 and 2022, the Corporation recognized \$1.6 million and \$0.9 million, respectively, of stock-based compensation expense related to restricted stock awards. As of March 31, 2023, there was \$7.8 million of total unrecognized compensation cost related to unvested shares of restricted stock that the Corporation expects to recognize over a weighted average period of 2.1 years.

Performance Units

Under the Omnibus Plan, the Corporation may award performance units to participants, with each unit representing the value of one share of the Corporation's common stock. These awards, which are granted to executives, do not contain non-forfeitable rights to dividend equivalent amounts and can only be settled in shares of the Corporation's common stock.

On March 16, 2023, the Corporation granted 216,876 performance units to executives. Performance units granted on or after March 16, 2023 will vest on the third anniversary of the effective date of the award based on actual achievement of two performance metrics weighted equally: relative total shareholder return ("Relative TSR"), compared to companies that comprise the KBW Nasdaq Regional Banking Index, and the achievement of a tangible book value per share ("TBVPS") goal, which is measured based upon the growth in the tangible book value during the performance cycle, adjusted for certain allowable non-recurring transactions. The participant may earn 50% of their target opportunity for threshold-level performance and up to 150% of their target opportunity for maximum-level performance, based on the achievement of the performance goals during a three-year performance cycle. Amounts between threshold, target and maximum performance will vest on a proportional amount. Performance units granted prior to March 16, 2023 vest subject only to achievement of a TBVPS goal. In addition, the participant may earn only up to 100% of their target opportunity.

The following table summarizes the performance units activity under the Omnibus Plan during the quarters ended March 31, 2023 and 2022:

	Quarter ended March 31, 2023		Quarter ended March 31, 2022	
	Number of Performance Units	Weighted - Average Grant Date Fair Value	Number of Performance Units	Weighted - Average Grant Date Fair Value
Performance units at beginning of year	791,923	7.36	814,899	7.06
Additions (1)	216,876	12.24	166,669	13.15
Vested (2)	(474,538)	4.08	(189,645)	11.16
Performance units at end of period	<u>534,261</u>	<u>12.25</u>	<u>791,923</u>	<u>7.36</u>

(1) Units granted during the quarter ended March 31, 2023 are based on the achievement of the Relative TSR and TBVPS performance goals during a three-year performance cycle beginning January 1, 2023 and ending on December 31, 2025. Units granted during the quarter ended March 31, 2022 are based on the TBVPS achievement of the performance goal during a three-year performance cycle beginning January 1, 2022 and ending on December 31, 2024.

(2) Units vested during the quarter ended March 31, 2023 are related to performance units granted in 2020 that met the pre-established target and were settled with shares of common stock reissued from treasury shares. Units vested during the quarter ended March 31, 2022 are related to performance units granted in 2019 that met the pre-established target and were settled with shares of common stock reissued from treasury shares.

The fair value of the performance units awarded during the quarter ended March 31, 2023 and 2022, that was based on the TBVPS goal component, was calculated based on the market price of the Corporation's common stock on the respective date of the grant and assuming attainment of 100% of target opportunity. As of March 31, 2023, there have been no changes on management's assessment of the probability that the pre-established TBVPS goal will be achieved; as such, no cumulative adjustment to compensation expense has been recognized. The fair value of the performance units awarded during the quarter ended March 31, 2023, that was based on the Relative TSR component, was calculated using a Monte Carlo simulation. Since the Relative TSR component is considered a market condition, the fair value of the portion of the award based on Relative TSR is not revised subsequent to grant date based on actual performance.

For the quarters ended March 31, 2023 and 2022, the Corporation recognized \$0.5 million and \$0.3 million, respectively, of stock-based compensation expense related to performance units. As of March 31, 2023, there was \$4.7 million of total unrecognized compensation cost related to unvested performance units that the Corporation expects to recognize over a weighted average period of 2.4 years.

The following table summarizes the valuation assumptions used to calculate the fair value of the Relative TSR component of the performance units granted under the Omnibus Plan during the quarter ended March 31, 2023:

	Quarter Ended March 31, 2023
Risk-free interest rate (1)	3.98 %
Correlation coefficient	77.16
Expected dividend yield (2)	-
Expected volatility (3)	41.37
Expected life (in years)	2.79

(1) Based on the yield on zero-coupon U.S. Treasury STRIPS as of the grant date.

(2) Assumes that dividends are reinvested at each ex-dividend date.

(3) Calculated based on the historical volatility of each company's stock price with a look-back period equal to the simulation term using daily stock prices.

Shares withheld

During the first quarter of 2023, the Corporation withheld 287,835 shares (first quarter of 2022 – 201,930 shares) of the restricted stock that vested during such period to cover the officers' 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 an officer was entitled. In the consolidated financial statements, the Corporation presents shares withheld for tax purposes as common stock repurchases.

NOTE 14 – STOCKHOLDERS’ EQUITY

Stock Repurchase Programs

On April 27, 2022, the Corporation announced that its Board approved a stock repurchase program, under which the Corporation may repurchase up to \$350 million of its outstanding common stock, which commenced in the second quarter of 2022. Repurchases under the program may be executed through open market purchases, accelerated share repurchases and/or privately negotiated transactions or plans, including plans complying with Rule 10b5-1 under the Exchange Act. The Corporation’s common stock repurchase program is subject to various factors, including the Corporation’s capital position, liquidity, financial performance and alternative uses of capital, stock trading price, and general market conditions. The repurchase program may be modified, suspended, or terminated at any time at the Corporation’s discretion. The program does not obligate the Corporation to acquire any specific number of shares and does not have an expiration date. During the first quarter of 2023, the Corporation repurchased 3,577,540 shares of common stock through open market transactions at an average purchase price of \$13.98 per share for a total price of approximately \$50 million. As of March 31, 2023, the Corporation has remaining authorization to repurchase approximately \$75 million of common stock. Considering the industry-wide uncertain environment, the Corporation decided to pause share buybacks during the second quarter of 2023 and it expects to resume shares repurchases during the third quarter of 2023 subject to factors mentioned above.

During the first quarter of 2022, the Corporation completed a previously publicly-announced \$300 million stock repurchase program approved by the Board on April 26, 2021 by purchasing through open market transactions 3,409,697 shares of common stock at an average price of \$14.66 for a total purchase price of approximately \$50 million.

Common Stock

The following table shows the change in shares of common stock outstanding for the quarters ended March 31, 2023, and 2022:

	Total Number of Shares	
	Quarter Ended March 31,	
	2023	2022
Common stock outstanding, beginning balance	182,709,059	201,826,505
Common stock repurchased ⁽¹⁾	(3,865,375)	(3,611,627)
Common stock reissued under stock-based compensation plan	970,429	489,085
Restricted stock forfeited	(25,415)	(3,092)
Common stock outstanding, ending balances	179,788,698	198,700,871

(1) For the quarters ended March 31, 2023 and 2022 includes 287,835 and 201,930 shares, respectively, of common stock surrendered to cover officers’ payroll and income taxes.

For the quarters ended March 31, 2023 and 2022, total cash dividends declared on shares of common stock amounted to \$25.4 million and \$19.9 million, respectively. On April 27, 2023, the Corporation announced that its Board had declared a quarterly cash dividend of \$0.14 per common share payable on June 9, 2023 to shareholders of record at the close of business on May 24, 2023. The Corporation intends to continue to pay quarterly dividends on common stock. However, the Corporation’s common stock dividends, including the declaration, timing, and amount, remain subject to consideration and approval by the Corporation’s Board Directors at the relevant times.

Preferred Stock

The Corporation has 50,000,000 authorized shares of preferred stock with a par value of \$1.00, redeemable at the Corporation's option, subject to certain terms. This stock may be issued in series and the shares of each series have such rights and preferences as are fixed by the Board when authorizing the issuance of that particular series. No shares of preferred stock were outstanding as of March 31, 2023 and December 31, 2022.

Treasury Stock

The following table shows the change in shares of treasury stock for the quarters ended March 31, 2023 and 2022.

	Total Number of Shares	
	Quarter Ended March 31,	
	2023	2022
Treasury stock, beginning balance	40,954,057	21,836,611
Common stock repurchased ⁽¹⁾	3,865,375	3,611,627
Common stock reissued under stock-based compensation plan	(970,429)	(489,085)
Restricted stock forfeited	25,415	3,092
Treasury stock, ending balances	43,874,418	24,962,245

(1) For the quarters ended March 31, 2023 and 2022 includes 287,835 and 201,930 shares, respectively, of common stock surrendered to cover officers' payroll and income taxes.

FirstBank Statutory Reserve (Legal Surplus)

The Puerto Rico Banking Law of 1933, as amended (the "Puerto Rico Banking Law"), requires that a minimum of 10% of FirstBank's net income for the year be transferred to a legal surplus reserve until such surplus equals the total of paid-in-capital on common and preferred stock. Amounts transferred to the legal surplus reserve from retained earnings are not available for distribution to the Corporation without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The Puerto Rico Banking Law provides that, when the expenditures of a Puerto Rico commercial bank are greater than receipts, the excess of the expenditures over receipts must be charged against the undistributed profits of the bank, and the balance, if any, must be charged against the legal surplus reserve, as a reduction thereof. If the legal surplus reserve is not sufficient to cover such balance in whole or in part, the outstanding amount must be charged against the capital account and the Bank cannot pay dividends until it can replenish the legal surplus reserve to an amount of at least 20% of the original capital contributed. FirstBank's legal surplus reserve, included as part of retained earnings in the Corporation's consolidated statements of financial condition, amounted to \$168.5 million as of each March 31, 2023 and December 31, 2022. There were no transfers to the legal surplus reserve during the quarter ended March 31, 2023.

NOTE 15 – ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in accumulated other comprehensive loss for the quarters ended March 31, 2023 and 2022:

	Changes in Accumulated Other Comprehensive Loss by Component (1)			
	Quarter ended March 31,			
	2023		2022	
(In thousands)				
Unrealized net holding losses on available-for-sale debt securities:				
Beginning balance	\$	(805,972)	\$	(87,390)
Other comprehensive income (loss)		87,228		(331,834)
Ending balance	\$	(718,744)	\$	(419,224)
Adjustment of pension and postretirement benefit plans:				
Beginning balance	\$	1,194	\$	3,391
Other comprehensive income (loss)		-		-
Ending balance	\$	1,194	\$	3,391

(1) All amounts presented are net of tax.

NOTE 16 – EMPLOYEE BENEFIT PLANS

The Corporation maintains two frozen qualified noncontributory defined benefit pension plans (the “Pension Plans”), and a related complementary post-retirement benefit plan (the “Postretirement Benefit Plan”) covering medical benefits and life insurance after retirement that it obtained in the Banco Santander Puerto Rico (“BSPR”) acquisition on September 1, 2020. One defined benefit pension plan covers substantially all of BSPR’s former employees who were active before January 1, 2007, while the other defined benefit pension plan covers personnel of an institution previously acquired by BSPR. Benefits are based on salary and years of service. The accrual of benefits under the Pension Plans is frozen to all participants.

The Corporation requires recognition of a plan’s overfunded and underfunded status as an asset or liability with an offsetting adjustment to accumulated other comprehensive loss pursuant to the ASC Topic 715, “Compensation-Retirement Benefits.”

The following table presents the components of net periodic cost (benefit) for the indicated periods:

	Affected Line Item in the Consolidated Statements of Income	Quarter Ended	
		March 31, 2023	March 31, 2022
(In thousands)			
Net periodic cost (benefit), pension plans:			
Interest cost	Other expenses	\$ 950	\$ 654
Expected return on plan assets	Other expenses	(886)	(1,039)
Net periodic cost (benefit), pension plans		64	(385)
Net periodic cost, postretirement plan	Other expenses	6	1
Net periodic cost (benefit)		\$ 70	\$ (384)

NOTE 17 – INCOME TAXES

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

Under the Puerto Rico Internal Revenue Code of 2011 PR (the "2011 PR Code"), the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns and, thus, the Corporation is generally not entitled to utilize losses from one subsidiary to offset gains in another subsidiary. Accordingly, in order to obtain a tax benefit from a net operating loss ("NOL"), a particular subsidiary must be able to demonstrate sufficient taxable income within the applicable NOL carry-forward period. Pursuant to the 2011 PR Code, the carry-forward period for NOLs incurred during taxable years that commenced after December 31, 2004 and ended before January 1, 2013 is 12 years; for NOLs incurred during taxable years commencing after December 31, 2012, the carryover period is 10 years. The 2011 PR Code provides a dividend received deduction of 100% on dividends received from "controlled" subsidiaries subject to taxation in Puerto Rico and 85% on dividends received from other taxable domestic corporations.

The Corporation has maintained an effective tax rate lower than the Puerto Rico maximum statutory rate of 37.5% mainly by investing in government obligations and MBS exempt from U.S. and Puerto Rico income taxes and by doing business through an international banking entity (an "IBE") unit of the Bank, and through the Bank's subsidiary, FirstBank Overseas Corporation, whose interest income and gains on sales are exempt from Puerto Rico income taxation. The IBE unit and FirstBank Overseas Corporation were created under the International Banking Entity Act of Puerto Rico, which provides for total Puerto Rico tax exemption on net income derived by IBEs operating in Puerto Rico on the specific activities identified in the IBE Act. An IBE that operates as a unit of a bank pays income taxes at the corporate standard rates to the extent that the IBE's net income exceeds 20% of the bank's total net taxable income.

For the first quarter of 2023, the Corporation recorded an income tax expense of \$31.9 million compared to \$43.0 million in the first quarter of 2022. The variance was primarily related to lower pre-tax income and a lower estimated effective tax rate as a result of a higher proportion of exempt to taxable income when compared to the same period in 2022. The Corporation's estimated annual effective tax rate, excluding entities with pre-tax losses from which a tax benefit cannot be recognized and discrete items, was 31.2% for the first quarter of 2023, compared to 32.9% for the first quarter of 2022.

The net deferred tax asset of the Corporation's banking subsidiary, FirstBank, amounted to \$154.8 million as of March 31, 2023, net of a valuation allowance of \$139.1 million, compared to a net deferred tax asset of \$155.6 million, net of a valuation allowance of \$149.5 million, as of December 31, 2022. The Corporation maintains a full valuation allowance for its deferred tax assets associated with capital losses carry forward and unrealized losses of available-for-sale debt securities. The reduction in the valuation allowance was related to the change in the market value of available-for-sale debt securities, which resulted in a change in the deferred tax asset and an equal change in the valuation allowance without impacting earnings.

In 2017, the Corporation completed a formal ownership change analysis within the meaning of Section 382 of the U.S. Internal Revenue Code (“Section 382”) covering a comprehensive period and concluded that an ownership change had occurred during such period. The Section 382 limitation has resulted in higher U.S. and USVI income tax liabilities that we would have incurred in the absence of such limitation. The Corporation has mitigated to an extent the adverse effects associated with the Section 382 limitation as any such tax paid in the U.S. or USVI can be creditable against Puerto Rico tax liabilities or taken as a deduction against taxable income. However, our ability to reduce our Puerto Rico tax liability through such a credit or deduction depends on our tax profile at each annual taxable period, which is dependent on various factors. For the first quarters of 2023 and 2022, the Corporation incurred current income tax expense of approximately \$2.5 million and \$1.6 million, respectively, related to its U.S. operations. The limitation did not impact the USVI operations in the first quarters of 2023 and 2022, respectively.

The Corporation accounts for uncertain tax positions under the provisions of ASC Topic 740. The Corporation’s policy is to report interest and penalties related to unrecognized tax positions in income tax expense. As of March 31, 2023, the Corporation had \$0.2 million of accrued interest and penalties related to uncertain tax positions in the amount of \$ 1.0 million that it acquired from BSPR, which, if recognized, would decrease the effective income tax rate in future periods. The amount of unrecognized tax benefits may increase or decrease in the future for various reasons, including adding amounts for current tax year positions, expiration of open income tax returns due to the statute of limitations, changes in management’s judgment about the level of uncertainty, the status of examinations, litigation and legislative activity, and the addition or elimination of uncertain tax positions. The statute of limitations under the 2011 PR Code is four years after a tax return is due or filed, whichever is later; the statute of limitations for U.S. and USVI income tax purposes is three years after a tax return is due or filed, whichever is later. The completion of an audit by the taxing authorities or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Corporation’s liability for income taxes. Any such adjustment could be material to the results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. For U.S. and USVI income tax purposes, all tax years subsequent to 2018 remain open to examination. For Puerto Rico tax purposes, all tax years subsequent to 2017 remain open to examination.

NOTE 18 – FAIR VALUE

Fair Value Measurement

ASC Topic 820, “Fair Value Measurement,” defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance also establishes a fair value hierarchy for classifying assets and liabilities, which is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. One of three levels of inputs may be used to measure fair value:

- Level 1** Valuations of Level 1 assets and liabilities are obtained from readily-available pricing sources for market transactions involving identical assets or liabilities in active markets.
- Level 2** Valuations of Level 2 assets and liabilities are based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Valuations of Level 3 assets and liabilities are based on unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models for which the determination of fair value requires significant management judgment as to the estimation.

See Note 25 – Fair Value, to the audited consolidated financial statements included in the 2022 Annual Report on Form 10-K for a description of the valuation methodologies used to measure financial instruments at fair value on a recurring basis.

Assets and liabilities measured at fair value on a recurring basis are summarized below as of March 31, 2023 and December 31, 2022:

	As of March 31, 2023				As of December 31, 2022			
	Fair Value Measurements Using				Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(In thousands)								
Assets:								
Debt securities available for sale:								
U.S. Treasury securities	\$ 140,422	\$ -	\$ -	\$ 140,422	\$ 138,875	\$ -	\$ -	\$ 138,875
Noncallable U.S. agencies debt securities	-	428,675	-	428,675	-	389,787	-	389,787
Callable U.S. agencies debt securities	-	1,962,535	-	1,962,535	-	1,963,566	-	1,963,566
MBS	-	3,050,019	5,402 (1)	3,055,421	-	3,098,797	5,794 (1)	3,104,591
Puerto Rico government obligations	-	-	2,203	2,203	-	-	2,201	2,201
Other investments	-	-	-	-	-	-	500	500
Equity securities	4,926	-	-	4,926	4,861	-	-	4,861
Derivative assets	-	628	-	628	-	633	-	633
Liabilities:								
Derivative liabilities	-	645	-	645	-	476	-	476

(1) Related to private label MBS.

The table below presents a reconciliation of the beginning and ending balances of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarters ended March 31, 2023 and 2022:

Level 3 Instruments Only	Quarter Ended March 31,			
	2023		2022	
	Securities Available for Sale ⁽¹⁾		Securities Available for Sale ⁽¹⁾	
(In thousands)				
Beginning balance	\$	8,495	\$	11,084
Total gains (losses):				
Included in other comprehensive loss (unrealized)		(162)		(287)
Included in earnings (unrealized) ⁽²⁾		9		388
Principal repayments and amortization ⁽³⁾		(737)		(538)
Ending balance	\$	7,605	\$	10,647

(1) Amounts mostly related to private label MBS.

(2) Changes in unrealized gains included in earnings were recognized within provision for credit losses - expense (benefit) and relate to assets still held as of the reporting date.

(3) Includes the \$0.5 million repayment of a matured debt security.

The tables below present quantitative information for significant assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of March 31, 2023 and December 31, 2022:

March 31, 2023							
	Fair Value	Valuation Technique	Unobservable Input	Range		Weighted Average	
				Minimum	Maximum		
(Dollars in thousands)							
Available-for-sale debt securities:							
Private label MBS	\$ 5,402	Discounted cash flows	Discount rate	16.0%	16.0%	16.0%	
			Prepayment rate	1.6%	12.6%	9.2%	
			Projected cumulative loss rate	0.2%	14.9%	5.2%	
Puerto Rico government obligations	\$ 2,203	Discounted cash flows	Discount rate	12.8%	12.8%	12.8%	
			Projected cumulative loss rate	19.0%	19.0%	19.0%	

December 31, 2022							
	Fair Value	Valuation Technique	Unobservable Input	Range		Weighted Average	
				Minimum	Maximum		
(Dollars in thousands)							
Available-for-sale debt securities:							
Private label MBS	\$ 5,794	Discounted cash flows	Discount rate	16.2%	16.2%	16.2%	
			Prepayment rate	1.5%	15.2%	11.8%	
			Projected cumulative loss rate	0.3%	15.6%	5.6%	
Puerto Rico government obligations	\$ 2,201	Discounted cash flows	Discount rate	12.9%	12.9%	12.9%	
			Projected cumulative loss rate	19.3%	19.3%	19.3%	

Information about Sensitivity to Changes in Significant Unobservable Inputs

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

Puerto Rico Government Obligations: The significant unobservable input used in the fair value measurement is the assumed loss rate of the underlying residential mortgage loans that collateralize these obligations, which are guaranteed by the PRHFA. A significant increase (decrease) in the assumed rate would lead to a (lower) higher fair value estimate. The fair value of these bonds was based on a discounted cash flow methodology that considers the structure and terms of the debt security. The Corporation utilizes PDs and LGDs that consider, among other things, historical payment performance, loan-to-value attributes, and relevant current and forward-looking macroeconomic variables, such as regional unemployment rates, the housing price index, and expected recovery of the PRHFA guarantee. Under this approach, expected cash flows (interest and principal) are discounted at the Treasury yield curve plus a spread as of the reporting date and compared to the amortized cost.

Additionally, fair value is used on a nonrecurring basis to evaluate certain assets in accordance with GAAP.

As of March 31, 2023, the Corporation recorded losses or valuation adjustments for assets recognized at fair value on a non-recurring basis and still held at March 31, 2023, as shown in the following table:

	Carrying value as of March 31,		Related to losses recorded for the Quarter Ended March 31,	
	2023	2022	2023	2022
(In thousands)				
Level 3:				
Loans receivable (1)	\$ 3,486	\$ 25,951	\$ (60)	\$ (3,539)
OREO (2)	814	1,432	(33)	(73)

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

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

See Note 25 – Fair Value, to the audited consolidated financial statements to the audited consolidated financial statements included in the 2022 Annual Report on Form 10-K for qualitative information regarding the fair value measurements for Level 3 financial instruments measured at fair value on nonrecurring basis.

The following tables present the carrying value, estimated fair value and estimated fair value level of the hierarchy of financial instruments as of March 31, 2023 and December 31, 2022:

	Total Carrying Amount in Statement of Financial Condition as of March 31, 2023		Fair Value Estimate as of March 31, 2023		Level 1	Level 2	Level 3
(In thousands)							
Assets:							
Cash and due from banks and money market investments (amortized cost)	\$	823,601	\$	823,601	\$	823,601	\$ -
Available-for-sale debt securities (fair value)		5,589,256		5,589,256	140,422	5,441,229	7,605
Held-to-maturity debt securities (amortized cost)		431,395					
Less: ACL on held-to-maturity debt securities		(7,646)					
Held-to-maturity debt securities, net of ACL	\$	423,749		419,752	-	255,209	164,543
Equity securities (amortized cost)		61,788		61,788	-	61,788 (1)	-
Other equity securities (fair value)		4,926		4,926	4,926	-	-
Loans held for sale (lower of cost or market)		15,183		15,214	-	15,214	-
Loans held for investment (amortized cost)		11,577,985					
Less: ACL for loans and finance leases		(265,567)					
Loans held for investment, net of ACL	\$	11,312,418		11,030,421	-	-	11,030,421
MSRs (amortized cost)		28,431		45,270	-	-	45,270
Derivative assets (fair value) (2)		628		628	-	628	-
Liabilities:							
Deposits (amortized cost)	\$	16,051,965	\$	16,039,550	\$	16,039,550	\$ -
Short-term securities sold under agreements to repurchase (amortized cost)		172,982		173,936	-	173,936	-
Advances from the FHLB (amortized cost):							
Short-term		425,000		426,665	-	426,665	-
Long-term		500,000		501,990	-	501,990	-
Other long-term borrowings (amortized cost)		183,762		187,183	-	-	187,183
Derivative liabilities (fair value) (2)		645		645	-	645	-

(1) Includes FHLB stock with a carrying value of \$54.2 million, which are considered restricted.

(2) Includes interest rate swap agreements, interest rate caps, forward contracts, interest rate lock commitments, and forward loan sales commitments.

	Total Carrying Amount in Statement of Financial Condition as of December 31,		Fair Value Estimate as of							
	2022	December 31, 2022	Level 1	Level 2	Level 3					
(In thousands)										
Assets:										
Cash and due from banks and money market investments (amortized cost)	\$	480,505	\$	480,505	\$	480,505	\$	-	\$	-
Available-for-sale debt securities (fair value)		5,599,520		5,599,520		138,875		5,452,150		8,495
Held-to-maturity debt securities (amortized cost)		437,537								
Less: ACL on held-to-maturity debt securities		(8,286)								
Held-to-maturity debt securities, net of ACL	\$	429,251		427,115		-		260,106		167,009
Equity securities (amortized cost)		50,428		50,428		-		50,428	(1)	-
Other equity securities (fair value)		4,861		4,861		4,861		-		-
Loans held for sale (lower of cost or market)		12,306		12,306		-		12,306		-
Loans held for investment (amortized cost)		11,552,825								
Less: ACL for loans and finance leases		(260,464)								
Loans held for investment, net of ACL	\$	11,292,361		11,106,809		-		-		11,106,809
MSRs (amortized cost)		29,037		44,710		-		-		44,710
Derivative assets (fair value) (2)		633		633		-		633		-
Liabilities:										
Deposits (amortized cost)	\$	16,143,467	\$	16,139,937	\$	-	\$	16,139,937	\$	-
Short-term securities sold under agreements to repurchase (amortized cost)		75,133		75,230		-		75,230		-
Advances from the FHLB (amortized cost)										
Short-term		475,000		474,731		-		474,731		-
Long-term		200,000		199,865		-		199,865		-
Other long-term borrowings (amortized cost)		183,762		187,246		-		-		187,246
Derivative liabilities (fair value) (2)		476		476		-		476		-

(1) Includes FHLB stock with a carrying value of \$42.9 million, which are considered restricted.

(2) Includes interest rate swap agreements, interest rate caps, forward contracts, interest rate lock commitments, and forward loan sales commitments.

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

NOTE 19 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue Recognition

In accordance with ASC Topic 606, “Revenue from Contracts with Customers” (“ASC Topic 606”), revenues are recognized when control of promised goods or services is transferred to customers and in an amount that reflects the consideration to which the Corporation expects to be entitled in exchange for those goods or services. At contract inception, once the contract is determined to be within the scope of ASC Topic 606, the Corporation assesses the goods or services that are promised within each contract, identifies the respective performance obligations, and assesses whether each promised good or service is distinct. The Corporation then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Disaggregation of Revenue

The following tables summarize the Corporation’s revenue, which includes net interest income on financial instruments and non-interest income, disaggregated by type of service and business segment for the quarters ended March 31, 2023 and 2022:

Quarter ended March 31, 2023	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
(In thousands)							
Net interest income (1)	\$ 21,788	\$ 137,744	\$ 14,940	\$ (658)	\$ 20,930	\$ 6,141	\$ 200,885
Service charges and fees on deposit accounts	-	5,486	3,154	-	165	736	9,541
Insurance commissions	-	4,640	-	-	28	179	4,847
Merchant-related income	-	2,263	-	-	29	468	2,760
Credit and debit card fees	-	7,638	22	-	2	496	8,158
Other service charges and fees	161	1,152	854	-	583	344	3,094
Not in scope of ASC Topic 606 (1)	2,913	855	145	160	40	5	4,118
Total non-interest income	3,074	22,034	4,175	160	847	2,228	32,518
Total Revenue	\$ 24,862	\$ 159,778	\$ 19,115	\$ (498)	\$ 21,777	\$ 8,369	\$ 233,403

Quarter ended March 31, 2022	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
(In thousands)							
Net interest income (1)	\$ 25,779	\$ 89,546	\$ 40,415	\$ 7,409	\$ 16,482	\$ 5,993	\$ 185,624
Service charges and fees on deposit accounts	-	5,539	2,976	-	138	710	9,363
Insurance commissions	-	4,967	-	-	29	279	5,275
Merchant-related income	-	1,822	373	-	5	389	2,589
Credit and debit card fees	-	6,671	16	-	(7)	410	7,090
Other service charges and fees	143	1,110	1,113	-	499	157	3,022
Not in scope of ASC Topic 606 (1)	5,109	354	76	(112)	80	12	5,519
Total non-interest income	5,252	20,463	4,554	(112)	744	1,957	32,858
Total Revenue	\$ 31,031	\$ 110,009	\$ 44,969	\$ 7,297	\$ 17,226	\$ 7,950	\$ 218,482

(1) Most of the Corporation's revenue is not within the scope of ASC Topic 606. The guidance explicitly excludes net interest income from financial assets and liabilities, as well as other non-interest income from loans, leases, investments, securities and derivative financial instruments.

For the quarters ended March 31, 2023 and 2022, most of the Corporation's revenue within the scope of ASC Topic 606 was related to performance obligations satisfied at a point in time.

See Note 26 – Revenue from Contracts with Customers, to the audited consolidated financial statements included in the 2022 Annual Report on Form 10-K for a discussion of major revenue streams under the scope of ASC Topic 606.

Contract Balances

A contract liability is an entity's obligation to transfer goods or services to a customer in exchange for consideration from the customer. FirstBank participates in a merchant revenue-sharing agreement with another entity to which the Bank sold its merchant contracts portfolio and related point-of-sale terminals, and a growth agreement with an international card service association to expand the customer base and enhance product offerings. FirstBank recognizes the revenue under these agreements over time, as the Bank completes its performance obligations.

The following table shows the activity of contract liabilities for the quarters ended March 31, 2023 and 2022:

	<u>Quarter Ended March 31,</u>	
	<u>2023</u>	<u>2022</u>
(In thousands)		
Beginning Balance	\$ 841	\$ 1,443
Less:		
Revenue recognized	(81)	(289)
Ending balance	<u>\$ 760</u>	<u>\$ 1,154</u>

As of March 31, 2023 and 2022, there were no contract assets recorded on the Corporation's consolidated financial statements.

Other

Except for the contract liabilities noted above, the Corporation did not have any significant performance obligations as of March 31, 2023. The Corporation also did not have any material contract acquisition costs and did not make any significant judgments or estimates in recognizing revenue for financial reporting purposes.

NOTE 20 – SEGMENT INFORMATION

Based upon the Corporation's organizational structure and the information provided to the Chief Executive Officer, the operating segments are based primarily on the Corporation's lines of business for its operations in Puerto Rico, the Corporation's principal market, and by geographic areas for its operations outside of Puerto Rico. As of March 31, 2023, the Corporation had six reportable segments: Mortgage Banking; Consumer (Retail) Banking; Commercial and Corporate Banking; Treasury and Investments; United States Operations; and Virgin Islands Operations. Management determined the reportable segments based on the internal structure used to evaluate performance and to assess where to allocate resources. Other factors, such as the Corporation's organizational chart, nature of the products, distribution channels, and the economic characteristics of the products, were also considered in the determination of the reportable segments.

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

The accounting policies of the segments are the same as those referred to in Note 1 – Nature of Business and Summary of Significant Accounting Policies, to the audited consolidated financial statements included in the 2022 Annual Report on Form 10-K.

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

The following tables present information about the reportable segments for the indicated periods:

	<u>Mortgage Banking</u>	<u>Consumer (Retail) Banking</u>	<u>Commercial and Corporate Banking</u>	<u>Treasury and Investments</u>	<u>United States Operations</u>	<u>Virgin Islands Operations</u>	<u>Total</u>
(In thousands)							
For the quarter ended March 31, 2023:							
Interest income	\$ 31,907	\$ 83,174	\$ 62,343	\$ 27,466	\$ 31,114	\$ 6,392	\$ 242,396
Net (charge) credit for transfer of funds	(10,119)	77,735	(47,403)	(19,539)	(674)	-	-
Interest expense	-	(23,165)	-	(8,585)	(9,510)	(251)	(41,511)
Net interest income (loss)	21,788	137,744	14,940	(658)	20,930	6,141	200,885
Provision for credit losses - (benefit) expense	(506)	15,224	(2,536)	(9)	4,655	(1,326)	15,502
Non-interest income	3,074	22,034	4,175	160	847	2,228	32,518
Direct non-interest expenses	5,087	41,627	9,365	947	8,304	6,825	72,155
Segment income (loss)	\$ 20,281	\$ 102,927	\$ 12,286	\$ (1,436)	\$ 8,818	\$ 2,870	\$ 145,746
Average earnings assets	\$ 2,171,061	\$ 3,174,150	\$ 3,713,633	\$ 6,216,498	\$ 2,067,848	\$ 366,338	\$ 17,709,528

	<u>Mortgage Banking</u>	<u>Consumer (Retail) Banking</u>	<u>Commercial and Corporate Banking</u>	<u>Treasury and Investments</u>	<u>United States Operations</u>	<u>Virgin Islands Operations</u>	<u>Total</u>
(In thousands)							
For the quarter ended March 31, 2022:							
Interest income	\$ 33,071	\$ 70,437	\$ 47,027	\$ 22,184	\$ 18,857	\$ 6,278	\$ 197,854
Net (charge) credit for transfer of funds	(7,292)	24,282	(6,612)	(9,949)	(429)	-	-
Interest expense	-	(5,173)	-	(4,826)	(1,946)	(285)	(12,230)
Net interest income	25,779	89,546	40,415	7,409	16,482	5,993	185,624
Provision for credit losses - (benefit) expense	(3,703)	11,144	(16,622)	(388)	(3,547)	(686)	(13,802)
Non-interest income (loss)	5,252	20,463	4,554	(112)	744	1,957	32,858
Direct non-interest expenses	6,906	39,271	8,859	885	8,479	6,973	71,373
Segment income	\$ 27,828	\$ 59,594	\$ 52,732	\$ 6,800	\$ 12,294	\$ 1,663	\$ 160,911
Average earnings assets	\$ 2,293,648	\$ 2,759,482	\$ 3,664,104	\$ 8,145,949	\$ 2,065,638	\$ 378,169	\$ 19,306,990

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

	Quarter Ended March 31,	
	2023	2022
(In thousands)		
Net income:		
Total income for segments	\$ 145,746	\$ 160,911
Other operating expenses (1)	43,113	35,286
Income before income taxes	102,633	125,625
Income tax expense	31,935	43,025
Total consolidated net income	\$ 70,698	\$ 82,600
Average assets:		
Total average earning assets for segments	\$ 17,709,528	\$ 19,306,990
Average non-earning assets	847,628	947,011
Total consolidated average assets	\$ 18,557,156	\$ 20,254,001

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

NOTE 21 – SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

Supplemental statement of cash flows information is as follows for the indicated periods:

	Quarter Ended March 31,	
	2023	2022
(In thousands)		
Cash paid for:		
Interest on borrowings	\$ 37,798	\$ 13,300
Income tax	10,926	2,598
Operating cash flow from operating leases	4,316	4,751
Non-cash investing and financing activities:		
Additions to OREO	6,414	6,770
Additions to auto and other repossessed assets	15,356	10,772
Capitalization of servicing assets	532	1,130
Loan securitizations	28,736	40,823
Loans held for investment transferred to held for sale	2,345	1,176
Payable related to unsettled purchases of available-for-sale debt securities	-	15,000
ROU assets obtained in exchange for operating lease liabilities	1,630	2,791

NOTE 22 – REGULATORY MATTERS, COMMITMENTS, AND CONTINGENCIES

Regulatory Matters

The Corporation and FirstBank are each subject to various regulatory capital requirements imposed by the U.S. federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Corporation's financial statements and activities. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation's and FirstBank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's capital amounts and classification are also subject to qualitative judgments and adjustment by the regulators with respect to minimum capital requirements, components, risk weightings, and other factors. As of March 31, 2023 and December 31, 2022, the Corporation and FirstBank exceeded the minimum regulatory capital ratios for capital adequacy purposes and FirstBank exceeded the minimum regulatory capital ratios to be considered a well capitalized institution under the regulatory framework for prompt corrective action. As of March 31, 2023, management does not believe that any condition has changed or event has occurred that would have changed the institution's status.

The Corporation and FirstBank compute risk-weighted assets using the standardized approach required by the U.S. Basel III capital rules ("Basel III rules").

The Basel III rules require the Corporation to maintain an additional capital conservation buffer of 2.5% on certain regulatory capital ratios to avoid limitations on both (i) capital distributions (e.g., repurchases of capital instruments, dividends and interest payments on capital instruments) and (ii) discretionary bonus payments to executive officers and heads of major business lines.

As part of its response to the impact of COVID-19, on March 31, 2020, the federal banking agencies issued an interim final rule that provided the option to temporarily delay the effects of CECL on regulatory capital for two years, followed by a three-year transition period. The interim final rule provides that, at the election of a qualified banking organization, the day one impact to retained earnings plus 25% of the change in the ACL (as defined in the final rule) from January 1, 2020 to December 31, 2021 will be delayed for two years and phased-in at 25% per year beginning on January 1, 2022 over a three-year period, resulting in a total transition period of five years. Accordingly, as of March 31, 2023, the capital measures of the Corporation and the Bank included \$32.4 million associated with the CECL day one impact to retained earnings plus 25% of the increase in the ACL (as defined in the interim final rule) from January 1, 2020 to December 31, 2021, and \$32.4 million remains excluded to be phase-in during the remainder of the three-year transition period. The federal financial regulatory agencies may take other measures affecting regulatory capital to address the COVID-19 pandemic and related macroeconomic conditions, although the nature and impact of such actions cannot be predicted at this time.

The regulatory capital position of the Corporation and the FirstBank as of March 31, 2023 and December 31, 2022, which reflects the delay in the full effect of CECL on regulatory capital, were as follows:

	Regulatory Requirements								
	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Thresholds				
	Amount	Ratio	Amount	Ratio	Amount	Ratio			
(Dollars in thousands)									
As of March 31, 2023									
Total Capital (to Risk-Weighted Assets)									
First BanCorp.	\$	2,366,591	19.02%	\$	995,597	8.0%	N/A	N/A%	
FirstBank	\$	2,327,600	18.71%	\$	995,452	8.0%	\$	1,244,315	10.0%
CET1 Capital (to Risk-Weighted Assets)									
First BanCorp.	\$	2,032,369	16.33%	\$	560,023	4.5%	N/A	N/A%	
FirstBank	\$	2,071,650	16.65%	\$	559,942	4.5%	\$	808,805	6.5%
Tier 1 Capital (to Risk-Weighted Assets)									
First BanCorp.	\$	2,032,369	16.33%	\$	746,697	6.0%	N/A	N/A%	
FirstBank	\$	2,171,650	17.45%	\$	746,589	6.0%	\$	995,452	8.0%
Leverage ratio									
First BanCorp.	\$	2,032,369	10.57%	\$	769,399	4.0%	N/A	N/A%	
FirstBank	\$	2,171,650	11.29%	\$	769,102	4.0%	\$	961,378	5.0%
As of December 31, 2022									
Total Capital (to Risk-Weighted Assets)									
First BanCorp.	\$	2,385,866	19.21%	\$	993,405	8.0%	N/A	N/A%	
FirstBank	\$	2,346,093	18.90%	\$	993,264	8.0%	\$	1,241,580	10.0%
CET1 Capital (to Risk-Weighted Assets)									
First BanCorp.	\$	2,052,333	16.53%	\$	558,790	4.5%	N/A	N/A%	
FirstBank	\$	2,090,832	16.84%	\$	558,711	4.5%	\$	807,027	6.5%
Tier 1 Capital (to Risk-Weighted Assets)									
First BanCorp.	\$	2,052,333	16.53%	\$	745,054	6.0%	N/A	N/A%	
FirstBank	\$	2,190,832	17.65%	\$	744,948	6.0%	\$	993,264	8.0%
Leverage ratio									
First BanCorp.	\$	2,052,333	10.70%	\$	767,075	4.0%	N/A	N/A%	
FirstBank	\$	2,190,832	11.43%	\$	766,714	4.0%	\$	958,392	5.0%

Commitments

The Corporation enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments may include commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since certain commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. For most of the commercial lines of credit, the Corporation has the option to reevaluate the agreement prior to additional disbursements. In the case of credit cards and personal lines of credit, the Corporation can cancel the unused credit facility at any time and without cause. As of March 31, 2023, commitments to extend credit amounted to approximately \$2.0 billion, of which \$0.9 billion relates to retail credit card loans. In addition, commercial and financial standby letters of credit as of March 31, 2023 amounted to approximately \$93.6 million.

Contingencies

As of March 31, 2023, First BanCorp. and its subsidiaries were defendants in various legal proceedings, claims and other loss contingencies arising in the ordinary course of business. On at least a quarterly basis, the Corporation assesses its liabilities and contingencies in connection with threatened and outstanding legal proceedings, claims and other loss contingencies utilizing the latest information available. For legal proceedings, claims and other loss contingencies where it is both probable that the Corporation will incur a loss and the amount can be reasonably estimated, the Corporation establishes an accrual for the loss. Once established, the accrual is adjusted as appropriate to reflect any relevant developments. For legal proceedings, claims and other loss contingencies where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established.

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

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

If management believes that, based on available information, it is at least reasonably possible that a material loss (or material loss in excess of any accrual) will be incurred in connection with any legal contingencies, the Corporation discloses an estimate of the possible loss or range of loss, either individually or in the aggregate, as appropriate, if such an estimate can be made, or discloses that an estimate cannot be made. Based on the Corporation's assessment as of March 31, 2023, no such disclosures were necessary.

NOTE 23- FIRST BANCORP. (HOLDING COMPANY ONLY) FINANCIAL INFORMATION

The following condensed financial information presents the financial position of First BanCorp. at the holding company level only as of March 31, 2023 and December 31, 2022, and the results of its operations for the quarters ended March 31, 2023 and 2022:

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	<u>As of March 31,</u> <u>2023</u>	<u>As of December 31,</u> <u>2022</u>
(In thousands)		
Assets		
Cash and due from banks	\$ 13,981	\$ 19,279
Other investment securities	735	735
Investment in First Bank Puerto Rico, at equity	1,544,874	1,464,026
Investment in First Bank Insurance Agency, at equity	32,374	28,770
Investment in FBP Statutory Trust I	1,951	1,951
Investment in FBP Statutory Trust II	3,561	3,561
Dividends receivable	637	624
Other assets	426	430
Total assets	<u>\$ 1,598,539</u>	<u>\$ 1,519,376</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Long-term borrowings	\$ 183,762	\$ 183,762
Accounts payable and other liabilities	9,184	10,074
Total liabilities	<u>192,946</u>	<u>193,836</u>
Stockholders' equity	<u>1,405,593</u>	<u>1,325,540</u>
Total liabilities and stockholders' equity	<u>\$ 1,598,539</u>	<u>\$ 1,519,376</u>

Statements of Income

	<u>Quarter Ended March 31,</u>	
	<u>2023</u>	<u>2022</u>
(In thousands)		
Income		
Interest income on money market investments	\$ 53	\$ 4
Dividend income from banking subsidiaries	78,870	63,593
Other income	102	40
Total income	<u>79,025</u>	<u>63,637</u>
Expense		
Other borrowings	3,381	1,333
Other operating expenses	410	439
Total expense	<u>3,791</u>	<u>1,772</u>
Income before income taxes and equity in undistributed earnings of subsidiaries	75,234	61,865
Income tax expense	1,078	1,106
Equity in undistributed earnings of subsidiaries (distribution in excess of earnings)	(3,458)	21,841
Net income	<u>\$ 70,698</u>	<u>\$ 82,600</u>
Other comprehensive income (loss), net of tax	87,228	(331,834)
Comprehensive income (loss)	<u>\$ 157,926</u>	<u>\$ (249,234)</u>

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

The following MD&A relates to the accompanying unaudited consolidated financial statements of First BanCorp. (the "Corporation," "we," "us," "our," or "First BanCorp.") and should be read in conjunction with such financial statements and the notes thereto, and our Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Annual Report on Form 10-K"). This section also presents certain financial measures that are not based on generally accepted accounting principles in the United States of America ("GAAP"). See "Non-GAAP Financial Measures and Reconciliations" below for information about why non-GAAP financial measures are presented and references to reconciliations of non-GAAP financial measures to the most comparable GAAP financial measures.

EXECUTIVE SUMMARY

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

Recent Developments

Economy and Market Volatility

Growth in economic activity and demand for goods and services, alongside labor shortages, supply chain complications and geopolitical matters, have contributed to rising inflation. In response, the Federal Reserve has raised interest rates and has begun reducing the size of its balance sheet. In March and May 2023, certain large U.S. regional banks with assets over \$100 billion were closed and placed into receivership with the FDIC. The closures of those banks and adverse developments affecting other banks resulted in heightened levels of market volatility that has negatively impacted customer confidence in the safety and soundness of financial institutions. These developments have resulted in certain regional banks experiencing higher than normal deposit outflows and an elevated level of competition for available deposits in the market. The impact of market volatility from the adverse developments in the banking industry, along with continued high inflation and rising interest rates on our business and related financial results, will depend on future developments, which are highly uncertain and difficult to predict.

Our results this quarter reflect continued discipline expense management, stable credit quality metrics, a sound liquidity position, and solid capital levels, despite the market disruption. With our disciplined and proactive approach, the Corporation is well positioned to manage through the uncertain economic outlook on the horizon. As of March 31, 2023, the Corporation had approximately \$5.5 billion of unused available liquidity, representing 114% of total estimated uninsured deposits, excluding fully collateralized deposits, of \$4.8 billion, and a strong capital position with a common equity tier 1 ("CET1") ratio of 16.33%.

In the aftermath of the recent bank failures, the banking agencies could propose certain actions that may impact capital ratios or the FDIC deposit insurance premium.

See "Risk Management – Liquidity Risk" below for additional information about the Corporation's funding sources and strategy.

Return of Capital to Shareholders

In the first quarter of 2023, the Corporation returned approximately \$75.1 million, or 106% of first quarter 2023 earnings, to its shareholders through \$50.0 million in repurchases of common stock and the payment of \$25.1 million in common stock dividends, which reflects an increase in the common stock dividend by 17%, from \$0.12 for the fourth quarter of 2022 to \$0.14 per share for the first quarter of 2023.

As of March 31, 2023, the Corporation has remaining authorization to repurchase approximately \$75 million of common stock. Due to recent market events, the Corporation intends to temporarily pause common stock repurchases during the second quarter of 2023 and expects to resume such repurchases during the third quarter of 2023 subject to various factors, including the Corporation's capital position, liquidity, financial performance and alternative uses of capital, stock trading price, and general market conditions.

London Interbank Offered Rate (“LIBOR”) Transition

On January 1, 2022, the publication of certain U.S. Dollar (“USD”) LIBOR settings ceased. The publication of the most commonly used overnight, one-month, three-month, six-month and twelve-month USD LIBOR will cease immediately after June 30, 2023, except that per the UK Financial Conduct Authority (the “FCA”) proposal, the one-, three-, and six-month tenors will continue to be published on a “non-representative,” synthetic basis until September 30, 2024.

The Adjustable Interest Rate Act (the “LIBOR Act”), that was enacted in March 2022, provides a statutory framework to replace USD LIBOR for contracts governed by U.S. law that do not have clear and practicable provisions for replacing USD LIBOR after June 30, 2023 (“tough legacy contracts”). On December 16, 2022, the FED adopted Regulation ZZ, which identifies replacement benchmark rates based on the Secured Overnight Financing Rate (“SOFR”) to replace the aforementioned USD LIBOR settings that will cease after June 30, 2023 in contracts subject to the LIBOR Act. Under Regulation ZZ, tough legacy contracts will be converted by operation of law to various forms of SOFR, along with a spread adjustment, upon a LIBOR replacement date (i.e., the first London banking day after June 30, 2023). The spread adjustment was designed to compensate for USD LIBOR being higher than SOFR in two regards. First, USD LIBOR is an unsecured rate while SOFR is a secured rate. Second, USD LIBOR includes term premia. In addition, Regulation ZZ codifies safe harbor protections for selection or use of SOFR as a replacement benchmark and clarifies who would be considered a “determining person” able to elect a replacement benchmark when USD LIBOR ceases to be published as representative on June 30, 2023.

As of March 31, 2023, the Corporation’s risk exposure to USD LIBOR that mature after June 30, 2023 consisted of the following: (i) \$1.2 billion of variable-rate commercial and construction loans (including unused commitments), (ii) \$40.7 million of U.S. agencies debt securities and private label mortgage-backed securities (“MBS”) held as part of the available-for-sale debt securities portfolio, (iii) \$124.7 million of Puerto Rico municipalities bonds held as part of the held-to-maturity debt securities portfolio, and (iv) \$183.8 million of junior subordinated debentures reported as other long-term borrowings in the consolidated statements of financial condition. Most of these contracts contain adequate features to convert to an alternative interest rate; however, as of March 31, 2023, contracts totaling approximately \$338.4 million do not contain fallback language mainly consisting of the aforementioned Puerto Rico municipalities bonds held as part of the held-to-maturity debt securities portfolio and the junior subordinated debentures. Following the provisions of the LIBOR Act and Regulation ZZ, the LIBOR reference on the junior subordinated debentures will automatically transition by operation of law to 3-month CME Term SOFR, plus a spread adjustment of 0.26161% on the first reset date after USD LIBOR ceases publication in June 2023. In addition, for the transition of any residual exposure after June 30, 2023, the Corporation expects to follow the provisions of the LIBOR Act and Regulation ZZ.

The Corporation continues to execute its LIBOR transition workplan. Source systems have been updated to support alternative reference rates. At this time alternative reference rates are predominantly SOFR based. In addition, the Corporation continues working with its interest rate risk monitoring framework and a strategy for managing interest rate risk during the transition from LIBOR to SOFR. We continue to monitor market developments and legislative and regulatory updates, with additional updates expected through the remainder of 2023.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

The accounting principles of the Corporation and the methods of applying these principles conform to GAAP. In preparing the consolidated financial statements, management is required to make estimates, assumptions, and judgments that affect the amounts recorded for assets, liabilities and contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Note 1 of the Notes to Consolidated Financial Statements included in our 2022 Annual Report on Form 10-K, as supplemented by this report including this MD&A, describes the significant accounting policies we used in our Consolidated Financial Statements.

Not all significant accounting policies require management to make difficult, subjective or complex judgments. Critical accounting estimates are those estimates made in accordance with GAAP that involve a significant level of uncertainty and have had or are reasonably likely to have a material impact on the Corporation’s financial condition and results of operations. The Corporation’s critical accounting estimates that are particularly susceptible to significant changes include, but are not limited to, the following: (i) the allowance for credit losses (“ACL”); (ii) valuation of financial instruments; and (iii) income taxes. For more information regarding valuation of financial instruments and income taxes policies, assumptions, and judgments, see “Critical Accounting Estimates” in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”),” in the 2022 Annual Report on Form 10-K. The “Risk Management – Credit Risk Management” section below details the policies, assumptions, and judgments related to the ACL. Actual results could differ from estimates and assumptions if different outcomes or conditions prevail.

Overview of Results of Operations

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

The Corporation had net income of \$70.7 million, or \$0.39 per diluted common share, for the quarter ended March 31, 2023, compared to \$82.6 million, or \$0.41 per diluted common share, for the quarter ended March 31, 2022. Other relevant selected financial indicators for the periods presented are included below:

	Quarter Ended March 31,	
	2023	2022
Key Performance Indicator: (1)		
Return on Average Assets (2)	1.55 %	1.65 %
Return on Average Total Equity (3)	21.00	16.64
Efficiency Ratio (4)	49.39	48.82

(1) These financial ratios are used by Management to monitor the Corporation's financial performance and whether it is using its assets efficiently.

(2) Indicates how profitable the Corporation is in relation to its total assets and is calculated by dividing net income on an annualized basis by its average total assets.

(3) Measures the Corporation's performance based on its average stockholders' equity and is calculated by dividing net income on an annualized basis by its average total stockholders' equity.

(4) Measures how much the Corporation incurred to generate a dollar of revenue and is calculated by dividing non-interest expenses by total revenue.

The key drivers of the Corporation's GAAP financial results for the quarter ended March 31, 2023, compared to the first quarter of 2022, include the following:

- Net interest income for the quarter ended March 31, 2023 increased to \$200.9 million, compared to \$185.6 million for the first quarter of 2022, mainly driven by the effect in the commercial loan portfolio of higher market interest rates in the upward repricing of variable-rate loans and in new loan originations, and the growth in consumer loans, partially offset by an increase in interest expense due to the increase in borrowings and a 110 basis point increase in the average cost of interest-bearing liabilities. See "Net Interest Income" below for additional information.
- The provision for credit losses on loans, finance leases, unfunded loan commitments and debt securities for the quarter ended March 31, 2023 was an expense of \$15.5 million, compared to a net benefit of \$13.8 million for the first quarter of 2022, mainly due to the \$4.7 million increase in the provision for the consumer loan portfolios and the net benefit of \$23.1 million recorded in the first quarter of 2022 for the commercial and construction loan portfolio as a result of reductions in qualitative reserves as a result of reduced uncertainty regarding COVID-19.

Net charge-offs totaled \$13.3 million for the quarter ended March 31, 2023, or 0.46% of average loans on an annualized basis, compared to net charge-offs of \$6.6 million, or 0.24% of average loans, for the first quarter of 2022. The increase in net charge-offs was mainly in consumer loans. See "Provision for Credit Losses" and "Risk Management" below for analyses of the ACL and non-performing assets and related ratios.

- The Corporation recorded non-interest income of \$32.5 million for the quarter ended March 31, 2023, compared to \$32.9 million for the first quarter of 2022. See "Non-Interest Income" below for additional information.
- Non-interest expenses for the quarter ended March 31, 2023 increased by \$8.6 million to \$115.3 million, mainly driven by a \$6.9 million increase in employees' compensation and benefits expenses due to annual salary merit increases and an increase in bonuses, stock-based compensation expense of retirement-eligible employees, payroll taxes, and medical insurance premium costs. The efficiency ratio for the first quarter of 2023 was 49.39%, as compared to 48.82% for the same period in 2022. See "Non-Interest Expenses" below for additional information.

- Income tax expense decreased to \$31.9 million for the first quarter of 2023, compared to \$43.0 million for the same period in 2022 driven by a lower pre-tax income. The Corporation's estimated effective tax rate, excluding entities with pre-tax losses from which a tax benefit cannot be recognized and discrete items, decrease to 31.2% for the first quarter of 2023, compared to 32.9% for the first quarter of 2022, reflecting a higher proportion of exempt to taxable income. See "Income Taxes" below and Note 17 – Income Taxes, to the unaudited consolidated financial statements herein for additional information.
- As of March 31, 2023, total assets were approximately \$19.0 billion, an increase of \$342.6 million from December 31, 2022, primarily due to a \$343.1 million increase in cash and cash equivalents, which was mainly attributable to a \$347.8 million addition to borrowings to increase available cash as a precautionary measure in light of recent instability in the banking sector and a \$28.0 million increase in total loans, partially offset by the \$4.3 million decrease in total investment securities. See "Financial Condition and Operating Data Analysis" below for additional information.
- As of March 31, 2023, total liabilities were \$17.6 billion, an increase of \$262.5 million from December 31, 2022, mainly driven by the \$347.8 million increase in borrowings, partially offset by an overall decrease in total deposits. See "Risk Management – Liquidity Risk" below for additional information about the Corporation's funding sources and strategy.
- The Bank's primary sources of funding are consumer and commercial core deposits, which exclude government deposits and brokered CDs. As of March 31, 2023, these core deposits amounting to \$13.1 billion funded 69.17% of total assets. In addition to approximately \$3.2 billion in cash and free high quality liquid assets, the Bank maintains borrowing capacity at the FHLB and the FED Discount Window. As of March 31, 2023, the Corporation had approximately \$1.4 billion available for funding under the FED's Discount Window and \$882.5 million available for additional borrowing capacity on FHLB lines of credit based on collateral pledged at these entities. On a combined basis, as of March 31, 2023, the Corporation had \$5.5 billion available to meet liquidity needs. See "Risk Management – Liquidity Risk" below for additional information about the Corporation's funding sources and strategy.
- As of March 31, 2023, the Corporation's total stockholders' equity was \$1.4 billion, an increase of \$80.1 million from December 31, 2022. The increase was driven by an \$87.2 million increase in the fair value of available-for-sale debt securities recorded as part of accumulated other comprehensive loss in the consolidated statements of financial condition, as a result of changes in market interest rates, and the earnings generated during the first quarter of 2023. These increases were partially offset by the repurchase of approximately 3.6 million shares of common stock for a total purchase price of approximately \$50.0 million and \$25.4 million in dividends declared to common stock shareholders during the first quarter of 2023. The Corporation's CET1 capital, tier 1 capital, total capital, and leverage ratios were 16.33%, 16.33%, 19.02%, and 10.57%, respectively, as of March 31, 2023, compared to CET1 capital, tier 1 capital, total capital, and leverage ratios of 16.53%, 16.53%, 19.21%, and 10.70%, respectively, as of December 31, 2022. See "Risk Management – Capital" below for additional information.
- Total loan production, including purchases, refinancings, renewals, and draws from existing revolving and non-revolving commitments, increased by \$5.5 million to \$1.2 billion for the quarter ended March 31, 2023. See "Financial Condition and Operating Data Analysis" below for additional information.
- Total non-performing assets were \$129.0 million as of March 31, 2023, a decrease of \$0.2 million, from December 31, 2022. The net decrease was driven by a \$6.3 million reduction in nonaccrual residential mortgage loans, mostly due to loans restored to accrual status, collections and foreclosures; partially offset by a \$4.4 million increase in nonaccrual commercial and construction loans, mainly related to the inflow of a \$7.1 million commercial and industrial participated loan in the Florida region related to a borrower engaged in the power generation industry. See "Risk Management – Nonaccrual Loans and Non-Performing Assets" below for additional information.
- Adversely classified commercial and construction loans decreased by \$23.6 million to \$70.0 million as of March 31, 2023, compared to December 31, 2022, mainly driven by the payoff of a \$24.3 million commercial and industrial participated loan in the Florida region in the leisure and hospitality industry.

NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS

The Corporation has included in this Quarterly Report on Form 10-Q (“Form 10-Q”) the following financial measures that are not recognized under GAAP, which are referred to as non-GAAP financial measures:

Net Interest Income, Interest Rate Spread, and Net Interest Margin, Excluding Valuations, and on a Tax-Equivalent Basis

Net interest income, interest rate spread, and net interest margin, excluding the changes in the fair value of derivative instruments and on a tax-equivalent basis, are reported in order to provide to investors additional information about the Corporation’s net interest income that management uses and believes should facilitate comparability and analysis of the periods presented. The changes in the fair value of derivative instruments have no effect on interest due or interest earned on interest-bearing liabilities or interest-earning assets, respectively. The tax-equivalent adjustment to net interest income recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a marginal income tax rate. Income from tax-exempt earning assets is increased by an amount equivalent to the taxes that would have been paid if this income had been taxable at statutory rates. Management believes that it is a standard practice in the banking industry to present net interest income, interest rate spread, and net interest margin on a fully tax-equivalent basis. This adjustment puts all earning assets, most notably tax-exempt securities and tax-exempt loans, on a common basis that facilitates comparison of results to the results of peers.

See “Result of Operations – Net Interest Income” below, for the table that reconciles net interest income in accordance with GAAP to the non-GAAP financial measure of net interest income, excluding valuations, and on a tax-equivalent basis for the indicated periods. The table also reconciles net interest spread and net interest margin on a GAAP basis to these items excluding valuations, and on a tax-equivalent basis.

Tangible Common Equity Ratio and Tangible Book Value Per Common Share

The tangible common equity ratio and tangible book value per common share are non-GAAP financial measures that management believes are generally used by the financial community to evaluate capital adequacy. Tangible common equity is total common equity less goodwill and other intangibles. Similarly, tangible assets are total assets less goodwill and other intangibles. Management and many stock analysts use the tangible common equity ratio and tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase method of accounting for mergers and acquisitions. Accordingly, the Corporation believes that disclosures of these financial measures may be useful to investors. Neither tangible common equity nor tangible assets, or the related measures, should be considered in isolation or as a substitute for stockholders’ equity, total assets, or any other measure calculated in accordance with GAAP. Moreover, the manner in which the Corporation calculates its tangible common equity, tangible assets, and any other related measures may differ from that of other companies reporting measures with similar names.

See “Risk Management – Capital” below for the table that reconciles the Corporation’s total equity and total assets in accordance with GAAP to the tangible common equity and tangible assets figures used to calculate the non-GAAP financial measures of Tangible Common Equity Ratio and Tangible Book Value per Common Share.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the excess of interest earned by First BanCorp. on its interest-earning assets over the interest incurred on its interest-bearing liabilities. First BanCorp.'s net interest income is subject to interest rate risk due to the repricing and maturity mismatch of the Corporation's assets and liabilities. In addition, variable sources of interest income, such as loan fees, periodic dividends, and collection of interest on nonaccrual loans, can fluctuate from period to period. Net interest income for the quarter ended March 31, 2023 was \$200.9 million, compared to \$185.6 million for the first quarter of 2022. On a tax-equivalent basis and excluding the changes in the fair value of derivative instruments, net interest income for the quarter ended March 31, 2023 was \$207.2 million compared to \$192.8 million for the quarter ended March 31, 2022.

The following tables include a detailed analysis of net interest income for the indicated periods. Part I presents average volumes (based on the average daily balance) and rates on an adjusted tax-equivalent basis and Part II presents, also on an adjusted tax-equivalent basis, the extent to which changes in interest rates and changes in the volume of interest-related assets and liabilities have affected the Corporation's net interest income. For each category of interest-earning assets and interest-bearing liabilities, the tables provide information on changes in (i) volume (changes in volume multiplied by prior period rates), and (ii) rate (changes in rate multiplied by prior period volumes). The Corporation has allocated rate-volume variances (changes in rate multiplied by changes in volume) to either the changes in volume or the changes in rate based upon the effect of each factor on the combined totals.

Net interest income on an adjusted tax equivalent basis and excluding the change in the fair value of derivative instruments is a non-GAAP financial measure. For the definition of this non-GAAP financial measure, refer to the discussion in "Non-GAAP Measures and Reconciliations" above.

Part I

Quarter ended March 31, (Dollars in thousands)	Average volume		Interest income ⁽¹⁾ / expense		Average rate ⁽¹⁾	
	2023	2022	2023	2022	2023	2022
Interest-earning assets:						
Money market and other short-term investments	\$ 404,249	\$ 1,835,766	\$ 4,650	\$ 820	4.67 %	0.18%
Government obligations (2)	2,909,976	2,736,095	10,765	8,232	1.50 %	1.22%
MBS	3,864,145	4,041,975	19,396	19,420	2.04 %	1.95%
FHLB stock	40,838	21,465	421	287	4.18 %	5.42%
Other investments	13,139	11,786	139	21	4.29 %	0.72%
Total investments (3)	7,232,347	8,647,087	35,371	28,780	1.98 %	1.35%
Residential mortgage loans	2,835,240	2,961,456	39,794	40,687	5.69 %	5.57%
Construction loans	146,041	114,732	2,676	1,524	7.43 %	5.39%
Commercial and industrial ("C&I") and commercial mortgage loans	5,167,727	5,103,870	85,885	62,004	6.74 %	4.93%
Finance leases	735,500	588,200	13,809	10,912	7.61 %	7.52%
Consumer loans	2,634,891	2,338,597	71,214	61,151	10.96 %	10.60%
Total loans (4)(5)	11,519,399	11,106,855	213,378	176,278	7.51 %	6.44%
Total interest-earning assets	\$ 18,751,746	\$ 19,753,942	\$ 248,749	\$ 205,058	5.38 %	4.21%
Interest-bearing liabilities:						
Time deposits	\$ 2,342,360	\$ 2,363,045	\$ 10,782	\$ 4,421	1.87 %	0.76 %
Brokered certificates of deposit ("CDs")	166,698	91,713	1,587	477	3.86 %	2.11 %
Other interest-bearing deposits	7,544,901	8,132,149	17,516	2,754	0.94 %	0.14 %
Securities sold under agreements to repurchase	91,004	241,111	1,069	2,182	4.76 %	3.67 %
Advances from the FHLB	629,167	200,000	7,176	1,063	4.63 %	2.16 %
Other long-term borrowings	183,762	183,762	3,381	1,333	7.46 %	2.94 %
Total interest-bearing liabilities	\$ 10,957,892	\$ 11,211,780	\$ 41,511	\$ 12,230	1.54 %	0.44 %
Net interest income on a tax-equivalent basis and excluding valuations			\$ 207,238	\$ 192,828		
Interest rate spread					3.84 %	3.77 %
Net interest margin					4.48 %	3.96 %

(1) On an adjusted tax-equivalent basis. The Corporation estimated the adjusted tax-equivalent yield by dividing the interest rate spread on exempt assets by 1 less the Puerto Rico statutory tax rate of 37.5% and adding to it the cost of interest-bearing liabilities. The tax-equivalent adjustment recognizes the income tax savings when comparing taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest income, interest rate spread and net interest margin on a fully tax-equivalent basis.

Therefore, management believes these measures provide useful information to investors by allowing them to make peer comparisons. The Corporation excludes changes in the fair value of derivatives from interest income and interest expense because the changes in valuation do not affect interest received or paid. See "Non-GAAP Measures and Reconciliations" above.

(2) Government obligations include debt issued by government-sponsored agencies.

(3) Unrealized gains and losses on available-for-sale debt securities are excluded from the average volumes.

(4) Average loan balances include the average of nonaccrual loans.

(5) Interest income on loans includes \$3.1 million and \$2.6 million for the quarters ended March 31, 2023 and 2022, respectively, of income from prepayment penalties and late fees related to the Corporation's loan portfolio.

Part II

Quarter ended March 31,
2023 compared to 2022

	Variance due to:		
	Volume	Rate	Total
(In thousands)			
Interest income on interest-earning assets:			
Money market and other short-term investments	\$ (8,698)	\$ 12,528	\$ 3,830
Government obligations	549	1,984	2,533
MBS	(885)	861	(24)
FHLB stock	232	(98)	134
Other investments	3	115	118
Total investments	(8,799)	15,390	6,591
Residential mortgage loans	(1,771)	878	(893)
Construction loans	482	670	1,152
C&I and commercial mortgage loans	785	23,096	23,881
Finance leases	2,764	133	2,897
Consumer loans	7,953	2,110	10,063
Total loans	10,213	26,887	37,100
Total interest income	\$ 1,414	\$ 42,277	\$ 43,691
Interest expense on interest-bearing liabilities:			
Time deposits	\$ (67)	\$ 6,428	\$ 6,361
Brokered CDs	551	559	1,110
Other interest-bearing deposits	(573)	15,335	14,762
Securities sold under agreements to repurchase	(1,561)	448	(1,113)
Advances from the FHLB	3,985	2,128	6,113
Other borrowings	-	2,048	2,048
Total interest expense	2,335	26,946	29,281
Change in net interest income	\$ (921)	\$ 15,331	\$ 14,410

Portions of the Corporation's interest-earning assets, mostly investments in obligations of some U.S. government agencies and U.S. government-sponsored entities ("GSEs"), generate interest that is exempt from income tax, principally in Puerto Rico. Also, interest and gains on sales of investments held by the Corporation's international banking entities ("IBEs") are tax-exempt under Puerto Rico tax law (see Note 17 - Income Taxes, to the unaudited consolidated financial statements herein for additional information). Management believes that the presentation of interest income on an adjusted tax-equivalent basis facilitates the comparison of all interest data related to these assets. The Corporation estimated the tax equivalent yield by dividing the interest rate spread on exempt assets by 1 less the Puerto Rico statutory tax rate (37.5%) and adding to it the average cost of interest-bearing liabilities. The computation considers the interest expense disallowance required by Puerto Rico tax law.

Management believes that the presentation of net interest income, excluding the effects of the changes in the fair value of the derivative instruments, provides additional information about the Corporation's net interest income and facilitates comparability and analysis from period to period. The changes in the fair value of the derivative instruments have no effect on interest due on interest-bearing liabilities or interest earned on interest-earning assets.

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

	Quarter Ended March 31,	
	2023	2022
(Dollars in thousands)		
Interest income - GAAP	\$ 242,396	\$ 197,854
Unrealized loss (gain) on derivative instruments	6	(15)
Interest income excluding valuations	242,402	197,839
Tax-equivalent adjustment	6,347	7,219
Interest income on a tax-equivalent basis and excluding valuations	<u>\$ 248,749</u>	<u>\$ 205,058</u>
Interest expense - GAAP	\$ 41,511	\$ 12,230
Net interest income - GAAP	<u>\$ 200,885</u>	<u>\$ 185,624</u>
Net interest income excluding valuations	<u>\$ 200,891</u>	<u>\$ 185,609</u>
Net interest income on a tax-equivalent basis and excluding valuations	<u>\$ 207,238</u>	<u>\$ 192,828</u>
Average Balances		
Loans and leases	\$ 11,519,399	\$ 11,106,855
Total securities, other short-term investments and interest-bearing cash balances	7,232,347	8,647,087
Average Interest-Earning Assets	<u>\$ 18,751,746</u>	<u>\$ 19,753,942</u>
Average Interest-Bearing Liabilities	<u>\$ 10,957,892</u>	<u>\$ 11,211,780</u>
Average Yield/Rate		
Average yield on interest-earning assets - GAAP	5.24%	4.06%
Average rate on interest-bearing liabilities - GAAP	1.54%	0.44%
Net interest spread - GAAP	3.70%	3.62%
Net interest margin - GAAP	<u>4.34%</u>	<u>3.81%</u>
Average yield on interest-earning assets excluding valuations	5.24%	4.06%
Average rate on interest-bearing liabilities	1.54%	0.44%
Net interest spread excluding valuations	3.70%	3.62%
Net interest margin excluding valuations	<u>4.34%</u>	<u>3.81%</u>
Average yield on interest-earning assets on a tax-equivalent basis and excluding valuations	5.38%	4.21%
Average rate on interest-bearing liabilities	1.54%	0.44%
Net interest spread on a tax-equivalent basis and excluding valuations	3.84%	3.77%
Net interest margin on a tax-equivalent basis and excluding valuations	<u>4.48%</u>	<u>3.96%</u>

Net interest income amounted to \$200.9 million for the quarter ended March 31, 2023, an increase of \$15.3 million, when compared to \$185.6 million for same period in 2022. The \$15.3 million increase in net interest income was primarily due to:

- A \$36.9 million increase in interest income on loans including:
 - A \$24.6 million increase in interest income on commercial and construction loans, of which approximately \$25.1 million was related to the effect of higher market interest rates in the upward repricing of variable-rate loans and in new loan originations, and approximately \$2.5 million was related to the \$210.9 million increase in the average balance of this portfolio (excluding Small Business Administration Paycheck Protection Program (“SBA PPP”) loans). These variances were partially offset by a reduction in interest income from SBA PPP loans. The interest income recognized from SBA PPP loans for the quarters ended March 31, 2023 and 2022 amounted to \$0.2 million and \$3.2 million, respectively.

The interest rate on approximately 55% of the Corporation’s commercial and construction loans is variable, 42% is based upon LIBOR, SOFR and other indexes and 13% is based upon the Prime rate index. For the first quarter of 2023, the average one-month LIBOR increased 439 basis points, the average three-month LIBOR increased 440 basis points, the average Prime rate increased 440 basis points, and the average three-month SOFR increased 444 basis points, compared to the average rates for such indexes during the first quarter of 2022.

- A \$13.0 million increase in interest income on consumer loans and finance leases, primarily driven by the \$443.6 million increase in the average balance of this portfolio, which increased interest income by approximately \$10.5 million, and approximately \$2.5 million increase in interest income associated to the positive effects of higher market interest rates on the consumer portfolio yields, primarily in the credit cards portfolio.
- A \$0.7 million decrease in the residential mortgage loans portfolio interest income, primarily related to the \$126.2 million reduction in the average balance of this portfolio, which resulted in an approximate decrease of \$1.7 million in interest income, partially offset by the positive effect of new loan originations at higher current market interest rates.
- A \$3.8 million increase in interest income from interest-bearing cash balances, which consisted primarily of cash balances deposited at the Federal Reserve Bank (“FED”), mainly due to the effect of higher market interest rates, partially offset by the \$1.4 billion decrease in the average balance of interest-bearing cash.
- A \$3.8 million increase in interest income on investment securities, mainly driven by:
 - A \$1.3 million increase in interest income on U.S. government and agencies debt securities, mainly driven by higher-yielding securities purchased in the first quarter of 2022.
 - A \$1.3 million increase in interest income on Puerto Rico municipal bonds, mainly due to the upward repricing of variable-rate bonds.
 - A \$1.0 million increase in interest income on U.S. agencies MBS, mainly driven by a decrease in the premium amortization expense associated with lower prepayments and the positive effects from higher-yielding U.S. agencies MBS purchased in the second quarter of 2022. These variances were partially offset by a \$177.8 million decrease in the average balance of this portfolio, which resulted in an approximate reduction of \$0.9 million in interest income.

Partially offset by:

- A \$22.2 million increase in interest expense on interest-bearing deposits, including:
 - A \$14.7 million increase in interest expense on interest-bearing checking and saving accounts, driven by an increase of \$15.3 million in average rates paid in the first quarter of 2023 as a result of the overall higher interest rate environment, partially offset by a reduction of \$587.2 million in the average balance of these deposits, which resulted in a decrease of approximately \$0.6 million in interest expense.
 - A \$6.4 million increase in interest expense on time deposits, excluding brokered CDs, mainly associated with higher rates being paid in the first quarter of 2023 on new issuances and renewals also associated with the higher interest rate environment. The average cost of time deposits in the first quarter of 2023, excluding brokered CDs, increased 111 basis points to 1.87% when compared to the same period in 2022.
 - A \$1.1 million increase in interest expense on brokered CDs, driven by new issuances at current higher market interest rates that resulted in an increase of \$75.0 million in the average balance, which resulted in additional interest expense of approximately \$0.5 million.
- A \$7.0 million net increase in interest expense on borrowings, including:
 - A \$6.1 million increase in interest expense on advances from the FHLB mainly associated with an increase in the average balance of \$429.2 million to increase available cash, which resulted in additional interest expense of approximately \$4.0 million, and the effect of approximately \$2.1 million associated with new FHLB advances at higher interest rates.
 - A \$2.0 million increase in interest expense on other long-term borrowings, driven by the upward repricing of junior subordinated debentures tied to the increase in the three-month LIBOR index.
 - A \$1.1 million decrease in interest expense on repurchase agreements, mainly driven by a reduction in the average balance of \$150.1 million.

Net interest margin for the first quarter of 2023 increased to 4.34%, compared to 3.81% for the same period in 2022, reflecting, among other things, the upward repricing of variable-rate commercial loans, the growth in higher yielding loans, primarily consumer loans, and the change in asset mix, reflecting an increase of higher-yielding assets. These factors were partially offset by the increase in borrowings in the first quarter of 2023 and a 110 basis points increase in the average cost of interest-bearing liabilities.

Provision for Credit Losses

The provision for credit losses consists of provisions for credit losses on loans and finance leases, unfunded loan commitments, as well as the debt securities portfolio. The principal changes in the provision for credit losses by main categories follow:

Provision for credit losses for loans and finance leases

The provision for credit losses for loans and finance leases was an expense of \$16.3 million for the first quarter of 2023, compared to a net benefit of \$17.0 million for the first quarter of 2022. The variances by major portfolio category were as follows:

- Provision for credit losses for the commercial and construction loan portfolio was an expense of \$0.5 million the first quarter of 2023, compared to a net benefit of \$23.1 million for the first quarter of 2022. The expense recognized during the first quarter of 2023 was impacted by the following factors: reserve increases of \$5.0 million for a new nonaccrual commercial and industrial participated loan in the Florida region in the power generation industry, and \$1.1 million due to a less favorable economic outlook in the projection of certain forecasted macroeconomic variables, such as the commercial real estate price index (“CRE price index”); partially offset by reserve decreases of \$6.1 million associated with the receipt of updated financial information of certain borrowers. Meanwhile, the net benefit recorded in the first quarter of 2022 mainly reflects reductions in qualitative reserves mostly associated with a continued positive long-term outlook of forecasted macroeconomic variables, primarily in the commercial real estate price index, as a result of the reduced uncertainty regarding COVID-19, particularly on loans in the hotel, transportation and entertainment industries and, to a lesser extent, improvements in updated financial information received from borrowers during the first quarter of 2022.
- Provision for credit losses for the residential mortgage loan portfolio was an expense of \$0.1 million for the first quarter of 2023, compared to a net benefit of \$4.9 million for the first quarter of 2022. The net benefit recorded for the first quarter of 2022 was primarily related to the overall decrease in the size of the residential mortgage loan portfolio and continued improvements in the long-term outlook of forecasted macroeconomic variables, such as the housing price index.
- Provision for credit losses for the consumer loans and finance leases portfolio was \$15.7 million for the first quarter of 2023, compared to \$11.0 million for the first quarter of 2022. The increase primarily reflects the increase in the size of the consumer loan portfolios and the increase in historical charge-off levels in all major portfolio classes.

Provision for credit losses for unfunded loan commitments

The provision for credit losses for unfunded commercial and construction loan commitments and standby letters of credit was a net benefit of \$0.1 million for each of the first quarters of 2023 and 2022.

Provision for credit losses for held-to-maturity and available-for-sale debt securities

The provision for credit losses for held-to-maturity securities was a net benefit of \$0.6 million for the first quarter of 2023, compared to an expense of \$3.7 million for the first quarter of 2022. The net benefit recorded during the first quarter of 2023 was mostly related to a reduction in qualitative reserves driven by updated financial information of certain bond issuers.

Non-Interest Income

Non-interest income amounted to \$32.5 million for the first quarter of 2023, compared to \$32.9 million for the same period in 2022. The \$0.4 million decrease in non-interest income was primarily due to:

- A \$2.4 million decrease in revenues from mortgage banking activities, mainly driven by a decrease in net realized gain on sales of residential mortgage loans in the secondary market mainly due to a lower volume of sales. During the first quarters of 2023 and 2022, net gains of \$1.1 million and \$3.5 million, respectively, were recognized as a result of GNMA securitization transactions and whole loan sales to U.S. GSEs amounting to \$37.4 million and \$93.9 million, respectively.
- A \$0.4 million decrease in insurance commission income, mainly in contingent commissions.

Partially offset by:

- A \$1.2 million increase in card and processing income mainly related to higher interchange income and merchant-related referral fees received during the first quarter of 2023.
- A \$1.1 million increase in other sources of non-interest income including: (i) a \$0.3 million increase related to higher unused commitment fees; (ii) a \$0.2 million increase related to higher benefit recognized in relation to purchased income tax credits realized; (iii) a \$0.2 million increase in unrealized gains on marketable equity securities; and (iii) a \$0.2 million increase in fees and commissions from insurance referrals.

Non-Interest Expenses

Non-interest expenses for the quarter ended March 31, 2023 amounted to \$115.3 million, compared to \$106.7 million for the same period in 2022. The efficiency ratio for the first quarter of 2023 was 49.39%, compared to 48.82% for the first quarter of 2022. The \$8.6 million increase in non-interest expenses was primarily due to:

- A \$6.9 million increase in employees' compensation and benefits expenses, mainly driven by annual salary merit increases and an increase in bonuses, stock-based compensation expense of retirement-eligible employees, payroll taxes, and medical insurance premium costs.
- A \$1.4 million increase in professional service fees, driven by a \$1.2 million increase in outsourcing technology service fees.
- A \$1.2 million increase in credit and debit card processing fees.
- A \$0.5 million increase in business promotion expenses, mainly related to a \$0.7 million increase in credit card loyalty rewards expense, partially offset by a \$0.3 million decrease in sponsorship activities.
- A \$0.5 million increase in FDIC deposit insurance cost, driven by the two basis points increase on the initial base deposit insurance assessment rate that came into effect during the first quarter of 2023.

Partially offset by:

- A \$1.3 million increase in net gains on OREO operations, mainly driven by a \$1.4 million increase in net realized gains on sales of OREO properties, primarily residential properties in the Puerto Rico region.
- A \$1.2 million decrease in occupancy and equipment expenses, primarily related to a reduction in rental expenses and equipment-related depreciation charges.

Income Taxes

For the first quarter of 2023, the Corporation recorded an income tax expense of \$31.9 million compared to \$43.0 million for the same period in 2022. The decrease in income tax expense was mainly related to lower pre-tax income and a higher proportion of exempt to taxable income resulting in a lower effective tax rate.

The Corporation's estimated annual effective tax rate in the first quarter of 2023, excluding entities from which a tax benefit cannot be recognized and discrete items, was 31.2%, compared to 32.9% for the first quarter of 2022. See Note 17 - Income Taxes, to the unaudited consolidated financial statements herein for additional information.

FINANCIAL CONDITION AND OPERATING ANALYSIS

Assets

The Corporation's total assets were \$19.0 billion as of March 31, 2023, an increase of \$342.6 million from December 31, 2022. The increase was primarily related to a \$343.1 million increase in cash and cash equivalents mainly attributable to the \$347.8 million increase in borrowings to enhance available cash as a precautionary measure in light of recent instability in the banking sector. In addition, as further discussed below, total loans increased by \$28.0 million. These variances were partially offset by a \$4.3 million decrease in total investment securities.

Loans Receivable, including Loans Held for Sale

As of March 31, 2023, the Corporation's total loan portfolio before the ACL amounted to \$11.6 billion, an increase of \$28.0 million compared to December 31, 2022. The increase consisted of a \$141.5 million growth in the Puerto Rico region, partially offset by decreases of \$108.6 million in the Florida region and \$4.9 million in the Virgin Islands region. On a portfolio basis, the increase consisted of a \$79.5 million growth in consumer loans, including a \$72.0 million increase in auto and leases, partially offset by decreases of \$32.9 million in residential mortgage loans and \$18.6 million in commercial and construction loans.

As of March 31, 2023, the loans held for the Corporation's investment portfolio was comprised of commercial and construction loans (46%), residential real estate loans (24%), and consumer and finance leases (30%). Of the total gross loan portfolio held for investment of \$11.6 billion as of March 31, 2023, the Corporation had credit risk concentration of approximately 80% in the Puerto Rico region, 17% in the United States region (mainly in the state of Florida), and 3% in the Virgin Islands region, as shown in the following table:

As of March 31, 2023	Puerto Rico	Virgin Islands	United States	Total
(In thousands)				
Residential mortgage loans	\$ 2,205,659	\$ 176,123	\$ 429,746	\$ 2,811,528
Construction loans	44,297	3,898	95,469	143,664
Commercial mortgage loans	1,766,479	62,694	524,486	2,353,659
Commercial and Industrial loans	1,872,215	69,013	920,961	2,862,189
Total commercial loans	3,682,991	135,605	1,540,916	5,359,512
Consumer loans and finance leases	3,335,014	63,231	8,700	3,406,945
Total loans held for investment, gross	\$ 9,223,664	\$ 374,959	\$ 1,979,362	\$ 11,577,985
Loans held for sale	14,830	-	353	15,183
Total loans, gross	\$ 9,238,494	\$ 374,959	\$ 1,979,715	\$ 11,593,168

As of December 31, 2022	Puerto Rico	Virgin Islands	United States	Total
(In thousands)				
Residential mortgage loans	\$ 2,237,983	\$ 179,917	\$ 429,390	\$ 2,847,290
Construction loans	30,529	4,243	98,181	132,953
Commercial mortgage loans	1,768,890	65,314	524,647	2,358,851
Commercial and Industrial loans	1,791,235	68,874	1,026,154	2,886,263
Total commercial loans	3,590,654	138,431	1,648,982	5,378,067
Consumer loans and finance leases	3,256,070	61,419	9,979	3,327,468
Total loans held for investment, gross	\$ 9,084,707	\$ 379,767	\$ 2,088,351	\$ 11,552,825
Loans held for sale	12,306	-	-	12,306
Total loans, gross	\$ 9,097,013	\$ 379,767	\$ 2,088,351	\$ 11,565,131

Residential Real Estate Loans

As of March 31, 2023, the Corporation's total residential mortgage loan portfolio, including loans held for sale, decreased by \$32.9 million, as compared to the balance as of December 31, 2022. The decline in the residential mortgage loan portfolio reflects decreases of \$29.8 million in the Puerto Rico region and \$3.8 million in the Virgin Islands region, partially offset by an increase of \$0.7 million in the Florida region. The decline was driven by repayments, foreclosures, and charge-offs, which more than offset the volume of new loan originations kept on the balance sheet.

The majority of the Corporation's outstanding balance of residential mortgage loans in the Puerto Rico and the Virgin Islands regions as of March 31, 2023 consisted of fixed-rate loans that traditionally carry higher yields than residential mortgage loans in the Florida region. In the Florida region, approximately 44% of the residential mortgage loan portfolio consisted of hybrid adjustable-rate mortgages. In accordance with the Corporation's underwriting guidelines, residential mortgage loans are primarily fully documented loans, and the Corporation does not originate negative amortization loans.

Commercial and Construction Loans

As of March 31, 2023, the Corporation's commercial and construction loan portfolio decreased by \$18.6 million, as compared to the balance as of December 31, 2022.

In the Florida region, commercial and construction loans decreased by \$108.1 million, as compared to the balance as of December 31, 2022. This decrease reflected \$93.3 million in payoffs and paydowns of five commercial and industrial relationships in the Florida region, each in excess of \$10 million, including the payoff of a \$24.3 million commercial and industrial participated loan in the leisure and hospitality industry.

In the Virgin Islands region, commercial and construction loans decreased by \$2.8 million, as compared to the balance as of December 31, 2022.

In the Puerto Rico region, commercial and construction loans increased by \$92.3 million, as compared to the balance as of December 31, 2022. This increase was driven by the origination of several loans, including four commercial relationships, each in excess of \$10 million, that increased the portfolio amount by \$54.2 million.

As of March 31, 2023, the Corporation had \$170.9 million outstanding in loans extended to the Puerto Rico government, its municipalities, and public corporations, compared to \$169.8 million as of December 31, 2022. See "Exposure to Puerto Rico Government" below for additional information.

The Corporation also has credit exposure to USVI government entities. As of March 31, 2023, the Corporation had \$38.7 million in loans to USVI government public corporations, compared to \$38.0 million as of December 31, 2022. See "Exposure to USVI Government" below for additional information.

As of March 31, 2023, the Corporation's total commercial mortgage loan exposure amounted to \$2.4 billion, or 44% of the total commercial loan portfolio. Of this total, \$379 million and \$38 million is in office real estate in the Puerto Rico and Florida regions, respectively. Total office real estate maturing during the remainder of 2023 and 2024 amounted to \$107 million.

As of March 31, 2023, the Corporation's total exposure to shared national credit ("SNC") loans (including unused commitments) amounted to \$1.1 billion as of each of March 31, 2023 and December 31, 2022. As of March 31, 2023, approximately \$207.6 million of the SNC exposure is related to the portfolio in Puerto Rico and \$858.3 million is related to the portfolio in the Florida region.

Consumer Loans and Finance Leases

As of March 31, 2023, the Corporation's consumer loan and finance lease portfolio increased by \$79.5 million to \$3.4 billion, as compared to the portfolio balance of \$3.3 billion as of December 31, 2022. This increase was mainly related to increases of \$34.8 million and \$37.2 million in the auto loans and finance leases portfolios, respectively. The growth in consumer loans is mainly reflected in the Puerto Rico region across all portfolio classes.

Loan Production

First BanCorp. relies primarily on its retail network of branches to originate residential and consumer loans. The Corporation may supplement its residential mortgage originations with wholesale servicing released mortgage loan purchases from mortgage bankers. The Corporation manages its construction and commercial loan originations through centralized units and most of its originations come from existing customers, as well as through referrals and direct solicitations. Auto loans and finance leases originations rely primarily on relationships with auto dealers and dedicated sales professionals who serve selected locations to facilitate originations.

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

	Quarter Ended March 31,	
	2023	2022
(In thousands)		
Residential mortgage	\$ 77,302	\$ 122,513
Construction	35,499	19,986
Commercial mortgage	88,692	127,985
Commercial and Industrial	555,882	490,296
Consumer	435,318	426,467
Total loan production	<u>\$ 1,192,693</u>	<u>\$ 1,187,247</u>

During the quarter ended March 31, 2023, total loan originations, including purchases, refinancings, and draws from existing revolving and non-revolving commitments, amounted to approximately \$1.2 billion, an increase of \$5.5 million, compared to the first quarter of 2022.

Residential mortgage loan originations for the quarter ended March 31, 2023 amounted to \$77.3 million, compared to \$122.5 million for the first quarter of 2022. The decrease of \$45.2 million in the first quarter of 2023, as compared to the same period in 2022, reflects declines of \$42.2 million in the Puerto Rico region, \$2.5 million in the Florida region, and \$0.5 million in the Virgin Islands region. Approximately 60% of the \$61.5 million residential mortgage loan originations in the Puerto Rico region during the first quarter of 2023 were of conforming loans, compared to 67% of \$103.7 million for the first quarter of 2022. The decrease during the first quarter of 2023 is related to a lower volume of conforming loan originations and refinancings, in part due to a higher interest rate environment.

Commercial and construction loan originations (excluding government loans) for the quarter ended March 31, 2023 amounted to \$672.8 million, compared to \$633.8 million for the first quarter of 2022. The increase of \$39.0 million in the first quarter of 2023 consisted of increases of \$93.7 million and \$0.5 million in the Puerto Rico and the Virgin Islands regions, respectively, partially offset by a decrease of \$55.2 million in the Florida region.

Government loan originations for the quarter ended March 31, 2023 amounted to \$7.2 million, an increase of \$2.8 million, compared to \$4.4 million for the first quarter of 2022. Government loan originations during the first quarter of 2023 were mainly related to the origination of a loan to an agency of the Puerto Rico government for a low-income housing project and the utilization of an arranged overdraft line of credit of a government entity in the Virgin Islands region. Government loan originations during the first quarter of 2022 were related to the utilization of an arranged overdraft line of credit of a government entity in the Virgin Islands region.

Originations of auto loans (including finance leases) for the quarter ended March 31, 2023 amounted to \$245.1 million, compared to \$261.3 million for the first quarter of 2022. The decrease in the first quarter of 2023, as compared to the same quarter of 2022, consisted of a \$17.5 million decrease in the Puerto Rico region, partially offset by a \$1.3 million increase in the Virgin Islands region. Other consumer loan originations, other than credit cards, for the quarter ended March 31, 2023 amounted to \$71.9 million, compared to \$55.7 million for the first quarter of 2022. Most of the increase in other consumer loan originations for the first quarter of 2023, as compared with the same period in 2022, was in the Puerto Rico region. The utilization activity on the outstanding credit card portfolio for the quarter ended March 31, 2023 amounted to \$118.4 million, compared to \$109.5 million for the same period in 2022.

Investment Activities

As part of its liquidity, revenue diversification, and interest rate risk management strategies, First BanCorp. maintains a debt securities portfolio classified as available for sale or held to maturity.

The Corporation's total available-for-sale debt securities portfolio as of March 31, 2023 amounted to \$5.6 billion, a \$10.3 million decrease from December 31, 2022. The decrease was mainly driven by repayments of approximately \$95.9 million of U.S. agencies and MBS, partially offset by an \$87.2 million increase in fair value attributable to changes in market interest rates. As of March 31, 2023, the Corporation had a net unrealized loss on available-for-sale debt securities of \$711.0 million. This unrealized loss is attributable to instruments on books carrying a lower interest rate than market rates. The Corporation expects that this unrealized loss will reverse over time. The Corporation expects the portfolio to continue to decrease as repayments are received over the next two years and further expects that the accumulated other comprehensive loss will decrease accordingly, excluding the impact of market interest rates.

As of March 31, 2023, substantially all of the Corporation's available-for-sale debt securities portfolio was invested in U.S. government and agencies debentures and fixed-rate GSEs' MBS. In addition, as of March 31, 2023, the Corporation held a bond issued by the PRHFA, classified as available for sale, specifically a residential pass-through MBS in the aggregate amount of \$3.3 million (fair value - \$2.2 million). This residential pass-through MBS issued by the PRHFA is collateralized by certain second mortgages originated under a program launched by the Puerto Rico government in 2010 and had an unrealized loss of \$1.1 million as of March 31, 2023, of which \$0.4 million is due to credit deterioration. During 2021, the Corporation placed this instrument in nonaccrual status based on the delinquency status of the underlying second mortgage loans collateral.

As of March 31, 2023, the Corporation's held-to-maturity debt securities portfolio, before the ACL, decreased to \$431.4 million, compared to \$437.5 million as of December 31, 2022. Held-to-maturity debt securities consisted of fixed-rate GSEs' MBS and financing arrangements with Puerto Rico municipalities issued in bond form, which the Corporation accounts for as securities, but which were underwritten as loans with features that are typically found in commercial loans. Puerto Rico municipal bonds typically are not issued in bearer form, are not registered with the Securities and Exchange Commission, and are not rated by external credit agencies. These bonds have seniority to the payment of operating costs and expenses of the municipality and, in most cases, are supported by assigned property tax revenues. As of March 31, 2023, approximately 74% of the Corporation's municipality bonds consisted of obligations issued by four of the largest municipalities in Puerto Rico. The 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 loans. Given the uncertainties as to the effects that the fiscal position 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 charges to the ACL on these securities will be required. As of March 31, 2023, the ACL for held-to-maturity debt securities was \$7.6 million, compared to \$8.3 million as of December 31, 2022.

See "Risk Management – Exposure to Puerto Rico Government" below for information and details about the Corporation's total direct exposure to the Puerto Rico government, including municipalities and "Credit Risk Management" below for the ACL of the exposure to Puerto Rico municipal bonds.

The following table presents the carrying values of investments as of the indicated dates:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
(In thousands)		
Money market investments	\$ 1,059	\$ 2,025
Available-for-sale debt securities, at fair value:		
U.S. government and agencies obligations	2,531,632	2,492,228
Puerto Rico government obligations	2,203	2,201
MBS:		
Residential	2,896,655	2,941,458
Commercial	158,766	163,133
Other	-	500
Total available-for-sale debt securities, at fair value	<u>5,589,256</u>	<u>5,599,520</u>
Held-to-maturity debt securities, at amortized cost:		
MBS:		
Residential	161,587	166,739
Commercial	104,008	105,088
Puerto Rico municipal bonds	165,800	165,710
ACL for held-to-maturity Puerto Rico municipal bonds	(7,646)	(8,286)
Total held-to-maturity debt securities	<u>423,749</u>	<u>429,251</u>
Equity securities, including \$54.2 million and \$42.9 million of FHLB stock as of March 31, 2023 and December 31, 2022, respectively	<u>66,714</u>	<u>55,289</u>
Total money market investments and investment securities	<u>\$ 6,080,778</u>	<u>\$ 6,086,085</u>

The carrying values of debt securities as of March 31, 2023 by contractual maturity (excluding MBS), are shown below:

	<u>Carrying Amount</u>	<u>Weighted-Average Yield %</u>
(Dollars in thousands)		
U.S. government and agencies obligations:		
Due within one year	\$ 210,928	0.44
Due after one year through five years	2,272,126	0.83
Due after five years through ten years	36,926	1.64
Due after ten years	11,652	5.15
	<u>2,531,632</u>	<u>0.83</u>
Puerto Rico government and municipalities obligations:		
Due within one year	1,204	5.70
Due after one year through five years	42,633	6.74
Due after five years through ten years	55,940	7.10
Due after ten years	68,226	7.73
	<u>168,003</u>	<u>7.26</u>
MBS	<u>3,321,016</u>	<u>1.68</u>
ACL on held-to-maturity debt securities	(7,646)	-
Total debt securities	<u>\$ 6,013,005</u>	<u>1.48</u>

Net interest income in future periods could be affected by prepayments of MBS. Any acceleration in the prepayments of MBS purchased at a premium would lower yields on these securities, since the amortization of premiums paid upon acquisition would accelerate. Conversely, acceleration of the prepayments of MBS would increase yields on securities purchased at a discount, since the amortization of the discount would accelerate. These risks are directly linked to future period market interest rate fluctuations. Net interest income in future periods might also be affected by the Corporation's investment in callable securities. As of March 31, 2023, the Corporation had approximately \$2.0 billion in callable debt securities (U.S. agencies debt securities) with an average yield of 0.84%, of which approximately 59% were purchased at a discount and 5% at a premium. See "Risk Management" below for further analysis of the effects of changing interest rates on the Corporation's net interest income and the Corporation's interest rate risk management strategies. Also, refer to Note 2 – Debt Securities to the unaudited consolidated financial statements herein for additional information regarding the Corporation's debt securities portfolio.

RISK MANAGEMENT

General

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

The Corporation has in place a risk management framework to monitor, evaluate and manage the principal risks assumed in conducting its activities. First BanCorp.'s business is subject to eleven broad categories of risks: (i) liquidity risk; (ii) interest rate risk; (iii) market risk; (iv) credit risk; (v) operational risk; (vi) legal and regulatory risk; (vii) reputational risk; (viii) model risk; (ix) capital risk; (x) strategic risk; and (xi) information technology risk. First BanCorp. has adopted policies and procedures designed to identify and manage the risks to which the Corporation is exposed.

The Corporation's risk management policies are described below, as well as in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the 2022 Annual Report on Form 10-K.

Liquidity Risk

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

The Corporation manages liquidity at two levels. The first is the liquidity of the parent company, or First Bancorp., which is the holding company that owns the banking and non-banking subsidiaries. The second is the liquidity of the banking subsidiary, or FirstBank.

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

The MIALCO is composed of senior management officers, including the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Corporate Strategic and Business Development Director, the Treasury and Investments Risk Manager, the Financial Planning and Asset and Liability Management ("ALM") Director, and the Treasurer. The Treasury and Investments Division is responsible for planning and executing the Corporation's funding activities and strategy, monitoring liquidity availability on a daily basis, and reviewing liquidity measures on a weekly basis. The Treasury and Investments Accounting and Operations area of the Corporate Controller's Department is responsible for calculating the liquidity measurements used by the Treasury and Investment Division to review the Corporation's liquidity position on a monthly basis. The Financial Planning and ALM Division is responsible to estimate the liquidity gap for longer periods.

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

The Corporation develops and maintains contingency funding plans. These plans evaluate the Corporation's liquidity position under various operating circumstances and are designed to help ensure that the Corporation will be able to operate through periods of stress when access to normal sources of funds is constrained. The plans project funding requirements during a potential period of stress, specify and quantify sources of liquidity, outline actions and procedures for effectively managing liquidity through a period of stress, and define roles and responsibilities for the Corporation's employees. Under the contingency funding plans, the Corporation stresses the balance sheet and the liquidity position to critical levels that mimic difficulties in generating funds or even maintaining the current funding position of the Corporation and the Bank and are designed to help ensure the ability of the Corporation and the Bank to honor their respective commitments. The Corporation has established liquidity triggers that the MIALCO monitors in order to maintain the ordinary funding of the banking business. The MIALCO developed contingency funding plans for the following three scenarios: a credit rating downgrade, an economic cycle downturn event, and a concentration event. The Board's Asset and Liability Committee reviews and approves these plans on an annual basis.

The Corporation manages its liquidity in a proactive manner and in an effort to maintain a sound liquidity position. It uses multiple measures to monitor its liquidity position, including core liquidity, basic liquidity, and time-based reserve measures. Cash and cash equivalents amounted to \$823.6 million as of March 31, 2023, compared to \$480.5 million as of December 31, 2022. Free high-quality liquid securities that could be liquidated or pledged within one day amounted to \$2.4 billion as of March 31, 2023, compared to \$3.1 billion as of December 31, 2022. As of March 31, 2023, the estimated core liquidity reserve (which includes cash and free high quality liquid assets such as U.S. government and GSEs obligations that could be liquidated or pledged within one day) was \$3.2 billion, or 16.77% of total assets, compared to \$3.5 billion, or 19.02% of total assets as of December 31, 2022. The basic liquidity ratio (which adds available secured lines of credit to the core liquidity) was approximately 21.42% of total assets as of March 31, 2023, compared to 22.48% of total assets as of December 31, 2022.

As of March 31, 2023, in addition to the aforementioned \$3.2 billion in cash and free high quality liquid assets, the Corporation had \$882.5 million available for credit with the FHLB based on the value of collateral pledged with the FHLB. The Corporation also maintains borrowing capacity at the FED Discount Window. The Corporation does not consider borrowing capacity from the FED Discount Window as a primary source of liquidity but had approximately \$1.4 billion available for funding under the FED's BIC Program as of March 31, 2023 as an additional contingent source of liquidity. Total loans pledged to the FED Discount Window amounted to \$2.3 billion as of March 31, 2023. The Corporation also does not rely on uncommitted inter-bank lines of credit (federal funds lines) to fund its operations and does not include them in the basic liquidity measure. On a combined basis, as of March 31, 2023, the Corporation had \$5.5 billion available to meet liquidity needs, while maintaining a strong capital position.

The Bank had \$252.9 million in brokered CDs as of March 31, 2023, of which approximately \$180.9 million mature over the next twelve months. Liquidity at the Bank level is highly dependent on bank deposits, which fund 84.9% of the Bank's assets (or 83.5% excluding brokered CDs). Historically, the use of brokered CDs has been an additional source of funding for the Corporation as it provides an additional efficient channel for funding diversification and can be obtained faster than regular retail deposits. Funding through brokered CDs may continue to increase the overall cost of funding for the Corporation and impact the net interest margin.

In addition, as further discussed below, the Corporation maintain a large, stable core deposit base and a diversified base of readily available wholesale funding sources, including advances from the FHLB through pledged borrowing capacity, securities sold under agreements to repurchase, and access to certificates of deposit issued through brokers. Funding through wholesale funding may continue to increase the overall cost of funding for the Corporation and impact the net interest margin.

Over the last year, the FED's policies to control the inflationary economic environment, including repeated market interest rate increases, have resulted in excess liquidity gradually tapering off and impacting the Corporation's core deposit balances as customers have allocated cash into higher yielding options. During the first quarter of 2023, the banking industry in the U.S. mainland experienced deposit runoff that led to the collapse of certain financial institutions. As a precautionary measure, during the first quarter of 2023, the Corporation increased the use of advances from the FHLB, repurchase agreements, and other sources, such as wholesale funding brokers, to increase cash and cash equivalents. Increased use of long-term FHLB advances has been part of the Corporation's interest rate risk management strategy to mitigate the impact of market interest rate increases. The additional use and future levels of these sources of funding are dependent on factors such as the loan portfolio future pipeline and customers continuing to allocate more cash into higher yielding alternatives, among other factors. The Corporation believes that as uncertainty in the banking industry eases certain short-term borrowings will be repaid and not renewed.

As a provider of financial services, the Corporation routinely enters into commitments with off-balance sheet risk to meet the financial needs of its customers. These financial instruments may include loan commitments and standby letters of credit. These commitments are subject to the same credit policies and approval processes used for on-balance sheet instruments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of financial condition. As of March 31, 2023, the Corporation's commitments to extend credit amounted to approximately \$2.0 billion. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since certain commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. For most of the commercial lines of credit, the Corporation has the option to reevaluate the agreement prior to additional disbursements. There have been no significant or unexpected draws on existing commitments. In the case of credit cards and personal lines of credit, the Corporation can cancel the unused credit facility at any time and without cause.

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

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
(In thousands)		
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Construction undisbursed funds	\$ 200,105	\$ 170,639
Unused credit card lines	949,701	936,231
Unused personal lines of credit	41,639	41,988
Commercial lines of credit	772,240	761,634
Letters of credit:		
Commercial letters of credit	84,724	68,647
Standby letters of credit	8,886	9,160

The Corporation engages in the ordinary course of business in other financial transactions that are not recorded on the balance sheet, or may be recorded on the balance sheet in amounts that are different from the full contract or notional amount of the transaction and, thus, affect the Corporation's liquidity position. These transactions are designed to (i) meet the financial needs of customers, (ii) manage the Corporation's credit, market and liquidity risks, (iii) diversify the Corporation's funding sources, and (iv) optimize capital.

In addition to the aforementioned off-balance sheet debt obligations and unfunded commitments to extend credit, the Corporation has obligations and commitments to make future payments under contracts, amounting to approximately \$4.0 billion as of March 31, 2023. Our material cash requirements comprise primarily of contractual obligations to make future payments related to time deposits, short-term borrowings, long-term debt, and operating lease obligations. We also have other contractual cash obligations related to certain binding agreements we have entered into for services including outsourcing of technology services, security, advertising and other services which are not material to our liquidity needs. We currently anticipate that our available funds, credit facilities, and cash flows from operations will be sufficient to meet our operational cash needs for the foreseeable future.

Off-balance sheet transactions are continuously monitored to consider their potential impact to our liquidity position and changes are applied to the balance between sources and uses of funds, as deemed appropriate, to maintain a sound liquidity position.

Sources of Funding

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

The Asset and Liability Committee reviews credit availability on a regular basis. The Corporation also sells mortgage loans as a supplementary source of funding and has obtained long-term funding in the past through the issuance of notes and long-term brokered CDs. In addition, the Corporation also maintains as additional contingent sources borrowing capacity at the FED's BIC Program and recently enrolled in the FED's Bank Term Funding Program ("BTFP").

While liquidity is an ongoing challenge for all financial institutions, management believes that the Corporation's available borrowing capacity and efforts to grow core deposits will be adequate to provide the necessary funding for the Corporation's business plans in the foreseeable future.

The Corporation's principal sources of funding are discussed below:

Retail core deposits – The Corporation's deposit products include regular savings accounts, demand deposit accounts, money market accounts, and retail CDs. As of March 31, 2023, the Corporation's core deposits, which exclude government deposits and brokered CDs, decreased by \$142.7 million to \$13.1 billion from \$13.3 billion as of December 31, 2022. The decrease was primarily related to saving and checking accounts in the Florida region used for loan repayments, as well as customers continuing to reallocate cash into higher-yielding alternatives. Notwithstanding, these reductions were partially offset by an increase in time deposits, including a shift from non-interest bearing or low-interest bearing products to time deposits, driven by higher rates offered, as well as certain large commercial deposit inflows in the Puerto Rico region. The average balance per retail core deposit account is \$26 thousand.

Government deposits – As of March 31, 2023, the Corporation had \$2.2 billion of Puerto Rico public sector deposits (\$2.0 billion in transactional accounts and \$161.9 million in time deposits), compared to \$2.3 billion as of December 31, 2022. The decrease was primarily related to reductions in the balance of operational accounts of a public corporation. These deposits are insured by the FDIC up to the applicable limits and the uninsured portions is fully collateralized. Approximately 25% of the public sector deposits as of March 31, 2023 were from municipalities and municipal agencies in Puerto Rico and 75% were from public corporations, the central government and agencies, and U.S. federal government agencies in Puerto Rico.

In addition, as of March 31, 2023, the Corporation had \$462.0 million of government deposits in the Virgin Islands region (December 31, 2022 - \$442.8 million) and \$11.3 million in the Florida region (December 31, 2022 - \$11.6 million).

The uninsured portions of government deposits were collateralized by securities and loans with an amortized cost of \$3.1 billion as of each of March 31, 2023 and December 31, 2022, and an estimated market value of \$2.8 billion and \$2.7 billion, respectively. In addition to securities and loans, as of each of March 31, 2023 and December 31, 2022, the Corporation used \$200.0 million in letters of credit issued by the FHLB as pledges for public deposits in the Virgin Islands.

Estimate of Uninsured Deposits – As of March 31, 2023 and December 31, 2022, the estimated amount of uninsured deposits totaled \$7.2 billion and \$7.6 billion, respectively, generally representing the portion of deposits in domestic offices that exceed the FDIC insurance limit of \$250,000 and amounts in any other uninsured deposit account. The balances presented as of March 31, 2023 and December 31, 2022, include the uninsured portion of government deposits, which are fully collateralized as previously mentioned. Excluding fully collateralized deposits, \$4.8 billion of these deposits are uninsured, which represent 30.13% of total deposits, excluding brokered CDs, as of March 31, 2023, compared to \$4.9 billion, or 30.65% of total deposits, excluding brokered CDs, as of December 31, 2022. The amount of uninsured deposits is calculated based on the same methodologies and assumptions used for our bank regulatory reporting requirements adjusted for cash held by wholly-owned subsidiaries at the Bank.

The following table presents by contractual maturities the amount of U.S. time deposits in excess of FDIC insurance limits (over \$250,000) and other time deposits that are otherwise uninsured as of March 31, 2023:

(In thousands)	3 months or less	3 months to 6 months	6 months to 1 year	Over 1 year	Total
U.S. time deposits in excess of FDIC insurance limits	\$ 125,162	\$ 84,861	\$ 217,846	\$ 341,507	\$ 769,376
Other uninsured time deposits	\$ 18,814	\$ 10,058	\$ 9,864	\$ 5,647	\$ 44,383

Brokered CDs – Total brokered CDs increased by \$147.1 million to \$252.9 million as of March 31, 2023, compared to \$105.8 million as of December 31, 2022. The increase reflects the effect of new issuances amounting to \$189.7 million with an all-in cost of 4.70%, partially offset by approximately \$42.6 million of maturing brokered CDs, with an all-in cost of 4.06%, that were paid off during the first quarter of 2023.

The average remaining term to maturity of the brokered CDs outstanding as of March 31, 2023 was approximately 1.1 years.

The use of brokered CDs provides an efficient channel for funding diversification and interest rate management. Brokered CDs are insured by the FDIC up to regulatory limits and can be obtained faster than regular retail deposits.

Refer to "Net Interest Income" above for information about average balances of interest-bearing deposits and the average interest rate paid on deposits, for the quarters ended March 31, 2023 and 2022.

Securities sold under agreements to repurchase - The Corporation's investment portfolio is funded in part with repurchase agreements. The Corporation's outstanding short-term securities sold under repurchase agreements amounted to \$173.0 million as of March 31, 2023, compared to \$75.1 million as of December 31, 2022. During the first quarter of 2023, the Corporation added \$173.0 million of short-term repurchase agreements at an average cost of 5.08% reflecting precautionary measures taken by management in light of recent instability in the banking sector, and repaid upon maturity \$75.1 million of short-term repurchase agreements at an average cost of 4.55%. In addition to these repurchase agreements, the Corporation has been able to maintain access to credit by using cost-effective sources such as FHLB advances. See Note 9 – Securities Sold Under Agreements to Repurchase (Repurchase Agreements) to the unaudited consolidated financial statements herein for further details about repurchase agreements outstanding by counterparty and maturities.

Under the Corporation's repurchase agreements, as is the case with derivative contracts, the Corporation is required to pledge cash or qualifying securities to meet margin requirements. To the extent that the value of securities previously pledged as collateral declines due to changes in interest rates, a liquidity crisis or any other factor, the Corporation is required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity. Given the quality of the collateral pledged, the Corporation has not experienced margin calls from counterparties arising from credit-quality-related write-downs in valuations.

Advances from the FHLB – The Bank is a member of the FHLB system and obtains advances to fund its operations under a collateral agreement with the FHLB that requires the Bank to maintain qualifying mortgages and/or investments as collateral for advances taken. As of March 31, 2023, the outstanding balance of fixed-rate FHLB advances was \$925.0 million, compared to \$675.0 million as of December 31, 2022. During the first quarter of 2023, the Corporation added \$425.0 million of short-term FHLB advances at an average cost of 5.04% and \$300.0 million of long-term FHLB advances at an average cost of 4.59%, and repaid upon maturity \$475.0 million of short-term FHLB advances at an average cost of 4.56%. Of the \$925.0 million in FHLB advances as of March 31, 2023, \$700.0 million were pledged with investment securities and \$225.0 million were pledged with mortgage loans. As of March 31, 2023, the Corporation had \$882.5 million available for additional credit on FHLB lines of credit based on collateral pledged at the FHLB of New York.

Trust Preferred Securities – In 2004, FBP Statutory Trusts I and II, statutory trusts that are wholly-owned by the Corporation and not consolidated in the Corporation's financial statements, sold to institutional investors variable-rate TRuPs and used the proceeds of these issuances, together with the proceeds of the purchases by the Corporation of variable rate common securities, to purchase junior subordinated deferrable debentures. The subordinated debentures are presented in the Corporation's consolidated statements of financial condition as other long-term borrowings. As of each of March 31, 2023 and December 31, 2022, the Corporation had subordinated debentures outstanding in the aggregate amount of \$183.8 million with maturity dates from June 17, 2034 through September 20, 2034. Under the indentures, the Corporation has the right, from time to time, and without causing an event of default, to defer payments of interest on the Junior Subordinated Deferrable Debentures by extending the interest payment period at any time and from time to time during the term of the subordinated debentures for up to twenty consecutive quarterly periods. As of March 31, 2023, the Corporation was current on all interest payments due on its subordinated debt. See Note 11 – Other Long-Term Borrowings and Note 7 – Non-Consolidated Variable Interest Entities ("VIEs") and Servicing Assets to unaudited consolidated financial statements herein for additional information.

Other Sources of Funds and Liquidity - The Corporation's principal uses of funds are for the origination of loans, the repayment of maturing deposits and borrowings, and deposits withdrawals. In connection with its mortgage banking activities, the Corporation has invested in technology and personnel to enhance the Corporation's secondary mortgage market capabilities.

The enhanced capabilities improve the Corporation's liquidity profile as they allow the Corporation to derive liquidity, if needed, from the sale of mortgage loans in the secondary market. The U.S. (including Puerto Rico) secondary mortgage market is still highly-liquid, in large part because of the sale of mortgages through guarantee programs of the FHA, VA, U.S. Department of Housing and Urban Development ("HUD"), FNMA and FHLMC. During the first quarter of 2023, loans pooled into GNMA MBS amounted to approximately \$29.4 million. Also, during the first quarter of 2023, the Corporation sold approximately \$8.0 million of performing residential mortgage loans to FNMA.

The FED Discount Window is a cost-efficient contingent source of funding for the Corporation in highly-volatile market conditions. As previously mentioned, although currently not in use, as of March 31, 2023, the Corporation had approximately \$1.4 billion available for funding under the FED's Discount Window based on collateral pledged at the FED.

The FED's BTFP was established by the Federal Reserve Board in March 2023 as an additional source of funding for depository institutions to borrow up to the par value of eligible collateral for terms of up to one year. The BTFP eliminates the need for depository institutions to sell their debt securities in times of stress. Eligible collateral includes high-quality securities such as U.S. Treasuries, U.S. agency securities, and U.S. agency MBS. Borrowers that are eligible for primary credit under the Borrower-in-Custody Program ("BIC") are eligible to borrow under the BTFP. In addition, any eligible collateral pledged to the discount window can be used under the BTFP. The rate for term advances will be the one-year overnight index swap rate plus 10 basis points and will

be fixed for the term of the advance on the day the advance is made. As previously mentioned, the Corporation enrolled in the BTF P during the first quarter of 2023 to further diversify its contingency funding sources.

Effect of Credit Ratings on Access to Liquidity

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

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

As of the date hereof, the Corporation's credit as a long-term issuer is rated BB+ by S&P and BB by Fitch. As of the date hereof, FirstBank's credit ratings as a long-term issuer are BB+ by S&P, one notch below S&P's minimum BBB- level required to be considered investment grade; and BB by Fitch, two notches below Fitch's minimum BBB- level required to be considered investment grade. The Corporation's credit ratings are dependent on a number of factors, both quantitative and qualitative, and are subject to change at any time. The disclosure of credit ratings is not a recommendation to buy, sell or hold the Corporation's securities. Each rating should be evaluated independently of any other rating.

Cash Flows

Cash and cash equivalents were \$823.6 million as of March 31, 2023, an increase of \$343.1 million when compared to December 31, 2022. The following discussion highlights the major activities and transactions that affected the Corporation's cash flows during the first quarters of 2023 and 2022:

Cash Flows from Operating Activities

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

For the first quarters of 2023 and 2022, net cash provided by operating activities was \$115.4 million and \$114.8 million, respectively. Net cash generated from operating activities was higher than reported net income largely as a result of adjustments for non-cash items such as depreciation and amortization, deferred income tax expense and the provision for credit losses, as well as cash generated from sales of loans held for sale.

Cash Flows from Investing Activities

The Corporation's investing activities primarily relate to originating loans to be held for investment, as well as purchasing, selling, and repaying available-for-sale and held-to-maturity debt securities. For the first quarter of 2023, net cash provided by investing activities was \$50.5 million, primarily due to repayments of U.S. agencies MBS, partially offset by net disbursements on loans held for investment.

For the first quarter of 2022, net cash used in investing activities was \$333.0 million, primarily due to purchases of U.S. agencies and MBS, and net disbursements on loans held for investment, partially offset by repayments of U.S. agencies and MBS.

Cash Flows from Financing Activities

The Corporation's financing activities primarily include the receipt of deposits and the issuance of brokered CDs, the issuance of and payments on long-term debt, the issuance of equity instruments, return of capital, and activities related to its short-term funding. For the quarter ended March 31, 2023, net cash provided by financing activities was \$177.1 million, mainly reflecting net proceeds of \$347.8 million from borrowings, partially offset by a decrease in total deposits and capital returned to stockholders.

For the first quarter of 2022, net cash used in financing activities was \$628.7 million, mainly reflecting a decrease in government deposits, the repayment at maturity of a \$100 million repurchase agreement and capital returned to stockholders.

Capital

As of March 31, 2023, the Corporation's stockholders' equity was \$1.4 billion, an increase of \$80.1 million from December 31, 2022. The growth was driven by the \$87.2 million increase in the fair value of available-for-sale debt securities recorded as part of accumulated other comprehensive loss in the consolidated statements of financial condition, as a result of changes in market interest rates, and the earnings generated in the first quarter of 2023, partially offset by the repurchase of 3.6 million shares of common stock for a total purchase price of approximately \$50.0 million, common stock dividends declared in the first quarter of 2023 totaling \$25.4 million or \$0.14 per common share, and the \$1.3 million impact to retained earnings related to the adoption of Accounting Standards Update ("ASU") 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." See Note 1 – Basis of Presentation and Significant Accounting Policies and Note 4 – Allowance for Credit Losses for Loans and Finance Leases, for additional information related to the adoption of ASU 2022-02.

On April 27, 2023, the Corporation's Board declared a quarterly cash dividend of \$0.14 per common share payable on June 9, 2023 to shareholders of record at the close of business on May 24, 2023. The Corporation intends to continue to pay quarterly dividends on common stock. The Corporation's common stock dividends, including the declaration, timing and amount, remain subject to the consideration and approval by the Corporation's Board at the relevant times.

On April 27, 2022, the Corporation announced that its Board approved a stock repurchase program, under which the Corporation may repurchase up to \$350 million of its outstanding common stock, which commenced in the second quarter of 2022. The Corporation's stock repurchase program does not obligate it to acquire any specific number of shares and does not have an expiration date. As of March 31, 2023, the Corporation has repurchased approximately 19.6 million shares of common stock for a total purchase price of \$275 million under this stock repurchase program. Considering the industry-wide uncertain environment, the Corporation decided to pause share buybacks during the second quarter of 2023 and it expects to resume shares repurchases during the third quarter of 2023. The Parent Company has no operations and depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments, stock repurchases, and to fund all payments on its obligations, including debt obligations.

The tangible common equity ratio and tangible book value per common share are non-GAAP financial measures generally used by the financial community to evaluate capital adequacy. Tangible common equity is total common equity less goodwill and other intangible assets. Tangible assets are total assets less the previously mentioned intangible assets. See "Non-GAAP Financial Measures and Reconciliations" above for additional information.

The following table is a reconciliation of the Corporation's tangible common equity and tangible assets, non-GAAP financial measures, to total equity and total assets, respectively, as of March 31, 2023 and December 31, 2022, respectively:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
(In thousands, except ratios and per share information)		
Total equity - GAAP	\$ 1,405,593	\$ 1,325,540
Goodwill	(38,611)	(38,611)
Purchased credit card relationship intangible	(86)	(205)
Core deposit intangible	(18,987)	(20,900)
Insurance customer relationship intangible	-	(13)
Tangible common equity	\$ 1,347,909	\$ 1,265,811
Total assets - GAAP	\$ 18,977,114	\$ 18,634,484
Goodwill	(38,611)	(38,611)
Purchased credit card relationship intangible	(86)	(205)
Core deposit intangible	(18,987)	(20,900)
Insurance customer relationship intangible	-	(13)
Tangible assets	\$ 18,919,430	\$ 18,574,755
Common shares outstanding	179,789	182,709
Tangible common equity ratio	7.12%	6.81%
Tangible book value per common share	\$ 7.50	\$ 6.93

See Note 22 - Regulatory Matters, Commitments and Contingencies, to the unaudited consolidated financial statements herein for the regulatory capital positions of the Corporation and FirstBank as of March 31, 2023 and December 31, 2022, respectively.

The Banking Law of the Commonwealth of Puerto Rico requires that a minimum of 10% of FirstBank's net income for the year be transferred to a legal surplus reserve until such surplus equals the total of paid-in-capital on common and preferred stock. Amounts transferred to the legal surplus reserve from retained earnings are not available for distribution to the Corporation without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The Puerto Rico Banking Law provides that, when the expenditures of a Puerto Rico commercial bank are greater than receipts, the excess of the expenditures over receipts must be charged against the undistributed profits of the bank, and the balance, if any, must be charged against the legal surplus reserve, as a reduction thereof. If the legal surplus reserve is not sufficient to cover such balance in whole or in part, the outstanding amount must be charged against the capital account and the Bank cannot pay dividends until it can replenish the legal surplus reserve to an amount of at least 20% of the original capital contributed. FirstBank's legal surplus reserve, included as part of retained earnings in the Corporation's consolidated statements of financial condition, amounted to \$168.5 million as of each of March 31, 2023 and December 31, 2022, respectively. There were no transfers to the legal surplus reserve during the first quarter of 2023.

Interest Rate Risk Management

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

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

- (1) Using a static balance sheet, as the Corporation had on the simulation date, and
- (2) Using a dynamic balance sheet based on recent patterns and current strategies.

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

The Corporation uses a simulation model to project future movements in the Corporation's balance sheet and income statement. The starting point of the projections corresponds to the actual values on the balance sheet on the date of the simulations. These simulations are highly complex and are based on many assumptions that are intended to reflect the general behavior of the balance sheet components over the modeled periods. It is unlikely that actual events will match these assumptions in all cases. For this reason, the results of these forward-looking computations are only approximations of the true sensitivity of net interest income to changes in market interest rates. Several benchmark and market rate curves were used in the modeling process, primarily the LIBOR/Swap curve, SOFR curve, Prime Rate, U.S. Treasury yield curve, FHLB rates, brokered CDs rates, repurchase agreements rates, and the mortgage commitment rate of 30 years.

As of March 31, 2023, the Corporation forecasted the 12-month net interest income assuming March 31, 2023 interest rate curves remain constant. Then, net interest income was estimated under rising and falling rates scenarios. For the rising rate scenario, a gradual (ramp) parallel upward shift of the yield curve is assumed during the first twelve months (the "+200 ramp" scenario). Conversely, for the falling rate scenario, a gradual (ramp) parallel downward shift of the yield curve is assumed during the first twelve months (the "-200 ramp" scenario).

The LIBOR/Swap rates for March 31, 2023, as compared to the January 31, 2023, rates used for the December 31, 2022 sensitivity analysis, reflected an increase in the short-term sector of the curve, or between one to twelve months, of 18 basis points ("bps") on average; while market rates decreased in the medium-term sector of the curve, or between 2 to 5 years, by 37 bps, and in the long-term sector of the curve, or over 5-year maturities, by 36 bps. A similar increase in market rates changes were observed in the Treasury and the SOFR curve of 29 and 13 bps in the short-term sector, respectively; while market rates decreased in the medium-term sector by 38 and 40 bps, respectively, and by 36 and 37 bps in the long-term sector, respectively.

The following table presents the results of the simulations as of March 31, 2023 and December 31, 2022. Consistent with prior years, these exclude non-cash changes in the fair value of derivatives:

(Dollars in millions)	March 31, 2023				December 31, 2022			
	Net Interest Income Risk				Net Interest Income Risk			
	(Projected for the next 12 months)				(Projected for the next 12 months)			
	Static Simulation		Growing Balance Sheet		Static Simulation		Growing Balance Sheet	
	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
+ 200 bps ramp	\$ 9.4	1.15 %	\$ 9.7	1.14 %	\$ 7.8	0.96 %	\$ 11.5	1.37 %
- 200 bps ramp	\$ (12.6)	(1.54)%	\$ (12.7)	(1.49)%	\$ (13.1)	(1.61)%	\$ (17.0)	(2.03)%

The Corporation continues to manage its balance sheet structure to control and limit the overall interest rate risk by managing its asset composition while maintaining a sound liquidity position. See “Risk Management – Liquidity Risk” above for liquidity ratios. As of March 31, 2023 and December 31, 2022, the simulations showed that the Corporation continues to have an asset-sensitive position.

As of March 31, 2023, the net interest income for the next twelve months under a non-static balance sheet scenario is estimated to increase by \$9.7 million in the rising rate scenario, when compared against the base simulation. The decrease in net interest income sensitivity for the +200 bps ramp scenario, as compared to December 31, 2022, is primarily driven by the changes in the overall funding mix, including decreases in average non-interest deposits to total deposits and customers reallocating to higher yielding alternatives, partially offset by decreases in lower yielding assets, such as the investment portfolio being repaid, and being replaced by higher yielding assets due to the growth on the loan portfolio.

As of March 31, 2023, under a falling rate, non-static balance sheet scenario, the net interest income is estimated to decrease by \$12.7 million, when compared against the base simulation. The change in net interest income sensitivity for the -200 bps ramp scenario, when compared to December 31, 2022, was driven by a higher deposit beta assumed in the March 31, 2023 simulation for non-maturity deposits, which under the falling rate scenario would reprice and consequently impact net interest income at a faster pace than the previous simulation.

Credit Risk Management

First BanCorp. is subject to credit risk mainly with respect to its portfolio of loans receivable and off-balance-sheet instruments, principally loan commitments. Loans receivable represents loans that First BanCorp. holds for investment and, therefore, First BanCorp. is at risk for the term of the loan. Loan commitments represent commitments to extend credit, subject to specific conditions, for specific amounts and maturities. These commitments may expose the Corporation to credit risk and are subject to the same review and approval process as for loans made by the Bank. See “Liquidity Risk” above for further details. The Corporation manages its credit risk through its credit policy, underwriting, monitoring of loan concentrations and related credit quality, counterparty credit risk, economic and market conditions, and legislative or regulatory mandates. The Corporation also performs independent loan review and quality control procedures, statistical analysis, comprehensive financial analysis, established management committees, and employs proactive collection and loss mitigation efforts. Furthermore, personnel performing structured loan workout functions are responsible for mitigating defaults and minimizing losses upon default within each region and for each business segment. In the case of the commercial and industrial, commercial mortgage and construction loan portfolios, the Special Asset Group (“SAG”) focuses on strategies for the accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of OREO. In addition to the management of the resolution process for problem loans, the SAG oversees collection efforts for all loans to prevent migration to the nonaccrual and/or adversely classified status. The SAG utilizes relationship officers, collection specialists and attorneys.

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

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

Allowance for Credit Losses and Non-performing Assets

Allowance for Credit Losses for Loans and Finance Leases

The ACL for loans and finance leases represents the estimate of the level of reserves appropriate to absorb expected credit losses over the estimated life of the loans. The amount of the allowance is determined using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience is a significant input for the estimation of expected credit losses, as well as adjustments to historical loss information made for differences in current loan-specific risk characteristics, such as differences in underwriting standards, portfolio mix, delinquency level, or term. Additionally, the Corporation's assessment involves evaluating key factors, which include credit and macroeconomic indicators, such as changes in unemployment rates, property values, and other relevant factors to account for current and forecasted market conditions that are likely to cause estimated credit losses over the life of the loans to differ from historical credit losses. Such factors are subject to regular review and may change to reflect updated performance trends and expectations, particularly in times of severe stress. The process includes judgments and quantitative elements that may be subject to significant change. Further, the Corporation periodically considers the need for qualitative reserves to the ACL. Qualitative adjustments may be related to and include, but are not limited to, factors such as the following: (i) management's assessment of economic forecasts used in the model and how those forecasts align with management's overall evaluation of current and expected economic conditions; (ii) organization specific risks such as credit concentrations, collateral specific risks, nature and size of the portfolio and external factors that may ultimately impact credit quality, and (iii) other limitations associated with factors such as changes in underwriting and loan resolution strategies, among others. The ACL for loans and finance leases is reviewed at least on a quarterly basis as part of the Corporation's continued evaluation of its asset quality.

The Corporation applies probability weights to the baseline and alternative downside economic scenarios to estimate the ACL with the baseline scenario carrying the highest weight. The economic scenarios used in the ACL determination contained assumptions related to economic uncertainties associated with geopolitical instability, high inflation levels, and the expected path of interest rate increases by the FED. As of March 31, 2023, the Corporation's ACL model considered the following assumptions for key economic variables in the probability-weighted economic scenarios:

- Average Commercial Real Estate ("CRE") Price Index at the national level is forecasted to contract by 2.55% for the remainder of 2023 and grow by 0.74% for 2024.
- Average Regional Home Price Index forecasts in Puerto Rico and Florida (purchase only prices) are expected to remain relatively flat for the remainder of 2023 and 2024.
- Average regional unemployment in Puerto Rico of 7.53% for the remainder of 2023 and 8.57% for 2024. For the Florida region and the U.S. mainland, average unemployment rate of 3.59% and 4.19%, respectively, for the remainder of 2023, and 4.23% and 4.62%, respectively, for 2024.
- Average annualized change in real gross domestic product ("GDP") in the U.S. mainland of 0.89% for the remainder of 2023 and 1.52% for 2024.

It is difficult to estimate how potential changes in one factor or input might affect the overall ACL because management considers a wide variety of factors and inputs in estimating the ACL. Changes in the factors and inputs considered may not occur at the same rate and may not be consistent across all geographies or product types, and changes in factors and inputs may be directionally inconsistent, such that improvement in one factor or input may offset deterioration in others. However, to demonstrate the sensitivity of credit loss estimates to macroeconomic forecasts as of March 31, 2023, management compared the modeled estimates under the probability-weighted economic scenarios against a more adverse scenario. Under this more adverse scenario, as an example, average unemployment rate for the Puerto Rico region increases to 8.04% for the remainder of 2023, compared to 7.53% for the same period on the probability-weighted economic scenario projections.

To demonstrate the sensitivity to key economic parameters used in the calculation of the ACL at March 31, 2023, management calculated the difference between the quantitative ACL and this more adverse scenario. Excluding consideration of qualitative adjustments, this sensitivity analysis would result in a hypothetical increase in the ACL of approximately \$34 million at March 31, 2023. This analysis relates only to the modeled credit loss estimates and is not intended to estimate changes in the overall ACL as it does not reflect any potential changes in other adjustments to the qualitative calculation, which would also be influenced by the judgment management applies to the modeled lifetime loss estimates to reflect the uncertainty and imprecision of these estimates based on current circumstances and conditions. Recognizing that forecasts of macroeconomic conditions are inherently uncertain, particularly in light of recent economic conditions and challenges, which continue to evolve, management believes that its process to consider the available information and associated risks and uncertainties is appropriately governed and that its estimates of expected credit losses were reasonable and appropriate for the quarter ended March 31, 2023.

As of March 31, 2023, the ACL for loans and finance leases was \$265.6 million, an increase of \$5.1 million from \$260.5 million as of December 31, 2022. The ACL for commercial and construction loans remained relatively flat when compared to the previous quarter as a result of the following offsetting factors: reserve increases of \$5.0 million for a new nonaccrual commercial and industrial loan in the Florida region in the power generation industry; and \$1.1 million due to a less favorable economic outlook in the projection of certain forecasted macroeconomic variables, such as the CRE price index; partially offset by reserve decreases of \$6.1 million associated with the receipt of updated financial information of certain borrowers and the repayment of a \$24.3 million adversely classified commercial and industrial participated loan in the Florida region. The ACL for consumer loans increased by \$2.9 million, primarily reflecting the effect of the increase in the size of the consumer loan portfolios and the increase in historical charge-off levels. The ACL for residential mortgage loans increased by \$1.6 million, in part to a \$2.1 million cumulative increase in the ACL due to the adoption of ASU 2022-02, for which the Corporation elected to discontinue the use of a discounted cash flow methodology for restructured accruing loans. This adjustment had a corresponding decrease, net of applicable taxes, in beginning retained earnings as of January 1, 2023. See Note 1 – Basis of Presentation and Significant Accounting Policies, to the unaudited consolidated financial statements herein for information related to the adoption of ASU 2022-02 during the first quarter of 2023.

The ratio of the ACL for loans and finance leases to total loans held for investment increased to 2.29% as of March 31, 2023, compared to 2.25% as of December 31, 2022. An explanation for the change for each portfolio follows:

- The ACL to total loans ratio for the residential mortgage portfolio increased from 2.20% as of December 31, 2022 to 2.29% as of March 31, 2023, primarily due to the aforementioned \$2.1 million cumulative increase in the ACL due to the adoption of ASU 2022-02 during the first quarter of 2023.
- The ACL to total loans ratio for the construction loan portfolio increased from 1.74% as of December 31, 2022 to 2.25% as of March 31, 2023 as a result of new loan originations which have a longer duration and ultimately result in higher loss rates.
- The ACL to total loans ratio for the commercial mortgage portfolio increased from 1.49% as of December 31, 2022 to 1.55% as of March 31, 2023, primarily reflecting a less favorable economic outlook in the projection of certain forecasted macroeconomic variables, such as the CRE price index, partially offset by reserve decreases associated with the receipt of updated financial information of certain borrowers.
- The ACL to total loans ratio for the commercial and industrial portfolio decreased from 1.14% as of December 31, 2022 to 1.09% as of March 31, 2023, mainly due to reserve decreases associated with the receipt of updated financial information of certain borrowers and the repayment of a \$24.3 million adversely classified commercial and industrial participated loan in the Florida region, partially offset by the aforementioned reserve increase of \$5.0 million for a new nonaccrual commercial and industrial participated loan in the Florida region in the power generation industry.
- The ACL to total loans ratio for the consumer loan portfolio was 3.82% as of March 31, 2023, compared to 3.83% as of December 31, 2022.

The ratio of the total ACL for loans and finance leases to nonaccrual loans held for investment was 297.91% as of March 31, 2023, compared to 289.61% as of December 31, 2022.

Substantially all of the Corporation's loan portfolio is located within the boundaries of the U.S. economy. Whether the collateral is located in Puerto Rico, the U.S. and British Virgin Islands, or the U.S. mainland (mainly in the state of Florida), the performance of the Corporation's loan portfolio and the value of the collateral supporting the transactions are dependent upon the performance of and conditions within each specific area's real estate market. The Corporation believes it sets adequate loan-to-value ratios following its regulatory and credit policy standards.

As shown in the following tables, the ACL for loans and finance leases amounted to \$265.6 million as of March 31, 2023, or 2.29% of total loans, compared with \$260.5 million, or 2.25% of total loans, as of December 31, 2022. See “Results of Operations - Provision for Credit Losses” above for additional information.

	Quarter Ended March 31,	
	2023	2022
(Dollars in thousands)		
ACL for loans and finance leases, beginning of year	\$ 260,464	\$ 269,030
Impact of adoption of ASU 2022-02	2,116	-
Provision for credit losses - expense (benefit):		
Residential mortgage	73	(4,871)
Construction	860	(2,214)
Commercial mortgage	1,246	(22,640)
Commercial and industrial	(1,650)	1,755
Consumer and finance leases	15,727	10,981
Total provision for credit losses - expense (benefit)	<u>16,256</u>	<u>(16,989)</u>
Charge-offs:		
Residential mortgage	(983)	(2,528)
Construction	-	(44)
Commercial mortgage	(18)	(37)
Commercial and industrial	(118)	(290)
Consumer and finance leases	(16,798)	(9,816)
Total charge offs	<u>(17,917)</u>	<u>(12,715)</u>
Recoveries:		
Residential mortgage	497	1,382
Construction	63	52
Commercial mortgage	168	44
Commercial and industrial	90	1,035
Consumer and finance leases	3,830	3,608
Total recoveries	<u>4,648</u>	<u>6,121</u>
Net charge-offs	<u>(13,269)</u>	<u>(6,594)</u>
ACL for loans and finance leases, end of period	<u>\$ 265,567</u>	<u>\$ 245,447</u>
ACL for loans and finance leases to period-end total loans held for investment	2.29%	2.21%
Net charge-offs (annualized) to average loans outstanding during the period	0.46%	0.24%
Provision for credit losses - expense (benefit) for loans and finance leases to net charge-offs during the period	1.23x	-2.58x

The following tables set forth information concerning the composition of the Corporation's loan portfolio and related ACL by loan category, and the percentage of loan balances in each category to the total as such loans as of the indicated dates:

As of March 31, 2023

(Dollars in thousands)	Residential Mortgage Loans	Construction Loans	Commercial Mortgage Loans	C&I Loans	Consumer and Finance Leases	Total
Total loans held for investment:						
Amortized cost of loans	\$ 2,811,528	\$ 143,664	\$ 2,353,659	\$ 2,862,189	\$ 3,406,945	\$ 11,577,985
Percent of loans in each category to total loans	24 %	1 %	20 %	25 %	30 %	100 %
Allowance for credit losses	64,403	3,231	36,460	31,235	130,238	265,567
Allowance for credit losses to amortized cost	2.29 %	2.25 %	1.55 %	1.09 %	3.82 %	2.29 %

As of December 31, 2022

(Dollars in thousands)	Residential Mortgage Loans	Construction Loans	Commercial Mortgage Loans	C&I Loans	Consumer and Finance Leases	Total
Total loans held for investment:						
Amortized cost of loans	\$ 2,847,290	\$ 132,953	\$ 2,358,851	\$ 2,886,263	\$ 3,327,468	\$ 11,552,825
Percent of loans in each category to total loans	25 %	1 %	20 %	25 %	29 %	100 %
Allowance for credit losses	62,760	2,308	35,064	32,906	127,426	260,464
Allowance for credit losses to amortized cost	2.20 %	1.74 %	1.49 %	1.14 %	3.83 %	2.25 %

Allowance for Credit Losses for Unfunded Loan Commitments

The Corporation estimates expected credit losses over the contractual period in which the Corporation is exposed to credit risk as a result of a contractual obligation to extend credit, such as pursuant to unfunded loan commitments and standby letters of credit for commercial and construction loans, unless the obligation is unconditionally cancellable by the Corporation. The ACL for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. As of March 31, 2023, the ACL for off-balance sheet credit exposures decreased by \$0.1 million to \$4.2 million, when compared to December 31, 2022.

Allowance for Credit Losses for Held-to-Maturity Debt Securities

As of March 31, 2023, the ACL for held-to-maturity securities portfolio was entirely related to financing arrangements with Puerto Rico municipalities issued in bond form, which the Corporation accounts for as securities, but which were underwritten as loans with features that are typically found in commercial loans. As of March 31, 2023, the ACL for held-to-maturity debt securities was \$7.6 million, compared to \$8.3 million as of December 31, 2022.

Allowance for Credit Losses for Available-for-Sale Debt Securities

The ACL for available-for-sale debt securities, which is associated with private label MBS and a residential pass-through MBS issued by the PRHFA, was \$0.4 million as of March 31, 2023, compared to \$0.5 million as of December 31, 2022.

Nonaccrual Loans and Non-performing Assets

Total non-performing assets consist of nonaccrual loans (generally loans held for investment or loans held for sale in which the recognition of interest income was discontinued when the loan became 90 days past due or earlier if the full and timely collection of interest or principal is uncertain), foreclosed real estate and other repossessed properties, and non-performing investment securities, if any. When a loan is placed in nonaccrual status, any interest previously recognized and not collected is reversed and charged against interest income. Cash payments received are recognized when collected in accordance with the contractual terms of the loans. The principal portion of the payment is used to reduce the principal balance of the loan, whereas the interest portion is recognized on a cash basis (when collected). However, when management believes that the ultimate collectability of principal is in doubt, the interest portion is applied to the outstanding principal. The risk exposure of this portfolio is diversified as to individual borrowers and industries, among other factors. In addition, a large portion is secured with real estate collateral.

Nonaccrual Loans Policy

Residential Real Estate Loans — The Corporation generally classifies real estate loans in nonaccrual status when it has not received interest and principal for a period of 90 days or more.

Commercial and Construction Loans — The Corporation classifies commercial loans (including commercial real estate and construction loans) in nonaccrual status when it has not received interest and principal for a period of 90 days or more or when it does not expect to collect all of the principal or interest due to deterioration in the financial condition of the borrower.

Finance Leases — The Corporation classifies finance leases in nonaccrual status when it has not received interest and principal for a period of 90 days or more.

Consumer Loans — The Corporation classifies consumer loans in nonaccrual status when it has not received interest and principal for a period of 90 days or more. Credit card loans continue to accrue finance charges and fees until charged-off at 180 days delinquent.

Purchased Credit Deteriorated Loans (“PCD”) — For PCD loans, the nonaccrual status is determined in the same manner as for other loans, except for PCD loans that prior to the adoption of CECL were classified as purchased credit impaired (“PCI”) loans and accounted for under ASC Subtopic 310-30, “Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality” (ASC Subtopic 310-30). As allowed by CECL, the Corporation elected to maintain pools of loans accounted for under ASC Subtopic 310-30 as “units of accounts,” conceptually treating each pool as a single asset. Regarding interest income recognition, the prospective transition approach for PCD loans was applied at a pool level, which froze the effective interest rate of the pools as of January 1, 2020. According to regulatory guidance, the determination of nonaccrual or accrual status for PCD loans with respect to which the Corporation has made a policy election to maintain previously existing pools upon adoption of CECL should be made at the pool level, not the individual asset level. In addition, the guidance provides that the Corporation can continue accruing interest and not report the PCD loans as being in nonaccrual status if the following criteria are met: (i) the Corporation can reasonably estimate the timing and amounts of cash flows expected to be collected; and (ii) the Corporation did not acquire the asset primarily for the rewards of ownership of the underlying collateral, such as the use in operations or improving the collateral for resale. Thus, the Corporation continues to exclude these pools of PCD loans from nonaccrual loan statistics.

Other Real Estate Owned

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

Other Repossessed Property

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

Other Non-Performing Assets

This category consisted of a residential pass-through MBS issued by the PRHFA placed in non-performing status in the second quarter of 2021 based on the delinquency status of the underlying second mortgage loans.

Loans Past-Due 90 Days and Still Accruing

These are accruing loans that are contractually delinquent 90 days or more. These past-due loans are either current as to interest but delinquent as to the payment of principal (i.e., well secured and in process of collection) or are insured or guaranteed under applicable FHA, VA, or other government-guaranteed programs for residential mortgage loans. Furthermore, as required by instructions in regulatory reports, loans past due 90 days and still accruing include loans previously pooled into GNMA securities for which the Corporation has the option but not the obligation to repurchase loans that meet GNMA's specified delinquency criteria (e.g., borrowers fail to make any payment for three consecutive months). For accounting purposes, these GNMA loans subject to the repurchase option are required to be reflected on the financial statements with an offsetting liability. In addition, loans past due 90 days and still accruing include PCD loans, as mentioned above, and credit cards that continue accruing interest until charged-off at 180 days.

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

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
(Dollars in thousands)		
Nonaccrual loans held for investment:		
Residential mortgage	\$ 36,410	\$ 42,772
Construction	1,794	2,208
Commercial mortgage	21,598	22,319
Commercial and Industrial	13,404	7,830
Consumer and finance leases	15,936	14,806
Total nonaccrual loans held for investment	89,142	89,935
OREO	32,862	31,641
Other repossessed property	4,743	5,380
Other assets ⁽¹⁾	2,203	2,202
Total non-performing assets	\$ 128,950	\$ 129,158
Past due loans 90 days and still accruing ⁽²⁾⁽³⁾⁽⁴⁾	\$ 74,380	\$ 80,517
Non-performing assets to total assets	0.68 %	0.69 %
Nonaccrual loans held for investment to total loans held for investment	0.77 %	0.78 %
ACL for loans and finance leases	\$ 265,567	\$ 260,464
ACL for loans and finance leases to total nonaccrual loans held for investment	297.91 %	289.61 %
ACL for loans and finance leases to total nonaccrual loans held for investment, excluding residential real estate loans	503.62 %	552.26 %

(1) Residential pass-through MBS issued by the PRHFA held as part of the available-for-sale debt securities portfolio.

(2) Includes PCD loans previously accounted for under ASC Subtopic 310-30 for which the Corporation made the accounting policy election of maintaining pools of loans as "units of account" both at the time of adoption of CECL on January 1, 2020 and on an ongoing basis for credit loss measurement. These loans will continue to be excluded from nonaccrual loan statistics as long as the Corporation can reasonably estimate the timing and amount of cash flows expected to be collected on the loan pools. The portion of such loans contractually past due 90 days or more amounted to \$10.4 million and \$12.0 million as of March 31, 2023 and December 31, 2022, respectively.

(3) Includes FHA/VA government-guaranteed residential mortgage as loans past-due 90 days and still accruing as opposed to nonaccrual loans. The Corporation continues accruing interest on these loans until they have passed the 15 months delinquency mark, taking into consideration the FHA interest curtailment process. These balances include \$25.9 million and \$28.2 million of FHA government guaranteed residential mortgage loans that were over 15 months delinquent as of March 31, 2023 and December 31, 2022, respectively.

(4) Includes rebooked loans, which were previously pooled into GNMA securities, amounting to \$7.1 million and \$10.3 million as of March 31, 2023 and December 31, 2022, respectively. Under the GNMA program, the Corporation has the option but not the obligation to repurchase loans that meet GNMA's specified delinquency criteria. For accounting purposes, the loans subject to the repurchase option are required to be reflected on the financial statements with an offsetting liability.

Total nonaccrual loans were \$89.1 million as of March 31, 2023. This represents a net decrease of \$0.8 million from \$89.9 million as of December 31, 2022. The net decrease was primarily related to a \$6.3 million reduction in nonaccrual residential mortgage loans, partially offset by increases of \$4.4 million and \$1.1 million in nonaccrual commercial and construction loans and nonaccrual consumer loans, respectively.

The following table shows non-performing assets by geographic segment as of the indicated dates:

(In thousands)	March 31, 2023	December 31, 2022
Puerto Rico:		
Nonaccrual loans held for investment:		
Residential mortgage	\$ 22,924	\$ 28,857
Construction	737	831
Commercial mortgage	13,677	14,341
Commercial and Industrial	4,589	5,859
Consumer and finance leases	15,483	14,142
Total nonaccrual loans held for investment	57,410	64,030
OREO	28,323	28,135
Other repossessed property	4,620	5,275
Other assets	2,203	2,202
Total non-performing assets	\$ 92,556	\$ 99,642
Past due loans 90 days and still accruing	\$ 72,000	\$ 76,417
Virgin Islands:		
Nonaccrual loans held for investment:		
Residential mortgage	\$ 6,069	\$ 6,614
Construction	1,057	1,377
Commercial mortgage	7,921	7,978
Commercial and Industrial	1,163	1,179
Consumer	306	469
Total nonaccrual loans held for investment	16,516	17,617
OREO	4,539	3,475
Other repossessed property	112	76
Total non-performing assets	\$ 21,167	\$ 21,168
Past due loans 90 days and still accruing	\$ 2,380	\$ 4,100
United States:		
Nonaccrual loans held for investment:		
Residential mortgage	\$ 7,417	\$ 7,301
Commercial and Industrial	7,652	792
Consumer	147	195
Total nonaccrual loans held for investment	15,216	8,288
OREO	-	31
Other repossessed property	11	29
Total non-performing assets	\$ 15,227	\$ 8,348

Nonaccrual commercial and industrial loans increased by \$5.6 million to \$13.4 million as of March 31, 2023, from \$7.8 million as of December 31, 2022. The increase was primarily driven by the migration to nonaccrual status of a \$7.1 million commercial and industrial participated loan in the Florida region related to a borrower engaged in the power generation industry, partially offset by collections, including the payoff of an individual commercial and industrial loan of approximately \$1.0 million in the Puerto Rico region.

Nonaccrual commercial mortgage loans decreased by \$0.8 million to \$21.5 million as of March 31, 2023, from \$22.3 million as of December 31, 2022.

Nonaccrual construction loans decreased by \$0.4 million to \$1.8 million as of March 31, 2023, from \$2.2 million as of December 31, 2022.

The following tables present the activity of commercial and construction nonaccrual loans held for investment for the indicated periods:

	<u>Construction</u>	<u>Commercial Mortgage</u>	<u>Commercial & Industrial</u>	<u>Total</u>
(In thousands)				
Quarter Ended March 31, 2023				
Beginning balance	\$ 2,208	\$ 22,319	\$ 7,830	\$ 32,357
Plus:				
Additions to nonaccrual	127	544	7,470	8,141
Less:				
Loans returned to accrual status	-	(361)	(152)	(513)
Nonaccrual loans transferred to OREO	(332)	(162)	(183)	(677)
Nonaccrual loans charge-offs	-	(18)	(118)	(136)
Loan collections	(209)	(730)	(1,443)	(2,382)
Reclassification	-	6	-	6
Ending balance	<u>\$ 1,794</u>	<u>\$ 21,598</u>	<u>\$ 13,404</u>	<u>\$ 36,796</u>

	<u>Construction</u>	<u>Commercial Mortgage</u>	<u>Commercial & Industrial</u>	<u>Total</u>
(In thousands)				
Quarter Ended March 31, 2022				
Beginning balance	\$ 2,664	\$ 25,337	\$ 17,135	\$ 45,136
Plus:				
Additions to nonaccrual	-	2,881	1,579	4,460
Less:				
Loans returned to accrual status	-	(201)	(209)	(410)
Nonaccrual loans transferred to OREO	(13)	(461)	-	(474)
Nonaccrual loans charge-offs	(40)	(37)	(290)	(367)
Loan collections	(68)	(541)	(488)	(1,097)
Reclassification	-	(402)	402	-
Ending balance	<u>\$ 2,543</u>	<u>\$ 26,576</u>	<u>\$ 18,129</u>	<u>\$ 47,248</u>

Nonaccrual residential mortgage loans decreased by \$6.3 million to \$36.5 million as of March 31, 2023, compared to \$42.8 million as of December 31, 2022. The decrease was primarily related to \$3.9 million loans restored to accrual status, \$2.7 million of loans transferred to OREO, and \$1.6 million in collections, partially offset by inflows of \$2.1 million.

The following table presents the activity of residential nonaccrual loans held for investment for the indicated periods:

	Quarter Ended March 31,	
	2023	2022
(In thousands)		
Beginning balance	\$ 42,772	\$ 55,127
Plus:		
Additions to nonaccrual	2,081	5,328
Less:		
Loans returned to accrual status	(3,937)	(3,449)
Nonaccrual loans transferred to OREO	(2,710)	(937)
Nonaccrual loans charge-offs	(220)	(435)
Loan collections	(1,570)	(6,816)
Reclassification	(6)	-
Ending balance	<u>\$ 36,410</u>	<u>\$ 48,818</u>

The amount of nonaccrual consumer loans, including finance leases, increased by \$1.1 million to \$15.9 million as of March 31, 2023, compared to \$14.8 million as of December 31, 2022. The increase was mainly reflected in the auto loans and finance leases portfolio.

As of March 31, 2023, approximately \$22.7 million of the loans placed in nonaccrual status, mainly commercial loans, and residential loans, were current, or had delinquencies of less than 90 days in their interest payments. Collections on these loans are being recorded on a cash basis through earnings, or on a cost-recovery basis, as conditions warrant.

During the quarter ended March 31, 2023, interest income of approximately \$0.1 million related to nonaccrual loans with a carrying value of \$29.5 million as of March 31, 2023, mainly nonaccrual commercial and construction loans, was applied against the related principal balances under the cost-recovery method.

Total loans in early delinquency (*i.e.*, 30-89 days past due loans, as defined in regulatory reporting instructions) amounted to \$94.5 million as of March 31, 2023, a decrease of \$10.4 million, compared to \$104.9 million as of December 31, 2022. The variances by major portfolio categories are as follows:

- Consumer loans in early delinquency decreased by \$4.5 million to \$66.4 million, mainly in the auto loans portfolio.
- Residential mortgage loans in early delinquency decreased by \$3.0 million to \$25.2 million.
- Commercial and construction loans in early delinquency decreased by \$2.9 million, mainly due to the migration to past due 90 days and still accruing of a \$2.3 million commercial mortgage loan that matured and is in the process of renewal but for which the Corporation continues to receive interest and principal payments from the borrower.

In addition, the Corporation provides homeownership preservation assistance to its customers through a loss mitigation program. Depending upon the nature of a borrower's financial condition, restructurings or loan modifications through this program are provided, as well as other restructurings of individual C&I, commercial mortgage, construction, and residential mortgage loans. See Note 1 – Basis of Presentation and Significant Accounting Policies, to the unaudited consolidated financial statements herein for additional information related to the accounting policies of loan modifications granted to borrowers experiencing financial difficulty. In addition, see Note 3 - Loans Held for Investment, to the unaudited consolidated financial statements herein for additional information and statistics about the Corporation's modified loans.

The OREO portfolio, which is part of non-performing assets, increased to \$32.9 million as of March 31, 2023, compared to \$31.6 million as of December 31, 2022. The following tables show the composition of the OREO portfolio as of March 31, 2023 and December 31, 2022, as well as the activity of the OREO portfolio by geographic area during the quarter ended March 31, 2023:

OREO Composition by Region

(In thousands)	As of March 31, 2023			
	Puerto Rico	Virgin Islands	Florida	Consolidated
Residential	\$ 23,314	\$ 1,670	\$ -	\$ 24,984
Construction	1,705	59	-	1,764
Commercial	3,304	2,810	-	6,114
	<u>\$ 28,323</u>	<u>\$ 4,539</u>	<u>\$ -</u>	<u>\$ 32,862</u>

(In thousands)	As of December 31, 2022			
	Puerto Rico	Virgin Islands	Florida	Consolidated
Residential	\$ 23,388	\$ 606	\$ 31	\$ 24,025
Construction	1,705	59	-	1,764
Commercial	3,042	2,810	-	5,852
	<u>\$ 28,135</u>	<u>\$ 3,475</u>	<u>\$ 31</u>	<u>\$ 31,641</u>

OREO Activity by Region

(In thousands)	Quarter Ended March 31, 2023			
	Puerto Rico	Virgin Islands	Florida	Consolidated
Beginning Balance	\$ 28,135	\$ 3,475	\$ 31	\$ 31,641
Additions	5,351	1,064	-	6,415
Sales	(4,409)	-	(31)	(4,440)
Write-downs and other adjustments	(754)	-	-	(754)
Ending Balance	<u>\$ 28,323</u>	<u>\$ 4,539</u>	<u>\$ -</u>	<u>\$ 32,862</u>

Net Charge-offs and Total Credit Losses

Net charge-offs totaled \$13.3 million for the first quarter of 2023, or 0.46% of average loans on an annualized basis, compared to \$6.6 million, or an annualized 0.24% of average loans for the first quarter of 2022.

Residential mortgage loans net charge-offs for the first quarter of 2023 were \$0.5 million, or an annualized 0.07% of related average loans, compared to \$1.2 million, or an annualized 0.15% of related average loans, for the first quarter of 2022. Approximately \$0.2 million in charge-offs recorded during the first quarter of 2023 resulted from valuations of collateral dependent residential mortgage loans, compared to \$0.4 million in for the same period in 2022. Net charge-offs on residential mortgage loans for the first quarter of 2023 also included \$0.5 million related to foreclosures recorded during the first quarter of 2023, compared to \$1.3 million recorded for the same period in 2022.

Construction loans net recoveries for the first quarter of 2023 were \$0.1 million, or an annualized 0.17% of related average loans, compared to \$8 thousand, or an annualized 0.03% of related average loans, for the same period in 2022.

Commercial mortgage loans net recoveries for the first quarter of 2023 were \$0.1 million, or an annualized 0.03% of average commercial mortgage loans, compared to \$7 thousand for the first quarter of 2022.

Commercial and industrial loans net charge-offs for the first quarter of 2023 were \$28 thousand, compared to net recoveries of \$0.8 million, or an annualized 0.10% of related average loans for the first quarter of 2022. For the first quarter of 2022, a \$0.9 million recovery was recorded in the Puerto Rico region in connection with a nonaccrual commercial loan that was paid off during the quarter.

Net charge-offs of consumer loans and finance leases for the first quarter of 2023 were \$13.0 million, or 1.54% of related average loans, compared to \$6.1 million, or 0.85% of related average loans, for the first quarter of 2022.

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

	Quarter Ended March 31,	
	2023	2022
Residential mortgage	0.07 %	0.15%
Construction	(0.17)%	(0.03)%
Commercial mortgage	(0.03)%	- %
Commercial and industrial	- %	(0.10)%
Consumer loans and finance leases	1.54 %	0.85%
Total loans	0.46 %	0.24%

The following table presents net charge-offs (recoveries) to average loans held in various portfolios by geographic segment for the indicated periods:

	Quarter Ended March 31,	
	2023	2022
PUERTO RICO:		
Residential mortgage	0.10 %	0.19 %
Construction	(0.47)%	0.08 %
Commercial mortgage	- %	0.01 %
Commercial and industrial	0.01 %	(0.16)%
Consumer and finance leases	1.53 %	0.83 %
Total loans	0.58 %	0.29 %
VIRGIN ISLANDS:		
Residential mortgage	(0.08)%	0.10 %
Commercial mortgage	(0.21)%	(0.22)%
Commercial and industrial	(0.01)%	(0.01)%
Consumer and finance leases	2.19 %	1.78 %
Total loans	0.29 %	0.25 %
FLORIDA:		
Construction	(0.05)%	(0.09)%
Commercial mortgage	(0.09)%	- %
Consumer and finance leases	0.17 %	1.31 %
Total loans	(0.03)%	0.01 %

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

Total net charge-offs plus gains on OREO operations for the first quarter of 2023 amounted to \$11.3 million, or a loss rate of 0.37% on an annualized basis of average loans and repossessed assets, compared to losses of \$5.9 million, or a loss rate of 0.21% on an annualized basis, for the first quarter of 2022.

The following table presents information about the OREO inventory and credit losses for the indicated periods:

	Quarter ended March 31,	
	2023	2022
(Dollars in thousands)		
OREO		
OREO balances, carrying value:		
Residential	\$ 24,984	\$ 32,208
Construction	1,764	3,458
Commercial	6,114	7,228
Total	<u>\$ 32,862</u>	<u>\$ 42,894</u>
OREO activity (number of properties):		
Beginning property inventory	344	418
Properties acquired	59	68
Properties disposed	(59)	(44)
Ending property inventory	<u>344</u>	<u>442</u>
Average holding period (in days)		
Residential	533	656
Construction	2,266	1,979
Commercial	2,468	2,011
Total average holding period (in days)	<u>986</u>	<u>991</u>
OREO operations gain (loss):		
Market adjustments and gains (losses) on sale:		
Residential	\$ 2,490	\$ 992
Construction	40	103
Commercial	(67)	(17)
Total net gain	<u>2,463</u>	<u>1,078</u>
Other OREO operations expenses	(467)	(358)
Net Gain on OREO operations	<u>\$ 1,996</u>	<u>\$ 720</u>
(CHARGE-OFFS) RECOVERIES		
Residential charge-offs, net	\$ (486)	\$ (1,146)
Construction recoveries, net	63	8
Commercial recoveries, net	122	752
Consumer and finance leases charge-offs, net	(12,968)	(6,208)
Total charge-offs, net	<u>(13,269)</u>	<u>(6,594)</u>
TOTAL CREDIT LOSSES ⁽¹⁾	<u>\$ (11,273)</u>	<u>\$ (5,874)</u>
LOSS RATIO PER CATEGORY ⁽²⁾		
Residential	(0.28)%	0.02 %
Construction	(0.28)%	(0.37)%
Commercial	-%	(0.06)%
Consumer	1.54 %	0.85 %
TOTAL CREDIT LOSS RATIO ⁽³⁾	0.37 %	0.21 %

(1) Equal to net gain on OREO operations plus charge-offs, net.

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

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

Operational Risk

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

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

Legal and Compliance Risk

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

Concentration Risk

The Corporation conducts its operations in a geographically concentrated area, as its main market is Puerto Rico. Of the total gross loan portfolio held for investment of \$11.6 billion as of March 31, 2023, the Corporation had credit risk of approximately 80% in the Puerto Rico region, 17% in the United States region, and 3% in the Virgin Islands region.

Update on the Puerto Rico Fiscal and Economic Situation

A significant portion of the Corporation's business activities and credit exposure is concentrated in the Commonwealth of Puerto Rico, which has experienced economic and fiscal distress over the last decade. Since declaring bankruptcy and benefitting from the enactment of the federal Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") in 2016, the Government of Puerto Rico has made progress on fiscal matters primarily by restructuring a large portion of its outstanding public debt and identifying funding sources for its unfunded pension system.

Economic Indicators

On November 10, 2022, the Puerto Rico Planning Board ("PRPB") presented the Economic Report to the Governor, which provides an analysis of Puerto Rico's economy during fiscal year 2021 and a short-term forecast for fiscal years 2022 and 2023. According to the PRPB, Puerto Rico's real gross national product ("GNP") expanded by 1.0% in fiscal year 2021, significantly above the PRPB's original baseline projection of a 2.0% contraction. According to the report, real GNP growth was primarily driven by a sharp increase in personal consumption expenditures reflecting the relaxation of COVID-related restrictions, as well as the impact of the substantial disaster relief funding deployed over the period. To a lesser extent, growth in fiscal year 2021 was also driven by a higher level of investments in machinery, equipment, and construction. These favorable variances were partially offset by an increase in imports, a reduction in exports, and a negative change in the level of inventories. Although no official GNP data has been released to date for fiscal year 2022, the 2023 Fiscal Plan model estimates that Puerto Rico's real GNP expanded by 2.0% in fiscal year 2022.

There are other indicators that gauge economic activity and are published with greater frequency, for example, the Economic Development Bank for Puerto Rico's Economic Activity Index ("EDB-EAI"). Although not a direct measure of Puerto Rico's real GNP, the EDB-EAI is correlated to Puerto Rico's real GNP. For February 2023, preliminary estimates showed that the EDB-EAI increased 0.3% on a month-over-month; however, it stood 0.2% lower on a year-over-year basis. Over the 12-month period ended February 28, 2023, the EDB-EAI averaged 124.5, approximately 0.9% above the comparable figure a year earlier.

Fiscal Plan

On April 3, 2023, the PROMESA oversight board certified the 2023 Fiscal Plan for Puerto Rico (the "2023 Fiscal Plan"). Unlike previous versions of the fiscal plan, the PROMESA oversight board segregated the 2023 Fiscal Plan into three different volumes. As the first fiscal plan certified in a post-bankruptcy environment, Volume 1 presents a Transformation Plan that highlights priority areas to cement fiscal responsibility, accelerate economic growth in a sustainable manner, and restore market access to Puerto Rico. Volume 2 provides additional details on economic trends and financial projections, and Volume 3 maps out the supplementary implementation details to guide the government's implementation of the requirements of the 2023 Fiscal Plan, as well as additional initiatives from prior fiscal plans which remain mandatory and are still pending to be implemented.

The 2023 Fiscal Plan prioritizes resource allocation across three major pillars: (i) entrenching a legacy of strong financial management through the implementation of a comprehensive financial management agenda, (ii) instilling a culture of public-sector performance and excellence in order to properly deliver quality public services, and (iii) investing for economic growth to ensure sufficient revenues are generated to support the delivery of services. According to the Transformation Plan, the fiscal and economic turnaround of Puerto Rico cannot be accomplished without the implementation of structural economic reforms that promote sustainable economic development. These reforms include the power/energy sector reform to improve availability, reliability and affordability of energy, the K-12 and higher education reform to expand opportunity and prepare the workforce to compete for jobs of the future, and an infrastructure reform aimed at improving the efficiency of the economy and facilitate investment. The 2023 Fiscal Plan projects that these reforms, if implemented successfully, will contribute 0.75% in GNP growth by fiscal year 2026. Additionally, the 2023 Fiscal Plan provides a roadmap for a tax reform directed towards establishing a tax regime that is more competitive for investors and more equitable for individuals.

The 2023 Fiscal Plan notes that Puerto Rico has had a strong recovery in the aftermath of the pandemic crisis with labor participation trending positively and unemployment at historically low levels. However, it recognizes that such recovery has been primarily fueled by the unprecedented influx of federal funds, which have an outsized and temporary impact that may mask underlying structural weaknesses in the economy. As such, the 2023 Fiscal Plan projects a 0.7% decline in real GNP for the current fiscal year 2023, followed by a period of near-zero real growth in the coming fiscal years 2024 through 2026. Also, the fiscal plan projects that Puerto Rico's population will continue the long-term trend of steady decline. Notwithstanding, the Transformation Plan depicts that, if managed properly, these non-recurring federal funds can be leveraged into sustainable longer-term growth and opportunity.

The 2023 Fiscal Plan projects that approximately \$81 billion in total disaster relief funding, from federal and private sources, will be disbursed as part of the reconstruction efforts over a span of 18 years (fiscal years 2018 through 2035). These funds will benefit individuals, the public (e.g., reconstruction of major infrastructure, roads, and schools), and will cover part of the Commonwealth's share of the cost of disaster relief funding. Also, the 2023 Fiscal Plan projects accelerated deployment of the remaining COVID-19 relief funds in fiscal year 2023 through 2025, with approximately \$9.3 billion expected to be disbursed, compared to \$4.5 billion projected in the previous fiscal plan. Additionally, the 2023 Fiscal Plan continues to account for \$2.3 billion in federal funds to Puerto Rico from the Bipartisan Infrastructure Law directed towards improving the Island's infrastructure over fiscal years 2022 through 2026.

Debt Restructuring

Over 80% of Puerto Rico's outstanding debt has been restructured to date. On March 15, 2022, the Plan of Adjustment of the central government's debt became effective through the exchange of more than \$33 billion of existing bonds and other claims into approximately \$7 billion of new bonds, saving Puerto Rico more than \$50 billion in debt payments to creditors. Also, the restructurings of the Puerto Rico Sales Tax Financing Corporation ("COFINA"), the Highways and Transportation Authority ("HTA"), and the Puerto Rico Aqueducts and Sewers Authority ("PRASA") are expected to yield savings of approximately \$17.5 billion, \$3.0 billion, and \$400 million, respectively, in future debt service payments. The main restructurings pending include that of the Puerto Rico Electric Power Authority ("PREPA") and the Puerto Rico Industrial Company ("PRIDCO").

According to the PROMESA oversight board, the filed PREPA Plan of Adjustment ("PREPA-POA") reduces PREPA's legacy financial and general unsecured debt by approximately 40% as it contemplates the issuance of \$5.7 billion in new bonds that will be exchanged for the discharge of approximately \$10.0 billion in outstanding debt. The new bonds are expected to be paid from revenues generated by a "Legacy Charge", which consists of a fixed and volumetric charge on customers' bills that will vary based on the category of customer and level of usage. This Legacy Charge is expected to generate sufficient revenue to pay down the new bonds in 35 years based on the projections presented in PREPA's 2022 certified fiscal plan. For pensions, the PREPA-POA provides PREPA's pension system with treatment substantially similar to the treatment of the Commonwealth's pensions. The PREPA-POA closes the pension system to new entrants, preserves the benefits of current retirees, eliminates any future cost of living adjustments, and ensures all benefits accrued to date by active participants are protected.

On March 23, 2022, the Title III Court issued a ruling that upholds the PROMESA oversight board's position that PREPA bondholders' collateral security is limited to the money PREPA deposits in accounts established pursuant to the trust agreement governing the issuance of the bonds. The court also rejected the bondholders' contention that they have a general unsecured claim for the full amount of their principal and interest. As such, the court limited their unsecured claim to future net revenues for the remainder of the terms of the bonds. According to the PROMESA oversight board, this decision of the court was a significant win for Puerto Rico and its path to reliable electricity and economic growth.

Although PREPA's overall mediation process has been slower than expected, PREPA's Title III confirmation process is underway, a confirmation hearing has been set for mid-July 2023 and, according to the 2023 Fiscal Plan, the plan is expected to go effective by the second quarter of 2024.

Other Developments

Notable progress continues to be made as part of the ongoing efforts of prioritizing the restoration, improvement, and modernization of Puerto Rico's infrastructure. According to the Central Office for Recovery, Reconstruction, and Resiliency ("COR3"), progress is evidenced by the significant increase in permanent work projects that have already started executing the reconstruction efforts with FEMA obligated funding. As of December 31, 2022, there were a total of 6,286 active permanent work projects reported, more than twice the comparable amount reported as of December 31, 2021, of 2,650 projects.

Exposure to Puerto Rico Government

As of March 31, 2023, the Corporation had \$340.0 million of direct exposure to the Puerto Rico government, its municipalities and public corporations, compared to \$338.9 million as of December 31, 2022. As of March 31, 2023, approximately \$183.4 million of the exposure consisted of loans and obligations of municipalities in Puerto Rico that are supported by assigned property tax revenues and for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment, and \$113.1 million of loans and obligations which are supported by one or more specific sources of municipal revenues. Approximately 72% of the Corporation's exposure to Puerto Rico municipalities consisted primarily of senior priority loans and obligations concentrated in four of the largest municipalities in Puerto Rico. The 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. Furthermore, municipalities are also likely to be affected by the negative economic and other effects resulting from an expense, revenue, or cash management measures taken to address the Puerto Rico government's fiscal problems and measures included in fiscal plans of other government entities. In addition to municipalities, the total direct exposure also included \$10.2 million in loans to an affiliate of PREPA, \$30.0 million in loans to agencies or public corporations of the Puerto Rico government, and obligations of the Puerto Rico government, specifically a residential pass-through MBS issued by the PRHFA, at an amortized cost of \$3.3 million as part of its available-for-sale debt securities portfolio (fair value of \$2.2 million as of March 31, 2023).

The following table details the Corporation's total direct exposure to Puerto Rico government obligations according to their maturities:

	As of March 31, 2023		
	Investment Portfolio (Amortized cost)	Loans	Total Exposure
(In thousands)			
Puerto Rico Housing Finance Authority:			
After 10 years	\$ 3,302	\$ -	\$ 3,302
Total Puerto Rico Housing Finance Authority	3,302	-	3,302
Agencies and public corporation of the Puerto Rico government:			
After 1 to 5 years	-	3,313	3,313
After 5 to 10 years	-	26,671	26,671
Total agencies and public corporation of the Puerto Rico government	-	29,984	29,984
Affiliate of the Puerto Rico Electric Power Authority:			
Due within one year	-	10,184	10,184
Total Puerto Rico government affiliate	-	10,184	10,184
Total Puerto Rico public corporations and government affiliate	-	40,168	40,168
Municipalities:			
Due within one year	1,204	18,148	19,352
After 1 to 5 years	42,633	55,905	98,538
After 5 to 10 years	55,940	56,652	112,592
After 10 years	66,023	-	66,023
Total Municipalities	165,800	130,705	296,505
Total Direct Government Exposure	\$ 169,102	\$ 170,873	\$ 339,975

In addition, as of March 31, 2023, the Corporation had \$82.9 million in exposure to residential mortgage loans that are guaranteed by the PRHFA, a governmental instrumentality that has been designated as a covered entity under PROMESA (December 31, 2022 – \$84.7 million). Residential mortgage loans guaranteed by the PRHFA 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 for all loans under the mortgage loan insurance program. According to the most recently released audited financial statements of the PRHFA, as of June 30, 2021, the PRHFA's mortgage loans insurance program covered loans in an aggregate amount of approximately \$473 million. The regulations adopted by the PRHFA require the establishment of adequate reserves to guarantee the solvency of the mortgage loans insurance program. As of June 30, 2021, the most recent date as of which information is available, the PRHFA had a liability of approximately \$5 million as an estimate of the losses inherent in the portfolio.

As of March 31, 2023, the Corporation had \$2.2 billion of public sector deposits in Puerto Rico, compared to \$2.3 billion as of December 31, 2022. Approximately 25% of the public sector deposits as of March 31, 2023 were from municipalities and municipal agencies in Puerto Rico and 75% were from public corporations, the Puerto Rico central government and agencies, and U.S. federal government agencies in Puerto Rico.

Exposure to USVI Government

The Corporation has operations in the USVI and has credit exposure to USVI government entities.

For many years, the USVI has been experiencing a number of fiscal and economic challenges that have deteriorated the overall financial and economic conditions in the area. On March 4, 2022, the United States Bureau of Economic Analysis (the "BEA") released its estimates of GDP for 2020. According to the BEA, the USVI's real GDP decreased 2.2%. Also, the BEA revised its previously published real GDP growth estimate for 2019 from 2.2% to 2.8%. According to the BEA, the decline in real GDP for 2020 reflected decreases in exports of services, private fixed investment, personal consumption expenditures, and government spending primarily as a result of the effects of the COVID-19 pandemic. These decreases were partially offset by an increase in private inventory investment, reflecting an increase in crude oil and other petroleum products imported and stored in the islands. In addition, there were reductions in imports of goods including consumer goods and equipment, and in imports of services. According to the BEA, expenditures funded by the various federal grants and transfer payments are reflected in the GDP estimates; however, the full effects of the pandemic cannot be quantified in the GDP statistics for the USVI because the impacts are generally embedded in source data and cannot be separately identified.

Nonetheless, over the past two years, the USVI has been recovering from the adverse impact caused by COVID-19 and has continued to make progress on its rebuilding efforts related to Hurricanes Irma and Maria in 2017. According to data published by the government, over \$1.4 billion in disaster recovery funds were disbursed during 2021 and 2022, up 22% from the preceding 2-year period. On the fiscal front, revenues have trended positively and the USVI Government successfully completed the restructuring of the government employee retirement system. Although no official GDP data has been released for 2021 and/or 2022, the aforementioned developments, as well as the positive trend reflected by key economic indicators such as visitor arrivals, non-farm payrolls and unemployment rate potentially indicate that the territory has experienced an overall economic recovery since 2020.

PROMESA does not apply to the USVI and, as such, there is currently no federal legislation permitting the restructuring of the debts of the USVI and its public corporations and instrumentalities. To the extent that the fiscal condition of the USVI government continues to deteriorate, the U.S. Congress or the government of the USVI may enact legislation allowing for the restructuring of the financial obligations of the USVI government entities or imposing a stay on creditor remedies, including by making PROMESA applicable to the USVI.

As of March 31, 2023, the Corporation had \$38.7 million in loans to USVI public corporations, compared to \$38.0 million as of December 31, 2022. As of March 31, 2023, all loans were currently performing and up to date on principal and interest payments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding market risk to which the Corporation is exposed, see the information contained in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management” in this Quarterly Report on Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

First BanCorp.’s management, including its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of First BanCorp.’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2023. Based on this evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation’s disclosure controls and procedures were effective and provide reasonable assurance that the information required to be disclosed by the Corporation in reports that the Corporation files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and reported to the Corporation’s management, including the Chief Executive Office and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Internal Control over Financial Reporting

There were no changes to the Corporation’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

PART II - OTHER INFORMATION

In accordance with the instructions to Part II, the other specified items in this part have been omitted because they are not applicable, or the information has been previously reported.

ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Note 22 – Regulatory Matters, Commitments and Contingencies, to unaudited consolidated financial statements herein, which is incorporated by reference in this Item 1.

ITEM 1A. RISK FACTORS

The Corporation's business, operating results and/or the market price of our common stock may be significantly affected by a number of factors. A detailed discussion of certain risk factors that could affect the Corporation's future operations, financial condition or results for future periods is set forth in Part I, Item 1A., "Risk Factors," in the 2022 Annual Report on Form 10-K. These risk factors, and others, could cause actual results to differ materially from historical results or the results contemplated by the forward-looking statements contained in this report. Also, refer to the discussion in "Forward Looking Statements" and Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations," in this Quarterly Report on Form 10-Q for additional information that may supplement or update the discussion of risk factors in the 2022 Annual Report on Form 10-K.

Other than as described below, there have been no material changes from those risk factors previously disclosed in Part I, Item 1A. "Risk Factors," in the 2022 Annual Report on Form 10-K.

Cyber-attacks, system risks and data protection breaches to our computer systems and networks or those of third-party service providers could adversely affect our ability to conduct business, manage our exposure to risk or expand our business, result in the disclosure or misuse of confidential or proprietary information, increase our costs to maintain and update our operational and security systems and infrastructure, and present significant reputational, legal and regulatory costs.

Our business is highly dependent on the security, controls and efficacy of our infrastructure, computer and data management systems, as well as those of our customers, suppliers, and other third parties. To access our network, products and services, our employees, customers, suppliers, and other third parties, including downstream service providers, the financial services industry and financial data aggregators, with whom we interact, on whom we rely or who have access to our customers' personal or account information, increasingly use personal mobile devices or computing devices that are outside of our network and control environments and are subject to their own cybersecurity risks. Our business relies on effective access management and the secure collection, processing, transmission, storage and retrieval of confidential, proprietary, personal and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties.

Information security risks for financial institutions have significantly increased in recent years, especially given the increasing sophistication and activities of organized computer criminals, hackers, and terrorists and our expansion of online and digital customer services to better meet our customer's needs. These threats may derive from fraud or malice on the part of our employees or third-party providers or may result from human error or accidental technological failure. These threats include cyber-attacks, such as computer viruses, malicious or destructive code, phishing attacks, denial of service attacks, or other security breach tactics that could result in the unauthorized release, gathering, monitoring, misuse, loss, destruction, or theft of confidential, proprietary, and other information, including intellectual property, of ours, our employees, our customers, or third parties, damages to systems, or otherwise material disruption to our or our customers' or other third parties' network access or business operations, both domestically and internationally.

While we maintain an Information Security Program that continuously monitors cyber-related risks and ultimately ensures protection for the processing, transmission, and storage of confidential, proprietary, and other information in our computer systems and networks, as well as a vendor management program to oversee third party and vendor risks, there is no guarantee that we will not be exposed to or be affected by a cybersecurity incident. For example, we recently learned that one of our third-party vendors was the victim of a security incident in April 2023 involving a set of data that included some information on FirstBank's mortgage loan business. In response to learning of the incident, we promptly launched our own internal investigation, which confirmed that our own systems were not compromised, and any operational and financial impact was minimal. We are working with cybersecurity experts and legal counsel to fully assess the impact of the security incident reported by our third-party vendor and any required disclosures to the applicable regulatory authorities and impacted customers. Our vendor has indicated (and we have no evidence to the contrary) that to date there is no evidence that there has been any actual or attempted misuse of information. We may incur expenses related to the

incident, including expenses to remediate and investigate this matter. Additionally, we remain subject to risks and uncertainties as a result of the incident, including legal, reputational and financial risks.

Cyber threats are rapidly changing, and future attacks or breaches could lead to other security breaches of the networks, systems, or devices that our customers use to access our integrated products and services, which, in turn, could result in unauthorized disclosure, release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary, and other information (including account data information) or data security compromises. As cyber threats continue to evolve, we may be required to expend significant additional resources to modify or enhance our protective measures, investigate, and remediate any information security vulnerabilities or incidents and develop our capabilities to respond and recover. The full extent of a particular cyberattack, and the steps that the Corporation may need to take to investigate such attack, may not be immediately clear, and it could take considerable additional time for us to determine the complete scope of information compromised, at which time the impact on the Corporation and measures to recover and restore to a business-as-usual state may be difficult to assess. These factors may also inhibit our ability to provide full and reliable information about the cyberattack to our customers, third-party vendors, regulators, and the public.

A successful penetration or circumvention of our system security, or the systems of our customers, suppliers, and other third parties, could cause us serious negative consequences, including significant operational, reputational, legal, and regulatory costs and concerns.

Any of these adverse consequences could adversely impact our results of operations, liquidity, and financial condition. In addition, our insurance policies may not be adequate to compensate us for the potential costs and other losses arising from cyber-attacks, failures of information technology systems, or security breaches, and such insurance policies may not be available to us in the future on economically reasonable terms, or at all. Insurers may also deny us coverage as to any future claim. Any of these results could harm our growth prospects, financial condition, business, and reputation.

The volatility in the financial services industry, including failures or rumored failures of other depository institutions, and actions taken by governmental agencies to stabilize the financial system, could result in, among other things, bank deposit runoffs and liquidity constraints.

The closure and placement into receivership with the FDIC of certain large U.S. regional banks with assets over \$100 billion in March and May 2023, and adverse developments affecting other banks, resulted in heightened levels of market volatility and consequently have negatively impacted customer confidence in the safety and soundness of financial institutions. These developments have resulted in certain regional banks experiencing higher than normal deposit outflows and an elevated level of competition for available deposits in the market. Although we have not been materially impacted by these recent bank failures, the resulting speed at which news, including social media outlets, led depositors to withdraw funds from these and other financial institutions, as well as the volatile impact to stock prices, could have a material effect on operations. The impact of market volatility from the adverse developments in the banking industry, along with continued high inflation and rising interest rates on our business and related financial results, will depend on future developments, which are highly uncertain and difficult to predict.

In the aftermath of these recent bank failures, the banking agencies could propose certain actions that may impact capital ratios or the FDIC deposit insurance premium.

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

The Corporation did not have any unregistered sales of equity securities during the quarter ended March 31, 2023.

Issuer Purchases of Equity Securities

The following table provides information in relation to the Corporation's purchases of shares of its common stock during the quarter ended March 31, 2023:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under These Plans or Programs (In thousands) ⁽¹⁾
January 1, 2023 - January 31, 2023	306,106	\$ 13.25	306,106	\$ 120,944
February 1, 2023 - February 28, 2023	2,282,608	14.24	2,282,608	88,429
March 1, 2023 - March 31, 2023	1,276,661	13.04	988,826	75,000
Total	<u>3,865,375</u> ⁽²⁾⁽³⁾		<u>3,577,540</u>	

(1) As of March 31, 2023, the Corporation was authorized to purchase up to \$350 million of its common stock under the stock repurchase program, that was publicly announced on April 27, 2022, of which \$275.0 million had been utilized. The remaining \$75.0 million in the table represents the remaining amount authorized under the stock repurchase program as of March 31, 2023. The stock repurchase program does not obligate the Corporation to acquire any specific number of shares, does not have an expiration date and may be modified, suspended, or terminated at any time at the Corporation's discretion. Under the stock repurchase program, shares may be repurchased through open market purchases, accelerated share repurchases and/or privately negotiated transactions, including under plans complying with Rule 10b5-1 under the Exchange Act.

(2) Includes 3,577,540 shares of common stock repurchased in the open market at an average price of \$13.98 for a total purchase price of approximately \$50.0 million.

(3) Includes 287,835 shares of common stock withheld by the Corporation to cover minimum tax withholding obligations upon the vesting of restricted stock and performance units. The Corporation intends to continue to satisfy statutory tax withholding obligations in connection with the vesting of outstanding restricted stock and performance units through the withholding of shares.

ITEM 6. EXHIBITS

See the Exhibit Index below, which is incorporated by reference herein:

EXHIBIT INDEX

Exhibit No.	Description
10.1*	Form of First BanCorp Long-Term Equity Incentive Award Agreement
31.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document, filed herewith. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document, filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document, filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document, filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document, filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definitions Linkbase Document, filed herewith
104	The cover page of First BanCorp. Quarterly Report on Form 10-Q for the quarter ended March 31, 2023, formatted in Inline XBRL (included within the Exhibit 101 attachments)

*Management contract or compensatory plan or agreement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Corporation has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized:

First BanCorp.
Registrant

Date: May 10, 2023

By: /s/ Aurelio Alemán
Aurelio Alemán
President and Chief Executive Officer

Date: May 10, 2023

By: /s/ Orlando Berges
Orlando Berges
Executive Vice President and Chief Financial Officer

**FIRST BANCORP
LONG-TERM EQUITY INCENTIVE AWARD AGREEMENT**

THIS AGREEMENT is entered into as of the ____ day of _____, and effective as of the ____ day of ____ (the "Effective Date"), by and between First BanCorp. (the "Corporation"), and _____ (the "Participant").

The Corporation, pursuant to its First BanCorp Omnibus Incentive Plan, as amended (the "Plan"), hereby grants a Long-Term Equity Incentive Award consisting of time-vested Restricted Stock (the "Restricted Stock") and Performance Shares (the "Performance Shares" and, together with the Restricted Stock, the "Award") to the Participant, which award shall have the terms and conditions set forth in this Agreement:

1. Definitions

All capitalized terms used herein and not otherwise specifically defined herein shall have the meanings ascribed to such terms in the Plan.

2. Award

(a) Restricted Stock. The Corporation, as of the Effective Date, hereby grants to the Participant a Restricted Stock award of _____ shares of common stock, par value \$0.10 per share, of the Corporation (the "Common Stock"), subject to the terms and conditions set forth herein and subject to the terms and conditions of the Plan which is incorporated herein by reference and made a part hereof for all purposes.

(b) Performance Shares. The Corporation, as of the Effective Date, hereby grants to the Participant a Performance Shares award of _____ shares of Common Stock, subject to the terms and conditions set forth herein and subject to the terms and conditions of the Plan, which is incorporated herein by reference and made part hereof for all purposes. The Performance Shares vest based on the achievement of two performance metrics weighted equally: (i) the Corporation's Relative Total Shareholder Return (the "Relative TSR Performance Goal") as compared to the Corporation's Peer Group (as defined in Appendix A), and (ii) the achievement of a tangible book value per share goal (the "TBVPS Performance Goal", and, collectively with the Relative TSR Performance Goal, the "Performance Goals"). Details of the Performance Goals are specified in Appendix A. The performance cycle is a three-year performance period defined as January 1, ____ through December 31, ____ (the "Performance Cycle").

The Participant may earn ____% of its target opportunity for threshold-level performance up to ____% of its target opportunity for maximum-level performance, which is measured based upon the achievement of the Performance Goals during the Performance Cycle as detailed in Appendix A. Amounts between threshold, target and maximum performance will be interpolated to reward incremental achievement, and no amounts are paid for results on a particular performance metric if actual results are below threshold.

The Award will vest as set forth below.

3. Vesting

(a) Restricted Stock Vesting. Subject to the terms and conditions of this Agreement, the Restricted Stock shall vest solely on the basis of the passage of time over a three-year period (the "Restricted Stock Vesting Date"), as follows: fifty percent (50%) of the shares shall vest on the second anniversary date of the Effective Date of the award and the remaining fifty percent (50%) shall vest on the third anniversary date of the Effective Date of the award. Notwithstanding the foregoing, and subject to earlier vesting as provided in Section 7 hereof, Restricted Stock may vest more quickly in the event of death, Disability, Retirement, a Change in Control or other specified permitted vesting events.

(b) Performance Shares Vesting. Subject to the terms and conditions of this Agreement, the Performance Shares shall vest on the third anniversary of the Effective Date of the award, subject to the achievement of the Performance Goals established by the Committee during the Performance Cycle (the "Performance Shares Vesting Date", and, together with the Restricted Stock Vesting Date, the "Vesting Date"). Notwithstanding the foregoing, and subject to earlier vesting as provided in Section 7 hereof, Performance

Shares may vest more quickly in the event of death, Disability, a Change in Control or other specified permitted vesting events.

4. *Restriction on Transfer*

(a) Until the shares of the Award vest pursuant to Section 3 hereof, none of the shares may be sold, assigned, transferred, pledged, hypothecated or otherwise encumbered, and no attempt to transfer the shares, whether voluntary or involuntary, by operation of law or otherwise, shall vest the transferee with any interest or right in or with respect to the Award.

(b) Notwithstanding the foregoing (and assuming that the Participant has not made an accelerated income tax inclusion election with respect to the Award), at any time beginning with the date upon which any shares of the Award become vested and ending on December 31 of the calendar year including that date, a portion of such shares may be transferred as may reasonably be required to pay the federal, state, local, or foreign taxes that are anticipated to apply to the income recognized due to this vesting, and the amounts made transferrable for this purposes shall not count toward the percentages in the schedule above.

5. *Issuance and Custody*

(a) Shares of Common Stock underlying an Award shall be issued in book-entry form only and shall not be represented by a certificate, and shall be registered in the name of the Participant. Each such book-entry shall bear the following legend:

“THE SALE, TRANSFER OR ASSIGNMENT OF THE SECURITIES REPRESENTED BY THIS BOOK-ENTRY FORM ARE SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN LONG-TERM INCENTIVE AWARD AGREEMENT EFFECTIVE AS OF ____, ____, AS AMENDED FROM TIME TO TIME, AND THE FIRST BANCORP OMNIBUS INCENTIVE PLAN, AS AMENDED. COPIES OF SUCH AGREEMENT AND PLAN MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD OF THIS BOOK-ENTRY FORM TO THE SECRETARY OF THE CORPORATION.”

(b) Participant shall execute stock powers relating to the Award and deliver the same to the Corporation. The Corporation shall use such stock powers only for the purpose of canceling any unvested Award that is forfeited.

(c) Each book-entry form issued pursuant to Section 5(a) hereof, together with the stock powers relating to the Award, shall be deposited by the Corporation with the Secretary of the Board of Directors (the “Secretary”) of the Corporation or a custodian designated by the Secretary. Unless otherwise determined by the Committee, delivery of the Award will be by book-entry credit to an account maintained by the registrar and transfer agent of the shares with the applicable restrictions on transferability imposed on such Award by this Award Agreement. Upon vesting of the Award in accordance with this Award Agreement, the Corporation will instruct the transfer agent to electronically transfer the Participant’s shares to a brokerage or other account on the Participant’s behalf (or make such other arrangements for the delivery of the shares as Corporation reasonably determines).

(d) After any Restricted Stock or Performance Shares vest pursuant to Section 3 hereof and there exists no restrictions on transfer pursuant to Section 4 hereof, the Corporation shall promptly issue a book-entry form evidencing such vested Award, free of the legend provided in section 5(a) hereof, and shall be delivered to the Participant or the Participant's legal representatives, beneficiaries or heirs.

6. *Distributions and Adjustments*

(a) If all or any portion of the Award vest subsequent to any change in the number or character of shares of Common Stock (through stock dividend, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of shares of Common Stock or other securities of the Corporation, issuance of warrants or other rights to purchase shares of Common Stock or other securities of the Corporation or other similar corporate transaction or event affecting the shares such that an adjustment is determined by the Compensation and Benefit Committee of the Board of Directors (the “Committee”) to be appropriate in order to prevent dilution or enlargement of the interest represented by the shares), Participant shall then receive upon such vesting the number and type of securities or other consideration which he would have received if the Award had vested prior to the event changing the number or character of outstanding shares of Common Stock.

(b) Any additional shares of Common Stock, any other securities of the Corporation and any other property (except for cash dividends) distributed with respect to the Award prior to the Vesting Date shall be subject to the same restrictions, terms and conditions as the Award.

(c) Any additional shares of Common Stock, any securities and any other property (except for cash dividends) distributed with respect to the Award prior to the Vesting Date shall be promptly deposited with the Secretary or the custodian designated by the Secretary to be held in custody in accordance with Section 5(c) hereof.

(d) The Restricted Stock shall have the rights to dividends or dividend equivalents, as applicable, during the Restriction Period. Such dividends or dividend equivalents will accrue during the Restriction Period, but not be paid until restrictions lapse. Subject to the aforementioned and issuance of dividends or dividend equivalents on the Corporation's Common Stock, dividends will be paid in cash.

(e) Performance Shares shall have the right to receive dividend equivalents. Such dividend equivalents will accrue during the Performance Cycle and be paid at the Performance Shares Vesting Date based upon achievement of the Performance Goals. Subject to the aforementioned and issuance of dividends or dividend equivalents on the Corporation's Common Stock, dividends will be paid in cash.

(f) In the case of Restricted Stock, the Participant will have the right to vote the shares.

7. *Forfeiture; Termination of Services; Change in Control*

(a) In the event of the death of the Participant while employed by the Corporation, the Award held by the Participant which has not vested, shall vest irrespective of whether the vesting period has been completed. In the case of Performance Shares, the number of shares will be calculated as if the target number of the Performance Goals had in fact been earned.

(b) In the event the Participant's employment is terminated by reason of Disability, the Award held by such participant which has not vested, shall vest irrespective of whether the vesting period has been completed. In the case of Performance Shares, the number of shares will be calculated as if the target number of the Performance Goals had in fact been earned.

(c) In the event the Participant's employment is terminated by the Corporation or any Affiliate for Cause, the Award held by the Participant which has not vested shall be forfeited and canceled upon such termination.

(d) Unless otherwise determined by the Committee, in the event the Participant's employment ends as a result of the Participant's resignation from the Corporation or an Affiliate, any Award held by such Participant which has not vested, shall be forfeited and canceled upon such termination.

(e) In the event the Participant's employment is involuntarily terminated within one year after a Change in Control, if any Award held by the Participant is not assumed by the successor entity it shall vest irrespective of whether the vesting period has been completed. In the case of Performance Shares, the number of shares will be calculated as if the target number of the Performance Goals had in fact been earned.

(f) In the event of the Participant's Retirement: (1) Restricted Stock held by Participant which have not vested, shall vest irrespective of whether the vesting period has been completed; and (2) outstanding Performance Shares shall continue outstanding and vest in full on the Performance Shares Vesting Date in accordance with the actual results of the Performance Goals during the Performance Cycle.

(g) Based on particular circumstances evaluated by the Committee as they may relate to the termination of a Participant, the Board may, with the recommendation of the Committee, grant the full vesting of the Award held by the Participant upon termination of employment.

(h) If awards are accelerated for reasons other than death, disability, retirement, or change in control, those discretionarily accelerated shares will be limited to 10% of the total number of shares authorized under Section 5(a) of the Plan.

8. *Taxes*

The Corporation is authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of shares of Common Stock, or any payroll or other payment to a participant, amounts of withholding and other taxes due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Corporation and participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive shares of Common Stock or other property and to make cash payments in respect thereof in satisfaction of a participant's withholding obligations, either on a mandatory or elective basis in the discretion of the Committee, or in satisfaction of other tax obligations if such withholding will not

result in additional accounting expense to the Corporation. Notwithstanding other provisions of the Plan, only the minimum amount of shares of Common Stock deliverable in connection with an Award necessary to satisfy statutory withholding requirements will be withheld, unless withholding of any additional amount of shares of Common Stock will not result in additional accounting expense to the Corporation.

9. Miscellaneous

(a) This Agreement is issued pursuant to the Plan and is subject to its terms. In the event of any conflicts between this Agreement and the Plan, the terms and conditions of the Plan shall prevail. Participant hereby acknowledges receipt of a copy of the Plan. The Plan is also available for inspection during business hours at the principal office of the Corporation.

(b) This Agreement shall not confer on the Participant any right with respect to continuance of employment of the Corporation or any of its Affiliates.

(c) This Agreement shall be governed by and construed under the laws of the Commonwealth of Puerto Rico, without regard for conflicts of laws principles thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, and the corporate seal affixed, by its officers thereunto duly authorized, and the Participant has hereunto set his hand, all on the day and year first above written.

Corporate Seal

FIRST BANCORP

PARTICIPANT

By: _____

By: _____

Appendix A

Performance Shares

Total Target Number of Performance Shares: _____
 (Relative TSR Performance Goal: ____; and TBVPS Performance Goal: ____)

I. TBVPS Performance Goal:

___% of the Performance Shares vest based on the achievement of the TBVPS Performance Goal of \$____ at the end of the Performance Cycle. The Participant may earn ___% of its target opportunity for threshold-level performance (___% performance) which is measured based upon the growth in the TBVPS during the Performance Cycle up to the TBVPS Performance Goal (from \$_____ to \$_____). The Participant may earn up to ___% of its target opportunity for maximum level performance (___% performance), which is measured based upon the growth of TBVPS during the Performance Cycle in excess of the TBVPS Performance Goal (from \$_____ to \$_____). Amounts between threshold, target and maximum are interpolated to reward incremental achievement, and no amounts are paid for results on a particular performance metric if actual results are below threshold.

TBVPS Performance at the Performance Shares Vesting Date	TBVPS Performance Goal for Each of the Categories	Award Payout
Threshold: at ___% of target performance	\$____	___% of target payout (minimum payout)
Target: at ___% of target performance	\$____	___% of target payout
Maximum: at ___% of target performance	\$____	___% of target payout (maximum payout)

II. Relative TSR Performance Goal:

___% of the Performance Shares vest based on the achievement of the Relative TSR Performance Goal, as detailed in the below table at the end of the Performance Cycle.

Relative TSR	Percentile Rank among Peer Group	Award Payout
Opening Price =	___ th Percentile (threshold)	___% of target payout (minimum payout)
	___ th Percentile (target)	___% of target payout
	___ th Percentile (maximum)	___% of target payout (maximum payout)

The TSR for a company (including the Corporation) shall be computed based on the fifteen (15) days average closing price of the company's common stock immediately preceding the beginning and end of the Performance Cycle, and it assumes any dividends paid during the Performance Cycle are reinvested in additional shares of the underlying stock on the ex-dividend date.

The Corporation's "Peer Group" shall mean _____. If the Corporation's relative TSR is negative, payout will be limited to a maximum of 100% of target, subject to the above detailed performance levels. For avoidance of doubt, if the Corporation's relative negative TSR was at the ___th percentile (maximum) or above of the Peer Group, payout will be limited to 100%.

I, Aurelio Alemán, certify that:

1. I have reviewed this Form 10-Q of First BanCorp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2023

By: /s/ Aurelio Alemán
Aurelio Alemán
President and Chief Executive Officer

I, Orlando Berges, certify that:

1. I have reviewed this Form 10-Q of First BanCorp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2023

By: /s/ Orlando Berges
Orlando Berges
Executive Vice President and
Chief Financial Officer

CERTIFICATION

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 Title 18,
United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of First BanCorp., a Puerto Rico corporation (the “Company”), does hereby certify, to such officer’s knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 (the “Form 10-Q”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2023

/s/ Aurelio Alemán

Name: Aurelio Alemán

Title: President and Chief Executive Officer

CERTIFICATION

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 Title 18,
United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of First BanCorp., a Puerto Rico corporation (the “Company”), does hereby certify, to such officer’s knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 (the “Form 10-Q”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2023

/s/ Orlando Berges

Name: Orlando Berges

Title: Executive Vice President and Chief Financial Officer

