UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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)	66-0561882 (I.R.S. Employer Identification No.)
1519 Ponce de León Avenue, Stop 23 San Juan, Puerto Rico (Address of principal executive offices)	00908 (Zip Code)

(787) 729-8200

(Registrant's telephone number, including area code)

Not applicable

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

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). ☐ No ☑ Yes

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

Common stock: 178,298,443 shares outstanding as of August 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 hereof, and advises readers that any such 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"), Part II, Item 1A, "Risk Factors" in the Corporation's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023, 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 adverse effects on the Corporation's results of operations and its liquidity position;

- 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, including Federal Deposit Insurance Corporation ("FDIC") special assessments, 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 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 may require us to sell investment securities 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 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 incidents that occur, such as an April 2023 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 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, or the need of additional credit losses that could emerge from the recent downgrade of the United States of America's Long-Term Foreign-Currency Issuer Default Rating ("IDR") to 'AA+' from 'AAA', resulting in additional charges to the provision for credit losses on the Corporation's 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 further 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;

- residual impacts of the transition away from the London Interbank Offered Rate ("LIBOR");

- 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)

(In thousands, except for share information)	June 30, 2023	December 31, 2022
ASSETS		
Cash and due from banks	$ 1,046,534	$ 478,480
Money market investments:		
Time deposits with other financial institutions	300	300
Other short-term investments	700	1,725
Total money market investments	1,000	2,025
Available-for-sale debt securities, at fair value:		
Securities pledged with creditors' rights to repledge	79,909	81,103
Other available-for-sale debt securities	5,353,460	5,518,417
Total available-for-sale debt securities, at fair value (amortized cost of $6,199,630 as of June 30, 2023, and $6,398,197 as of December 31, 2022; ACL of $483 as of June 30, 2023 and $458 as of December 31, 2022)	5,433,369	5,599,520
Held-to-maturity debt securities, at amortized cost, net of ACL of $8,401 as of June 30, 2023 and $8,286 as of December 31, 2022 (fair value of $410,181 as of June 30, 2023 and $421,115 as of December 31, 2022)	416,325	429,251
Equity securities	48,101	55,289
Total investment securities	5,897,795	6,084,060
Loans, net of ACL of $267,058 as of June 30, 2023 and $260,464 as of December 31, 2022	11,452,257	11,292,361
Mortgage loans held for sale, at lower of cost or market	14,295	12,306
Total loans, net	11,466,552	11,304,667
Accrued interest receivable on loans and investments	70,368	69,730
Premises and equipment, net	146,640	142,935
Other real estate owned ("OREO")	31,571	31,641
Deferred tax asset, net	153,925	155,584
Goodwill	38,611	38,611
Other intangible assets	17,092	21,118
Other assets	282,367	305,633
Total assets	$ 19,152,455	$ 18,634,484
LIABILITIES		
Non-interest-bearing deposits	$ 5,874,261	$ 6,112,884
Interest-bearing deposits	10,945,431	10,030,583
Total deposits	16,819,692	16,143,467
Short-term securities sold under agreements to repurchase	73,934	75,133
Advances from the FHLB:		
Short-term	-	475,000
Long-term	500,000	200,000
Total advances from the FHLB	500,000	675,000
Other long-term borrowings	161,700	183,762
Accounts payable and other liabilities	199,130	231,582
Total liabilities	17,754,456	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, 179,756,622 shares outstanding as of June 30, 2023 and 182,709,059 as of December 31, 2022	22,366	22,366
Additional paid-in capital	962,229	970,722
Retained earnings, includes legal surplus reserve of $168,484	1,733,497	1,644,209
Treasury stock (at cost) 43,906,494 shares as of June 30, 2023 and 40,954,057 shares as of December 31, 2022	(547,706)	(506,979)
Accumulated other comprehensive loss, net of tax of $8,468	(772,387)	(804,778)
Total stockholders' equity	1,397,999	1,325,540
Total liabilities and stockholders' equity	$ 19,152,455	$ 18,634,484

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share information)	Quarter Ended June 30, 2023	Quarter Ended June 30, 2022	Six-Month Period Ended June 30, 2023	Six-Month Period Ended June 30, 2022
Interest and dividend income:				
Loans	$ 218,066	$ 179,261	$ 428,702	$ 353,048
Investment securities	26,258	26,491	53,368	49,738
Money market investments and interest-bearing cash accounts	7,880	2,873	12,530	3,693
Total interest and dividend income	252,204	208,625	494,600	406,479
Interest expense:				
Deposits	41,604	7,694	71,489	15,346
Securities sold under agreements to repurchase:				
Short-term	1,328	-	2,397	-
Long-term	-	1,972	-	4,154
Advances from the FHLB:				
Short-term	435	-	4,776	-
Long-term	5,613	1,075	8,448	2,138
Other long-term borrowings	3,409	1,698	6,790	3,031
Total interest expense	52,389	12,439	93,900	24,669
Net interest income	199,815	196,186	400,700	381,810
Provision for credit losses - expense (benefit):				
Loans and finance leases	20,770	12,665	37,026	(4,324)
Unfunded loan commitments	721	812	616	634
Debt securities	739	(3,474)	90	(109)
Provision for credit losses - expense (benefit)	22,230	10,003	37,732	(3,799)
Net interest income after provision for credit losses	177,585	186,183	362,968	385,609
Non-interest income:				
Service charges and fees on deposit accounts	9,287	9,466	18,828	18,829
Mortgage banking activities	2,860	4,082	5,672	9,288
Gain on early extinguishment of debt	1,605	-	1,605	-
Insurance commission income	2,747	2,946	7,594	8,221
Card and processing income	11,135	10,300	22,053	19,981
Other non-interest income	8,637	4,147	13,037	7,480
Total non-interest income	36,271	30,941	68,789	63,799
Non-interest expenses:				
Employees' compensation and benefits	54,314	51,304	110,736	100,858
Occupancy and equipment	21,097	21,505	42,283	43,891
Business promotion	4,167	4,042	8,142	7,505
Professional service fees	11,596	12,036	23,569	22,630
Taxes, other than income taxes	5,124	4,689	10,236	9,707
FDIC deposit insurance	2,143	1,466	4,276	3,139
Net gain on OREO operations	(1,984)	(1,485)	(3,980)	(2,205)
Credit and debit card processing expenses	6,540	5,843	11,858	9,964
Communications	1,992	1,978	4,208	4,129
Other non-interest expenses	7,928	6,948	16,857	15,367
Total non-interest expenses	112,917	108,326	228,185	214,985
Income before income taxes	100,939	108,798	203,572	234,423
Income tax expense	30,284	34,103	62,219	77,128
Net income	$ 70,655	$ 74,695	$ 141,353	$ 157,295
Net income attributable to common stockholders	$ 70,655	$ 74,695	$ 141,353	$ 157,295
Net income per common share:				
Basic	$ 0.39	$ 0.38	$ 0.79	$ 0.80
Diluted	$ 0.39	$ 0.38	$ 0.78	$ 0.80

The accompanying notes are an integral part of these statements.

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

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
(In thousands)	2023	2022	2023	2022
Net income	$ 70,655	$ 74,695	$ 141,353	$ 157,295
Other comprehensive (loss) income, net of tax:				
Available-for-sale debt securities:				
Net unrealized holding (losses) gains on debt securities (1)	(54,837)	(175,923)	32,391	(507,757)
Other comprehensive (loss) income for the period, net of tax	(54,837)	(175,923)	32,391	(507,757)
Total comprehensive income (loss)	$ 15,818	$ (101,228)	$ 173,744	$ (350,462)

(1) Net unrealized holding (losses) gains on available-for-sale debt securities have no tax effect because securities are either tax-exempt, held by an International Banking Entity (“IBE”), or have a full deferred tax asset valuation allowance.

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six-Month Period Ended June 30,	
	2023	**2022**
(In thousands)		
Cash flows from operating activities:		
Net income	$ 141,353	$ 157,295
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,071	11,291
Amortization of intangible assets	4,026	4,510
Provision for credit losses - expense (benefit)	37,732	(3,799)
Deferred income tax expense	2,419	41,483
Stock-based compensation	3,997	2,580
Gain on early extinguishment of debt	(1,605)	-
Unrealized gain on derivative instruments	(291)	(864)
Net gain on disposals or sales, and impairments of premises and equipment and other assets	(235)	(900)
Net gain on sales of loans and loans held-for-sale valuation adjustments	(989)	(3,965)
Net amortization of discounts, premiums, and deferred loan fees and costs	686	(5,486)
Originations and purchases of loans held for sale	(88,696)	(143,692)
Sales and repayments of loans held for sale	85,398	157,098
Amortization of broker placement fees	128	64
Net amortization of premiums and discounts on investment securities	2,117	1,389
Decrease (increase) in accrued interest receivable	1,849	(3,555)
Increase (decrease) in accrued interest payable	9,369	(1,252)
Increase in other assets	(5,566)	(4,235)
(Decrease) increase in other liabilities	(35,307)	11,646
Net cash provided by operating activities	166,456	219,608
Cash flows from investing activities:		
Net disbursements on loans held for investment	(226,714)	(186,902)
Proceeds from sales of loans held for investment	3,183	37,565
Proceeds from sales of repossessed assets	26,360	19,941
Purchases of available-for-sale debt securities	(961)	(512,327)
Proceeds from principal repayments and maturities of available-for-sale debt securities	217,745	354,853
Purchases of held-to-maturity debt securities	-	(260,082)
Proceeds from principal repayments and maturities of held-to-maturity debt securities	13,832	934
Additions to premises and equipment	(16,211)	(11,841)
Proceeds from sales of premises and equipment and other assets	578	1,138
Net redemptions (purchases) of other investments securities	7,219	(971)
Net cash provided by (used in) investing activities	25,031	(557,692)
Cash flows from financing activities:		
Net increase (decrease) in deposits	675,911	(645,417)
Net repayments of short-term borrowings	(476,199)	-
Repayments of long-term borrowings	(19,795)	(100,000)
Proceeds from long-term borrowings	300,000	-
Repurchase of outstanding common stock	(53,217)	(152,713)
Dividends paid on common stock	(51,158)	(43,321)
Net cash provided by (used in) financing activities	375,542	(941,451)
Net increase (decrease) in cash and cash equivalents	567,029	(1,279,535)
Cash and cash equivalents at beginning of year	480,505	2,543,058
Cash and cash equivalents at end of period	$ 1,047,534	$ 1,263,523
Cash and cash equivalents include:		
Cash and due from banks	$ 1,046,534	$ 1,261,590
Money market investments	1,000	1,933
	$ 1,047,534	$ 1,263,523

The accompanying notes are an integral part of these statements.

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

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
(In thousands, except per share information)				
Common Stock	$ 22,366	$ 22,366	$ 22,366	$ 22,366
Additional Paid-In Capital:				
Balance at beginning of period	959,912	966,771	970,722	972,547
Stock-based compensation expense	1,922	1,398	3,997	2,580
Common stock reissued under stock-based compensation plan	-	(23)	(13,139)	(7,003)
Restricted stock forfeited	395	71	649	93
Balance at end of period	962,229	968,217	962,229	968,217
Retained Earnings:				
Balance at beginning of period	1,688,176	1,489,995	1,644,209	1,427,295
Impact of adoption of Accounting Standards Update ("ASU") 2022-02 (See Note 1)	-	-	(1,357)	-
Net income	70,655	74,695	141,353	157,295
Dividends on common stock ($0.14 per share and $0.12 per share for the quarters ended June 30, 2023 and 2022, respectively; $0.28 per share and $0.22 for the for the six-month periods ended June 30, 2023 and 2022, respectively)	(25,334)	(23,356)	(50,708)	(43,256)
Balance at end of period	1,733,497	1,541,334	1,733,497	1,541,334
Treasury Stock (at cost):				
Balance at beginning of period	(547,311)	(282,197)	(506,979)	(236,442)
Common stock repurchases (See Note 14)	-	(100,000)	(53,217)	(152,713)
Common stock reissued under stock-based compensation plan	-	23	13,139	7,003
Restricted stock forfeited	(395)	(71)	(649)	(93)
Balance at end of period	(547,706)	(382,245)	(547,706)	(382,245)
Accumulated Other Comprehensive Loss, net of tax:				
Balance at beginning of period	(717,550)	(415,833)	(804,778)	(83,999)
Other comprehensive (loss) income, net of tax	(54,837)	(175,923)	32,391	(507,757)
Balance at end of period	(772,387)	(591,756)	(772,387)	(591,756)
Total stockholders' equity	$ 1,397,999	$ 1,557,916	$ 1,397,999	$ 1,557,916

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
INDEX TO NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FIRST BANCORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements (unaudited) for the quarter and six-month period ended June 30, 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 and six-month period ended June 30, 2023 are not necessarily indicative of the results to be expected for the entire year.

Adoption of New Accounting Requirements

ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings ("TDR") and Vintage Disclosures"

Effective January 1, 2023, the Corporation adopted ASU 2022-02, which removed the existing measurement and recognition requirements for TDR loans, added additional disclosure requirements related to modifications provided to borrowers experiencing financial difficulty regardless of whether the modification 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 to a borrower who 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 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 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 is 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 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 June 30, 2023 were as follows:

	June 30, 2023					
		Gross Unrealized				
(Dollars in thousands)	Amortized cost (1)	Gains	Losses	ACL	Fair value	Weighted-average yield%
U.S. Treasury securities:						
Due within one year	$ 27,671	$ -	$ 705	$ -	$ 26,966	0.61
After 1 to 5 years	120,787	-	8,084	-	112,703	0.69
U.S. government-sponsored entities ("GSEs") obligations:						
Due within one year	224,161	-	5,089	-	219,072	0.42
After 1 to 5 years	2,344,874	56	209,839	-	2,135,091	0.85
After 5 to 10 years	11,267	4	871	-	10,400	3.16
After 10 years	10,844	22	1	-	10,865	5.38
Puerto Rico government obligations:						
After 10 years (2)	3,254	-	794	349	2,111	-
United States and Puerto Rico government obligations	2,742,858	82	225,383	349	2,517,208	0.83
Mortgage-backed securities ("MBS")						
Residential MBS:						
Freddie Mac ("FHLMC") certificates:						
After 1 to 5 years	20,047	-	1,191	-	18,856	1.97
After 5 to 10 years	171,682	-	17,242	-	154,440	1.58
After 10 years	1,038,513	-	180,505	-	858,008	1.41
	1,230,242	-	198,938	-	1,031,304	1.44
Ginnie Mae ("GNMA") certificates:						
Due within one year	1	-	-	-	1	2.53
After 1 to 5 years	20,426	-	1,257	-	19,169	1.25
After 5 to 10 years	32,172	-	2,952	-	29,220	1.70
After 10 years	219,768	7	26,660	-	193,115	2.63
	272,367	7	30,869	-	241,505	2.42
Fannie Mae ("FNMA") certificates:						
After 1 to 5 years	22,434	-	1,399	-	21,035	1.72
After 5 to 10 years	338,605	-	31,862	-	306,743	1.75
After 10 years	1,102,263	38	178,364	-	923,937	1.37
	1,463,302	38	211,625	-	1,251,715	1.46
Collateralized mortgage obligations ("CMOs") issued or guaranteed by the FHLMC, FNMA, and GNMA:						
After 10 years	288,194	-	58,267	-	229,927	1.48
Private label:						
After 10 years	7,498	-	2,168	84	5,246	7.61
Total Residential MBS	3,261,603	45	501,867	84	2,759,697	1.55
Commercial MBS:						
After 1 to 5 years	44,311	-	7,308	-	37,003	2.15
After 5 to 10 years	25,656	-	3,430	-	22,226	2.13
After 10 years	125,202	-	27,967	-	97,235	1.40
Total Commercial MBS	195,169	-	38,705	-	156,464	1.67
Total MBS	3,456,772	45	540,572	84	2,916,161	1.56
Total available-for-sale debt securities	$ 6,199,630	$ 127	$ 765,955	$ 433	$ 5,433,369	1.23

(1) Excludes accrued interest receivable on available-for-sale debt securities that totaled $10.7 million as of June 30, 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 debt securities available-for-sale by contractual maturities as of December 31, 2022 were as follows:

	December 31, 2022					
		Gross Unrealized				
(Dollars in thousands)	Amortized cost (1)	Gains	Losses	ACL	Fair value	Weighted-average yield%
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 issued or guaranteed by the FHLMC, FNMA, and GNMA:						
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

(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 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 unrealized gain or loss on available-for-sale debt securities is presented as part of accumulated 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 June 30, 2023 and December 31, 2022. The tables also include debt securities for which an ACL was recorded.

	As of June 30, 2023					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and U.S. GSEs' obligations	$ 2,887	$ 4	$ 2,496,214	$ 224,585	$ 2,499,101	$ 224,589
Puerto Rico government obligations	-	-	2,111	794 (1)	2,111	794
MBS:						
Residential MBS:						
FHLMC	19,638	959	1,011,666	197,979	1,031,304	198,938
GNMA	50,543	1,335	189,454	29,534	239,997	30,869
FNMA	42,650	2,361	1,204,127	209,264	1,246,777	211,625
CMOs issued or guaranteed by the FHLMC, FNMA, and GNMA	378	10	229,549	58,257	229,927	58,267
Private label	-	-	5,246	2,168 (1)	5,246	2,168
Commercial MBS	15,403	370	141,061	38,335	156,464	38,705
	$ 131,499	$ 5,039	$ 5,279,428	$ 760,916	$ 5,410,927	$ 765,955

(1) Unrealized losses do not include the credit loss component recorded as part of the ACL. As of June 30, 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	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
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 issued or guaranteed by the FHLMC, FNMA, and GNMA	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
	$ 1,115,192	$ 125,343	$ 4,447,686	$ 673,123	$ 5,562,878	$ 798,466

(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 June 30, 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, as of June 30, 2023, the Corporation did not have the intent to sell these U.S. government and agencies debt securities and determined that it was likely that it will not be required to sell these securities before their anticipated recovery, the Corporation does not consider impairments on these securities to be credit related. 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.

Private label MBS held as part of the Corporation's available for sale portfolio consist of trust certificates issued by an unaffiliated party collateralized by fixed-rate, single-family residential mortgage loans in the U.S. mainland with original FICO scores over 700 and moderate loan-to-value ratios (under 80%), as well as moderate delinquency levels. Upon the discontinuance of LIBOR after June 30, 2023, and following the provisions of the Adjustable Interest Rate Act (the "LIBOR Act") and Regulation ZZ, the interest rates on these private label MBS will transition during the third quarter of 2023 from 3-month LIBOR plus a spread to 3-month CME Term Secured Overnight Financing Rate ("SOFR") plus a tenor spread adjustment of 0.26161% and the original spread limited to the weighted-average coupon of the underlying collateral. 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. See Note 18 – Fair Value for the significant assumptions used in the valuation of the private label MBS as of June 30, 2023 and December 31, 2022.

For the residential pass-through MBS issued by the PRHFA held as part of the Corporation's available-for-sale portfolio backed by second mortgage residential loans in Puerto Rico, the ACL was determined based on a discounted cash flow methodology that considered the structure and terms of the debt security. The expected cash flows were discounted at the Treasury yield curve plus spread as of the reporting date and compared to the amortized cost. 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. 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 and its ability to honor such guarantee will depend on, among other factors, its financial condition 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 this security, resulting in additional losses to the Corporation.

The following tables present a roll-forward by major security type for the quarters and six-month periods ended June 30, 2023 and 2022 of the ACL on available-for-sale debt securities:

	Quarter Ended June 30, 2023			Six-Month Period Ended June 30, 2023		
(In thousands)	Private label MBS	Puerto Rico Government Obligations	Total	Private label MBS	Puerto Rico Government Obligations	Total
Beginning balance	$ 83	$ 366	$ 449	$ 83	$ 375	$ 458
Provision for credit losses - benefit	-	(16)	(16)	-	(25)	(25)
ACL on available-for-sale debt securities	$ 83	$ 350	$ 433	$ 83	$ 350	$ 433

	Quarter Ended June 30, 2022			Six-Month Period Ended June 30, 2022		
(In thousands)	Private label MBS	Puerto Rico Government Obligations	Total	Private label MBS	Puerto Rico Government Obligations	Total
Beginning balance	$ 403	$ 308	$ 711	$ 797	$ 308	$ 1,105
Provision for credit losses - (benefit) expense	(113)	78	(35)	(501)	78	(423)
Net charge-offs	-	-	-	(6)	-	(6)
ACL on available-for-sale debt securities	$ 290	$ 386	$ 676	$ 290	$ 386	$ 676

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 June 30, 2023 and December 31, 2022 were as follows

	June 30, 2023					
		Gross Unrecognized				
(Dollars in thousands)	Amortized cost (1)	Gains	Losses	Fair value	ACL	Weighted-average yield%
Puerto Rico municipal bonds:						
Due within one year	$ 1,205	$ -	$ 29	$ 1,176	$ 26	5.90
After 1 to 5 years	42,736	661	1,360	42,037	689	6.93
After 5 to 10 years	56,160	2,733	446	58,447	3,209	7.44
After 10 years	66,023	-	2,023	64,000	4,477	8.54
Total Puerto Rico municipal bonds	166,124	3,394	3,858	165,660	8,401	7.74
MBS:						
Residential MBS:						
FHLMC certificates:						
After 5 to 10 years	18,836	-	1,203	17,633	-	3.03
After 10 years	18,936	-	906	18,030	-	4.33
	37,772	-	2,109	35,663	-	3.68
GNMA certificates:						
After 10 years	17,765	-	1,046	16,719	-	3.35
FNMA certificates:						
After 10 years	69,956	-	3,161	66,795	-	4.17
CMOs issued or guaranteed by FHLMC, FNMA, and GNMA						
After 10 years	30,197	-	1,658	28,539	-	3.49
Total Residential MBS	155,690	-	7,974	147,716	-	3.83
Commercial MBS:						
After 1 to 5 years	9,533	-	479	9,054	-	3.48
After 10 years	93,379	-	5,628	87,751	-	3.15
Total Commercial MBS	102,912	-	6,107	96,805	-	3.18
Total MBS	258,602	-	14,081	244,521	-	3.57
Total held-to-maturity debt securities	$ 424,726	$ 3,394	$ 17,939	$ 410,181	$ 8,401	5.20

(1) Excludes accrued interest receivable on held-to-maturity debt securities that totaled $6.8 million as of June 30, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

	December 31, 2022					
		Gross Unrecognized				Weighted-
(Dollars in thousands)	Amortized cost (1)	Gains	Losses	Fair value	ACL	average yield%
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 issued or guaranteed by FHLMC, FNMA, and GNMA						
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 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.

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 June 30, 2023 and December 31, 2022, including debt securities for which an ACL was recorded:

	As of June 30, 2023					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Puerto Rico municipal bonds	$ -	$ -	$ 107,673	$ 3,858	$ 107,673	$ 3,858
MBS:						
Residential MBS:						
FHLMC certificates	35,663	2,109	-	-	35,663	2,109
GNMA certificates	16,719	1,046	-	-	16,719	1,046
FNMA certificates	66,795	3,161	-	-	66,795	3,161
CMOs issued or guaranteed by FHLMC, FNMA, and GNMA	28,539	1,658	-	-	28,539	1,658
Commercial MBS	9,054	479	87,751	5,628	96,805	6,107
Total held-to-maturity debt securities	$ 156,770	$ 8,453	$ 195,424	$ 9,486	$ 352,194	$ 17,939

	As of December 31, 2022					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
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 issued or guaranteed by FHLMC, FNMA, and GNMA	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. The Corporation does not recognize an ACL for MBS issued by GSEs 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 June 30, 2023. A security is considered to be past due once it is 30 days contractually past due under the terms of the agreement. The ACL of Puerto Rico municipal bonds increased to $8.4 million as of June 30, 2023, from $8.3 million as of December 31, 2022, mostly driven by updated financial information of certain bond issuers received during 2023.

The following tables present the activity in the ACL for held-to-maturity debt securities by major security type for the quarters and six-month periods ended June 30, 2023 and 2022:

	Puerto Rico Municipal Bonds			
	Quarter Ended June 30, 2023		Six-Month Period Ended June 30, 2023	
(In thousands)				
Beginning Balance	$	7,646	$	8,286
Provision for credit losses - expense		755		115
ACL on held-to-maturity debt securities	$	8,401	$	8,401

	Puerto Rico Municipal Bonds			
	Quarter Ended June 30, 2022		Six-Month Period Ended June 30, 2022	
(In thousands)				
Beginning Balance	$	12,324	$	8,571
Provision for credit losses - (benefit) expense		(3,439)		314
ACL on held-to-maturity debt securities	$	8,885	$	8,885

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 and the measures taken, or to be taken, by other government entities in response to economic and fiscal challenges, the Corporation cannot be certain whether future charges to the ACL on these securities will be required.

From time to time, the Corporation has held-to-maturity securities 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 June 30, 2023 and December 31, 2022, the Corporation had no outstanding held-to-maturity securities that were classified as cash and cash equivalents.

Credit Quality Indicators:

The held-to-maturity debt securities portfolio consisted of MBS issued by GSEs 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 June 30, 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 location as of the indicated dates:

(In thousands)	As of June 30, 2023	As of December 31, 2022
Puerto Rico and Virgin Islands region:		
Residential mortgage loans, mainly secured by first mortgages	$ 2,352,310	$ 2,417,900
Construction loans	69,219	34,772
Commercial mortgage loans	1,800,289	1,834,204
Commercial and Industrial ("C&I") loans	2,011,774	1,860,109
Consumer loans	3,487,454	3,317,489
Loans held for investment	$ 9,721,046	$ 9,464,474
Florida region:		
Residential mortgage loans, mainly secured by first mortgages	$ 441,480	$ 429,390
Construction loans	94,779	98,181
Commercial mortgage loans	519,780	524,647
C&I loans	934,427	1,026,154
Consumer loans	7,803	9,979
Loans held for investment	$ 1,998,269	$ 2,088,351
Total:		
Residential mortgage loans, mainly secured by first mortgages	$ 2,793,790	$ 2,847,290
Construction loans	163,998	132,953
Commercial mortgage loans	2,320,069	2,358,851
C&I loans (1)	2,946,201	2,886,263
Consumer loans	3,495,257	3,327,468
Loans held for investment (2)	11,719,315	11,552,825
ACL on loans and finance leases	(267,058)	(260,464)
Loans held for investment, net	$ 11,452,257	$ 11,292,361

(1) As of June 30, 2023 and December 31, 2022, includes $821.4 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 $27.1 million and $29.3 million as of June 30, 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 June 30, 2023 and December 31, 2022 are as follows:

As of June 30, 2023							
		Days Past Due and Accruing					
(In thousands)	**Current**	**30-59**	**60-89**	**90+ (1) (2) (3)**	**Nonaccrual (4)**	**Total loans held for investment**	**Nonaccrual Loans with no ACL (5)**
Residential mortgage loans, mainly secured by first mortgages:							
FHA/VA government-guaranteed loans (1) (3) (6)	$ 69,242	$ -	$ 1,605	$ 34,038	$ -	$ 104,885	$ -
Conventional residential mortgage loans (2) (6)	2,613,464	-	29,274	12,915	33,252	2,688,905	1,861
Commercial loans:							
Construction loans (6)	161,248	1,062	11	-	1,677	163,998	973
Commercial mortgage loans (2) (6)	2,287,864	4,551	565	5,553	21,536	2,320,069	11,834
C&I loans	2,928,957	1,827	1,186	5,037	9,194	2,946,201	1,816
Consumer loans:							
Auto loans	1,803,442	44,425	8,281	-	11,311	1,867,459	3,464
Finance leases	778,649	8,015	1,564	-	2,483	790,711	496
Personal loans	359,898	4,363	1,985	-	1,353	367,599	-
Credit cards	305,434	3,734	2,620	5,668	-	317,456	-
Other consumer loans	147,419	2,191	1,207	-	1,215	152,032	35
Total loans held for investment	$ 11,455,617	$ 70,168	$ 48,298	$ 63,211	$ 82,021	$ 11,719,315	$ 20,479

(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 $19.9 million of residential mortgage loans guaranteed by the FHA that were over 15 months delinquent as of June 30, 2023.

(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 $9.5 million as of June 30, 2023 ($8.5 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 $6.5 million as of June 30, 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 $9.8 million as of June 30, 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 June 30, 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, commercial mortgage loans, and construction loans past due 30-59 days, but less than two payments in arrears, as of June 30, 2023 amounted to $0.3 million, $62.9 million, $1.9 million, and $0.2 million, respectively.

As of December 31, 2022		Days Past Due and Accruing					
(In thousands)	Current	30-59	60-89	90+ (1)(2)(3)	Nonaccrual (4)	Total loans held for investment	Nonaccrual Loans with no ACL (5)
Residential mortgage loans, mainly secured by first mortgages:							
FHA/VA government-guaranteed loans (2) (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 as of December 31, 2022.

(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 CECL adoption 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 $10.8 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 $2.1 million, $65.2 million, and $1.6 million, respectively.

When a loan is placed in 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 $0.5 million and $1.1 million for the quarter and six-month period ended June 30, 2023, respectively, compared with $0.3 million and $0.7 million for the quarter and six-month period ended June 30, 2022, respectively. For the quarter and six-month period ended June 30, 2023, the cash interest income recognized on nonaccrual loans amounted to $0.5 million and $1.0 million, respectively, compared to $0.3 million and $0.7 million for the quarter and six-month period ended June 30, 2022, respectively.

As of June 30, 2023, the recorded investment on residential mortgage loans collateralized by residential real estate property that were in the process of foreclosure amounted to $50.9 million, including $21.5 million of FHA/VA government-guaranteed mortgage loans, and $7.2 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, an 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 annua review process of applicable credit facilities, the Corporation evaluates the corresponding loan grades. The Corporation uses the sar 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 Forr 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 June 30, 2023, the gross charge-offs for the six-month period ended June 30, 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, were as follows:

Puerto Rico and Virgin Islands region	As of June 30, 2023 Term Loans Amortized Cost Basis by Origination Year (1)								As of December 31, 2022
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total	Total
(In thousands)									
CONSTRUCTION									
Risk Ratings:									
Pass	$ 29,645	$ 22,238	$ 11,093	$ -	$ -	$ 3,887	$ -	$ 66,863	$ 31,879
Criticized:									
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	7	-	-	-	2,349	-	2,356	2,893
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total construction loans	$ 29,645	$ 22,245	$ 11,093	$ -	$ -	$ 6,236	$ -	$ 69,219	$ 34,772
Charge-offs on construction loans	$ -	$ -	$ -	$ -	$ -	$ 38	$ -	$ 38	
COMMERCIAL MORTGAGE									
Risk Ratings:									
Pass	$ 94,161	$ 385,980	$ 139,699	$ 322,212	$ 283,938	$ 381,556	$ 427	$ 1,607,973	$ 1,655,728
Criticized:									
Special Mention	-	4,487	-	33,698	-	118,636	-	156,821	145,415
Substandard	-	129	-	-	2,847	32,519	-	35,495	33,061
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total commercial mortgage loans	$ 94,161	$ 390,596	$ 139,699	$ 355,910	$ 286,785	$ 532,711	$ 427	$ 1,800,289	$ 1,834,204
Charge-offs on commercial mortgage loans	$ -	$ -	$ -	$ -	$ -	$ 106	$ -	$ 106	
C&I									
Risk Ratings:									
Pass	$ 113,567	$ 297,329	$ 193,851	$ 178,144	$ 299,435	$ 222,553	$ 649,354	$ 1,954,233	$ 1,789,572
Criticized:									
Special Mention	-	-	-	-	508	12,709	22,537	35,754	43,224
Substandard	-	-	389	634	13,797	6,682	285	21,787	27,313
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total C&I loans	$ 113,567	$ 297,329	$ 194,240	$ 178,778	$ 313,740	$ 241,944	$ 672,176	$ 2,011,774	$ 1,860,109
Charge-offs on C&I loans	$ -	$ -	$ -	$ -	$ -	$ 211	$ 55	$ 266	

(1) Excludes accrued interest receivable.

Florida region	As of June 30, 2023 Term Loans Amortized Cost Basis by Origination Year [(1)]								As of December 31, 2022
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total	Total
(In thousands)									
CONSTRUCTION									
Risk Ratings:									
Pass	$ 32	$ 47,557	$ 47,190	$ -	$ -	$ -	$ -	$ 94,779	$ 98,181
Criticized:									
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total construction loans	$ 32	$ 47,557	$ 47,190	$ -	$ -	$ -	$ -	$ 94,779	$ 98,181
Charge-offs on construction loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
COMMERCIAL MORTGAGE									
Risk Ratings:									
Pass	$ 6,258	$ 184,611	$ 69,659	$ 40,608	$ 51,005	$ 122,449	$ 19,642	$ 494,232	$ 503,184
Criticized:									
Special Mention	-	-	-	-	13,156	11,224	-	24,380	20,295
Substandard	-	-	-	1,168	-	-	-	1,168	1,168
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total commercial mortgage loans	$ 6,258	$ 184,611	$ 69,659	$ 41,776	$ 64,161	$ 133,673	$ 19,642	$ 519,780	$ 524,647
Charge-offs on commercial mortgage loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
C&I									
Risk Ratings:									
Pass	$ 45,172	$ 272,282	$ 153,401	$ 74,535	$ 173,170	$ 56,918	$ 117,134	$ 892,612	$ 979,151
Criticized:									
Special Mention	-	-	19,580	-	5,976	11,403	-	36,959	17,905
Substandard	-	-	-	652	193	2,825	300	3,970	29,098
Doubtful	-	-	-	-	-	886	-	886	-
Loss	-	-	-	-	-	-	-	-	-
Total C&I loans	$ 45,172	$ 272,282	$ 172,981	$ 75,187	$ 179,339	$ 72,032	$ 117,434	$ 934,427	$ 1,026,154
Charge-offs on C&I loans	$ -	$ -	$ -	$ -	$ -	$ 6,202	$ -	$ 6,202	

(1) Excludes accrued interest receivable.

Total	As of June 30, 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	$ 29,677	$ 69,795	$ 58,283	$ -	$ -	$ 3,887	$ -	$ 161,642	$ 130,060
Criticized:									
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	7	-	-	-	2,349	-	2,356	2,893
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total construction loans	$ 29,677	$ 69,802	$ 58,283	$ -	$ -	$ 6,236	$ -	$ 163,998	$ 132,953
Charge-offs on construction loans	$ -	$ -	$ -	$ -	$ -	$ 38	$ -	$ 38	
COMMERCIAL MORTGAGE									
Risk Ratings:									
Pass	$ 100,419	$ 570,591	$ 209,358	$ 362,820	$ 334,943	$ 504,005	$ 20,069	$ 2,102,205	$ 2,158,912
Criticized:									
Special Mention	-	4,487	-	33,698	13,156	129,860	-	181,201	165,710
Substandard	-	129	-	1,168	2,847	32,519	-	36,663	34,229
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total commercial mortgage loans	$ 100,419	$ 575,207	$ 209,358	$ 397,686	$ 350,946	$ 666,384	$ 20,069	$ 2,320,069	$ 2,358,851
Charge-offs on commercial mortgage loans	$ -	$ -	$ -	$ -	$ -	$ 106	$ -	$ 106	
C&I									
Risk Ratings:									
Pass	$ 158,739	$ 569,611	$ 347,252	$ 252,679	$ 472,605	$ 279,471	$ 766,488	$ 2,846,845	$ 2,768,723
Criticized:									
Special Mention	-	-	19,580	-	6,484	24,112	22,537	72,713	61,129
Substandard	-	-	389	1,286	13,990	9,507	585	25,757	56,411
Doubtful	-	-	-	-	-	886	-	886	-
Loss	-	-	-	-	-	-	-	-	-
Total C&I loans	$ 158,739	$ 569,611	$ 367,221	$ 253,965	$ 493,079	$ 313,976	$ 789,610	$ 2,946,201	$ 2,886,263
Charge-offs on C&I loans	$ -	$ -	$ -	$ -	$ -	$ 6,413	$ 55	$ 6,468	

(1) Excludes accrued interest receivable.

FIRST BANCORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The following tables present the amortized cost of residential mortgage loans by portfolio classes and by origination year based on accrual status as of June 30, 2023, the gross charge-offs for the six-month period ended June 30, 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 June 30, 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)									
Puerto Rico and Virgin Islands Region:									
FHA/VA government-guaranteed loans									
Accrual Status:									
Performing	$ 118	$ 691	$ 689	$ 782	$ 1,117	$ 100,760	$ -	$ 104,157	$ 117,416
Non-Performing	-	-	-	-	-	-	-	-	-
Total FHA/VA government-guaranteed loans	$ 118	$ 691	$ 689	$ 782	$ 1,117	$ 100,760	$ -	$ 104,157	$ 117,416
Conventional residential mortgage loans:									
Accrual Status:									
Performing	$ 61,153	$ 170,239	$ 73,033	$ 30,819	$ 45,799	$ 1,841,296	$ -	$ 2,222,339	$ 2,265,013
Non-Performing	-	-	35	-	171	25,608	-	25,814	35,471
Total conventional residential mortgage loans	$ 61,153	$ 170,239	$ 73,068	$ 30,819	$ 45,970	$ 1,866,904	$ -	$ 2,248,153	$ 2,300,484
Total:									
Accrual Status:									
Performing	$ 61,271	$ 170,930	$ 73,722	$ 31,601	$ 46,916	$ 1,942,056	$ -	$ 2,326,496	$ 2,382,429
Non-Performing	-	-	35	-	171	25,608	-	25,814	35,471
Total residential mortgage loans in Puerto Rico and Virgin Islands Region	$ 61,271	$ 170,930	$ 73,757	$ 31,601	$ 47,087	$ 1,967,664	$ -	$ 2,352,310	$ 2,417,900
Charge-offs on residential mortgage loans	$ -	$ -	$ -	$ 3	$ -	$ 2,126	$ -	$ 2,129	

(1) Excludes accrued interest receivable.

	As of June 30, 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)									
Florida Region:									
FHA/VA government-guaranteed loans									
Accrual Status:									
Performing	$ -	$ -	$ -	$ -	$ -	$ 728	$ -	$ 728	$ 742
Non-Performing	-	-	-	-	-	-	-	-	-
Total FHA/VA government-guaranteed loans	$ -	$ -	$ -	$ -	$ -	$ 728	$ -	$ 728	$ 742
Conventional residential mortgage loans:									
Accrual Status:									
Performing	$ 37,150	$ 80,115	$ 48,955	$ 30,517	$ 28,459	$ 208,118	$ -	$ 433,314	$ 421,347
Non-Performing	-	-	-	-	259	7,179	-	7,438	7,301
Total conventional residential mortgage loans	$ 37,150	$ 80,115	$ 48,955	$ 30,517	$ 28,718	$ 215,297	$ -	$ 440,752	$ 428,648
Total:									
Accrual Status:									
Performing	$ 37,150	$ 80,115	$ 48,955	$ 30,517	$ 28,459	$ 208,846	$ -	$ 434,042	$ 422,089
Non-Performing	-	-	-	-	259	7,179	-	7,438	7,301
Total residential mortgage loans in Florida region	$ 37,150	$ 80,115	$ 48,955	$ 30,517	$ 28,718	$ 216,025	$ -	$ 441,480	$ 429,390
Charge-offs on residential mortgage loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	

(1) Excludes accrued interest receivable.

FIRST BANCORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

	As of June 30, 2023								As of December 31, 2022
	Term Loans Amortized Cost Basis by Origination Year [(1)]								
(In thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total	Total
Total:									
FHA/VA government-guaranteed loans									
Accrual Status:									
Performing	$ 118	$ 691	$ 689	$ 782	$ 1,117	$ 101,488	$ -	$ 104,885	$ 118,158
Non-Performing	-	-	-	-	-	-	-	-	-
Total FHA/VA government-guaranteed loans	$ 118	$ 691	$ 689	$ 782	$ 1,117	$ 101,488	$ -	$ 104,885	$ 118,158
Conventional residential mortgage loans:									
Accrual Status:									
Performing	$ 98,303	$ 250,354	$ 121,988	$ 61,336	$ 74,258	$ 2,049,414	$ -	$ 2,655,653	$ 2,686,360
Non-Performing	-	-	35	-	430	32,787	-	33,252	42,772
Total conventional residential mortgage loans	$ 98,303	$ 250,354	$ 122,023	$ 61,336	$ 74,688	$ 2,082,201	$ -	$ 2,688,905	$ 2,729,132
Total:									
Accrual Status:									
Performing	$ 98,421	$ 251,045	$ 122,677	$ 62,118	$ 75,375	$ 2,150,902	$ -	$ 2,760,538	$ 2,804,518
Non-Performing	-	-	35	-	430	32,787	-	33,252	42,772
Total residential mortgage loans	$ 98,421	$ 251,045	$ 122,712	$ 62,118	$ 75,805	$ 2,183,689	$ -	$ 2,793,790	$ 2,847,290
Charge-offs on residential mortgage loans	$ -	$ -	$ -	$ 3	$ -	$ 2,126	$ -	$ 2,129	

(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 June 30, 2023, the gross charge-offs for the six-month period ended June 30, 2023 by portfolio classes and by origination year, and the amortized cost of consumer loans by portfolio classes based on accrual status as of December 31, 2022:

	As of June 30, 2023								As of December 31, 2022
	Term Loans								
	Amortized Cost Basis by Origination Year (1)								
(In thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total	Total
Puerto Rico and Virgin Islands Region:									
Auto loans:									
Accrual Status:									
Performing	$ 326,746	$ 604,040	$ 445,754	$ 214,692	$ 167,480	$ 95,343	$ -	$ 1,854,055	$ 1,783,782
Non-Performing	199	2,234	2,530	1,341	2,702	2,255	-	11,261	10,596
Total auto loans	$ 326,945	$ 606,274	$ 448,284	$ 216,033	$ 170,182	$ 97,598	$ -	$ 1,865,316	$ 1,794,378
Charge-offs on auto loans	$ 174	$ 3,355	$ 2,287	$ 886	$ 1,205	$ 745	$ -	$ 8,652	
Finance leases:									
Accrual Status:									
Performing	$ 159,308	$ 270,541	$ 172,697	$ 76,249	$ 66,859	$ 42,574	$ -	$ 788,228	$ 716,585
Non-Performing	-	619	490	525	380	469	-	2,483	1,645
Total finance leases	$ 159,308	$ 271,160	$ 173,187	$ 76,774	$ 67,239	$ 43,043	$ -	$ 790,711	$ 718,230
Charge-offs on finance leases	$ 11	$ 656	$ 485	$ 228	$ 341	$ 428	$ -	$ 2,149	
Personal loans:									
Accrual Status:									
Performing	$ 88,877	$ 148,554	$ 43,113	$ 22,164	$ 39,809	$ 23,410	$ -	$ 365,927	$ 351,664
Non-Performing	8	713	222	68	220	122	-	1,353	1,248
Total personal loans	$ 88,885	$ 149,267	$ 43,335	$ 22,232	$ 40,029	$ 23,532	$ -	$ 367,280	$ 352,912
Charge-offs on personal loans	$ 24	$ 3,414	$ 1,435	$ 662	$ 1,180	$ 834	$ -	$ 7,549	
Credit cards:									
Accrual Status:									
Performing	$ -	$ -	$ -	$ -	$ -	$ -	$ 317,456	$ 317,456	$ 311,731
Non-Performing	-	-	-	-	-	-	-	-	-
Total credit cards	$ -	$ -	$ -	$ -	$ -	$ -	$ 317,456	$ 317,456	$ 311,731
Charge-offs on credit cards	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,447	$ 8,447	
Other consumer loans:									
Accrual Status:									
Performing	$ 49,470	$ 52,078	$ 14,386	$ 7,261	$ 8,060	$ 5,348	$ 8,932	$ 145,535	$ 139,116
Non-Performing	40	527	192	50	65	201	81	1,156	1,122
Total other consumer loans	$ 49,510	$ 52,605	$ 14,578	$ 7,311	$ 8,125	$ 5,549	$ 9,013	$ 146,691	$ 140,238
Charge-offs on other consumer loans	$ 89	$ 3,530	$ 1,262	$ 305	$ 600	$ 235	$ 221	$ 6,242	
Total:									
Performing	$ 624,401	$ 1,075,213	$ 675,950	$ 320,366	$ 282,208	$ 166,675	$ 326,388	$ 3,471,201	$ 3,302,878
Non-Performing	247	4,093	3,434	1,984	3,367	3,047	81	16,253	14,611
Total consumer loans in Puerto Rico and Virgin Islands region	$ 624,648	$ 1,079,306	$ 679,384	$ 322,350	$ 285,575	$ 169,722	$ 326,469	$ 3,487,454	$ 3,317,489
Charge-offs on total consumer loans	$ 298	$ 10,955	$ 5,469	$ 2,081	$ 3,326	$ 2,242	$ 8,668	$ 33,039	

(1) Excludes accrued interest receivable.

	As of June 30, 2023								As of December 31, 2022
	Term Loans								
	Amortized Cost Basis by Origination Year [(1)]						Revolving Loans Amortized Cost Basis	Total	Total
(In thousands)	2023	2022	2021	2020	2019	Prior			
Florida Region:									
Auto loans:									
Accrual Status:									
Performing	$ -	$ -	$ -	$ -	$ 220	$ 1,873	$ -	$ 2,093	$ 3,617
Non-Performing	-	-	-	-	-	50	-	50	76
Total auto loans	$ -	$ -	$ -	$ -	$ 220	$ 1,923	$ -	$ 2,143	$ 3,693
Charge-offs on auto loans	$ -	$ -	$ -	$ -	$ 23	$ 198	$ -	$ 221	
Finance leases:									
Accrual Status:									
Performing	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-Performing	-	-	-	-	-	-	-	-	-
Total finance leases	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Charge-offs on finance leases	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Personal loans:									
Accrual Status:									
Performing	$ 244	$ -	$ 71	$ 4	$ -	$ -	$ -	$ 319	$ 334
Non-Performing	-	-	-	-	-	-	-	-	-
Total personal loans	$ 244	$ -	$ 71	$ 4	$ -	$ -	$ -	$ 319	$ 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	$ -	$ 48	$ 227	$ 455	$ -	$ 2,389	$ 2,163	$ 5,282	$ 5,833
Non-Performing	-	-	-	-	-	21	38	59	119
Total other consumer loans	$ -	$ 48	$ 227	$ 455	$ -	$ 2,410	$ 2,201	$ 5,341	$ 5,952
Charge-offs on other consumer loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Total:									
Performing	$ 244	$ 48	$ 298	$ 459	$ 220	$ 4,262	$ 2,163	$ 7,694	$ 9,784
Non-Performing	-	-	-	-	-	71	38	109	195
Total consumer loans in Florida region	$ 244	$ 48	$ 298	$ 459	$ 220	$ 4,333	$ 2,201	$ 7,803	$ 9,979
Charge-offs on total consumer loans	$ -	$ -	$ -	$ -	$ 23	$ 198	$ -	$ 221	

(1) Excludes accrued interest receivable.

	As of June 30, 2023								As of December 31, 2022
	Term Loans								
	Amortized Cost Basis by Origination Year [(1)]						Revolving Loans Amortized Cost Basis		
(In thousands)	2023	2022	2021	2020	2019	Prior		Total	Total
Total:									
Auto loans:									
Accrual Status:									
Performing	$ 326,746	$ 604,040	$ 445,754	$ 214,692	$ 167,700	$ 97,216	$ -	$ 1,856,148	$ 1,787,399
Non-Performing	199	2,234	2,530	1,341	2,702	2,305	-	11,311	10,672
Total auto loans	$ 326,945	$ 606,274	$ 448,284	$ 216,033	$ 170,402	$ 99,521	$ -	$ 1,867,459	$ 1,798,071
Charge-offs on auto loans	$ 174	$ 3,355	$ 2,287	$ 886	$ 1,228	$ 943	$ -	$ 8,873	
Finance leases:									
Accrual Status:									
Performing	$ 159,308	$ 270,541	$ 172,697	$ 76,249	$ 66,859	$ 42,574	$ -	$ 788,228	$ 716,585
Non-Performing	-	619	490	525	380	469	-	2,483	1,645
Total finance leases	$ 159,308	$ 271,160	$ 173,187	$ 76,774	$ 67,239	$ 43,043	$ -	$ 790,711	$ 718,230
Charge-offs on finance leases	$ 11	$ 656	$ 485	$ 228	$ 341	$ 428	$ -	$ 2,149	
Personal loans:									
Accrual Status:									
Performing	$ 89,121	$ 148,554	$ 43,184	$ 22,168	$ 39,809	$ 23,410	$ -	$ 366,246	$ 351,998
Non-Performing	8	713	222	68	220	122	-	1,353	1,248
Total personal loans	$ 89,129	$ 149,267	$ 43,406	$ 22,236	$ 40,029	$ 23,532	$ -	$ 367,599	$ 353,246
Charge-offs on personal loans	$ 24	$ 3,414	$ 1,435	$ 662	$ 1,180	$ 834	$ -	$ 7,549	
Credit cards:									
Accrual Status:									
Performing	$ -	$ -	$ -	$ -	$ -	$ -	$ 317,456	$ 317,456	$ 311,731
Non-Performing	-	-	-	-	-	-	-	-	-
Total credit cards	$ -	$ -	$ -	$ -	$ -	$ -	$ 317,456	$ 317,456	$ 311,731
Charge-offs on credit cards	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,447	$ 8,447	
Other consumer loans:									
Accrual Status:									
Performing	$ 49,470	$ 52,126	$ 14,613	$ 7,716	$ 8,060	$ 7,737	$ 11,095	$ 150,817	$ 144,949
Non-Performing	40	527	192	50	65	222	119	1,215	1,241
Total other consumer loans	$ 49,510	$ 52,653	$ 14,805	$ 7,766	$ 8,125	$ 7,959	$ 11,214	$ 152,032	$ 146,190
Charge-offs on other consumer loans	$ 89	$ 3,530	$ 1,262	$ 305	$ 600	$ 235	$ 221	$ 6,242	
Total:									
Performing	$ 624,645	$ 1,075,261	$ 676,248	$ 320,825	$ 282,428	$ 170,937	$ 328,551	$ 3,478,895	$ 3,312,662
Non-Performing	247	4,093	3,434	1,984	3,367	3,118	119	16,362	14,806
Total consumer loans	$ 624,892	$ 1,079,354	$ 679,682	$ 322,809	$ 285,795	$ 174,055	$ 328,670	$ 3,495,257	$ 3,327,468
Charge-offs on total consumer loans	$ 298	$ 10,955	$ 5,469	$ 2,081	$ 3,349	$ 2,440	$ 8,668	$ 33,260	

(1) Excludes accrued interest receivable.

As of June 30, 2023 and December 31, 2022, the balance of revolving loans converted to term loans was not material.

Accrued interest receivable on loans totaled $52.8 million as of June 30, 2023 ($53.1 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 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 June 30, 2023 and December 31, 2022:

As of June 30, 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	$ 31,199	$ 2,026	$ -	$ 31,199	$ 2,026
Commercial loans:					
Construction loans	-	-	956	956	-
Commercial mortgage loans	6,590	1,016	52,447	59,037	1,016
C&I loans	2,563	418	10,601	13,164	418
Consumer loans:					
Personal loans	-	-	-	-	-
Other consumer loans	173	17	-	173	17
	$ 40,525	$ 3,477	$ 64,004	$ 104,529	$ 3,477

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
	$ 40,448	$ 3,820	$ 81,063	$ 121,511	$ 3,820

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 June 30, 2023 was 68%, 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 GSEs, such as GNMA, FNMA and FHLMC. During the first six months of 2023, loans pooled into GNMA MBS amounted to approximately $66.4 million, compared to $9.7 million during the first six months of 2022, for which the Corporation recognized a net gain on sale of $1.4 million and $2.3 million, respectively. Also, during the first six months of 2023, the Corporation sold approximately $22.8 million of performing residential mortgage loans to FNMA, for which the Corporation recognized a net gain on sale of $0.6 million. In addition, during the first six months of 2022, the Corporation sold approximately $75.2 million and $3.2 million of performing residential mortgage loans to FNMA and FHLMC, respectively, for which the Corporation recognized a net gain on sale of $3.3 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 June 30, 2023 and December 31, 2022, rebooked GNMA delinquent loans that were included in the residential mortgage loan portfolio amounted to $6.5 million and $10.4 million, respectively.

During the first six months of 2023 and 2022, the Corporation repurchased, pursuant to the aforementioned repurchase option, $1.9 million and $6.2 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 loss risk with respect to these loans is also minimal as these repurchased loans are generally performing loans with no documentation deficiencies.

During the first six months of 2023 and 2022, the Corporation purchased C&I loan participations in the Florida region totaling $28.0 million and $76.4 million, respectively.

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 $11.7 billion as of June 30, 2023, credit risk concentration was approximately 79% in Puerto Rico, 17% in the U.S., and 4% in the USVI and BVI.

As of June 30, 2023, the Corporation had $134.9 million outstanding in loans extended to the Puerto Rico government, municipalities and public corporations, compared to $139.8 million as of December 31, 2022. As of June 30, 2023, approximately $105.2 million consisted of loans extended to municipalities in Puerto Rico that are general obligations supported by assigned property tax revenues, and $23.1 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 June 30, 2023 included $9.5 million in loans granted to an affiliate of the Puerto Rico Electric Power Authority ("PREPA") and $2.1 million in loans to agencies or public corporations of the Puerto Rico government.

In addition, as of June 30, 2023, the Corporation had $31.1 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 $34.7 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 June 30, 2023, the Corporation had $78.9 million in loans to USVI government public corporations, compared to $38.9 million as of December 31, 2022. As of June 30, 2023, all loans were currently performing and up to date on principal and interest payments.

Loss Mitigation Program for Borrowers Experiencing Financial Difficulty

Effective January 1, 2023, the Corporation adopted ASU 2022-02. For additional information on the adoption, see Note 1 – Basis of Presentation and Significant Accounting Policies.

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.

The loan modifications granted to borrowers experiencing financial difficulty that are associated with 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. Borrower s 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 for 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 $1.6 million and $2.5 million in restructured residential mortgage loans that are government-guaranteed (e.g., FHA/VA loans) and were modified during the quarter and six-month period ended June 30, 2023, respectively.

The following tables present the amortized cost basis as of June 30, 2023 of loans modified to borrowers experiencing financial difficulty during the quarter and six-month period ended June 30, 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 June 30, 2023									
	Payment Delay Only									
(In thousands)	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
Conventional residential mortgage loans	$ -	$ -	$ 210	$ -	$ 73	$ -	$ -	$ -	$ 283	0.01%
Construction loans	-	-	-	-	-	-	-	-	-	-
Commercial mortgage loans	-	-	-	-	-	30,170	-	-	30,170	1.30%
C&I loans	-	-	-	-	187	-	-	-	187	0.01%
Consumer loans										
Auto loans	-	-	-	-	82	69	-	678 (1)	829	0.04%
Personal loans	-	-	-	-	41	71	-	-	112	0.03%
Credit cards	-	-	-	486 (2)	-	-	-	-	486	0.15%
Other consumer loans	-	-	-	-	146	40	-	10 (1)	196	0.13%
Total modifications	$ -	$ -	$ 210	$ 486	$ 529	$ 30,350	$ -	$ 688	$ 32,263	

	Six-Month Period Ended June 30, 2023									
	Payment Delay Only									
(In thousands)	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
Conventional residential mortgage loans	$ -	$ -	$ 542	$ -	$ 503	$ 94	$ -	$ -	$ 1,139	0.04%
Construction loans	-	-	-	-	-	-	-	-	-	-
Commercial mortgage loans	-	-	-	-	-	30,170	-	-	30,170	1.30%
C&I loans	-	-	-	-	187	-	-	-	187	0.01%
Consumer loans										
Auto loans	-	-	-	-	167	103	-	1,155 (1)	1,425	0.08%
Personal loans	-	-	-	-	68	83	-	-	151	0.04%
Credit cards	-	-	-	732 (2)	-	-	-	-	732	0.23%
Other consumer loans	-	-	-	-	273	99	-	32 (1)	404	0.27%
Total modifications	$ -	$ -	$ 542	$ 732	$ 1,198	$ 30,549	$ -	$ 1,187	$ 34,208	

(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 tables present by portfolio classes the financial effects of the modifications granted to borrowers experiencing financial difficulty, other than those associated to payment delay, during the quarter and six-month period ended June 30, 2023. The financial effects of the modifications associated to payment delay were discussed above, and as such, were excluded from the tables below.

	Quarter Ended June 30, 2023		Combination of Interest Rate Reduction and Term Extension		
(In thousands)	Weighted-Average Interest Rate Reduction (%)	Weighted-Average Term Extension (in months)	Weighted-Average Interest Rate Reduction (%)	Weighted-Average Term Extension (in months)	Forgiveness of Principal and/or Interest Amount
Conventional residential mortgage loans	- %	239	- %	-	$ -
Construction loans	- %	-	- %	-	-
Commercial mortgage loans	- %	-	0.25 %	64	-
C&I loans	- %	72	- %	-	-
Consumer loans:					
Auto loans	- %	27	3.96 %	30	-
Personal loans	- %	37	5.41 %	26	-
Credit cards	16.26 %	-	- %	-	-
Other consumer loans	- %	28	1.87 %	22	-

	Six-Month Period Ended June 30, 2023		Combination of Interest Rate Reduction and Term Extension		
(In thousands)	Weighted-Average Interest Rate Reduction (%)	Weighted-Average Term Extension (in months)	Weighted-Average Interest Rate Reduction (%)	Weighted-Average Term Extension (in months)	Forgiveness of Principal and/or Interest Amount
Conventional residential mortgage loans	- %	118	2.40 %	157	$ -
Construction loans	- %	-	- %	-	-
Commercial mortgage loans	- %	-	0.25 %	64	-
C&I loans	- %	72	- %	-	-
Consumer loans:					
Auto loans	- %	25	3.64 %	30	-
Personal loans	- %	34	5.11 %	24	-
Credit cards	16.15 %	-	- %	-	-
Other consumer loans	- %	27	1.92 %	24	-

The following table presents by portfolio classes the performance of loans modified during the six-month period ended June 30, 2023 that were granted to borrowers experiencing financial difficulty:

	Six-Month Period Ended June 30, 2023					
(In thousands)	30-59	60-89	90+	Total Delinquency	Current	Total
Conventional residential mortgage loans	$ -	$ -	$ -	$ -	$ 1,139	$ 1,139
Construction loans	-	-	-	-	-	-
Commercial mortgage loans	-	-	-	-	30,170	30,170
C&I loans	-	-	-	-	187	187
Consumer loans:						
Auto loans	10	-	-	10	1,415	1,425
Personal loans	-	-	-	-	151	151
Credit cards	40	40	-	80	652	732
Other consumer loans	22	-	-	22	382	404
Total modifications	$ 72	$ 40	$ -	$ 112	$ 34,096	$ 34,208

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 six-month period ended June 30, 2023.

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:

Quarter Ended June 30, 2023	Residential Mortgage Loans	Construction Loans	Commercial Mortgage	Commercial & Industrial Loans	Consumer Loans	Total
(In thousands)						
ACL:						
Beginning balance	$ 64,403	$ 3,231	$ 36,460	$ 31,235	$ 130,238	$ 265,567
Provision for credit losses - (benefit) expense	(3,500)	1,202	5,999	2,997	14,072	20,770
Charge-offs	(1,146)	(38)	(88)	(6,350)	(16,462)	(24,084)
Recoveries	757	409	56	132	3,451	4,805
Ending balance	$ 60,514	$ 4,804	$ 42,427	$ 28,014	$ 131,299	$ 267,058

Six-Month Period Ended June 30, 2023	Residential Mortgage Loans	Construction Loans	Commercial Mortgage	Commercial & Industrial Loans	Consumer Loans	Total
(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 - (benefit) expense	(3,427)	2,062	7,245	1,347	29,799	37,026
Charge-offs	(2,129)	(38)	(106)	(6,468)	(33,260)	(42,001)
Recoveries	1,254	472	224	222	7,281	9,453
Ending balance	$ 60,514	$ 4,804	$ 42,427	$ 28,014	$ 131,299	$ 267,058

Quarter Ended June 30, 2022	Residential Mortgage Loans	Construction Loans	Commercial Mortgage	Commercial & Industrial Loans	Consumer Loans	Total
(In thousands)						
ACL:						
Beginning balance	$ 68,820	$ 1,842	$ 30,138	$ 36,784	$ 107,863	$ 245,447
Provision for credit losses - (benefit) expense	(2,797)	151	1,265	(1,102)	15,148	12,665
Charge-offs	(2,079)	(16)	(2)	(68)	(10,427)	(12,592)
Recoveries	1,287	43	1,218	589	3,495	6,632
Ending balance	$ 65,231	$ 2,020	$ 32,619	$ 36,203	$ 116,079	$ 252,152

Six-Month Period Ended June 30, 2022	Residential Mortgage Loans	Construction Loans	Commercial Mortgage	Commercial & Industrial Loans	Consumer Loans	Total
(In thousands)						
ACL:						
Beginning balance	$ 74,837	$ 4,048	$ 52,771	$ 34,284	$ 103,090	$ 269,030
Provision for credit losses - (benefit) expense	(7,668)	(2,063)	(21,375)	653	26,129	(4,324)
Charge-offs	(4,607)	(60)	(39)	(358)	(20,243)	(25,307)
Recoveries	2,669	95	1,262	1,624	7,103	12,753
Ending balance	$ 65,231	$ 2,020	$ 32,619	$ 36,203	$ 116,079	$ 252,152

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. During the second quarter of 2023, the Corporation applied the baseline scenario for the commercial mortgage and construction loan portfolios as deterioration in the CRE price index in these portfolios is expected to a lower extent than projected in the alternative downside scenario, particularly in the Puerto Rico region. The economic scenarios used in the ACL determination contained assumptions related to economic uncertainties associated with geopolitical instability, the commercial real estate price index (“CRE price index”), high inflation levels, and the expected path of interest rate increases by the FED.

As of June 30, 2023, the ACL for loans and finance leases was $267.1 million, an increase of $6.6 million, from $260.5 million as of December 31, 2022. The ACL for commercial and construction loans increased by $5.0 million, mainly due to a deterioration in the forecasted CRE price index to account for an increased uncertainty in the CRE market at a national level that could potentially impact the markets served by the Corporation coupled with the growth in the commercial and construction loan portfolios. The ACL for consumer loans increased by $3.9 million, primarily reflecting the effect of the increase in the size of the consumer loan portfolios and historical charge-off levels, partially offset by updated macroeconomic variables, such as the unemployment rate, which are now forecasted to deteriorate at a slower pace than previously expected. The ACL for residential mortgage loans decreased by $2.3 million, mainly driven by a more favorable economic outlook in the projection of certain forecasted macroeconomic variables, such as the Regional Home Price Index, partially offset by 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. See Note 1 – Basis of Presentation and Significant Accounting Policies for additional information related to the adoption of ASU 2022-02 during 2023.

The tables below present the ACL related to loans and finance leases and the carrying values of loans by portfolio segment as of June 30, 2023 and December 31, 2022:

As of June 30, 2023

(Dollars in thousands)	Residential Mortgage Loans	Construction Loans	Commercial Mortgage Loans	Commercial and Industrial Loans	Consumer Loans	Total
Total loans held for investment:						
Amortized cost of loans	$ 2,793,790	$ 163,998	$ 2,320,069	$ 2,946,201	$ 3,495,257	$ 11,719,315
Allowance for credit losses	60,514	4,804	42,427	28,014	131,299	267,058
Allowance for credit losses to amortized cost	2.17 %	2.93 %	1.83 %	0.95 %	3.76 %	2.28 %

As of December 31, 2022

(Dollars in thousands)	Residential Mortgage Loans	Construction Loans	Commercial Mortgage Loans	Commercial and Industrial Loans	Consumer Loans	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
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 June 30, 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 June 30, 2023, the ACL for off-balance sheet credit exposures increased to $4.9 million, from $4.3 million as of December 31, 2022, driven by the deterioration in the forecasted CRE price index and its effect in construction unfunded loan commitments.

The following table presents the activity in the ACL for unfunded loan commitments and standby letters of credit for the quarters and six-month periods ended June 30, 2023 and 2022:

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
(In thousands)	2023	2022	2023	2022
Beginning Balance	$ 4,168	$ 1,359	$ 4,273	$ 1,537
Provision for credit losses - expense	721	812	616	634
Ending balance	$ 4,889	$ 2,171	$ 4,889	$ 2,171

NOTE 5 – OTHER REAL ESTATE OWNED

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

(In thousands)		June 30, 2023		December 31, 2022
OREO balances, carrying value:				
Residential (1)	$	23,621	$	24,025
Construction		1,892		1,764
Commercial		6,058		5,852
Total	$	31,571	$	31,641

(1) Excludes $20.9 million and $23.5 million as of June 30, 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 and six-month periods ended June 30, 2023 and 2022.

NOTE 6 – GOODWILL AND OTHER INTANGIBLES

Goodwill

Goodwill as of each of June 30, 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 first six months of 2023.

There were no changes in the carrying amount of goodwill during the quarter and six-month period ended June 30, 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:

(Dollars in thousands)		As of June 30, 2023		As of December 31, 2022
Core deposit intangible:				
Gross amount	$	87,544	$	87,544
Accumulated amortization		(70,469)		(66,644)
Net carrying amount	$	17,075	$	20,900
Remaining amortization period (in years)		6.5		7.0
Purchased credit card relationship intangible:				
Gross amount	$	3,800	$	3,800
Accumulated amortization		(3,783)		(3,595)
Net carrying amount	$	17	$	205
Remaining amortization period (in years)		0.2		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 quarter and six-month period ended June 30, 2023, the Corporation recognized $2.0 million and $4.0 million, respectively, in amortization expense on its other intangibles subject to amortization, compared to $2.2 million and $4.5 million for the same periods in 2022, respectively.

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. As mentioned above, 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 June 30, 2023.

The estimated aggregate annual amortization expense related to the intangible assets subject to amortization for future periods was as follows as of June 30, 2023:

(In thousands)		
Remaining 2023	$	3,710
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. Upon the discontinuance of LIBOR after June 30, 2023, following the provisions of the LIBOR Act and Regulation ZZ, the interest rate on the TRuPs will transition during the third quarter of 2023 from 3-month LIBOR plus a spread to 3-month CME Term SOFR plus a tenor spread adjustment of 0.26161%. 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).

During the second quarter of 2023, the Corporation completed the repurchase of $21.4 million of TRuPs of FBP Statutory Trust I as part of a privately-negotiated transaction with investors, resulting in a commensurate reduction in the related floating rate junior subordinated debentures. The purchase price paid by the Corporation equated to 92.5% of the $21.4 million par value. The 7.5% discount resulted in a gain of approximately $1.6 million, which is reflected in the consolidated statements of income as a "Gain on early extinguishment of debt." As of June 30, 2023 and December 31, 2022, these Junior Subordinated Deferrable Debentures amounted to $161.7 million and $183.8 million, respectively.

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 June 30, 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. As mentioned above, upon the discontinuance of LIBOR after June 30, 2023, and following the provisions of the LIBOR Act and Regulation ZZ, the interest rate on these private label MBS will transition during the third quarter of 2023 from 3-month LIBOR plus a spread to 3-month CME Term SOFR plus a tenor spread adjustment of 0.26161% and the original spread limited to the weighted-average coupon of the collateral. 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. 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 June 30, 2023, the amortized cost and fair value of these private label MBS amounted to $7.5 million and $5.2 million, respectively, with a weighted average yield of 7.6%, 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 June 30, 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 June 30, 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 June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
(In thousands)				
Balance at beginning of period	$ 28,431	$ 30,753	$ 29,037	$ 30,986
Capitalization of servicing assets	706	828	1,238	1,958
Amortization	(1,102)	(1,273)	(2,230)	(2,603)
Recoveries	1	9	5	64
Other (1)	(2)	(40)	(16)	(128)
Balance at end of period	$ 28,034	$ 30,277	$ 28,034	$ 30,277

(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 June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
(In thousands)				
Balance at beginning of period	$ 8	$ 23	$ 12	$ 78
Recoveries	(1)	(9)	(5)	(64)
Balance at end of period	$ 7	$ 14	$ 7	$ 14

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 June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
(In thousands)				
Servicing fees	$ 2,660	$ 2,821	$ 5,378	$ 5,640
Late charges and prepayment penalties	211	219	410	413
Adjustment for loans repurchased	(2)	(40)	(16)	(128)
Servicing income, gross	2,869	3,000	5,772	5,925
Amortization and impairment of servicing assets	(1,101)	(1,264)	(2,225)	(2,539)
Servicing income, net	$ 1,768	$ 1,736	$ 3,547	$ 3,386

The Corporation's MSRs 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:

	Weighted Average	Maximum	Minimum
Six-Month Period Ended June 30, 2023			
Constant prepayment rate:			
Government-guaranteed mortgage loans	6.7 %	11.6 %	4.8 %
Conventional conforming mortgage loans	7.4 %	16.0 %	3.8 %
Conventional non-conforming mortgage loans	5.9 %	9.0 %	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	12.9 %	14.0 %	11.5 %
Six-Month Period Ended June 30, 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	6.3 %	21.9 %	4.5 %
Discount rate:			
Government-guaranteed mortgage loans	11.9 %	12.0 %	11.5 %
Conventional conforming mortgage loans	9.9 %	10.0 %	9.5 %
Conventional non-conforming mortgage loans	12.4 %	14.5 %	11.5 %

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 June 30, 2023 and December 31, 2022 were as follows:

(In thousands)		June 30, 2023		December 31, 2022
Carrying amount of servicing assets	$	28,034	$	29,037
Fair value	$	44,420	$	44,710
Weighted-average expected life (in years)		7.79		7.80
Constant prepayment rate (weighted-average annual rate)		6.28 %		6.40 %
Decrease in fair value due to 10% adverse change	$	1,025	$	1,048
Decrease in fair value due to 20% adverse change	$	2,008	$	2,054
Discount rate (weighted-average annual rate)		10.71 %		10.69 %
Decrease in fair value due to 10% adverse change	$	1,902	$	1,925
Decrease in fair value due to 20% adverse change	$	3,660	$	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:

(In thousands)	June 30, 2023	December 31, 2022
Type of account and interest rate:		
Non-interest-bearing deposit accounts	$ 5,874,261	$ 6,112,884
Interest-bearing saving accounts	3,642,728	3,902,888
Interest-bearing checking accounts	4,258,871	3,770,993
Certificates of deposit ("CDs")	2,680,250	2,250,876
Brokered CDs	363,582	105,826
Total	$ 16,819,692	$ 16,143,467

The following table presents the contractual maturities of CDs, including brokered CDs, as of June 30, 2023:

(In thousands)	Total
Three months or less	$ 685,606
Over three months to six months	511,428
Over six months to one year	752,768
Over one year to two years	783,288
Over two years to three years	139,807
Over three years to four years	41,543
Over four years to five years	122,471
Over five years	6,921
Total	$ 3,043,832

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

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
(In thousands)	2023	2022	2023	2022
Interest expense on deposits	$ 41,553	$ 7,757	$ 71,477	$ 15,574
Accretion of premiums from acquisitions	(33)	(92)	(116)	(292)
Amortization of broker placement fees	84	29	128	64
Total	$ 41,604	$ 7,694	$ 71,489	$ 15,346

Total U.S. time deposits with balances of more than $250,000 amounted to $1.3 billion and $1.0 billion as of June 30, 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 June 30, 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:

	June 30, 2023	December 31, 2022
(In thousands)		
Short-term Fixed-rate repurchase agreements (1)	$ 73,934	$ 75,133

(1) Weighted-average interest rate of 5.35% and 4.55% as of June 30, 2023 and December 31, 2022, respectively.

Repurchase agreements mature as follows as of the indicated date:

	June 30, 2023
(In thousands)	
Within one month	$ 23,934
Over one month to three months	$ 50,000
Total	$ 73,934

As of June 30, 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 June 30, 2023 and December 31, 2022, repurchase agreements were fully collateralized and not offset in the consolidated statements of financial condition.

Repurchase agreements as of June 30, 2023, grouped by counterparty, were as follows:

Counterparty	Amount	Weighted-Average Maturity (In Months)
(Dollars in thousands)		
JP Morgan Chase	$ 73,934	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:

(In thousands)	June 30, 2023	December 31, 2022
Short-term Fixed-rate advances from the FHLB (1)	$ -	$ 475,000
Long-term Fixed-rate advances from the FHLB (2)	500,000	200,000
	$ 500,000	$ 675,000

(1) Weighted-average interest rate 4.56% as of December 31, 2022.

(2) Weighted-average interest rate 4.45% and 4.25% as of June 30, 2023 and December 31, 2022, respectively.

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

(In thousands)	June 30, 2023
Over one to five years	$ 500,000

During the six-month period ended June 30, 2023, the Corporation added $300.0 million of long-term FHLB advances at an average cost of 4.59%, and repaid its short-term FHLB advances.

NOTE 11 – OTHER LONG-TERM BORROWINGS

Junior Subordinated Debentures

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

(In thousands)	June 30, 2023	December 31, 2022
Floating rate junior subordinated debentures (FBP Statutory Trust I) (1) (3)	$ 43,143	$ 65,205
Floating rate junior subordinated debentures (FBP Statutory Trust II) (2) (3)	118,557	118,557
	$ 161,700	$ 183,762

(1) Amount represents junior subordinated interest-bearing debentures due in 2034 with a floating interest rate of 2.75% over 3-month LIBOR (8.26% as of June 30, 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 (8.01% as of June 30, 2023 and 7.25% as of December 31, 2022).

(3) See Note 7 - Non-Consolidated Variable Interest Entities ("VIEs") and Servicing Assets, for additional information on the nature and terms of these debentures, the LIBOR transition of these contracts, and the Corporation's repurchase in the second quarter of 2023 of $21.4 million in TRuPs associated with FBP Statutory Trust I.

NOTE 12 – EARNINGS PER COMMON SHARE

The calculations of earnings per common share for the quarters and six-month periods ended June 30, 2023 and 2022 are as follows:

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
(In thousands, except per share information)				
Net income attributable to common stockholders	$ 70,655	$ 74,695	$ 141,353	$ 157,295
Weighted-Average Shares:				
Average common shares outstanding	178,926	194,405	179,567	196,257
Average potential dilutive common shares	351	961	686	1,184
Average common shares outstanding - assuming dilution	179,277	195,366	180,253	197,441
Earnings per common share:				
Basic	$ 0.39	$ 0.38	$ 0.79	$ 0.80
Diluted	$ 0.39	$ 0.38	$ 0.78	$ 0.80

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 and six-month periods ended June 30, 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- 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 June 30, 2023, there were 8,174,889 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 six-month period ended June 30, 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 six-month periods ended June 30, 2023 and 2022:

	Six-Month Period Ended June 30, 2023		Six-Month Period Ended June 30, 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	301,440	13.15
Forfeited	(57,491)	11.29	(10,364)	8.82
Vested	(481,536)	5.93	(487,198)	5.72
Unvested shares outstanding at end of period	895,355	$ 12.31	952,653	$ 9.11

(1) Includes for the six-month period ended June 30, 2023, 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 six-month period ended June 30, 2022, 3,048 shares of restricted stock awarded to independent directors and 298,392 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 quarter and six month-periods ended June 30, 2023, the Corporation recognized $1.4 million and $3.0 million, respectively, of stock-based compensation expense related to restricted stock awards, compared to $0.9 million and $1.8 million for the same periods in 2022, respectively. As of June 30, 2023, there was $6.4 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 1.9 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 in a proportional amount. Performance units granted prior to March 16, 2023 vest subject only to achievement of a TBVPS goal and 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 six-month periods ended June 30, 2023 and 2022:

	Six-Month Period Ended June 30, 2023		Six-Month Period Ended June 30, 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	534,261	12.25	791,923	7.36

(1) Units granted during the six-month periods ended June 30, 2023 are subject to 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 six-month period ended June 30, 2022 are subject to the achievement of the TBVPS performance goal during a three-year performance cycle beginning January 1, 2022 and ending on December 31, 2024.

(2) Units vested during the six-month period ended June 30, 2023 are related to performance units granted in 2020 that met certain pre-established targets and were settled with shares of common stock reissued from treasury shares. Units vested during the six-month period ended June 30, 2022 are related to performance units granted in 2019 that met certain pre-established targets and were settled with shares of common stock reissued from treasury shares.

The fair value of the performance units awarded during the six-month periods ended June 30, 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 June 30, 2023, there have been no changes in 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 six-month period ended June 30, 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.

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 six-month period ended June 30, 2023:

	Six-Month Period Ended June 30, 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 the Corporation's stock price with a look-back period equal to the simulation term using daily stock prices.

For the quarter and six-month periods ended June 30, 2023 and 2022, the Corporation recognized $0.5 million and $1.0 million, respectively, of stock-based compensation expense related to performance units, compared to $0.5 million and $0.8 million for the same periods in 2022, respectively. As of June 30, 2023, there was $4.1 million of total unrecognized compensation cost related to unvested performance units that the Corporation expects to recognize over a weighted average period of 2.2 years.

Shares withheld

During the first six months of 2023, the Corporation withheld 287,835 shares (first six months 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 that provides authorization to repurchase up to $350 million of its outstanding common stock, which commenced in the second quarter of 2022. As of June 30, 2023, the Corporation had remaining authorization to repurchase approximately $75 million of common stock. Furthermore, on July 24, 2023, the Corporation announced that its Board of Directors approved a new stock repurchase program, under which the Corporation may repurchase up to $225 million of its outstanding common stock, which it expects to execute through the end of the third quarter of 2024. The Corporation expects to repurchase approximately $150 million in common stock during the second half of 2023, of which $75 million relates to the remaining amount of the aforementioned $350 million stock repurchase program that was resumed in July 2023.

Repurchases under the programs may be executed through open market purchases, accelerated share repurchases, and/or privately negotiated transactions or plans, including under plans complying with Rule 10b5-1 under the Exchange Act. The Corporation's stock repurchase programs are 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 Corporation's stock repurchase programs do not obligate it to acquire any specific number of shares and do not have an expiration date. The stock repurchase programs may be modified, suspended, or terminated at any time at the Corporation's discretion. 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.

Common Stock

The following table shows the change in shares of common stock outstanding for the six-month periods ended June 30, 2023 and 2022:

	Total Number of Shares	
	Six-Month Period Ended June 30,	
	2023	2022
Common stock outstanding, beginning balance	182,709,059	201,826,505
Common stock repurchased (1)(2)	(3,865,375)	(10,680,890)
Common stock reissued under stock-based compensation plan	970,429	491,085
Restricted stock forfeited	(57,491)	(10,364)
Common stock outstanding, ending balances	179,756,622	191,626,336

(1) For the six-month periods ended June 30, 2023 includes 3,577,540 shares of common stock repurchased in the open market during the first quarter of 2023 at an average price of $13.98 for a total purchase price of $50 million under the $350 million stock repurchase program announced on April 27, 2022. For the six-month period ended June 30, 2022 includes 7,069,263 shares of common stock repurchased in the open market at an average price of $14.15 per share for a total purchase price of approximately $100 million under the $350 million stock repurchase program and 3,409,697 shares of common stock repurchased in the open market at an average price of $14.66 for a total purchase price of approximately $50 million under a prior publicly-announced $300 million stock repurchase program which was completed during the first quarter of 2022.

(2) For the six-month periods ended June 30, 2023 and 2022 also includes 287,835 and 201,930 shares, respectively, of common stock surrendered to cover officers' payroll and income taxes.

For the quarter and six-month period ended June 30, 2023, total cash dividends declared on shares of common stock amounted to $25.3 million and $50.7 million, respectively, compared to $23.4 million and $43.3 million, respectively, for the same periods 2022. On July 24, 2023, the Corporation announced that its Board had declared a quarterly cash dividend of $0.14 per common share payable on September 8, 2023 to shareholders of record at the close of business on August 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, 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 and are redeemable at the Corporation's option. No shares of preferred stock were outstanding as of June 30, 2023 and December 31, 2022.

Treasury Stock

The following table shows the change in shares of treasury stock for the six-month periods ended June 30, 2023 and 2022.

	Total Number of Shares	
	Six-Month Period Ended June 30,	
	2023	2022
Treasury stock, beginning balance	40,954,057	21,836,611
Common stock repurchased	3,865,375	10,680,890
Common stock reissued under stock-based compensation plan	(970,429)	(491,085)
Restricted stock forfeited	57,491	10,364
Treasury stock, ending balances	43,906,494	32,036,780

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 June 30, 2023 and December 31, 2022. There were no transfers to the legal surplus reserve during the first half of 2023.

NOTE 15 – ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in accumulated other comprehensive loss for the quarters and six-month periods ended June 30, 2023 and 2022:

	Changes in Accumulated Other Comprehensive Loss by Component (1)							
	Quarter ended June 30,				Six-Month Period Ended June 30,			
	2023		2022		2023		2022	
(In thousands)								
Unrealized net holding losses on available-for-sale debt securities:								
Beginning balance	$	(718,744)	$	(419,224)	$	(805,972)	$	(87,390)
Other comprehensive (loss) income (2)		(54,837)		(175,923)		32,391		(507,757)
Ending balance	$	(773,581)	$	(595,147)	$	(773,581)	$	(595,147)
Adjustment of pension and postretirement benefit plans:								
Beginning balance	$	1,194	$	3,391	$	1,194	$	3,391
Other comprehensive (loss) income		-		-		-		-
Ending balance	$	1,194	$	3,391	$	1,194	$	3,391

(1) All amounts presented are net of tax.

(2) Net unrealized holding (losses) gains on available-for-sale debt securities have no tax effect because securities are either tax-exempt, held by an IBE, or have a full deferred tax asset valuation allowance.

NOTE 16 – EMPLOYEE BENEFIT PLANS

The Corporation maintains two frozen qualified noncontributory defined benefit pension plans (the "Pension Plans"), and a 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:

(In thousands)	Affected Line Item in the Consolidated Statements of Income	Quarter Ended June 30,				Six-Month Period Ended June 30,			
		2023		2022		2023		2022	
Net periodic cost (benefit), pension plans:									
Interest cost	Other expenses	$	950	$	654	$	1,900	$	1,308
Expected return on plan assets	Other expenses		(885)		(1,040)		(1,771)		(2,079)
Net periodic cost (benefit), pension plans			65		(386)		129		(771)
Net periodic cost, postretirement plan	Other expenses		6		2		12		3
Net periodic cost (benefit)		$	71	$	(384)	$	141	$	(768)

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 second quarter of 2023, the Corporation recorded an income tax expense of $30.3 million compared to $4.1 million in the second quarter of 2022. For the first six months of 2023, the Corporation recorded an income tax expense of $62.2 million compared to $77.1 million for the same period in 2022. The decrease in income tax expense for the quarter and first six months of 2023, as compared to the same period a year ago, was 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, excluding entities with pre-tax losses from which a tax benefit cannot be recognized and discrete items, was 30.1% for the first six months of 2023, compared to 31.7% for the first six months of 2022.

As of June 30, 2023, the Corporation had a deferred tax asset of $153.9 million, net of a valuation allowance of $184.2 million against the deferred tax asset, compared to a deferred tax asset of $155.6 million, net of a valuation allowance of $185.5 million, as of December 31, 2022. The net deferred tax asset of the Corporation's banking subsidiary, FirstBank, amounted to $153.9 million as of June 30, 2023, net of a valuation allowance of $147.0 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.

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 quarter and six-month period ended June 30, 2023, the Corporation incurred current income tax expense of approximately $1.5 million and $4.0 million, respectively, related to its U.S. operations, compared to $2.5 million and $4.1 million, respectively, for comparable periods in 2022. The limitation did not impact USVI operations in the quarters and six-month periods ended June 30, 2023 and 2022.

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 June 30, 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 June 30, 2023 and December 31, 2022:

	As of June 30, 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	$ 139,669	$ -	$ -	$ 139,669	$ 138,875	$ -	$ -	$ 138,875
Noncallable U.S. agencies debt securities	-	475,295	-	475,295	-	389,787	-	389,787
Callable U.S. agencies debt securities	-	1,900,133	-	1,900,133	-	1,963,566	-	1,963,566
MBS	-	2,910,915	5,246(1)	2,916,161	-	3,098,797	5,794(1)	3,104,591
Puerto Rico government obligations	-	-	2,111	2,111	-	-	2,201	2,201
Other investments	-	-	-	-	-	-	500	500
Equity securities	4,891	-	-	4,891	4,861	-	-	4,861
Derivative assets	-	494	-	494	-	633	-	633
Liabilities:								
Derivative liabilities	-	357	-	357	-	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 and six-month periods ended June 30, 2023 and 2022:

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
Level 3 Instruments Only	**Securities Available for Sale**(1)	**Securities Available for Sale**(1)	**Securities Available for Sale**(1)	**Securities Available for Sale**(1)
(In thousands)				
Beginning balance	$ 7,605	$ 10,647	$ 8,495	$ 11,084
Total (losses)/gains:				
Included in other comprehensive loss (unrealized)	(19)	(106)	(181)	(393)
Included in earnings (unrealized)(2)	16	35	25	423
Principal repayments and amortization	(245)	(396)	(982)(3)	(934)
Ending balance	$ 7,357	$ 10,180	$ 7,357	$ 10,180

(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 a $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 June 30, 2023 and December 31, 2022:

	June 30, 2023				Range		
	Fair Value		Valuation Technique	Unobservable Input	Minimum	Maximum	Weighted Average
(Dollars in thousands)							
Available-for-sale debt securities:							
Private label MBS	$	5,246	Discounted cash flows	Discount rate	16.7%	16.7%	16.7%
				Prepayment rate	1.2%	12.0%	8.9%
				Projected cumulative loss rate	0.2%	15.5%	5.6%
Puerto Rico government obligations	$	2,111	Discounted cash flows	Discount rate	13.4%	13.4%	13.4%
				Projected cumulative loss rate	18.5%	18.5%	18.5%

	December 31, 2022				Range		
	Fair Value		Valuation Technique	Unobservable Input	Minimum	Maximum	Weighted Average
(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. See Note 2 – Debt Securities for information on the methodology used to calculate the fair value of these debt securities.

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

As of June 30, 2023, the Corporation recorded losses or valuation adjustments for assets recognized at fair value on a non-recurring basis and still held at June 30, 2023, as shown in the following table:

(In thousands)	Carrying value as of June 30, 2023 Related to (losses) gains recorded for the Quarter Ended June 30, 2023	Related to (losses) gains recorded for the Six-Month Period Ended June 30, 2023	(Losses) gains recorded for the Quarter Ended June 30, 2023	(Losses) gains recorded for the Six-Month Period Ended June 30, 2023
Level 3:				
Loans receivable (1)	$ 8,011	$ 8,920	$ (6,515)	$ (6,744)
OREO (2)	1,471	2,038	45	12
Level 2:				
Loans held for sale (3)	$ 14,295	$ 14,295	$ (73)	$ (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.

(3) The Corporation derived the fair value of these loans based on secondary market prices of instruments with similar characteristics.

As of June 30, 2022, the Corporation recorded losses or valuation adjustments for assets recognized at fair value on a non-recurring basis and still held at June 30, 2022, as shown in the following table:

(In thousands)	Carrying value as of June 30, 2022 Related to (losses) gains recorded for the Quarter Ended June 30, 2022	Related to losses recorded for the Six-Month Period Ended June 30, 2022	(Losses) gains recorded for the Quarter Ended June 30, 2022	Losses recorded for the Six-Month Period Ended June 30, 2022
Level 3:				
Loans receivable (1)	$ 5,422	$ 29,967	$ (817)	$ (3,848)
OREO (2)	2,140	2,741	35	(38)
Premises and equipment (3)	-	1,242	-	(218)

(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.

(3) Relates to a banking facility reclassified to held-for-sale and measured at the fair value of the collateral.

See Note 25 – Fair Value, to the audited consolidated financial statements included in the 2022 Annual Report on Form 10-K for quantitative information regarding the fair value measurements for Level 3 financial instruments measured at fair value on a 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 June 30, 2023 and December 31, 2022:

(In thousands)	Total Carrying Amount in Statement of Financial Condition as of June 30, 2023	Fair Value Estimate as of June 30, 2023	Level 1	Level 2	Level 3
Assets:					
Cash and due from banks and money market investments (amortized cost)	$ 1,047,534	$ 1,047,534	$ 1,047,534	$ -	$ -
Available-for-sale debt securities (fair value)	5,433,369	5,433,369	139,669	5,286,343	7,357
Held-to-maturity debt securities (amortized cost)	424,726				
Less: ACL on held-to-maturity debt securities	(8,401)				
Held-to-maturity debt securities, net of ACL	$ 416,325	410,181	-	244,521	165,660
Equity securities (amortized cost)	43,210	43,210	-	43,210 (1)	-
Other equity securities (fair value)	4,891	4,891	4,891	-	-
Loans held for sale (lower of cost or market)	14,295	14,295	-	14,295	-
Loans held for investment (amortized cost)	11,719,315				
Less: ACL for loans and finance leases	(267,058)				
Loans held for investment, net of ACL	$ 11,452,257	11,256,830	-	-	11,256,830
MSRs (amortized cost)	28,034	44,420	-	-	44,420
Derivative assets (fair value) (2)	494	494	-	494	-
Liabilities:					
Deposits (amortized cost)	$ 16,819,692	$ 16,820,272	$ -	$ 16,820,272	$ -
Short-term securities sold under agreements to repurchase (amortized cost)	73,934	74,030	-	74,030	-
Advances from the FHLB (amortized cost):					
Long-term	500,000	495,589	-	495,589	-
Other long-term borrowings (amortized cost)	161,700	162,983	-	-	162,983
Derivative liabilities (fair value) (2)	357	357	-	357	-

(1) Includes FHLB stock with a carrying value of $34.7 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.

(In thousands)	Total Carrying Amount in Statement of Financial Condition as of December 31, 2022	Fair Value Estimate as of December 31, 2022	Level 1	Level 2	Level 3
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 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 and six-month periods ended June 30, 2023 and 2022:

Quarter ended June 30, 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)	$ 21,360	$ 142,597	$ 12,933	$ (2,789)	$ 19,690	$ 6,024	$ 199,815
Service charges and fees on deposit accounts	-	5,087	3,326	-	172	702	9,287
Insurance commissions	-	2,464	-	-	79	204	2,747
Merchant-related income	-	2,035	-	-	39	385	2,459
Credit and debit card fees	-	8,117	28	-	10	521	8,676
Other service charges and fees	33	1,508	1,094	-	660	207	3,502
Not in scope of ASC Topic 606 (1)	3,029	1,010	3,697	1,680	195	(11)	9,600
Total non-interest income	3,062	20,221	8,145	1,680	1,155	2,008	36,271
Total Revenue	**$ 24,422**	**$ 162,818**	**$ 21,078**	**$ (1,109)**	**$ 20,845**	**$ 8,032**	**$ 236,086**

Quarter ended June 30, 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)	$ 26,335	$ 102,397	$ 31,379	$ 11,466	$ 18,688	$ 5,921	$ 196,186
Service charges and fees on deposit accounts	-	5,495	3,069	-	157	745	9,466
Insurance commissions	-	2,724	-	-	20	202	2,946
Merchant-related income	-	1,711	381	-	17	327	2,436
Credit and debit card fees	-	7,391	21	-	3	449	7,864
Other service charges and fees	59	2,066	876	-	485	157	3,643
Not in scope of ASC Topic 606 (1)	4,108	396	101	(51)	(4)	36	4,586
Total non-interest income	4,167	19,783	4,448	(51)	678	1,916	30,941
Total Revenue	**$ 30,502**	**$ 122,180**	**$ 35,827**	**$ 11,415**	**$ 19,366**	**$ 7,837**	**$ 227,127**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Six-Month Period Ended June 30, 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)	$ 43,148	$ 280,341	$ 27,873	$ (3,447)	$ 40,620	$ 12,165	$ 400,700
Service charges and fees on deposit accounts	-	10,573	6,480	-	337	1,438	18,828
Insurance commissions	-	7,104	-	-	107	383	7,594
Merchant-related income	-	4,298	-	-	68	853	5,219
Credit and debit card fees	-	15,755	50	-	12	1,017	16,834
Other service charges and fees	194	2,660	1,948	-	1,243	551	6,596
Not in scope of ASC Topic 606 (1)	5,942	1,865	3,842	1,840	235	(6)	13,718
Total non-interest income	6,136	42,255	12,320	1,840	2,002	4,236	68,789
Total Revenue	**$ 49,284**	**$ 322,596**	**$ 40,193**	**$ (1,607)**	**$ 42,622**	**$ 16,401**	**$ 469,489**

Six-Month Period Ended June 30, 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)	$ 52,114	$ 191,943	$ 71,794	$ 18,875	$ 35,170	$ 11,914	$ 381,810
Service charges and fees on deposit accounts	-	11,034	6,045	-	295	1,455	18,829
Insurance commissions	-	7,691	-	-	49	481	8,221
Merchant-related income	-	3,533	754	-	22	716	5,025
Credit and debit card fees	-	14,062	37	-	(4)	859	14,954
Other service charges and fees	202	3,176	1,989	-	984	314	6,665
Not in scope of ASC Topic 606 (1)	9,217	750	177	(163)	76	48	10,105
Total non-interest income	9,419	40,246	9,002	(163)	1,422	3,873	63,799
Total Revenue	**$ 61,533**	**$ 232,189**	**$ 80,796**	**$ 18,712**	**$ 36,592**	**$ 15,787**	**$ 445,609**

(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, investment securities and derivative financial instruments.

For the quarters and six-month periods ended June 30, 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 and six-month periods ended June 30, 2023 and 2022:

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
(In thousands)				
Beginning balance	$ 760	$ 1,154	$ 841	$ 1,443
Revenue recognized	(152)	(105)	(233)	(394)
Ending balance	$ 608	$ 1,049	$ 608	$ 1,049

As of June 30, 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 other performance obligations as of June 30, 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 June 30, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate Banking	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
Quarter ended June 30, 2023:							
Interest income	$ 31,605	$ 86,989	$ 65,356	$ 29,528	$ 32,098	$ 6,628	$ 252,204
Net (charge) credit for transfer of funds	(10,245)	86,144	(52,423)	(22,739)	(737)	-	-
Interest expense	-	(30,536)	-	(9,578)	(11,671)	(604)	(52,389)
Net interest income (loss)	21,360	142,597	12,933	(2,789)	19,690	6,024	199,815
Provision for credit losses - (benefit) expense	(3,829)	13,669	7,675	(16)	4,017	714	22,230
Non-interest income	3,062	20,221	8,145	1,680	1,155	2,008	36,271
Direct non-interest expenses	5,533	41,814	9,340	923	8,502	6,731	72,843
Segment income (loss)	$ 22,718	$ 107,335	$ 4,063	$ (2,016)	$ 8,326	$ 587	$ 141,013
Average earnings assets	$ 2,144,340	$ 3,241,768	$ 3,770,463	$ 6,364,024	$ 2,038,621	$ 371,685	$ 17,930,901

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate Banking	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
Quarter ended June 30, 2022:							
Interest income	$ 33,205	$ 73,487	$ 47,513	$ 27,143	$ 21,081	$ 6,196	$ 208,625
Net (charge) credit for transfer of funds	(6,870)	34,039	(16,134)	(10,705)	(330)	-	-
Interest expense	-	(5,129)	-	(4,972)	(2,063)	(275)	(12,439)
Net interest income	26,335	102,397	31,379	11,466	18,688	5,921	196,186
Provision for credit losses - (benefit) expense	(3,605)	15,055	(470)	(35)	(1,678)	736	10,003
Non-interest income (loss)	4,167	19,783	4,448	(51)	678	1,916	30,941
Direct non-interest expenses	5,681	40,546	9,048	905	8,237	6,765	71,182
Segment income	$ 28,426	$ 66,579	$ 27,249	$ 10,545	$ 12,807	$ 336	$ 145,942
Average earnings assets	$ 2,243,188	$ 2,860,086	$ 3,624,176	$ 7,769,754	$ 2,036,108	$ 370,590	$ 18,903,902

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate Banking	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
Six-Month Period Ended June 30, 2023							
Interest income	$ 63,512	$ 170,163	$ 127,699	$ 56,994	$ 63,212	$ 13,020	$ 494,600
Net (charge) credit for transfer of funds	(20,364)	163,879	(99,826)	(42,278)	(1,411)	-	-
Interest expense	-	(53,701)	-	(18,163)	(21,181)	(855)	(93,900)
Net interest income	43,148	280,341	27,873	(3,447)	40,620	12,165	400,700
Provision for credit losses - (benefit) expense	(4,335)	28,893	5,139	(25)	8,672	(612)	37,732
Non-interest income	6,136	42,255	12,320	1,840	2,002	4,236	68,789
Direct non-interest expenses	10,620	83,441	18,705	1,870	16,806	13,556	144,998
Segment income	$ 42,999	$ 210,262	$ 16,349	$ (3,452)	$ 17,144	$ 3,457	$ 286,759
Average earnings assets	$ 2,157,626	$ 3,208,146	$ 3,742,205	$ 6,290,669	$ 2,053,154	$ 369,026	$ 17,820,826

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate Banking	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
Six-Month Period Ended June 30, 2022							
Interest income	$ 66,276	$ 143,924	$ 94,540	$ 49,327	$ 39,938	$ 12,474	$ 406,479
Net (charge) credit for transfer of funds	(14,162)	58,321	(22,746)	(20,654)	(759)	-	-
Interest expense	-	(10,302)	-	(9,798)	(4,009)	(560)	(24,669)
Net interest income	52,114	191,943	71,794	18,875	35,170	11,914	381,810
Provision for credit losses - (benefit) expense	(7,308)	26,199	(17,092)	(423)	(5,225)	50	(3,799)
Non-interest income (loss)	9,419	40,246	9,002	(163)	1,422	3,873	63,799
Direct non-interest expenses	12,587	79,817	17,907	1,790	16,716	13,738	142,555
Segment income	$ 56,254	$ 126,173	$ 79,981	$ 17,345	$ 25,101	$ 1,999	$ 306,853
Average earnings assets	$ 2,268,279	$ 2,810,062	$ 3,662,720	$ 7,931,699	$ 2,050,791	$ 374,358	$ 19,097,909

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

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
(In thousands)	2023	2022	2023	2022
Net income:				
Total income for segments	$ 141,013	$ 145,942	$ 286,759	$ 306,853
Other operating expenses (1)	40,074	37,144	83,187	72,430
Income before income taxes	100,939	108,798	203,572	234,423
Income tax expense	30,284	34,103	62,219	77,128
Total consolidated net income	$ 70,655	$ 74,695	$ 141,353	$ 157,295
Average assets:				
Total average earning assets for segments	$ 17,930,901	$ 18,903,902	$ 17,820,826	$ 19,097,909
Average non-earning assets	857,677	820,924	852,680	890,043
Total consolidated average assets	$ 18,788,578	$ 19,724,826	$ 18,673,506	$ 19,987,952

(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:

	Six-Month Period Ended June 30,	
(In thousands)	2023	2022
Cash paid for:		
Interest on borrowings	$ 84,530	$ 26,148
Income tax	82,215	15,295
Operating cash flow from operating leases	8,630	9,156
Non-cash investing and financing activities:		
Additions to OREO	10,738	10,698
Additions to auto and other repossessed assets	29,720	20,575
Capitalization of servicing assets	1,238	1,958
Loan securitizations	65,092	78,397
Loans held for investment transferred to held for sale	2,962	2,443
Payable related to unsettled purchases of investment securities	4,502	20,202
ROU assets obtained in exchange for operating lease liabilities	2,263	1,158

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 June 30, 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 June 30, 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 (the "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 June 30, 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 macroeconomic conditions, as well as the effect of recent regional bank failures in the U.S. mainland, 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 June 30, 2023 and December 31, 2022, which reflects the full effect of CECL on regulatory capital, were as follows:

	Regulatory Requirements					
	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Thresholds	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2023						
Total Capital (to Risk-Weighted Assets)						
First BanCorp.	$ 2,396,564	19.15%	$ 1,001,189	8.00%	N/A	N/A%
FirstBank	$ 2,326,581	18.59%	$ 1,001,046	8.00%	$ 1,251,307	10.00%
CET1 Capital (to Risk-Weighted Assets)						
First BanCorp.	$ 2,082,843	16.64%	$ 563,169	4.50%	N/A	N/A%
FirstBank	$ 2,069,732	16.54%	$ 563,088	4.50%	$ 813,350	6.50%
Tier I Capital (to Risk-Weighted Assets)						
First BanCorp.	$ 2,082,843	16.64%	$ 750,892	6.00%	N/A	N/A%
FirstBank	$ 2,169,732	17.34%	$ 750,784	6.00%	$ 1,001,046	8.00%
Leverage ratio						
First BanCorp.	$ 2,082,843	10.73%	$ 776,742	4.00%	N/A	N/A%
FirstBank	$ 2,169,732	11.18%	$ 776,431	4.00%	$ 970,539	5.00%
As of December 31, 2022						
Total Capital (to Risk-Weighted Assets)						
First BanCorp.	$ 2,385,866	19.21%	$ 993,405	8.00%	N/A	N/A%
FirstBank	$ 2,346,093	18.90%	$ 993,264	8.00%	$ 1,241,580	10.00%
CET1 Capital (to Risk-Weighted Assets)						
First BanCorp.	$ 2,052,333	16.53%	$ 558,790	4.50%	N/A	N/A%
FirstBank	$ 2,090,832	16.84%	$ 558,711	4.50%	$ 807,027	6.50%
Tier I Capital (to Risk-Weighted Assets)						
First BanCorp.	$ 2,052,333	16.53%	$ 745,054	6.00%	N/A	N/A%
FirstBank	$ 2,190,832	17.65%	$ 744,948	6.00%	$ 993,264	8.00%
Leverage ratio						
First BanCorp.	$ 2,052,333	10.70%	$ 767,075	4.00%	N/A	N/A%
FirstBank	$ 2,190,832	11.43%	$ 766,714	4.00%	$ 958,392	5.00%

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 June 30, 2023, commitments to extend credit amounted to approximately $2.0 billion, of which $1.0 billion relates to retail credit card loans. In addition, commercial and financial standby letters of credit as of June 30, 2023 amounted to approximately $66.0 million.

Contingencies

As of June 30, 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 currently are 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 June 30, 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 June 30, 2023 and December 31, 2022, and the results of its operations for the quarters and six-month periods ended June 30, 2023 and 2022:

Statements of Financial Condition

(In thousands)		As of June 30, 2023		As of December 31, 2022
Assets				
Cash and due from banks	$	54,625	$	19,279
Other investment securities		735		735
Investment in First Bank Puerto Rico, at equity		1,484,887		1,464,026
Investment in First Bank Insurance Agency, at equity		22,024		28,770
Investment in FBP Statutory Trust I		1,289		1,951
Investment in FBP Statutory Trust II		3,561		3,561
Dividends receivable		700		624
Other assets		542		430
Total assets	$	1,568,363	$	1,519,376
Liabilities and Stockholders' Equity				
Liabilities:				
Long-term borrowings	$	161,700	$	183,762
Accounts payable and other liabilities		8,664		10,074
Total liabilities		170,364		193,836
Stockholders' equity		1,397,999		1,325,540
Total liabilities and stockholders' equity	$	1,568,363	$	1,519,376

Statements of Income

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
(In thousands)				
Income				
Interest income on money market investments	$ 57	$ 10	$ 110	$ 14
Dividend income from banking subsidiaries	78,932	178,679	157,802	242,272
Dividend income from nonbanking subsidiaries	12,000	-	12,000	-
Gain on early extinguishment of debt	1,605	-	1,605	-
Other income	101	51	203	91
Total income	92,695	178,740	171,720	242,377
Expense				
Other long-term borrowings	3,409	1,698	6,790	3,031
Other non-interest expenses	462	434	872	873
Total expense	3,871	2,132	7,662	3,904
Income before income taxes and equity in undistributed earnings of subsidiaries	88,824	176,608	164,058	238,473
Income tax expense	783	793	1,861	1,899
Distribution in excess of earnings of subsidiaries	(17,386)	(101,120)	(20,844)	(79,279)
Net income	$ 70,655	$ 74,695	$ 141,353	$ 157,295
Other comprehensive (loss) income, net of tax	(54,837)	(175,923)	32,391	(507,757)
Comprehensive income (loss)	$ 15,818	$ (101,228)	$ 173,744	$ (350,462)

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, reconciliations of non-GAAP financial measures to the most comparable GAAP financial measures, and references to non-GAAP financial measures reconciliations presented in other sections.

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

During the second quarter of 2023, inflation has continued to trend lower but remaining at elevated levels above the Federal Reserve ("FED") target. In July 2023, the FED raised interest rates by an additional 25 basis points, thereby increasing the federal funds rate to a target range of 5.25% to 5.50%, bringing borrowing costs to the highest level since January 2001. This represents the eleventh time in 17 months that the FED has raised rates in an effort to significantly reduce liquidity in the financial markets and continue to reduce inflation. The FED resumed the tightening campaign after a pause in June, while noticing the economy has been expanding at a moderate pace, job gains have been robust in recent months, and the unemployment rate has remained low while inflation remains elevated.

The Corporation remains vigilant as to the potential impacts that monetary policy or a potential slowdown in the U.S. economy may have on credit and loan demand. Notwithstanding, it is encouraged by the ongoing business activity and economic growth in Puerto Rico over the short and medium term. For example, strong auto and retail sales reported during the first half of 2023 suggest growing consumer confidence in Puerto Rico. The economic backdrop in Puerto Rico continues to be supported by strong labor markets, which have led to unemployment remaining stable, and a consistent flow of federal disaster funds and foreign investment.

Our quarterly results reflected continued execution of our strategy and strength of our balance sheet, reflected through loan growth and increased capital levels driven by earnings and capital optimization. Although total net interest income remains stable, the overall higher interest rate environment resulted in a lower interest margin for the second quarter of 2023. The overall higher interest rate environment should continue to benefit our interest income as variable loans and cash held at the FED will reprice accordingly, and projected loan growth will occur at higher yields. Interest expense, on the other hand, is also expected to increase as maturing deposits and government deposits will reprice at higher rates and non-interest-bearing and other low-cost deposits could continue to shift to higher cost deposits, resulting in margin pressures. Credit continues to perform well and our liquidity position remains strong. With our disciplined and proactive approach, we believe the Corporation is positioned to continue growing the franchise and supporting our people and the communities we serve while enhancing shareholder value.

Stock Repurchase Programs

On July 24, 2023, the Corporation announced that its Board of Directors approved a new stock repurchase program, under which the Corporation may repurchase up to $225 million of its outstanding common stock, which it expects to execute through the end of the third quarter of 2024.

The Corporation expects to repurchase approximately $150 million in common stock during the second half of 2023, of which $75 million relates to the remaining amount of the $350 million stock repurchase program announced on April 27, 2022 that was resumed in July 2023. The Corporation expects to fully utilize this remaining authorization during the third quarter of 2023. From July 1, 2023 through August 1, 2023, the Corporation repurchased approximately 1.5 million shares of common stock for a total purchase price of $19.5 million.

Repurchases under the stock repurchase programs may be executed through open market purchases, accelerated share repurchases, and/or privately negotiated transactions or plans, including under plans complying with Rule 10b5-1 under the Exchange Act. The Corporation's stock repurchase programs are 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 Corporation's stock repurchase programs do not obligate it to acquire any specific number of shares and do not have an expiration date. The stock repurchase programs may be modified, suspended, or terminated at any time at the Corporation's discretion.

Repurchase of Trust - Preferred Securities ("TRuPs")

During the second quarter of 2023, the Corporation completed the repurchase of $21.4 million of TRuPs of the FBP Statutory Trust I as part of a privately-negotiated transaction, resulting in a commensurate reduction in the related floating rate junior subordinated debentures. The purchase price equated to 92.5% of the $21.4 million par value of the TRuPs. The 7.5% discount resulted in a gain of approximately $1.6 million, which is reflected in the consolidated statement s of income as "Gain on early extinguishment of debt."

Release of Corporate Sustainability Report

On June 26, 2023, the Corporation announced the release of its Corporate Sustainability Report for 2022, which is its second report on Environmental, Social and Governance ("ESG") and sustainability matters. This report highlights the Corporation's strategy and development relating to ESG matters and covers the progress of the Corporation's ESG program during 2022.

London Interbank Offered Rate ("LIBOR") Transition

On June 30, 2023, the US dollar ("USD") LIBOR panel ended, and USD LIBOR rates are no longer considered representative of the market. For the transition of residual exposures tied to USD LIBOR as of June 30, 2023, the Corporation will continue to follow the provisions of the Adjustable Interest Rate Act (the "LIBOR Act") and Regulation ZZ. As of June 30, 2023, the Corporation's risk exposure to USD LIBOR that mature after June 30, 2023 consisted of the following: (i) $0.8 billion of variable-rate commercial and construction loans (including unused commitments), (ii) $39.4 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) $122.3 million of Puerto Rico municipalities bonds held as part of the held-to-maturity debt securities portfolio, and (iv) $161.7 million of junior subordinated debentures reported as other long-term borrowings in the consolidated statements of financial condition.

Source systems have been updated to support alternative reference rates. As such, we have developed a SOFR-enabled interest rate risk monitoring framework and a strategy for managing interest rate risk during the transition from LIBOR to SOFR.

Other Recent Developments

Following the recent failure of two U.S. regional banks and resulting losses to the FDIC's Deposit Insurance Fund ("DIF"), on May 11, 2023, the FDIC approved a notice of proposed rulemaking that would implement a special assessment at an annual rate of approximately 12.5 basis points over eight quarterly periods, commencing with the first quarter of 2024, to recover the cost associated with protecting uninsured depositors as part of those financial institution failures. The assessment base for the special assessment would be equal to an insured depository institution's estimated uninsured deposits reported as of December 31, 2022, adjusted to exclude the first $5 billion in estimated uninsured deposits. Notwithstanding, the special assessment could be subject to change depending on whether there are shortfalls on amounts collected. If the final rule is issued as proposed, the estimated impact of the special assessment on the Corporation would be an increase in non-interest expense by approximately $6 million that would need to be accrued once the proposed rule is finalized.

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 reported amounts 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 Quarterly Report on Form 10-Q, 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 of this MD&A 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 others), 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.

For the quarter and six-month period ended June 30, 2023, the Corporation had net income of $70.7 million ($0.39 per diluted common share) and $141.4 million ($0.78 per diluted common share), respectively, compared to $74.7 million ($0.38 per diluted common share) and $157.3 million ($0.80 per diluted common share), for the comparable periods in 2022. Other relevant selected financial indicators for the periods presented are included below:

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
Key Performance Indicators: (1)				
Return on Average Assets (2)	1.51 %	1.52 %	1.53 %	1.59 %
Return on Average Common Equity (3)	19.66	17.82	20.31	17.18
Efficiency Ratio (4)	47.83	47.69	48.60	48.25

(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 June 30, 2023, compared to the second quarter of 2022, include the following:

- Net interest income for the quarter ended June 30, 2023 increased to $199.8 million, compared to $196.2 million for the second quarter of 2022, mainly driven by the effect in the commercial loan portfolio of higher market interest rates on the upward repricing of variable-rate loans and on new loan originations, the growth in consumer loans, and the impact of higher market interest rates on interest-bearing cash balances, partially offset by an increase in interest expense mainly due to higher rates paid on interest-bearing deposits. 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 June 30, 2023 was $22.2 million, compared to $10.0 million for the second quarter of 2022. The increase in the provision expense reflects a $9.9 million increase in the provision for the commercial and construction loan portfolio resulting from a deterioration in the forecasted commercial real estate price index ("CRE price index").

  Net charge-offs totaled $19.3 million for the quarter ended June 30, 2023, or 0.67% of average loans on an annualized basis, compared to $6.0 million, or 0.21% of average loans, for the second quarter of 2022, mainly driven by a $6.2 million charge-off recorded on a commercial and industrial participated loan in the Florida region in the power generation industry and a $6.1 million increase in consumer loans net charge-offs. 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 $36.3 million for the quarter ended June 30, 2023, compared to $30.9 million for the second quarter of 2022. Non-interest income for the second quarter of 2023 includes a $3.6 million gain recognized from a legal settlement and the $1.6 million gain on the repurchase of $21.4 million in junior subordinated debentures. On a non-GAAP basis, excluding the effect of these Special Items (as defined below), adjusted non-interest income increased by $0.2 million. See "Non-Interest Income" and "Non-GAAP Financial Measures and Reconciliations" below for additional information.

- Non-interest expenses for the quarter ended June 30, 2023 increased by $4.6 million to $112.9 million. The increase in non-interest expenses mainly reflects a $3.0 million increase in employees' compensation and benefits expenses due to annual salary merit increases as well as higher stock-based compensation expense and medical insurance premium costs. The efficiency ratio for the second quarter of 2023 was 47.83%, as compared to 47.69% for the same period in 2022. On a non-

GAAP basis, excluding the aforementioned Special Items, the adjusted efficiency ratio for the second quarter of 2023 was 48.91%. See "Non-Interest Expenses" and "Non-GAAP Financial Measures and Reconciliations" below for additional information.

- Income tax expense decreased to $30.3 million for the second quarter of 2023, compared to $34.1 million for the same period in 2022 driven by a lower pre-tax income and a higher proportion of exempt to taxable income resulting in a lower effective tax rate. The Corporation's estimated effective tax rate, excluding entities with pre-tax losses from which a tax benefit cannot be recognized and discrete items, decreased to 30.1% for the first six months of 2023, compared to 31.7% for the first six months of 2022. See "Income Taxes" below and Note 17 – Income Taxes, to the unaudited consolidated financial statements herein for additional information.

- As of June 30, 2023, total assets were approximately $19.2 billion, an increase of $518.0 million from December 31, 2022, primarily due to a $567.0 million increase in cash and cash equivalents mainly attributable to the overall increase in total deposits, and a $168.5 million increase in total loans, partially offset by a $186.3 million decrease in total investment securities. See "Financial Condition and Operating Data Analysis" below for additional information.

- As of June 30, 2023, total liabilities were $17.8 billion, an increase of $445.5 million from December 31, 2022, mainly driven by the overall increase in total deposits, including brokered CDs, partially offset by a $198.3 million decrease in borrowings. 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 certificates of deposit ("CDs"). As of June 30, 2023, these core deposits, amounting to $13.0 billion, funded 67.99% of total assets. Approximately $4.7 billion, or 28.79% of such deposits, are uninsured deposits. 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's Discount Window. As of June 30, 2023, the Corporation had approximately $1.4 billion available for funding under the FED's Discount Window and $980.9 million available for additional borrowing capacity on FHLB lines of credit based on collateral pledged at these entities. On a combined basis, as of June 30, 2023, the Corporation had $5.6 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 June 30, 2023, the Corporation's total stockholders' equity was $1.4 billion, an increase of $72.5 million from December 31, 2022. The increase was driven by the earnings generated in the first half of 2023 and a $32.4 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. This increase was partially offset by $50.7 million in dividends declared to common stock shareholders during the first six months of 2023 and the repurchase of approximately 3.6 million shares of common stock for a total purchase price of approximately $50.0 million. The Corporation's CET1 capital, tier 1 capital, total capital, and leverage ratios were 16.64%, 16.64%, 19.15%, and 10.73%, respectively, as of June 30, 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, decreased by $274.9 million to $1.2 billion for the quarter ended June 30, 2023. See "Financial Condition and Operating Data Analysis" below for additional information.

- Total non-performing assets were $121.1 million as of June 30, 2023, a decrease of $8.1 million, from December 31, 2022. The net decrease was driven by a $9.5 million reduction in nonaccrual residential mortgage loans mainly due to loans restored to accrual status, partially offset by a $1.5 million increase in nonaccrual consumer loans. See "Risk Management – Nonaccrual Loans and Non-Performing Assets" below for additional information.

- Adversely classified commercial and construction loans decreased by $27.9 million to $65.7 million as of June 30, 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 periods indicated. 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.

Adjusted Net Income, Adjusted Non-Interest Income, and Adjusted Efficiency Ratio

To supplement the Corporation's financial statements presented in accordance with GAAP, the Corporation uses, and believes that investors benefit from disclosure of, non-GAAP financial measures that reflect adjustments to net income, non-interest income, and the efficiency ratio to exclude items that management believes are not reflective of core operating performance ("Special Items"). The financial results for the quarter and six-month period ended June 30, 2022 did not include any significant Special Items. The financial results for the quarter and six-month period ended June 30, 2023 included the following Special Items:

Quarter and Six-Month Period Ended June 30, 2023

- A $3.6 million ($2.3 million after-tax) gain recognized from a legal settlement reflected in the consolidated statements of income as part of other non-interest income.

- A $1.6 million gain on the repurchase of $21.4 million in junior subordinated debentures reflected in the consolidated statements of income as "Gain on early extinguishment of debt." The junior subordinated debentures are reflected in the consolidated statements of financial condition as "Other long-term borrowings." The purchase price equated to 92.5% of the $21.4 million par value of the TRuPs. The 7.5% discount resulted in the gain of $1.6 million. The gain, realized at the holding company level, had no effect on the income tax expense in 2023.

The following table reconciles for the quarter and six-month period ended June 30, 2023 the reported net income to adjusted net income, a non-GAAP financial measure that excludes the Special Items identified above:

(In thousands)	Quarter Ended June 30, 2023	Six-Month Period Ended June 30, 2023
Net income, as reported (GAAP)	$ 70,655	$ 141,353
Adjustments:		
Gain recognized from a legal settlement	(3,600)	(3,600)
Gain on early extinguishment of debt	(1,605)	(1,605)
Income tax impact of adjustments (1)	1,350	1,350
Adjusted net income (Non-GAAP)	$ 66,800	$ 137,498

(1) See "Adjusted Net Income, Adjusted Non-Interest Income, and Adjusted Efficiency Ratio" above for the individual tax impact related to the above adjustments, which were based on the Puerto Rico statutory tax rate of 37.5%, as applicable.

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 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, dividends, and collection of interest in nonaccrual loans, can fluctuate from period to period. Net interest income for the quarter and six-month period ended June 30, 2023 was $199.8 million and $400.7 million, respectively, compared to $196.2 million and $381.8 million for the comparable periods in 2022. On a tax-equivalent basis and excluding the changes in the fair value of derivative instruments, net interest income for the quarter and six-month period ended June 30, 2023 was $205.4 million and $412.6 million, respectively, compared to $205.6 million and $398.4 million for the comparable periods in 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

	Average volume		Interest income[1] / expense		Average rate[1]	
Quarter ended June 30,	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
(Dollars in thousands)						
Interest-earning assets:						
Money market and other short-term investments	$ 617,356	$ 1,530,353	$ 7,880	$ 2,873	5.12 %	0.75 %
Government obligations(2)	2,909,204	2,922,226	10,973	10,090	1.51 %	1.38 %
MBS	3,757,425	4,081,573	17,087	22,804	1.82 %	2.24 %
FHLB stock	36,265	21,275	780	251	8.63 %	4.73 %
Other investments	13,739	12,595	58	12	1.69 %	0.38 %
Total investments(3)	7,333,989	8,568,022	36,778	36,030	2.01 %	1.69 %
Residential mortgage loans	2,808,465	2,891,403	39,864	40,573	5.69 %	5.63 %
Construction loans	149,783	124,070	2,903	1,768	7.77 %	5.72 %
Commercial and industrial ("C&I") and commercial mortgage loans	5,191,040	5,054,223	89,290	64,500	6.90 %	5.12 %
Finance leases	769,316	617,399	14,714	11,410	7.67 %	7.41 %
Consumer loans	2,672,912	2,415,215	74,192	63,724	11.13 %	10.58 %
Total loans(4)(5)	11,591,516	11,102,310	220,963	181,975	7.65 %	6.57 %
Total interest-earning assets	$ 18,925,505	$ 19,670,332	$ 257,741	$ 218,005	5.46 %	4.45 %
Interest-bearing liabilities:						
Time deposits	$ 2,511,504	$ 2,202,228	$ 15,667	$ 3,838	2.50 %	0.70 %
Brokered certificates of deposit ("CDs")	333,557	76,790	3,761	404	4.52 %	2.11 %
Other interest-bearing deposits	7,517,995	8,704,448	22,176	3,452	1.18 %	0.16 %
Securities sold under agreements to repurchase	101,397	200,000	1,328	1,972	5.25 %	3.95 %
Advances from the FHLB	534,231	200,000	6,048	1,075	4.54 %	2.16 %
Other long-term borrowings	177,701	183,762	3,409	1,698	7.69 %	3.71 %
Total interest-bearing liabilities	$ 11,176,385	$ 11,567,228	$ 52,389	$ 12,439	1.88 %	0.43 %
Net interest income on a tax-equivalent basis and excluding valuations - non-GAAP			$ 205,352	$ 205,566		
Interest rate spread					3.58 %	4.01 %
Net interest margin					4.35 %	4.19 %

Part I

Six-Month Period Ended June 30,	Average volume 2023	Average volume 2022	Interest income[1] / expense 2023	Interest income[1] / expense 2022	Average rate[1] 2023	Average rate[1] 2022
(Dollars in thousands)						
Interest-earning assets:						
Money market and other short-term investments	$ 511,392	$ 1,682,216	$ 12,530	$ 3,693	4.94%	0.44%
Government obligations(2)	2,909,587	2,829,675	21,738	18,322	1.51%	1.31%
MBS	3,810,491	4,061,883	36,483	42,224	1.93%	2.10%
FHLB stock	38,539	21,370	1,201	538	6.28%	5.08%
Other investments	13,441	12,193	197	33	2.96%	0.55%
Total investments(3)	7,283,450	8,607,337	72,149	64,810	2.00%	1.52%
Residential mortgage loans	2,821,779	2,926,236	79,658	81,260	5.69%	5.60%
Construction loans	147,923	119,427	5,579	3,292	7.61%	5.56%
C&I and commercial mortgage loans	5,179,448	5,078,910	175,175	126,504	6.82%	5.02%
Finance leases	752,501	602,880	28,523	22,322	7.64%	7.47%
Consumer loans	2,654,008	2,377,118	145,406	124,875	11.05%	10.59%
Total loans(4)(5)	11,555,659	11,104,571	434,341	358,253	7.58%	6.51%
Total interest-earning assets	$ 18,839,109	$ 19,711,908	$ 506,490	$ 423,063	5.42%	4.33%
Interest-bearing liabilities:						
Time deposits	$ 2,427,399	$ 2,282,192	$ 26,449	$ 8,259	2.20%	0.73%
Brokered CDs	250,588	84,210	5,348	881	4.30%	2.11%
Other interest-bearing deposits	7,531,374	8,419,880	39,692	6,206	1.06%	0.15%
Securities sold under agreements to repurchase	96,229	220,442	2,397	4,154	5.02%	3.80%
Advances from the FHLB	581,436	200,000	13,224	2,138	4.59%	2.16%
Other long-term borrowings	180,715	183,762	6,790	3,031	7.58%	3.33%
Total interest-bearing liabilities	$ 11,067,741	$ 11,390,486	$ 93,900	$ 24,669	1.71%	0.44%
Net interest income on a tax-equivalent basis and excluding valuations - non-GAAP			$ 412,590	$ 398,394		
Interest rate spread					3.71%	3.89%
Net interest margin					4.42%	4.08%

(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 Financial Measures and Reconciliations" below.

(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 $2.9 million and $3.0 million for the quarters ended June 30, 2023 and 2022, respectively, and $6.0 million and $5.6 million for the six-month periods ended June 30, 2023 and 2022, respectively, of income from prepayment penalties and late fees related to the Corporation's loan portfolio.

Part II	Quarter Ended June 30, 2023 Compared to 2022 Variance due to:			Six-Month Period Ended June 30, 2023 Compared to 2022 Variance due to:		
	Volume	Rate	Total	Volume	Rate	Total
(In thousands)						
Interest income on interest-earning assets:						
Money market and other short-term investments	$ (6,709)	$ 11,716	$ 5,007	$ (15,795)	$ 24,632	$ 8,837
Government obligations	(48)	931	883	530	2,886	3,416
MBS	(1,710)	(4,007)	(5,717)	(2,523)	(3,218)	(5,741)
FHLB stock	244	285	529	511	152	663
Other investments	1	45	46	4	160	164
Total investments	(8,222)	8,970	748	(17,273)	24,612	7,339
Residential mortgage loans	(1,173)	464	(709)	(2,943)	1,341	(1,602)
Construction loans	415	720	1,135	899	1,388	2,287
C&I and commercial mortgage loans	1,790	23,000	24,790	2,551	46,120	48,671
Finance leases	2,893	411	3,304	5,660	541	6,201
Consumer loans	7,037	3,431	10,468	15,003	5,528	20,531
Total loans	10,962	28,026	38,988	21,170	54,918	76,088
Total interest income	$ 2,740	$ 36,996	$ 39,736	$ 3,897	$ 79,530	$ 83,427
Interest expense on interest-bearing liabilities:						
Time deposits	$ 1,234	$ 10,595	$ 11,829	$ 558	$ 17,632	$ 18,190
Brokered CDs	2,502	855	3,357	2,927	1,540	4,467
Other interest-bearing deposits	(953)	19,677	18,724	(2,830)	36,316	33,486
Securities sold under agreements to repurchase	(1,132)	488	(644)	(2,733)	976	(1,757)
Advances from the FHLB	2,992	1,981	4,973	6,967	4,119	11,086
Other borrowings	(86)	1,797	1,711	(99)	3,858	3,759
Total interest expense	4,557	35,393	39,950	4,790	64,441	69,231
Change in net interest income	$ (1,817)	$ 1,603	$ (214)	$ (893)	$ 15,089	$ 14,196

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 June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
(Dollars in thousands)				
Interest income - GAAP	$ 252,204	$ 208,625	$ 494,600	$ 406,479
Unrealized (gain) loss on derivative instruments	(3)	(9)	3	(24)
Interest income excluding valuations - non-GAAP	252,201	208,616	494,603	406,455
Tax-equivalent adjustment	5,540	9,389	11,887	16,608
Interest income on a tax-equivalent basis and excluding valuations - non-GAAP	$ 257,741	$ 218,005	$ 506,490	$ 423,063
Interest expense - GAAP	$ 52,389	$ 12,439	$ 93,900	$ 24,669
Net interest income - GAAP	$ 199,815	$ 196,186	$ 400,700	$ 381,810
Net interest income excluding valuations - non-GAAP	$ 199,812	$ 196,177	$ 400,703	$ 381,786
Net interest income on a tax-equivalent basis and excluding valuations - non-GAAP	$ 205,352	$ 205,566	$ 412,590	$ 398,394
Average Balances				
Loans and leases	$ 11,591,516	$ 11,102,310	$ 11,555,659	$ 11,104,571
Total securities, other short-term investments and interest-bearing cash balances	7,333,989	8,568,022	7,283,450	8,607,337
Average Interest-Earning Assets	$ 18,925,505	$ 19,670,332	$ 18,839,109	$ 19,711,908
Average Interest-Bearing Liabilities	$ 11,176,385	$ 11,567,228	$ 11,067,741	$ 11,390,486
Average Yield/Rate				
Average yield on interest-earning assets - GAAP	5.35%	4.25%	5.29%	4.16%
Average rate on interest-bearing liabilities - GAAP	1.88%	0.43%	1.71%	0.44%
Net interest spread - GAAP	3.47%	3.82%	3.58%	3.72%
Net interest margin - GAAP	4.23%	4.00%	4.29%	3.91%
Average yield on interest-earning assets excluding valuations - non-GAAP	5.35%	4.25%	5.29%	4.16%
Average rate on interest-bearing liabilities	1.88%	0.43%	1.71%	0.44%
Net interest spread excluding valuations - non-GAAP	3.47%	3.82%	3.58%	3.72%
Net interest margin excluding valuations - non-GAAP	4.23%	4.00%	4.29%	3.91%
Average yield on interest-earning assets on a tax-equivalent basis and excluding valuations - non-GAAP	5.46%	4.45%	5.42%	4.33%
Average rate on interest-bearing liabilities	1.88%	0.43%	1.71%	0.44%
Net interest spread on a tax-equivalent basis and excluding valuations - non-GAAP	3.58%	4.01%	3.71%	3.89%
Net interest margin on a tax-equivalent basis and excluding valuations - non-GAAP	4.35%	4.19%	4.42%	4.08%

Net interest income amounted to $199.8 million for the quarter ended June 30, 2023, an increase of $3.6 million, when compared to $196.2 million for same period in 2022. The $3.6 million increase in net interest income was primarily due to:

- A $38.8 million increase in interest income on loans including:

  - A $25.5 million increase in interest income on commercial and construction loans, of which approximately $24.4 million was related to the effect of higher market interest rates on the upward repricing of variable-rate loans and on new loan originations, and approximately $2.9 million was related to the $229.9 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 June 30, 2023 and 2022, amounted to $0.1 million and $2.0 million, respectively.

    As of June 30, 2023, the interest rate on approximately 54% of the Corporation's commercial and construction loans was tied to variable rates, with 29% based upon LIBOR or SOFR of 3 months or less, 13% based upon the Prime rate index, and 12% based on other indexes. For the second quarter of 2023, the average one-month LIBOR increased 410 basis points, the average three-month LIBOR increased 388 basis points, the average Prime rate increased 422 basis points, and the average three-month SOFR increased 382 basis points, compared to the average rates for such indexes during the second quarter of 2022.

  - A $13.8 million increase in interest income on consumer loans and finance leases, primarily driven by the $409.6 million increase in the average balance of this portfolio, which increased interest income by approximately $10.1 million, and an approximately $3.7 million increase in interest income associated with the positive effects of higher market interest rates on new consumer loan originations and the repricing of the credit cards portfolio.

Partially offset by:

  - A $0.5 million decrease in interest income on residential mortgage loans, primarily related to an $82.9 million reduction in the average balance of this portfolio, which resulted in an approximate decrease of $1.1 million in interest income, partially offset by the positive effect of new loan originations at higher current market interest rates.

- A $4.8 million increase in interest income from interest-bearing cash balances and investment securities, including:

  - A $5.0 million increase in interest income from interest-bearing cash balances, which consisted primarily of cash balances deposited at the FED, mainly due to the effect of higher market interest rates, partially offset by the impact of a $913.0 million decrease in the average volume of interest-bearing cash balances.

  - A $1.3 million increase in interest income on Puerto Rico municipal bonds, mainly due to the upward repricing of variable-rate bonds.

  - A $0.3 million increase in interest income on U.S. government and agencies debt securities, mainly driven by higher-yielding securities purchased late in the second quarter of 2022.

  - A $0.5 million increase in dividends received from the FHLB during the second quarter of 2023.

  Partially offset by:

  - A $2.4 million decrease in interest income on U.S. agencies MBS, of which $1.5 million was associated with a $324.1 million decrease in the average balance of this portfolio, and the remaining variance to a higher level of U.S. agencies' MBS premium amortization expense associated with changes in anticipated prepayments.

Partially offset by:

- A $33.9 million increase in interest expense on interest-bearing deposits, including:

  - An $18.7 million increase in interest expense on interest-bearing checking and saving accounts, driven by an increase of approximately $20.5 million associated with higher interest rates paid in the second quarter of 2023 as a result of the overall higher interest rate environment, partially offset by a decrease of approximately $1.8 million resulting from a $1.2 billion decline in the average balance of these deposits. The average cost of interest-bearing checking and savings accounts increased by 102 basis points to 1.18% in the second quarter of 2023 as compared to 0.16% in the same period in 2022. Excluding public sector deposits, the average cost of interest-bearing checking and saving accounts for the second quarter of 2023 was 0.67%, compared to 0.17% for the same period a year ago.

  - An $11.8 million increase in interest expense on time deposits, excluding brokered CDs, mainly associated with higher rates paid in the second quarter of 2023 on new issuances and renewals also associated with the higher interest rate environment. The average cost of time deposits in the second quarter of 2023, excluding brokered CDs, increased 180 basis points to 2.50% when compared to the same period in 2022.

  - A $3.4 million increase in interest expense on brokered CDs, of which $2.5 million was associated with the increase of $256.8 million in the average balance.

- A $6.0 million net increase in interest expense on borrowings, including:

  - A $5.0 million increase in interest expense on advances from the FHLB, of which $3.0 million was associated with an increase of $334.2 million in the average balance to increase available cash as a precautionary measure in the first quarter of 2023, and $2.0 million was associated with new FHLB advances at higher interest rates.

  - A $1.7 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 $0.7 million decrease in interest expense on repurchase agreements, mainly driven by a reduction in the average balance of $98.6 million, partially offset by a higher average cost of funds in the second quarter of 2023.

Net interest income amounted to $400.7 million for the six-month period ended June 30, 2023, an increase of $18.9 million, when compared to $381.8 million for same period in 2022. The $18.9 million increase in net interest income was primarily due to:

- A $75.7 million increase in interest income on loans including:

  - A $50.1 million increase in interest income on commercial and construction loans, of which approximately $49.5 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 $5.4 million was related to the $220.6 million increase in the average balance of this portfolio (excluding 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 six-month periods ended June 30, 2023 and 2022, amounted to $0.3 million and $5.1 million, respectively.

    As of June 30, 2023, the interest rate on approximately 54% of the Corporation’s commercial and construction loans was tied to variable rates, with 29% based upon LIBOR or SOFR of 3 months or less, 13% based upon the Prime rate index and 12% based on other indexes. For the six-month period ended June 30, 2023, the average one-month LIBOR increased 424 basis points, the average three-month LIBOR increased 414 basis points, the average three-month SOFR increased 413 basis points, and the average Prime rate increased 431 basis points, compared to the average rates for such indexes during the same period of the prior year.

  - A $26.8 million increase in interest income on consumer loans and finance leases, primarily driven by the $426.5 million increase in the average balance of this portfolio, which increased interest income by approximately $20.6 million, and the approximately $6.1 million increase in interest income associated with the positive effects of higher market interest rates on new consumer loan originations and the repricing of the credit cards portfolio .

  Partially offset by:

  - A $1.2 million decrease in interest income on residential mortgage loans, primarily related to the $104.5 million reduction in the average balance of this portfolio, which resulted in an approximate decrease of $2.7 million in interest income, partially offset by the positive effect of new loan originations at higher current market interest rates, which resulted in an approximate increase of $1.6 million in the first six months of 2023.

- A $8.8 million increase in interest income from interest-bearing cash balances, which consisted primarily of cash balances deposited at the FED, mainly due to the effect of higher market interest rates, partially offset by the impact of a $1.2 billion decrease in the average balance of interest-bearing cash.

- A $3.6 million increase in interest income on investment securities, mainly driven by:

  - A $2.7 million increase in interest income on Puerto Rico municipal bonds, mainly due to the upward repricing of variable-rate bonds, partially offset by the impact of a $12.3 million reduction in the average balance.

  - A $1.5 million increase in interest income on U.S. government and agencies debt securities, mainly driven by higher-yielding securities purchased late in the second quarter of 2022.

  - A $0.8 million increase in dividend income from FHLB stock, mainly driven by a higher average balance tied with the increase in FHLB advances taken as a precautionary measure in the first quarter of 2023.

  Partially offset by:

  - A $1.4 million decrease in interest income on U.S. agencies MBS, of which $2.4 million was associated with a $251.4 million decrease in the average balance of this portfolio, partially offset by a $1.0 million increase associated with a lower level of premium amortization expense due to changes in anticipated prepayments and the positive effects from higher-yielding U.S. agencies MBS purchased in the second quarter of 2022.

Partially offset by:

- A $56.1 million increase in interest expense on interest-bearing deposits, including:

  - A $33.5 million increase in interest expense on interest-bearing checking and saving accounts, driven by an increase of approximately $35.7 million associated with higher interest rates paid in the first half of 2023 as a result of the overall higher interest rate environment, partially offset by a decrease of approximately $2.2 million resulting from a decline of approximately $888.5 million in the average balance of these deposits.

  - An $18.1 million increase in interest expense on time deposits, excluding brokered CDs, mainly associated with higher rates paid in the first half of 2023 on new issuances and renewals also associated with the higher interest rate environment. The average cost of time deposits in the first half of 2023, excluding brokered CDs, increased 147 basis points to 2.20% when compared to the same period in 2022.

  - A $4.5 million increase in interest expense on brokered CDs, of which $2.9 million was associated with the increase of $166.4 million in the average balance and $1.6 million was associated to the overall higher interest rate environment.

- A $13.1 million net increase in interest expense on borrowings, including:

  - An $11.1 million increase in interest expense on advances from the FHLB, of which $7.0 million was associated with an increase of $381.4 million in the average balance to increase available cash as a precautionary measure in the first quarter of 2023, and $4.1 million was associated with new FHLB advances at higher interest rates.

  - A $3.8 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.

  Partially offset by:

  - A $1.8 million decrease in interest expense on repurchase agreements, mainly driven by a reduction in the average balance of $124.2 million, which resulted in an approximate reduction of $2.7 million in interest expense, partially offset by a $0.9 million increase in interest expense associated with new short-term repurchase agreements entered into during 2023 at higher interest rates.

Net interest margin for the second quarter of 2023 increased to 4.23%, compared to 4.00% for the same period in 2022, and by 38 basis points to 4.29% for the first six months of 2023, compared to 3.91% for the same period of 2022. The net interest margin increase primarily reflects the upward repricing of variable-rate commercial loans, the growth in higher yielding loans, primarily consumer loans, and the change in asset mix, reflecting a higher proportion of higher-yielding assets in the 2023 periods. These factors were partially offset by an 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 $20.8 million for the second quarter of 2023, compared to $12.7 million for the second quarter of 2022. The variances by major portfolio category were as follows:

- Provision for credit losses for the commercial and construction loan portfolio was $10.2 million for the second quarter of 2023, compared to $0.3 million for the second quarter of 2022. The expense recognized during the second quarter of 2023 was mainly due to a deterioration in the forecasted CRE price index and the increase in size of this portfolio.

- Provision for credit losses for the consumer loans and finance leases portfolio was $14.1 million for the second quarter of 2023, compared to $15.2 million for the second quarter of 2022. The decrease was primarily related to updates in macroeconomic variables, such as the unemployment rate.

- Provision for credit losses for the residential mortgage loan portfolio was a net benefit of $3.5 million for the second quarter of 2023, compared to a net benefit of $2.8 million for the second quarter of 2022. The higher net benefit recorded for the second quarter of 2023 was primarily related to updates in the projection of certain forecasted macroeconomic variables, such as the Regional Home Price Index.

The provision for credit losses for loans and finance leases was an expense of $37.0 million for the first half of 2023, compared to a net benefit of $4.3 million for the same period in 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 $10.7 million for the first half of 2023, compared to a net benefit of $22.8 million for the same period of 2022. The expense recognized during the first half of 2023 was mainly due to a deterioration in the forecasted CRE price index, a $6.2 million charge associated with a nonaccrual commercial and industrial participated loan in the Florida region in the power generation industry and, to a lesser extent, portfolio growth. Meanwhile, the net benefit recorded during the first six months of 2022 mainly reflects reductions in qualitative reserves associated with reduced COVID-19 uncertainties, partially offset by reserve builds related to uncertainties regarding the macroeconomic outlook.

- Provision for credit losses for the residential mortgage loan portfolio was a net benefit of $3.4 million for the first half of 2023, compared to a net benefit of $7.7 million for the same period of 2022. The net benefit recorded for both periods was primarily related to a continued favorable economic outlook in the projection of certain forecasted macroeconomic variables, such as the Regional Home Price Index.

- Provision for credit losses for the consumer loans and finance leases portfolio was $29.7 million for the first half of 2023, compared to $26.2 million for the same period 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, partially offset by updates in macroeconomic variables, such as the unemployment rate.

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 $0.7 million and $0.6 million for the second quarter and the first half of 2023, respectively, compared to $0.8 million and $0.7 million, respectively, for the same periods in 2022.

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

The provision for credit losses for held-to-maturity debt securities was $0.8 million and $0.1 million for the second quarter and first half of 2023, respectively, compared to a net benefit of $3.4 million and an expense of $0.3 million, respectively, for the same periods of 2022. The increase in the provision recorded during the second quarter and the first half of 2023 was mostly driven by higher exposure risk associated with the rising interest rate environment.

The provision for credit losses for available-for-sale debt securities was a net benefit of $16 thousand and $25 thousand for the second quarter and first half of 2023, respectively, compared to a net benefit of $35 thousand and $0.4 million, respectively, for the same periods in 2022.

Non-Interest Income

Non-interest income amounted to $36.3 million for the second quarter of 2023, compared to $30.9 million for the same period in 2022. Non-interest income for the second quarter of 2023 includes the $3.6 million gain recognized from a legal settlement, included as part of other non-interest income, and the $1.6 million gain on the repurchase of $21.4 million in junior subordinated debentures, included as part of gain on early extinguishment of debt. See “Non-GAAP Financial Measures and Reconciliations” in this MD&A for further information. On a non-GAAP basis, excluding the effect of these Special Items, adjusted non-interest income increased by $0.2 million primarily due to:

- A $1.0 million net increase in adjusted other non-interest income including: (i) a $0.8 million benefit recognized during the second quarter of 2023 in relation to purchased income tax credits realized; (ii) $0.3 million in debit card incentives collected during the second quarter of 2023; (iii) a $0.3 million increase related to higher unused loan commitment fees; and (v) a $0.6 million decrease in net gains on fixed assets.

- A $0.8 million increase in card and processing income mainly related to higher interchange income received during the second quarter of 2023.

Partially offset by:

- A $1.2 million decrease in revenues from mortgage banking activities, mainly driven by a decrease in the net realized gain on sales of residential mortgage loans in the secondary market due to a lower volume of sales and lower margins. During the second quarters of 2023 and 2022, net realized gains of $0.9 million and $2.2 million, respectively, were recognized as a result of GNMA securitization transactions and whole loan sales to U.S. GSEs amounting to $51.8 million and $64.2 million, respectively.

- A $0.2 million decrease in insurance commission income.

- A$0.2 million decrease in service in charges and fees on deposits accounts .

Non-interest income for the six-month period ended June 30, 2023 amounted to $68.8 million, compared to $63.8 million for the same period in 2022. On a non-GAAP basis, excluding the effect of the aforementioned Special Items, adjusted non-interest income decreased by $0.2 million primarily due to:

- A $3.6 million decrease in revenues from mortgage banking activities, mainly driven by a decrease in the net realized gain on sales of residential mortgage loans in the secondary market due to a lower volume of sales and lower margins. During the first six months of 2023 and 2022, net gains of $2.0 million and $5.7 million, respectively, were recognized as a result of GNMA securitization transactions and whole loan sales to U.S. GSEs amounting to $89.2 million and $158.1 million, respectively.

- A $0.6 million decrease in insurance commission income, mainly due to lower contingent commissions recognized in 2023.

Partially offset by:

- A $2.1 million increase in card and processing income mainly related to higher interchange income during the first six months of 2023.

- A $1.9 million net increase in adjusted other non-interest income including: (i) a $1.0 million increase related to higher benefit recognized in relation to purchased income tax credits realized; (ii) a $0.6 million increase related to higher unused loan commitment fees; (iii) $0.3 million in debit card incentives collected during the second quarter of 2023; (iv) a $0.3 million increase in unrealized gains on marketable equity securities; and (v) a $0.2 million increase in fees and commissions from insurance referrals; partially offset by a $0.7 million decrease in net gains on fixed assets.

Non-Interest Expenses

Non-interest expenses for the quarter ended June 30, 2023 amounted to $112.9 million, compared to $108.3 million for the same period in 2022. The efficiency ratio for the second quarter of 2023 was 47.83%, compared to 47.69% for the second quarter of 2022. On a non-GAAP basis, excluding the aforementioned Special Items, the adjusted efficiency ratio for the second quarter of 2023 was 48.91%. The $4.6 million increase in non-interest expenses was primarily due to:

- A $3.0 million increase in employees' compensation and benefits expenses, mainly driven by annual salary merit increases, higher stock-based compensation expense, and higher medical insurance premium costs.
- A $1.0 million increase in other non-interest expenses, in part due to an increase in charges for legal and operational reserves and an increase of $0.5 million in net periodic cost of pension plans.
- A $0.7 million increase in credit and debit card processing fees, mainly due to higher credit card assessment fees.
- A $0.6 million increase in the FDIC deposit insurance expense, 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.
- A $0.4 million increase in taxes, other than income taxes, primarily related to higher license fees.

Partially offset by:

- A $0.5 million increase in net gains on OREO operations, mainly driven by an increase in net realized gains on sales of OREO properties, primarily residential properties in the Puerto Rico region .
- A $0.4 million decrease in occupancy and equipment expenses, primarily reflecting reductions in depreciation charges, energy costs, and maintenance charges.
- A $0.4 million decrease in professional service fees, mainly due to a decrease in outsourced technology service fees.

Non-interest expenses for the first six months of 2023 amounted to $228.2 million, compared to $215.0 million for the same period in 2022. The efficiency ratio for the first six months of 2023 was 48.60%, compared to 48.25% for the first six months of 2022. On a non-GAAP basis, excluding the aforementioned Special Items, the adjusted efficiency ratio for the first six months of 2023 was 49.15%. The $13.2 million increase in non-interest expenses was primarily due to:

- A $9.9 million increase in employees' compensation and benefits expenses, mainly driven by annual salary merit increases and an increase in bonuses, medical insurance premium costs, stock-based compensation expense, and payroll taxes, partially offset by higher deferral of loan origination costs.
- A $1.9 million increase in credit and debit card processing expenses.
- A $1.5 million increase in other non-interest expenses, in part due to an increase in charges for legal and operational reserves and an increase of $0.9 million in net periodic cost of pension plans .
- A $1.2 million increase in the FDIC deposit insurance expense, 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.
- A $0.9 million increase in professional service fees, driven by an increase in outsourced technology service fees.
- A $0.6 million increase in business promotion expenses, mainly resulting from higher advertising and marketing expenses associated with the commemoration of the 75th anniversary of the Bank.
- A $0.5 million increase in taxes, other than income taxes, primarily related to higher license fees, sales and use taxes, and property taxes.

Partially offset by:

- A $1.8 million increase in net gains on OREO operations, mainly driven by an increase in net realized gains on sales of OREO properties, primarily residential properties in the Puerto Rico region.

- A $1.6 million decrease in occupancy and equipment expenses, primarily reflecting reductions in depreciation charges, rental expenses, and energy costs.

Income Taxes

For the second quarter of 2023, the Corporation recorded an income tax expense of $30.3 million, compared to $34.1 million for the same period in 2022. For the first six months of 2023, the Corporation recorded an income tax expense of $62.2 million, compared to $77.1 million for the same period in 2022. The decrease in income tax expense for the quarter and first six months of 2023, as compared to the same periods a year ago, 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 six months of 2023, excluding entities from which a tax benefit cannot be recognized and discrete items, was 30.1%, compared to 31.7% for the first six months of 2022. See Note 17 - Income Taxes, to the unaudited consolidated financial statements herein for additional information.

As of June 30, 2023, the Corporation had a deferred tax asset of $153.9 million, net of a valuation allowance of $184.2 million against the deferred tax asset, compared to a deferred tax asset of $155.6 million, net of a valuation allowance of $185.5 million, as of December 31, 2022. Income tax paid for the six-month period ended June 30, 2023 amounted to $82.2 million compared to $115.3 million for the same period in 2022. The increase is related to the full utilization during 2022 of certain deferred tax assets related to NOLs that were available for regular income tax which decreased the amount due for income taxes.

FINANCIAL CONDITION AND OPERATING ANALYSIS

Assets

The Corporation’s total assets were $19.2 billion as of June 30, 2023, an increase of $518.0 million from December 31, 2022. The increase was primarily related to a $567.0 million increase in cash and cash equivalents, primarily interest-bearing deposits maintained at the FED aligned with the overall increase in government and time deposits. In addition, as further discussed below, total loans increased by $168.5 million. These variances were partially offset by a $186.3 million decrease in total investment securities.

Loans Receivable, including Loans Held for Sale

As of June 30, 2023, the Corporation’s total loan portfolio before the ACL amounted to $11.7 billion, an increase of $168.5 million compared to December 31, 2022. In terms of geography, the growth consisted of increases of $220.7 million and $37.9 million in th Puerto Rico and Virgin Islands regions, respectively, partially offset by a $90.1 million decrease in the Florida region. On a portfolio basis, the growth consisted of increases of $167.8 million in consumer loans, including a $141.9 million increase in auto loans and leases, and $52.2 million in commercial and construction loans, partially offset by a $51.5 million decrease in residential mortgage loans.

As of June 30, 2023, the loans in the Corporation’s held-for-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 $11.7 billion as of June 30, 2023, the Corporation had credit risk concentration of approximately 79% in the Puerto Ric region, 17% in the United States region (mainly in the state of Florida), and 4% in the Virgin Islands region, as shown in the following table:

As of June 30, 2023 (In thousands)	**Puerto Rico**	**Virgin Islands**	**United States**	**Total**
Residential mortgage loans	$ 2,179,539	$ 172,771	$ 441,480	$ 2,793,790
Construction loans	65,427	3,792	94,779	163,998
Commercial mortgage loans	1,734,514	65,775	519,780	2,320,069
Commercial and Industrial loans	1,902,803	108,971	934,427	2,946,201
Total commercial loans	3,702,744	178,538	1,548,986	5,430,268
Consumer loans and finance leases	3,421,376	66,078	7,803	3,495,257
Total loans held for investment, gross	$ 9,303,659	$ 417,387	$ 1,998,269	$ 11,719,315
Loans held for sale	14,094	201	-	14,295
Total loans, gross	$ 9,317,753	$ 417,588	$ 1,998,269	$ 11,733,610

As of December 31, 2022 (In thousands)	**Puerto Rico**	**Virgin Islands**	**United States**	**Total**
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 June 30, 2023, the Corporation’s total residential mortgage loan portfolio, including loans held for sale, decreased by $51.5 million, as compared to the balance as of December 31, 2022. The decline in the residential mortgage loan portfolio reflects decreases of $56.7 million in the Puerto Rico region and $6.9 million in the Virgin Islands region, partially offset by an increase of $12.1 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 June 30, 2023 consisted of fixed-rate loans that traditionally carry higher yields than residential mortgage loans in the Florida region. In the Florida region, approximately 42% 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 June 30, 2023, the Corporation’s commercial and construction loan portfolio increased by $52.2 million, as compared to the balance as of December 31, 2022.

In the Puerto Rico region, commercial and construction loans increased by $112.1 million, as compared to the balance as of December 31, 2022. This increase was driven by the origination of several loans, including five commercial relationships, each in excess of $10 million, that increased the portfolio amount by $66.0 million and a $60.3 million increase in the outstanding balance of floor plan lines of credit.

In the Virgin Islands region, commercial and construction loans increased by $40.1 million, as compared to the balance as of December 31, 2022. The increase was driven by the utilization of $47.0 million of a new $100.0 million line of credit facility extended to a government public corporation.

In the Florida region, commercial and construction loans decreased by $100.0 million, as compared to the balance as of December 31, 2022. This decrease reflected $90.4 million in payoffs and paydowns of five commercial and industrial relationships in the Florida region, each in excess of $10 million, including the aforementioned payoff of a $24.3 million commercial and industrial participated loan in the leisure and hospitality industry.

As of June 30, 2023, the Corporation had $174.9 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 June 30, 2023, the Corporation had $78.9 million in loans to USVI government public corporations, compared to $38.0 million as of December 31, 2022. The increase in loans to USVI government public corporations was driven by the aforementioned $47.0 million line of credit utilization. See “Exposure to USVI Government” below for additional information.

As of June 30, 2023, the Corporation’s total commercial mortgage loan exposure amounted to $2.3 billion, or 43% of the total commercial loan portfolio. The commercial mortgage loan portfolio includes an exposure to office real estate amounting to $428.3 million ($384.3 million and $44.0 million in the Puerto Rico and Florida regions, respectively), of which approximately $76.1 million matures during the remainder of 2023 and 2024.

As of June 30, 2023, the Corporation’s total exposure to shared national credit (“SNC”) loans (including unused commitments) amounted to $1.1 billion as of each of June 30, 2023 and December 31, 2022. As of June 30, 2023, approximately $206.2 million of the SNC exposure is related to the portfolio in the Puerto Rico region and $847.4 million is related to the portfolio in the Florida region.

Consumer Loans and Finance Leases

As of June 30, 2023, the Corporation’s consumer loan and finance lease portfolio increased by $167.8 million to $3.5 billion, as compared to the portfolio balance of $3.3 billion as of December 31, 2022. This increase was mainly related to increases of $72.5 million and $69.4 million in the finance leases and auto loans portfolios, respectively. The growth in consumer loans was 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 June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
(In thousands)				
Residential mortgage	$ 115,251	$ 126,532	$ 192,553	$ 249,045
Construction	47,006	46,880	82,505	66,866
Commercial mortgage	42,384	205,720	131,076	333,705
Commercial and Industrial	550,574	622,714	1,106,456	1,113,010
Consumer	454,005	482,252	889,323	908,719
Total loan production	$ 1,209,220	$ 1,484,098	$ 2,401,913	$ 2,671,345

During the quarter and six-month period ended June 30, 2023, total loan originations, including purchases, refinancings, and draws from existing revolving and non-revolving commitments, amounted to approximately $1.2 billion and $2.4 billion, respectively, compared to $1.5 billion and $2.7 billion, respectively, for the comparable periods in 2022.

Residential mortgage loan originations for the quarter and six-month period ended June 30, 2023 amounted to $115.3 million and $192.6 million, respectively, compared to $126.5 million and $249.0 million, respectively, for the comparable periods in 2022. The decrease of $11.2 million in the second quarter of 2023, as compared to the same period in 2022, reflects declines of $9.1 million in the Puerto Rico region, $1.3 million in the Virgin Islands region, and $0.8 million in the Florida region. For the six-month period ended June 30, 2023, the decrease of $56.4 million consisted of declines of $51.4 million in the Puerto Rico region, $3.3 million in the Florida region, and $1.7 million in the Virgin Islands region. Approximately 58% of the $150.0 million residential mortgage loan originations in the Puerto Rico region during the first half of 2023 consisted of conforming loans, compared to 59% of $201.4 million for the first half of 2022. The decrease during the first half 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 and six-month period ended June 30, 2023 amounted to $563.6 million and $1.2 billion, respectively, compared to $860.9 million and $1.5 billion, respectively, for the comparable periods in 2022. The decrease of $297.3 million in the second quarter of 2023, as compared to the same period in 2022, reflects declines of $158.2 million in the Florida region, $124.8 million in the Puerto Rico region, and $14.3 million in the Virgin Islands region. Commercial loan originations for the second quarter of 2022 include three commercial mortgage loans over $10 million originated in the Puerto Rico region totaling $53.8 million and two commercial mortgage loans over $10 million originated in the Florida region totaling $37.3 million. For the first six months of 2023, the decrease of $258.2 million consisted of decreases of $213.3 million in the Florida region, $31.1 million in the Puerto Rico region, and $13.8 million in the Virgin Islands region.

Government loan originations for the quarter and six-month period ended June 30, 2023 amounted to $76.3 million and $83.6 million, respectively, compared to $14.4 million and $18.9 million, respectively, for the comparable periods in 2022. Government loan originations during the first half of 2023 were mainly related to the aforementioned line of credit utilization in the Virgin Islands region, 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. On the other hand, government loan originations during the first half of 2022 were mainly related to the renewal of a municipal loan in the Puerto Rico region and the utilization of the arranged overdraft line of credit of a government entity in the Virgin Islands region.

Originations of auto loans (including finance leases) for the quarter and six-month period ended June 30, 2023 amounted to $250.3 million and $495.4 million, respectively, compared to $269.5 million and $530.8 million, respectively, for the comparable periods in 2022. The decrease in the second quarter of 2023, as compared to the same quarter of 2022, consisted of a $21.2 million decrease in the Puerto Rico region, partially offset by a $2.0 million increase in the Virgin Islands region. The decrease in the first six months of 2023, as compared to the same period of the previous year, consisted of a $38.7 million decrease in the Puerto Rico region, partially offset by a $3.3 million increase in the Virgin Islands region. Other consumer loan originations, other than credit cards, for the quarter and six-month period ended June 30, 2023 amounted to $77.7 million and $149.6 million, respectively, compared to $87.2 million and $142.8 million, respectively, for the comparable periods in 2022. The utilization activity on the outstanding credit card portfolio for the quarter and six-month period ended June 30, 2023 amounted to $125.9 million and $244.3 million, respectively, compared to $125.6 million and $235.0 million, respectively, for the comparable periods 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 June 30, 2023 amounted to $5.4 billion, a $166.2 million decrease from December 31, 2022. The decrease was mainly driven by repayments of approximately $200.4 million of U.S. agencies MBS and debentures, partially offset by a $32.4 million increase in fair value attributable to changes in market interest rates. As of June 30, 2023, the Corporation had a net unrealized loss on available-for-sale debt securities of $765.8 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 and it is likely that it will not be required to sell the securities before their anticipated recovery. The Corporation expects the portfolio will continue to decrease and the accumulated other comprehensive loss will decrease accordingly, excluding the impact of market interest rates.

As of June 30, 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 June 30, 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 - $2.1 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 June 30, 2023, of which $0.3 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 June 30, 2023, the Corporation’s held-to-maturity debt securities portfolio, before the ACL, decreased to $424.7 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 SEC, 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 June 30, 2023, approximately 74% of the Corporation’s municipal 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, and the higher interest rate environment, the Corporation cannot be certain whether future charges to the ACL on these securities will be required. As of June 30, 2023, the ACL for held-to-maturity debt securities was $8.4 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:

(In thousands)	June 30, 2023	December 31, 2022
Money market investments	$ 1,000	$ 2,025
Available-for-sale debt securities, at fair value:		
U.S. government and agencies obligations	2,515,097	2,492,228
Puerto Rico government obligations	2,111	2,201
MBS:		
Residential	2,759,697	2,941,458
Commercial	156,464	163,133
Other	-	500
Total available-for-sale debt securities, at fair value	5,433,369	5,599,520
Held-to-maturity debt securities, at amortized cost:		
MBS:		
Residential	155,690	166,739
Commercial	102,912	105,088
Puerto Rico municipal bonds	166,124	165,710
ACL for held-to-maturity Puerto Rico municipal bonds	(8,401)	(8,286)
Total held-to-maturity debt securities	416,325	429,251
Equity securities, including $34.7 million and $42.9 million of FHLB stock as of June 30, 2023 and December 31, 2022, respectively	48,101	55,289
Total money market investments and investment securities	$ 5,898,795	$ 6,086,085

The carrying values of debt securities as of June 30, 2023 by contractual maturity (excluding MBS), are shown below:

(Dollars in thousands)	Carrying Amount	Weighted-Average Yield %
U.S. government and agencies obligations:		
Due within one year	$ 246,038	0.44
Due after one year through five years	2,247,794	0.84
Due after five years through ten years	10,400	3.16
Due after ten years	10,865	5.38
	2,515,097	0.83
Puerto Rico government and municipalities obligations:		
Due within one year	1,205	5.90
Due after one year through five years	42,736	6.93
Due after five years through ten years	56,160	7.44
Due after ten years	68,134	8.14
	168,235	7.59
MBS	3,174,763	1.70
ACL on held-to-maturity debt securities	(8,401)	-
Total debt securities	$ 5,849,694	1.48

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 June 30, 2023, the Corporation had approximately $1.9 billion in callable debt securities (U.S. agencies debt securities) with an average yield of 0.78% of which approximately 60% were purchased at a discount and 3% 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, 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 Business Group 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 weekly basis. The Financial Planning and ALM Division is responsible for estimating 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 has 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 $1.0 billion as of June 30, 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 $2.2 billion as of June 30, 2023, compared to $3.1 billion as of December 31, 2022. As of June 30, 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 16.70% 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 21.82% of total assets as of June 30, 2023, compared to 22.48% of total assets as of December 31, 2022.

As of June 30, 2023, in addition to the aforementioned $3.2 billion in cash and free high quality liquid assets, the Corporation had $980.9 million available for credit with the FHLB based on the value of loan 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 Borrower-in-Custody ("BIC") Program as of June 30, 2023 as an additional contingent source of liquidity. Total loans pledged to the FED Discount Window amounted to $2.4 billion as of June 30, 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 June 30, 2023, the Corporation had $5.6 billion of total available liquidity, or 1.17x of uninsured deposits excluding government deposits, to meet liquidity needs, while maintaining a strong capital position.

Liquidity at the Bank level is highly dependent on bank deposits, which fund 88.2% of the Bank's assets (or 86.3% excluding brokered CDs). In addition, as further discussed below, the Corporation maintains 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 CDs through brokers. Funding through wholesale funding may continue to increase the overall cost of funding for the Corporation and impact the net interest margin.

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 June 30, 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:

(In thousands)	June 30, 2023	December 31, 2022
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Construction undisbursed funds	$ 189,458	$ 170,639
Unused credit card lines	955,292	936,231
Unused personal lines of credit	40,346	41,988
Commercial lines of credit	795,820	761,634
Letters of credit:		
Commercial letters of credit	57,732	68,647
Standby letters of credit	8,267	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 $3.9 billion as of June 30, 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 funding 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 is 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 June 30, 2023, the Corporation's core deposits, which exclude government deposits and brokered CDs, decreased by $247.0 million to $13.0 billion from $13.3 billion as of December 31, 2022. The decrease was primarily related to saving and checking accounts primarily in the Puerto Rico and Florida regions. 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. 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 continued to reallocate cash into higher yielding alternatives. Further shift may continue to increase the overall cost of funding for the Corporation and impact the net interest margin. For the second quarter of 2023, the average balance per retail core deposit account was $26 thousand.

Government deposits – As of June 30, 2023, the Corporation had $2.9 billion of Puerto Rico public sector deposits ($2.8 billion in transactional accounts and $140.1 million in time deposits), compared to $2.3 billion as of December 31, 2022. The increase was related to higher balances of interest-bearing transactional accounts. Government deposits are insured by the FDIC up to the applicable limits and the uninsured portions is fully collateralized. Approximately 21% of the public sector deposits as of June 30, 2023 were from municipalities and municipal agencies in Puerto Rico and 79% were from public corporations, the central government and agencies, and U.S. federal government agencies in Puerto Rico.

In addition, as of June 30, 2023, the Corporation had $524.5 million of government deposits in the Virgin Islands region (December 31, 2022 - $442.8 million) and $12.1 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 $3.7 billion and $3.1 billion as of June 30, 2023 and December 31, 2022, respectively, and an estimated market value of $3.3 billion and $2.7 billion, respectively. In addition to securities and loans, as of June 30, 2023 and December 31, 2022, the Corporation used $225.0 million and $200.0 million, respectively, in letters of credit issued by the FHLB as pledges for public deposits in the Virgin Islands.

Estimate of Uninsured Deposits – As of June 30, 2023 and December 31, 2022, the estimated amount of uninsured deposits totaled $8.0 billion and $7.6 billion, respectively, generally representing the portion of deposits that exceed the FDIC insurance limit of $250,000 and amounts in any other uninsured deposit account. The balances presented as of June 30, 2023 and December 31, 2022 include the uninsured portion of fully collateralized government deposits which amounted to $3.3 billion and $2.6 billion, respectively. Excluding fully collateralized deposits, $4.7 billion of these deposits are uninsured, which represent 28.79% of total deposits, excluding brokered CDs, as of June 30, 2023, compared to $4.9 billion, or 30.65% of total deposits, excluding brokered CDs, as of December 31, 2022. The increase is mostly related to government deposits, which are fully collateralized as mentioned previously.

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 June 30, 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	$ 254,158	$ 108,835	$ 225,068	$ 357,972	$ 946,033
Other uninsured time deposits	$ 16,675	$ 10,763	$ 10,277	$ 6,546	$ 44,261

Brokered CDs – Total brokered CDs increased by $257.8 million to $363.6 million as of June 30, 2023, compared to $105.8 million as of December 31, 2022. The increase reflects the effect of new issuances amounting to $475.6 million with an all-in cost of 4.97% partially offset by approximately $217.8 million of maturing brokered CDs, with an all-in cost of 4.92%, that were paid off during the first six months of 2023.

The average remaining term to maturity of the brokered CDs outstanding as of June 30, 2023 was approximately 1 year.

The increased use of brokered CDs was primarily related to short-term funding in our Florida region, The future use of brokered CDs will depend on multiple factors including excess liquidity at each of the regions, future cash needs and any tax implications. 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 and six-month periods ended June 30, 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 $73.9 million as of June 30, 2023, compared to $75.1 million as of December 31, 2022. 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 June 30, 2023, the outstanding balance of fixed-rate FHLB advances was $500.0 million, compared to $675.0 million as of December 31, 2022. During the six-month period ended June 30, 2023, the Corporation added $300.0 million of long-term FHLB advances at an average cost of 4.59%, and repaid its short-term FHLB advances. Of the $500.0 million in FHLB advances as of June 30, 2023, $400.0 million were pledged with investment securities and $100.0 million were pledged with mortgage loans. As of June 30, 2023, the Corporation had $980.9 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. Under the indentures, the Corporation has the right, from time to time, and without causing an event of default, to defer payments of interest on the Junior Subordinated Deferrable Debentures by extending the interest payment period at any time and from time to time during the term of the subordinated debentures for up to twenty consecutive quarterly periods.

During the second quarter of 2023, the Corporation completed the repurchase of $21.4 million of TRuPs of the FBP Statutory Trust I as part of a privately-negotiated transaction, resulting in a commensurate reduction in the related floating rate junior subordinated debentures. The purchase price equated to 92.5% of the $21.5 million par value of the TRuPs. The 7.5% discount resulted in a gain of approximately $1.6 million, which is reflected in the consolidated statements of income as "Gain on early extinguishment of debt." As of June 30, 2023 and December 31, 2022, the Corporation had junior subordinated debentures outstanding in the aggregate amount of $161.7 million and $183.8 million, respectively, with maturity dates ranging from June 17, 2034 through September 20, 2034. As of June 30, 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 six months of 2023, loans pooled into GNMA MBS amounted to approximately $66.4 million. Also, during the first six months of 2023, the Corporation sold approximately $22.8 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 June 30, 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 BIC Program, such as FirstBank, 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 BTFP during the first quarter of 2023 to further diversify its contingency funding sources and has approximately $2.2 million available for funding as of June 30, 2023.

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 investmen 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 $1.0 billion as of June 30, 2023, an increase of $567.0 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 six months 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 six months of 2023 and 2022, net cash provided by operating activities was $166.5 million and $219.6 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 and repayments 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 six-month period ended June 30, 2023, net cash provided by investing activities was $25.0 million, primarily due to repayments of available-for-sale and held-to-maturity debt securities and proceeds from sales of repossessed assets, partially offset by net disbursements on loans held for investment.

For the six-month period ended June 30, 2022, net cash used in investing activities was $557.7 million, primarily due to purchases of U.S. agencies debentures and MBS, and net disbursements on loans held for investment, partially offset by repayments of U.S. agencies 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 six-month period ended June 30, 2023, net cash provided by financing activities was $375.5 million, mainly reflecting a $675.9 million net increase in deposits, partially offset by a $196.0 million net decrease in borrowings and $104.4 million of capital returned to stockholders.

For the first six months of 2022, net cash used in financing activities was $941.5 million, mainly reflecting a net decrease in deposits, the repayment at maturity of a $100 million repurchase agreement, and $196.0 million of capital returned to stockholders.

Capital

As of June 30, 2023, the Corporation's stockholders' equity was $1.4 billion, an increase of $72.5 million from December 31, 2022. The growth was driven by the earnings generated in the first half of 2023 and the $32.4 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, partially offset by common stock dividends declared in the first half of 2023 totaling $50.7 million or $0.28 per common share, the repurchase of 3.6 million shares of common stock for a total purchase price of approximately $50.0 million, 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" during the first quarter of 2023. See Note 1 – Basis of Presentation and Significant Accounting Policies for additional information related to the adoption of ASU 2022-02.

On July 24, 2023, the Corporation's Board declared a quarterly cash dividend of $0.14 per common share payable on September 8, 2023 to shareholders of record at the close of business on August 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 July 24, 2023, the Corporation announced that its Board of Directors approved a new stock repurchase program, under which the Corporation may repurchase up to $225 million of its outstanding common stock, which it expects to execute through the end of the third quarter of 2024.

The Corporation expects to repurchase approximately $150 million in common stock during the second half of 2023, of which $75 million relates to the remaining amount of the $350 million stock repurchase program announced on April 27, 2022 that was resumed in July 2023. The Corporation expects to fully utilize this remaining authorization during the third quarter of 2023. From July 1, 2023 through August 1, 2023, the Corporation repurchased approximately 1.5 million shares of common stock for a total purchase price of $19.5 million.

Repurchases under the programs may be executed through open market purchases, accelerated share repurchases, and/or privately negotiated transactions or plans, including under plans complying with Rule 10b5-1 under the Exchange Act. The Corporation's stock repurchase programs are 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 Corporation's stock repurchase programs do not obligate it to acquire any specific number of shares and do not have an expiration date. The stock repurchase programs may be modified, suspended, or terminated at any time at the Corporation's discretion. 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 June 30, 2023 and December 31, 2022, respectively:

(In thousands, except ratios and per share information)	June 30, 2023	December 31, 2022
Total equity - GAAP	$ 1,397,999	$ 1,325,540
Goodwill	(38,611)	(38,611)
Purchased credit card relationship intangible	(17)	(205)
Core deposit intangible	(17,075)	(20,900)
Insurance customer relationship intangible	-	(13)
Tangible common equity - non-GAAP	**$ 1,342,296**	**$ 1,265,811**
Total assets - GAAP	$ 19,152,455	$ 18,634,484
Goodwill	(38,611)	(38,611)
Purchased credit card relationship intangible	(17)	(205)
Core deposit intangible	(17,075)	(20,900)
Insurance customer relationship intangible	-	(13)
Tangible assets - non-GAAP	**$ 19,096,752**	**$ 18,574,755**
Common shares outstanding	**179,757**	**182,709**
Tangible common equity ratio - non-GAAP	**7.03%**	**6.81%**
Tangible book value per common share - non-GAAP	**$ 7.47**	**$ 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 June 30, 2023 and December 31, 2022, respectively.

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 of June 30, 2023 and December 31, 2022, respectively. There were no transfers to the legal surplus reserve during the first half 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. The rate scenarios considered in these simulations reflect gradual upward or downward interest rate movements in the yield curve, for gradual (ramp) parallel shifts in the yield curve of 200 basis points ("bps") during a twelve-month period, or immediate upward or downward changes in interest rate movements of 200 bps, for interest rate shock scenarios. 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 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 June 30, 2023, the Corporation forecasted the 12-month net interest income assuming June 30, 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 SOFR curve for June 30, 2023, as compared to December 31, 2022, reflects an increase of 60 bps on average in the short-term sector of the curve, or between one to twelve months; 37 bps in the medium-term sector of the curve, or between 2 to 5 years; and 5 bps in the long-term sector of the curve, or over 5-year maturities. A similar increase in market rates changes was observed in the Treasury (CMT) yield curve with an increase of 88 bps in the short-term sector, 29 bps in the medium-term sector, and 6 bps in the long-term sector.

The following table presents the results of the simulations as of June 30, 2023 and December 31, 2022. Consistent with prior years, these exclude non-cash changes in the fair value of derivatives:

	Net Interest Income Risk (% Change Projected for the next 12 months)			
	Static Simulation		Growing Balance Sheet	
	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
Gradual Change in Interest Rates:				
+ 200 bps ramp	0.94%	0.96%	1.01%	1.37%
- 200 bps ramp	-1.38%	-1.61%	-1.42%	-2.03%
Immediate Change in Interest Rates:				
+ 200 bps shock	3.76%	2.35%	3.18%	2.56%
- 200 bps shock	-5.43%	-4.71%	-4.77%	-5.02%

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 June 30, 2023 and December 31, 2022, the simulations showed that the Corporation continues to have a slight asset-sensitive position.

As of June 30, 2023, the net interest income for the next twelve months under a non-static balance sheet scenario is estimated to increase by 1.01% in the rising rate scenario, when compared against the base simulation. When compared with December 31, 2022, the net interest income sensitivity for the +200 bps ramp scenario decreased by 36 bps. The reduction in sensitivity was mainly driven by the migration from non-interest-bearing and other low-cost deposits to higher cost deposits, such as time deposits, as well as increases in government deposits which have a higher beta, partially offsetting the growth in the loan portfolio at higher yields, the repricing of variable rate loans and overall higher yields in other interest earning assets such as cash balances held at the FED.

Under a falling rate scenario, as of June 30, 2023, the net interest income on the non-static balance sheet scenario is estimated to decrease by 1.42%, when compared against the base simulation. When compared to December 31, 2022. the net interest income sensitivity decreases for the -200-bps ramp scenario by approximately 61 bps in the non-static balance sheet driven by a higher deposit beta assumed in the June 30, 2023 simulation for non-maturity deposits, and the aforementioned migration to higher cost deposits.

As discussed above, the Corporation evaluates other scenarios such as immediate upward or downward changes in interest rate movements of 200 bps, for interest rate shock scenarios. As of June 30, 2023 and December 31, 2022, the simulations showed that the Corporation continues to have an asset-sensitive position.

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 credit 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. During the second quarter of 2023, the Corporation applied the baseline scenario for the commercial mortgage and construction loan portfolios as deterioration in the CRE price index in these portfolios is expected at a lower extent than projected in the alternative downside scenario, particularly in the Puerto Rico region. The economic scenarios used in the ACL determination contained assumptions related to economic uncertainties associated with geopolitical instability, the CRE price index, high inflation levels, and the expected path of interest rate increases by the FED. As of June 30, 2023, the Corporation's ACL model considered the following assumptions for key economic variables in the probability-weighted economic scenarios:

- Average CRE price index at the national level is forecasted to contract by 4.08% for the remainder of 2023 and 6.24% for 2024.

- Average Regional Home Price Index forecasts in Puerto Rico (purchase only prices) shows a growth of 8.58% and 6.36%, for the remainder of 2023 and 2024, respectively, when compared to the previous quarter forecast. For the Florida region, average Home Price Index forecasts shows a growth of 3.74% and 2.24% for the remainder of 2023 and 2024, respectively, when compared to the previous quarter forecast.

- Average regional unemployment in Puerto Rico of 6.84% for the remainder of 2023 and 8.12% for 2024. For the Florida region and the U.S. mainland, average unemployment rate of 3.60% and 4.13%, respectively, for the remainder of 2023, and 4.37% and 4.79%, respectively, for 2024.

- Average annualized change in real gross domestic product ("GDP") in the U.S. mainland of 1.07% for the remainder of 2023 and 1.18% 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 June 30, 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 7.64% for the remainder of 2023, compared to 6.84% for the same period in the probability-weighted economic scenario projections.

To demonstrate the sensitivity to key economic parameters used in the calculation of the ACL at June 30, 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 $53 million at June 30, 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 period ended June 30, 2023.

As of June 30, 2023, the ACL for loans and finance leases was $267.1 million, an increase of $6.6 million, from $260.5 million as of December 31, 2022. The ACL for commercial and construction loans increased by $5.0 million, mainly due to a deterioration in the forecasted CRE price index to account for an increased uncertainty in the CRE market at a national level that could potentially impact the markets served by the Corporation coupled with the growth in the commercial and construction loan portfolios. The ACL for consumer loans increased by $3.9 million, primarily reflecting the effect of the increase in the size of the consumer loan portfolios and historical charge-off levels, partially offset by updated macroeconomic variables, such as the unemployment rate, which are now forecasted to deteriorate at a slower pace than previously expected. The ACL for residential mortgage loans decreased by $2.3 million, mainly driven by a more favorable economic outlook in the projection of certain forecasted macroeconomic variables, such as the Regional Home Price Index, partially offset by 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. See Note 1 – Basis of Presentation and Significant Accounting Policies to the unaudited consolidated financial statements herein for additional information related to the adoption of ASU 2022-02 during 2023.

The ratio of the ACL for loans and finance leases to total loans held for investment increased to 2.28% as of June 30, 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 decreased from 2.20% as of December 31, 2022 to 2.17% as of June 30, 2023, primarily reflecting a more favorable economic outlook in the projection of certain forecasted macroeconomic variables, such as the Regional Home Price Index, partially offset by 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 2.93% as of June 30, 2023 mainly due to the aforementioned deterioration in the forecasted CRE price index.

- The ACL to total loans ratio for the commercial mortgage portfolio increased from 1.49% as of December 31, 2022 to 1.83% as of June 30, 2023 mainly due to the aforementioned deterioration in the forecasted CRE price index.

- The ACL to total loans ratio for the commercial and industrial portfolio decreased from 1.14% as of December 31, 2022 to 0.95% as of June 30, 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 higher exposure risk associated with the rising interest rate environment.

- The ACL to total loans ratio for the consumer loan portfolio decreased from 3.83% as of December 31, 2022 to 3.76% as of June 30, 2023 mainly due to updates in macroeconomic variables, such as the unemployment rate.

The ratio of the total ACL for loans and finance leases to nonaccrual loans held for investment was 325.60% as of June 30, 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 $267.1 million as of June 30, 2023, or 2.28% 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 June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
(Dollars in thousands)				
ACL for loans and finance leases, beginning of year	$ 265,567	$ 245,447	$ 260,464	$ 269,030
Impact of adoption of ASU 2022-02	-	-	2,116	-
Provision for credit losses - (benefit) expense:				
Residential mortgage	(3,500)	(2,797)	(3,427)	(7,668)
Construction	1,202	151	2,062	(2,063)
Commercial mortgage	5,999	1,265	7,245	(21,375)
Commercial and industrial	2,997	(1,102)	1,347	653
Consumer and finance leases	14,072	15,148	29,799	26,129
Total provision for credit losses - expense (benefit)	20,770	12,665	37,026	(4,324)
Charge-offs:				
Residential mortgage	(1,146)	(2,079)	(2,129)	(4,607)
Construction	(38)	(16)	(38)	(60)
Commercial mortgage	(88)	(2)	(106)	(39)
Commercial and industrial	(6,350)	(68)	(6,468)	(358)
Consumer and finance leases	(16,462)	(10,427)	(33,260)	(20,243)
Total charge offs	(24,084)	(12,592)	(42,001)	(25,307)
Recoveries:				
Residential mortgage	757	1,287	1,254	2,669
Construction	409	43	472	95
Commercial mortgage	56	1,218	224	1,262
Commercial and industrial	132	589	222	1,624
Consumer and finance leases	3,451	3,495	7,281	7,103
Total recoveries	4,805	6,632	9,453	12,753
Net charge-offs	(19,279)	(5,960)	(32,548)	(12,554)
ACL for loans and finance leases, end of period	$ 267,058	$ 252,152	$ 267,058	$ 252,152
ACL for loans and finance leases to period-end total loans held for investment	2.28%	2.25%	2.28%	2.25%
Net charge-offs (annualized) to average loans outstanding during the period	0.67%	0.21%	0.56%	0.23%
Provision for credit losses - expense (benefit) for loans and finance leases to net charge-offs during the period	1.08x	2.13x	1.14x	-0.34x

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 June 30, 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	$ 2,793,790	$ 163,998	$ 2,320,069	$ 2,946,201	$ 3,495,257	$ 11,719,315
Percent of loans in each category to total loans	24 %	1 %	20 %	25 %	30 %	100 %
Allowance for credit losses	60,514	4,804	42,427	28,014	131,299	267,058
Allowance for credit losses to amortized cost	2.17 %	2.93 %	1.83 %	0.95 %	3.76 %	2.28 %

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 June 30, 2023, the ACL for off-balance sheet credit exposures increased by $0.6 million to $4.9 million, when compared to December 31, 2022, driven by the deterioration in the forecasted CRE price index and its effect in construction unfunded loan commitments.

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

As of June 30, 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 June 30, 2023, the ACL for held-to-maturity debt securities was $8.4 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 June 30, 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. 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 consists 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 in 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:

(Dollars in thousands)	June 30, 2023	December 31, 2022
Nonaccrual loans held for investment:		
Residential mortgage	$ 33,252	$ 42,772
Construction	1,677	2,208
Commercial mortgage	21,536	22,319
Commercial and Industrial	9,194	7,830
Consumer and finance leases	16,362	14,806
Total nonaccrual loans held for investment	82,021	89,935
OREO	31,571	31,641
Other repossessed property	5,404	5,380
Other assets (1)	2,111	2,202
Total non-performing assets	$ 121,107	$ 129,158
Past due loans 90 days and still accruing (2) (3) (4)	$ 63,211	$ 80,517
Non-performing assets to total assets	0.63 %	0.69 %
Nonaccrual loans held for investment to total loans held for investment	0.70 %	0.78 %
ACL for loans and finance leases	$ 267,058	$ 260,464
ACL for loans and finance leases to total nonaccrual loans held for investment	325.60%	289.61 %
ACL for loans and finance leases to total nonaccrual loans held for investment, excluding residential real estate loans	547.60%	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 $9.5 million and $12.0 million as of June 30, 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 $19.9 million and $28.2 million of FHA government guaranteed residential mortgage loans that were over 15 months delinquent as of June 30, 2023 and December 31, 2022, respectively.

(4) Includes rebooked loans, which were previously pooled into GNMA securities, amounting to $6.5 million and $10.3 million as of June 30, 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 $82.0 million as of June 30, 2023. This represents a net decrease of $7.9 million from $89.9 million as of December 31, 2022. The net decrease was primarily related to a $9.5 million reduction in nonaccrual residential mortgage loans, partially offset by increases of $1.5 million and $0.1 million in nonaccrual consumer loans and nonaccrual commercial and construction loans, respectively.

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

(In thousands)	June 30, 2023	December 31, 2022
Puerto Rico:		
Nonaccrual loans held for investment:		
Residential mortgage	$ 20,047	$ 28,857
Construction	703	831
Commercial mortgage	13,337	14,341
Commercial and Industrial	5,808	5,859
Consumer and finance leases	15,874	14,142
Total nonaccrual loans held for investment	55,769	64,030
OREO	27,107	28,135
Other repossessed property	5,226	5,275
Other assets	2,111	2,202
Total non-performing assets	$ 90,213	$ 99,642
Past due loans 90 days and still accruing	$ 60,964	$ 76,417
Virgin Islands:		
Nonaccrual loans held for investment:		
Residential mortgage	$ 5,767	$ 6,614
Construction	974	1,377
Commercial mortgage	8,199	7,978
Commercial and Industrial	1,119	1,179
Consumer	379	469
Total nonaccrual loans held for investment	16,438	17,617
OREO	4,464	3,475
Other repossessed property	168	76
Total non-performing assets	$ 21,070	$ 21,168
Past due loans 90 days and still accruing	$ 2,108	$ 4,100
United States:		
Nonaccrual loans held for investment:		
Residential mortgage	$ 7,438	$ 7,301
Commercial and Industrial	2,267	792
Consumer	109	195
Total nonaccrual loans held for investment	9,814	8,288
OREO	-	31
Other repossessed property	10	29
Total non-performing assets	$ 9,824	$ 8,348
Past due loans 90 days and still accruing	$ 139	$ -

Nonaccrual commercial and industrial loans increased by $1.4 million to $9.2 million as of June 30, 2023, from $7.8 million as of December 31, 2022.

Nonaccrual commercial mortgage loans decreased by $0.8 million to $21.5 million as of June 30, 2023, from $22.3 million as of December 31, 2022.

Nonaccrual construction loans decreased by $0.5 million to $1.7 million as of June 30, 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:

(In thousands)	Construction	Commercial Mortgage	Commercial & Industrial	Total
Quarter Ended June 30, 2023				
Beginning balance	$ 1,794	$ 21,598	$ 13,404	$ 36,796
Plus:				
Additions to nonaccrual	-	439	2,691	3,130
Less:				
Loans returned to accrual status	-	-	(374)	(374)
Nonaccrual loans transferred to OREO	-	(61)	-	(61)
Nonaccrual loans charge-offs	-	(88)	(6,350)	(6,438)
Loan collections	(117)	(352)	(177)	(646)
Ending balance	$ 1,677	$ 21,536	$ 9,194	$ 32,407

(In thousands)	Construction	Commercial Mortgage	Commercial & Industrial	Total
Six-Month Period Ended June 30, 2023				
Beginning balance	$ 2,208	$ 22,319	$ 7,830	$ 32,357
Plus:				
Additions to nonaccrual	127	983	10,161	11,271
Less:				
Loans returned to accrual status	-	(361)	(526)	(887)
Nonaccrual loans transferred to OREO	(332)	(223)	(183)	(738)
Nonaccrual loans charge-offs	-	(106)	(6,468)	(6,574)
Loan collections	(326)	(1,082)	(1,620)	(3,028)
Reclassification	-	6	-	6
Ending balance	$ 1,677	$ 21,536	$ 9,194	$ 32,407

(In thousands)	Construction	Commercial Mortgage	Commercial & Industrial	Total
Quarter Ended June 30, 2022				
Beginning balance	$ 2,543	$ 26,576	$ 18,129	$ 47,248
Plus:				
Additions to nonaccrual	18	53	579	650
Less:				
Loans returned to accrual status	(48)	(157)	(255)	(460)
Nonaccrual loans transferred to OREO	(67)	(88)	(273)	(428)
Nonaccrual loans charge-offs	(16)	(2)	(37)	(55)
Loan collections	(55)	(1,629)	(1,064)	(2,748)
Ending balance	$ 2,375	$ 24,753	$ 17,079	$ 44,207

(In thousands)	Construction	Commercial Mortgage	Commercial & Industrial	Total
Six-Month Period Ended June 30, 2022				
Beginning balance	$ 2,664	$ 25,337	$ 17,135	$ 45,136
Plus:				
Additions to nonaccrual	18	2,934	2,158	5,110
Less:				
Loans returned to accrual status	(48)	(358)	(464)	(870)
Nonaccrual loans transferred to OREO	(80)	(549)	(273)	(902)
Nonaccrual loans charge-offs	(56)	(39)	(327)	(422)
Loan collections	(123)	(2,170)	(1,552)	(3,845)
Reclassification	-	(402)	402	-
Ending balance	$ 2,375	$ 24,753	$ 17,079	$ 44,207

Nonaccrual residential mortgage loans decreased by $9.5 million to $33.3 million as of June 30, 2023, compared to $42.8 million as of December 31, 2022. The decrease was primarily related to $ 6.6 million of loans restored to accrual status, $4.3 million of loans transferred to OREO, and $3.1 million in collections, partially offset by inflows of $5.1 million.

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

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
(In thousands)	2023	2022	2023	2022
Beginning balance	$ 36,410	$ 48,818	$ 42,772	$ 55,127
Plus:				
Additions to nonaccrual	3,009	4,403	5,090	9,731
Less:				
Loans returned to accrual status	(2,714)	(5,332)	(6,651)	(8,781)
Nonaccrual loans transferred to OREO	(1,549)	(1,185)	(4,259)	(2,122)
Nonaccrual loans charge-offs	(401)	(515)	(621)	(950)
Loan collections	(1,503)	(1,601)	(3,073)	(8,417)
Reclassification	-	-	(6)	-
Ending balance	$ 33,252	$ 44,588	$ 33,252	$ 44,588

The amount of nonaccrual consumer loans, including finance leases, increased by $1.5 million to $16.3 million as of June 30, 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 June 30, 2023, approximately $18.5 million of the loans placed in nonaccrual status, mainly commercial loans, and residentia 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 six-month period ended June 30, 2023, interest income of approximately $0.2 million related to nonaccrual loans with a carrying value of $24.1 million as of June 30, 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 $118.5 million as of June 30, 2023, an increase of $13.6 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 increased by $7.5 million to $78.4 million, mainly in the auto loans portfolio.
- Commercial and construction loans in early delinquency increased by $3.4 million to $9.2 million, mainly due to a $4.5 million commercial mortgage loan in the Puerto Rico region that matured and is in the process of renewal but for which the Corporation continues to receive interest and principal payments from the borrower.
- Residential mortgage loans in early delinquency increased by $2.7 million to $30.9 million.

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, amounted to $31.6 million as of each of June 30, 2023 and December 31, 2022. The following tables show the composition of the OREO portfolio as of June 30, 2023 and December 31, 2022, as well as the activity of the OREO portfolio by geographic area during the six-month period ended June 30, 2023:

OREO Composition by Region

	As of June 30, 2023			
(In thousands)	**Puerto Rico**	**Virgin Islands**	**Florida**	**Consolidated**
Residential	$ 22,026	$ 1,595	$ -	$ 23,621
Construction	1,833	59	-	1,892
Commercial	3,248	2,810	-	6,058
	$ 27,107	$ 4,464	$ -	$ 31,571

	As of December 31, 2022			
(In thousands)	**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
	$ 28,135	$ 3,475	$ 31	$ 31,641

OREO Activity by Region

	Six-Month Period Ended June 30, 2023			
(In thousands)	**Puerto Rico**	**Virgin Islands**	**Florida**	**Consolidated**
Beginning Balance	$ 28,135	$ 3,475	$ 31	$ 31,641
Additions	9,442	1,295	-	10,737
Sales	(9,820)	(306)	(31)	(10,157)
Write-downs and other adjustments	(650)	-	-	(650)
Ending Balance	$ 27,107	$ 4,464	$ -	$ 31,571

Net Charge-offs and Total Credit Losses

Net charge-offs totaled $19.3 million for the second quarter of 2023, or 0.67% of average loans on an annualized basis, compared to $6.0 million, or an annualized 0.21% of average loans, for the second quarter of 2022. For the six-month period ended June 30, 2023, net charge-offs totaled $32.5 million, or an annualized 0.56% of average loans, compared to $12.6 million, or an annualized 0.23% of average loans, for the same period in 2022.

Consumer loans and finance leases net charge-offs for the second quarter of 2023 were $13.0 million, or an annualized 1.51% of related average loans, compared to $6.9 million, or an annualized 0.91% of related average loans, for the second quarter of 2022. Net charge-offs of consumer loans and finance leases for the six-month period ended June 30, 2023 were $26.0 million, or 1.53% of related average loans, compared to $13.2 million, or an annualized 0.88% of related average loans, for the same period in 2022.

Commercial and industrial loans net charge-offs for the second quarter of 2023 were $6.2 million, or an annualized 0.87% of related average loans, compared to net recoveries of $0.5 million, or an annualized 0.07% of related average loans, for the second quarter of 2022. Commercial and industrial loans net charge-offs for the six-month period ended June 30, 2023 were $6.2 million, or 0.44% of related average loans, compared to net recoveries of $1.3 million, or an annualized 0.09% of related average loans, for the same period in 2022. The net charge-offs for the second quarter and first six months of 2023 included a $6.2 million charge-off recorded on a commercial and industrial participated loan in the Florida region in the power generation industry.

Residential mortgage loans net charge-offs for the second quarter of 2023 were $0.5 million, or an annualized 0.06% of related average loans, compared to $0.8 million, or an annualized 0.11% of related average loans, for the second quarter of 2022. Residential mortgage loans net charge-offs for the six-month period ended June 30, 2023 were $0.8 million, or an annualized 0.06% of related average loans, compared to $1.9 million, or an annualized 0.13% of related average loans, for the same period of 2022. Approximately $0.3 million of charge-offs for the second quarter of 2023 and $0.5 million for the first six months of 2023 resulted from valuations of collateral dependent residential mortgage loans, compared to $0.5 million and $0.9 million for the comparable periods in 2022. Charge-offs on residential mortgage loans also included $0.3 million and $0.8 million related to foreclosures recorded in the second quarter and first six months of 2023, respectively, compared to $0.5 million and $1.8 million, recorded for the comparable periods in 2022, respectively.

Commercial mortgage loans net charge-offs for the second quarter of 2023 were $32 thousand, or an annualized 0.01% of related average loans, compared to net recoveries of $1.2 million, or an annualized 0.22% of related average loans, for the second quarter of 2022. Commercial mortgage loans net recoveries for the six-month period ended June 30, 2023 were $0.1 million, or an annualized 0.01% of related average loans, compared to $1.2 million, or an annualized 0.11% or related average loans, for the same period in 2022.

Construction loans net recoveries for the second quarter of 2023 were $0.4 million, or an annualized 0.99% of related average loans, compared to $27 thousand, or an annualized 0.09% of related average loans, for the same period in 2022. Construction loans net recoveries for the six-month period ended June 30, 2023 were $0.4 million, or an annualized 0.59% of related average loans, compared to $35 thousand, or an annualized 0.06% of related average loans, for the same period in 2022.

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

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
Residential mortgage	0.06 %	0.11 %	0.06 %	0.13 %
Construction	(0.99)%	(0.09)%	(0.59)%	(0.06)%
Commercial mortgage	0.01 %	(0.22)%	(0.01)%	(0.11)%
Commercial and industrial	0.87 %	(0.07)%	0.44 %	(0.09)%
Consumer and finance leases	1.51 %	0.91 %	1.53 %	0.88 %
Total loans	0.67 %	0.21 %	0.56 %	0.23 %

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

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2023	2022	2023	2022
PUERTO RICO:				
Residential mortgage	0.08 %	0.13 %	0.09 %	0.16 %
Construction	(3.04)%	(0.14)%	(1.86)%	(0.03)%
Commercial mortgage	0.02 %	(0.16)%	0.01 %	(0.08)%
Commercial and industrial	0.01 %	(0.12)%	0.01 %	(0.14)%
Consumer and finance leases	1.51 %	0.93 %	1.47 %	0.88 %
Total loans	0.56 %	0.30 %	0.57 %	0.29 %
VIRGIN ISLANDS:				
Residential mortgage	(0.02)%	0.16 %	(0.05)%	0.13 %
Construction	3.93 %	- %	1.93 %	- %
Commercial mortgage	(0.23)%	(0.22)%	(0.22)%	(0.22)%
Commercial and industrial	- %	- %	(0.01)%	(0.01)%
Consumer and finance leases	2.02 %	0.59 %	2.10 %	1.18 %
Total loans	0.34 %	0.12 %	0.31 %	0.19 %
FLORIDA:				
Residential mortgage	(0.04)%	(0.05)%	(0.02)%	(0.03)%
Construction	(0.06)%	(0.06)%	(0.05)%	(0.08)%
Commercial mortgage	- %	(0.40)%	(0.04)%	(0.21)%
Commercial and industrial	2.67 %	- %	1.31 %	- %
Consumer and finance leases	(1.16)%	(2.32)%	(0.45)%	(0.43)%
Total loans	1.23 %	(0.13)%	0.60 %	(0.06)%

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

Total net charge-offs plus gains on OREO operations for the first half of 2023 amounted to $28.6 million, or a loss rate of 0.25% o an annualized basis of average loans and repossessed assets, compared to losses of $10.3 million, or a loss rate of 0.19% on a an nualized basis, for the first half of 2022.

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

(Dollars in thousands)	Quarter ended June 30, 2023	Quarter ended June 30, 2022	Six-Month Period Ended June 30, 2023	Six-Month Period Ended June 30, 2022
OREO				
OREO balances, carrying value:				
Residential	$ 23,621	$ 31,780	$ 23,621	$ 31,780
Construction	1,892	2,657	1,892	2,657
Commercial	6,058	7,269	6,058	7,269
Total	$ 31,571	$ 41,706	$ 31,571	$ 41,706
OREO activity (number of properties):				
Beginning property inventory	344	442	344	418
Properties acquired	44	41	103	109
Properties disposed	(68)	(52)	(127)	(96)
Ending property inventory	320	431	320	431
Average holding period (in days)				
Residential	524	658	524	658
Construction	2,178	2,162	2,178	2,162
Commercial	2,580	2,041	2,580	2,041
Total average holding period (in days)	1,018	995	1,018	995
OREO operations gain (loss):				
Market adjustments and gains (losses) on sale:				
Residential	$ 2,553	$ 1,988	$ 5,043	$ 2,980
Construction	7	11	47	114
Commercial	-	(62)	(67)	(79)
Total net gain	2,560	1,937	5,023	3,015
Other OREO operations expenses	(576)	(452)	(1,043)	(810)
Net Gain on OREO operations	$ 1,984	$ 1,485	$ 3,980	$ 2,205
(CHARGE-OFFS) RECOVERIES				
Residential charge-offs, net	$ (389)	$ (792)	$ (875)	$ (1,938)
Construction recoveries, net	371	27	434	35
Commercial (charge-offs) recoveries, net	(6,250)	1,737	(6,128)	2,489
Consumer and finance leases charge-offs, net	(13,011)	(6,932)	(25,979)	(13,140)
Total charge-offs, net	(19,279)	(5,960)	(32,548)	(12,554)
TOTAL CREDIT LOSSES (1)	$ (17,295)	$ (4,475)	$ (28,568)	$ (10,349)
(GAIN) LOSS RATIO PER CATEGORY (2)				
Residential	(0.31)%	(0.16)%	(0.15)%	(0.07)%
Construction	(1.00)%	(0.12)%	(0.32)%	(0.24)%
Commercial	0.48 %	(0.13)%	0.12 %	(0.09)%
Consumer	1.51 %	0.91 %	0.76 %	0.88 %
TOTAL CREDIT LOSS RATIO (3)	0.60 %	0.16 %	0.25 %	0.19 %

(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 advers 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 $11.7 billion as of June 30, 2023, the Corporation had credit risk of approximately 79% in the Puerto Rico region, 17% in the United States region, and 4% 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 June 15, 2023, the Puerto Rico Planning Board ("PRPB") presented the updated Economic Report to the Governor, which provides an analysis of Puerto Rico's economy during fiscal year 2022 and a short-term forecast for fiscal years 2023 and 2024. According to the PRPB, Puerto Rico's real gross national product ("GNP") expanded by 3.7% in fiscal year 2022, which was the highest annual real GNP growth registered in Puerto Rico since fiscal year 1999. The growth was primarily driven by a sharp increase in personal consumption expenditures reflecting an increase of approximately 8.5% when compared to fiscal year 2021, increase in exports of 4.8%, and growth in fixed capital investments of 12.6%.

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 May 2023, preliminary estimates showed that the EDB-EAI increased 0.8% on a month-over-month basis and 1.8% higher than May 2022. Over the 12-month period ended May 31, 2023, the EDB-EAI averaged 124.8, approximately 0.2% above the comparable figure a year earlier.

Labor market trends remain positive. Data published by the Bureau of Labor Statistics show June 2023 payroll employment in Puerto Rico increased by 2.4% when compared to June 2022, supported by a year-over-year increase of 8.6% in *Leisure and Hospitality* payroll employment and a 12.0% year-over-year increase in *Construction*-related payroll employment. The unemployment rate stood at 6.1% as of June 2023.

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 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 to properly delivery 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 power/energy sector reform to improve availability, reliability and affordability of energy, 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 facilitating 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 COVID-19 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 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 Puerto Rico'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 Puerto Rico'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").

On June 23, 2023, the Fiscal Oversight and Management Board for Puerto Rico certified a new fiscal plan for PREPA which includes the most recent projections of energy consumption in Puerto Rico and consequently reflected a significant reduction in the revenues projected for PREPA over the next years. As such, PREPA concluded that its ability to repay its outstanding debt was significantly less than what was previously stated. On June 26, 2023, Judge Laura Taylor Swain resolved that PREPA's bondholders have an unsecured claim of $2.4 billion against PREPA and not the approximately $9.0 billion that bondholders were claiming. This decision could result in a 75% haircut on PREPA's outstanding debt and may reduce the ability of bondholders to impose higher electricity rates to consumers to pay for debt service.

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, particularly in the aftermath of Hurricane Maria in 2017. During the first five months of 2023, over $1.8 billion in disaster relief funds have been disbursed through FEMA Public Assistance program and the Department of Housing and Urban Development's "Community Development Block Grant" program, a 117% increase when compared to the same period in 2022, and the Fiscal Oversight and Management Board for Puerto Rico is currently projecting over $5 billion in total disbursements to take place during 2023. These funds will continue to play a key role in supporting Puerto Rico's economic stability and are expected to have a positive impact on the Island's infrastructure.

On June 21, 2023, Fitch Ratings issued a credit rating research note highlighting the government's commitment to improving its continuing disclosure practices and the release of the 2021 audited financial statements. The government has made great strides in recent years with regards to its financial transparency and its on target to release its audited financial statements on time and in line with regulatory expectations.

Exposure to Puerto Rico Government

As of June 30, 2023, the Corporation had $344.3 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 June 30, 2023, approximately $186.2 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 $113.2 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 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 $9.5 million in loans to an affiliate of PREPA, $32.1 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 $2.1 million as of June 30, 2023).

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

	As of June 30, 2023		
(In thousands)	**Investment Portfolio (Amortized cost)**	**Loans**	**Total Exposure**
Puerto Rico Housing Finance Authority:			
After 10 years	$ 3,254	$ -	$ 3,254
Total Puerto Rico Housing Finance Authority	3,254	-	3,254
Agencies and public corporation of the Puerto Rico government:			
After 1 to 5 years	-	6,160	6,160
After 5 to 10 years	-	25,979	25,979
Total agencies and public corporation of the Puerto Rico government	-	32,139	32,139
Affiliate of the Puerto Rico Electric Power Authority:			
Due within one year	-	9,519	9,519
Total Puerto Rico government affiliate	-	9,519	9,519
Total Puerto Rico public corporations and government affiliate	-	41,658	41,658
Municipalities:			
Due within one year	1,205	10,600	11,805
After 1 to 5 years	42,736	55,909	98,645
After 5 to 10 years	56,160	66,717	122,877
After 10 years	66,023	-	66,023
Total Municipalities	166,124	133,226	299,350
Total Direct Government Exposure	**$ 169,378**	**$ 174,884**	**$ 344,262**

In addition, as of June 30, 2023, the Corporation had $81.1 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 June 30, 2023, the Corporation had $2.9 billion of public sector deposits in Puerto Rico, compared to $2.3 billion as of December 31, 2022. Approximately 21% of the public sector deposits as of June 30, 2023 were from municipalities and municipal agencies in Puerto Rico and 79% 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 several fiscal and economic challenges that have deteriorated the overall financial and economic conditions in the area. However, on May 22, 2023, the United States Bureau of Economic Analysis (the "BEA") released its estimates of real gross domestic product ("GDP") for 2021. According to the BEA, the USVI's real GDP increased 2.8% in 2021 after decreasing 1.9% in 2020. The increase in real GDP reflected increases in exports and personal consumption expenditures. These increases were partly offset by decreases in private inventory investment, private fixed investment, and government spending. Imports, a subtraction item in the calculation of GDP, also decreased.

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, which occurred in 2017. According to data published by the government, over $4.7 billion in disaster recovery funds were disbursed as of 2023 and $3.4 billion were remaining obligated funds waiting to be disbursed. On the fiscal front, revenues have trended positively and the USVI government successfully completed the restructuring of the government employee retirement system. Moreover, labor market trends are stable with payroll employment fo the month of June 2023, up 3.2% when compared to June 2022.

Finally, 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 governmen deteriorates again, 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 June 30, 2023, the Corporation had $78.9 million in loans to USVI public corporations, compared to $38.0 million as of December 31, 2022. The increase in loans to USVI public corporations was driven the aforementioned $47.0 million line of credit utilization. As of June 30, 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 June 30, 2023 the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, the Chief Executive Office and Chief Financial Officer concluded that the Corporation’s disclosure controls and procedures were effective as of June 30, 2023 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 June 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

ITEM 5. OTHER INFORMATION

No director or officer (as defined in Rule 16a-1(f) of the Exchange Act) of the Corporation adopted, modified, or terminated any Rule 10b5-1 trading arrangement or any non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K under the Exchange Act) during the quarter ended June 30, 2023.

PART II - OTHER INFORMATION

In accordance with the instructions to Part II of Form 10-Q, 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 the unaudited consolidated financial statements herein, which is incorporated by reference in this Part II, 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, as previously disclosed, 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. 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. As of June 30, 2023, the Corporation has not incurred any material expenses related to the incident and does not expect any future impact.

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 runs, liquidity constraints, and new capital requirements.

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. For example, on May 11, 2023, the FDIC issued a proposed rule to recover the losses to the Deposit Insurance Fund ("DIF") associated with protecting uninsured depositors as part of the aforementioned financial institution failures. Under the proposed rule, the FDIC would collect a special assessment at an annual rate of approximately 12.5 basis points over eight quarterly periods, commencing with the first quarter of 2024. The assessment base for the special assessment would be equal to an insured depository institution's estimated uninsured deposits reported as of December 31, 2022, adjusted to exclude the first $5 billion in estimated uninsured deposits. Notwithstanding, the special assessment could be subject to change depending on whether there are any shortfalls on amounts collected. If the final rule is issued as proposed, the estimated impact of the special assessment on the Corporation would be an increase in noninterest expense by approximately $6 million that would need to be accrued once the proposed rule is finalized.

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 June 30, 2023.

Issuer Purchases of Equity Securities

There were no repurchases of common stock during the quarter ended June 30, 2023. As of June 30, 2023, the Corporation has remaining authorization to repurchase $75 million under the $350 million stock repurchase program announced on April 27, 2022.

ITEM 6. EXHIBITS

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

EXHIBIT INDEX

Exhibit No.	Description
31.1	CEOCertification pursuant to Section 302 of the Sarbanes-OxleyAct of 2002
31.2	CFO Certification pursuant to Section 302 of the Sarbanes-OxleyAct of 2002
32.1	CEO Certification pursuant to 18 U.S.C. Section 1350, asadopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	CFO Certification pursuant to 18 U.S.C. Section 1350, asadopted 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 interactivedata 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-Qfor the quarter ended June 30, 2023, formatted in Inline XBRL (included within the Exhibit 101 attachments)

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: August 8, 2023 By: /s/ Aurelio Alemán
Aurelio Alemán
President and Chief Executive Officer

Date: August 8, 2023 By: /s/ Orlando Berges
Orlando Berges
Executive Vice President and Chief Financial Officer

EXHIBIT31.1

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 material fact

necessary to make the statements made, in light of thecircumstances under which such statements we 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 repo present in all

material respects the financial condition, results of operations and cash flows of the registrant as of, a periods

presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclo controls and

procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over fina 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 proc designed

under our supervision, to ensure that material information relating to the registrant, including

subsidiaries, is made known to us by others within those entities, particularly during the period in

is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over fina

EXHIBIT31.2

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 material fact

necessary to make the statements made, in light of thecircumstances under which such statements we 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 repo present in all

material respects the financial condition, results of operations and cash flows of the registrant as of, a periods

presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclo controls and

procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over fina 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 proc designed

under our supervision, to ensure that material information relating to the registrant, including

subsidiaries, is made known to us by others within those entities, particularly during the period in

is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over fina

designed under our supervision, toprovide reasonable assurance regardingthe reliability of finar

EXHIBIT32.1

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, C
Title 18,

United States Code), the undersigned officer of First BanCorp., a Puerto Rico corporation (the “Company”), d
hereby certify, to

such officer’s knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 (the “Form l0-Q”) of the Com
complies

with the requirements of section l3(a) or 15(d) of the Securities Exchange Act of 1934 and information contai
the Form 10-Q

fairly presents, in all material respects, the financial condition and results ofoperations of the Company.

Date: August 8, 2023

/s/ Aurelio Alemán

Name: Aurelio Alemán

Title: President and Chief Executive Officer

EXHIBIT32.2

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, C Title 18,

United States Code), the undersigned officer of First BanCorp., a Puerto Rico corporation (the “Company”), d hereby certify, to

such officer’s knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 (the “Form l0-Q”) of the Com complies

with the requirements of section l3(a) or 15(d) of the Securities Exchange Act of 1934 and information contair the Form 10-Q

fairly presents, in all material respects, the financial condition and resultsof operations of the Company.

Date: August 8, 2023

/s/ Orlando Berges

Name: Orlando Berges

Title: Executive Vice President and Chief Financial Officer