

FIRST BANCORP /PR/
Form 424B4
November 30, 2016
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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-209516

PROSPECTUS SUPPLEMENT

(To Prospectus dated February 29, 2016)

18,000,000 Shares of Common Stock

The selling stockholders identified in this prospectus supplement are offering 18,000,000 shares of the common stock, \$0.10 par value per share (Common Stock), of First BanCorp. First BanCorp. will not receive any proceeds from the sale of the Common Stock by the Selling Stockholders. See Selling Stockholders.

Our Common Stock trades on the New York Stock Exchange (NYSE) under the symbol FBP. As of November 29, 2016, the closing sales price for our Common Stock on the NYSE was \$6.37 per share.

Before making a decision regarding this offering, you are encouraged to read the Risk Factors section beginning on page S-3 of this prospectus supplement.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Selling Stockholders (1)
Per share of Common Stock	\$ 5.60	\$ 0.238	\$ 5.362
Total	\$ 100,800,000	\$ 4,284,000	\$ 96,516,000

(1) See Underwriting beginning on page S-18 of this prospectus supplement for more information. The underwriters have the option to purchase up to an additional 2,700,000 shares of Common Stock from the Selling Stockholders at the public offering price less the underwriting discount, within 30 days from the date of this prospectus.

None of the U.S. Securities and Exchange Commission (the SEC), or any securities regulatory authority of any state or the Commonwealth of Puerto Rico, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System or any other regulatory body has approved or disapproved of this offering or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares to purchasers on or about December 5, 2016.

Joint Book-Running Managers

BofA Merrill Lynch

Goldman, Sachs & Co.

Citigroup

Sandler O'Neill + Partners, L.P.

Co-Managers

Keefe, Bruyette & Woods

Piper Jaffray

A Stifel Company

The date of this prospectus supplement is November 30, 2016.

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ABOUT THIS DOCUMENT

This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, provides more general information. Generally, when we refer to the prospectus, we are referring to both parts combined.

If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement to First BanCorp. or we, us, our or similar references mean First BanCorp. together with its consolidated subsidiaries, references to the Corporation mean solely First BanCorp. and not its subsidiaries and references to the Bank or FirstBank mean FirstBank Puerto Rico.

We have not authorized anyone to provide you with information other than that contained in or incorporated by reference into this prospectus supplement, the accompanying prospectus or any free writing prospectus relating to this offering of Common Stock. Neither we, nor the Selling Stockholders nor the underwriters take any responsibility for, and can provide any assurance as to the reliability of, any other information that others may give you. The Selling Stockholders are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus or any free writing prospectus, or the information we previously filed with the SEC that is incorporated by reference herein, is accurate as of any date other than its respective date.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus the information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. Any statement contained in a document incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein, or in any subsequently filed document, which also is incorporated by reference herein, modifies or supersedes such earlier statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We hereby incorporate by reference into this prospectus the following documents that we have filed with the SEC:

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2015;

Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016, June 30, 2016 and September 30, 2016;

Our Current Reports on Form 8-K filed with the SEC on March 22, 2016, May 25, 2016, September 22, 2016, and October 5, 2016;

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Our Definitive Proxy Statement on Schedule 14A for the year ended December 31, 2015, filed with the SEC on April 12, 2016, but only to the extent incorporated by reference in our Annual Report on Form 10-K for the year ended December 31, 2015; and

The description of our capital stock as set forth in our Registration Statement on Form 8-A/A filed with the SEC on May 4, 2012.

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All documents that we file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), after the date of this prospectus and prior to the termination of the offering, are incorporated by reference in this prospectus from the date of filing of the documents. Information that we file with the SEC will automatically update and may replace information previously filed with the SEC.

You may request a copy of these filings, other than an exhibit to a filing (unless that exhibit is specifically incorporated by reference into that filing), at no cost, by writing to us at the following address: First BanCorp., Attention: Lawrence Odell, Secretary, P.O. Box 9146, San Juan, Puerto Rico, 00908-0146. Telephone requests may be directed to (787) 729-8109. E-mail requests may be directed to lawrence.odell@firstbankpr.com. You may also access this information on our website at www.firstbankpr.com by viewing the SEC Filings subsection of the Investor Relations menu. No information on our website is deemed to be part of or incorporated by reference into this prospectus. We have included our website address in this prospectus solely as an inactive textual reference.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this prospectus, the word or phrases would be, will allow, intends to, will likely result, expected to, should, anticipate, and similar expressions are meant to identify forward-looking statements. Such forward-looking statements speak only as of the date made, and various factors, including but not limited to, the following, could cause actual results to differ materially from those expressed in, or implied by such forward-looking statements :

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

uncertainty as to the ultimate outcomes of actions resulting from the enactment by the U.S. government of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address Puerto Rico s financial problems;

uncertainty about whether the Corporation will be able to continue to fully comply with the written agreement dated June 3, 2010 (the Written Agreement) that the Corporation entered into with the Federal Reserve Bank of New York (the New York FED or Federal Reserve) that, among other things, requires the Corporation to serve as a source of strength to FirstBank Puerto Rico (FirstBank or the Bank) and that, except with the consent generally of the New York FED and the Board of Governors of the Federal Reserve System (the Federal Reserve Board), prohibits the Corporation from paying dividends to stockholders or receiving dividends from FirstBank, making payments on trust preferred securities or subordinated debt and incurring, increasing or guaranteeing debt or repurchasing any capital securities and uncertainty whether such consent will be provided for future interest payments on the subordinated debt despite the consent that enabled the Corporation to pay all the accrued but deferred interest payments plus the interest for the second and third quarters of 2016 on the Corporation s subordinated

debentures associated with its trust preferred securities;

uncertainty as to whether FirstBank will be able to continue to satisfy its agreement with its regulators, including regarding FirstBank's asset quality, liquidity plan, maintenance of capital levels and compliance with applicable laws, regulations and related requirements;

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

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

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

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

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

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

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

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

the risk that additional portions of the unrealized losses in the Corporation's investment portfolio are determined to be other-than-temporary, including additional impairments on the Puerto Rico government's obligations;

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

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

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

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

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

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

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

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

general competitive factors and industry consolidation.

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

Investors should refer to the Risk Factors section of this prospectus supplement for a discussion of factors and certain risks and uncertainties to which we are subject.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary does not contain all of the information you should consider before investing in our Common Stock. This prospectus includes or incorporates by reference information about the shares of Common Stock being offered hereby as well as information regarding our business and detailed financial data. Before you decide to invest in our Common Stock, you should read the entire prospectus carefully, including the Risk Factors section and any information incorporated by reference herein.

Our Company

First BanCorp. is a publicly owned financial holding company that is subject to regulation, supervision and examination by the Federal Reserve Board. The Corporation was incorporated under the laws of the Commonwealth of Puerto Rico to serve as the bank holding company for FirstBank. The Corporation is a full service provider of financial services and products with operations in Puerto Rico, the United States and the USVI and BVI. As of September 30, 2016, the Corporation had total assets of \$12.1 billion, total deposits of \$9.0 billion and total stockholders' equity of \$1.8 billion.

The Corporation provides a wide range of financial services for retail, commercial and institutional clients. As of September 30, 2016, the Corporation controlled two wholly owned subsidiaries: FirstBank and FirstBank Insurance Agency, Inc. (FirstBank Insurance Agency). FirstBank is a Puerto Rico-chartered commercial bank, and FirstBank Insurance Agency is a Puerto Rico-chartered insurance agency.

FirstBank is subject to the supervision, examination and regulation of both the Office of the Commissioner of Financial Institutions and the FDIC. Deposits are insured through the FDIC Deposit Insurance Fund. In addition, within FirstBank, the Bank's USVI operations are subject to regulation and examination by the United States Virgin Islands Banking Board; its BVI operations are subject to regulation by the British Virgin Islands Financial Services Commission; and its operations in the state of Florida are subject to regulation and examination by the Florida Office of Financial Regulation and the FDIC. FirstBank is required to maintain capital at specified levels pursuant to applicable law and its agreement with its regulators and currently exceeds all minimum capital requirements. The Consumer Financial Protection Bureau regulates FirstBank's consumer financial products and services. FirstBank Insurance Agency is subject to the supervision, examination and regulation of the Office of the Insurance Commissioner of the Commonwealth of Puerto Rico and operates three offices in Puerto Rico, and two offices in the USVI and BVI.

FirstBank conducts its business through its main office located in San Juan, Puerto Rico, 48 banking branches in Puerto Rico as of September 30, 2016, 12 branches in the USVI and BVI, and 11 branches in the state of Florida (USA). As of September 30, 2016, FirstBank has 6 wholly owned subsidiaries with operations in Puerto Rico: First Federal Finance Corp. (d/b/a Money Express La Financiera), a finance company specializing in the origination of small loans with 28 offices in Puerto Rico; First Management of Puerto Rico, a domestic corporation, which holds tax-exempt assets; FirstBank Puerto Rico Securities Corp., a broker-dealer subsidiary engaged in municipal securities underwriting and selling for local Puerto Rico municipal bond issuers and other investment bearing activities, such as advisory services, capital raise efforts on behalf of clients and assist in financial transaction structuring; FirstBank Overseas Corporation, an international banking entity organized under the International Banking Entity Act of Puerto Rico; and two other companies that hold and operate certain particular other real estate owned properties.

Our principal executive offices are located at 1519 Ponce de Leon Avenue, Stop 23, Santurce, Puerto Rico, and our telephone number is (787) 729-8200.

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The Offering

Common Stock offered to the public by the Selling Stockholders	9,000,000 shares by THL and 9,000,000 shares by Oaktree (each as defined below).
Selling Stockholders	Certain entities affiliated with Thomas H. Lee Partners, L.P. (THL), and certain funds managed by Oaktree Capital Management, L.P. (Oaktree and, together with THL, the Selling Stockholders). See Selling Stockholders.
Dividend Policy	The Corporation does not currently pay dividends on its Common Stock.
Common Stock outstanding after this Offering ⁽¹⁾	217,419,933 shares
Option to Purchase Additional Shares of Common Stock	2,700,000 million shares, if the option to purchase from the Selling Stockholders is exercised in full.
Common Stock to be held by the Selling Stockholders after this Offering ⁽¹⁾	THL and Oaktree will each own 15.1% (14.5% if the underwriters exercise in full their option to purchase additional shares) of our outstanding shares of Common Stock.
Risk Factors	See Risk Factors beginning on page S-3 of this prospectus supplement.
Use of Proceeds	We will not receive any proceeds from the sale of shares of Common Stock by the Selling Stockholders.
U.S. Federal Income Tax Consequences	See U.S. Federal and Puerto Rico Income Tax Consequences U.S. Federal Income Tax Consequences beginning on page S-9.
Certain Puerto Rico Income Tax Considerations	See U.S. Federal and Puerto Rico Income Tax Consequences Certain Puerto Rico Tax Considerations beginning on page S-12.
New York Stock Exchange symbol	FBP

- ¹ The number of shares of Common Stock that will be outstanding after this offering is based on the number of shares of our Common Stock outstanding as of October 31, 2016.

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RISK FACTORS

Investing in our Common Stock involves certain risks. You should carefully consider the risks described in our annual, quarterly and current reports filed with the SEC under the Exchange Act, which are incorporated by reference into this prospectus supplement, before you decide to acquire any of the shares of Common Stock being offered by the Selling Stockholders. Before making an investment decision, you should carefully consider these risks as well as other information that we include or incorporate by reference in this prospectus supplement and the accompanying prospectus. You should also be aware that new risks may emerge in the future at any time, and we cannot predict such risks or estimate the extent to which they may affect our financial condition or performance. If any of such risks actually occur, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our Common Stock could decline, and you could lose all or part of your investment.

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USE OF PROCEEDS

We will not receive any proceeds from the sale of the shares of Common Stock by the Selling Stockholders.

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SELLING STOCKHOLDERS

The table below sets forth beneficial ownership information for the Selling Stockholders immediately prior to this offering and after giving effect to this offering. Except as described below, the Selling Stockholders have not held any position or office or had any other material relationship with us or any of our predecessors or affiliates within the past three years. As of October 31, 2016, and including the shares offered hereby, THL beneficially owns an aggregate of 41,901,734 shares of our Common Stock and Oaktree beneficially owns an aggregate of 41,901,733 shares of our Common Stock and each of THL and Oaktree has designated one director to serve on our Board of Directors (the Board).

As noted in footnotes to the table below, two of the Oaktree entities are affiliates of broker-dealers. Each Selling Stockholder that is an affiliate of a broker-dealer purchased the shares being registered for resale in the ordinary course of business and at the time of the purchase had no agreements or understandings, directly or indirectly, with any person to distribute the securities.

The following is a description of key provisions of and actions taken pursuant to our investment agreements with THL and Oaktree, as amended:

In October 2011, we reimbursed THL and an affiliate of Oaktree Capital Management, L.P. \$4 million each for expenses incurred in connection with their purchase of shares of Common Stock in our \$525 million capital raise, completed in October 2011 (the capital raise).

Each of THL and Oaktree has the right to designate a person to serve on our Board for as long as each of them owns at least 25% of the number of shares each acquired in connection with the capital raise, or 12,671,121 shares. Consistent with our agreements with THL and Oaktree, respectively, we appointed Thomas M. Hagerty and Michael P. Harmon as directors in October 2011.

We agreed to use our best efforts to nominate two additional directors to the Board so that a majority of our directors will be either investor designees or independent directors with banking or related financial management expertise. In this regard, in October 2012, the Board elected Robert T. Gormley to serve as a director until the next annual meeting of stockholders and Mr. Gormley continues to serve as a director. In September 2013, the Board elected David I. Matson to serve as a director until the next annual meeting of stockholders and Mr. Matson continues to serve as a director.

On September 16, 2016, THL notified the Corporation that, pursuant to the terms of the Corporation's investment agreement with THL and subject to required regulatory approvals, it had designated Joshua D. Bresler to replace Thomas M. Hagerty as THL's representative on the Corporation's Board. On September 29, 2016, the Board elected Mr. Bresler to serve as an independent member of the Corporation's Board, subject to regulatory approval (which is pending).

THL and Oaktree have certain indemnification rights.

Each of THL and Oaktree may acquire additional shares of Common Stock in the following circumstances: (a) for as long as each of THL and Oaktree, as applicable, owns at least 25% of the number of shares of Common Stock that it acquired in connection with the capital raise, each such investor will have the right to acquire from us at such time as we sell (i) any Common Stock or securities that are convertible into or exchangeable for Common Stock, or include a Common Stock component, an amount of securities up to the amount of the new securities required to maintain its percentage Common Stock-equivalent interest in us at the same level as it was before the issuance of those securities and (ii) any Common Stock or securities that are convertible into or

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exchangeable for Common Stock, or include a Common Stock component, to any investor to which we sold Common Stock in the capital raise an amount of securities up to the amount of new securities equal to the aggregate amount of new securities that we offer to sell to such other investor or its affiliates for the same price and on the same terms as such other offer or sale to such other investor or its affiliates; and (b) for as long as each of THL and Oaktree, as applicable, owns in the aggregate at least as many shares of Common Stock as any other entity or group of affiliated entities, if we offer to sell to any entity or group of affiliated entities Common Stock or securities that are convertible into or exchangeable for Common Stock, or include a Common Stock component, that would cause that entity or group of affiliated entities to own more shares of Common Stock than THL or Oaktree, as applicable, we will offer to sell to each of THL and Oaktree, for the same price and on the same terms, a number of new securities such that THL or Oaktree, as applicable, will own an amount of shares of Common Stock, after giving effect to the conversion or exercise of such new securities into Common Stock, equal to the number of shares of Common Stock owned by such other entity or group of affiliated entities.

Name of Selling Stockholder	Beneficial Ownership Prior to the Offering		Number of Shares Registered Number of Shares (1)	Number of Shares Being Offered Number of Shares	Beneficial Ownership After the Offering	
	Number of Shares (1)	Percent (2)			Number of Shares (1)	Percent (2)(3)
Thomas H. Lee (Alternative) Fund VI, L.P. (3)	23,011,234	10.58%	23,011,234	4,949,412	18,061,822	8.31%
Thomas H. Lee (Alternative) Parallel Fund VI, L.P. (3)	15,581,983	7.17%	15,581,983	3,351,478	12,230,505	5.63%
Thomas H. Lee (Alternative) Parallel (DT) Fund VI, L.P. (3)	2,721,860	1.25%	2,721,860	585,436	2,136,424	*
THL FBC Equity Investors, L.P. (3)	528,505	*	528,505	113,674	414,831	*
Oaktree Principal Fund V (Delaware), L.P. (4)	34,617,194	15.92%	34,617,194	7,445,700	27,171,494	12.50%
Oaktree FF Investment Fund AIF (Delaware), L.P. (4)	7,226,387	3.32%	7,226,387	1,554,300	5,672,087	2.61%

* Less than 1 percent

- (1) In accordance with Rule 13d-3 under the Exchange Act, a person is deemed to be the beneficial owner, for purposes of this table, of any Common Stock over which such person has voting or investment power or of which such person has the right to acquire beneficial ownership within 60 days of October 31, 2016.
- (2) The percentage of shares beneficially owned is calculated based on the number of shares outstanding as of October 31, 2016, which was 217,419,933 shares. In computing the percentage of shares beneficially owned, any shares which the person has a right to acquire within 60 days after October 31, 2016 are deemed outstanding for the purpose of computing the percentage of Common Stock beneficially owned by that person but are not deemed outstanding for the purpose of computing the percentage of shares beneficially owned by any other person.
- (3) Thomas H. Lee Advisors (Alternative) VI, Ltd. is the general partner of Thomas H. Lee Advisors (Alternative) VI, L.P., which is the general partner of each of: Thomas H. Lee (Alternative) Fund VI, L.P.; Thomas H. Lee (Alternative) Parallel Fund VI, L.P.; Thomas H. Lee (Alternative) Parallel (DT) Fund VI, L.P.; and THL FBC

Equity Investors, L.P. (collectively, the THL Funds). Voting and investment determinations with respect to the securities held by the THL Funds are made by a private equity management committee (the THL Committee) consisting of Todd M. Abbrecht, Anthony J. DiNovi, Thomas M. Hagerty, Soren L. Oberg, Scott M. Sperling and Kent R. Weldon, and, such persons may be deemed to share beneficial ownership of the securities held or controlled by the THL Funds. The above share numbers do not include the amount of shares of Common Stock and shares of restricted stock held by THL s Board representative and THL Managers VI, LLC, which amount represents less than 1% of the outstanding shares. The THL Funds and each member of the THL Committee disclaim beneficial ownership of all shares reported herein except to the extent of their respective pecuniary interest therein.

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- (4) Each of Oaktree Principal Fund V (Delaware), L.P. (the PF V Fund) and Oaktree FF Investment Fund AIF (Delaware), L.P. (the AIF Fund) has indicated that it is an affiliate of a broker-dealer. Each of the PF V Fund and the AIF Fund may be deemed to share voting and investment power with several other affiliated entities of Oaktree. The above share numbers do not include the amount of shares of Common Stock and shares of restricted stock held by Oaktree's Board representative, which amount represents less than 1% of the outstanding shares. Oaktree's Board representative holds such shares for the benefit of OCM FIE, LLC.

The PF V Fund may share voting and investment power with Oaktree Capital Group Holdings GP, LLC (OCGH GP), in its capacity as the manager of Oaktree Capital Group, LLC (OCG), OCG, in its capacity as managing member of Oaktree Holdings, LLC (Oaktree Holdings), Oaktree Holdings, in its capacity as managing member of OCM Holdings I, LLC (Oaktree Holdings I), Oaktree Holdings I, in its capacity as general partner of Oaktree Capital I, L.P. (Oaktree Capital I), Oaktree Capital I, in its capacity as general partner of Oaktree Fund GP I, L.P. (Oaktree Fund GP I), Oaktree Fund GP I, in its capacity as managing member of Oaktree Fund GP, LLC (Oaktree Fund GP), Oaktree Fund GP, in its capacity as general partner of the PF V Fund.

The AIF Fund may share voting and investment power with OCGH GP, in its capacity as the general partner of Oaktree Capital Group Holdings, L.P. (OCGH LP), OCGH LP in its capacity as the controlling shareholder of Oaktree AIF Holdings, Inc. (Oaktree AIF Holdings), Oaktree AIF Holdings, in its capacity as general partner of Oaktree AIF Investments, L.P. (Oaktree AIF Investments), Oaktree AIF Investments, in its capacity as general partner of Oaktree Fund GP III, L.P. (Oaktree GP III), Oaktree GP III, in its capacity as managing member of Oaktree Fund GP AIF, LLC (Oaktree GP AIF), Oaktree GP AIF, in its capacity as general partner of Oaktree Fund AIF Series, L.P. Series I (Oaktree AIF) and, together with OCGH GP, OCGH LP, OCG, Oaktree Holdings, Oaktree Holdings I, Oaktree Capital I, Oaktree Fund GP I, Oaktree Fund GP, Oaktree AIF Holdings, Oaktree AIF Investments, Oaktree GP III and Oaktree GP AIF, collectively, the Oaktree Entities), and Oaktree AIF, in its capacity as general partner of the AIF Fund.

OCGH GP is managed by an executive committee, the members of which are Howard S. Marks, Bruce A. Karsh, Jay S. Wintrob, John B. Frank, David M. Kirchheimer, Sheldon M. Stone and Stephen A. Kaplan (the OCGH GP Members). The OCGH GP Members make investment and voting decisions with respect to the shares reported herein. Michael P. Harmon, the Board representative for Oaktree, may be deemed to share voting and investment power with respect to the shares owned by the PF V Fund and the AIF Fund. Each Oaktree Entity, each OCGH GP Member, and Mr. Harmon disclaim beneficial ownership of all shares reported herein except to the extent of their respective pecuniary interest therein.

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Our Common Stock is currently listed on the NYSE under the symbol **FBP**. As of October 31, 2016, we had 217,419,933 shares of our Common Stock outstanding, held by approximately 493 holders of record. On November 29, 2016, the closing sale price of our Common Stock on the NYSE was \$6.37 per share.

The following table sets forth, for the periods indicated, the high and low sales prices per share of the Common Stock. Cash dividends on our Common Stock have been suspended since August 2009. The following table sets forth the quarterly high and low sales prices of our Common Stock on the NYSE for the periods indicated:

	Share prices	
	High	Low
2016		
Fourth Quarter through November 29, 2016	\$ 6.84	\$ 4.78
Third Quarter ended September 30, 2016	\$ 5.26	\$ 3.82
Second Quarter ended June 30, 2016	\$ 4.62	\$ 2.52
First Quarter ended March 31, 2016	\$ 3.23	\$ 2.06
2015		
Fourth Quarter ended December 31, 2015	\$ 4.49	\$ 3.06
Third Quarter ended September 30, 2015	\$ 4.89	\$ 3.15
Second Quarter ended June 30, 2015	\$ 6.74	\$ 4.82
First Quarter ended March 31, 2015	\$ 6.74	\$ 5.27
2014		
Fourth Quarter ended December 31, 2014	\$ 5.89	\$ 4.56
Third Quarter ended September 30, 2014	\$ 5.57	\$ 4.75
Second Quarter ended June 30, 2014	\$ 5.66	\$ 4.87
First Quarter ended March 31, 2014	\$ 6.04	\$ 4.42

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U.S. FEDERAL AND PUERTO RICO INCOME TAX CONSEQUENCES

The following discussion describes the material United States federal income and Puerto Rico tax consequences of the ownership and disposition of shares of our Common Stock.

U.S. Federal Income Tax Consequences

The following discussion describes the material United States federal income tax consequences to U.S. Holders (as defined below), Puerto Rico Holders (as defined below), and Puerto Rico corporations (as defined below), collectively, the Holders of the ownership and disposition of shares of Common Stock.

You are a U.S. Holder if you are a beneficial owner of shares of Common Stock and you are:

an individual citizen or resident of the United States;

a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate whose income is subject to United States federal income tax regardless of its source; or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons, as defined in the U.S. Internal Revenue Code of 1986, as amended (the U.S. Code), have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

The term U.S. Holder does not include Puerto Rico Holders nor does it include Puerto Rico corporations. As used herein, the term Puerto Rico Holder means an individual holder who is a bona fide resident of Puerto Rico during the entire taxable year within the meaning of Sections 933 and 937 of the U.S. Code. Puerto Rico corporations are corporations created or organized in or under the laws of Puerto Rico.

The following discussion is based upon the provisions of the U.S. Code, regulations promulgated by Treasury thereunder, and administrative rulings and judicial decisions, in each case as of the date hereof. These authorities are subject to differing interpretations and may be changed, perhaps retroactively, resulting in United States federal income tax consequences different from those discussed below. We have not sought any ruling from the IRS with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with such statements and conclusions. We believe that we are not a passive foreign investment company (PFIC) for U.S. federal income tax purposes and we do not expect to become a PFIC in the foreseeable future, and the remainder of the discussion assumes this treatment. Further, this discussion also assumes that the shares of Common Stock are held as capital assets within the meaning of Section 1221 of the U.S. Code. In addition, this discussion does not address all tax considerations that may be applicable to your particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

banks, insurance companies or other financial institutions;

regulated investment companies;

real estate investment trusts;

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dealers in securities or commodities;

Puerto Rico corporations that are controlled foreign corporations;

Puerto Rico corporations that are passive foreign investment companies;

U.S. expatriates;

persons deemed to own 10% or more of our voting stock;

traders in securities that elect to use a mark-to-market method of accounting for securities holdings;

tax-exempt organizations;

persons liable for alternative minimum tax;

persons that hold shares of Common Stock in connection with a trade or business outside the United States;

persons that hold shares of Common Stock as part of a straddle or a hedging or conversion transaction; or

U.S. Holders whose functional currency is not the United States dollar.

If a partnership (including any entity treated as a partnership for United States federal income tax purposes) owns shares of Common Stock, the United States federal tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Such a partner or partnership is urged to consult its own tax advisor as to the United States federal income tax consequences of the ownership and disposition of shares of Common Stock.

You are urged to consult your own tax advisor regarding the United States federal, state, local, non-U.S. and other tax consequences of the ownership and disposition of shares of Common Stock.

Common Stock

Dividends on Common Stock

General

Under the current source of income rules of the U.S. Code, dividends on shares of our Common Stock will constitute gross income from sources outside the United States if less than 25% of First BanCorp's gross income for a specified three-year testing period preceding the dividend is effectively connected with a trade or business in the United States. First BanCorp does not believe that, for any of its taxable years beginning with its formation, 25% or more of its gross income has been effectively connected with a trade or business in the United States nor does it expect that 25% or more of its gross income will be effectively connected with a trade or business in the United States in any future taxable years. Accordingly, dividends paid on shares of our Common Stock will constitute gross income from sources outside the United States as long as First BanCorp continues to meet the gross income test described above. The following discussion regarding holders of our Common Stock assumes that dividends will constitute income from sources outside the United States.

U.S. Holders

In general, distributions with respect to our Common Stock, including the amount of any Puerto Rico taxes withheld on the distribution, will constitute dividends to the extent made out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. If a distribution exceeds our current

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and accumulated earnings and profits, the excess will be treated as a non-taxable return of capital to the extent of your tax basis in Common Stock and thereafter as capital gain from the sale or exchange of such Common Stock. However, because First BanCorp does not maintain calculations of its earnings and profits under U.S. federal income tax principles, the entire amount of any distribution generally will be reported as dividend income to U.S. Holders. A U.S. corporation cannot deduct dividends received from us because the dividends-received deduction provided in Section 243 of the U.S. Code is not available. Subject to applicable limitations, dividends received by certain non-corporate U.S. Holders, including individuals, qualify for preferential rates of taxation.

Subject to certain conditions and limitations contained in the U.S. Code, any Puerto Rico income tax imposed on dividends distributed by First BanCorp in accordance with Puerto Rico income tax law may be eligible for credit against the U.S. Holder's U.S. federal income tax liability. For purposes of calculating a U.S. Holder's U.S. foreign tax credit, dividends distributed by First BanCorp will be income from sources outside the United States, and, depending on the U.S. Holder's circumstances, will be either passive category income or general category income. The rules governing the foreign tax credit are complex. You are urged to consult your own tax advisor regarding the availability of, and any limitation on, the foreign tax credit under your particular circumstances (including where any withheld Puerto Rico tax could be refundable to you). In lieu of claiming a foreign tax credit, U.S. Holders may, at their election, deduct foreign taxes, including the Puerto Rico tax, in computing their taxable income, subject to generally applicable limitations under the U.S. Code. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all foreign taxes paid or accrued in the taxable year.

Puerto Rico Holders

In general, distributions of dividends made by First BanCorp on the shares of our Common Stock to a Puerto Rico Holder will constitute gross income from sources within Puerto Rico and will not be includible in the Puerto Rico Holder's gross income for, and will be exempt from, U.S. federal income taxation. In addition, for U.S. federal income tax purposes, no deduction or credit will be allowed that is allocable to or chargeable against amounts so excluded from the Puerto Rico Holder's gross income.

Puerto Rico corporations

In general, distributions of dividends made by First BanCorp on the shares of our Common Stock to a Puerto Rico corporation will not, in the hands of the Puerto Rico corporation, be subject to U.S. federal income tax if the dividends are not effectively connected with a United States trade or business of the Puerto Rico corporation. The U.S. Code provides special rules for Puerto Rico corporations that are, or that would be but for the application of such special rules, Controlled Foreign Corporations or Passive Foreign Investment Companies for U.S. federal income tax purposes.

Gain on Disposition of Common Stock

General

Upon the sale or other disposition of Common Stock, you will generally realize capital gain or loss for United States federal income tax purposes equal to the difference between the value of the amount that you realize and your tax basis in the particular shares of Common Stock.

U.S. Holders

The capital gain realized by a non-corporate U.S. Holder upon a sale or other disposition of the Common Stock is generally taxed at preferential rates where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

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Puerto Rico Holders

In general, gain from the sale or other disposition of shares of our Common Stock by a Puerto Rico Holder will constitute income from sources within Puerto Rico, and will not be includible in such stockholder's gross income for, and will be exempt from, U.S. federal income taxation. Also, no deduction or credit will be allowed that is allocable to or chargeable against amounts so excluded from the Puerto Rico Holder's gross income. Note, special rules apply to individuals who become Puerto Rico Holders after purchasing our Common Stock for U.S. federal income tax purposes.

Puerto Rico corporations

In general, any gain derived by a Puerto Rico corporation from the sale or exchange of Common Stock will not be subject to U.S. federal income tax if the gain is not effectively connected with a United States trade or business of the Puerto Rico corporation. The U.S. Code provides special rules for Puerto Rico corporations that are, or that would be but for the application of such special rules, Controlled Foreign Corporations or Passive Foreign Investment Companies for U.S. federal income tax purpose.

Information Reporting

For non-corporate U.S. Holders information reporting requirements, on Internal Revenue Service Form 1099, generally will apply to payments of (a) dividends and (b) proceeds from the sale of shares of our Common Stock, when such payments are considered effected at a United States office of a broker or by a United States payer or middleman.

Certain U.S. Holders who are individuals or that are closely-held by individuals or Puerto Rico Holders who own specified foreign financial assets, within the meaning of Section 6038D of the U.S. Code, may be required to report information with respect to such assets with their tax returns on Form 8938 for any year in which the aggregate value of all specified foreign financial assets exceeds certain thresholds, subject to certain exceptions, including an exception for shares held in custodial accounts maintained financial institutions (in which case the accounts may be reportable if maintained by non-U.S. financial institutions). Failure to report information required under this legislation could result in substantial penalties. Such individuals are urged to consult their tax advisors as to the application of this legislation to their ownership of the Common Stock.

Backup Withholding

Backup withholding may apply to a payment subject to information reporting to a non-corporate U.S. Holder or a Puerto Rico Holder if such holder fails to provide an accurate taxpayer identification number, or if the paying agent is notified by the IRS that the holder has failed to report all interest and dividends required to be shown on federal income tax returns, or in certain circumstances, if the holder fails to comply with applicable certification requirements. Backup withholding is not an additional tax and amounts withheld under the backup withholding rules will be allowed as a refund or credit against such holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

Net Investment Income Tax

An additional 3.8% tax is imposed on certain net investment income, including ordinary dividends and capital gains of certain non-corporate U.S. Holders whose modified adjusted gross income exceeds a threshold amount.

Certain Puerto Rico Tax Considerations

This discussion is based on the provisions of the Puerto Rico Internal Revenue Code of 2011, as amended (the PR Code), and other tax laws of Puerto Rico as in effect on the date of this prospectus, as well as regulations, administrative pronouncements and judicial decisions available on or before such date and now in

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effect. All of the foregoing is subject to change, which change could apply retroactively and could affect the continued validity of this discussion.

You are urged to consult your own tax advisor as to the application to your particular situation of the tax considerations discussed below, as well as the application of any state, local, foreign or other tax. In addition, the following discussion does not intend to address all aspects of Puerto Rico taxation that may be applicable to your particular situation or to holders subject to special rules of taxation, such as financial institutions, registered investment companies, life insurance companies, partnerships, special partnerships, corporations of individuals, and estates and trusts.

For purposes of the following discussion, the term *Puerto Rico corporation* is used to refer to a corporation organized under the laws of Puerto Rico and the term *Foreign Corporation* is used to refer to a corporation organized under the laws of a jurisdiction other than Puerto Rico.

If a partnership (including any entity treated as a partnership for Puerto Rico income tax purposes) owns shares of Common Stock, the Puerto Rico tax treatment of a partner in a partnership generally will depend upon the status of the partner and the activities of the partnership. Such partner or partnership is urged to consult its own tax advisor as to the Puerto Rico income tax consequences of the ownership of the shares of Common Stock.

Common Stock

Dividends on Common Stock

General

Distributions of cash or other property made by First BanCorp on the shares of our Common Stock will be treated as dividends to the extent that First BanCorp has current or accumulated earnings and profits. To the extent that a distribution exceeds First BanCorp's current and accumulated earnings and profits, the distribution will be applied against and reduce the adjusted Puerto Rico income tax basis of the shares of our Common Stock in the hands of the holder. The excess of any distribution of this type over the adjusted Puerto Rico income tax basis will be treated as gain on the sale or exchange of the shares of our Common Stock and will be subject to income tax as described below.

The following discussion regarding the income taxation of dividends on shares of our Common Stock received by individuals not residents of Puerto Rico and foreign corporations assumes that dividends will constitute income from sources within Puerto Rico. Generally, a dividend declared by a Puerto Rico corporation will constitute income from sources within Puerto Rico unless the corporation derived less than 20% of its gross income from sources within Puerto Rico for the three taxable years preceding the year of the declaration. First BanCorp. has represented that it has derived more than 20% of its gross income from Puerto Rico sources on an annual basis since inception.

Individuals Resident of Puerto Rico and Puerto Rico corporations

In general, individuals who are residents of Puerto Rico will be subject to a 15% Puerto Rico income tax on dividends paid on the shares of our Common Stock. This tax is generally required to be withheld by First BanCorp. Such individuals may elect for this withholding not to apply by providing us a written statement opting-out of such withholding provided the shares of our Common Stock are held in their names. If such individual holds the shares of our Common Stock in the name of a broker or other direct or indirect participant of DTC, the procedures described in *Special Withholding Tax Considerations* below should be followed for purposes of opting-out of the 15% Puerto Rico withholding tax. If the individual Puerto Rico resident opts-out of the 15% Puerto Rico withholding tax, he or she will

be required to include the amount of the dividend as ordinary income and will be subject to Puerto Rico income tax thereon at the normal income tax rates, which may be up to 33%. Even if the withholding is actually made, the individual may elect, upon filing his Puerto Rico income tax

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return for the year the dividend is paid, for the dividends to be taxed at the normal income tax rates applicable to individuals. In this case, the 15% Puerto Rico income tax withheld is creditable against the normal tax so determined.

Individuals resident of Puerto Rico are subject to alternative minimum tax (AMT) on the AMT Net Income if their regular tax liability is less than the alternative minimum tax liability. The AMT rates range from 10% to 24% depending on the AMT Net Income. At present, AMT applies with respect to individual taxpayers that have AMT Net Income of \$150,000 or more. The AMT Net Income includes various categories of tax-exempt income and income subject to preferential tax rates as provided in the PR Code, such as dividends on our Common Stock and long-term capital gains recognized on the disposition of our Common Stock.

Puerto Rico corporations will be subject to Puerto Rico income tax on dividends paid on the shares of our Common Stock at the normal corporate income tax rates, subject to the dividend received deduction. The dividend received deduction will be equal to 85% of the dividend received, but the deduction may not exceed 85% of the corporation's net taxable income. Based on the applicable maximum Puerto Rico normal corporate income tax rate of 39%, the maximum effective income tax rate on these dividends will be 5.85% after accounting for the dividend received deduction. In the case of Puerto Rico corporations, no Puerto Rico income tax withholding will be imposed on dividends paid on the shares of our Common Stock provided such shares are held in the name of the Puerto Rico corporation. If such Puerto Rico corporation holds the shares of our Common Stock in the name of a broker or other direct or indirect participant of DTC, then, a 15% Puerto Rico income tax withheld at source will be made on dividends paid on the shares of our Common Stock held on behalf of such Puerto Rico corporation unless the procedures described in Special Withholding Tax Considerations below are followed to certify to us through DTC that the beneficial owner of our Common Stock is a Puerto Rico corporation. If the withholding is actually made, the 15% Puerto Rico income tax withheld is creditable against the Puerto Rico income tax liability of the Puerto Rico corporation.

The AMT of Puerto Rico corporations is not affected by the receipt of dividends on the shares of our Common Stock.

United States Citizens Not Residents of Puerto Rico

Dividends paid on the shares of our Common Stock to a United States citizen who is not a resident of Puerto Rico will be subject to a 15% Puerto Rico income tax that will be withheld by First BanCorp. These individuals may also elect for the dividends to be taxed in Puerto Rico at the normal income tax rates applicable to individuals in the same way as Puerto Rico resident individuals. The 15% Puerto Rico income tax withheld is creditable against the normal income tax so determined by said individual stockholder. Provided the shares of our Common Stock are held in the name of these individual stockholders, no 15% Puerto Rico income tax withholding will be made if such individual stockholder opts out of the 15% withholding tax by providing us: (i) a written statement opting-out of such withholding; and (ii) a withholding exemption certificate to the effect that the individual's gross income from sources within Puerto Rico during the taxable year does not exceed \$3,500 if single or \$7,000 if married filing a joint return. If such United States citizen non-resident of Puerto Rico holds the shares of our Common Stock in the name of a broker or other direct or indirect participant of DTC, the procedures described in Special Withholding Tax Considerations below should be followed for purposes of opting-out of the 15% Puerto Rico withholding tax. If the United States citizen non-resident of Puerto Rico opts-out of the 15% Puerto Rico withholding tax, he or she will be required to include the amount of the dividend as ordinary income and will be subject to Puerto Rico income tax thereon at the normal income tax rates applicable to Puerto Rico resident individuals.

A United States citizen who is not a resident of Puerto Rico will be subject to Puerto Rico AMT as provided in the rules described under the heading Individuals Resident of Puerto Rico and Puerto Rico Corporations.

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Individuals Not Citizens of the United States and Not Residents of Puerto Rico

Dividends paid on the shares of our Common Stock to any individual who is not a citizen of the United States and who is not a resident of Puerto Rico will generally be subject to a 15% Puerto Rico income tax which will be withheld at source by First BanCorp.

Foreign Corporations

The Puerto Rico income taxation of dividends paid on the shares of our Common Stock to a foreign corporation will depend on whether or not the corporation is engaged in a trade or business in Puerto Rico.

A foreign corporation that is engaged in a trade or business in Puerto Rico will be subject to the normal corporate income tax rates and AMT applicable to Puerto Rico corporations on its net income that is effectively connected with the trade or business in Puerto Rico. This income will include net income from sources within Puerto Rico and certain items of net income from sources outside Puerto Rico that are effectively connected with the trade or business in Puerto Rico. Net income from sources within Puerto Rico will include dividends on the shares of our Common Stock. A foreign corporation that is engaged in a trade or business in Puerto Rico will be entitled to claim the 85% dividend received deduction discussed above in connection with dividends received from Puerto Rico corporations. No Puerto Rico income tax withholding will be imposed on dividends paid to foreign corporations engaged in a trade or business in Puerto Rico on the shares of our Common Stock provided such shares are held in the name of such foreign corporation. If such foreign corporation holds the shares of our Common Stock in the name of a broker or other direct or indirect participant of DTC, then, a 15% Puerto Rico income tax withheld at source will be made on dividends paid on the shares of our Common Stock held on behalf of such foreign corporation unless the procedures described in

Special Withholding Tax Considerations below are followed to certify to us through DTC that the beneficial owner of our Common Stock is a foreign corporation engaged in a trade or business in Puerto Rico. If the withholding is actually made, the 15% Puerto Rico income tax withheld is creditable against the Puerto Rico income tax liability of the foreign corporation.

In general, foreign corporations that are engaged in a trade or business in Puerto Rico are also subject to a 10% branch profits tax. However, dividends on the shares of our Common Stock received by these corporations will be excluded from the computation of the branch profits tax liability of these corporations.

A foreign corporation that is not engaged in a trade or business in Puerto Rico will be subject to a 10% Puerto Rico withholding tax on dividends received on the shares of our Common Stock. In order for the 10% Puerto Rico income tax withholding to apply, the shares of our Common Stock should be held in the name of the foreign corporation. If the shares of our Common Stock owned by the foreign corporation are held through DTC, a 15% Puerto Rico income tax withholding will be made and the foreign corporation may request a refund of the 5% excess withholding from the Puerto Rico Treasury Department.

Special Withholding Tax Considerations

Payments of dividends to investors that hold their shares of our Common Stock in the name of a broker or other direct or indirect participant of DTC will be subject to a 15% Puerto Rico income tax withheld at source unless such investor, under the rules described above, is entitled to opt-out of such withholding if the shares would have been held in his name (such as individuals residents of Puerto Rico, Puerto Rico corporations, United States citizens not residents of Puerto Rico and foreign corporations engaged in a trade or business in Puerto Rico) and his broker or other direct or indirect participant of DTC certifies to First BanCorp through DTC that either (i) the holder of the shares of our Common Stock is a Puerto Rico corporation or a foreign corporation engaged in a trade or business in

Puerto Rico, or (ii) the holder of the shares of our Common Stock is an individual, estate or trust resident of Puerto Rico or a United States citizen not resident of Puerto Rico that has provided a written statement to the broker/dealer opting-out of such withholding. A United States citizen non-resident of Puerto Rico must also timely file with the broker/dealer a withholding exemption certificate to the

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effect that the individual's gross income from sources within Puerto Rico during the taxable year does not exceed \$3,500 if single or \$7,000 if married filing jointly.

Gains on Disposition of Common Stock

General

The sale or exchange of shares of our Common Stock will give rise to gain or loss for Puerto Rico income tax purposes equal to the difference between the amount realized on the sale or exchange and the Puerto Rico income tax basis of the shares of our Common Stock in the hands of the holder. Any gain or loss that is required to be recognized will be a capital gain or loss if the shares of our Common Stock are held as a capital asset by the holder and will be a long-term capital gain or loss if the stockholder's holding period of the shares of our Common Stock exceeds one year.

Individuals Resident of Puerto Rico and Puerto Rico corporations

Gain on the sale or exchange of shares of our Common Stock by an individual resident of Puerto Rico or a Puerto Rico corporation will generally be required to be recognized as gross income and will be subject to income tax. If the stockholder is an individual and the gain is a long-term capital gain, the gain will be taxable at a maximum rate of 15%. If the stockholder is a Puerto Rico corporation and the gain is a long-term capital gain, the gain will qualify for an alternative tax rate of 20%.

Individuals resident of Puerto Rico are subject to AMT on the AMT Net Income if their regular tax liability is less than the alternative minimum tax liability. The AMT rates range from 10% to 24% depending on the AMT Net Income. At present, AMT applies with respect to individual taxpayers that have AMT Net Income of \$150,000 or more. The AMT Net Income includes various categories of tax-exempt income and income subject to preferential tax rates as provided in the 2011 PR Code, such as dividends on our Common Stock and long-term capital gains recognized on the disposition of our Common Stock.

The AMT of Puerto Rico corporations is not affected by the recognition of long-term capital gains on the disposition of the shares of our Common Stock.

Individuals Not Residents of Puerto Rico

Individuals who are not residents of Puerto Rico will not be subject to Puerto Rico income tax on the sale or exchange of shares of our Common Stock if the gain resulting therefrom constitutes income from sources outside Puerto Rico. Generally, the gain from the sale or exchange of shares of our Common Stock by individuals not residing in Puerto Rico constitutes income from sources outside Puerto Rico and, therefore, such gain is not subject to Puerto Rico income tax in the case of such individuals.

Foreign Corporations

A foreign corporation that is engaged in a trade or business in Puerto Rico will generally be subject to Puerto Rico corporate income tax on any gain realized on the sale or exchange of shares of our Common Stock if the gain is (1) from sources within Puerto Rico, or (2) from sources outside Puerto Rico and effectively connected with a trade or business in Puerto Rico. Any such gain will qualify for an alternative tax of 20% if it qualifies as a long-term capital gain and will be included as gross revenues for purposes of the tax on the gross income component of the AMT.

In general, foreign corporations that are engaged in a trade or business in Puerto Rico will also be subject to a 10% branch profits tax. In the computation of this tax, any gain realized by these corporations on the sale or exchange of shares of our Common Stock and that is subject to Puerto Rico income tax will be taken into account. However, a deduction will be allowed in the computation for any income tax paid on the gain realized on the sale or exchange.

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A foreign corporation that is not engaged in a trade or business in Puerto Rico will not be subject to Puerto Rico income tax on any capital gain realized on the sale or exchange of our Common Stock since the gain from the sale or exchange of the Common Stock by such foreign corporation constitutes income from sources outside Puerto Rico.

Estate and Gift Taxation

The transfer of shares of our Common Stock by inheritance by a decedent who was a resident of Puerto Rico at the time of his or her death and did not own more than 10% of our stock (by value or vote) will not be subject to Puerto Rico estate tax if the decedent was not a citizen of the United States or a citizen of the United States who acquired his or her citizenship solely by reason of birth or residence in Puerto Rico. Likewise, the transfer of shares of our Common Stock by gift by an individual who is a resident of Puerto Rico at the time of the gift and did not own more than 10% of our stock (by value or vote) will not be subject to Puerto Rico gift tax. Other individuals are urged to consult their own tax advisors in order to determine the appropriate treatment for Puerto Rico estate and gift tax purposes of the transfer of the shares of our Common Stock by death or gift.

Municipal License Taxation

Individuals and corporations that are not engaged in a trade or business in Puerto Rico will not be subject to Puerto Rico municipal license tax on dividends paid on the shares of our Common Stock or on any gain realized on the sale, exchange or redemption of the shares of our Common Stock.

Individuals, residents or non-residents, and corporations, Puerto Rico or foreign, that are engaged in a trade or business in Puerto Rico will generally be subject to municipal license tax on dividends paid on the shares of our Common Stock and on the gain realized on the sale, exchange or redemption of the shares of our Common Stock if the dividends or gain are attributable to that trade or business. The municipal license tax is imposed on the volume of business of the taxpayer, and the tax rates vary by municipalities with the maximum rate being 1.5% in the case of financial businesses and 0.5% for other businesses.

Property Taxation

The shares of our Common Stock will not be subject to Puerto Rico property tax.

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Under the terms and subject to the conditions contained in an underwriting agreement, the Selling Stockholders have agreed to sell to the underwriters named below, for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co. (together, the Representatives) are acting as representatives, the following respective numbers of shares:

Underwriter	Number of Shares
Goldman, Sachs & Co.	5,040,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	5,040,000
Citigroup Global Markets Inc.	2,880,000
Sandler O'Neill & Partners, L.P.	2,880,000
Keefe, Bruyette & Woods, Inc.	1,080,000
Piper Jaffray & Co.	1,080,000
Total	18,000,000

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of Common Stock in the offering if any are purchased, other than those shares covered by the option described below. The underwriting agreement also provides that, if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

The Selling Stockholders have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 2,700,000 additional outstanding shares at the initial public offering price less the underwriting discounts and commissions.

The underwriters propose to offer the shares initially at the public offering price on the cover page of this prospectus supplement and to offer the shares to selling group members at that price less a selling concession of \$0.14 per share. After the initial public offering, the underwriters may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation and estimated expenses we and the Selling Stockholders will pay:

	Per Share		Total	
	Without Option	With Option	Without Option	With Option
Underwriting Discounts and Commissions paid by the Selling Stockholders	\$ 0.238	\$ 0.238	\$ 4,284,000	\$ 4,926,600

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding the underwriting discounts and commissions, will be approximately \$800,000.

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We have agreed that we will not offer, sell, issue, contract to sell, pledge, grant any option, warrant or right to purchase or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any shares of our Common Stock or securities convertible into or exchangeable or exercisable for any shares of our Common Stock, or enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our Common Stock, whether any of these transactions are to be settled by delivery of our common Stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, issuance, pledge, disposition or filing, without the prior written consent of the Representatives for a period of 60 days after the date of this prospectus, except issuances of our Common Stock pursuant to the conversion or exchange of convertible or exchangeable securities or the exercise of warrants or options, in each case outstanding on the date of the underwriting agreement, grants or awards pursuant to the terms of a plan in effect on the date of the underwriting agreement, and issuances of our Common Stock or securities convertible into or exchangeable or exercisable for any shares of our Common Stock pursuant to the exercise or vesting of such awards and in payment of salary amounts that we have agreed to pay in shares of our Common Stock.

Our executive officers and directors and the Selling Stockholders have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our Common Stock or securities convertible into or exchangeable or exercisable for any shares of our Common Stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our Common Stock, whether any of these transactions are to be settled by delivery of our Common Stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the Representatives for a period of 60 days after the date of this prospectus. Notwithstanding the foregoing, among other exceptions, such officers, directors and Selling Stockholders may transfer, distribute or contribute our shares (i) as a *bona fide* gift or gifts, (ii) to any trust for the direct or indirect benefit of such officer, director or Selling Stockholder or the immediate family of such officer, director or Selling Stockholder, (iii) pursuant to the exercise of any option or warrant to purchase shares of Common Stock outstanding on the date of the underwriting agreement, (iv) pursuant to the receipt of shares of Common Stock in payment of a portion of such officer's salary or the vesting of any restricted stock held by any such officer or director, (v) with respect to certain directors and officers, which are held in a margin account or used as collateral for any loan, guarantee or other obligation of such officer or director as of the date of the underwriting agreement; provided that in the case of any transfer, disposition or distribution pursuant to clauses (i) and (ii), each transferee, donee or distributee shall execute and deliver to the Representatives a lock-up letter in the form provided in the underwriting agreement; provided further that such officer or director has given notice to us prior to engaging in any transaction pursuant to clauses (i), (ii), (iii), and (v) does not consummate any other transaction until such officer or director has received written confirmation from us that the 60-day restricted period has expired. For purposes of this paragraph, immediate family shall mean any relationship by blood, marriage or adoption, not more remote than first cousin.

We and the Selling Stockholders have agreed to indemnify the several underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

Our Common Stock is traded on The New York Stock Exchange (NYSE) under the symbol FBP .

Price Stabilization, Short Positions and Penalty Bids

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our Common Stock. However, the representatives may engage in transactions that stabilize the price of the Common Stock, such as bids or purchases to peg, fix or maintain that price.

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In connection with the offering, the underwriters may purchase and sell our Common Stock in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the underwriters option to purchase additional shares described above. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the option granted to them. Naked short sales are sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our Common Stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of shares of Common Stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Similar to other purchase transactions, the underwriters purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our Common Stock or preventing or retarding a decline in the market price of our Common Stock. As a result, the price of our Common Stock may be higher than the price that might otherwise exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may conduct these transactions on the NYSE, in the over-the-counter market or otherwise.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our Common Stock. In addition, neither we nor any of the underwriters make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The representatives may agree to allocate a number of shares to the underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

From time to time in the ordinary course of their respective businesses, certain of the underwriters and their affiliates have performed and may in the future perform investment banking, commercial banking, dealer and advisory services for us or our affiliates for which they have received or will receive customary fees and expenses. The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own accounts and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriters and their

affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, no offer of shares may be made to the public in that Relevant Member State other than:

- A. to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- B. to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the underwriters; or
- C. in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares shall require the Company or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive and each person who initially acquires any shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed to and with each of the underwriters and the Company that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

In the case of any shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the shares acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the representatives has been obtained to each such proposed offer or resale.

For the purposes of this provision, the expression an offer of shares to the public in relation to any shares in any Relevant Member State means the communication in any form and by means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are qualified investors (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the Order) and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article

49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons) or otherwise in circumstances which have not resulted and will not result in an offer to the public of the shares in the United Kingdom within the meaning of the Financial Services and Markets Act 2000.

Any person in the United Kingdom that is not a relevant person should not act or rely on the information included in this document or use it as basis for taking any action. In the United Kingdom, any investment or investment activity that this document relates to may be made or taken exclusively by relevant persons.

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Canada

The shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Switzerland

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (SIX) or on any other stock exchange or regulated trading facility in Switzerland. This document does not constitute a prospectus within the meaning of, and has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the Company, the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (CISA). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

Dubai International Financial Centre

This document relates to an Exempt Offer in accordance with the Markets Rules 2012 of the Dubai Financial Services Authority (DFSA). This document is intended for distribution only to persons of a type specified in the Markets Rules 2012 of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus supplement nor taken steps to verify the information set forth herein and has no responsibility for this document. The securities to which this document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities. If you do not understand the contents of this document you should consult an authorized financial advisor.

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In relation to its use in the DIFC, this document is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the securities may not be offered or sold directly or indirectly to the public in the DIFC.

Australia

This prospectus:

does not constitute a product disclosure document or a prospectus under Chapter 6D.2 of the Corporations Act 2001 (Cth) (the Corporations Act);

has not been, and will not be, lodged with the Australian Securities and Investments Commission (ASIC), as a disclosure document for the purposes of the Corporations Act and does not purport to include the information required of a disclosure document under Chapter 6D.2 of the Corporations Act;

does not constitute or involve a recommendation to acquire, an offer or invitation for issue or sale, an offer or invitation to arrange the issue or sale, or an issue or sale, of interests to a retail client (as defined in section 761G of the Corporations Act and applicable regulations) in Australia; and

may only be provided in Australia to select investors who are able to demonstrate that they fall within one or more of the categories of investors, or Exempt Investors, available under section 708 of the Corporations Act.

The shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for or buy the shares may be issued, and no draft or definitive offering memorandum, advertisement or other offering material relating to any shares may be distributed in Australia, except where disclosure to investors is not required under Chapter 6D of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the shares, you represent and warrant to us that you are an Exempt Investor.

As any offer of shares under this document will be made without disclosure in Australia under Chapter 6D.2 of the Corporations Act, the offer of those securities for resale in Australia within 12 months may, under section 707 of the Corporations Act, require disclosure to investors under Chapter 6D.2 if none of the exemptions in section 708 applies to that resale. By applying for the shares you undertake to us that you will not, for a period of 12 months from the date of issue of the shares, offer, transfer, assign or otherwise alienate those securities to investors in Australia except in circumstances where disclosure to investors is not required under Chapter 6D.2 of the Corporations Act or where a compliant disclosure document is prepared and lodged with ASIC.

Hong Kong

The shares have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to professional investors as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a

prospectus as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the shares has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

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Japan

The shares have not been and will not be registered pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act. Accordingly, none of the shares nor any interest therein may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan in effect at the relevant time.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:
 - (a) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
 - (b) where no consideration is or will be given for the transfer;
 - (c) where the transfer is by operation of law;

- (d) as specified in Section 276(7) of the SFA; or as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

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LEGAL MATTERS

The validity of the Common Stock being offered by this prospectus supplement was passed upon for us by Lawrence Odell, Esq., Executive Vice President and General Counsel. As of the date of this prospectus supplement, Lawrence Odell, Esq., beneficially owns, directly or indirectly, 388,243 shares of our Common Stock, as determined in accordance with Rule 13d-3 of the Exchange Act. Davis Polk & Wardwell LLP, New York, New York has represented the underwriters in connection with the resale offering pursuant to this prospectus supplement.

Certain U.S. federal income tax matters relating to the Common Stock being offered were passed upon for us by Morgan, Lewis & Bockius LLP and Puerto Rico tax matters relating to the Common Stock being offered were passed upon for us by our special Puerto Rico tax counsel Pietrantoní Méndez & Alvarez LLP, San Juan, Puerto Rico. Certain U.S. federal income tax matters relating to the Common Stock being offered were passed upon for the underwriters by Davis Polk & Wardwell LLP, New York, New York.

EXPERTS

The consolidated financial statements of First BanCorp. as of December 31, 2015 and 2014, and for each of the years in the three-year period ended December 31, 2015 and management's assessment of effectiveness of internal control over financial reporting as of December 31, 2015 have been incorporated by reference herein in reliance upon the report of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

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Up to 95,429,615 Shares of Common Stock

One Warrant to Purchase up to 1,285,899 Shares of Common Stock

This prospectus relates to the offer and resale of up to 95,429,615 shares (the Shares) of the common stock, \$0.10 par value per share (the Common Stock), which includes 1,285,899 Shares issuable upon exercise of a warrant to purchase shares (the Warrant, and together with the Shares, the Securities), of First BanCorp. (the Corporation) by the selling stockholders identified herein (the Selling Stockholders). In addition, this prospectus relates to the offer and sale of the Warrant, which is held by the U.S. Department of the Treasury (Treasury). This prospectus replaces the prospectus dated November 8, 2012, which has expired pursuant to its terms and registers shares for resale by the same Selling Stockholders pursuant to the terms of agreements with such Selling Stockholders.

The Shares registered pursuant to this Registration Statement represent approximately 44.4% of the number of shares of Common Stock currently outstanding or 43.8% excluding the 1,285,899 shares underlying the Warrant. Of the shares being registered, 83,687,163 shares are beneficially owned by funds that have designated two directors to serve on our Board of Directors, 11,577,452 shares are beneficially owned by Treasury and 165,000 shares are beneficially owned by Roberto R. Herencia, Chairman of the Corporation s Board of Directors.

The Selling Stockholders may sell all or a portion of the Securities from time to time, in amounts, at prices and on terms determined at the time of the offering. We will not receive any proceeds from the sale of the Securities by the Selling Stockholders under this prospectus. If the Warrant is exercised for cash by a purchaser of the Warrant under this prospectus, the net proceeds to the Corporation from the sale of the shares of common stock issued upon such exercise will be used for general corporate purposes, including the repayment of debt, acquisitions, additions to working capital, capital expenditures and investments in our subsidiaries, which are the same uses if Treasury exercises the Warrant for cash. However, we will receive no cash if and to the extent the Warrant is exercised pursuant to the net, or cashless, exercise feature of the Warrant.

Investing in the Securities involves risks. See Risk Factors beginning on page 5 to read about factors you should consider before you make your investment decision.

Our Common Stock is traded on the New York Stock Exchange (the NYSE) under the symbol FBP. On February 25, 2016, the closing price of our Common Stock on the NYSE was \$2.38 per share. The Warrant is not listed on an exchange, and we do not intend to list the Warrant on any exchange.

Neither the SEC nor any securities commission of any state or other jurisdiction has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The Securities are not savings accounts, deposits, or other obligations of any bank and are not insured or guaranteed by the Federal Deposit Insurance Corporation (the FDIC) or any other governmental agency, and are subject to investment risks, including the possible loss of the principal amount invested.

The date of this prospectus is February 29, 2016

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We have not authorized, and the selling stockholders have not authorized, anyone to provide any information other than that contained or incorporated by reference in this prospectus prepared by or on behalf of us or to which we have referred you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you.

This prospectus and any applicable prospectus supplement are not offers to sell nor are they seeking an offer to buy the Securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus and any applicable prospectus supplement is complete and correct only as of the date on the front cover of such documents, regardless of the time of the delivery of such documents or any sale of the Securities. In this prospectus, First BanCorp., the Corporation, we, us, and our refer to the consolidated operations of First BanCorp.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the SEC. When required, we will amend the registration statement or file prospectus supplements to update or change information contained in this prospectus. You should read both this prospectus or any amended prospectus and any prospectus supplement together with additional information described under the headings "Additional Information" and "Incorporation By Reference."

ADDITIONAL INFORMATION

As permitted by SEC rules, this prospectus omits certain information that is included in the registration statement and its exhibits. Since the prospectus may not contain all of the information that you may find important, you should review the full text of these documents. If we have filed a contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement in this prospectus, including statements incorporated by reference as discussed below, regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

We file annual, quarterly and current reports, proxy statements, and other information with the SEC. You may read and copy any document we file with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 to obtain information on the operation of the public reference room. The SEC's website at <http://www.sec.gov> contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus the information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. Any statement contained in a document incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein, or in any subsequently filed document, which also is incorporated by reference herein, modifies or supersedes such earlier statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We hereby incorporate by reference into this prospectus the following documents that we have filed with the SEC under the Securities Exchange Act File No. 001-14793:

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 16, 2015;

Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015, June 30, 2015 and September 30, 2015 filed with the SEC on May 11, 2015, August 10, 2015 and November 9, 2015, respectively;

Our Current Reports on Form 8-K filed with the SEC on January 14, 2015, February 9, 2015, March 5, 2015 (pursuant to Item 1.01 only), March 26, 2015, May 1, 2015 and May 27, 2015; and

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The description of our capital stock as set forth in our Registration Statement on Form 8-A/A filed with the SEC on May 4, 2012.

All documents that we file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), (i) after the initial filing date of the registration

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statement of which this prospectus forms a part and prior to the effectiveness of such registration statement and (ii) after the date of this prospectus and prior to the termination of the offering are incorporated by reference in this prospectus from the date of filing of the documents, unless we specifically provide otherwise. Information that we file with the SEC will automatically update and may replace information previously filed with the SEC.

You may request a copy of these filings, other than an exhibit to a filing (unless that exhibit is specifically incorporated by reference into that filing), at no cost, by writing to us at the following address: First BanCorp., Attention: Lawrence Odell, Secretary, P.O. Box 9146, San Juan, Puerto Rico, 00908-0146. Telephone requests may be directed to (787) 729-8109. E-mail requests may be directed to lawrence.odell@firstbankpr.com. You may also access this information on our website at www.firstbank.com by viewing the SEC Filings subsection of the Investor Relations menu. No additional information on our website is deemed to be part of or incorporated by reference into this prospectus. We have included our website address in this prospectus solely as an inactive textual reference.

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SUMMARY

The following summary highlights material information contained in this prospectus. It may not contain all of the information that is important to you and is qualified in its entirety by the more detailed information included or incorporated by reference into this prospectus. Before deciding to acquire any of the shares of our Common Stock that are being offered for resale by the Selling Stockholders, you should carefully consider the information contained in or incorporated by reference into this prospectus, including the information set forth under the heading Risk Factors beginning on page 4 in this prospectus.

OUR COMPANY

Founded in 1948, 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. We are subject to regulation, supervision and examination by the Federal Reserve Bank of New York (the FED or Federal Reserve) and the Board of Governors of the Federal Reserve System. First BanCorp. was incorporated under the laws of the Commonwealth of Puerto Rico to serve as the bank holding company for FirstBank Puerto Rico (FirstBank or the Bank). We are a full-service provider of financial services and products with operations in Puerto Rico, the mainland United States (the U.S.), the United States Virgin Islands (the USVI) and the British Virgin Islands (the BVI). Our principal executive offices are located at 1519 Ponce de León Avenue, Stop 23, Santurce, Puerto Rico 00908. Our telephone number is (787) 729-8200.

As of September 30, 2015, the Corporation had total assets of approximately \$12.8 billion, total deposits of approximately \$9.7 billion and total stockholders' equity of approximately \$1.7 billion.

We provide a wide range of financial services for retail, commercial and institutional clients. We control two wholly owned subsidiaries: FirstBank, a Puerto Rico-chartered commercial bank, and FirstBank Insurance Agency, Inc., a Puerto Rico-chartered insurance agency (FirstBank Insurance Agency).

FirstBank conducts its business through its main office located in San Juan, Puerto Rico and, as of September 30, 2015, fifty-one branches in Puerto Rico, twelve branches in the USVI and BVI and ten branches in the state of Florida (USA). As of September 30, 2015, FirstBank had six wholly-owned subsidiaries with operations in Puerto Rico: First Federal Finance Corp. (d/b/a Money Express La Financiera), a finance company specializing in the origination of small loans with twenty-seven offices in Puerto Rico; First Management of Puerto Rico, a domestic corporation that holds tax-exempt assets; FirstBank Puerto Rico Securities Corp., a broker-dealer subsidiary engaged in municipal bond underwriting and financial advisory services on structured financings principally provided to government entities in the Commonwealth of Puerto Rico; FirstBank Overseas Corporation, an international banking entity organized under the International Banking Entity Act of Puerto Rico; and two other companies that hold and operate other real estate owned properties. As of September 30, 2015, FirstBank had one active subsidiary with operations outside of Puerto Rico: First Express, a finance company specializing in the origination of small loans with two offices in the USVI.

FirstBank is subject to the supervision, examination and regulation of the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico (the OCIF) and the FDIC. Deposits are insured through the FDIC Deposit Insurance Fund. In addition, within FirstBank, the Bank's USVI operations are subject to regulation and examination by the United States Virgin Islands Banking Board; its BVI operations are subject to regulation by the British Virgin Islands Financial Services Commission and its operations in the state of Florida are subject to regulation and examination by the Florida Office of Financial Regulation. FirstBank Insurance Agency is subject to the supervision, examination and regulation of the Office of the Insurance Commissioner of the Commonwealth of

Puerto Rico and operates nine offices in Puerto Rico, and two offices in the USVI and BVI.

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The Corporation entered into an agreement with the FED dated June 3, 2010 (the Written Agreement), and FirstBank agreed to an order issued by the FDIC and the OCIF dated June 2, 2010 (the FDIC Order, and together with the Written Agreement, the Regulatory Agreements). Pursuant to the Regulatory Agreements, the Corporation and FirstBank agreed to take certain actions designed to improve our financial condition. Although the FDIC Order was terminated by the FDIC effective April 29, 2015, First BanCorp. is still subject to the Written Agreement. The Written Agreement also requires the Corporation to obtain the approval of the FED prior to paying dividends, receiving dividends from FirstBank, incurring, increasing or guaranteeing any debt, or purchasing or redeeming any stock, to comply with certain notice provisions prior to appointing any new directors or senior executive officers, and to comply with certain restrictions on severance payments and indemnification.

The Corporation submitted its Capital Plan setting forth its plans for how to improve its capital position in compliance with the Written Agreement over time. In addition to the Capital Plan, the Corporation submitted to its regulators a liquidity and brokered certificate of deposit (CD) plan, including a contingency funding plan, a non-performing asset reduction plan, a budget and profit plan, a strategic plan, and a plan for the reduction of classified and special mention assets. As of September 30, 2015, the Corporation had completed all of the items included in the Capital Plan and is continuing to work on reducing non-performing loans.

THE OFFERING

The Selling Stockholders will offer the Securities for resale as follows: (i) 165,000 shares of Common Stock by Mr. Herencia; (ii) 83,687,163 shares of Common Stock by institutional investors; and (iii) 10,291,553 shares of Common Stock, the Warrant, and the 1,285,899 shares of Common Stock issuable upon exercise of the Warrant, as adjusted in the future pursuant to the terms of the Warrant, by Treasury.

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RISK FACTORS

You should carefully consider the risks described below and all of the information contained in or incorporated by reference into this prospectus before you decide to acquire any of the shares being offered by the Selling Stockholders. We believe the risks described below are the risks that are material to us as of the date of this prospectus. If any of such risks actually occur, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our Common Stock could decline, and you could lose all or part of your investment.

RISK RELATING TO THE OFFERING

Sales in the public market of the approximately 44% of our outstanding shares of Common Stock that are covered by this prospectus could adversely affect the trading price of our Common Stock.

We are registering for resale an aggregate of 95,429,615 shares of Common Stock, which represents approximately 44.4% of our outstanding shares of Common Stock, or 43.8% excluding the shares of Common Stock underlying the Warrant. As of December 31, 2015, the Selling Stockholders individually beneficially owned more than 5% of our outstanding shares of Common Stock: funds affiliated with Thomas H. Lee Partners, L.P. (THL), which own approximately 19.45%, and funds managed by Oaktree Capital Management, L.P. (Oaktree), which own approximately 19.45%, and Treasury, which owns approximately 5.38%, including the shares of Common Stock issuable upon exercise of the Warrant. We are obligated to keep this prospectus current so that the Securities can be sold in the public market at any time. The resale of the Securities in the public market, or the perception that these sales might occur, could cause the market price of our Common Stock to decline.

RISKS RELATING TO THE CORPORATION'S BUSINESS

We are operating under an agreement with our regulators.

We are subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). We are a bank holding company and a financial holding company under the Bank Holding Company Act of 1956, as amended.

As a financial holding company, we are permitted to engage in a broader spectrum of financial activities than those permitted to bank holding companies that are not financial holding companies. At this time, as a result of, among other things, the Written Agreement, under the Bank Holding Company Act, we currently are not able to engage in new financial activities, and we may not be able to acquire shares or control of other companies. In addition, we are subject to restrictions because of the Written Agreement that we entered into with the Federal Reserve.

On June 4, 2010, we announced that FirstBank agreed to the FDIC Order issued by the FDIC and OCIF, and we entered into the Written Agreement with the Federal Reserve. These Regulatory Agreements stemmed from the FDIC's examination as of the period ended June 30, 2009 conducted during the second half of 2009. Effective April 29, 2015, the FDIC terminated the FDIC Order. First BanCorp. is still subject to the Written Agreement.

The Written Agreement, which is designed to enhance our ability to act as a source of strength to FirstBank, requires that we obtain prior Federal Reserve approval before declaring or paying dividends, receiving dividends from FirstBank, making payments on subordinated debt or trust-preferred securities, incurring, increasing or guaranteeing debt (whether such debt is incurred, increased or guaranteed, directly or indirectly, by us or any of our non-banking subsidiaries) or purchasing or redeeming any capital stock. The Written Agreement also required us to submit to the

Federal Reserve a capital plan and requires that we submit progress reports, comply with certain notice provisions prior to appointing new directors or senior executive officers and comply with certain payment restrictions on severance payments and indemnification restrictions.

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We anticipate that we will need to continue to dedicate significant resources to our efforts to comply with the Written Agreement, which may increase operational costs or adversely affect the amount of time our management has to conduct our operations.

If we fail to comply with the Written Agreement in the future, we may become subject to additional regulatory enforcement action up to and including the appointment of a conservator or receiver for FirstBank.

Our high level of non-performing loans may adversely affect our future results from operations.

We continue to have a high level of non-performing loans as of September 30, 2015, although it decreased \$97.9 million to \$480.7 million as of September 30, 2015, or 17% from \$578.5 million as of December 31, 2014. Our non-performing loans represent approximately 5% of our \$9.3 billion loan portfolio as of September 30, 2015. In addition, we have a high level of total non-performing assets, although it decreased \$99.6 million to \$617.2 million as of September 30, 2015, or 13.9% from \$716.8 million as of December 31, 2014. If we are unable to effectively maintain the quality of our loan portfolio, our financial condition and results of operations may be materially and adversely affected.

Certain funding sources may not be available to us and our funding sources may prove insufficient and/or costly to replace.

FirstBank relies primarily on customer deposits, the issuance of brokered CDs, and advances from the Federal Home Loan Bank to maintain its lending activities and to replace certain maturing liabilities. As of September 30, 2015, we had \$2.6 billion in brokered CDs outstanding, representing approximately 23% of our total deposits, and a reduction of \$618.9 million from the year ended December 31, 2014. Approximately \$1.5 billion in brokered CDs mature over the next twelve months, and the average term to maturity of the retail brokered CDs outstanding as of September 30, 2015 was approximately 1.0 years. None of these CDs are callable at the Corporation's option.

Although FirstBank has historically been able to replace maturing deposits and advances, we may not be able to replace these funds in the future if our financial condition or general market conditions were to change. The use of brokered deposits has been particularly important for the funding of our operations. If we are unable to issue brokered deposits, or are unable to maintain access to our other funding sources, our results of operations and liquidity would be adversely affected.

Alternate sources of funding may carry higher costs than sources currently utilized. If we are required to rely more heavily on more expensive funding sources, profitability would be adversely affected. We may determine to seek debt financing in the future to achieve our long-term business objectives. Any future debt financing requires the prior approval of the Federal Reserve, and the Federal Reserve may not approve such financing. Additional borrowings, if sought, may not be available to us, or if available, may not be on acceptable terms. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, our credit ratings and our credit capacity. In addition, the Bank may seek to sell loans as an additional source of liquidity. If additional financing sources are unavailable or are not available on acceptable terms, our profitability and future prospects could be adversely affected.

We depend on cash dividends from FirstBank to meet our cash obligations.

As a holding company, dividends from FirstBank have provided a substantial portion of our cash flow used to service the interest payments on our trust-preferred securities and other obligations. As outlined in the Written Agreement, we cannot receive any cash dividends from FirstBank without the prior written approval of the Federal Reserve. In

addition, FirstBank is limited by law in its ability to make dividend payments and other distributions to us based on its earnings and capital position. Our inability to receive approval from the Federal Reserve to receive dividends from FirstBank, or FirstBank's failure to generate sufficient cash flow to make

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dividend payments to us, may adversely affect our ability to meet all projected cash needs in the ordinary course of business and may have a detrimental impact on our financial condition.

The Banking Law of the Commonwealth of Puerto Rico requires that a minimum of 10% of FirstBank's net income for the year be transferred to legal surplus until such surplus equals the total of paid-in-capital on common and preferred stock. Amounts transferred to the legal surplus account from the retained earnings account are not available for distribution to the stockholders without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The Puerto Rico Banking Law provides that when the expenditures of a Puerto Rico commercial bank are greater than receipts, the excess of the expenditures over receipts shall be charged against the undistributed profits of the bank, and the balance, if any shall be charged against the reserve fund, as a reduction thereof. If there is no reserve fund sufficient to cover such balance in whole or in part, the outstanding amount shall be charged against the capital account and the Bank cannot pay dividends until it can replenish the reserve fund to an amount of at least 20% of the original capital contributed. During the fourth quarter of 2014, \$40.0 million was transferred to the legal surplus reserve. FirstBank's legal surplus reserve, included as part of retained earnings in the Corporation's statement of financial condition, amounted to \$40.0 million as of September 30, 2015. There were no transfers to the legal surplus reserve during the first nine months of 2015.

If we do not obtain Federal Reserve approval to pay interest, principal or other sums on subordinated debentures or trust preferred securities, a default under certain obligations may occur.

The Written Agreement provides that we cannot declare or pay any dividends or make any distributions of interest, principal or other sums on subordinated debentures or trust-preferred securities without prior written approval of the Federal Reserve. With respect to our \$226 million of outstanding subordinated debentures, we have elected to defer the interest payments that were due in quarterly periods since March 2012. The aggregate amount of payments deferred and accrued approximates \$26.8 million as of September 30, 2015.

Under the indentures, we have the right, from time to time, and without causing an event of default, to defer payments of interest on the subordinated 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. We may continue to elect extension periods for future quarterly interest payments if the Federal Reserve advises us that it will not approve such future quarterly interest payments. Our inability to receive approval from the Federal Reserve to make distributions of interest, principal or other sums on our trust-preferred securities and subordinated debentures could result in a default under those obligations if we need to defer such payments for longer than twenty consecutive quarterly periods.

Credit quality may result in additional losses.

The quality of our credits has continued to be under pressure as a result of continued recessionary conditions in the markets we serve that have led to, among other things, high unemployment levels, low absorption rates for new residential construction projects and further declines in property values. Our business depends on the creditworthiness of our customers and counterparties and the value of the assets securing our loans or underlying our investments. When the credit quality of the customer base materially decreases or the risk profile of a market, industry or group of customers changes materially, our business, financial condition, allowance levels, asset impairments, liquidity, capital and results of operations are adversely affected.

We have a commercial and construction loan portfolio held for investment in the amount of \$4.1 billion as of September 30, 2015. Due to their nature, these loans entail a higher credit risk than consumer and residential mortgage loans, since they are larger in size, concentrate more risk in a single borrower and are generally more sensitive to

economic downturns. Furthermore, given the slowdown in the real estate market, the properties securing these loans may be difficult to dispose of if they are foreclosed. As of September 30, 2015, we had \$266.8 million in nonperforming commercial and construction loans held for investment. We may incur

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additional credit losses over the near term, either because of continued deterioration of the quality of the loans or because of sales of such loans, which would likely accelerate the recognition of losses. Any such losses would adversely impact our overall financial performance and results of operations

Our allowance for loan losses may not be adequate to cover actual losses, and we may be required to materially increase our allowance, which may adversely affect our capital, financial condition and results of operations.

We are subject to the risk of loss from loan defaults and foreclosures with respect to the loans we originate and purchase. We establish a provision for loan and lease losses, which leads to reductions in our income from operations, in order to maintain our allowance for inherent loan and lease losses at a level that our management deems to be appropriate based upon an assessment of the quality of the loan and lease portfolio. Management may fail to accurately estimate the level of inherent loan and lease losses or may have to increase our provision for loan and lease losses in the future as a result of new information regarding existing loans, future increases in non-performing loans, changes in economic and other conditions affecting borrowers or for other reasons beyond our control. In addition, bank regulatory agencies periodically review the adequacy of our allowance for loan and lease losses and may require an increase in the provision for loan and lease losses or the recognition of additional classified loans and loan charge-offs, based on judgments different than those of management.

The level of the allowance reflects management's estimates based upon various assumptions and judgments as to specific credit risks, evaluation of industry concentrations, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan and lease losses inherently involves a high degree of subjectivity and requires management to make significant estimates and judgments regarding current credit risks and future trends, all of which may undergo material changes. If our estimates prove to be incorrect, our allowance for credit losses may not be sufficient to cover losses in our loan portfolio and our expense relating to the additional provision for credit losses could increase substantially.

Any such increases in our provision for loan and lease losses or any loan and lease losses in excess of our provision for loan and lease losses would have an adverse effect on our future financial condition and results of operations. Given the difficulties facing some of our largest borrowers, these borrowers may fail to continue to repay their loans on a timely basis or we may not be able to assess accurately any risk of loss from the loans to these borrowers. Also, additional economic weakness, which has resulted in downgrades of Puerto Rico's general obligation debt to non-investment grade, among other consequences, could require increases in reserves.

Changes in collateral values of properties located in stagnant or distressed economies may require increased reserves.

Further deterioration of the value of real estate collateral securing our construction, commercial and residential mortgage loan portfolios would result in increased credit losses. As of September 30, 2015, approximately 2%, 17% and 36% of our loan portfolio consisted of construction, commercial mortgage and residential real estate loans, respectively.

A substantial part of our loan portfolio is located within the boundaries of the U.S. economy. Whether the collateral is located in Puerto Rico, the USVI or BVI, or the U.S. mainland, the performance of our loan portfolio and the collateral value backing the transactions are dependent upon the performance of and conditions within each specific real estate market. Puerto Rico has been in an economic recession since 2006. Sustained weak economic conditions that have affected Puerto Rico and the U.S. over the last several years have resulted in declines in collateral values.

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Construction and commercial loans, mostly secured by commercial and residential real estate properties, entail a higher credit risk than consumer and residential mortgage loans since they are larger in size, may have less collateral coverage, concentrate more risk in a single borrower and are generally more sensitive to economic downturns. As of September 30, 2015, commercial mortgage and construction real estate loans amounted to \$1.7, billion or 18.6%, of the total loan portfolio.

We measure the impairment of a loan based on the fair value of the collateral, if collateral dependent, which is generally obtained from appraisals. Updated appraisals are obtained when we determine that loans are impaired and are updated annually thereafter. In addition, appraisals are also obtained for certain residential mortgage loans on a spot basis based on specific characteristics such as delinquency levels, age of the appraisal and loan-to-value ratios. The appraised value of the collateral may decrease or we may not be able to recover collateral at its appraised value. A significant decline in collateral valuations for collateral dependent loans may require increases in our specific provision for loan losses and an increase in the general valuation allowance. Any such increase would have an adverse effect on our future financial condition and results of operations. During the nine months ended September 30, 2015, net charge-offs collateralizing construction, commercial mortgage and residential mortgage loan portfolios totaled \$2.4 million, \$47.6 million and \$13.2 million, respectively.

The acquisition of certain assets and deposits of Doral Bank through an alliance with another financial institution could magnify certain of the Corporation's risks and could present new risks.

On February 27, 2015, the Corporation through an alliance with another local financial institution who was the successful lead bidder with the FDIC on the failed Doral Bank, acquired certain assets and deposits of Doral Bank. The transaction could magnify certain of the risks the Corporation already faces that are described in these Risk Factors and could present new risks, including the following:

risks associated with weak economic conditions in the economy and in the real estate market in Puerto Rico, which adversely affect real estate prices, the job market, consumer confidence and spending habits, which may affect, among other things, the continued status of the loans acquired as performing loans, charge-offs and provision expense;

changes in interest rates and market liquidity which may reduce interest margins;

changes in market rates and prices that may adversely impact the value of financial assets and liabilities; and

failure to realize the anticipated acquisition benefits in the amounts and within the time frames expected.

Interest rate shifts may reduce net interest income.

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest-earning assets and the interest paid by us on our interest-bearing liabilities. Differences in the re-pricing structure of our assets and liabilities may result in changes in our profits when interest rates change.

Increases in interest rates may reduce the value of holdings of securities.

Fixed-rate securities acquired by us are generally subject to decreases in market value when interest rates rise, which may require recognition of a loss (e.g., the identification of an other-than-temporary impairment on our available-for-sale investment portfolio), thereby adversely affecting our results of operations. Market-related reductions in value also influence our ability to finance these securities. Furthermore, increases in interest rates may result in an extension of the expected average life of certain fixed-income securities, such as fixed-rate passthrough mortgage-backed securities. Such an extension could exacerbate the drop in market value related to shifts in interest rates.

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Increases in interest rates may reduce demand for mortgage and other loans.

Higher interest rates increase the cost of mortgage and other loans to consumers and businesses and may reduce demand for such loans, which may negatively impact our profits by reducing the amount of loan interest income.

Accelerated prepayments may adversely affect net interest income.

In general, fixed-income portfolio yields would decrease if the re-investment of pre-payment amounts is at lower rates. Net interest income could also be affected by prepayments of mortgage-backed securities. Acceleration in the prepayments of mortgage-backed securities would lower yields on these securities, as the amortization of premiums paid upon the acquisition of these securities would accelerate. Conversely, acceleration in the prepayments of mortgage-backed securities would increase yields on securities purchased at a discount, as the accretion of the discount would accelerate. These risks are directly linked to future period market interest rate fluctuations. Also, net interest income in future periods might be affected by our investment in callable securities because decreases in interest rates might prompt the early redemption of such securities.

Changes in interest rates on loans and borrowings may adversely affect net interest income.

Basis risk is the risk of adverse consequences resulting from unequal changes in the difference, also referred to as the spread or basis, between the rates for two or more different instruments with the same maturity and occurs when market rates for different financial instruments or the indices used to price assets and liabilities change at different times or by different amounts. For example, the interest expense for liability instruments such as brokered CDs might not change by the same amount as interest income received from loans or investments. To the extent that the interest rates on loans and borrowings change at different speeds and by different amounts, the margin between our LIBOR-based assets and the higher cost of the brokered CDs might be compressed and adversely affect net interest income.

If all or a significant portion of the unrealized losses in our investment securities portfolio on our consolidated balance sheet is determined to be other-than-temporarily impaired, we would recognize a material charge to our earnings and our capital ratios would be adversely affected.

For the years ended December 31, 2012, 2013, and 2014 and for the nine months ended September 30, 2015, we recognized a total of \$2.0 million, \$0.2 million, \$0.4 million and \$13.5 million, respectively, in other-than-temporary impairments. To the extent that any portion of the unrealized losses in our investment securities portfolio of \$31.0 million as of September 30, 2015 is determined to be other-than-temporary and, in the case of debt securities, the loss is related to credit factors, we would recognize a charge to earnings in the quarter during which such determination is made and capital ratios could be adversely affected. Even if we do not determine that the unrealized losses associated with this portfolio require an impairment charge, increases in these unrealized losses adversely affect our tangible common equity ratio, which may adversely affect credit rating agency and investor sentiment towards us. Any negative perception also may adversely affect our ability to access the capital markets or might increase our cost of capital. Valuation and other-than-temporary impairment determinations will continue to be affected by external market factors including default rates, severity rates and macro-economic factors.

Downgrades in our credit ratings could further increase the cost of borrowing funds.

The Corporation's ability to access new non-deposit sources of funding could be adversely affected by downgrades in our credit ratings. The Corporation's liquidity is to a certain extent contingent upon its ability to obtain external sources of funding to finance its operations. The Corporation's current credit ratings and any downgrades in such 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 results of operations. Also,

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changes in credit ratings may further affect the fair value of unsecured derivatives that consider the Corporation's own credit risk as part of the valuation.

Defective and repurchased loans may harm our business and financial condition.

In connection with the sale and securitization of loans, we are required to make a variety of customary representations and warranties regarding First BanCorp. on the loans sold or securitized. Our obligations with respect to these representations and warranties are generally outstanding for the life of the loan, and relate to, among other things:

compliance with laws and regulations;

underwriting standards;

the accuracy of information in the loan documents and loan file; and

the characteristics and enforceability of the loan

A loan that does not comply with these representations and warranties may take longer to sell, may impact our ability to obtain third party financing for the loan, and may not be saleable or may be saleable only at a significant discount. If such a loan is sold before we detect non-compliance, we may be obligated to repurchase the loan and bear any associated loss directly, or we may be obligated to indemnify the purchaser against any loss, either of which could reduce our cash available for operations and liquidity. Management believes that it has established controls to ensure that loans are originated in accordance with the secondary market's requirements, but mistakes may be made, or certain employees may deliberately violate our lending policies.

Our controls and procedures may fail or be circumvented, our risk management policies and procedures may be inadequate and operational risk could adversely affect our consolidated results of operations.

We may fail to identify and manage risks related to a variety of aspects of our business, including, but not limited to, operational risk, interest-rate risk, trading risk, fiduciary risk, legal and compliance risk, liquidity risk and credit risk. We have adopted and periodically improved various controls, procedures, policies and systems to monitor and manage risk. Any improvements to our controls, procedures, policies and systems, however, may not be adequate to identify and manage the risks in our various businesses. If our risk framework is ineffective, either because it fails to keep pace with changes in the financial markets or our businesses or for other reasons, we could incur losses or suffer reputational damage or find ourselves out of compliance with applicable regulatory mandates or expectations.

We may also be subject to disruptions from external events that are wholly or partially beyond our control, which could cause delays or disruptions to operational functions, including information processing and financial market settlement functions. In addition, our customers, vendors and counterparties could suffer from such events. Should these events affect us, or the customers, vendors or counterparties with which we conduct business, our consolidated results of operations could be negatively affected. When we record balance sheet reserves for probable loss contingencies related to operational losses, we may be unable to accurately estimate our potential exposure, and any reserves we establish to cover operational losses may not be sufficient to cover our actual financial exposure, which may have a material impact on our consolidated results of operations or financial condition for the periods in which

we recognize the losses.

Cyber-attacks, system risks and data protection breaches could present significant reputational, legal and regulatory costs.

First BanCorp. is under continuous threat of cyber-attacks especially as we continue to expand customer services via the internet and other remote service channels. Three of the most significant cyber-attack risks that we face are e-fraud, denial-of-service and computer intrusion that might result in loss of sensitive

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customer data. Loss from e-fraud occurs when cybercriminals breach and extract funds from customer bank accounts. Denial-of-service disrupts services available to our customers through our on-line banking system. Computer intrusion attempts might result in the breach of sensitive customer data, such as account numbers and social security numbers, and could present significant reputational, legal and/or regulatory costs to the Corporation if successful. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity of the threats from organized cybercriminals and hackers, and our plans to continue to provide electronic banking services to our customers.

If personal, non-public, confidential or proprietary information of our customers in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, the erroneous provision of information to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or the interception or other inappropriate use of such information by third parties.

We rely on other companies to perform key aspects of our business infrastructure.

Third parties perform key aspects of our business operations such as data processing, information security, recording and monitoring transactions, online banking interfaces and services, internet connections and network access. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, failure of a vendor to provide services for any reason or poor performance of services, or failure of a vendor to notify us of a reportable event, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third party vendor could also hurt our operations if those difficulties interfere with the vendor's ability to serve us. Replacing these third party vendors could also create significant delay and expense. Accordingly, use of such third parties creates an inherent risk to our business operations.

Hurricanes and other weather-related events could cause a disruption in our operations or other consequences that could have an adverse impact on our results of operations.

A significant portion of our operations is located in a region susceptible to hurricanes. Such weather events can cause disruption to our operations and could have a material adverse effect on our overall results of operations. We maintain hurricane insurance, including coverage for lost profits and extra expense; however, there is no insurance against the disruption to the markets that we serve that a catastrophic hurricane could produce. Further, a hurricane in any of our market areas could adversely impact the ability of borrowers to timely repay their loans and may adversely impact the value of any collateral held by us. The severity and impact of future hurricanes and other weather-related events are difficult to predict and may be exacerbated by global climate change. The effects of future hurricanes and other weather-related events could have an adverse effect on our business, financial condition or results of operations.

Competition for our employees is intense, and we may not be able to attract and retain the highly skilled people we need to support our business.

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we engage can be intense, and we may not be able to hire people or retain them, particularly in light of uncertainty concerning compensation restrictions applicable to banks but not applicable to other financial services firms. The unexpected loss of services of one or more of our key personnel could adversely affect our business because of the loss of their skills, knowledge of our markets and years of industry experience and, in some cases, because of the difficulty of promptly finding qualified replacement employees. Similarly, the loss of key

employees, either individually or as a group, could result in a loss of customer confidence in our ability to execute banking transactions on their behalf.

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Further increases in the FDIC deposit insurance premium or in FDIC required reserves may have a significant financial impact on us.

The FDIC insures deposits at FDIC-insured depository institutions up to certain limits. The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund (the DIF). In the event of a bank failure, the FDIC takes control of a failed bank and ensures payment of deposits up to insured limits using the resources of the DIF. The FDIC is required by law to maintain adequate funding of the DIF, and the FDIC may increase premium assessments to maintain such funding.

The Dodd-Frank Act requires the FDIC to increase the DIF's reserves against future losses, which will require institutions with assets greater than \$10 billion to bear an increased responsibility for funding the prescribed reserve to support the DIF. Since then, the FDIC addressed plans to bolster the DIF by increasing the required reserve ratio for the industry to 1.35 percent (ratio of reserves to insured deposits) by September 30, 2020, as required by the Dodd-Frank Act. The FDIC has also adopted a final rule raising its industry target ratio of reserves to insured deposits to 2 percent, 65 basis points above the statutory minimum, but the FDIC does not project that goal to be met for several years.

The FDIC's revised rule on deposit insurance assessments implements a provision in the Dodd-Frank Act that changes the assessment base for deposit insurance premiums from one based on domestic deposits to one based on average consolidated total assets minus average Tier 1 capital. The rule changes the assessment rate schedules for insured depository institutions so that approximately the same amount of revenue would be collected under the new assessment base as would be collected under the previous rate schedule and the schedules previously proposed by the FDIC. The rule also revises the risk-based assessment system for all large insured depository institutions (generally, institutions with at least \$10 billion in total assets, such as FirstBank). Under the rule, the FDIC uses a scorecard method to calculate assessment rates for all such institutions.

The FDIC may further increase FirstBank's premiums or impose additional assessments or prepayment requirements in the future. The Dodd-Frank Act has removed the statutory cap for the reserve ratio, leaving the FDIC free to set this cap going forward.

Our businesses may be adversely affected by litigation.

From time to time, our customers, or the government on their behalf, may make claims and take legal action relating to our performance of fiduciary or contractual responsibilities. We may also face employment lawsuits or other legal claims. In any such claims or actions, demands for substantial monetary damages may be asserted against us resulting in financial liability or an adverse effect on our reputation among investors or on customer demand for our products and services. We may be unable to accurately estimate our exposure to litigation risk when we record balance sheet reserves for probable loss contingencies. As a result, any reserves we establish to cover any settlements or judgments may not be sufficient to cover our actual financial exposure, which may have a material adverse impact on our consolidated results of operations or financial condition.

In the ordinary course of our business, we are also subject to various regulatory, governmental and law enforcement inquiries, investigations and subpoenas. These may be directed generally to participants in the businesses in which we are involved or may be specifically directed at us. In regulatory enforcement matters, claims for disgorgement, the imposition of penalties and the imposition of other remedial sanctions are possible.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs, potential

liabilities and the diversion of management's attention and resources.

The resolution of legal actions or regulatory matters, if unfavorable, could have a material adverse effect on our consolidated results of operations for the quarter in which such actions or matters are resolved or a reserve is established.

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Our businesses may be negatively affected by adverse publicity or other reputational harm.

Our relationships with many of our customers are predicated upon our reputation as a fiduciary and a service provider that adheres to the highest standards of ethics, service quality and regulatory compliance. Adverse publicity, regulatory actions, like the Regulatory Agreements, litigation, operational failures, the failure to meet customer expectations and other issues with respect to one or more of our businesses could materially and adversely affect our reputation, or our ability to attract and retain customers or obtain sources of funding for the same or other businesses. Preserving and enhancing our reputation also depends on maintaining systems and procedures that address known risks and regulatory requirements, as well as our ability to identify and mitigate additional risks that arise due to changes in our businesses, the market places in which we operate, the regulatory environment and customer expectations. If any of these developments has a material adverse effect on our reputation, our business will suffer.

Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of U.S. Generally Accepted Accounting Principles (GAAP), which are periodically revised and expanded. Accordingly, from time to time, we are required to adopt new or revised accounting standards issued by the Financial Accounting Standards Board. Market conditions have prompted accounting standard setters to promulgate new requirements that further interpret or seek to revise accounting pronouncements related to financial instruments, structures or transactions as well as to revise standards to expand disclosures. The impact of accounting pronouncements that have been issued but not yet implemented is disclosed in footnotes to our financial statements, which are incorporated herein by reference. An assessment of proposed standards is not provided as such proposals are subject to change through the exposure process and, therefore, the effects on our financial statements cannot be meaningfully assessed. It is possible that future accounting standards that we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our financial condition and results of operations.

Any impairment of our goodwill or amortizable intangible assets may adversely affect our operating results.

If our goodwill or amortizable intangible assets become impaired, we may be required to record a significant charge to earnings. Under GAAP, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Goodwill is tested for impairment at least annually. Factors that may be considered a change in circumstances, indicating that the carrying value of the goodwill or amortizable intangible assets may not be recoverable, include reduced future cash flow estimates and slower growth rates in the industry.

The goodwill impairment evaluation process requires us to make estimates and assumptions with regards to the fair value of our reporting units. Actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact our results of operations and the reporting unit where the goodwill is recorded. We conducted our most recent evaluation of goodwill during the fourth quarter of 2015.

The Step 1 evaluation of goodwill allocated to the Florida reporting unit under valuation approaches (market and discounted cash flow analyses) indicated that the fair value of the unit was above the carrying amount of its equity book value as of the valuation date (October 1), which meant that Step 2 was not undertaken. Goodwill with a carrying value of \$28.1 million was not impaired as of December 31, 2015 or 2014, nor was any goodwill written off

due to impairment during 2015, 2014, and 2013. If we are required to record a charge to earnings in our consolidated financial statements because an impairment of the goodwill or amortizable intangible assets is determined, our results of operations could be adversely affected.

Table of Contents***Recognition of deferred tax assets is dependent upon the generation of future taxable income by the Bank.***

As of September 30, 2015, the Corporation had a deferred tax asset of \$311.4 million (net of a valuation allowance of \$204.1 million), including \$188.1 million associated with Net Operating Losses (NOL(s)). Under Puerto Rico law, the Corporation and its subsidiaries, including FirstBank, which incurred most of the NOLs, are treated as separate taxable entities and are not entitled to file consolidated tax returns. To obtain the full benefit of the applicable deferred tax asset attributable to NOLs, FirstBank must have sufficient taxable income within the applicable carry forward period (7 years for taxable years beginning before January 1, 2005, 12 years for taxable years beginning after December 31, 2004 and before January 1, 2013, and 10 years for taxable years beginning after December 31, 2012). The Bank incurred all of its NOLs on or after 2009. Accounting for income taxes requires that companies assess whether a valuation allowance should be recorded against their deferred tax asset based on an assessment of the amount of the deferred tax asset that is more likely than not to be realized.

The Corporation concluded that, as of September 30, 2015, it is more likely than not that FirstBank will generate sufficient taxable income within the applicable NOL carry-forward periods to realize a significant portion of its deferred tax assets. The Corporation recorded a partial reversal of its valuation allowance in the amount of \$302.9 million in the fourth quarter of 2014. As a result of the partial reversal, the Corporation's valuation allowance decreased to \$204.6 million, as of December 31, 2014, from \$522.7 million as of December 31, 2013. Due to significant estimates utilized in determining the valuation allowance and the potential for changes in facts and circumstances, it is reasonably possible that, in the future, the Corporation will not be able to reverse the remaining valuation allowance or that the Corporation will need to increase its current deferred tax asset valuation allowance.

The Corporation's judgments regarding accounting policies and the resolution of tax disputes may impact the Corporation's earnings and cash flow.

Significant judgment is required in determining the Corporation's effective tax rate and in evaluating its tax positions. The Corporation provides for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement criteria prescribed by applicable GAAP.

Fluctuations in federal, state, local and foreign taxes or a change to uncertain tax positions, including related interest and penalties, may impact the Corporation's effective tax rate. When particular tax matters arise, a number of years may elapse before such matters are audited and finally resolved. In addition, tax positions may be challenged by the United States Internal Revenue Service (IRS) and the tax authorities in the jurisdictions in which we operate and we may estimate and provide for potential liabilities that may arise out of tax audits to the extent that uncertain tax positions fail to meet the recognition standard under applicable GAAP. Unfavorable resolution of any tax matter could increase the effective tax rate and could result in a material increase in our tax expense. Resolution of a tax issue may require the use of cash in the year of resolution. Tax year 2012 is currently under examination by the IRS. If any issues addressed in this examination are resolved in a manner not consistent with the Corporation's expectations, the Corporation could be required to adjust its provision for income taxes in the period in which such resolution occurs.

We must respond to rapid technological changes, and these changes may be more difficult or expensive than anticipated.

If competitors introduce new products and services embodying new technologies, or if new industry standards and practices emerge, our existing product and service offerings, technology and systems may become obsolete. Further, if we fail to adopt or develop new technologies or to adapt our products and services to emerging industry standards, we may lose current and future customers, which could have a material adverse effect on our business, financial condition and results of operations. The financial services industry is changing rapidly and, in order to remain competitive, we

must continue to enhance and improve the functionality and features of our products, services and technologies. These changes may be more difficult or expensive than we anticipate.

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RISKS RELATING TO BUSINESS ENVIRONMENT AND OUR INDUSTRY

Difficult market conditions have affected the financial industry and may adversely affect us in the future.

Given that most of our business is in Puerto Rico and the United States and given the degree of interrelation between Puerto Rico's economy and that of the United States, we are exposed to downturns in the U.S. economy, including factors such as unemployment and underemployment levels in the United States and real estate valuations. The deterioration of these conditions could adversely affect the credit performance of mortgage loans, credit default swaps and other derivatives, and result in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial banks and investment banks.

Despite improving labor markets in the U.S. in the past year, an elevated amount of underemployment and household debt, the prolonged low interest rate environment, along with a continued sluggish recovery in the consumer real estate market and certain commercial real estate markets in the U.S., pose challenges for the U.S. economic performance and the financial services industry.

In particular, we may face the following risks:

Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite the loans become less predictive of future behaviors.

The models used to estimate losses inherent in the credit exposure require difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of the borrowers to repay their loans, which may no longer be capable of accurate estimation and which may, in turn, impact the reliability of the models.

Our ability to borrow from other financial institutions or to engage in sales of mortgage loans to third parties (including mortgage loan securitization transactions with government-sponsored entities and repurchase agreements) on favorable terms, or at all, could be adversely affected by further disruptions in the capital markets or other events, including deteriorating investor expectations.

Competitive dynamics in the industry could change as a result of consolidation of financial services companies in connection with current market conditions.

We may be unable to comply with the Written Agreement, which could result in further regulatory enforcement actions.

We expect to face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

There may be downward pressure on our stock price.

The deterioration of economic conditions in the U.S. and disruptions in the financial markets could adversely affect our ability to access capital and our business, financial condition and results of operations.

Continuation of the economic slowdown and decline in the real estate market in Puerto Rico could continue to harm our results of operations.

The residential mortgage loan origination business has historically been cyclical, enjoying periods of strong growth and profitability followed by periods of shrinking volumes and industry-wide losses. The market for residential mortgage loan originations has declined over the past few years and this trend may continue to reduce the level of mortgage loans we produce in the future and adversely affect our business. During periods of rising interest rates, the refinancing of many mortgage products tends to decrease as the economic incentives for borrowers to refinance their existing mortgage loans are reduced. In addition, the residential mortgage loan origination business is impacted by home values.

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The actual rates of delinquencies, foreclosures and losses on loans have been higher during the economic slowdown. Rising unemployment, lower interest rates and declines in housing prices have had a negative effect on the ability of borrowers to repay their mortgage loans. Any sustained period of increased delinquencies, foreclosures or losses could continue to harm our ability to sell loans, the prices we receive for loans, the values of mortgage loans held for sale or residual interests in securitizations, which could continue to harm our financial condition and results of operations. In addition, any additional material decline in real estate values would further weaken the collateral loan-to-value ratios and increase the possibility of loss if a borrower defaults. In such event, we will be subject to the risk of loss on such real estate arising from borrower defaults to the extent not covered by third-party credit enhancement.

The Corporation's financial results may be adversely affected by Puerto Rico's current economic condition.

A significant portion of our financial activities and credit exposure is concentrated in the Commonwealth of Puerto Rico, which has been in an economic recession since 2006. Based on the first nine months of calendar year 2015, the main economic indicators suggest that the Puerto Rico economy remains weak. For fiscal year 2015, the Puerto Rico Planning Board projects a continued economic contraction in the Commonwealth's real gross national product (GNP) of 0.9%. The seasonally adjusted labor force measure continued its declining trend in September 2015, reflecting a reduction of 0.5% compared to September 2014. This continued reduction has partially resulted in a reduced seasonally adjusted unemployment rate in Puerto Rico, which decreased to 11.4% in September 2015, compared to 13.9% in September 2014. The seasonally adjusted payroll non-farm employment rate slightly increased 0.8% in September 2015, compared to September 2014.

Based on information published by the Puerto Rico Government, preliminary General Fund net revenues for the fiscal year ended June 30, 2015 were \$8.961 billion, a decrease of \$76.0 million when compared to the prior fiscal year and \$604.1 million less than the original estimate for the year. The Government's most recent projection is that it will close fiscal year 2015 with a budget deficit in the range of \$531 million to \$566 million, an amount that, when adjusted for actual tax refunds paid in this fiscal year in excess of the reserve included in the budget for fiscal year 2015, increases the deficit to a range of \$705 million to \$740 million. Preliminary General Fund net revenues for the first three months of fiscal year 2016 were \$1.935.8 billion, an increase of \$162.0 million when compared to the prior fiscal year and \$18.8 million higher than the original estimate for the first quarter of fiscal year 2016.

On June 28, 2015, the Governor of Puerto Rico and the Government Development Bank for Puerto Rico released a report by former World Bank Chief Economist and former Deputy Director of the International Monetary Fund, Dr. Anne Krueger, and economists Dr. Ranjit Teja and Dr. Andrew Wolfe that analyzes the full extent of the Commonwealth's fiscal condition including revenues, expenditures, deficits, and current and future obligations. It also makes recommendations for a five-year fiscal adjustment plan. The Krueger Report states that Puerto Rico faces an acute crisis in the face of faltering economic activity, fiscal solvency debt sustainability, and institutional credibility.

On June 29, 2015, the Governor of Puerto Rico announced that the Government will seek alternatives to ensure that the aggregate debt burden of the Commonwealth is adjusted so it can be repaid on sustainable terms, while ensuring pension obligations are honored over the long term and essential services for the people of Puerto Rico are maintained, and issued an Executive Order to create the Puerto Rico Fiscal and Economic Recovery Working Group. After the announcement, the top three credit rating agencies, Moody's, S&P and Fitch downgraded the Puerto Rico issued bonds deeper into non-investment grade status. On July 31, 2015, GDB confirmed it made the debt service payment of \$169.6 million on outstanding GDB notes due on August 1, 2015. Nonetheless, another payment, due the same day, of \$57.9 million related to a debt obligation of the Public Finance Corporation and one in the amount of \$37 million in infrastructure and public finance payments due January 1, 2016 were not made. Government officials disclosed that due to the lack of appropriated funds by the Legislature of Puerto Rico as part of the current fiscal year 2016 budget, the debt service payment on these bonds was not made. These bonds are payable solely from

budgetary appropriations pursuant to legislation adopted by

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the Legislature of Puerto Rico. The Legislature of Puerto Rico is not legally bound to appropriate funds for such payments. These notes carry an explicit guarantee from the Commonwealth.

The Working Group was created to consider necessary measures, including the measures recommended in the Krueger Report, to address the fiscal crisis of the Commonwealth and will be responsible for developing and recommending to the Governor of Puerto Rico the Puerto Rico Fiscal and Economic Growth Plan (the Plan). The Plan must contain the administrative and legislative measures necessary to address the short, medium and long-term fiscal and economic challenges facing Puerto Rico, including measures to: (i) address the financing gaps and the debt load on the public sector, (ii) achieve the execution of its budgets, (iii) achieve greater transparency with respect to statistics and the government's financial information, and (iv) carry out the structural reforms necessary to promote the economic growth and competitiveness of the Commonwealth. Moreover, on October 21, 2015, the U.S. Department of Treasury released its roadmap to address Puerto Rico's ongoing economic and fiscal crisis and to create a path to economic recovery. This roadmap was presented to Congress by U.S Department of Treasury officials and laid out four immediate steps that Congress should take to address the crisis in Puerto Rico:

Provide Puerto Rico with the necessary tools to restructure its financial liabilities in a fair and orderly manner under the supervision of a federal bankruptcy court.

Enact strong fiscal oversight and help strengthen Puerto Rico's fiscal governance.

Provide a long-term solution to Puerto Rico's historically inadequate Medicaid treatment.

Reward work and support economic growth by providing access to an Earned Income Tax Credit.

The Commonwealth has adopted measures intended to raise additional revenue, including the increase of the sales and use tax (SUT). On May 29, 2015, the Commonwealth enacted Act No. 72, which increased the SUT rate and provided for a transition to a value added tax (VAT) to replace the central government's portion of the SUT, subject to certain conditions. Commencing on July 1, 2015, transactions that were subject to a 7% SUT are now subject to an 11.5% SUT. The SUT will be in effect until March 31, 2016, unless the Secretary of Treasury extends the effectiveness of the SUT for an additional sixty (60)-day period. On December 29, 2015, the Secretary of the Treasury issued Administrative Determination 15-26 providing that the regulations and pronouncements to be issued concerning the effectiveness of the SUT and the VAT will generally provide that the effectiveness of the SUT will not be extended and, therefore the SUT will apply until March 31, 2016 and the VAT will commence on April 1, 2016. In addition, commencing on October 1, 2015 and until March 31, 2016, the following provisions are in effect:

Business to business transactions that are currently taxable are subject to an 11.5% SUT.

Business to business services and designated professional services (e.g. accountants, certain legal services, engineers) that were previously exempt from SUT are subject to a Commonwealth SUT of 4% but no municipal SUT will apply to these services.

The following services are exempt from SUT: (i) services offered by the Commonwealth government and instrumentalities; (ii) education; (ii) interest and other financing charges; (iii) insurance; (iv) health and hospital services; and (v) services offered by persons with an annual volume of business not exceeding \$50,000.

After March 31, 2016, all transactions subject to the SUT will be subject to a new VAT of 10.5% plus a 1% municipal SUT. The new VAT will also apply on the introduction into Puerto Rico of taxable articles and on taxable transactions, which are: (i) the sale in Puerto Rico of goods and services by a merchant, (ii) the rendering of a service by a non-resident to a person in Puerto Rico, and (iii) combined transactions. Certain articles and transactions will not be subject to the VAT. It is uncertain how these measures will impact the consumer and commercial sector. The financial impact of the 4% tax on business to business transactions on the Corporation is expected to range between \$800,000 and \$900,000 for the fourth quarter of 2015.

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As of December 31, 2015, the Corporation had \$316.0 million of credit facilities, excluding investment securities, granted to the Puerto Rico Government, its municipalities and public corporations, of which \$314.8 million was outstanding (book value of \$311 million). Approximately \$199.5 million of the granted credit facilities outstanding consisted of loans to municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment. Approximately \$18.9 million consisted of loans to units of the Puerto Rico central government, and approximately \$97.6 million (\$97.5 million book value) consisted of loans to public corporations, including the direct exposure to the Puerto Rico Electric Power Authority with a book value of \$71.1 million as of December 31, 2015.

Furthermore, as of December 31, 2015, the Corporation had \$129.4 million outstanding in financings to the hotel industry in Puerto Rico where the borrower and underlying collateral are the primary sources of repayment and the Puerto Rico Tourism Development Fund provides a secondary guarantee for payment performance. The TDF is a subsidiary of the GDB that works with private-sector financial institutions to structure financings for new hospitality projects. The Corporation has been receiving payments from the TDF to cover scheduled payments on these financings since late 2012, including collections of interest and principal of approximately \$5.3 million in 2015 and \$4.5 million in 2014. The aforementioned \$129.4 million exposure was adversely classified during the third quarter of 2015 given liquidity risks and uncertainties over the governments' fiscal initiatives.

In addition, the Corporation had \$124.6 million in indirect exposure to residential mortgage loans that are guaranteed by the Puerto Rico Housing Authority. Mortgage loans guaranteed by the Puerto Rico Housing Authority are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default.

On August 14, 2014, PREPA, which has been experiencing significant financial difficulties, entered into forbearance agreements with certain of its bondholders and bank creditors. Among other things, the banks agreed to extend the maturity of their loans until March 31, 2015, and all bondholders and lenders party to the agreements agreed to forbear from exercising their rights against PREPA resulting from certain specified defaults until March 31, 2015. The forbearance agreements have been extended on several occasions.

Pursuant to the extension agreed to on April 30, 2015, PREPA delivered a recovery plan proposal to the forbearing creditors' advisors on June 1, 2015. On November 5, 2015, PREPA and its bank creditors signed a Restructuring Support Agreement (RSA) in which all parties accepted the recovery plan proposal and agreed upon the new economic terms behind PREPA's recovery proposal. The RSA established that in the event the Puerto Rico legislature has not enacted the PREPA Revitalization Act by January 22, 2016 the RSA would expire, unless such condition was extended by the parties. The PREPA Revitalization Act was not enacted by the legislature on such date causing the expiration of the RSA. The fuel line lenders (the banks) and the monolines subsequently agreed with PREPA to execute an extension of the RSA providing the 12th of February 2016 as the deadline for the enactment of the PREPA Revitalization Act. Providing all milestones on the RSA are accomplished the RSA terms are to be consummated no later than June 30, 2016.

In addition, as of December 31, 2015, the Corporation had \$49.7 million of obligations of the Puerto Rico government as part of its available-for-sale investment securities portfolio, net of the \$15.9 million other-than-temporary credit impairment recorded in year 2015, recorded on its books at a fair value of \$28.2 million as of December 31, 2015. The OTTI charge of \$15.9 million was recorded on three of the Puerto Rico Government bonds held by the Corporation as part of its available-for-sale securities portfolio. Based on the fiscal and economic situation in Puerto Rico, together with the government's announcements regarding its ability to pay its debt, the Corporation determined that part of the unrealized loss was other than temporary.

As of December 31, 2015, the Corporation had \$390.4 million of public sector deposits in Puerto Rico. Approximately 45% came from municipalities and municipal agencies in Puerto Rico and 55% came from public corporations and the central government and agencies in Puerto Rico.

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The decline in Puerto Rico's economy since 2006 has resulted in, among other things, in a decline in our loan originations, an increase in the level of our non-performing assets, higher loan loss provisions and charge-offs, and an increase in the rate of foreclosure loss on mortgage loans, all of which adversely affected our profitability. Any further potential deterioration of economic activity could result in further adverse effects on our profitability.

The failure of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by future failures of financial institutions and the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to different industries and counterparties and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, investment companies and other institutional clients. In certain of these transactions, we are required to post collateral to secure the obligations to the counterparties. In the event of a bankruptcy or insolvency proceeding involving one of such counterparties, we may experience delays in recovering the assets posted as collateral, or we may incur a loss to the extent that the counterparty was holding collateral in excess of the obligation to such counterparty, such as the loss of our assets that we pledged to Lehman Brothers, Inc., which we have been trying to recover, so far unsuccessfully.

In addition, many of these transactions expose us to credit risk in the event of a default by our counterparty or client. In addition, the credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. Any losses resulting from our routine funding transactions may materially and adversely affect our financial condition and results of operations.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations.

We and our subsidiaries are subject to extensive regulation by multiple regulatory bodies. These regulations may affect the manner and terms of delivery of our services. If we do not comply with governmental regulations, we may be subject to fines, penalties, lawsuits or material restrictions on our businesses in the jurisdiction where the violation occurred, which may adversely affect our business operations. Changes in these regulations can significantly affect the services that we are asked to provide as well as our costs of compliance with such regulations. In addition, adverse publicity and damage to our reputation arising from the failure or perceived failure to comply with legal, regulatory or contractual requirements could affect our ability to attract and retain customers.

The financial crisis of 2008 resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. The U.S. government intervened on an unprecedented scale, responding by temporarily enhancing the liquidity support available to financial institutions, establishing a commercial paper funding facility, temporarily guaranteeing money market funds and certain types of debt issuances and increasing insurance on bank deposits.

These programs have subjected financial institutions, particularly those participating in the TARP, to additional restrictions, oversight and costs. In addition, new proposals for legislation are periodically introduced in the U.S. Congress that could further substantially increase regulation of the financial services industry, impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of interest rates, financial product offerings and disclosures, and have an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied.

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In recent years, regulatory oversight and enforcement have increased substantially, imposing additional costs and increasing the potential risks associated with our operations. If these regulatory trends continue, they could adversely affect our business and, in turn, our consolidated results of operations.

We could be adversely affected by changes in tax laws and regulations or the interpretation of such laws and regulations.

The Corporation and its subsidiaries are subject to Puerto Rico income tax laws on their income from all sources. As Puerto Rico corporations, First BanCorp. and its subsidiaries are treated as foreign corporations for U.S. and USVI income tax purposes and are generally subject to U.S. and USVI income tax only on their income from sources within the U.S. and USVI or income effectively connected with the conduct of a trade or business in those regions. These tax laws are complex and subject to different interpretations. We must make judgments and interpretations about the application of these inherently complex tax laws when determining our provision for income taxes, our deferred tax assets and liabilities, and our valuation allowance.

In addition, legislative changes, particularly changes in tax laws, could adversely impact our results of operations.

Financial services legislation and regulatory reforms may have a significant impact on our business and results of operations and on our credit ratings.

The Corporation faces increased regulation and regulatory scrutiny as a result of, among other things, its participation in the Troubled Assets Relief Program (TARP). The U.S. Treasury acquired shares of Common Stock from the Corporation in October 2011 in exchange for shares of preferred stock that it owned because of the Corporation's issuance of preferred stock to Treasury in January 2009 pursuant to the TARP. In July 2010, the Corporation issued to Treasury a warrant, which amends, restates and replaces the original warrant that it issued to Treasury in January 2009 under the TARP. The Corporation's participation in the TARP also imposes limitations on the payments it may make to its senior leaders.

The Dodd-Frank Act significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes, and the regulations developed and to be developed thereunder include or will include, provisions affecting large and small financial institutions alike.

Section 171 of the Dodd-Frank Act (the Collins Amendment), among other things, requires the federal banking agencies to establish minimum leverage and risk-based capital requirements that will apply to both insured banks and their holding companies. Regulations implementing the Collins Amendment set as a floor for the capital requirements of the Corporation and FirstBank a minimum capital requirement computed using the FDIC's general risk-based capital rules that currently are in effect.

The federal banking agencies have adopted final rules for U.S. banks that revise in important respects the minimum regulatory capital requirements, the components of regulatory capital, and the risk-based capital treatment of bank assets and off-balance sheet exposures. The final rules, which became effective for the Corporation and FirstBank beginning January 1, 2015, generally are intended to align U.S. regulatory capital requirements with Basel III international regulatory capital standards adopted by the Basel Committee on Banking Supervision in 2010 (and revised in 2011) and known as Basel III. The new rules increase the quantity and quality of required capital by, among other things, establishing a new minimum common equity Tier 1 ratio of 4.5% of risk-weighted assets and an additional common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. In addition, banks and bank holding companies are required to have a Tier 1 leverage ratio of 4.0%, a Tier 1 risk-based ratio of 6.0% and a total risk-based ratio of 8.0%. The final rules also revise the definition of capital by expanding the conditions for the

inclusion of equity capital instruments and minority interests as Tier 1 capital, and impose limitations on capital distributions and certain discretionary bonus payments if additional specified amounts, or buffers, of common equity Tier 1 capital are not met.

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Consistent with Basel III and the Collins Amendment, the final rules also establish a more conservative standard for including an instrument such as trust-preferred securities as Tier 1 capital for bank holding companies with total consolidated assets of \$15 billion or more as of December 31, 2009, setting out a phase-out schedule. Bank holding companies such as the Corporation must fully phase out these instruments from Tier I capital by January 1, 2016, although qualifying trust preferred securities may be included as Tier 2 capital until the instruments are redeemed or mature. As of December 31, 2015, the Corporation had \$220 million in trust preferred securities that are now subject to the full phase-out from Tier 1 capital under the final regulatory capital rules discussed above.

In addition, the final rules revise and harmonize the bank regulators' rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses that have been identified recently, by applying a variation of the Basel III standardized approach for the risk-weighting of bank assets and off-balance sheet exposures to all U.S. banking organizations other than large, internationally active banks.

The final capital rules became effective for the Corporation and our subsidiary bank on a multi-year transitional basis starting on January 1, 2015, and in general will be fully effective as of January 1, 2019. First BanCorp. and FirstBank were able to meet well-capitalized capital ratios upon implementation of the requirements. Although we expect to continue to exceed the minimum requirements for well-capitalized status under the new capital rules, there can be no assurance that we will remain well-capitalized. Moreover, for as long as we are subject to the provisions of the Written Agreement, we cannot be considered to be well-capitalized.

Additional regulatory proposals and legislation, if finally adopted, would change banking laws and our operating environment and that of our subsidiaries in substantial and unpredictable ways. The ultimate effect that such legislation, if enacted, or regulations would have upon our financial condition or results of operations may be adverse.

Rulemaking changes implemented by the Bureau of Consumer Financial Protection (the CFPB) will result in higher regulatory and compliance costs related to originating and servicing residential mortgage loans and may adversely affect our results of operations.

The Dodd-Frank Act significantly changed the regulation of single-family residential mortgage lending in the United States. Among other things, the law transferred rule-making and enforcement powers from a number of federal agencies to the CFPB, imposed new risk retention and recordkeeping requirements on lenders (such as the Bank) that sell single-family residential mortgage loans in the secondary market, required revision of disclosure documents, limited loan originator compensation and expanded recordkeeping and reporting requirements under other federal statutes.

New regulations implement the Dodd-Frank Act amendments to the Equal Credit Opportunity Act, the Truth in Lending Act, and the Real Estate Settlement Procedures Act.

Among other consequences of these numerous changes, the new ability to repay requirements may result in reduced credit availability and higher borrowing costs to cover the costs of compliance. The ability of borrowers to raise new defenses in foreclosure proceedings on defaulted mortgage loans also may lead to increased foreclosure costs, extend foreclosure timeliness, and increase the severity of loan losses. Increased repurchase and indemnity requests with respect to mortgage loans sold into the secondary markets may also result.

These and other changes required by the Dodd-Frank Act have required require substantial modifications to the entire mortgage lending and servicing industry. Their impact may involve changes to our operations and increased compliance costs in making single-family residential mortgage loans. Additional rulemaking affecting the residential mortgage business may occur, which may cause us to incur additional increased regulatory and compliance costs.

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Compliance with stress testing requirements may be challenging.

The Corporation is currently subject to supervisory guidance for stress testing practices issued by the federal banking agencies in May 2012. This guidance outlines broad principles for a satisfactory stress testing framework and describes various stress testing approaches and how stress testing should be used at various levels within an organization. As previously discussed, the Corporation is also subject to two new stress testing rules that implement provisions of the Dodd-Frank Act, one issued by the Federal Reserve Board that applies to First BanCorp. on a consolidated basis and one issued by the FDIC that applies to the Bank.

Under the Dodd-Frank Act stress tests, the Corporation's first annual company-run stress testing was submitted to regulators in the first quarter of 2015. Public disclosure of the results for the severely adverse economic scenario was made during the second quarter of 2015 on the Corporation's website.

Future public disclosure of stress test results could result in reputational harm if the Corporation's results are worse than those of its competitors or otherwise indicate that the Corporation's risk profile is excessive or elevated. Furthermore, given that the Corporation will be subject to multiple stress testing requirements that are administered at different levels by more than one federal banking agency, and compliance with such requirements will be complicated, if the Corporation fails to fully comply with these requirements, it may be subject to regulatory action.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve Board have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations may be adverse.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the Community Reinvestment Act or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

We face a risk of noncompliance and enforcement action related to the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file

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suspicious activity and currency transaction reports as appropriate. The Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and IRS. We are also subject to increased scrutiny of compliance with trade and economic sanctions requirements and rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO AN INVESTMENT IN THE CORPORATION S SECURITIES

Issuance of additional equity securities in the public markets and other capital management or business strategies that we may pursue could depress the market price of our Common Stock and could result in dilution of holders of our Common Stock, including purchasers of our Common Stock under the resale registration statement.

Generally, we are not restricted from issuing additional equity securities, including Common Stock. We may choose or be required in the future to identify, consider and pursue additional capital management strategies to bolster our capital position. We may issue equity securities (including convertible securities, preferred securities, and options and warrants on our common or preferred stock securities) in the future for a number of reasons, including to finance our operations and business strategy, adjust our leverage ratio, address regulatory capital concerns, restructure currently outstanding debt or equity securities or satisfy our obligations upon the exercise of outstanding options or warrants. Future issuances of our equity securities, including Common Stock, in any transaction that we may pursue may dilute the interests of our existing holders of our Common Stock and preferred stock and cause the market price of our Common Stock to decline.

The Corporation has outstanding a warrant held by the Treasury to purchase 1,285,899 shares of Common Stock. If the warrant is exercised, the issuance of shares of Common Stock would reduce our income per share, and further reduce the book value per share and voting power of our current common stockholders.

Additionally, THL and Oaktree have anti-dilution rights, which they acquired when they purchased shares of Common Stock in the \$525 million capital raise, completed in October 2011 that have been, and will be in the future, triggered, subject to certain exceptions, upon our issuance of additional shares of Common Stock. In such a case, THL and Oaktree had, and will have, the right to acquire the amount of shares of Common Stock that will enable them to maintain their percentage ownership interest in the Corporation.

The market price of our Common Stock may continue to be subject to significant fluctuations and volatility.

The stock markets have experienced high levels of volatility since 2008. These market fluctuations have adversely affected, and may continue to adversely affect, the trading price of our Common Stock. In addition, the market price of our Common Stock has been subject to significant fluctuations and volatility because of factors specifically related to our businesses and may continue to fluctuate or decline.

Factors that could cause fluctuations, volatility or a decline in the market price of our Common Stock, many of which could be beyond our control, include the following:

uncertainties and developments related to the resolution of the Puerto Rico Government fiscal problems;

our ability to continue to comply with the Written Agreement;

any additional regulatory actions against us;

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changes or perceived changes in the condition, operations, results or prospects of our businesses and market assessments of these changes or perceived changes;

announcements of strategic developments, acquisitions and other material events by us or our competitors, including any failures of banks;

changes in governmental regulations or proposals, or new governmental regulations or proposals, affecting us;

a continuing recession in the Puerto Rico market and a lack of growth in our other principal markets in the USVI, BVI and U.S.;

the departure of key employees;

changes in the credit, mortgage and real estate markets;

operating results that vary from the expectations of management, securities analysts and investors;

operating and stock price performance of companies that investors deem comparable to us; and

the public perception of the banking industry and its safety and soundness.

In addition, the stock market in general, and the NYSE and the market for commercial banks and other financial services companies in particular, have experienced significant price and volume fluctuations that sometimes have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our Common Stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs, potential liabilities and the diversion of management's attention and resources.

Our suspension of dividends may have adversely affected and may further adversely affect our stock price and could result in the expansion of our Board of Directors.

In March 2009, the Federal Reserve Board issued a supervisory guidance letter intended to provide direction to bank holding companies (BHCs) on the declaration and payment of dividends, capital redemptions and capital repurchases by BHCs in the context of their capital planning process. The letter reiterates the long-standing Federal Reserve Board supervisory policies and guidance to the effect that BHCs should only pay dividends from current earnings. More specifically, the letter heightens expectations that BHCs will inform and consult with the Federal Reserve Board supervisory staff on the declaration and payment of dividends that exceed earnings for the period for which a dividend is being paid. In consideration of the financial results reported for the second quarter ended June 30, 2009, we decided, as a matter of prudent fiscal management and following the Federal Reserve Board guidance, to suspend the payment of dividends. Furthermore, our Written Agreement with the Federal Reserve Board precludes us from

declaring any dividends without the prior approval of the Federal Reserve. We cannot anticipate if and when the payment of dividends might be reinstated.

This suspension may have adversely affected and may continue to adversely affect our stock price. Further, because dividends on our Series A through E Preferred Stock have not been paid since we suspended dividend payments in August 2009, the holders of the preferred stock have the right to appoint two additional members to our Board of Directors. Any member of the Board of Directors appointed by the holders of Series A through E Preferred Stock is required to vacate his or her office if the Corporation resumes the payment of dividends in full for twelve consecutive monthly dividend periods.

There is no trading market for the Warrant and as a result, you may not be able to resell the Warrant at or above the price you pay for it.

There is no public market for the Warrant and we have no other warrants outstanding. Accordingly, your ability to resell the Warrant is significantly limited.

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RISKS RELATING TO THE RIGHTS OF HOLDERS OF OUR COMMON STOCK COMPARED TO THE RIGHTS OF HOLDERS OF OUR DEBT OBLIGATIONS AND SHARES OF PREFERRED STOCK

The holders of our debt obligations, which, as of September 30, 2015, were in the aggregate amount of approximately \$226.5 million, and the holders of our shares of preferred stock will have priority over our Common Stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of dividends.

In any liquidation, dissolution or winding up of First BanCorp., our Common Stock would rank below all debt claims against us and claims of all of our outstanding shares of Series A through E Preferred Stock, which have a liquidation preference of approximately \$36 million. Thus, holders of our Common Stock will not be entitled to receive any payment or other distribution of assets upon the liquidation, dissolution or winding up of First BanCorp. until after all our obligations to our debt holders have been satisfied and holders of senior equity securities and trust preferred securities have received any payment or distribution due to them. As a result, holders of our Common Stock could lose all or a part of their investment.

In addition, we are required to pay dividends on our preferred stock before we pay any dividends on our Common Stock. Holders of our Common Stock will not be entitled to receive payment of any dividends on their shares of our Common Stock unless and until we obtain the Federal Reserve's approval to resume payments of dividends on the shares of outstanding preferred stock and on our Common Stock. We may not obtain such approval.

Future offerings of preferred stock, which would likely be senior to our Common Stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of our Common Stock.

If the Written Agreement is terminated and we resume the payment of dividends on our outstanding preferred stock, our Board of Directors will again be authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the stockholders. Our Board of Directors would have the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights and preferences over our Common Stock with respect to dividends or upon our dissolution, winding up and liquidation and other terms. If we issue shares of preferred stock in the future that have a preference over our Common Stock with respect to the payment of dividends or upon liquidation, or if we issue shares of preferred stock with voting rights that dilute the voting power of our Common Stock, the rights of holders of our Common Stock will be adversely affected and the market price of our Common Stock could be adversely affected.

Treasury, which is a Selling Stockholder, is a federal agency and your ability to bring a claim against Treasury under the federal securities laws may be limited.

The doctrine of sovereign immunity, as limited by the Federal Tort Claims Act (the "FTCA"), provides that claims may not be brought against the United States of America or any agency or instrumentality thereof unless specifically permitted by act of Congress. The FTCA bars claims for fraud or misrepresentation. At least one federal court, in a case involving a federal agency, has held that the United States may assert its sovereign immunity to claims brought under the federal securities laws. In addition, Treasury and its officers, agents and employees are exempt from liability for any violation or alleged violation of the anti-fraud provisions of Section 10(b) of the Exchange Act by virtue of Section 3(c) thereof. We do not expect any underwriter in an offering of securities by Treasury to claim to be an agent of Treasury in such offering. Accordingly, any attempt to assert such a claim against the officers, agents or employees of Treasury for a violation of the Securities Act or the Exchange Act resulting from an alleged material misstatement in or material omission from this prospectus or the registration statement of which this prospectus is a part or resulting from any other act or omission in connection with an offering of securities by Treasury would likely be barred.

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FORWARD-LOOKING STATEMENTS

Certain statements made or incorporated by reference in this prospectus are forward-looking statements within the meaning of, and subject to the protections of, Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements contained herein or incorporated by reference in this prospectus that are not clearly historical in nature are forward-looking, and the words would be, will allow, intends to, will likely result, are expected to, should, anticipate, or similar expressions are generally intended to identify forward-looking statements.

These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, estimates and assumptions by us that are difficult to predict. Various factors, some of which are beyond our control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to, the risks described below in the Risk Factors section, and the following:

uncertainty about whether the Corporation will be able to continue to fully comply with the Written Agreement that the Corporation entered into with the Federal Reserve that, among other things, requires the Corporation to serve as a source of strength to FirstBank and that, except with the consent generally of the Federal Reserve and the Federal Reserve Board, prohibits the Corporation from paying dividends to stockholders or receiving dividends from FirstBank, making payments on trust preferred securities or subordinated debt and incurring, increasing or guaranteeing debt or repurchasing any capital securities;

the ability of the Puerto Rico government or any of its public corporations or other instrumentalities to repay its respective debt obligations, including the effect of the recent payment defaults of a government public corporation, and recent and any future downgrades of the long-term and short-term debt ratings of the Puerto Rico government, which could exacerbate Puerto Rico's adverse economic conditions;

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

uncertainty as to the availability of certain funding sources, such as retail brokered CDs;

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

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

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

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

adverse changes in general economic conditions in Puerto Rico, the U.S., and the USVI and BVI, including the interest rate environment, market liquidity, housing absorption rates, real estate prices, and disruptions in the U.S. capital markets, which have reduced interest margins and affected funding sources, and has affected demand for all of the Corporation's products and services and reduced the Corporation's revenues and earnings, and the value of the Corporation's assets, and may once again have these effects;

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

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the risk that additional portions of the unrealized losses in the Corporation's investment portfolio are determined to be other-than-temporary, including additional impairments on the Puerto Rico government's obligations;

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

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

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

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

the impact on the Corporation's results of operations and financial condition of acquisitions and dispositions, including the acquisition of loans and branches of Doral Bank as well as the assumption of deposits at the branches acquired from Doral during the first quarter of 2015;

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

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

the impact of the Dodd-Frank Act on the Corporation's businesses, business practices and cost of operations; and

general competitive factors and industry consolidation.

Although the forward-looking statements are based on our current beliefs and expectations, we do not undertake, and specifically disclaim any obligation, to update any of the forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements except as required by federal securities laws.

You should read this prospectus and the documents that we incorporate by reference into this prospectus and have filed as exhibits to the registration statement of which this prospectus is a part completely and with the understanding that our actual future results may be materially different from what we expect. The information contained in this prospectus is accurate only as of its date, regardless of the time of delivery of this prospectus or any sale of the

Securities.

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DESCRIPTION OF WARRANT TO PURCHASE COMMON STOCK

General

On January 16, 2009, the Corporation issued the original Warrant to Treasury in connection with Treasury's purchase of preferred stock pursuant to the Capital Purchase Program under the TARP. Initially, the original Warrant had a ten-year term and was exercisable at any time for 389,483 shares of Common Stock at an exercise price of \$154.05.

On July 20, 2010, pursuant to the Exchange Agreement dated as of July 7, 2010 with Treasury, the Corporation agreed to amend and restate the terms of the original Warrant. As amended and restated, the term of the original Warrant was extended to July 20, 2020, and the initial exercise price of the original Warrant was adjusted to \$10.878. On October 7, 2011, the Warrant was further adjusted as a result of the capital raise to provide for the issuance of 1,285,899 shares of Common Stock at an exercise price of \$3.29 per share. The exercise price and the number of shares issuable upon exercise of the Warrant are subject to certain anti-dilution adjustments.

The Corporation will reserve and keep available, out of its authorized but unissued Common Stock, a sufficient number of shares to satisfy the exercise of the Warrant at any time. No fractional shares will be issued upon exercise of the Warrant. In lieu of a fractional share, the Corporation will make a cash payment equal to the market price less the pro-rated exercise price for such fractional share. We have listed the Common Stock issuable upon exercise of the Warrant with the NYSE.

The holder of the Warrant shall have no rights or privileges of the holders of our Common Stock, including any voting rights, until (and then only to the extent) the Warrant has been exercised.

Adjustment and Other Rights

The exercise price and the number of shares of Common Stock issuable upon exercise of the Warrant will be adjusted proportionately:

in the event of a stock split, subdivision, reclassification or combination of the outstanding shares of Common Stock;

in connection with any distributions by the Corporation to security holders (e.g., cash or stock dividends);

in connection with certain repurchases of Common Stock by the Corporation; and

in connection with certain business combinations.

Transfer/Assignment

Treasury may transfer all or a portion of the Warrant at any time.

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PLAN OF DISTRIBUTION

We are registering the Securities covered by this prospectus to permit Selling Stockholders, and any assignees, transferees, pledgees, or donees or any of the successors in interest of the Selling Stockholders named in a prospectus supplement to this prospectus, to conduct public secondary trading of the Securities. We will not receive any of the proceeds of the sale of the Securities offered by this prospectus. If the Warrant is exercised for cash by a purchaser of the Warrant under this prospectus, the net proceeds to the Corporation from the sale of the shares of Common Stock issued upon such exercise will be used for general corporate purposes, including the repayment of debt, acquisitions, additions to working capital, capital expenditures and investments in our subsidiaries. However, we will receive no cash if and to the extent the Warrant is exercised pursuant to the net, or cashless, exercise feature of the Warrant. The aggregate proceeds to the Selling Stockholders from the sale of the Securities will be the purchase price of the Securities less any discounts and commissions. A Selling Stockholder may offer and sell the Securities included in this prospectus from time to time through one or more methods specified herein or through a combination of any of such methods or any other method permitted pursuant to applicable law.

The Selling Stockholders may offer and sell their Securities included in this prospectus from time to time directly to purchasers, through underwriters, to dealers, or through agents, at fixed prices, which may be changed, at market prices prevailing at the time of sale, at prices related to the prevailing market prices, at varying prices determined at the time of sale or at privately negotiated prices.

The Selling Stockholders may offer and sell some or all of the Securities included in this prospectus by or through a broker-dealer in one or more, or a combination, of the following methods, without limitation:

purchases by the broker-dealer as principal, and resale by the broker-dealer for its account;

a block trade in which the broker-dealer may attempt to sell the shares as agent, but may resell all or a portion of the block as principal in order to facilitate the transaction;

in a public auction;

transactions in which a broker-dealer may agree with one or more Selling Stockholders to sell a specified number of such shares at a stipulated price per share;

transactions in which the broker-dealer as agent solicits purchasers and ordinary brokerage transactions by the broker-dealer as agent; or

an offering at other than a fixed price on or through the facilities of any stock exchange on which the Common Stock is listed or to or through a market maker other than on that stock exchange.

The Selling Stockholders may directly make offers to sell some or all of the Securities included in this prospectus to, or solicit offers to purchase such shares from, purchasers from time to time. If required, the prospectus supplement related to any such offering by the Selling Stockholders will set forth the terms of such offering.

The Selling Stockholders may sell some or all of the Securities included in this prospectus from time to time to one or more underwriters, which would purchase the shares as principal for resale to purchasers, on a firm-commitment or other basis. If the Selling Stockholders sell Securities to underwriters, they may execute an underwriting agreement with them at the time of sale and, if required, will name them in the prospectus supplement related to any such offering. In connection with those sales, underwriters may be deemed to have received compensation from the Selling Stockholders in the form of underwriting discounts or commissions and may also receive commissions from purchasers of the Securities for which they may act as agents. Underwriters may resell Securities to or through dealers, and those dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from purchasers for which they may act as agents. The prospectus supplement related to any such offering will include any required information about

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underwriting compensation to be paid to underwriters, and any discounts, concessions or commissions underwriters allow to participating dealers, in connection with such offering.

From time to time, the Selling Stockholders may sell the Securities included in this prospectus to one or more dealers acting as principals. If required, the prospectus supplement related to any such offering will name such dealers as Selling Stockholders, and will include information about any compensation paid to the dealers, in such offering. The dealers, which may be deemed to be underwriters as that term is defined in the Securities Act, may then resell the Securities to purchasers.

The Selling Stockholders may sell the Securities they hold using a public auction process in which the public offering price and the allocation of the Securities will be determined through an auction conducted by an auction agent. The auction process may involve a modified Dutch auction mechanic in which the auction agent (and potentially other brokers) will receive and accept bids from bidders at either a minimum bid price or at price increments in excess of the minimum bid price. The auction agent and any such other brokers may be the underwriters or their affiliates. After the auction closes and those bids become irrevocable, the auction agent will determine the clearing price for the sale of the Securities offered in the auction, and subject to agreement between the Selling Stockholders and the underwriter or underwriters to proceed with the offering, the Securities will be allocated to winning bidders by the underwriter or underwriters. If the Selling Stockholders use a public auction process to sell the Securities, a more detailed description of the procedures to be used in connection with any such auction will be set forth in a pricing supplement to this prospectus.

The Selling Stockholders may designate broker-dealers as agents from time to time to solicit offers from purchasers to purchase the Securities included in this prospectus, or to sell such Securities in ordinary brokerage transactions, on their behalf. If required, the prospectus supplement related to any such offering will name such agents, and will include information about any commissions paid to the agents in such offering. Agents may be deemed to be underwriters as that term is defined in the Securities Act in such offering.

Each of the Selling Stockholders may be deemed to be an underwriter as that term is defined in the Securities Act, and any profit on the sale of the Securities included in this prospectus by such Selling Stockholder may be deemed to be underwriting discounts or commissions under the Securities Act.

In connection with a firm commitment offering, the underwriters may purchase and sell the Securities in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares of the Common Stock than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Common Stock while the offering is in progress. The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the underwriters have repurchased Common Stock sold by or for the account of that underwriter in stabilizing or short-covering transactions. These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the Common Stock. As a result, the price of the Common Stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on or through the NYSE, the existing trading market for the Common Stock, or in the over-the-counter market or otherwise.

The Selling Stockholders or their underwriters, broker-dealers, or agents may make sales of the Securities that are deemed to be an at-the-market offering as defined in Securities Act Rule 415, which includes sales of such Securities made directly on or through the NYSE, the existing trading market for the Common Stock, or in the over-the-counter

market or otherwise.

Any underwriters, broker-dealers, or agents offering the Securities included in this prospectus will not confirm sales to any accounts over which they or their affiliates exercise discretionary authority without the prior approval of the customer.

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We have agreed to indemnify in certain circumstances Selling Stockholders and any brokers-dealers and agents who may be deemed to be underwriters, if any, of the securities covered by the registration statement, against certain liabilities, including liabilities under the Securities Act. The Selling Stockholders may agree to indemnify us in certain circumstances against certain liabilities, including liabilities under the Securities Act. In addition, underwriters, broker-dealers, agents and other persons may be entitled, under agreements that they may enter into with the Selling Stockholders, to indemnification by them against certain liabilities, including liabilities under the Securities Act, in connection with an offering of the Securities included in this prospectus.

We have agreed to pay the expenses of the registration of the Securities offered and sold by the Selling Stockholders under the registration statement, including, but not limited to, all registration and filing fees and fees and expenses of our counsel and our accountants. The Selling Stockholders will pay any underwriting discounts, commissions and transfer taxes applicable to the Securities sold by them. In the case of Treasury, we previously agreed to pay all selling expenses incurred in connection with any registration of the Securities offered and sold by Treasury, including all discounts, selling commissions and stock transfer taxes applicable to the sale of the Securities and fees and disbursements of counsel for Treasury.

In connection with our agreement to include in the registration statement the Securities to be offered for sale by the Selling Stockholders and to pay the expenses of the registration of such shares, we may require that the Selling Stockholders be subject to any restrictions on sale imposed by us from time to time, including, without limitation, with respect to blackout periods for sales, volume limitations, manner of sale restrictions or otherwise.

The Selling Stockholders and other persons participating in the sale or distribution of the Securities may be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M. This regulation may limit the timing of purchases and sales of any of the Securities. We have informed the Selling Stockholders that the anti-manipulation rules under the Exchange Act may apply to sales of the Securities in the market and to the activities of the Selling Stockholders and their affiliates. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of the Securities to engage in market-making activities with respect to the particular Securities being distributed for a period of up to five business days before the distribution. These restrictions may affect the marketability of the Securities and the ability of any person or entity to engage in market-making activities with respect to the Securities.

As a result of the requirements of the Financial Industry Regulatory Authority (FINRA), the maximum discount, concession or commission to be received by any FINRA member or independent broker-dealer may not be greater than eight percent (8%) of the gross proceeds received by the Selling Stockholders for the sale of any of the Securities included in this prospectus.

Any of the Securities included in this prospectus held by the Selling Stockholders that qualifies for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than pursuant to the registration statement. If any Selling Stockholder sells pursuant to Rule 144, such Selling Stockholder will not be deemed to be an underwriter as that term is defined in the Securities Act and will not be subject to the prospectus delivery requirements of the Securities Act with respect to such sales. The Securities covered by this prospectus may also be sold to non-U.S. persons outside the U.S. in accordance with Regulation S under the Securities Act rather than under this prospectus.

A Selling Stockholder may also sell the Securities through privately negotiated transactions, settlement of short sales, the writing or settlement of options or other hedging transactions (whether through an options exchange or otherwise) and an exchange distribution in accordance with the rules of the applicable exchange.

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USE OF PROCEEDS

We will not receive any proceeds from the sale of the Shares. The exercise price for the Warrant may be paid in cash or through the withholding by the Corporation of stock having a market value equal to the exercise price. If the Warrant is exercised for cash by a purchaser of the Warrant under this prospectus, the net proceeds to the Corporation from the sale of the shares of common stock issued upon such exercise will be approximately \$4.2 million. These proceeds will be used for general corporate purposes, including the repayment of debt, acquisitions, additions to working capital, capital expenditures and investments in our subsidiaries.

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SELLING STOCKHOLDERS

The table below sets forth beneficial ownership information for the Selling Stockholders as of December 31, 2015. Except as described below, the Selling Stockholders have not held any position or office or had any other material relationship with us or any of our predecessors or affiliates within the past three years. Of the shares being registered, 83,687,163 shares are beneficially owned by funds that have designated two directors to serve on our Board of Directors, 11,577,452 shares are beneficially owned by Treasury and 165,000 shares are beneficially owned by Roberto R. Herencia, our Chairman of the Board.

As noted in footnotes to the table below, two of the Selling Stockholders are affiliates of broker-dealers. Each Selling Stockholder that is an affiliate of a broker-dealer purchased the shares being registered for resale in the ordinary course of business and at the time of the purchase had no agreements or understandings, directly or indirectly, with any person to distribute the securities.

There follows a description of key provisions of and actions taken pursuant to our investment agreements with THL and Oaktree, as amended:

We reimbursed each of THL and an affiliate of Oaktree Capital Management, L.P. \$4 million for expenses each incurred in connection with the capital raise.

Each of THL and Oaktree has the right to designate a person to serve on our Board for as long as each of them owns at least 25% of the number of shares each acquired in connection with the capital raise. Consistent with our agreements with THL and Oaktree, we appointed Michael P. Harmon and Thomas Martin Hagerty as directors.

We appointed Roberto R. Herencia to serve as our Chairman of the Board.

We agreed to use our best efforts to nominate two additional directors to the Board so that a majority of our directors will be either investor designees or independent directors with banking or related financial management expertise. In this regard, on October 30, 2012, the Board elected Robert T. Gormley to serve as a director and Mr. Gormley currently serves on the Board. Moreover, on September 26, 2013, the Board elected David I. Matson to serve as a director and Mr. Matson currently serves on the Board.

THL and Oaktree have certain indemnification rights.

Each of THL and Oaktree may acquire additional shares of Common Stock in the following circumstances: (a) for as long as each of THL and Oaktree, as applicable, owns at least 25% of the number of shares of Common Stock that it acquired in connection with the capital raise, each such investor will have the right to acquire from us at such time as we sell (i) any Common Stock or securities that are convertible into or exchangeable for Common Stock, or include a Common Stock component, an amount of securities up to the amount of the new securities required to maintain its percentage Common Stock-equivalent interest in us at

the same level as it was before the issuance of those securities and (ii) any Common Stock or securities that are convertible into or exchangeable for Common Stock, or include a Common Stock component, to any investor to which we sold Common Stock in the capital raise an amount of securities up to the amount of new securities equal to the aggregate amount of new securities that we offer to sell to such other investor or its affiliates for the same price and on the same terms as such other offer or sale to such other investor or its affiliates; and (b) for as long as each of THL and Oaktree, as applicable, owns in the aggregate at least as many shares of Common Stock as any other entity or group of affiliated entities, if we offer to sell to any entity or group of affiliated entities Common Stock or securities that are convertible into or exchangeable for Common Stock, or include a Common Stock component, that would cause that entity or group of affiliated entities to own more shares of Common Stock than THL or Oaktree, as applicable, we will offer to sell to each of THL and Oaktree, for the same price and on the same terms, a number of new securities such that THL or Oaktree, as applicable, will own an amount of shares of Common Stock, after giving effect to the conversion or exercise of such new securities into Common

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Stock, equal to the number of shares of Common Stock owned by such other entity or group of affiliated entities.

On January 16, 2009, the Corporation entered into a Letter Agreement with Treasury pursuant to which Treasury invested \$400,000,000 in Series F Preferred Stock, of the Corporation and the Warrant under the TARP. On July 20, 2010, the Corporation issued 424,174 shares of Series G Preferred Stock to Treasury in exchange for the Series F Preferred Stock it previously held. The Series G Preferred Stock was convertible into the Corporation's Common Stock upon the satisfaction of certain conditions, including the completion of the capital raise. On October 7, 2011, simultaneous with the completion of the capital raise, the Corporation issued 32,941,797 shares of Common Stock to Treasury upon conversion of all of the Corporation's outstanding Series G Preferred Stock. Pursuant to the Warrant, Treasury is entitled to purchase up to 1,285,899 shares of Common Stock. Since then, Treasury has sold 22,650,244 shares of Common Stock.

On February 17, 2012, the Corporation entered into a Securities Purchase Agreement in connection with its sale of 165,000 shares of Common Stock in a private placement to Mr. Herencia.

Name and Address of Beneficial Owner	Beneficial Ownership Prior to the Offering		Number of Shares Being Offered	Beneficial Ownership After the Offering	
	Number of Shares(1)	Percent(2)	Number of Shares	Number of Shares(1)	Percent(2)
Thomas H. Lee (Alternative) Fund VI, L.P.(3)	23,011,234	10.70	23,011,234	0	0
Thomas H. Lee (Alternative) Parallel Fund VI, L.P.(3)	15,581,983	7.24	15,581,983	0	0
Thomas H. Lee (Alternative) Parallel (DT) Fund VI, L.P.(3)	2,721,860	1.27	2,721,860	0	0
THL FBC Equity Investors, L.P.(3)	528,505	*	528,505	0	0
Oaktree Principal Fund V (Delaware), L.P.(4)	34,617,194	16.09	34,617,194	0	0
Oaktree FF Investment Fund AIF (Delaware), L.P.(4)	7,226,387	3.36	7,226,387	0	0
Treasury(5)	11,577,452	5.38	11,577,452	0	0
Roberto R. Herencia	619,883	*	165,000	454,883	*

* Less than 1 percent

- (1) In accordance with Rule 13d-3 under the Exchange Act, a person is deemed to be the beneficial owner, for purposes of this table, of any Common Stock over which such person has voting or investment power or of which such person has the right to acquire beneficial ownership within 60 days of December 31, 2015.
- (2) The percentage of shares beneficially owned is calculated based on the number of shares outstanding as of December 31, 2015, which amount outstanding was 215,088,698 shares. In computing the percentage of shares beneficially owned, any shares which the person has a right to acquire within 60 days after December 31, 2015 are deemed outstanding for the purpose of computing the percentage of Common Stock beneficially owned by that person but are not deemed outstanding for the purpose of computing the percentage of shares beneficially owned by any other person.

- (3) Thomas H. Lee Advisors (Alternative) VI, Ltd. is the controlling entity of each of Thomas H. Lee (Alternative) Fund VI, L.P., Thomas H. Lee (Alternative) Parallel Fund VI, L.P., Thomas H. Lee (Alternative) Parallel (DT) Fund VI, L.P. and THL FBC Equity Investors, L.P. (the THL Funds). THL Holdco, LLC is the controlling entity of THL Managers VI, LLC. Voting and investment control over the shares held by the THL Funds and THL Managers VI, LLC are acted upon by a private equity management committee consisting of Todd M. Abbrecht, Anthony J. DiNovi, Thomas M. Hagerty, Seth W. Lawry, Soren L. Oberg, Scott M. Sperling and Kent R. Weldon (the THL Committee). Each member of the THL Committee may be deemed to share beneficial ownership of all shares reported herein. Each member of the THL Committee disclaims beneficial ownership of all shares reported herein except to the extent of any pecuniary interest therein.

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- (4) Each of Oaktree Principal Fund V (Delaware), L.P. (the PF V Fund) and Oaktree FF Investment Fund AIF (Delaware), L.P. (the AIF Fund) has indicated that it is an affiliate of a broker-dealer. Each of the PF V Fund and the AIF Fund may be deemed to share voting and investment power with several other affiliated entities of Oaktree.

The PF V Fund may share voting and investment power with Oaktree Capital Group Holdings GP, LLC (OCGH GP), in its capacity as the manager of Oaktree Capital Group, LLC (OCG), OCG, in its capacity as managing member of Oaktree Holdings, LLC (Oaktree Holdings), Oaktree Holdings, in its capacity as managing member of OCM Holdings I, LLC (Oaktree Holdings I), Oaktree Holdings I, in its capacity as general partner of Oaktree Capital I, L.P. (Oaktree Capital I), Oaktree Capital I, in its capacity as general partner of Oaktree Fund GP I, L.P. (Oaktree Fund GP I), Oaktree Fund GP I, in its capacity as managing member of Oaktree Fund GP, LLC (Oaktree Fund GP), Oaktree Fund GP, in its capacity as general partner of the PF V Fund.

The AIF Fund may share voting and investment power with OCGH GP, in its capacity as the general partner of Oaktree Capital Group Holdings, L. P. (OCGH LP), OCGH LP in its capacity as the controlling shareholder of Oaktree AIF Holdings, Inc. (Oaktree AIF Holdings), Oaktree AIF Holdings, in its capacity as general partner of Oaktree AIF Investments, L.P. (Oaktree AIF Investments), Oaktree AIF Investments, in its capacity as general partner of Oaktree Fund GP III, L.P. (Oaktree GP III), Oaktree GP III, in its capacity as sole member of Oaktree Fund GP AIF, LLC (Oaktree GP AIF), Oaktree GP AIF, in its capacity as general partner of Oaktree Fund AIF Series, L.P. Series I (Oaktree AIF and, together with OCGH GP, OCGH LP, OCG, Oaktree Holdings, Oaktree Holdings I, Oaktree Capital I, Oaktree Fund GP I, Oaktree Fund GP, Oaktree AIF Holdings, Oaktree AIF Investments, Oaktree GP III and Oaktree GP AIF, collectively, the Oaktree Entities), and Oaktree AIF, in its capacity as general partner of the AIF Fund.

OCGH GP is managed by an executive committee, the members of which are Howard S. Marks, Bruce A. Karsh, Jay Wintrob, John B. Frank, David M. Kirchheimer, Sheldon M. Stone and Stephen A. Kaplan (the OCGH GP Members). The OCGH GP Members make investment and voting decisions with respect to the shares reported herein. Michael P. Harmon, the Board representative for Oaktree, may be deemed to share voting and investment power with respect to the shares owned by the PF V Fund and the AIF Fund.

Each Oaktree Entity, each OCGH GP Member, and Mr. Harmon disclaim beneficial ownership of all shares reported herein except to the extent of their respective pecuniary interest therein.

- (5) Includes 1,285,899 shares that may be acquired by Treasury upon the exercise of the Warrant, which it acquired from the Corporation on January 16, 2009 and which was amended and restated on July 20, 2010. Treasury has sole voting and investment power of all shares reported herein but may exercise voting power only in accordance with the terms of the Exchange Agreement.

The following description was provided by Treasury and is derived from the website of Treasury. Treasury is the executive agency of the United States government responsible for promoting economic prosperity and ensuring the financial security of the United States. Treasury is responsible for a wide range of activities, such as advising the President of the United States on economic and financial issues, encouraging sustainable economic growth and fostering improved governance in financial institutions. Treasury operates and maintains systems that are critical to the nation's financial infrastructure, such as the production of coin and currency, the disbursement of payments to the American public, revenue collection and the borrowing of funds necessary to run the federal government. Treasury works with other federal agencies, foreign governments, and international financial institutions to encourage global economic growth, raise standards of living and, to the extent possible, predict and prevent economic and financial crises. Treasury also performs a critical and far-reaching role in enhancing national security by implementing economic sanctions against foreign threats to the United States, identifying and targeting the financial support networks of national security threats and improving the safeguards of our financial systems. In addition, under the

Emergency Economic Stabilization Act of 2008, Treasury was given certain authority and facilities to restore the liquidity and stability of the financial system.

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The doctrine of sovereign immunity, as limited by the FTCA, provides that claims may not be brought against the United States of America or any agency or instrumentality thereof unless specifically permitted by act of Congress. The FTCA bars claims for fraud or misrepresentation. The courts have held, in cases involving federal agencies and instrumentalities, that the United States may assert its sovereign immunity to claims brought under the federal securities laws. Thus, any attempt to assert a claim against Treasury alleging a violation of the federal securities laws, including the Securities Act and the Exchange Act, resulting from an alleged material misstatement in or material omission from this prospectus or the registration statement of which this prospectus is a part, or any other act or omission in connection with the offering to which this prospectus relates, likely would be barred. In addition, Treasury and its members, officers, agents, and employees are exempt from liability for any violation or alleged violation of the anti-fraud provisions of Section 10(b) of the Exchange Act by virtue of Section 3(c) thereof. We do not expect any underwriter in an offering of securities by Treasury to claim to be an agent of Treasury in such offering. Accordingly, any attempt to assert such a claim against the members, officers, agents or employees of Treasury for a violation of the Securities Act or the Exchange Act resulting from an alleged material misstatement in or material omission from this prospectus, any applicable prospectus supplement or the registration statement of which this prospectus and any applicable prospectus supplement are a part or resulting from any other act or omission in connection with the offering to which this prospectus relates likely would be barred.

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U.S. FEDERAL AND PUERTO RICO INCOME TAX CONSEQUENCES

The following discussion describes the material United States federal and Puerto Rico income tax consequences to U.S. Holders (as defined below), Puerto Rico Holders (as defined below), and Puerto Rico corporations (as defined below), collectively, the Holders of the ownership and disposition of shares of Common Stock.

You are a U.S. Holder if you are a beneficial owner of shares of Common Stock and you are:

an individual citizen or resident of the United States;

a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate whose income is subject to United States federal income tax regardless of its source; or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons, as defined in the U.S. Internal Revenue Code of 1986, as amended (the U.S. Code), have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

The term U.S. Holder does not include Puerto Rico Holders nor does it include Puerto Rico corporations. As used herein, the term Puerto Rico Holder means an individual holder who is a bona fide resident of Puerto Rico during the entire taxable year within the meaning of Sections 933 and 937 of the U.S. Code. Puerto Rico corporations are corporations created or organized in or under the laws of Puerto Rico.

U.S. FEDERAL INCOME TAX CONSEQUENCES

The following discussion is based upon the provisions of the U.S. Code, regulations promulgated by Treasury thereunder, and administrative rulings and judicial decisions, in each case as of the date hereof. These authorities are subject to differing interpretations and may be changed, perhaps retroactively, resulting in United States federal income tax consequences different from those discussed below. We have not sought any ruling from the IRS with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with such statements and conclusions. For purposes of the discussion below, we have assumed that we should not be treated as a passive foreign investment company for U.S. federal income tax purposes. Further, this discussion also assumes that the shares of Common Stock are held as capital assets within the meaning of Section 1221 of the U.S. Code. In addition, this discussion does not address all tax considerations that may be applicable to your particular circumstances or to you if you are a U.S. Holder that may be subject to special tax rules, including, without limitation:

banks, insurance companies or other financial institutions;

regulated investment companies;

real estate investment trusts;

dealers in securities or commodities;

controlled foreign corporations;

passive foreign investment companies;

U.S. expatriates;

persons deemed to own 10% or more of our voting stock;

traders in securities that elect to use a mark-to-market method of accounting for securities holdings;

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tax-exempt organizations;

persons liable for alternative minimum tax;

persons that hold shares of Common Stock as part of a straddle or a hedging or conversion transaction; or

persons whose functional currency is not the United States dollar.

If a partnership (including any entity treated as a partnership for United States federal income tax purposes) holds shares of Common Stock, the tax treatment of a partner in a partnership generally will depend upon the status of the partner and the activities of the partnership. Such a partner or partnership is urged to consult its own tax advisor as to the United States federal income tax consequences of the ownership of shares of Common Stock.

You are urged to consult your own tax advisor regarding the United States federal, state, local, non-U.S. and other tax consequences of the ownership of shares of Common Stock.

Common Stock

Dividends on Common Stock

General

Under the current source of income rules of the U.S. Code, dividends on shares of our Common Stock will constitute gross income from sources outside the United States if less than 25% of First BanCorp. s gross income for the previous three taxable years is effectively connected with a trade or business in the United States. First BanCorp. does not believe that, for any of its taxable years beginning with its formation, 25% or more of its gross income has been effectively connected with a trade or business in the United States nor does it expect that 25% or more of its gross income will be effectively connected with a trade or business in the United States in any future taxable years. Accordingly, dividends paid on shares of our Common Stock will constitute gross income from sources outside the United States as long as First BanCorp. continues to meet the gross income test described above. The following discussion regarding Holders of our Common Stock assumes that dividends will constitute income from sources outside the United States.

U.S. Holders

In general, distributions with respect to our Common Stock, including the amount of any Puerto Rico taxes withheld on the distribution, will constitute dividends to the extent made out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. If a distribution exceeds our current and accumulated earnings and profits, the excess will be treated as a non-taxable return of capital to the extent of your tax basis in Common Stock and thereafter as capital gain from the sale or exchange of such Common Stock. A U.S. corporation cannot deduct dividends because the dividends-received deduction provided in Section 243 of the U.S. Code is not available. Dividends received by non-corporate U.S. holders, including individuals, qualify for preferential rates of taxation.

Subject to certain conditions and limitations contained in the U.S. Code, any Puerto Rico income tax imposed on dividends distributed by First BanCorp. in accordance with Puerto Rico income tax law may be eligible for credit against the U.S. Holder s U.S. federal income tax liability. For purposes of calculating a U.S. Holder s U.S. foreign tax

credit, dividends distributed by First BanCorp. will be income from sources outside the United States, and, depending on your circumstances, will be either passive category income or general category income. The rules governing the foreign tax credit are complex. You are urged to consult your own tax advisor regarding the availability of the foreign tax credit under your particular circumstances.

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Puerto Rico Holders

In general, distributions of dividends made by First BanCorp. on the shares of our Common Stock to a Puerto Rico Holder will constitute gross income from sources within Puerto Rico and will not be includible in the Puerto Rico Holder's gross income for, and will be exempt from, U.S. federal income taxation. In addition, for U.S. federal income tax purposes, no deduction or credit will be allowed that is allocable to or chargeable against amounts so excluded from the Puerto Rico Holder's gross income.

Puerto Rico corporations

In general, distributions of dividends made by First BanCorp. on the shares of our Common Stock to a Puerto Rico corporation will not, in the hands of the Puerto Rico corporation, be subject to U.S. federal income tax if the dividends are not effectively connected with a United States trade or business of the Puerto Rico corporation. The U.S. Code provides special rules for Puerto Rico corporations that are Controlled Foreign Corporations, Personal Holding Companies, or Passive Foreign Investment Companies for U.S. federal income tax purposes.

Gain on Disposition of Common Stock

General

Upon the sale or other disposition of Common Stock, you will generally realize capital gain or loss for United States federal income tax purposes equal to the difference between the value of the amount that you realize and your tax basis in the particular shares of Common Stock.

U.S. Holders

The capital gain realized by a non-corporate U.S. Holder upon a sale or other disposition of the Common Stock is generally taxed at preferential rates where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

Puerto Rico Holders

In general, gain from the sale or other disposition of shares of our Common Stock by a Puerto Rico Holder will constitute income from sources within Puerto Rico, and will not be includible in such stockholder's gross income for, and will be exempt from, U.S. federal income taxation. Also, no deduction or credit will be allowed that is allocable to or chargeable against amounts so excluded from the Puerto Rico Holder's gross income.

Puerto Rico corporations

In general, any gain derived by a Puerto Rico corporation from the sale or exchange of Common Stock will not be subject to U.S. federal income tax if the gain is not effectively connected with a United States trade or business of the Puerto Rico corporation. The U.S. Code provides special rules for Puerto Rico corporations that are Controlled Foreign Corporations, Personal Holding Companies, or Passive Foreign Investment Companies for U.S. federal income tax purpose.

Warrant

Sale of Warrant

U.S. Holders

In general, a U.S. Holder of the Warrant will recognize gain or loss upon the sale of the Warrant in an amount equal to the difference between the amount realized on the sale and the U.S. Holder's adjusted tax basis

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in the Warrant. The initial tax basis in the Warrant will be the purchase price. Gain or loss attributable to the sale of the Warrant will generally be capital gain or loss. Capital gain of a non-corporate U.S. Holder is generally taxed at preferential rates where the U.S. Holder has a holding period greater than one year.

Puerto Rico Holders

In general, gain from the sale or other disposition of the Warrant by a Puerto Rico Holder will constitute income from sources within Puerto Rico, and will not be includible in such stockholder's gross income for, and will be exempt from, U.S. federal income taxation. Also, no deduction or credit will be allowed that is allocable to or chargeable against amounts so excluded from the Puerto Rico Holder's gross income.

Puerto Rico corporations

In general, any gain derived by a Puerto Rico corporation from the sale or exchange of the Warrant will not be subject to U.S. federal income tax if the gain is not effectively connected with a United States trade or business of the Puerto Rico corporation. The U.S. Code provides special rules for Puerto Rico corporations that are Controlled Foreign Corporations, Personal Holding Companies, or Passive Foreign Investment Companies for U.S. federal income tax purpose.

Exercise of Warrant*U.S. Holders*

A U.S. Holder should not recognize gain or loss on the exercise of the Warrant and related receipt of Common Stock (unless cash is received in lieu of the issuance of a fractional common share) with cash. A U.S. Holder's initial tax basis in the Common Stock received on the exercise of the Warrant should be equal to the sum of (a) such U.S. Holder's tax basis in the Warrant plus (b) the exercise price paid by such U.S. Holder on the exercise of the Warrant. The holding period of Common Stock received upon the exercise of the Warrant should commence on the day after the Warrant is exercised.

The U.S. federal income tax consequences of the exercise of the Warrant in a cashless exercise are not entirely clear. Exercise of the Warrant may be treated as a tax-free non-recognition event, either because it may be treated as not being a gain realization event (except with respect to any cash received in lieu of any fractional share), or may be treated as a recapitalization. In either case, a U.S. Holder's tax basis in the common stock received will equal the U.S. Holder's adjusted tax basis in the Warrant, less any amount attributable to any fractional share. Your receipt of cash in lieu of a fractional share of Common Stock will generally be treated as if you received the fractional share and then received such cash in redemption of the share. If the exercise of the Warrant is treated as not being a gain realization event, the holding period of Common Stock received upon the exercise of the Warrant should commence on the day after the Warrant is exercised. If the exercise of the Warrant is treated as a recapitalization, the holding period of Common Stock received upon the exercise of the Warrant will include the U.S. Holder's holding period for the Warrant.

It is also possible that a cashless exercise of the Warrant could be treated as a taxable exchange in which gain or loss will be recognized. The amount of gain or loss recognized on such exchange and its character as short-term or long-term will depend on the characterization of that exchange. If a U.S. Holder is treated as selling a portion of the Warrant or underlying shares of Common Stock for cash that is used to pay the exercise price for the Warrant, the amount of gain or loss will be the difference between that exercise price and such U.S. Holder's adjusted tax basis attributable to the Warrant or shares of Common Stock deemed to have been sold. If the U.S. Holder is treated as

selling the Warrant, such U.S. Holder will have long-term capital gain or loss if it has held the Warrant for more than one year. If the U.S. Holder is treated as selling underlying shares of Common Stock, such U.S. Holder will have short-term capital gain or loss. In either case, a U.S. Holder of the Warrant will also recognize gain or loss in respect of the cash received in lieu of any fractional share of Common Stock

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otherwise issuable upon exercise in an amount equal to the difference between the amount of cash received and the portion of such U.S. Holder's tax basis attributable to such fractional share. The ability of U.S. Holders to deduct capital losses is subject to limitations under the U.S. Code. U.S. Holders should consult their tax advisors as to the holding period and basis in the stock received if a characterization described in this paragraph applies.

Alternatively, if the U.S. Holder is treated as exchanging, in a taxable exchange, the Warrant for shares of Common Stock received on exercise, the amount of gain or loss will be the difference between (1) the fair market value of Common Stock and cash in lieu of any fractional share received on exercise and (2) the holder's adjusted tax basis in the Warrant. In that case, the U.S. Holder will have long-term capital gain or loss with respect to the exchange if it has held the Warrant for more than one year and such U.S. Holder will have a tax basis in the shares of Common Stock received equal to their fair market value and a holding period beginning on the date after the exchange. U.S. Holders should consult their tax advisors regarding the possible application of the wash sale rules to such an exchange.

Due to the absence of authority on the U.S. federal income tax treatment of the cashless exercise of warrants, there can be no assurance as to which, if any, of the alternative tax consequences and holding periods described above will be adopted by the IRS or a court. Accordingly, U.S. Holders should consult their tax advisors regarding the tax consequences of the exercise of the Warrant.

Puerto Rico Holders

In general, gain, if any, from the exercise of the Warrant by a Puerto Rico Holder will not be subject to U.S. federal income taxation.

Puerto Rico corporations

In general, any gain derived by a Puerto Rico corporation from the exercise of the Warrant will not be subject to U.S. federal income tax if the gain is not effectively connected with a United States trade or business of the Puerto Rico corporation. The U.S. Code provides special rules for Puerto Rico corporations that are Controlled Foreign Corporations, Personal Holding Companies, or Passive Foreign Investment Companies for U.S. federal income tax purpose.

Adjustments of Warrant*U.S. Holders*

The exercise price at which the Common Stock may be purchased and/or the number of shares of Common Stock that may be purchased is subject to adjustment from time to time upon the occurrence of certain events. Under Section 305 of the U.S. Code, a change in conversion ratio or any transaction having a similar effect on the interest of a U.S. Holder of the Warrant may be treated as a distribution with respect to any U.S. Holder of the Warrant whose proportionate interest in earnings and profits is increased by such change or transaction. Thus, under certain future circumstances which may or may not occur, such an adjustment pursuant to the terms of the Warrant may be treated as a taxable distribution to the holder of the Warrant to the extent of current or accumulated earnings and profits, without regard to whether the U.S. Holder of the Warrant receives any cash or other property. See Dividends on Common Stock U.S. Holders, above.

Puerto Rico Holders

In general, any adjustment to the Warrant that would result in a constructive distribution would constitute income from sources within Puerto Rico, and will not be includible in such Puerto Rico Holder's gross income for, and will be exempt from, U.S. federal income taxation.

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Puerto Rico corporations

In general, any adjustment to the Warrant that would result in a constructive distribution to a Puerto Rico corporation will not be subject to U.S. federal income tax if the gain is not effectively connected with a United States trade or business of the Puerto Rico corporation. The U.S. Code provides special rules for Puerto Rico corporations that are Controlled Foreign Corporations, Personal Holding Companies, or Passive Foreign Investment Companies for U.S. federal income tax purpose.

Backup Withholding and Information Reporting

For non-corporate U.S. Holders, information reporting requirements, on Internal Revenue Service Form 1099, generally will apply to (a) dividend payments and (b) the receipt of proceeds from the sale of shares of our Common Stock effected at a United States office of a broker (not including a Puerto Rico office) or by a United States payer or middleman (not including a Puerto Rico payer or middleman).

Additionally, backup withholding may apply to such payments for non-corporate U.S. Holders if such holder fails to provide an accurate taxpayer identification number, or if First BanCorp. is notified by the Internal Revenue Service that the holder has failed to report all interest and dividends required to be shown on federal income tax returns, or in certain circumstances, if the holder fails to comply with applicable certification requirements. Backup withholding is not an additional tax and amounts withheld under the backup withholding rules will be allowed as a refund or credit against such holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

U.S. Holders or Puerto Rico Holders that are individuals who own specified foreign financial assets, within the meaning of Section 6038D of the U.S. Code, may be required to report information with respect to such assets with their tax returns on Form 8938 for any year in which the aggregate value of all specified foreign financial assets exceeds certain thresholds, subject to certain exceptions (including an exception for ordinary shares held in custodial accounts maintained with a United States financial institution). Failure to report information required could result in substantial penalties. Such individuals are urged to consult their tax advisors as to the application of these information reporting rules to their ownership of Common Stock.

Medicare Tax

Certain U.S. Holders that are individuals, estates or trusts are subject to a 3.8% tax on all or a portion of their net investment income, including ordinary dividends and capital gains if their modified adjusted gross income exceeds certain thresholds. Each U.S. Holder that is an individual, estate or trust should consult its own tax advisors regarding the effect of this tax provision on its ownership and disposition of Common Stock.

CERTAIN PUERTO RICO TAX CONSIDERATIONS

This discussion is based on the provisions of the Puerto Rico Internal Revenue Code of 2011, as amended (the PR Code), and other tax laws of Puerto Rico as in effect on the date of this prospectus, as well as regulations, administrative pronouncements and judicial decisions available on or before such date and now in effect. All of the foregoing is subject to change, which change could apply retroactively and could affect the continued validity of this discussion.

You are urged to consult your own tax advisor as to the application to your particular situation of the tax considerations discussed below, as well as the application of any state, local, foreign or other tax.

For purposes of the following discussion, the term "Puerto Rico corporation" is used to refer to a corporation organized under the laws of Puerto Rico and the term "Foreign Corporation" is used to refer to a corporation organized under the laws of a jurisdiction other than Puerto Rico.

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If a partnership (including any entity treated as a partnership for Puerto Rico income tax purposes) holds shares of Common Stock, the tax treatment of a partner in a partnership generally will depend upon the status of the partner and the activities of the partnership. Such partner or partnership is urged to consult its own tax advisor as to the Puerto Rico income tax consequences of the ownership of the shares of Common Stock.

Common Stock**Dividends on Common Stock***General*

Distributions of cash or other property made by First BanCorp. on the shares of our Common Stock will be treated as dividends to the extent that First BanCorp. has current or accumulated earnings and profits. To the extent that a distribution exceeds First BanCorp.'s current and accumulated earnings and profits, the distribution will be applied against and reduce the adjusted Puerto Rico income tax basis of the shares of our Common Stock in the hands of the holder. The excess of any distribution of this type over the adjusted Puerto Rico income tax basis will be treated as gain on the sale or exchange of the shares of our Common Stock and will be subject to income tax as described below.

The following discussion regarding the income taxation of dividends on shares of our Common Stock received by individuals not residents of Puerto Rico and foreign corporations assumes that dividends will constitute income from sources within Puerto Rico. Generally, a dividend declared by a Puerto Rico corporation will constitute income from sources within Puerto Rico unless the corporation derived less than 20% of its gross income from sources within Puerto Rico for the three taxable years preceding the year of the declaration. First BanCorp. has represented that it has derived more than 20% of its gross income from Puerto Rico sources on an annual basis since inception.

Individuals Resident of Puerto Rico and Puerto Rico corporations

In general, individuals who are residents of Puerto Rico will be subject to a 15% Puerto Rico income tax on dividends paid on the shares of our Common Stock. This tax is generally required to be withheld by First BanCorp. Such individuals may elect for this withholding not to apply by providing us a written statement opting-out of such withholding provided the shares of our Common Stock are held in their names. If such individual holds the shares of our Common Stock in the name of a broker or other direct or indirect participant of DTC, the procedures described in

Special Withholding Tax Considerations below should be followed for purposes of opting-out of the 15% Puerto Rico withholding tax. If the individual Puerto Rico resident opts-out of the 15% Puerto Rico withholding tax, he or she will be required to include the amount of the dividend as ordinary income and will be subject to Puerto Rico income tax thereon at the normal income tax rates, which may be up to 33%. Even if the withholding is actually made, the individual may elect, upon filing his Puerto Rico income tax return for the year the dividend is paid, for the dividends to be taxed at the normal income tax rates applicable to individuals. In this case, the 15% Puerto Rico income tax withheld is creditable against the normal tax so determined.

Individuals resident of Puerto Rico are subject to alternative minimum tax (AMT) on the AMT Net Income if their regular tax liability is less than the alternative minimum tax liability. The AMT rates range from 10% to 24% depending on the AMT Net Income. At present, AMT applies with respect to individual taxpayers that have AMT Net Income of \$150,000 or more. The AMT Net Income includes various categories of tax-exempt income and income subject to preferential tax rates as provided in the PR Code, such as dividends on our Common Stock and long-term capital gains recognized on the disposition of our Common Stock.

Puerto Rico corporations will be subject to Puerto Rico income tax on dividends paid on the shares of our Common Stock at the normal corporate income tax rates, subject to the dividend received deduction. The dividend received deduction will be equal to 85% of the dividend received, but the deduction may not exceed

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85% of the corporation's net taxable income. Based on the applicable maximum Puerto Rico normal corporate income tax rate of 39%, the maximum effective income tax rate on these dividends will be 5.85% after accounting for the dividend received deduction. In the case of Puerto Rico corporations, no Puerto Rico income tax withholding will be imposed on dividends paid on the shares of our Common Stock provided such shares are held in the name of the Puerto Rico corporation. If such Puerto Rico corporation holds the shares of our Common Stock in the name of a broker or other direct or indirect participant of DTC, then, a 15% Puerto Rico income tax withheld at source will be made on dividends paid on the shares of our Common Stock held on behalf of such Puerto Rico corporation unless the procedures described in Special Withholding Tax Considerations below are followed to certify to us through DTC that the beneficial owner of our Common Stock is a Puerto Rico corporation. If the withholding is actually made, the 15% Puerto Rico income tax withheld is creditable against the Puerto Rico income tax liability of the Puerto Rico corporation.

The alternative minimum tax liability of a Puerto Rico corporation is not affected by the receipt of dividends on the shares of our Common Stock.

United States Citizens Not Residents of Puerto Rico

Dividends paid on the shares of our Common Stock to a United States citizen who is not a resident of Puerto Rico will be subject to a 15% Puerto Rico income tax that will be withheld by First BanCorp. These individuals may also elect for the dividends to be taxed in Puerto Rico at the normal income tax rates applicable to individuals in the same way as Puerto Rico resident individuals. The 15% Puerto Rico income tax withheld is creditable against the normal income tax so determined by said individual stockholder. Provided the shares of our Common Stock are held in the name of these individual stockholders, no 15% Puerto Rico income tax withholding will be made if such individual stockholder opts out of the 15% withholding tax by providing us: (i) a written statement opting-out of such withholding; and (ii) a withholding exemption certificate to the effect that the individual's gross income from sources within Puerto Rico during the taxable year does not exceed \$3,500 if single or \$7,000 if married filing a joint return. If such United States citizen non-resident of Puerto Rico holds the shares of our Common Stock in the name of a broker or other direct or indirect participant of DTC, the procedures described in Special Withholding Tax Considerations below should be followed for purposes of opting-out of the 15% Puerto Rico withholding tax. If the United States citizen non-resident of Puerto Rico opts-out of the 15% Puerto Rico withholding tax, he or she will be required to include the amount of the dividend as ordinary income and will be subject to Puerto Rico income tax thereon at the normal income tax rates applicable to Puerto Rico resident individuals.

A United States citizen who is not a resident of Puerto Rico will be subject to Puerto Rico AMT as provided in the rules described under the heading Individuals Resident of Puerto Rico and Puerto Rico Corporations.

Individuals Not Citizens of the United States and Not Residents of Puerto Rico

Dividends paid on the shares of our Common Stock to any individual who is not a citizen of the United States and who is not a resident of Puerto Rico will generally be subject to a 15% Puerto Rico income tax which will be withheld at source by First BanCorp.

Foreign Corporations

The Puerto Rico income taxation of dividends paid on the shares of our Common Stock to a foreign corporation will depend on whether or not the corporation is engaged in a trade or business in Puerto Rico.

A foreign corporation that is engaged in a trade or business in Puerto Rico will be subject to the normal corporate income tax rates applicable to Puerto Rico corporations on its net income that is effectively connected with the trade or business in Puerto Rico. This income will include net income from sources within Puerto Rico and certain items of net income from sources outside Puerto Rico that are effectively connected with the trade or

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business in Puerto Rico. Net income from sources within Puerto Rico will include dividends on the shares of our Common Stock. A foreign corporation that is engaged in a trade or business in Puerto Rico will be entitled to claim the 85% dividend received deduction discussed above in connection with dividends received from Puerto Rico corporations. No Puerto Rico income tax withholding will be imposed on dividends paid to foreign corporations engaged in a trade or business in Puerto Rico on the shares of our Common Stock provided such shares are held in the name of such foreign corporation. If such foreign corporation holds the shares of our Common Stock in the name of a broker or other direct or indirect participant of DTC, then, a 15% Puerto Rico income tax withheld at source will be made on dividends paid on the shares of our Common Stock held on behalf of such foreign corporation unless the procedures described in *Special Withholding Tax Considerations* below are followed to certify to us through DTC that the beneficial owner of our Common Stock is a foreign corporation engaged in a trade or business in Puerto Rico. If the withholding is actually made, the 15% Puerto Rico income tax withheld is creditable against the Puerto Rico income tax liability of the foreign corporation.

In general, foreign corporations that are engaged in a trade or business in Puerto Rico are also subject to a 10% branch profits tax. However, dividends on the shares of our Common Stock received by these corporations will be excluded from the computation of the branch profits tax liability of these corporations.

A foreign corporation that is not engaged in a trade or business in Puerto Rico will be subject to a 10% Puerto Rico withholding tax on dividends received on the shares of our Common Stock.

Special Withholding Tax Considerations

Payments of dividends to investors that hold their shares of our Common Stock in the name of a broker or other direct or indirect participant of DTC will be subject to a 15% Puerto Rico income tax withheld at source unless such investor, under the rules described above, is entitled to opt-out of such withholding if the shares would have been held in his name (such as individuals residents of Puerto Rico, Puerto Rico corporations, United States citizens not residents of Puerto Rico and foreign corporations engaged in a trade or business in Puerto Rico) and his broker or other direct or indirect participant of DTC certifies to First BanCorp. through DTC that either (i) the holder of the shares of our Common Stock is a Puerto Rico corporation or a foreign corporation engaged in a trade or business in Puerto Rico, or (ii) the holder of the shares of our Common Stock is an individual, estate or trust resident of Puerto Rico or a United States citizen not resident of Puerto Rico that has provided a written statement to the broker/dealer opting-out of such withholding. A United States citizen non-resident of Puerto Rico must also timely file with the broker/dealer a withholding exemption certificate to the effect that the individual's gross income from sources within Puerto Rico during the taxable year does not exceed \$3,500 if single or \$7,000 if married filing jointly.

Gains on Disposition of Common Stock

General

The sale or exchange of shares of our Common Stock will give rise to gain or loss for Puerto Rico income tax purposes equal to the difference between the amount realized on the sale or exchange and the Puerto Rico income tax basis of the shares of our Common Stock in the hands of the holder. Any gain or loss that is required to be recognized will be a capital gain or loss if the shares of our Common Stock are held as a capital asset by the holder and will be a long-term capital gain or loss if the stockholder's holding period of the shares of our Common Stock exceeds one year.

Individuals Resident of Puerto Rico and Puerto Rico corporations

Gain on the sale or exchange of shares of our Common Stock by an individual resident of Puerto Rico or a Puerto Rico corporation will generally be required to be recognized as gross income and will be subject to income tax. If the stockholder is an individual and the gain is a long-term capital gain, the gain will be taxable at

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a maximum rate of 15%. If the stockholder is a Puerto Rico corporation and the gain is a long-term capital gain, the gain will qualify for an alternative tax rate of 20%.

Individuals resident of Puerto Rico are subject to AMT on the AMT Net Income if their regular tax liability is less than the alternative minimum tax liability. The AMT rates range from 10% to 24% depending on the AMT Net Income. At present, AMT applies with respect to individual taxpayers that have AMT Net Income of \$150,000 or more. The AMT Net Income includes various categories of tax-exempt income and income subject to preferential tax rates as provided in the PR Code, such as dividends on our Common Stock and long-term capital gains recognized on the disposition of our Common Stock.

The alternative minimum tax liability of a Puerto Rico Corporation is not affected by the recognition of long-term capital gains on the disposition of the shares of our Common Stock.

Individuals Not Residents of Puerto Rico

Individuals who are not residents of Puerto Rico will not be subject to Puerto Rico income tax on the sale or exchange of shares of our Common Stock if the gain resulting therefrom constitutes income from sources outside Puerto Rico. Generally, the gain from the sale or exchange of shares of our Common Stock by individuals not residing in Puerto Rico constitutes income from sources outside Puerto Rico and, therefore, such gain is not subject to Puerto Rico income tax in the case of such individuals.

Foreign Corporations

A foreign corporation that is engaged in a trade or business in Puerto Rico will generally be subject to Puerto Rico corporate income tax on any gain realized on the sale or exchange of shares of our Common Stock if the gain is (1) from sources within Puerto Rico, or (2) from sources outside Puerto Rico and effectively connected with a trade or business in Puerto Rico. Any such gain will qualify for an alternative tax of 20% if it qualifies as a long-term capital gain.

In general, foreign corporations that are engaged in a trade or business in Puerto Rico will also be subject to a 10% branch profits tax. In the computation of this tax, any gain realized by these corporations on the sale or exchange of shares of our Common Stock and that is subject to Puerto Rico income tax will be taken into account. However, a deduction will be allowed in the computation for any income tax paid on the gain realized on the sale or exchange.

A foreign corporation that is not engaged in a trade or business in Puerto Rico will not be subject to Puerto Rico income tax on any capital gain realized on the sale or exchange of our Common Stock since the gain from the sale or exchange of the Common Stock by such foreign corporation constitutes income from sources outside Puerto Rico.

Warrant

Sale of Warrant

General

The sale of the Warrant will give rise to gain or loss for Puerto Rico income tax purposes equal to the difference between the amount realized on the sale and the Puerto Rico income tax basis of the Warrant in the hands of the holder. The initial tax basis in the Warrant will be the purchase price. Any gain or loss that is required to be recognized will generally be a capital gain or loss if the Warrant is held as a capital asset by the holder and will be a

long-term capital gain or loss if the holding period of the Warrant to its holder exceeds six months.

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Individuals Resident of Puerto Rico and Puerto Rico corporations

Gain on the sale of the Warrant by an individual resident of Puerto Rico or a Puerto Rico corporation will generally be required to be recognized as gross income and will be subject to income tax. If the holder of the Warrant is an individual and the gain is a long-term capital gain, the gain will be taxable at a maximum rate of 10%. Individuals resident of Puerto Rico may be subject to AMT on the gain upon the sale of the Warrant.

If the holder of the Warrant is a Puerto Rico corporation and the gain is a long-term capital gain, the gain will qualify for an alternative tax rate of 20%. The alternative minimum tax liability of a Puerto Rico corporation is not affected by the recognition of long-term capital gain on the sale of the Warrant.

Individuals Not Residents of Puerto Rico

Individuals who are not residents of Puerto Rico will not be subject to Puerto Rico income tax on the sale of the Warrant if the gain resulting therefrom constitutes income from sources outside Puerto Rico. Generally, the gain from the sale of the Warrants by individuals not residing in Puerto Rico constitutes income from sources outside Puerto Rico and, therefore, such gain is not subject to Puerto Rico income tax in the case of such individuals.

Foreign Corporations

A foreign corporation that is engaged in a trade or business in Puerto Rico will generally be subject to Puerto Rico corporate income tax on any gain realized on the sale of the Warrant if the gain is (1) from sources within Puerto Rico, or (2) from sources outside Puerto Rico and effectively connected with a trade or business in Puerto Rico. Any such gain will qualify for an alternative tax of 20% if it qualifies as a long-term capital gain.

In general, foreign corporations that are engaged in a trade or business in Puerto Rico will also be subject to a 10% branch profits tax. In the computation of this tax, any gain realized by these corporations on the sale of the Warrant and that is subject to Puerto Rico income tax will be taken into account. However, a deduction will be allowed in the computation for any income tax paid on the gain realized on the sale.

A foreign corporation that is not engaged in a trade or business in Puerto Rico will not be subject to Puerto Rico income tax on any capital gain realized on the sale of the Warrant since the gain from the sale of the Warrant by such foreign corporation constitutes income from sources outside Puerto Rico.

Exercise of Warrant

Individuals Resident of Puerto Rico and Puerto Rico corporations

In general, an individual resident of Puerto Rico or a Puerto Rico corporation should not recognize gain or loss on the exercise of the Warrant and related receipt of Common Stock (unless cash is received in lieu of the issuance of a fractional common share) with cash. The holder's initial tax basis in the Common Stock received on the exercise of the Warrant should be equal to the sum of (a) such holder's tax basis in the Warrant plus (b) the exercise price paid by such holder on the exercise of the Warrant. The holding period of Common Stock received upon the exercise of the Warrant should commence on the day after the Warrant is exercised.

The Puerto Rico income tax consequences of the exercise of the Warrant in a cashless exercise are not entirely clear. A cashless exercise of the Warrant may be treated as a tax-free non-recognition event, either because it may be treated as not being a gain realization event (except with respect to any cash received in lieu of any fractional share), or may

be treated as a recapitalization. In either case, the holder's tax basis in the common stock received will equal the holder's adjusted tax basis in the Warrant, less any amount attributable to any fractional share. Your receipt of cash in lieu of a fractional share of Common Stock will generally be treated as if you received the fractional share and then received such cash in redemption of the share. If the exercise of the

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Warrant is treated as not being a gain realization event, the holding period of Common Stock received upon the exercise of the Warrant should commence on the day after the Warrant is exercised. If the exercise of the Warrant is treated as a recapitalization, the holding period of Common Stock received upon the exercise of the Warrant will include the holder's holding period for the Warrant.

It is also possible that a cashless exercise of the Warrant could be treated as a taxable exchange in which gain or loss will be recognized. The amount of gain or loss recognized on such exchange and its character as short-term or long-term will depend on the characterization of that exchange. If a holder is treated as selling a portion of the Warrant or underlying shares of Common Stock for cash that is used to pay the exercise price for the Warrant, the amount of gain or loss will be the difference between that exercise price and such holder's adjusted tax basis attributable to the Warrant or shares of Common Stock deemed to have been sold. If the holder is treated as selling the Warrant, such holder will have long-term capital gain or loss if it has held the Warrant for more than one year. If the holder is treated as selling underlying shares of Common Stock, such holder will have short-term capital gain or loss. In either case, a holder of the Warrant will also recognize gain or loss in respect of the cash received in lieu of any fractional share of Common Stock otherwise issuable upon exercise in an amount equal to the difference between the amount of cash received and the portion of such holder's tax basis attributable to such fractional share. The ability of holders to deduct capital losses is subject to limitations under the PR Code. Holders should consult their tax advisors as to the holding period and basis in the stock received if a characterization described in this paragraph applies.

Alternatively, if the holder is treated as exchanging, in a taxable exchange, the Warrant for shares of Common Stock received on exercise, the amount of gain or loss will be the difference between (1) the fair market value of Common Stock and cash in lieu of any fractional share received on exercise and (2) the holder's adjusted tax basis in the Warrant. In that case, the holder will have long-term capital gain or loss with respect to the exchange if it has held the Warrant for more than one year and such holder will have a tax basis in the shares of Common Stock received equal to their fair market value and a holding period beginning on the date after the exchange. Holders should consult their tax advisors regarding the possible application of the wash sale rules to such an exchange.

Due to the absence of authority on the Puerto Rico income tax treatment of the cashless exercise of warrants, there can be no assurance as to which, if any, of the alternative tax consequences and holding periods described above will be adopted by the Puerto Rico Treasury Department or a court. Accordingly, individuals resident of Puerto Rico and Puerto Rico corporations should consult their tax advisors regarding the tax consequences of the cashless exercise of the Warrant.

Individuals Not Residents of Puerto Rico

In general, gain, if any, from the exercise of the Warrant by individuals who are not residents of Puerto Rico will not be subject to Puerto Rico income taxation.

Foreign Corporations

A foreign corporation that is engaged in a trade or business in Puerto Rico will generally be subject to Puerto Rico corporate income tax on any gain realized on the exercise of the Warrant if the gain is (1) from sources within Puerto Rico, or (2) from sources outside Puerto Rico and effectively connected with a trade or business in Puerto Rico. Any such gain will qualify for an alternative tax of 20% if it qualifies as a long-term capital gain. Such gain may also be subject to a 10% branch profits tax.

In general, gain, if any, from the exercise of the Warrant by a foreign corporation that is not engaged in a trade or business in Puerto Rico will not be subject to Puerto Rico income taxation.

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Adjustments of Warrant

The Puerto Rico income tax consequences of any adjustment of the exercise price at which the Common Stock may be purchased and/or the number of shares of Common Stock that may be purchased under the Warrant are not entirely clear.

A change in conversion ratio or any transaction having a similar effect on the interest of a holder of the Warrant may be treated as a distribution with respect to any holder of the Warrant whose proportionate interest in earnings and profits is increased by such change or transaction. Thus, such an adjustment (which may result under certain future circumstances which may or may not occur pursuant to the terms of the Warrant) may be treated as a taxable distribution to the holder of the Warrant to the extent of current or accumulated earnings and profits, without regard to whether the holder of the Warrant receives any cash or other property. See Dividends on Common Stock above for a discussion of the taxation of dividends for Puerto Rico income tax purposes to the different types of holders of shares of Common Stock which will be equally applicable to the holders of the Warrant if an adjustment to the Warrant occurs and such adjustment is considered to result in a taxable dividend distributions to the holder of the Warrant

Estate and Gift Taxation

The transfer of shares of our Common Stock by inheritance by a decedent who was a resident of Puerto Rico at the time of his or her death and did not own more than 10% of our stock (by value or vote) will not be subject to estate tax if the decedent was not a citizen of the United States or a citizen of the United States who acquired his or her citizenship solely by reason of birth or residence in Puerto Rico. Likewise, the transfer of shares of our Common Stock by gift by an individual who is a resident of Puerto Rico at the time of the gift and did not own more than 10% of our stock (by value or vote) will not be subject to gift tax. Other individuals are urged to consult their own tax advisors in order to determine the appropriate treatment for Puerto Rico estate and gift tax purposes of the transfer of the shares of our Common Stock by death or gift.

Municipal License Taxation

Individuals and corporations that are not engaged in a trade or business in Puerto Rico will not be subject to Puerto Rico municipal license tax on dividends paid on the shares of our Common Stock or on any gain realized on the sale, exchange or redemption of the shares of our Common Stock.

Individuals, residents or non-residents, and corporations, Puerto Rico or foreign, that are engaged in a trade or business in Puerto Rico will generally be subject to municipal license tax on dividends paid on the shares of our Common Stock and on the gain realized on the sale, exchange or redemption of the shares of our Common Stock if the dividends or gain are attributable to that trade or business. The municipal license tax is imposed on the volume of business of the taxpayer, and the tax rates vary by municipalities with the maximum rate being 1.5% in the case of financial businesses and 0.5% for other businesses.

Property Taxation

The shares of our Common Stock will not be subject to Puerto Rico property tax.

LEGAL MATTERS

The validity of the 95,429,615 shares of Common Stock that are being offered by this prospectus will be passed upon for us by Lawrence Odell, Esq., Executive Vice President and General Counsel of First BanCorp. The validity of the

Warrant being offered by this prospectus will be passed upon for us by the law firm of Morgan, Lewis & Bockius LLP. As of the date of this prospectus, Lawrence Odell, Esq., beneficially owns, directly or indirectly, 262,090 shares of our Common Stock, as determined in accordance with Rule 13d-3 of the Exchange Act.

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EXPERTS

The consolidated financial statements of First BanCorp. as of December 31, 2014 and 2013, and for each of the years in the three-year period ended December 31, 2014 and management's assessment of effectiveness of internal control over financial reporting as of December 31, 2014 have been incorporated by reference herein in reliance upon the report of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

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\$
3,125

\$
3,965

\$
6,604

(a) Total includes current maturities of \$61,936,000 at third quarter-end 2014, of which \$40,697,000 is non-recourse to us, and \$37,966,000 at year-end 2013, of which \$37,822,000 is non-recourse to us.

Includes unamortized deferred gains on real estate contributed by us to ventures. We recognize deferred gains as (b) income as real estate is sold to third parties. Deferred gains of \$1,648,000 are reflected as a reduction to our investment in unconsolidated ventures at third quarter-end 2014.

Includes unrecognized basis difference of \$2,011,000 which is reflected as a reduction of our investment in (c) unconsolidated ventures at third quarter-end 2014. The difference will be accreted as income or expense over the life of the investment and included in our share of earnings (loss) from the respective ventures.

Our investment in other ventures reflects our ownership interests, excluding venture losses that exceed our (d) investment where we are not obligated to fund those losses. Please read Note 16—Variable Interest Entities for additional information.

In first nine months 2014, we contributed cash of \$5,016,000 to these ventures and received \$4,418,000 in cash distributions, and in first nine months 2013, we contributed cash of \$819,000 to these ventures and received \$2,140,000 in cash distributions. Distributions include both return of investments and distribution of earnings. From time to time, we provide performance bonds and letters of credit on behalf of certain ventures that could be drawn on due to failure to satisfy construction obligations as general contractor or for failure to timely deliver streets and utilities in accordance with local codes and ordinances. At third quarter-end 2014, we have no outstanding

performance bonds or letters of credit.

Note 8—Receivables

Receivables consist of:

	Third Quarter-End 2014 (In thousands)	Year-End 2013
Loan secured by real estate	\$4,236	\$7,610
Other loans secured by real estate, average interest rates of 4.40% at third quarter-end 2014 and 5.00% at year-end 2013	8,234	7,987
Oil and gas joint interest billing receivables	11,220	3,896
Oil and gas revenue accruals	18,753	8,137
Other receivables and accrued interest	3,884	11,648
	46,327	39,278
Allowance for bad debts	(26) (26
	\$46,301	\$39,252

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At third quarter-end 2014, we have \$4,236,000 invested in a loan which was acquired from a financial institution in second quarter 2011 when it was non-performing and is secured by a lien on developed and undeveloped real estate located near Houston designated for single-family residential and commercial development. Interest accrues at nine percent the first three years escalating to ten percent in April 2015 and 12 percent in April 2016, with interest above 6.25 percent to be forgiven if the loan is prepaid by certain dates. In first nine months 2014, we received principal payments of \$8,912,000 and interest payments of \$530,000. At third quarter-end 2014, the outstanding principal balance was \$6,787,000.

Estimated accretable yield follows:

	Third Quarter-End 2014 (In thousands)
Beginning of period (year-end 2013)	\$8,908
Change in accretable yield due to change in timing of estimated cash flows	(347)
Interest income recognized (in first nine months 2014)	(6,068)
End of period	\$2,493

Other loans secured by real estate generally are secured by a deed of trust and due within three years.

Note 9—Debt

Debt consists of:

	Third Quarter-End 2014 (In thousands)	Year-End 2013
Senior secured credit facility		
Term loan facility — average interest rate of 4.17% at year-end 2013	\$—	\$200,000
8.50% senior secured notes due 2022	250,000	—
3.75% convertible senior notes due 2020, net of discount	102,368	99,890
6.00% tangible equity unit notes, net of discount	19,192	25,619
Secured promissory notes — average interest rates of 3.15% at third quarter-end 2014 and 3.17% at year-end 2013	15,400	15,400
Other indebtedness — interest rates ranging from 2.19% to 5.50% at third quarter-end 2014	42,335	16,498
	\$429,295	\$357,407

Our debt agreements contain financial covenants customary for such agreements including minimum levels of interest coverage and limitations on leverage. At third quarter-end 2014, we were in compliance with the financial covenants of these agreements.

In second quarter 2014, we amended our senior secured credit facility in order to consolidate previous amendments and to effect the following:

- increase the revolving loan commitment from \$200,000,000 to \$300,000,000;
- extend the maturity date to May 15, 2017 (with two one-year extension options);
- increase the minimum interest coverage ratio from 1.50x to 2.50x;
- eliminate the collateral value to loan commitment ratio covenant; and
- increase the maximum total leverage ratio from 40% to 50%.

We incurred fees of \$3,068,000 related to this amendment. At third quarter-end 2014, our senior secured credit facility provides for a \$300,000,000 revolving line of credit maturing May 15, 2017. The revolving line of credit may be prepaid at any time without penalty. The revolving line of credit includes a \$100,000,000 sublimit for letters of credit, of which \$10,118,000 is outstanding at third quarter-end 2014. Total borrowings under our senior secured credit facility (including the face amount of letters of credit) may not exceed a borrowing base formula. At third quarter-end 2014, we had \$289,882,000 in net unused borrowing capacity under our senior secured credit facility.

Under the terms of our senior secured credit facility, at our option we can borrow at LIBOR plus 4.0 percent or at the alternate base rate plus 3.0 percent. The alternate base rate is the highest of (i) KeyBank National Association's base rate, (ii) the federal funds effective rate plus 0.5 percent or (iii) 30 day LIBOR plus 1 percent. Borrowings under the senior secured credit facility are or may be secured by (a) mortgages on the timberland, high value timberland and portions of raw entitled

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land, as well as pledges of other rights including certain oil and gas operating properties, (b) assignments of current and future leases, rents and contracts, (c) a security interest in our primary operating account, (d) a pledge of the equity interests in current and future material operating subsidiaries and most of our majority-owned joint venture interests, or if such pledge is not permitted, a pledge of the right to distributions from such entities, and (e) a pledge of reimbursements, hotel occupancy and other revenues payable to us from special improvement district tax collections in connection with our Cibolo Canyons project. The senior secured credit facility provides for releases of real estate and other collateral provided that borrowing base compliance is maintained.

On May 12, 2014, we issued \$250,000,000 aggregate principal of 8.5% Senior Secured Notes due 2022 (Notes). The Notes will mature on June 1, 2022 and interest on the Notes is payable semiannually at a rate of 8.5 percent per annum in arrears. We incurred debt issuance costs of approximately \$8,053,000, including the underwriters discount of \$6,250,000. Net proceeds from issuance of the Notes were used to repay our \$200,000,000 senior secured term loan. We intend to use the remaining amount for general corporate purposes, which may include investments in strategic growth opportunities.

At third quarter-end 2014, secured promissory notes represent a \$15,400,000 loan collateralized by a 413 guest room hotel located in Austin with a carrying value of \$29,002,000. Other indebtedness principally represents \$38,033,000 of senior secured construction loans for two multifamily properties, of which \$23,936,000 is related to the third quarter 2014 acquisition of our partner's interest in the 257-unit multifamily project in Austin. The combined carrying value of these two multifamily properties is \$82,715,000 at third quarter-end 2014. The remaining other indebtedness is collateralized by entitled, developed and under development projects with a carrying value of \$19,239,000.

At third quarter-end 2014 and year-end 2013, we have \$16,072,000 and \$7,896,000 in unamortized deferred financing fees which are included in other assets. Amortization of deferred financing fees was \$3,089,000 and \$2,282,000 in first nine months 2014 and 2013 and is included in interest expense.

Note 10—Fair Value

Fair value is the exchange price that would be the amount received for an asset or paid to transfer a liability in an orderly transaction between market participants. In arriving at a fair value measurement, we use a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable. The three levels of inputs used to establish fair value are the following:

Level 1 — Quoted prices in active markets for identical assets or liabilities;

Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Non-financial assets measured at fair value on a non-recurring basis principally include real estate assets, oil and gas properties, assets held for sale, goodwill and other intangible assets, which are measured for impairment. In third quarter 2014, we recognized non-cash asset impairment charges of \$94,000 associated with a real estate project in Austin. We had no non-cash impairment charges in third quarter 2013.

We elected not to use the fair value option for cash and cash equivalents, accounts receivable, other current assets, variable debt, accounts payable and other current liabilities. The carrying amounts of these financial instruments approximate their fair values due to their short-term nature or variable interest rates. We determine the fair value of fixed rate financial instruments using quoted prices for similar instruments in active markets.

Information about our fixed rate financial instruments not measured at fair value follows:

	Third Quarter-End 2014		Year-End 2013		Valuation Technique
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
	(In thousands)				
Loan secured by real estate	\$4,236	\$7,524	\$7,610	\$18,025	Level 2
Fixed rate debt ^(a)	(371,560)	(381,619)	(126,640)	(118,634)	Level 2

(a) Third quarter-end 2014 includes our \$250,000,000 of 8.50% senior secured notes due 2022, issued May 12, 2014.

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Note 11—Capital Stock

Pursuant to our stockholder rights plan, each share of common stock outstanding is coupled with one-quarter of a preferred stock purchase right (Right). Each Right entitles our stockholders to purchase, under certain conditions, one one-hundredth of a share of newly issued Series A Junior Participating Preferred Stock at an exercise price of \$100. Rights will be exercisable only if someone acquires beneficial ownership of 20 percent or more of our common shares or commences a tender or exchange offer, upon consummation of which they would beneficially own 20 percent or more of our common shares. We will generally be entitled to redeem the Rights at \$0.001 per Right at any time until the 10th business day following public announcement that a 20 percent position has been acquired. The Rights will expire on December 11, 2017.

Please read Note 17—Share-Based Compensation for information about additional shares of common stock that could be issued under terms of our share-based compensation plans.

At third quarter-end 2014, personnel of former affiliates held options to purchase 706,000 shares of our common stock. The options have a weighted average exercise price of \$26.11 and a weighted average remaining contractual term of one year. At third quarter-end 2014, the options have an aggregate intrinsic value of \$54,300.

Note 12—Net Income per Share

Basic and diluted earnings per share is computed using the two-class method. The two-class method is an earnings allocation formula that determines net income per share for each class of common stock and participating security. We have determined that our 6.00% tangible equity units (Units) are participating securities. Per share amounts are computed by dividing earnings available to common shareholders by the weighted average shares outstanding during each period.

The computations of basic and diluted earnings per share are as follows:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Numerator:				
Consolidated net income	\$5,239	\$12,897	\$28,994	\$19,137
Less: Net loss (income) attributable to noncontrolling interest	(12)	(1,067)	(611)	(2,815)
Earnings available for diluted earnings per share	\$5,227	\$11,830	\$28,383	\$16,322
Less: Undistributed net income allocated to participating securities	(947)	—	(5,151)	—
Earnings available to common shareholders for basic earnings per share	\$4,280	\$11,830	\$23,232	\$16,322
Denominator:				
Weighted average common shares outstanding — basic	35,498	35,410	35,437	35,341
Weighted average common shares upon conversion of participating securities ^(a)	7,857	—	7,857	—
Dilutive effect of stock options, restricted stock and equity-settled awards	513	662	456	608
Total weighted average shares outstanding — diluted	43,868	36,072	43,750	35,949
Anti-dilutive awards excluded from diluted weighted average shares	1,959	1,764	2,171	2,022

^(a) Our earnings per share calculation reflects the weighted average shares issuable upon settlement of the prepaid stock purchase contract component of our 6.00% tangible equity units, issued November 27, 2013.

The actual number of shares we may issue upon settlement of the stock purchase contract will be between 6,547,800 shares (the minimum settlement rate) and 7,857,000 shares (the maximum settlement rate) based on the applicable market value, as defined in the purchase contract agreement associated with issuance of the Units.

We intend to settle the principal amount of our convertible senior notes (Convertible Notes) in cash upon conversion with only the amount in excess of par value of the Convertible Notes to be settled in shares of our common stock. Therefore, our calculation of diluted net income per share using the treasury stock method includes only the amount, if any, in excess of par value of the Convertible Notes. As such, the Convertible Notes have no impact on diluted net income per share until the price of our common stock exceeds the \$24.49 conversion price of the Convertible Notes. The average price of our common stock in third quarter 2014 did not exceed the conversion price which resulted in no additional diluted outstanding shares.

Note 13—Income Taxes

Our effective tax rate was 35 percent in third quarter and first nine months 2014, which includes a one percent benefit for noncontrolling interests. Our effective tax rate was a 29 percent benefit in third quarter 2013 and less than a one percent benefit in first nine months 2013, which included a four percent benefit for noncontrolling interests. Our third quarter and first nine months 2013 effective tax rates include a benefit from recognition of \$6,326,000 of previously unrecognized tax benefits upon lapse of the statute of limitations for a previously reserved tax position. Our effective tax rates in third quarter and first nine months 2013 would have been 33 percent excluding the impact of the foregoing tax benefits.

Our 2014 and 2013 effective tax rates also include the effect of state income taxes, nondeductible items and benefits of percentage depletion.

We have not provided a valuation allowance for our federal deferred tax asset because we believe it is likely it will be recoverable in future periods.

Note 14—Commitments and Contingencies

Litigation

We are involved in various legal proceedings that arise from time to time in the ordinary course of doing business and believe that adequate reserves have been established for any probable losses. We do not believe that the outcome of any of these proceedings should have a significant adverse effect on our financial position, long-term results of operations or cash flows. However, it is possible that charges related to these matters could be significant to our results or cash flows in any one accounting period.

Environmental

Environmental remediation liabilities arise from time to time in the ordinary course of doing business, and we believe we have established adequate reserves for any probable losses that we can reasonably estimate. We own 288 acres near Antioch, California, portions of which were sites of a former paper manufacturing operation that are in remediation. We have received certificates of completion on all but one 80 acre tract, a portion of which includes subsurface contamination. We estimate the remaining cost to complete remediation activities will be approximately \$810,000, which is included in other accrued expenses. It is possible that remediation or monitoring activities could be required in addition to those included within our estimate, but we are unable to determine the scope, timing or extent of such activities.

We have asset retirement obligations related to the abandonment and site restoration requirements that result from the acquisition, construction and development of oil and gas properties. We record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Accretion expense related to the asset retirement obligation and depletion expense related to capitalized asset retirement cost is included in cost of oil and gas producing activities on our consolidated statements of income and comprehensive income. At third quarter-end 2014, our asset retirement obligation was \$1,667,000, which is included in other liabilities.

Note 15—Segment Information

We manage our operations through three segments: real estate, oil and gas and other natural resources. Real estate secures entitlements and develops infrastructure on our lands for single-family residential and mixed-use communities, and manages our undeveloped land, commercial and income producing properties, primarily a hotel and our multifamily investments. Oil and gas is an independent oil and gas exploration, development and production operation and manages our owned and leased mineral interests. Other natural resources manages our timber, recreational leases and water resource initiatives.

Total assets allocated by segment are as follows:

Year-End

	Third Quarter-End 2014	2013
	(In thousands)	
Real estate	\$664,642	\$582,802
Oil and gas	355,501	312,553
Other natural resources	23,502	23,478
Assets not allocated to segments ^(a)	224,594	253,319
	\$1,268,239	\$1,172,152

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Assets not allocated to segments at third quarter-end 2014 principally consist of cash and cash equivalents of (a) \$170,606,000 and a net deferred tax asset of \$30,932,000. Assets not allocated to segments at year-end 2013 principally consist of cash and cash equivalents of \$192,307,000 and a net deferred tax asset of \$40,398,000. We evaluate performance based on segment earnings (loss) before unallocated items and income taxes. Segment earnings (loss) consist of operating income, equity in earnings (loss) of unconsolidated ventures, gain on sales of assets, interest income on loans secured by real estate and net (income) loss attributable to noncontrolling interests. Items not allocated to our business segments consist of general and administrative expense, share-based compensation, gain on sale of strategic timberland, interest expense and other corporate non-operating income and expense. The accounting policies of the segments are the same as those described in Note 1—Basis of Presentation. Our revenues are derived from U.S. operations and all of our assets are located in the U.S. In third quarter and first nine months 2014, no single customer accounted for more than ten percent of our total revenues.

Segment revenues and earnings are as follows:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Revenues:				
Real estate	\$32,445	\$50,356	\$153,098	\$170,264
Oil and gas	24,145	22,095	66,076	53,430
Other natural resources	2,250	2,656	7,284	8,963
Total revenues	\$58,840	\$75,107	\$226,458	\$232,657
Segment earnings:				
Real estate	\$15,987	\$13,197	\$66,859	\$40,747
Oil and gas	6,002	8,499	16,331	17,869
Other natural resources	669	549	2,220	2,792
Total segment earnings	22,658	22,245	85,410	61,408
Items not allocated to segments (a)	(14,676)	(13,347)	(41,563)	(45,114)
Income before taxes attributable to Forestar Group Inc.	\$7,982	\$8,898	\$43,847	\$16,294

(a) Items not allocated to segments consist of:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
General and administrative expense	\$(5,190)	\$(4,648)	\$(15,924)	\$(14,935)
Shared-based compensation expense	(991)	(3,492)	(4,523)	(15,367)
Interest expense	(8,634)	(5,231)	(21,507)	(14,892)
Other corporate non-operating income	139	24	391	80
	\$(14,676)	\$(13,347)	\$(41,563)	\$(45,114)

Note 16—Variable Interest Entities

We participate in real estate ventures for the purpose of acquiring and developing residential, multifamily and mixed-use communities in which we may or may not have a controlling financial interest. Generally accepted accounting principles require consolidation of VIEs in which an enterprise has a controlling financial interest and is the primary beneficiary. A controlling financial interest will have both of the following characteristics: (a) the power to direct the VIE activities that most significantly impact economic performance and (b) the obligation to absorb the VIE losses and right to receive benefits that are significant to the VIE. We examine specific criteria and use judgment when determining whether we are the primary beneficiary and must consolidate a VIE. We perform this review initially at the time we enter into venture agreements and continuously reassess to see if we are the primary beneficiary of a VIE.

At third quarter-end 2014, we have four VIEs. We account for these VIEs using the equity method and we are not the primary beneficiary. Although we have certain rights regarding major decisions, we do not have the power to direct

the activities that are most significant to the economic performance of these VIEs. At third quarter-end 2014, these VIEs have total assets of \$53,747,000, substantially all of which represent developed and undeveloped real estate, and total liabilities of \$75,575,000, which includes \$31,060,000 of borrowings classified as current maturities. These amounts are included in the

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summarized balance sheet information for ventures accounted for using the equity method in Note 7—Investment in Unconsolidated Ventures. At third quarter-end 2014, our investment in these VIEs is \$9,507,000 and is included in investment in unconsolidated ventures. In first nine months 2014, we contributed \$4,378,000 to these VIEs. Our maximum exposure to loss related to one of these VIEs is estimated at \$3,627,000, which exceeds our investment as we have a nominal general partner interest and could be held responsible for its liabilities. The maximum exposure to loss represents the maximum loss that we could be required to recognize assuming all the ventures' assets (principally real estate) are worthless, without consideration of the probability of a loss or of any actions we may take to mitigate any such loss.

Note 17—Share-Based Compensation

Share-based compensation expense consists of:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Cash-settled awards	\$(801)	\$1,823	\$(1,996)	\$7,498
Equity-settled awards	1,307	899	4,897	3,565
Restricted stock	22	85	101	541
Stock options	463	685	1,521	3,763
	\$991	\$3,492	\$4,523	\$15,367

Share-based compensation expense is included in:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
General and administrative expense	\$(50)	\$1,297	\$1,217	\$7,310
Other operating expense	1,041	2,195	3,306	8,057
	\$991	\$3,492	\$4,523	\$15,367

In first nine months 2014, we granted 92,800 cash-settled awards and 467,200 equity-settled awards. Equity-settled awards granted to employees in the first nine months 2014 include restricted stock units (RSUs), market-leveraged stock units (MSUs) and performance stock units (PSUs). Cash-settled RSUs vest ratably over three years from the date of grant. Equity-settled RSUs, MSUs and PSUs vest after three years from the date of grant upon achievement of market conditions for MSUs and upon achievement of performance goals for PSUs. Equity-settled awards in the form of RSUs granted to our directors are fully vested at the time of grant and are issued upon retirement. There were no restricted stock awards or stock options granted in first nine months 2014.

The fair value of awards granted to retirement eligible employees and expensed at the date of grant was \$760,000 and \$590,000 in first nine months 2014 and 2013. Unrecognized share-based compensation expense related to non-vested equity-settled awards, restricted stock and stock options is \$10,950,000 at third quarter-end 2014.

In first nine months 2014 and 2013, we issued 211,333 and 118,472 shares out of our treasury stock associated with vesting of stock-based awards or exercise of stock options, net of 54,272 and 59,172 shares withheld having a value of \$1,024,000 and \$1,128,000 for payroll taxes in connection with vesting of stock-based awards or exercise of stock options.

Note 18—Subsequent Event

Cibolo Canyons—San Antonio, Texas

On October 24, 2014, we received \$46,500,000 from the Cibolo Canyons Special Improvement District (CCSID) under 2007 economic development agreements in connection with development of the JW Marriott Hill Country Resort & Spa at our Cibolo Canyons project near San Antonio. CCSID funded payment to us from its issuance of \$48,900,000 Hotel Occupancy Tax (HOT) and Sales and Use Tax Revenue Bonds. These bonds are obligations solely of CCSID and are payable from HOT and sales and use taxes levied by CCSID.

The resort hotel owner, SA Real Estate, LLLP (SARE), previously had senior rights to certain payments from CCSID to be funded by HOT and sales and use taxes. To facilitate issuance of the bonds by CCSID, SARE assigned these rights to us so that we could subordinate the rights to the rights of bondholders. In return, we provided SARE a

\$10,000,000 surety bond

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securing the entire obligation. The surety bond will decrease as CCSID satisfies its payment obligation to SARE, which is scheduled to be retired in full by 2020.

In addition, we provided a \$6,846,000 letter of credit to the bond trustee as security for certain debt service fund obligations in the event CCSID tax collections are not sufficient to support payment of the bonds in accordance with their terms. The letter of credit must be maintained until the earlier of redemption of the bonds or scheduled bond maturity in 2034. If the letter of credit is drawn upon in part or in full, we are not required to replenish the letter of credit.

At third quarter-end 2014, we had \$24,067,000 invested in the resort development against which we expect to apply proceeds resulting in a recovery of our full investment in fourth quarter 2014.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the financial statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2013 Annual Report on Form 10-K. Unless otherwise indicated, information is presented as of third quarter-end 2014, and references to acreage owned includes all acres owned by ventures regardless of our ownership interest in a venture.

Forward-Looking Statements

This Quarterly Report on Form 10-Q and other materials we have filed or may file with the Securities and Exchange Commission contain “forward-looking statements” within the meaning of the federal securities laws. These forward-looking statements are identified by their use of terms and phrases such as “believe,” “anticipate,” “could,” “estimate,” “likely,” “intend,” “may,” “plan,” “expect,” and similar expressions, including references to assumptions. These statements reflect our current views with respect to future events and are subject to risks and uncertainties. We note that a variety of factors and uncertainties could cause our actual results to differ significantly from the results discussed in the forward-looking statements. Factors and uncertainties that might cause such differences include, but are not limited to: general economic, market or business conditions in Texas or Georgia, where our real estate activities are concentrated;

- our ability to achieve some or all of our strategic initiatives;
- the opportunities (or lack thereof) that may be presented to us and that we may pursue;
- our ability to hire and retain key personnel;
- significant customer concentration;
- future residential, multifamily or commercial entitlements, development approvals and the ability to obtain such approvals;
- obtaining approvals of reimbursements and other payments from special improvement districts and the timing of such payments;
- accuracy of estimates and other assumptions related to investment in and development of real estate, the expected timing and pricing of land and lot sales and related cost of real estate sales, impairment of long-lived assets, income taxes, share-based compensation, oil and gas reserves, revenues, capital expenditures and lease operating expense accruals associated with our oil and gas working interests, and depletion of our oil and gas properties;
- the levels of resale housing inventory and potential impact of foreclosures in our mixed-use development projects and the regions in which they are located;
- fluctuations in costs and expenses, including impacts from shortages in materials or labor;
- demand for new housing, which can be affected by a number of factors including the availability of mortgage credit;
- demand for multifamily communities, which can be affected by a number of factors including local markets and economic conditions;
- competitive actions by other companies;
- changes in governmental policies, laws or regulations and actions or restrictions of regulatory agencies;
- risks associated with oil and gas exploration, drilling and production activities;
- fluctuations in oil and gas commodity prices;
- government regulation of exploration and production technology, including hydraulic fracturing;
- the results of financing efforts, including our ability to obtain financing with favorable terms, or at all;
- our ability to make interest and principal payments on our debt and satisfy the other covenants contained in our senior credit facility, indentures and other debt agreements;
- our partners’ ability to fund their capital commitments and otherwise fulfill their operating and financial obligations;
- the effect of limitations, restrictions and natural events on our ability to harvest and deliver timber;
- inability to obtain permits for, or changes in laws, governmental policies or regulations affecting, water withdrawal or usage;
- the final resolutions or outcomes with respect to our contingent and other liabilities related to our business; and

our ability to execute our growth strategy and deliver acceptable returns from acquisitions and other investments.

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Other factors, including the risk factors described in Item 1A of our 2013 Annual Report on Form 10-K, may also cause actual results to differ materially from those projected by our forward-looking statements. New factors emerge from time to time and it is not possible for us to predict all such factors, nor can we assess the impact of any such factor on our business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

Strategy

Our strategy is:

Recognizing and responsibly delivering the greatest value from every acre; and

Growing through strategic and disciplined investments.

2014 Strategic Initiatives

On February 13, 2014, we announced Growing FORward, new strategic initiatives designed to further enhance shareholder value by:

Growing segment earnings through strategic and disciplined investments,

Increasing returns, and

Repositioning non-core assets.

Results of Operations

A summary of our consolidated results by business segment follows:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Revenues:				
Real estate	\$32,445	\$50,356	\$153,098	\$170,264
Oil and gas	24,145	22,095	66,076	53,430
Other natural resources	2,250	2,656	7,284	8,963
Total revenues	\$58,840	\$75,107	\$226,458	\$232,657
Segment earnings:				
Real estate	\$15,987	\$13,197	\$66,859	\$40,747
Oil and gas	6,002	8,499	16,331	17,869
Other natural resources	669	549	2,220	2,792
Total segment earnings	22,658	22,245	85,410	61,408
Items not allocated to segments:				
General and administrative expense	(5,190)	(4,648)	(15,924)	(14,935)
Share-based compensation expense	(991)	(3,492)	(4,523)	(15,367)
Interest expense	(8,634)	(5,231)	(21,507)	(14,892)
Other corporate non-operating income	139	24	391	80
Income before taxes	7,982	8,898	43,847	16,294
Income tax (expense) benefit	(2,755)	2,932	(15,464)	28
Net income attributable to Forestar Group Inc.	\$5,227	\$11,830	\$28,383	\$16,322

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Significant aspects of our results of operations follow:

Third Quarter and First Nine Months 2014

Third quarter 2014 real estate segment earnings were up compared with third quarter 2013 due principally to a gain of \$7,610,000 associated with the acquisition of our partner's interest in the Eleven multifamily venture, which more than offset lower undeveloped land sales, commercial acre tract sales, and residential lot sales activity. First nine months 2014 real estate segment earnings were up compared with first nine months 2013 principally due to increased undeveloped land sales, a \$10,476,000 gain associated with a non-monetary exchange of leasehold timber rights for 5,400 acres of undeveloped land with a partner in a consolidated venture and higher residential lot sales activity. First nine months 2013 real estate segment earnings benefited from sale of Promesa, a 289-unit multifamily property we developed in Austin, for \$41,000,000, which generated approximately \$10,881,000 in segment earnings.

Third quarter 2014 oil and gas segment earnings were down compared with third quarter 2013 principally due to higher exploration costs and lower production volumes, lease bonus and delay rental revenues associated with our owned mineral interests, which were partially offset by a gain of \$3,335,000 related to the sale of oil and gas properties in North Dakota and Oklahoma and higher working interest oil production volume. First nine months 2014 oil and gas segment earnings were down compared with first nine months 2013 principally due to higher exploration costs, lower production volumes, lease bonus and delay rental revenues associated with our owned mineral interests and higher operating expenses, which were partially offset by gains of \$9,041,000 related to sale of oil and gas properties in North Dakota and Oklahoma and higher working interest production volumes.

Third quarter 2014 other natural resources segment earnings benefited from lower operating costs, a groundwater reservation agreement which generated \$250,000 in segment revenues and a \$165,000 gain associated with sale of water rights associated with a real estate project in Colorado, partially offset by lower fiber volumes compared with third quarter 2013. First nine months 2014 other natural resources segment earnings declined compared to first nine months 2013 principally due to lower fiber volumes, partially offset principally due to a groundwater reservation agreement which generated \$1,000,000 in segment revenues, lower operating costs and a \$685,000 gain from a partial termination of a timber lease.

Share-based compensation expense decreased principally as result of a 17 percent decrease in our stock price since year-end 2013, compared with a 24 percent increase in our stock price in first nine months 2013 since year-end 2012, which impacted the value of vested cash-settled awards.

Third quarter and first nine months 2014 interest expense increased primarily due to higher average borrowing rates and increased debt outstanding.

Third Quarter and First Nine Months 2013

Third quarter and first nine months 2013 real estate segment earnings increased due to higher average prices for lots and commercial acres sold, higher lot sales volume and higher undeveloped land sales from our retail land sales program offset partially by lower commercial acres sold as compared with third quarter 2012. First nine months 2013 real estate segment earnings benefited from sale of Promesa, a 289-unit multifamily property we developed in Austin, for \$41,000,000, which generated approximately \$10,881,000 in segment earnings. In addition, first nine months 2013 segment earnings also benefited from increased residential lot sales activity, undeveloped land sales from our retail program and commercial tract sales.

Oil and gas segment earnings for the third quarter and first nine months 2013 increased principally due to higher working interest production volume and earnings attributable to our exploration and production operations on leased mineral interests as result of our acquisition of Credo in third quarter 2012 and higher average oil and natural gas prices, partially offset by lower oil and gas production volumes and reduced lease bonus and delay rental payments received related to our owned mineral interests.

Third quarter 2013 other natural resources segment earnings remained flat. Higher average fiber prices were offset by lower volumes primarily due to scheduled maintenance outages taken by our customers in the quarter. First nine months 2013 other natural resources segment earnings benefited from higher levels of timber harvesting activity driven by increased customer demand compared to first nine months 2012.

Share-based compensation expense fluctuations are primarily driven by changes in our stock price. First nine month 2013 share-based compensation expense increased principally as result of a 24 percent increase in our

stock price since year-end 2012, compared with a 10 percent increase in our stock price in first nine months 2012 since year-end 2011, which impacted the value of vested cash-settled awards.

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Current Market Conditions

Sales of new U.S. single-family homes rose to a six-year high in September 2014, on a seasonally adjusted basis, but a sharp downward revision to August's sales pace indicates the housing recovery remains tentative. Inventories of new homes are at historically low levels in many areas. In addition, declining finished lot inventories and supply of economically developable raw land is increasing demand for our developed lots. However, national and global economic weakness and uncertainty, and a restrictive mortgage lending environment continue to threaten a robust recovery in the housing market, despite low interest rates. Multifamily market conditions continue to be strong, with many markets experiencing healthy occupancy levels and positive rent growth. This improvement has been driven primarily by limited housing inventory, reduced single-family mortgage credit availability, and the increased propensity to rent among the 18 to 34 year old demographic of the U.S. population.

Oil prices posted their biggest one-day drop in nearly two years on October 14, 2014 due to weakening global demand and the strength of U.S. domestic oil production. The International Energy Agency cut its full-year oil-demand growth forecast to the lowest level in five years. Exploration and development activity continues to be oil focused due to the premium price of oil over gas when comparing energy equivalency and current estimates of domestic gas producing supplies are believed to be sufficient. However, the impact of lower oil prices on well economics could impact future exploration and development activity.

Gas prices are up nearly 12 percent from year ago levels, but are significantly lower than realized prices over the last decade. Prolonged cold weather throughout the 2013 - 2014 heating season has taken working gas in storage below the previous five year average (2009 - 2013) causing gas prices to recover from their lows of a year ago.

Business Segments

We manage our operations through three business segments:

Real estate,

Oil and gas, and

Other natural resources.

We evaluate performance based on segment earnings (loss) before unallocated items and income taxes. Segment earnings (loss) consist of operating income, equity in earnings (loss) of unconsolidated ventures, gain on sales of assets, interest income on loans secured by real estate and net (income) loss attributable to noncontrolling interests. Items not allocated to our business segments consist of general and administrative expense, share-based compensation, gain on sale of strategic timberland, interest expense and other corporate non-operating income and expense. The accounting policies of the segments are the same as those described in the accounting policy note to the consolidated financial statements.

We operate in cyclical industries. Our operations are affected to varying degrees by supply and demand factors and economic conditions including changes in interest rates, availability of mortgage credit, consumer and home builder sentiment, new housing starts, real estate values, employment levels, changes in the market prices for oil, gas and timber, and the overall strength or weakness of the U.S. economy.

Real Estate

We own directly or through ventures approximately 120,000 acres of real estate located in ten states and 13 markets. Our real estate segment secures entitlements and develops infrastructure on our lands, primarily for single-family residential and mixed-use communities. We own approximately 98,000 acres in a broad area around Atlanta, Georgia, with the balance located primarily in Texas. We target investments principally in our strategic growth corridors, regions across the southern half of the United States that possess key demographic and growth characteristics that we believe make them attractive for long-term real estate investment. We own and manage our projects either directly or through ventures. Our real estate segment revenues are principally derived from the sales of residential single-family lots and tracts, undeveloped land and commercial real estate, and from the operation of income producing properties, primarily a hotel and multifamily properties we may develop and sell as a merchant builder.

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A summary of our real estate results follows:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Revenues	\$32,445	\$50,356	\$153,098	\$170,264
Cost of sales	(20,053)	(31,955)	(88,262)	(113,263)
Operating expenses	(7,604)	(8,498)	(24,994)	(23,179)
	4,788	9,903	39,842	33,822
Interest income on loan secured by real estate	1,757	1,435	6,068	3,631
Gain on asset purchase and non-monetary exchange	7,610	—	18,086	—
Equity in earnings of unconsolidated ventures	1,844	2,926	3,474	6,109
Less: Net income attributable to noncontrolling interests	(12)	(1,067)	(611)	(2,815)
Segment earnings	\$15,987	\$13,197	\$66,859	\$40,747

In first nine months 2014, revenues were principally driven by increased residential real estate and undeveloped land sales. First nine months 2013 revenues include \$41,000,000 as a result of the first quarter 2013 sale of Promesa, a 289-unit multifamily property in Austin which we developed and sold as a merchant builder.

In third quarter and first nine months 2014, cost of sales includes \$4,649,000 and \$13,690,000 related to multifamily construction contract costs we incurred as general contractor and paid to subcontractors associated with our development of two multifamily venture properties. We incurred charges of \$1,784,000 and \$4,131,000 in third quarter and first nine months 2014 reflecting estimated cost increases associated with our fixed fee contracts as general contractor for these two multifamily venture properties. Cost of sales associated with multifamily construction contracts for third quarter and first nine months 2013 were \$9,583,000 and \$27,189,000. First nine months 2013 cost of sales also included \$29,707,000 in carrying value related to Promesa, a 289-unit multifamily property we developed as a merchant builder and sold.

Interest income principally represents earnings from a loan we hold which is secured by a mixed-use real estate community in Houston.

In third quarter 2014, we acquired full ownership in CJUF III, RH Holdings partnership (the Eleven venture), owner of a 257-unit multifamily project in Austin in which we previously held a 25 percent interest, for \$21,500,000. The acquisition-date fair value was \$55,275,000, including debt of \$23,936,000. Our investment in the Eleven venture prior to acquiring our partner's interest was \$2,229,000. We accounted for this transaction as a business combination achieved in stages and as a result, we remeasured our equity method investment in the Eleven venture to its acquisition-date fair value of \$9,839,000 and recognized the resulting gain of \$7,610,000 in real estate segment earnings. Also in first nine months 2014, we recorded a \$10,476,000 gain associated with a non-monetary exchange of leasehold timber rights on approximately 10,300 acres for 5,400 acres of undeveloped land with a partner in a consolidated venture.

In first nine months 2014, the decrease in net income attributable to noncontrolling interests compared with first nine months 2013 is principally due to the purchase of noncontrolling interests in the Lantana ventures for \$7,971,000 in March 2014.

Revenues in our owned and consolidated ventures consist of:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Residential real estate	\$20,714	\$28,298	\$89,876	\$65,748
Commercial real estate	166	1,083	946	4,521
Undeveloped land	2,021	6,571	29,031	11,858
Commercial and income producing properties	9,378	13,355	30,361	85,387
Other	166	1,049	2,884	2,750
	\$32,445	\$50,356	\$153,098	\$170,264

Residential real estate revenues principally consist of the sale of single-family lots to national, regional and local homebuilders. Revenues decreased in third quarter 2014 compared with third quarter 2013 primarily due to lower residential lot and undeveloped land sales activity, which was somewhat offset by higher average price per lot sold. Revenues increased in first nine months 2014 compared with first nine months 2013 due to increased lot sales volume offset by lower average price

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per lot sold and higher undeveloped land sales. In addition, in first nine months 2014, we sold 918 undeveloped residential tract acres for \$6,617,000 which generated segment earnings of \$2,689,000, compared with the sale of 486 undeveloped residential acres of which 440 were the remaining undeveloped residential tract acres from a project in Florida for \$3,536,000, which generated approximately \$687,000 in segment earnings in first nine months 2013. In first nine months 2014, undeveloped land sales increased as compared with first nine months 2013 principally due to first quarter sale of 9,329 acres for \$19,713,000, or approximately \$2,100 per acre, generating approximately \$16,233,000 in segment earnings.

In addition, third quarter and first nine months 2014 commercial and income producing properties revenues include construction revenues of \$2,865,000 and \$9,559,000 associated with our multifamily fixed fee contracts as general contractor. We are reimbursed for costs paid to subcontractors plus we may earn a development and construction fee on certain projects, both of which are included in commercial and income producing properties revenue. Revenues associated with multifamily construction contracts for third quarter and first nine months 2013 were \$9,029,000 and \$26,635,000.

In first nine months 2014, commercial and income producing properties revenue decreased compared with first nine months 2013 as a result of the first quarter 2013 sale of Promesa, a 289-unit multifamily property in Austin which we developed and sold as a merchant builder for \$41,000,000 generating segment earnings of \$10,881,000.

In first nine months 2014, revenues related to our 413 guest room hotel in Austin were up \$3,007,000 when compared with first nine months 2013, primarily due to a higher average room rates and increased food and beverage sales.

Units sold in our owned and consolidated ventures consist of:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
Owned and consolidated ventures:				
Residential Lots Sold	286	414	1,603	1,028
Revenue per Lot Sold	\$72,352	\$56,866	\$52,052	\$55,417
Commercial Acres Sold	—	2	3	37
Revenue per Commercial Acre Sold	\$—	\$426,554	\$96,774	\$115,892
Undeveloped Acres Sold	637	1,314	12,916	3,233
Revenue per Acre Sold	\$3,179	\$5,001	\$2,248	\$3,668
Ventures accounted for using the equity method:				
Residential Lots Sold	37	133	231	325
Revenue per Lot Sold	\$83,711	\$55,251	\$70,325	\$54,752
Commercial Acres Sold	4	17	4	19
Revenue per Commercial Acre Sold	\$589,203	\$239,710	\$589,203	\$277,739
Undeveloped Acres Sold	—	26	258	68
Revenue per Acre Sold	\$—	\$2,650	\$2,306	\$2,650

Operating expenses consist of:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Employee compensation and benefits	\$2,605	\$2,434	\$8,118	\$5,708
Property taxes	1,558	1,669	5,043	5,714
Professional services	807	871	4,218	2,997
Depreciation and amortization	725	721	2,068	2,463
Other	1,909	2,803	5,547	6,297
	\$7,604	\$8,498	\$24,994	\$23,179

The increase in employee compensation and benefits in first nine months 2014 is principally related to increase in staffing and incentive compensation. The increase in professional services in first nine months 2014 is primarily associated with conveyance of land in payment of management fees in a consolidated venture associated with non-monetary exchange of leasehold timber rights for undeveloped land.

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Information about our real estate projects and our real estate ventures follows:

	Third Quarter-End 2014	2013
Owned and consolidated ventures:		
Entitled, developed and under development projects		
Number of projects	65	65
Residential lots remaining	14,772	19,378
Commercial acres remaining	1,722	2,020
Undeveloped land and land in the entitlement process		
Number of projects	11	13
Acres in entitlement process	24,430	25,830
Acres undeveloped	78,918	87,714
Ventures accounted for using the equity method:		
Ventures' entitled, developed and under development projects		
Number of projects	8	7
Residential lots remaining	2,984	3,380
Commercial acres remaining	236	289
Ventures' undeveloped land and land in the entitlement process		
Acres undeveloped	5,073	5,587

We underwrite development projects based on a variety of assumptions incorporated into our development plans, including the timing and pricing of sales and leasing and costs to complete development. Our development plans are periodically reviewed in comparison to our return projections and expectations, and we may revise our plans as business conditions warrant. If as a result of changes to our development plans the anticipated future net cash flows are reduced such that our basis in a project is not fully recoverable, we may be required to recognize a non-cash impairment charge for such project.

Our net investment in owned and consolidated real estate by geographic location follows:

State	Entitled, Developed, and Under Development Projects (In thousands)	Undeveloped Land and Land in Entitlement Process	Commercial and Income Producing Properties	Total
Texas	\$273,534	\$6,000	\$132,882	\$412,416
Georgia	17,502	65,074	—	82,576
Colorado	25,368	—	—	25,368
California	8,915	22,645	—	31,560
North Carolina	—	35	14,678	14,713
Tennessee	9,932	371	7,451	17,754
Other	7,302	116	—	7,418
	\$342,553	\$94,241	\$155,011	\$591,805

Oil and Gas

Our oil and gas segment is focused on the exploration, development and production of oil and gas on our mineral and leasehold interests.

We are an independent oil and gas exploration, development and production company. We have approximately 358,000 net mineral acres of leasehold interests principally located in Nebraska, Kansas, Oklahoma, Texas and North Dakota. At third quarter-end 2014, our working interest investments are principally targeting the Bakken and Three Forks, Lansing-Kansas City and Tonkawa and Cleveland formations. Our leasehold interests include 46,000 net acres held by production and 414 gross oil and gas wells with working interest ownership, of which 202 are operated by us.

These leasehold interests include about 8,000 net mineral acres in North Dakota focused on the Bakken and Three Forks formations.

In addition, we lease portions of our 590,000 owned net mineral acres located principally in Texas, Louisiana, Georgia and Alabama to other oil and gas companies in return for a lease bonus, delay rentals and a royalty interest. At third quarter-end 2014, we have about 20,000 net acres leased to others, about 36,000 net acres leased to others that are held by production and

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547 gross productive wells operated by others on our owned mineral acres. Most leases are for a three to five year term although all or a portion of a lease may be extended as long as actual production is occurring.

A summary of our oil and gas results follows:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Revenues	\$24,145	\$22,095	\$66,076	\$53,430
Cost of oil and gas producing activities	(18,470)	(10,090)	(48,016)	(26,762)
Operating expenses	(3,164)	(3,683)	(11,235)	(9,253)
	2,511	8,322	6,825	17,415
Gain on sale of assets	3,335	—	9,041	—
Equity in earnings of unconsolidated ventures	156	177	465	454
Segment earnings	\$6,002	\$8,499	\$16,331	\$17,869

In third quarter 2014, we recorded gains of \$3,335,000 principally related to sale of 348 net mineral acres leased from others in North Dakota for a gain of \$3,065,000 and sale of 5 gross (1 net) producing oil and gas wells in Oklahoma for a gain of \$270,000.

In first nine months 2014, we recorded gains of \$9,041,000 principally related to sale of 102 gross (7 net) producing oil and gas wells in Oklahoma for a gain of \$4,758,000 and sale of 571 net mineral acres leased from others in North Dakota for a gain of \$4,283,000.

Revenues consist of:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Oil production ^(a)	\$22,053	\$18,120	\$59,057	\$45,496
Gas production	1,913	1,782	5,694	4,966
Other	179	2,193	1,325	2,968
	\$24,145	\$22,095	\$66,076	\$53,430

^(a) Oil production includes revenues from oil, condensate and natural gas liquids (NGLs).

In third quarter 2014, oil and gas production revenues increased principally as a result of higher production volumes. Increased oil production volume contributed \$7,022,000, partially offset by decreased oil prices which negatively impacted revenues by \$3,089,000. Decreased gas production volume negatively impacted revenues by \$112,000, offset by higher gas prices increasing revenues by \$243,000 as compared with third quarter 2013.

In first nine months 2014, oil and gas production revenues increased principally as a result of higher production volumes. Increased oil production volume contributed \$15,280,000, partially offset by decreased oil prices which negatively impacted revenues by \$1,719,000. Decreased gas production volume negatively impacted revenues by \$540,000, offset by higher gas prices increasing revenues by \$1,268,000 as compared with first nine months 2013.

In first nine months 2014, other revenues include \$1,236,000 in lease bonuses received from leasing approximately 3,900 net mineral acres owned in Texas and Louisiana compared to \$2,233,000 in lease bonuses received from leasing approximately 8,400 net mineral acres owned in Texas and Louisiana in first nine months 2013. In first nine months 2013, other revenues include \$562,000 in delay rental payments received from others associated with our owned mineral interests principally related to extending the lease term on approximately 1,800 net mineral acres.

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Cost of oil and gas producing activities consists of:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Depletion and amortization	\$8,098	\$5,048	\$19,907	\$12,939
Exploration costs	4,764	1,713	14,082	5,124
Production costs	5,389	3,265	13,694	8,417
Other	219	64	333	282
	\$18,470	\$10,090	\$48,016	\$26,762

In first nine months 2014, cost of oil and gas producing activities increased compared with first nine months 2013 due to higher exploration, production and depletion expenses. Depletion and amortization represent the non-cash cost of producing oil and gas associated with our working interests and is computed based on the units of production method. Exploration costs principally represent exploratory dry hole costs, geological and geophysical and seismic study costs. Dry hole costs in third quarter 2014 were \$3,802,000, which includes \$2,338,000 associated with a well in Oklahoma, \$1,414,000 primarily in Kansas and Nebraska and \$50,000 in east Texas compared with dry hole costs of \$910,000 in third quarter 2013. Dry hole costs in first nine months 2014 were \$9,467,000, which includes \$4,938,000 primarily in Kansas and Nebraska, \$2,338,000 associated with a well in Oklahoma and \$2,191,000 in east Texas, compared with dry hole costs of \$2,206,000 in first nine months 2013.

As a result of expiring leasehold, we recorded non-cash charges on our unproved oil and gas properties of \$2,074,000 in first nine months 2014. No non-cash charges related to expiring leases were recorded in first nine months 2013. Periodic assessment of proved oil and gas properties did not result in any impairment charges for first nine months 2014 or 2013.

Production costs principally represent lease operating expenses associated with producing working interest wells and our share of production severance taxes related to both our royalty and working interests.

Oil and gas produced and average unit prices related to our royalty and working interests follows:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
Consolidated entities:				
Oil production (barrels)	250,500	177,500	632,800	463,600
Average oil price per barrel	\$86.13	\$100.13	\$90.73	\$95.64
NGL production (barrels)	11,500	11,400	38,500	39,000
Average NGL price per barrel	\$41.12	\$30.46	\$42.56	\$29.68
Total oil production (barrels), including NGLs	262,000	188,900	671,300	502,600
Average total oil price per barrel, including NGLs	\$84.16	\$95.95	\$87.97	\$90.53
Gas production (millions of cubic feet)	450.6	480.5	1,293.8	1,451.6
Average price per thousand cubic feet	\$4.25	\$3.71	\$4.40	\$3.42
Our share of ventures accounted for using the equity method:				
Gas production (millions of cubic feet)	49.1	60.9	152.3	188.9
Average price per thousand cubic feet	\$4.21	\$3.66	\$4.07	\$3.30
Total consolidated and our share of equity method ventures:				
Oil production (barrels)	250,500	177,500	632,800	463,600
Average oil price per barrel	\$86.13	\$100.13	\$90.73	\$95.64
NGL production (barrels)	11,500	11,400	38,500	39,000
Average NGL price per barrel	\$41.12	\$30.46	\$42.56	\$29.68
Total oil production (barrels), including NGLs	262,000	188,900	671,300	502,600
Average total oil price per barrel, including NGLs	\$84.16	\$95.95	\$87.97	\$90.53
Gas production (millions of cubic feet)	499.7	541.4	1,446.1	1,640.5
Average price per thousand cubic feet	\$4.24	\$3.70	\$4.37	\$3.41

Total BOE (barrel of oil equivalent) ^(a)	345,400	279,100	912,400	776,000
Average price per barrel of oil equivalent	\$70.00	\$72.11	\$71.65	\$65.83

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(a) Gas is converted to barrels of oil equivalent (BOE) using a conversion of six Mcf to one barrel of oil.

Operating expenses consist of:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Employee compensation and benefits	\$2,291	\$2,116	\$7,305	\$5,746
Professional and consulting services	156	462	833	922
Depreciation	241	342	756	866
Other	476	763	2,341	1,719
	\$3,164	\$3,683	\$11,235	\$9,253

First nine months 2014 operating expenses increased compared with first nine months 2013, primarily as a result of increased personnel costs for additional staffing hired in the second half of 2013 to support our oil and gas operations as an independent exploration, development and production company.

Other Natural Resources

Our other natural resources segment manages our timber holdings, recreational leases and water resource initiatives. At third quarter-end 2014, we have about 108,000 real estate acres we own directly or through ventures, primarily in Georgia, with timber, and about 2,000 acres of timber under lease. Our other natural resources segment revenues are principally derived from the sales of wood fiber from our land and leases for recreational uses. We have water interests in approximately 1.5 million acres, including a 45 percent nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes or sold from 1.4 million acres in Texas, Louisiana, Georgia and Alabama, and approximately 20,000 acres of ground water leases in central Texas.

A summary of our other natural resources results follows:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Revenues	\$2,250	\$2,656	\$7,284	\$8,963
Cost of sales	(711)	(454)	(2,288)	(1,662)
Operating expenses	(1,051)	(1,675)	(3,652)	(4,550)
	488	527	1,344	2,751
Gain on sale and partial termination of timber lease	165	—	850	—
Equity in earnings of unconsolidated ventures	16	22	26	41
Segment earnings	\$669	\$549	\$2,220	\$2,792

Cost of sales principally includes non-cash cost of timber cut and sold and delay rental payments paid to others related to groundwater leases in central Texas.

In third quarter 2014, we recorded a \$165,000 gain associated with sale of water rights associated with a real estate project in Colorado. In first nine months 2014, we also recorded a \$685,000 gain associated with partial termination of a timber lease related to 697 acres of undeveloped land in Georgia from a consolidated venture.

Revenues consist of:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Fiber	\$1,770	\$2,405	\$5,514	\$8,105
Water	250	—	1,000	—
Recreational leases and other	230	251	770	858
	\$2,250	\$2,656	\$7,284	\$8,963

Third quarter and first nine months 2014 water revenues are associated with a groundwater reservation agreement.

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Fiber sold consists of:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
Pulpwood tons sold	71,500	65,700	157,900	314,400
Average pulpwood price per ton	\$11.18	\$8.85	\$11.00	\$9.12
Sawtimber tons sold	21,500	74,900	100,000	202,700
Average sawtimber price per ton	\$21.31	\$21.52	\$22.38	\$22.47
Total tons sold	93,000	140,600	257,900	517,100
Average stumpage price per ton ^(a)	\$13.52	\$15.60	\$15.41	\$14.36

^(a) Average stumpage price per ton is based on gross revenues less cut and haul costs.

In first nine months 2014, total fiber revenues decreased compared with first nine months 2013, due to decreased harvest activity, offset partially by higher average prices.

Information about our recreational leases follows:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
Average recreational acres leased	107,800	118,700	111,400	120,900
Average price per leased acre	\$8.66	\$8.63	\$9.17	\$9.08

Operating expenses consist of:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Professional and consulting services	\$230	\$607	\$1,437	\$2,157
Employee compensation and benefits	602	799	1,711	1,643
Other	219	269	504	750
	\$1,051	\$1,675	\$3,652	\$4,550

Items Not Allocated to Segments

Unallocated items represent income and expenses managed on a company-wide basis and include general and administrative expenses, share-based compensation, gain on sale of strategic timberland, interest expense and other corporate non-operating income and expense. General and administrative expenses principally consist of accounting and finance, tax, legal, human resources, internal audit, information technology and our board of directors. These functions support all of our business segments and are not allocated.

General and administrative expenses consist of:

	Third Quarter		First Nine Months	
	2014	2013	2014	2013
	(In thousands)			
Employee compensation and benefits	\$2,447	\$1,940	\$7,173	\$6,040
Professional services	733	858	2,643	2,606
Depreciation and amortization	168	218	463	660
Insurance costs	201	214	716	661
Facility costs	229	196	705	633
Other	1,412	1,222	4,224	4,335
	\$5,190	\$4,648	\$15,924	\$14,935

Income Taxes

Our effective tax rate was 35 percent in third quarter and first nine months 2014, which includes a one percent benefit for noncontrolling interests. Our effective tax rate was a 29 percent benefit in third quarter 2013 and less than one percent benefit

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in first nine months 2013, which included a four percent benefit for noncontrolling interests. Our third quarter and first nine months 2013 effective tax rates included a benefit from recognition of \$6,326,000 of previously unrecognized tax benefits upon lapse of the statute of limitations for a previously reserved tax position. Our effective tax rates in third quarter and first nine months 2013 would have been 33 percent excluding the impact of the foregoing tax benefits. Our 2014 and 2013 effective tax rates also include the effect of state income taxes, nondeductible items and benefits of percentage depletion.

We have not provided a valuation allowance for our federal deferred tax asset because we believe it is likely it will be recoverable in future periods based on considerations including taxable income in prior carryback years, future reversals of existing temporary differences, tax planning strategies and future taxable income. If these sources of income are not sufficient in future periods, we may be required to provide a valuation allowance for our federal deferred tax asset.

Capital Resources and Liquidity

Sources and Uses of Cash

We operate in cyclical industries and our cash flows fluctuate accordingly. Our principal sources of cash are proceeds from the sale of real estate and timber, the cash flow from oil and gas and income producing properties, borrowings and reimbursements from utility and improvement districts. Our principal cash requirements are for the acquisition and development of real estate and investment in oil and gas leasing and production activities, either directly or indirectly through ventures, taxes, interest and compensation. Operating cash flows are affected by the timing of the payment of real estate development expenditures and the collection of proceeds from the eventual sale of the real estate, the timing of which can vary substantially depending on many factors including the size of the project, state and local permitting requirements and availability of utilities, and by the timing of oil and gas leasing and production activities. Working capital varies based on a variety of factors, including the timing of sales of real estate and timber, oil and gas leasing and production activities, collection of receivables, reimbursement from utility and improvement districts and the payment of payables and expenses.

We regularly evaluate alternatives for managing our capital structure and liquidity profile in consideration of expected cash flows, growth and operating capital requirements and capital market conditions. We may, at any time, be considering or be in discussions with respect to the purchase or sale of our common stock, debt securities, convertible securities or a combination thereof.

Cash Flows from Operating Activities

Cash flows from our real estate development activities, undeveloped land sales, commercial and income producing properties, timber sales, income from oil and gas properties, recreational leases and reimbursements from utility and improvement districts are classified as operating cash flows.

In first nine months 2014, net cash provided by operating activities was \$36,386,000 principally due to increased residential lot sales and undeveloped land sales activity. This is partially offset by \$82,864,000 of real estate development and acquisition expenditures exceeding \$59,251,000 of real estate cost of sales. In first nine months 2013, net cash provided by operating activities was \$45,083,000 principally as result of selling Promesa, a 289-unit multifamily property we developed and sold for \$41,000,000, generating net proceeds to us of \$21,522,000. Real estate cost of sales, which include \$29,707,000 in carrying value related to the sale of Promesa, exceeded expenditures for real estate development and acquisition expenditures, which includes the acquisition of one community development site in Nashville for \$6,841,000 and a multifamily site in Charlotte for \$4,849,000.

Cash Flows from Investing Activities

Capital contributions to and capital distributions from unconsolidated ventures, business acquisitions and investment in oil and gas properties and equipment are classified as investing activities. In addition, proceeds from the sale of property and equipment, software costs and expenditures related to reforestation activities are also classified as investing activities.

In first nine months 2014, net cash used in investing activities was \$82,929,000 principally due to our investment of \$65,661,000 in oil and gas properties and equipment associated with our exploration and production operations and

purchase of our partner's interest in our 257-unit multifamily property in Austin for \$20,155,000, net of cash. In addition, we invested \$13,583,000 in property and equipment, software and reforestation, of which \$6,440,000 is related to capital expenditures on our 413 guest room hotel in Austin and \$4,954,000 is related to water well development, and a net investment in unconsolidated ventures of \$3,415,000. These are partially offset by proceeds of \$17,017,000 related to sale of certain oil and gas properties in North Dakota and Oklahoma. In first nine months 2013, net cash used for investing activities was \$62,316,000

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principally due to our investment of \$56,482,000 in oil and gas properties and equipment associated with our exploration and production operations. In addition, we invested \$6,241,000 in property and equipment, software and reforestation of which \$3,185,000 is related to capital expenditures on our 413 guest room hotel in Austin.

Cash Flows from Financing Activities

In first nine months 2014, net cash provided by financing activities was \$24,842,000 principally due to net proceeds of \$241,947,000 from the issuance of 8.5% senior secured notes, partially offset by debt payments of \$222,468,000, of which \$200,000,000 is related to retirement of the term loan associated with our senior secured credit facility, \$7,200,000 is related to payments of our amortizing notes associated with our tangible equity units, \$2,878,000 is related to debt outstanding for our Lantana partnerships and the remaining associated with payment of other indebtedness. In first nine months 2013, net cash provided by financing activities was \$61,641,000 principally due to net proceeds of \$120,795,000 from the issuance of 3.75% convertible senior notes partially offset by debt payments of \$96,915,000, of which \$68,000,000 is related to outstanding borrowings under our senior secured credit facility and \$18,902,000 is related to paying off the loan associated with Promesa.

Real Estate Acquisition and Development Activities

We secure entitlements and develop infrastructure, primarily for single family residential and mixed-use communities. We also develop and own directly or through ventures multifamily communities as income producing properties, primarily in our target markets. Once these multifamily communities reach stabilization, we market the properties for sale.

We categorize real estate development and acquisition expenditures as operating activities on the statement of cash flows. These development and acquisition expenditures include costs for development of residential lots and mixed-used communities and multifamily community projects we develop and sell as a merchant builder.

In first nine months 2014, net real estate development and acquisition expenditures were \$82,864,000 which principally includes the acquisition of four new community development sites for \$10,900,000, three multifamily sites for \$26,110,000 and real estate development costs of \$45,054,000.

Oil and Gas Drilling and Other Exploration and Development Activities

In third quarter and first nine months 2014, we participated in 31 and 97 gross wells. At third quarter-end 2014, we held interests in 961 gross productive wells. In first nine months 2014, we acquired leasehold interests in over 126,000 net mineral acres in new and existing projects for \$18,476,000. Also, leasehold interests of approximately 15,000 net mineral acres expired in the normal course of business.

For full year 2014, our current plan is to drill or participate as a non-operator in approximately 155 gross wells.

Regional allocation of our capital expenditures incurred for drilling and completion activities in first nine months 2014 as compared with our 2014 projected annual drilling and completion capital expenditures is shown below:

	Drilling and Completion Expenditures	
	First Nine Months 2014	Projected 2014
	(In thousands)	
Bakken and Three Forks formations of North Dakota	\$24,116	\$37,686
Lansing - Kansas City formation of Nebraska and Kansas	15,244	18,759
Other formations principally in Texas and Oklahoma	7,825	20,358
	\$47,185	\$76,803

Our accrued capital expenditures for drilling and completion costs and leasehold acquisitions at third quarter-end 2014 were \$14,253,000 and are included in other accrued expenses in our consolidated balance sheets. These oil and gas property additions will be reflected as cash used for investing activities in the period the accrued payables are settled.

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Our 2014 projected capital expenditures are subject to various conditions, including third-party operator drilling plans, oilfield services and equipment availability, commodity prices and drilling results. Although a portion of our capital expenditure budget is allocated to acquiring additional leasehold interest, we may decide to pursue incremental leasehold acquisitions which would require us to adjust our budget. Other factors that could cause us to adjust our projections include commodity prices, service or material costs, opportunities, changes in conditions, or the performance of wells. We will continue to assess the gas and oil price environment along with our liquidity position and may increase or decrease our capital expenditure budget for exploration, development, or acquisition opportunities accordingly.

Liquidity

In second quarter 2014, we amended our senior secured credit facility in order to consolidate previous amendments and to increase the revolving loan commitment from \$200,000,000 to \$300,000,000, extend the maturity date, increase the minimum interest coverage ratio from 1.50x to 2.50x, eliminate the collateral value to loan commitment ratio covenant and increase the maximum total leverage ratio from 40% to 50%. At third quarter-end 2014, our senior secured credit facility provides for a \$300,000,000 revolving line of credit maturing May 15, 2017 (with two one-year extension options). The revolving line of credit may be prepaid at any time without penalty. The revolving line of credit includes a \$100,000,000 sublimit for letters of credit, of which \$10,118,000 is outstanding at third quarter-end 2014. Total borrowings under our senior secured credit facility (including the face amount of letters of credit) may not exceed a borrowing base formula.

At third quarter-end 2014, net unused borrowing capacity under our senior secured credit facility is calculated as follows:

	Senior Credit Facility (In thousands)
Borrowing base availability	\$ 300,000
Less: borrowings	—
Less: letters of credit	(10,118)
	\$289,882

Our unused borrowing capacity throughout third quarter 2014 was \$289,882,000. This facility is used primarily to fund our operating cash needs, which fluctuate due to timing of residential and commercial real estate sales, undeveloped land sales, oil and gas leasing, exploration and production activities and mineral lease bonus payments received, timber sales, reimbursements from utility and improvement districts, payment of payables and expenses and capital expenditures.

Our senior secured credit facility and other debt agreements contain financial covenants customary for such agreements including minimum levels of interest coverage and limitations on leverage. At third quarter-end 2014, we were in compliance with the financial covenants of these agreements.

The following table details our compliance with the financial covenants calculated as provided in the senior credit facility:

Financial Covenant	Requirement	Third Quarter-End 2014
Interest Coverage Ratio ^(a)	≥2.50:1.0	6.02:1.0
Total Leverage Ratio ^(b)	≤50%	37.0 %
Net Worth ^(c)	≥\$593.3 million	\$702.7 million

Calculated as EBITDA (earnings before interest, taxes, depreciation, depletion and amortization), plus non-cash ^(a) compensation expense, plus other non-cash expenses, divided by interest expense excluding loan fees. This covenant is applied at the end of each quarter on a rolling four quarter basis.

^(b) Calculated as total funded debt divided by adjusted asset value. Total funded debt includes indebtedness for borrowed funds, secured liabilities, reimbursement obligations with respect to letters of credit or similar instruments, and our pro-rata share of joint venture debt outstanding. Adjusted asset value is defined as the sum of

unrestricted cash and cash equivalents, timberlands, high value timberlands, raw entitled lands, entitled land under development, minerals business, Credo asset value, special improvement district receipts (SIDR) reimbursements value, Cibolo Resort Special improvement district hotel occupancy tax (SIDHT) value and other real estate owned at book value without regard to any indebtedness and our pro rata share of joint ventures' book value without regard to any indebtedness. This covenant is applied at the end of each quarter.

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Calculated as the amount by which consolidated total assets (excluding Credo acquisition goodwill over \$50,000,000) exceeds consolidated total liabilities. At third quarter-end 2014, the requirement is \$593,287,000 (c) computed as: \$589,367,000 plus 85 percent of the aggregate net proceeds received by us from any equity offering, plus 75 percent of all positive net income, on a cumulative basis. This covenant is applied at the end of each quarter.

To make additional discretionary investments, acquisitions, or distributions, we must maintain available liquidity equal to 10 percent of the aggregate commitments in place. At third quarter-end 2014, the minimum liquidity requirement was \$30,000,000, compared with \$458,742,000 in actual available liquidity based on the unused borrowing capacity under our senior secured credit facility plus unrestricted cash and cash equivalents. The failure to maintain such minimum liquidity does not constitute a default or event of default of our senior secured credit facility. Discretionary investments in community development may be restricted in the event that the revenue/capital expenditure ratio is less than or equal to 1.0x. At third quarter-end 2014, the revenue/capital expenditure ratio was 3.4x. Revenue is defined as total gross revenues (excluding revenues attributed to Credo and multifamily properties), plus our pro rata share of the operating revenues from unconsolidated ventures. Capital expenditures are defined as consolidated development and acquisition expenditures (excluding investments related to Credo and multifamily properties), plus our pro rata share of unconsolidated ventures' development and acquisition expenditures.

In addition, we may elect to make distributions so long as the total leverage ratio is less than 40 percent, the interest coverage is greater than 3.0:1.0 and available liquidity is not less than \$125,000,000.

On May 12, 2014, we issued \$250,000,000 aggregate principal amount of 8.50% senior secured notes due 2022 (Notes) in a private placement. The Notes will pay interest semiannually and will mature on June 1, 2022. Net proceeds from the offering were used to retire the \$200,000,000 term loan under our senior secured credit facility and pay transaction costs and expenses. The remaining net proceeds will be used for general corporate purposes, which may include strategic growth opportunities.

Contractual Obligations and Off-Balance Sheet Arrangements

On July 15, 2014, FMF Littleton LLC, an equity method venture in which we own a 25 percent interest, obtained a senior secured construction loan in the amount of \$46,384,000 to develop a 385-unit multifamily project located in Littleton, Colorado. There was no outstanding balance at third quarter-end 2014. We provided the lender with a guaranty of completion of the improvements; a guaranty for repayment of 25 percent of the principal balance and unpaid accrued interest; and a standard nonrecourse carve-out guaranty. The principal guaranty will reduce from 25 percent of principal to ten percent upon achievement of certain conditions.

In January 2014, CREA FMF Nashville LLC, an equity method venture in which we own a 30 percent interest, obtained a senior secured construction loan in the amount of \$51,950,000 to develop a 320-unit multifamily project located in Nashville, Tennessee. The outstanding balance at third quarter-end 2014 was \$20,289,000. We provided the lender with a guaranty of completion of the improvements; a guaranty for repayment of 25 percent of the principal balance and unpaid accrued interest; and a standard nonrecourse carve-out guaranty. The principal guaranty will reduce from 25 percent of principal to zero percent upon achievement of certain conditions.

In 2012, FMF Peakview LLC, an equity method venture in which we own a 20 percent interest, obtained a senior secured construction loan in the amount of \$31,550,000 to develop a 304-unit multifamily property in Denver. The outstanding balance at third quarter-end 2014 was \$21,088,000. We provided the lender with a construction completion guaranty, a repayment guaranty for 25 percent of the principal and unpaid accrued interest, and a standard non-recourse carve-out guaranty.

Cibolo Canyons—San Antonio, Texas

Cibolo Canyons consists of the JW Marriott[®] San Antonio Hill Country Resort & Spa development owned by third parties and a mixed-use development we own. We have \$75,252,000 invested in Cibolo Canyons at third quarter-end 2014.

Resort Hotel, Spa and Golf Development

In 2007, we entered into agreements to facilitate third party construction and ownership of the JW Marriott[®] San Antonio Hill Country Resort & Spa (the Resort), which includes a 1,002 room destination resort and two PGA Tour[®] Tournament Players Club[®] (TPC) golf courses. Under these agreements, we agreed to transfer to third party owners

700 acres of undeveloped land, to provide \$30,000,000 cash and to provide \$12,700,000 of other consideration principally consisting of golf course construction materials, substantially all of which has been provided.

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In exchange for our commitment to the resort, the third party owners assigned to us certain rights under an agreement between the third party owners and a legislatively created Cibolo Canyons Special Improvement District (CCSID). This agreement includes the right to receive from the CCSID 9 percent of hotel occupancy revenues and 1.5 percent of other resort sales revenues collected as taxes by the CCSID through 2034. The amount we receive will be net of annual ad valorem tax reimbursements by the CCSID to the third party owners of the resort through 2020. In addition, these payments will be net of debt service, if any, on bonds issued by the CCSID collateralized by hotel occupancy tax and other resort sales tax through 2034.

The amounts we collect under this agreement are dependent on several factors including the amount of revenues generated by and ad valorem taxes imposed on the resort and the amount of any applicable debt service incurred by the CCSID. As a result, there is significant uncertainty as to the amount and timing of collections under this agreement. Until these uncertainties are clarified, amounts collected under the agreement will be accounted for as a reduction of our investment in the resort development. The resort began operations in January 2010.

In first nine months 2014, we received \$4,050,000 in reimbursements from the CCSID. Since inception, we have received \$19,206,000 in reimbursements and have accounted for this as a reduction of our investment.

On October 24, 2014, we received \$46,500,000 from the CCSID under 2007 economic development agreements in connection with development of the Resort at our Cibolo Canyons project near San Antonio. CCSID funded payment to us from its issuance of \$48,900,000 Hotel Occupancy Tax (HOT) and Sales and Use Tax Revenue Bonds. These bonds are obligations solely of CCSID and are payable from HOT and sales and use taxes levied by CCSID.

The resort hotel owner, SA Real Estate, LLLP (SARE), previously had senior rights to certain payments from CCSID to be funded by HOT and sales and use taxes. To facilitate issuance of the bonds by CCSID, SARE assigned these rights to us so that we could subordinate the rights to the rights of bondholders. In return, we provided SARE a \$10,000,000 surety bond securing the entire obligation. The surety bond will decrease as CCSID satisfies its payment obligation to SARE, which is scheduled to be retired in full by 2020.

In addition, we provided a \$6,846,000 letter of credit to the bond trustee as security for certain debt service fund obligations in the event CCSID tax collections are not sufficient to support payment of the bonds in accordance with their terms. The letter of credit must be maintained until the earlier of redemption of the bonds or scheduled bond maturity in 2034. If the letter of credit is drawn upon in part or in full, we are not required to replenish the letter of credit.

At third quarter-end 2014, we have \$24,067,000 invested in the resort development against which we expect to apply proceeds resulting in a recovery of our full investment in fourth quarter 2014.

Mixed-Use Development

The mixed-use development we own consists of 2,100 acres planned to include approximately 1,720 residential lots and 150 commercial acres designated for multifamily and retail uses, of which 867 lots and 130 commercial acres have been sold through third quarter-end 2014.

In 2007, we entered into an agreement with the SID providing for reimbursement of certain infrastructure costs related to the mixed-use development. Reimbursements are subject to review and approval by the SID and unreimbursed amounts accrue interest at 9.75 percent. The SID's funding for reimbursements is principally derived from its ad valorem tax collections and bond proceeds collateralized by ad valorem taxes, less debt service on these bonds and annual administrative and public service expenses.

Since the amount of each reimbursement is dependent on several factors, including timing of SID approval and the SID having an adequate tax base to generate funds that can be used to reimburse us, there is uncertainty as to the amount and timing of reimbursements under this agreement. We expect to recover our investment from lot and tract sales and reimbursement of approved infrastructure costs from the SID. We have not recognized income from interest due, but not collected. As these uncertainties are clarified, we will modify our accounting accordingly.

Through third quarter-end 2014, we have submitted for reimbursement approximately \$65,465,000 and received approval for \$57,322,000 of infrastructure costs, of which we have received reimbursements totaling \$25,420,000. In first nine months 2014, we received \$1,750,000 in reimbursements from the SID. At third quarter-end 2014, we have \$40,045,000 in pending reimbursements, excluding interest. At third quarter-end 2014, we have \$51,185,000 invested in the mixed-use development.

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Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies or estimates from those disclosed in our 2013 Annual Report on Form 10-K.

New and Pending Accounting Pronouncements

Please read Note 2—New and Pending Accounting Pronouncements to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Statistical and Other Data

A summary of our real estate projects in the entitlement process ^(a) at third quarter-end 2014 follows:

Project	County	Market	Project Acres ^(b)
California			
Hidden Creek Estates	Los Angeles	Los Angeles	700
Terrace at Hidden Hills	Los Angeles	Los Angeles	30
Georgia			
Ball Ground	Cherokee	Atlanta	500
Crossing	Coweta	Atlanta	230
Fincher Road	Cherokee	Atlanta	3,890
Garland Mountain	Cherokee/Bartow	Atlanta	350
Martin's Bridge	Banks	Atlanta	970
Mill Creek	Coweta	Atlanta	770
Wolf Creek	Carroll/Douglas	Atlanta	12,230
Yellow Creek	Cherokee	Atlanta	1,060
Texas			
Lake Houston	Harris/Liberty	Houston	3,700
Total			24,430

^(a) A project is deemed to be in the entitlement process when customary steps necessary for the preparation of an application for governmental land-use approvals, like conducting pre-application meetings or similar discussions with governmental officials, have commenced, or an application has been filed. Projects listed may have significant steps remaining, and there is no assurance that entitlements ultimately will be received.

^(b) Project acres, which are the total for the project regardless of our ownership interest, are approximate. The actual number of acres entitled may vary.

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A summary of activity within our active projects in the development process, which includes entitled ^(a), developed and under development real estate projects, at third quarter-end 2014 follows:

Project	County	Interest Owned (b)	Residential Lots ^(c)		Commercial Acres ^(d)		
			Lots Sold Since Inception	Lots Remaining	Acres Sold Since Inception	Acres Remaining ^(e)	
Projects we own							
California							
San Joaquin River	Contra Costa/Sacramento	100	% —	—	—	288	
Colorado							
Buffalo Highlands	Weld	100	% —	164	—	—	
Johnstown Farms	Weld	100	% 269	343	2	7	
Pinery West	Douglas	100	% 45	41	20	94	
Stonebraker	Weld	100	% —	603	—	—	
Tennessee							
Morgan Farms	Williamson	100	% 45	128	—	—	
Weatherford Estates	Williamson	100	% —	17	—	—	
Texas							
Arrowhead Ranch	Hays	100	% —	387	—	6	
Bar C Ranch	Tarrant	100	% 292	813	—	—	
Barrington Kingwood	Harris	100	% 132	48	—	—	
Cibolo Canyons	Bexar	100	% 867	851	130	20	
Harbor Lakes	Hood	100	% 217	232	2	19	
Hunter's Crossing	Bastrop	100	% 483	27	41	62	
La Conterra	Williamson	100	% 200	130	—	58	
Lakes of Prosper	Collin	100	% 74	211	—	4	
Lantana	Denton	100	% 1,065	697	9	3	
Maxwell Creek	Collin	100	% 912	87	10	—	
Oak Creek Estates	Comal	100	% 214	356	13	—	
Parkside	Collin	100	% —	200	—	—	
Stoney Creek	Dallas	100	% 221	533	—	—	
Summer Creek Ranch	Tarrant	100	% 963	311	35	44	
Summer Lakes	Fort Bend	100	% 614	516	56	—	
Summer Park	Fort Bend	100	% 69	129	28	62	
The Colony	Bastrop	100	% 449	704	22	31	
The Preserve at Pecan Creek	Denton	100	% 519	275	—	7	
Village Park	Collin	100	% 753	3	3	2	
Westside at Buttercup Creek	Williamson	100	% 1,496	1	66	—	
Other projects (9)	Various	100	% 1,759	245	133	7	
Georgia							
Seven Hills	Paulding	100	% 753	337	26	113	
The Villages at Burt Creek	Dawson	100	% —	1,715	—	57	
Other projects (18)	Various	100	% 268	2,825	—	705	
Other							
Other projects (3)	Various	100	% 526	426	—	—	
				13,205	13,355	596	1,589

Projects in entities we
consolidate

Texas

City Park	Harris	75	% 1,311	458	50	115
Timber Creek	Collin	88	% —	601	—	—
Willow Creek Farms II	Waller/Fort Bend	90	% 90	160	—	—
Other projects (2)	Various	Various	10	198	—	18

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Project	County	Interest Owned ^(b)	Residential Lots ^(c)		Commercial Acres ^(d)	
			Lots Sold Since Inception	Lots Remaining	Acres Sold Since Inception	Acres Remaining ^(e)
Georgia						
The Georgian	Paulding	75	% 535	—	—	—
			1,946	1,417	50	133
Total owned and consolidated			15,151	14,772	646	1,722

Projects in ventures that we account for using the equity method

Texas						
Entrada	Travis	50	% —	821	—	—
Fannin Farms West	Tarrant	50	% 324	24	—	12
Harper's Preserve	Montgomery	50	% 315	1,378	8	51
Lantana - Rayzor Ranch	Denton	25	% 1,163	—	16	42
Long Meadow Farms	Fort Bend	38	% 1,332	470	187	116
Southern Trails	Brazoria	80	% 748	243	—	—
Stonewall Estates	Bexar	50	% 342	48	—	—
Other projects (2)	Various	Various	—	—	—	15
Total in ventures			4,224	2,984	211	236
Combined total			19,375	17,756	857	1,958

(a) A project is deemed entitled when all major discretionary governmental land-use approvals have been received. Some projects may require additional permits and/or non-governmental authorizations for development.

(b) Interest owned reflects our net equity interest in the project, whether owned directly or indirectly. There are some projects that have multiple ownership structures within them. Accordingly, portions of these projects may appear as owned, consolidated or accounted for using the equity method.

(c) Lots are for the total project, regardless of our ownership interest. Lots remaining represent vacant developed lots, lots under development and future planned lots and are subject to change based on business plan revisions.

(d) Commercial acres are for the total project, regardless of our ownership interest, and are net developable acres, which may be fewer than the gross acres available in the project.

(e) Excludes acres associated with commercial and income producing properties.

A summary of our significant commercial and income producing properties at third quarter-end 2014 follows:

Project	Market	Interest Owned ^(a)	Type	Acres	Description
Radisson Hotel	Austin	100	% Hotel	2	413 guest rooms and suites
Eleven ^(b)	Austin	100	% Multifamily	3	257-unit luxury apartment
360 ^(c)	Denver	20	% Multifamily	4	304-unit luxury apartment
Midtown Cedar Hill ^(c)	Dallas	100	% Multifamily	13	354-unit luxury apartment
Acklen ^(c)	Nashville	30	% Multifamily	4	320-unit luxury apartment

(a) Interest owned reflects our total interest in the project, whether owned directly or indirectly.

(b) Construction complete.

(c) Construction in progress.

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Oil and Gas Owned Mineral Interests

A summary of our oil and gas owned mineral interests ^(a) at third quarter-end 2014 follows:

State	Unleased	Leased ^(b) (Net acres)	Held By Production ^(c)	Total ^(d)
Texas	208,000	17,000	27,000	252,000
Louisiana	132,000	3,000	9,000	144,000
Georgia	152,000	—	—	152,000
Alabama	40,000	—	—	40,000
California	1,000	—	—	1,000
Indiana	1,000	—	—	1,000
	534,000	20,000	36,000	590,000

^(a) Includes ventures.

Includes leases in primary lease term or for which a delay rental payment has been received. In the ordinary course

^(b) of business, leases covering a significant portion of leased net mineral acres may expire from time to time in a single reporting period.

^(c) Acres being held by production are producing oil or gas in paying quantities.

Texas, Louisiana, California and Indiana net acres are calculated as the gross number of surface acres

^(d) multiplied by our percentage ownership of the mineral interest. Georgia and Alabama net acres are calculated as the gross number of surface acres multiplied by our estimated percentage ownership of the mineral interest based on county sampling.

A summary of our Texas and Louisiana owned mineral acres ^(a) by county or parish at third quarter-end 2014 follows:

Texas County	Net Acres	Louisiana Parish	Net Acres
Trinity	46,000	Beauregard	79,000
Angelina	42,000	Vernon	39,000
Houston	29,000	Calcasieu	17,000
Anderson	25,000	Allen	7,000
Cherokee	24,000	Rapides	1,000
Sabine	23,000	Other	1,000
Red River	14,000		144,000
Newton	13,000		
San Augustine	13,000		
Jasper	12,000		
Other	11,000		
	252,000		

^(a) Includes ventures.

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Oil and Gas Mineral Interests Leased

A summary of our net oil and gas mineral acres leased from others at third quarter-end 2014 follows:

State	Undeveloped	Held By Production ^(a)	Total
Nebraska	237,000	10,000	247,000
Kansas	19,000	8,000	27,000
Oklahoma	22,000	18,000	40,000
Alabama	8,000	—	8,000
Texas	11,000	2,000	13,000
North Dakota	4,000	4,000	8,000
Other	11,000	4,000	15,000
	312,000	46,000	358,000

^(a) Excludes approximately 8,000 net acres of overriding royalty interests.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

In May 2014, we retired the \$200,000,000 term loan under our senior secured credit facility. Therefore, at third quarter-end 2014, we have no significant exposure to changes in interest rates.

Foreign Currency Risk

We have no exposure to foreign currency fluctuations.

Commodity Price Risk

We have exposure to commodity price fluctuations from our oil and gas production which can materially affect our revenues and cash flows. The prices we receive for our production depend on numerous factors beyond our control. Based on our third quarter and first nine months 2014 production, a 10% decrease in our average realized oil and gas prices would have reduced our oil and gas production revenues by \$2,397,000 and \$6,475,000. To manage our exposure to commodity price risks associated with the sale of oil and gas, we may periodically enter into derivative hedging transactions for a portion of our estimated production. We do not have any commodity derivative positions outstanding at third quarter-end 2014.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (or the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are involved directly or through ventures in various legal proceedings that arise from time to time in the ordinary course of doing business. We believe we have established adequate reserves for any probable losses and that the outcome of any of the proceedings should not have a material adverse effect on our financial position, long-term results of operations or cash flows. It is possible, however, that circumstances beyond our control or significant subsequent developments could result in additional charges related to these matters that could be significant to results of operations or cash flow in any single accounting period.

Item 1A. Risk Factors

There are no material changes from the risk factors disclosed in our 2013 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities ^(a)

Period	Total Number of Shares Purchased ^(b)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
Month 7 (7/1/2014 — 7/31/2014)	—	\$—	—	4,997,855
Month 8 (8/1/2014 — 8/31/2014)	2,591	\$19.98	—	4,997,855
Month 9 (9/1/2014 — 9/30/2014)	—	\$—	—	4,997,855
	2,591	\$19.98	—	

On February 11, 2009, we announced that our Board of Directors authorized the repurchase of up to 7,000,000 shares of our common stock. We have purchased 2,002,145 shares under this authorization, which has no ^(a) expiration date. We have no repurchase plans or programs that expired during the period covered by the table above and no repurchase plans or programs that we intend to terminate prior to expiration or under which we no longer intend to make further purchases.

^(b) Represents shares withheld to pay taxes in connection with vesting of equity-settled stock awards and exercises of stock options.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit	Description
10.1	Guaranty dated July 15, 2014 by Forestar (USA) Real Estate Group Inc. in favor of Regions Bank (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Commission on July 18, 2014).
31.1	Certification of Chief Executive Officer pursuant to Exchange Act rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	The following materials from Forestar's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FORESTAR GROUP INC.

Date: November 6, 2014

By: /s/ Christopher L. Nines
Christopher L. Nines
Chief Financial Officer

By: /s/ Sabita C. Reddy
Sabita C. Reddy
Principal Accounting Officer