FIRST BANCORP /PR/
Form 10-Q
November 14, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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

For the transition period from to

COMMISSION FILE NUMBER 001-14793

FIRST BANCORP.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

(787) 729-8200

(Registrant s telephone number, including area code)

Not applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Common stock: 204,245,196 outstanding as of October 31, 2011.

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Forward Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this Form 10-Q or future filings by First BanCorp (the Corporation) with the Securities and Exchange Commission (SEC), in the Corporation s press releases or in other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the word or phrases would be, will allow, intends to, will likely result, are expected to, should, anticipate and similar expressions are n identify forward-looking statements.

First BanCorp wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and represent First BanCorp s expectations of future conditions or results and are not guarantees of future performance. First BanCorp advises readers that various factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, the following:

uncertainty about whether the Corporation will be able 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 FED or Federal Reserve) and the order dated June 2, 2010 (the FDIC Order) and collectively with the Written Agreement, (the Agreements) that the Corporation s banking subsidiary, FirstBank Puerto Rico (FirstBank or the Bank) entered into with the Federal Deposit Insurance Corporation (FDIC) and the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico (OCIF) that, among other things, require the Bank to maintain certain capital levels and reduce its special mention, classified, delinquent and non-performing assets;

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

the Corporation s reliance on brokered CDs and its ability to obtain, on a periodic basis, approval from the FDIC to issue brokered CDs to fund operations and provide liquidity in accordance with the terms of the FDIC Order;

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 inability to receive approval from the FED to receive dividends from FirstBank;

the risk of being subject to possible additional regulatory actions;

the strength or weakness of the real estate markets and of the consumer and commercial credit sectors and their impact on the credit quality of the Corporation s loans and other assets, including the Corporation s construction and commercial real estate loan portfolios, which have contributed and may continue to contribute to, among other things, the high levels of non-performing assets, charge-offs and the provision expense and may subject the Corporation to further risk from loan defaults and foreclosures;

adverse changes in general economic conditions in the United States (U.S.) and in Puerto Rico, including the interest rate scenario, market liquidity, housing absorption rates, real estate prices and disruptions in the U.S. capital markets, which may reduce interest margins, impact funding sources and affect demand for all of the Corporation s products and services and the value of the Corporation s assets;

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

a decrease in demand for the Corporation s products and services and lower revenues and earnings because of the continued recession in Puerto Rico and the current fiscal problems and budget deficit of the Puerto Rico government;

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

uncertainty about the effectiveness of the various actions undertaken to stimulate the U.S. economy and stabilize the U.S. financial markets, and the impact such actions may have on the Corporation s business, financial condition and results of operations;

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- changes in the fiscal and monetary policies and regulations of the federal government, including those determined by the Federal Reserve, the FDIC, government-sponsored housing agencies and local regulators in Puerto Rico and the U.S. and British Virgin Islands;

- 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 further 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 expense;

- the risk of not being able to recover the assets pledged to Lehman Brothers Special Financing, Inc.;

- the impact to the Corporation s results of operations and financial condition associated with acquisitions and dispositions;

- a need to recognize additional impairments on financial instruments or goodwill relating to acquisitions;

- risks that downgrades in the credit ratings of the Corporation s long-term senior debt will adversely affect the Corporation s ability to make future borrowings;

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

- general competitive factors and industry consolidation.

The Corporation does not undertake, and specifically disclaims any obligation, to update any 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 Corporation s Annual Report on Form 10-K for the year ended December 31, 2010, as well as, Part II, Item 1A, Risk Factors in this quarterly report on form 10-Q for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

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FIRST BANCORP

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

(In thousands, except for share information)	September 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 612,721	$ 254,723
Money market investments:		
Federal funds sold	3,823	6,236
Time deposits with other financial institutions	855	1,346
Other short-term investments	182,996	107,978
Total money market investments	187,674	115,560
Investment securities available for sale, at fair value:		
Securities pledged that can be repledged	1,164,838	1,344,873
Other investment securities	699,114	1,399,580
Total investment securities available for sale	1,863,952	2,744,453
Investment securities held to maturity, at amortized cost:		
Securities pledged that can be repledged		239,553
Other investment securities		213,834
Total investment securities held to maturity (2010-fair value of $476,516)		453,387
Other equity securities	40,667	55,932
Investment in unconsolidated entities	41,735	
Loans, net of allowance for loan and lease losses of $519,687 (2010 - $553,025)	10,113,455	11,102,411
Loans held for sale, at lower of cost or market	13,605	300,766
Total loans, net	10,127,060	11,403,177
Premises and equipment, net	199,079	209,014
Other real estate owned	109,514	84,897
Accrued interest receivable on loans and investments	45,471	59,061
Due from customers on acceptances	322	1,439
Other assets	247,377	211,434
Total assets	$ 13,475,572	$ 15,593,077

LIABILITIES				
Non-interest-bearing deposits	$	680,242	$	668,052
Interest-bearing deposits		9,977,069		11,391,058
Total deposits		10,657,311		12,059,110
Securities sold under agreements to repurchase		1,000,000		1,400,000
Advances from the Federal Home Loan Bank (FHLB)		409,440		653,440
Notes payable (including $14,014 and $11,842 measured at fair value as of September 30, 2011 and December 31, 2010, respectively)		21,114		26,449
Other borrowings		231,959		231,959
Bank acceptances outstanding		322		1,439
Accounts payable and other liabilities		168,579		162,721
Total liabilities		12,488,725		14,535,118
Commitments and Contingencies (Note 22)				
STOCKHOLDERS EQUITY				
Preferred stock, authorized 50,000,000 shares:				
Fixed Rate Cumulative Mandatorily Convertible Preferred Stock: issued and outstanding 424,174 shares, liquidation value $424,174		367,451		361,962
Non-cumulative Perpetual Monthly Income Preferred Stock: issued 22,004,000 shares and outstanding 2,521,872 shares, aggregate liquidation value $63,047		63,047		63,047
Common stock, $0.10 par value, authorized 2,000,000,000 shares; issued 21,963,522 shares		2,196		2,196
Less: Treasury stock (at par value)		(66)		(66)
Common stock outstanding, 21,303,669 shares outstanding		2,130		2,130
Additional paid-in capital		319,528		319,459
Retained earnings		220,764		293,643
Accumulated other comprehensive income, net of tax expense of $6,982 (December 31, 2010 - $5,351)		13,927		17,718
Total stockholders equity		986,847		1,057,959
Total liabilities and stockholders equity	$	13,475,572	$	15,593,077

The accompanying notes are an integral part of these statements.

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FIRST BANCORP

CONSOLIDATED STATEMENTS OF LOSS

(Unaudited)

(In thousands, except per share information)	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	Nine-Month Period Ended September 30, 2011	Nine-Month Period Ended September 30, 2010
Interest income:				
Loans	$ 144,934	$ 171,204	$ 449,219	$ 523,707
Investment securities	13,283	32,313	52,610	114,602
Money market investments	325	511	1,034	1,571
Total interest income	158,542	204,028	502,863	639,880
Interest expense:				
Deposits	46,140	61,004	149,724	190,736
Loans payable				3,442
Securities sold under agreements to repurchase	10,700	19,422	36,858	69,739
Advances from FHLB	3,796	7,179	12,760	22,460
Notes payable and other borrowings	3,651	2,721	8,552	3,876
Total interest expense	64,287	90,326	207,894	290,253
Net interest income	94,255	113,702	294,969	349,627
Provision for loan and lease losses	46,446	120,482	194,362	438,240
Net interest income (loss) after provision for loan and lease losses	47,809	(6,780)	100,607	(88,613)
Non-interest income:				
Other service charges on loans	1,485	1,963	4,659	5,205
Service charges on deposit accounts	3,098	3,325	9,484	10,294
Mortgage banking activities	3,676	6,474	19,603	11,114
Net gain on sale of investments	12,506	48,281	53,796	103,885
Other-than-temporary impairment losses on investment securities:				
Total other-than-temporary impairment losses				(603)
Noncredit-related impairment portion on debt securities not expected to be sold (recognized in other comprehensive income)	(350)		(957)	
Net impairment losses on investment securities	(350)		(957)	(603)
Loss on early extinguishment of borrowings	(9,012)	(47,405)	(10,835)	(47,405)
Equity in losses of unconsolidated entities	(4,357)		(5,893)	
Other non-interest income	6,918	6,628	23,454	21,627
Total non-interest income	13,964	19,266	93,311	104,117
Non-interest expenses:				
Employees compensation and benefits	29,375	29,849	89,221	92,535

Occupancy and equipment	15,468	14,655	46,321	43,957
Business promotion	2,509	3,226	8,801	8,771
Professional fees	5,983	4,533	17,192	15,424
Taxes, other than income taxes	3,420	3,316	9,953	10,954
Insurance and supervisory fees	15,041	16,787	44,622	51,911
Net loss on real estate owned (REO) operations	4,952	8,193	16,423	22,702
Other non-interest expenses	6,183	8,123	19,695	32,401
Total non-interest expenses	82,931	88,682	252,228	278,655
Loss before income taxes	(21,158)	(76,196)	(58,310)	(263,151)
Income tax (expense) benefit	(2,888)	963	(9,080)	(9,721)
Net loss	$ (24,046)	$ (75,233)	$ (67,390)	$ (272,872)
Net (loss) income attributable to common stockholders - basic	$ (31,143)	$ 357,787	$ (88,785)	$ 147,826
Net (loss) income attributable to common stockholders - diluted	$ (31,143)	$ 363,413	$ (88,785)	$ 153,452
Net (loss) income per common share:				
Basic	$ (1.46)	$ 31.30	$ (4.17)	$ 18.61
Diluted	$ (1.46)	$ 4.20	$ (4.17)	$ 4.61
Dividends declared per common share	$	$	$	$

The accompanying notes are an integral part of these statements.

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FIRST BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(In thousands)	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	Nine-Month Period Ended September 30, 2011	Nine-Month Period Ended September 30, 2010
Net loss	$ (24,046)	$ (75,233)	$ (67,390)	$ (272,872)
Unrealized losses on available-for-sale debt securities on which another-than-temporary impairment has been recognized:				
Noncredit-related impairment losses on debt securities not expected to be sold	(350)		(957)	
Reclassification adjustment for other-than-temporary impairment on debt securities included in net income	350		957	
All other unrealized gains and losses on available-for-sale securities:				
All other unrealized holding gain arising during the period	16,160	10,529	29,504	99,057
Reclassification adjustments for net gain included in net income	(12,504)	(48,783)	(34,453)	(93,719)
Reclassification adjustments for other-than-temporary impairment on equity securities				353
Net unrealized gains on securities reclassified from held to maturity to available for sale			2,789	
Income tax (expense) benefit related to items of other comprehensive income	(2,364)	5,238	(1,631)	(1,889)
Other comprehensive income (loss) for the period, net of tax	1,292	(33,016)	(3,791)	3,802
Total comprehensive loss	$ (22,754)	$ (108,249)	$ (71,181)	$ (269,070)

The accompanying notes are an integral part of these statements.

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FIRST BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Nine-Month Period Ended September 30, 2011	Nine-Month Period Ended September 30, 2010
Cash flows from operating activities:		
Net loss	$ (67,390)	$ (272,872)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	18,209	14,879
Amortization of core deposit intangible	1,766	1,927
Provision for loan and lease losses	194,362	438,240
Deferred income tax expense	2,187	4,584
Stock-based compensation recognized	69	70
Gain on sale of investments, net	(53,115)	(103,885)
Loss on early extinguishment of borrowings	10,835	47,405
Other-than-temporary impairments on investment securities	957	603
Equity in losses of unconsolidated entities	5,893	
Derivatives instruments and hedging activities loss (gain)	4,179	(212)
Gain on sale of premises and equipment and other assets	(2,733)	
Net gain on sale of loans and impairments	(13,347)	(4,969)
Net amortization of premiums and discounts an deferred loan fees and costs	(1,267)	1,643
Net decrease (increase) in mortgage loans held for sale	7,502	(2,240)
Amortization of broker placement fees	13,217	15,948
Net amortization of premium and discounts on investment securities	3,600	4,423
Increase in accrued income tax payable	5,335	224
Decrease in accrued interest receivable	11,560	17,890
Decrease in accrued interest payable	(382)	(8,881)
(Increase) decrease in other assets	(8,995)	8,342
(Decrease) increase in other liabilities	(3,906)	12,572
Total adjustments	195,926	448,563
Net cash provided by operating activities	128,536	175,691
Cash flows from investing activities:		
Principal collected on loans	1,907,704	3,047,448
Loans originated	(1,681,084)	(1,986,355)
Purchases of loans	(118,445)	(114,089)
Proceeds from sale of loans	675,450	204,369
Proceeds from sale of repossessed assets	79,974	72,043
Proceeds from sale of available-for-sale securities	1,181,065	2,353,364
Proceeds from sale of held-to-maturity securities	348,750	
Purchases of securities available for sale	(677,115)	(2,350,520)
Purchases of securities held to maturity		(8,475)
Proceeds from principal repayments and maturities of securities available for sale	619,375	1,613,491
Proceeds from principal repayments and maturities of securities held to maturity	33,726	118,032
Additions to premises and equipment	(10,711)	(22,696)

Proceeds from sale of other investment securities		10,668
Proceeds from sale of premises and equipment and other assets	5,107	
Proceeds from securities litigation settlement	679	
Decrease in other equity securities	15,265	5,370
Net cash provided by investing activities	2,379,740	2,942,650
Cash flows from financing activities:		
Net decrease in deposits	(1,416,329)	(142,678)
Net decrease in loans payable		(900,000)
Net repayments and cancellation costs of securities sold under agreements to repurchase	(410,587)	(1,724,036)
Net FHLB advances paid and cancellation costs	(244,248)	(143,000)
Repayment of medium-term notes	(7,000)	
Issuance costs of common stock issued in exchange of preferred stock Series A through E		(8,085)
Net cash used in financing activities	(2,078,164)	(2,917,799)
Net increase in cash and cash equivalents	430,112	200,542
Cash and cash equivalents at beginning of period	370,283	704,084
Cash and cash equivalents at end of period	$ 800,395	$ 904,626
Cash and cash equivalents include:		
Cash and due from banks	$ 612,721	$ 689,132
Money market instruments	187,674	215,494
	$ 800,395	$ 904,626

The accompanying notes are an integral part of these statements.

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FIRST BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited)

	Nine-Month Period Ended	
	September 30, 2011	September 30, 2010
Preferred Stock:		
Balance at beginning of period	$ 425,009	$ 928,508
Accretion of preferred stock discount - Series F		2,567
Exchange of preferred stock- Series A through E		(487,053)
Exchange of preferred stock- Series F		(400,000)
Reversal of unaccreted preferred stock discount- Series F		19,025
Issuance of preferred stock - Series G		424,174
Preferred stock discount - Series G		(76,788)
Accretion of preferred stock discount - Series G	5,489	1,443
Balance at end of period	430,498	411,876
Common Stock outstanding:		
Balance at beginning of the period	2,130	6,169
Change in par value (from $1.00 to $0.10)		(5,552)
Common stock issued in exchange of Series A through E preferred stock		1,513
Balance at end of period	2,130	2,130
Additional Paid-In-Capital:		
Balance at beginning of period	319,459	220,596
Stock-based compensation recognized	69	70
Fair value adjustment on amended common stock warrant		1,179
Common stock issued in exchange of Series A through E preferred stock		89,293
Issuance costs of common stock issued in exchange of Series A through E preferred stock		(8,085)
Reversal of issuance costs of Series A through E preferred stock exchanged		10,861
Change in par value (from $1.00 to $0.10)		5,552
Balance at end of period	319,528	319,466
Retained Earnings:		
Balance at beginning of period	293,643	417,297
Net loss	(67,390)	(272,872)
Accretion of preferred stock discount - Series F		(2,567)
Stock dividend granted of Series F preferred stock		(24,174)
Reversal of unaccreted discount - Series F		(19,025)
Preferred stock discount - Series G		76,788
Fair value adjustment on amended common stock warrant		(1,179)
Excess of carrying amount of Series A though E preferred stock exchanged over fair value of new shares of common stock		385,387
Accretion of preferred stock discount - Series G	(5,489)	(1,443)

Balance at end of period	220,764	558,212
Accumulated Other Comprehensive Income, net of tax:		
Balance at beginning of period	17,718	26,493
Other comprehensive (loss) income, net of tax	(3,791)	3,802
Balance at end of period	13,927	30,295
Total stockholders equity	$ 986,847	$ 1,321,979

The accompanying notes are an integral part of these statements.

FIRST BANCORP

PART I - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements (unaudited) have been prepared in conformity with the accounting policies stated in the Corporation s Audited Consolidated Financial Statements included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2010. Certain information and note disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) have been condensed or omitted from these statements pursuant to the rules and regulations of the SEC and, accordingly, these financial statements should be read in conjunction with the Audited Consolidated Financial Statements of the Corporation for the year ended December 31, 2010, included in the Corporation s 2010 Annual Report on Form 10-K. All adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the statement of financial position, results of operations and cash flows for the interim periods have been reflected. All significant intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the quarter and nine-month period ended September 30, 2011 are not necessarily indicative of the results to be expected for the entire year.

All share and per share amounts of common shares included in the consolidated financial statements have been adjusted to retroactively reflect the 1-for-15 reverse stock split effected January 7, 2011.

Capital and Liquidity

The Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. Sustained weak economic conditions that have severely affected Puerto Rico and the United States over the last several years have adversely impacted First BanCorp s and FirstBank s results of operations and capital levels. The significant loss in 2010, primarily related to credit losses (including losses associated with adversely classified and non-performing loans transferred to held for sale), the increase in the deposit insurance premium expense and increases to the deferred tax asset valuation allowance, reduced the Corporation s and the Bank s capital levels during 2010. The net loss for the nine-month period ended September 30, 2011 was primarily related to credit losses.

As described in Note 22, FirstBank is currently operating under a Consent Order with the FDIC and the OCIF and First BanCorp has entered into a Written Agreement with the Federal Reserve. The minimum capital ratios established by the FDIC Order are 12% for Total Capital to Risk-Weighted Assets, 10% for Tier 1 Capital to Risk-Weighted Assets and 8% for Leverage (Tier 1 Capital to Average Total Assets). As of September 30, 2011, the Corporation s Total Capital, Tier 1 Capital and Leverage ratios were 12.39%, 11.07% and 8.41%, respectively, up from 12.02%, 10.73% and 7.57%, respectively, as of December 31, 2010. Meanwhile, FirstBank s Total Capital, Tier 1 Capital and Leverage ratios as of September 30, 2011 were 12.15%, 10.84% and 8.24%, respectively, up from 11.57%, 10.28% and 7.25%, respectively, as of December 31, 2010. All of the capital ratios as of September 30, 2011 are above the minimum required under the consent order with the FDIC. The improvement in the capital ratios was primarily related to the deleveraging strategies completed during the nine-month period ended September 30, 2011, as discussed below, and, in the case of FirstBank, also due to a $22 million capital contribution from the holding company.

In March 2011, the Corporation submitted an updated Capital Plan (the Capital Plan) to the regulators. The Capital Plan contemplated a $350 million capital raise through the issuance of new common shares for cash, and other actions to reduce the Corporation s and the Bank s risk-weighted assets, strengthen their capital positions and meet the minimum capital ratios required under the FDIC Order. Among the strategies contemplated in the Capital Plan are reductions of the Corporation s loan and investment securities portfolio. The Capital Plan identified specific targeted Leverage, Tier 1 Capital to Risk-Weighted Assets and Total Capital to Risk-Weighted Assets ratios to be achieved by the Bank each calendar quarter until the capital levels required under the FDIC Order are achieved. Although all of the regulatory capital ratios exceeded the minimum capital ratios for well-capitalized levels, as well as the minimum capital ratios required by the FDIC Order, as of September 30, 2011, FirstBank cannot be treated as a well-capitalized institution under regulatory guidance while operating under the FDIC Order.

On October 7, 2011, the Corporation successfully completed a private placement of $525 million in shares of common stock (the capital raise). The proceeds from the capital raise amounted to approximately $490.4 million (net of offering costs), of which $435 million have been contributed to the Corporation s wholly owned banking subsidiary, FirstBank. As previously reported, lead investors include funds affiliated with Thomas H. Lee Partners, L.P. (THL) and Oaktree Capital Management, L.P. (Oaktree) that purchased from the Corporation an aggregate of $348.2 million ($174.1 million each investor) of shares of the Corporation s common stock.

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In connection with the closing, the Corporation issued 150 million shares of common stock at $3.50 per share to institutional investors. Upon the completion of this transaction and the conversion into common stock of the Series G Preferred Stock held by the U.S. Treasury, as further discussed below, each of THL and Oaktree became owners of 24.36% of the Corporation s 204.2 million shares of common stock outstanding. Subsequent to the closing, in related transactions, on October 12, 2011 and October 26, 2011, each of THL and Oaktree, respectively, purchased in the aggregate 937,493 shares of common stock from certain of the institutional investors who participated in the capital raise transaction. At the date of the filing of this Form 10-Q, each of THL and Oaktree owns 24.82% of the total shares of common stock outstanding. THL and Oaktree also have the right to designate a person to serve on the Corporation s Board of Directors. In this regard, the Corporation s Board of Directors appointed as directors Michael P. Harmon, a Managing Director with the Principal Group of Oaktree, effective October 29, 2011 and Thomas M. Hagerty, a Managing Director at THL, subject to regulatory approval. In addition, Messrs Harmon and Hagerty have been appointed members of the Bank s Board of Directors. Effective October 24, 2011, Mr. Roberto R. Herencia was appointed as the new non-executive chairman of the Bank s and the Corporation s Board of Directors.

The completion of the capital raise allowed the conversion of the 424,174 shares of the Corporation s Series G Preferred Stock, held by the U.S. Treasury, into 32.9 million shares of common stock at a conversion price of $9.66. In connection with the conversion, the Corporation paid $26.4 million for past due undeclared cumulative dividends on the Series G Preferred Stock as required by the Corporation s agreement with the U.S. Treasury.

With the $525 million capital infusion and the conversion to common stock of the Series G Preferred Stock held by the U.S. Treasury (after deducting estimated offering expenses and the $26.4 million payment of cumulative dividends on the Series G Preferred Stock), the Corporation increased its total common equity by approximately $830 million.

The following depicts the pro forma impact of the issuance of shares in the capital raise and in the conversion of the Series G Preferred Stock on the capital ratios of the Bank and the Corporation at September 30, 2011 (giving effect to $435 million being contributed to the Bank).

Regulatory Capital Ratios	FDIC Consent Order Minimum Requirements	As of September 30, 2011 Actual	Pro forma
First Bank:			
Total capital (Total capital to risk-weight assets)	12.00%	12.15%	16.33%
Tier 1 capital (Tier 1 capital to risk-weight assets)	10.00%	10.84%	15.01%
Leverage (Tier 1 capital to average assets)	8.00%	8.24%	11.06%

Capital Ratios	As of September 30, 2011 Actual	Pro forma
First BanCorp:		
Total capital (Total capital to risk-weight assets)	12.39%	16.84%
Tier 1 capital (Tier 1 capital to risk-weight assets)	11.07%	15.51%
Leverage (Tier 1 capital to average assets)	8.41%	11.41%
Tangible common equity (tangible common equity to tangible assets)	3.84%	9.69%
Tier 1 common equity to risk-weight assets	4.79%	12.76%
Tangible book value per common share	$ 24.22	$ 6.60

The Corporation s issuance of $150 million of shares of common stock in the capital raise enhances the ability of FirstBank to maintain the capital levels required pursuant to the FDIC Order.

On October 25, 2011, the Corporation commenced a rights offering to sell 10,651,835 shares of common stock to stockholders who owned common stock at the close of business on September 6, 2011 (the Record Date). Stockholders who owned shares of common stock of the Corporation as of the Record Date received at no charge a transferable right to purchase newly-issued shares of common stock in the rights offering at the same $3.50 price per share paid by investors in the capital raise. The exercise of two rights will entitle stockholders to purchase one newly-issued share of common stock.

Prior to the capital raise, deleveraging strategies incorporated into the Capital Plan and completed during the nine-month period ended September 30, 2011 include:

Sales of performing first lien residential mortgage loans - The Bank completed sales of approximately $518 million of residential mortgage loans to another financial institution.

Sales of investment securities   The Bank completed sales of approximately $632 million of U.S. Agency MBS.

Sale of commercial loan participations   The Bank sold approximately $45 million in loan participations.

Sale of adversely classified and non-performing loans The Bank sold loans with a book value of $269.3 million to CPG/GS PR NPL, LLC (CPG/GS), an entity created by Goldman, Sachs & Co. and Caribbean Property Group, in exchange for $88.5 million of cash, an acquisition loan of $136.1 million and a 35% interest in CPG/GS. Approximately 93% of the loans were adversely classified loans and 55% were in non-performing status.

Both the Corporation and the Bank actively manage liquidity and cash flow needs. The Corporation has suspended common and preferred dividends to stockholders since August 2009. As of September 30, 2011, the holding company had $19.6 million of cash and cash equivalents. Subsequent to the capital raise, the payment of $26.4 million of dividends on the Series G Preferred Stock at conversion, the $435 million contributed to the Bank and the payment of $9.1 million of interest on subordinated notes payable to unconsolidated trusts that issued trust preferred securities, the cash levels at the holding company level increased by approximately $20 million. Cash and cash equivalents at the Bank as of September 30, 2011 were approximately $800.4 million. The Bank has $100 million, $191 million and $7.1 million in repurchase agreements, FHLB advances and notes payable, respectively, maturing over the next twelve months. In addition, it had $4.5 billion in brokered CDs as of September 30, 2011, of which $2.8 billion mature over the next twelve months. Liquidity at the Bank level is highly dependent on bank deposits, which fund 79.4% of the Bank s assets (or 46.0% excluding brokered CDs). The Corporation has continued to issue brokered CDs pursuant to approvals received from the FDIC to renew or roll over brokered CDs up to certain amounts through December 31, 2011. Management cannot be certain it will continue to obtain waivers from the restrictions to issue brokered CDs under the FDIC Order to meet its obligations and execute its business plans. In addition to the increased level in cash and cash equivalents, the Bank held approximately $47.1 million of readily pledgeable or sellable investment securities as of September 30, 2011. Based on current and expected liquidity needs and sources, management expects First BanCorp to be able to meet its obligations for the foreseeable future.

Upon the completion of the capital raise, the Corporation s and the Bank s credit ratings were upgraded by Moody s Investor Service (Moody s) and Standard & Poor s (S&P), and the credit outlook was upgraded by Fitch Ratings Limited (Fitch). The Corporation does not have any outstanding debt or derivative agreements that would be directly affected by credit downgrades. Furthermore, given the Corporation s non-reliance on corporate debt or other instruments directly linked in terms of pricing or volume to credit ratings, the liquidity of the Corporation was not affected in any material way by the downgrades experienced during 2010 and early 2011, prior to the completion of the aforementioned capital raise. The Corporation s ability to access new non-deposit funding including unsecured debt, however, could be adversely affected by credit downgrades.

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

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

In December 2010, the FASB updated the Accounting Standards Codification (Codification) to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. As a result, current GAAP will be improved by eliminating an entity s ability to assert that a reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative despite the existence of qualitative factors that indicate the goodwill is more likely than not impaired. As a result, goodwill impairments may be reported sooner than under current practice. The objective of this Update is to address questions about entities with reporting units with zero or negative carrying amounts because some entities concluded that Step 1 of the test is passed in those circumstances because the fair value of their reporting unit will generally be greater than zero. As a result of that conclusion, some constituents raised concerns that Step 2 of the test is not performed despite factors indicating that goodwill may be impaired. The amendments in this Update do not provide guidance on how to determine the carrying amount or measure the fair value of the reporting unit. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The adoption of this guidance did not have a material impact on the Corporation s financial statements.

In December 2010, the FASB updated the Codification to clarify required disclosures of supplementary pro forma information for business combinations. The amendments specify that, if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the year had occurred as of the beginning of the comparable prior annual period only. Additionally, the Update expands disclosures to include a description of the nature and amount of material nonrecurring pro forma adjustments directly attributable to the business combination included in the pro forma revenue and earnings. This guidance is effective for reporting periods beginning after December 15, 2010; early adoption is permitted. The Corporation adopted this guidance with no impact on the financial statements.

In April 2011, the FASB updated the Codification to clarify the guidance on a creditor s evaluation of whether a restructuring constitutes a troubled debt restructuring (TDR). Under the amendments, a creditor must separately conclude that a loan modification constitutes a concession and that the debtor is experiencing financial difficulties when evaluating whether a loan modification constitutes a TDR. If a creditor determines that it has granted a concession to a debtor, the creditor must make a separate assessment about whether the debtor is experiencing financial difficulties to determine whether the restructuring constitutes a TDR. The amendments clarify the guidance on a creditor s evaluation of whether it has granted a concession and what constitutes financial difficulty. In addition, the amendments clarify that a creditor is precluded from using the effective interest rate test in the debtor s guidance on restructuring of payables when evaluating whether a restructuring constitutes a TDR. The amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The Corporation adopted this guidance during the third quarter of 2011. As a result of adopting the amendments in this Update, the Corporation reassessed all restructurings that occurred on or after the beginning of the current fiscal year (January 1, 2011) for identification as troubled debt restructurings. Upon identifying those receivables as troubled debt restructurings, The Corporations identified them as impaired under the applicable guidance. The amendments in this Update require prospective application of the impairment measurement guidance for those receivables newly identified as TDRs. At the end of the first interim period of adoption (September 30, 2011), the recorded investment in receivables newly identified as TDR under the applicable guidance of this Update was $99.5 million, and the allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss, was $13.0 million. Refer to Note 7 for required disclosures and additional information.

In April 2011, the FASB updated the Codification to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update remove from the assessment of effective control the criterion relating to the transferor s ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The Board concluded that this criterion is not a determining factor of effective control. Consequently, the amendments in this Update also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. Eliminating the transferor s ability criterion and related implementation guidance from an entity s assessment of effective control should improve the accounting for repurchase agreements and other similar transactions. The amendments in this Update are effective for the first interim or annual period beginning on or after December 15, 2011, and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Corporation is currently evaluating the impact of the adoption of this guidance on the financial statements.

In May 2011, the FASB updated the Codification to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards (IFRSs). The amendments in this Update apply to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity s shareholders equity in the financial statements and result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. The amendments in this Update are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The Corporation is currently evaluating the impact of the adoption of this guidance on the financial statements.

In June 2011, the FASB updated the Codification to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. Under the amendments, an entity has the option to present the total comprehensive income either in a single continuous statement or in two separate but consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. Additionally, this update requires consecutive presentation of the statement of net income and other comprehensive income and requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. The amendments in this update should be applied retrospectively and are effective for fiscal years beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. Beginning with the financial statements for the quarter and six-month period ended June 30, 2011, the Corporation is following the guidance of consecutive presentation of the statement of net income and other comprehensive income.

In September 2011, the FASB updated the Codification to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this Update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amendments in this Update are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity s financial statements for the most recent annual or interim period have not yet been issued. The Corporation is currently evaluating the impact, if any, of the adoption of this guidance on the financial statements.

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2 EARNINGS PER COMMON SHARE

The calculations of earnings (loss) per common share for the quarters and nine-month periods ended on September 30, 2011 and 2010 are as follows:

(In thousands, except per share information)	Quarter Ended		Nine-Month Period Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net loss	$ (24,046)	$ (75,233)	$ (67,390)	$ (272,872)
Cumulative non-convertible preferred stock dividends (Series F)		(1,618)		(11,618)
Cumulative convertible preferred stock dividend (Series G)	(5,302)	(4,183)	(15,906)	(4,183)
Preferred stock discount accretion (Series G and F) (1)	(1,795)	(1,688)	(5,489)	(4,010)
Favorable impact from issuing common stock in exchange for Series A through E preferred stock net of issuance costs (2)		385,387		385,387
Favorable impact from issuing Series G mandatorily convertible preferred stock in exchange for Series F preferred stock (3)		55,122		55,122
Net (loss) income attributable to common stockholders - basic	$ (31,143)	$ 357,787	$ (88,785)	$ 147,826
Convertible preferred stock dividends and accretion		5,626		5,626
Net (loss) income attributable to common stockholders - diluted	$ (31,143)	$ 363,413	$ (88,785)	$ 153,452
Average common shares outstanding (4)	21,303	11,432	21,303	7,942
Average potential common shares (4) (5)		75,119		25,315
Average common shares outstanding - assuming dilution (4)	21,303	86,551	21,303	33,257
Basic earnings (loss) per common share (4)	$ (1.46)	$ 31.30	$ (4.17)	$ 18.61
Diluted earnings (loss) per common share (4)	$ (1.46)	$ 4.20	$ (4.17)	$ 4.61

(1) Includes a non-cash adjustment of $0.2 million for the nine-month period ended September 30, 2011 as an acceleration of the Series G preferred stock discount accretion pursuant to a second amendment to the exchange agreement with the U.S. Treasury, the sole holder of the Series G Preferred Stock, that provided for a six months extension to the date by when the Corporation is required to complete an equity raise in order to compel the conversion of the Series G Preferred Stock into common stock.

(2) Excess of carrying amount of Series A through E preferred stock exchanged over the fair value of new common shares issued in the third quarter of 2010.

(3) Excess of carrying amount of Series F preferred stock exchanged and original warrant over the fair value of the Series G preferred stock issued in the third quarter of 2010 and amended warrant.

(4) All share and per-share data has been adjusted to retroactively reflect the 1-for-15 reverse stock split effected January 7, 2011.

(5) Assumes conversion of the Series G convertible preferred stock at the time of issuance based on the most advantageous conversion rate from the standpoint of the security holder.

(Loss) earnings per common share is computed by dividing net (loss) income attributable to common stockholders by the weighted average common shares issued and outstanding. Net (loss) income attributable to common stockholders represents net (loss) income adjusted for preferred stock dividends including dividends declared, and cumulative dividends related to the current dividend period that have not been declared as of the end of the period, and the accretion of discount on preferred stock issuances. For 2010 the net income attributable to common stockholders also includes the one-time effect of the issuance of common stock in exchange for shares of the Series A through E Preferred Stock and the issuance of a new Series G Preferred Stock in exchange for the Series F Preferred Stock. The Exchange Offer and the issuance of the Series G Preferred Stock to the U.S. Treasury are discussed in Note 17 to the consolidated financial statements. Basic weighted average common shares outstanding exclude unvested shares of restricted stock.

Potential common shares consist of common stock issuable under the assumed exercise of stock options, unvested shares of restricted stock, and outstanding warrants using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from the exercise, in addition to the amount of compensation cost attributable to future services, are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Stock options, unvested shares of restricted stock, and outstanding warrants that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect on earnings per share. As of September 30, 2011 and 2010, there were 129,934 and 138,100 outstanding stock options, respectively; warrants outstanding to purchase 389,483 shares of common stock and 720 and 1,432 unvested shares of restricted stock, respectively, that were excluded from the computation of diluted earnings per common share because their inclusion would have an antidilutive effect.

The Series G Preferred Stock is included in the calculation of earnings per share in 2010 as all shares are assumed converted at the time of issuance of the Series G Preferred Stock, under the if converted method. The amount of potential common shares was obtained based on the most advantageous conversion rate from the standpoint of the security holder and assuming the Corporation will not be able to compel conversion until the seven-year anniversary, at which date the conversion price would be based on the Corporation s stock price in the open market and conversion would be based on the full liquidation value of $1,000 per share, or a conversion rate of 223.18 shares of common stock for each share of Series G convertible preferred stock.

3 STOCK OPTION PLAN

Between 1997 and January 2007, the Corporation had a stock option plan (the 1997 stock option plan) that authorized the granting of up to 579,740 options on shares of the Corporation s common stock to eligible employees. The options granted under the plan could not exceed 20% of the number of common shares outstanding. Each option provides for the purchase of one share of common stock at a price not less than the fair market value of the stock on the date the option was granted. Stock options were fully vested upon grant. The maximum term to exercise the options is ten years. The stock option plan provides for a proportionate adjustment in the exercise price and the number of shares that can be purchased in the event of a stock dividend, stock split, reclassification of stock, merger or reorganization and certain other issuances and distributions such as stock appreciation rights.

Under the 1997 stock option plan, the Compensation and Benefits Committee (the Compensation Committee) had the authority to grant stock appreciation rights at any time subsequent to the grant of an option. Pursuant to stock appreciation rights, the optionee surrenders the right to exercise an option granted under the plan in consideration for payment by the Corporation of an amount equal to the excess of the fair market value of the shares of common stock subject to such option surrendered over the total option price of such shares. Any option surrendered is cancelled by the Corporation and the shares subject to the option are not eligible for further grants under the option plan. On January 21, 2007, the 1997 stock option plan expired; all outstanding awards granted under this plan continue in full force and effect, subject to their original terms. No awards for shares could be granted under the 1997 stock option plan as of its expiration.

On April 29, 2008, the Corporation s stockholders approved the First BanCorp 2008 Omnibus Incentive Plan (the Omnibus Plan). The Omnibus Plan provides for equity-based compensation incentives (the awards) through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, and other stock-based awards. This plan allows the issuance of up to 253,333 shares of common stock, subject to adjustments for stock splits, reorganizations and other similar events. The Corporation s Board of Directors, upon receiving the relevant recommendation of the Compensation Committee, has the power and authority to determine those eligible to receive awards and to establish the terms and conditions of any awards subject to various limits and vesting restrictions that apply to individual and aggregate awards. During the fourth quarter of 2008, the Corporation granted 2,412 shares of restricted stock with a fair value of $130.35 under the Omnibus Plan to the Corporation s independent directors. Of the original 2,412 shares of restricted stock, 268 were forfeited in the second half of 2009, 1,424 vested and, as of September 30, 2011, 720 remain restricted.

For the quarter and nine-month period ended September 30, 2011, the Corporation recognized $23,333 and $69,999 of stock-based compensation expense related to the aforementioned restricted stock awards. The total unrecognized compensation cost related to the non-vested restricted shares was $15,557 as of September 30, 2011.

There were no stock options granted during 2011 and 2010, therefore no compensation associated with stock options was recorded in those years. No stock options were exercised during the nine-month period ended September 30, 2011 or in 2010.

Stock-based compensation accounting guidance requires the Corporation to develop an estimate of the number of share-based awards that will be forfeited due to employee or director turnover. Quarterly changes in the estimated forfeiture rate may have a significant effect on share-based compensation, as the effect of adjusting the rate for all expense amortization is recognized in the period in which the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. When unvested options or shares of restricted stock are forfeited, any compensation expense previously recognized on the forfeited awards is reversed in the period of the forfeiture.

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The activity of stock options for the nine-month period ended September 30, 2011 is set forth below:

	Nine-month Period Ended September 30, 2011			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Beginning of period	131,532	$ 202.91		
Options cancelled	(1,598)	196.51		
End of period outstanding and exercisable	129,934	$ 202.99	3.77	$

4 INVESTMENT SECURITIES

Investment Securities Available for Sale

The amortized cost, non-credit loss component of other-than-temporary impairment (OTTI) on securities recorded in other comprehensive income (OCI), gross unrealized gains and losses recorded in OCI, approximate fair value, weighted-average yield and contractual maturities of investment securities available for sale as of September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011						December 31, 2010					
			Gross Unrealized					Non-Credit Loss	Gross Unrealized			
	Amortized cost	Non-Credit Loss Component of OTTI Recorded in OCI	gains	losses	Fair value	Weighted average yield%	Amortized cost	Component of OTTI Recorded in OCI	gains	losses	Fair value	Weighted average yield%
	(Dollars in thousands)											
U.S. Treasury securities:												
Due within one year	$ 436,070	$	$ 475	$ 24	$ 436,521	0.33	$	$	$	$	$	
After 1 to 5 years							599,987		8,727		608,714	1.34
Obligations of U.S. Government sponsored agencies:												
Due within one year	300,691		1,703		302,394	1.15						
After 1 to 5 years	12,675		10		12,685	1.00	604,630		2,714	3,991	603,353	1.17
Puerto Rico Government obligations:												
Due within one year	8,560		149		8,709	4.20						
After 1 to 5 years	19,600		181		19,781	4.82	26,768		522		27,290	4.70
After 5 to 10 years	103,000		48		103,048	5.16	104,352		432		104,784	5.18
After 10 years	24,444		459	7	24,896	5.74	4,746		21		4,767	6.22
United States and Puerto Rico Government obligations	905,040		3,025	31	908,034	1.44	1,340,483		12,416	3,991	1,348,908	1.65
Mortgage-backed securities:												

FHLMC certificates:												
After 1 to 5 years	1,250		13		1,263	3.68						
After 10 years	26,910		269		27,179	3.04	1,716		101		1,817	5.00
	28,160		282		28,442	3.07	1,716		101		1,817	5.00
GNMA certificates:												
Due within one year	4				4	5.31	30				30	6.49
After 1 to 5 years	195		8		203	3.88						
After 5 to 10 years	643		45		688	4.14	1,319		74		1,393	4.80
After 10 years	746,908		39,257		786,165	3.97	962,246		31,105	3,396	989,955	4.25
	747,750		39,310		787,060	3.97	963,595		31,179	3,396	991,378	4.25
FNMA certificates:												
After 1 to 5 years	1,338		58		1,396	3.82						
After 5 to 10 years	20,786		1,149		21,935	3.97	75,547		3,987		79,534	4.50
After 10 years	49,560		2,598		52,158	5.46	126,847		8,678		135,525	5.51
	71,684		3,805		75,489	5.00	202,394		12,665		215,059	5.13
Collateralized Mortgage Obligations issued or guaranteed by FHLMC, FNMA and GNMA:												
After 10 years							112,989		1,926		114,915	0.99
Other mortgage pass-through trust certificates:												
After 10 years	88,333	24,888	1		63,446	2.09	100,130	27,814	1		72,317	2.31
Total mortgage-backed securities	935,927	24,888	43,398		954,437	3.84	1,380,824	27,814	45,872	3,396	1,395,486	3.97
Corporate bonds:												
After 10 years	2,000			565	1,435	5.80						
Equity securities (without contractual maturity) (1)	76			30	46		77			18	59	
Total investment securities available for sale	$ 1,843,043	$ 24,888	$ 46,423	$ 626	$ 1,863,952	2.67	$ 2,721,384	$ 27,814	$ 58,288	$ 7,405	$ 2,744,453	2.83

(1) Represents common shares of other financial institutions in Puerto Rico.

Maturities of mortgage-backed securities are based on contractual terms assuming no prepayments. Expected maturities of investments might differ from contractual maturities because they may be subject to prepayments and/or call options as was the case with $290.3 million of U.S. agency debt securities called during 2011. The weighted-average yield on investment securities available for sale is based on amortized cost and, therefore, does not give effect to changes in fair value. The net unrealized gain or loss on securities available for sale and the non-credit loss component of OTTI are presented as part of OCI.

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The following tables show the Corporation s available-for-sale investments fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2011 and December 31, 2010. It also includes debt securities for which an OTTI was recognized and only the amount related to a credit loss was recognized in earnings:

	As of September 30, 2011					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Government agencies obligations	$ 103,586	$ 24	$	$	$ 103,586	$ 24
Puerto Rico Government obligations	1,008	7			1,008	7
Mortgage-backed securities:						
Other mortgage pass-through trust certificates			63,251	24,888	63,251	24,888
Corporate bonds			1,435	565	1,435	565
Equity securities	46	30			46	30
	$ 104,640	$ 61	$ 64,686	$ 25,453	$ 169,326	$ 25,514

	As of December 31, 2010					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Government agencies obligations	$ 249,026	$ 3,991	$	$	$ 249,026	$ 3,991
Mortgage-backed securities:						
GNMA	192,799	3,396			192,799	3,396
Other mortgage pass-through trust certificates			72,101	27,814	72,101	27,814
Equity securities	59	18			59	18
	$ 441,884	$ 7,405	$ 72,101	$ 27,814	$ 513,985	$ 35,219

Investments Held to Maturity

On March 7, 2011, the Corporation sold $330 million of mortgage-backed securities that were originally intended to be held to maturity, consistent with deleveraging initiatives included in the Corporation s Capital Plan. The Corporation realized a gain of $18.7 million associated with this transaction. After the sale, in line with the Corporation s ongoing capital management strategy, the remaining $89 million of investment securities held in the held-to-maturity portfolio was reclassified to the available-for-sale portfolio.

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The amortized cost, gross unrealized gains and losses, approximate fair value, weighted-average yield and contractual maturities of investment securities held to maturity as of December 31, 2010 were as follows:

	December 31, 2010				
	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%
	(Dollars in thousands)				
U.S. Treasury securities:					
Due within 1 year	$ 8,487	$ 5	$	$ 8,492	0.30
Puerto Rico Government obligations:					
After 5 to 10 years	19,284	795		20,079	5.87
After 10 years	4,665	49		4,714	5.50
United States and Puerto Rico Government obligations	32,436	849		33,285	4.36
Mortgage-backed securities:					
FHLMC certificates:					
After 1 to 5 years	2,569	42		2,611	3.71
FNMA certificates:					
After 1 to 5 years	2,525	130		2,655	3.86
After 5 to 10 years	391,328	21,946		413,274	4.48
After 10 years	22,529	885		23,414	5.33
Mortgage-backed securities	418,951	23,003		441,954	4.52
Corporate bonds:					
After 10 years	2,000		723	1,277	5.80
Total investment securities held-to-maturity	$ 453,387	$ 23,852	$ 723	$ 476,516	4.51

Maturities of mortgage-backed securities are based on contractual terms assuming no prepayments. Expected maturities of investments might differ from contractual maturities because they may be subject to prepayments and/or call options.

From time to time the Corporation has securities held to maturity with an original maturity of three months or less that are considered cash and cash equivalents and classified as money market investments in the Consolidated Statement of Financial Condition. As of September 30, 2011, the Corporation had no outstanding securities held to maturity that were classified as cash and cash equivalents.

The following tables show the Corporation s held-to-maturity investments fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2010:

	As of December 31, 2010					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Corporate bonds	$	$	$ 1,277	$ 723	$ 1,277	$ 723

Assessment for OTTI

On a quarterly basis, the Corporation performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered OTTI. A debt security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. The accounting literature requires the Corporation to assess whether the unrealized loss is other-than-temporary.

OTTI losses for debt securities must be recognized in earnings if an investor has the intent to sell the debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, even if an investor does not expect to sell a debt security, it must evaluate expected cash flows to be received and determine if a credit loss has occurred.

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An unrealized loss is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. The credit loss component of an OTTI, if any, is recorded as a component of Net impairment losses on investment securities in the accompanying consolidated statements of (loss) income, while the remaining portion of the impairment loss is recognized in OCI, provided the Corporation does not intend to sell the underlying debt security and it is more likely than not that the Corporation will not have to sell the debt security prior to recovery.

Debt securities issued by U.S. government agencies, government-sponsored entities and the U.S. Treasury accounted for more than 88% of the total available-for-sale portfolio as of September 30, 2011 and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government. The Corporation s assessment was concentrated mainly on private label mortgage-backed securities (MBS) of approximately $88 million for which the Corporation evaluates credit losses on a quarterly basis. The Corporation considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

- The length of time and the extent to which the fair value has been less than the amortized cost basis.
- Changes in the near term prospects of the underlying collateral of a security such as changes in default rates, loss severity given default and significant changes in prepayment assumptions;
- The level of cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities; and
- Any adverse change to the credit conditions and liquidity of the issuer, taking into consideration the latest information available about the overall financial condition of the issuer, credit ratings, recent legislation and government actions affecting the issuer s industry and actions taken by the issuer to deal with the present economic climate.

For the quarter and nine-month period ended September 30, 2011, the Corporation recorded OTTI losses on available-for-sale debt securities as follows:

	Private label MBS	
(In thousands)	Quarter ended September 30, 2011	Nine-month period ended September 30, 2011
Total other-than-temporary impairment losses	$	$
Unrealized other-than-temporary impairment losses recognized in OCI (1)	(350)	(957)
Net impairment losses recognized in earnings (2)	$ (350)	$ (957)

(1) Represents the noncredit component impact of the OTTI on available-for-sale debt securities
(2) Represents the credit component of the OTTI on available-for-sale debt securities

No OTTI losses on available for sale debt securities were recorded for the first nine-months of 2010.

The following table summarizes the roll-forward of credit losses on debt securities held by the Corporation for which a portion of an OTTI is recognized in OCI:

(In thousands)	Private label MBS Quarter ended September 30, 2011	Private label MBS Nine-month period ended September 30, 2011
Credit losses at the beginning of the period	$ 2,459	$ 1,852
Additions:		
Credit losses related to debt securities for which an OTTI was not previously recognized		
Credit losses related to debt securities for which an OTTI was previously recognized	350	957
Ending balance of credit losses on debt securities held for which a portion of an OTTI was recognized in OCI	$ 2,809	$ 2,809

Private label MBS are collateralized by fixed-rate mortgages on single family residential properties in the United States. The interest rate on these private-label MBS is variable, tied to 3-month LIBOR and limited to the weighted-average coupon of the underlying collateral. The underlying mortgages are fixed-rate single family loans with original high FICO scores (over 700) and moderate original loan-to-value ratios (under 80%), as well as moderate delinquency levels.

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Based on the expected cash flows derived from the model, and since the Corporation does not have the intention to sell the securities and has sufficient capital and liquidity to hold these securities until a recovery of the fair value occurs, only the credit loss component was reflected in earnings. Significant assumptions in the valuation of the private label MBS as of September 30, 2011 and December 31, 2010 were as follow:

	September 30, 2011		December 31, 2010	
	Weighted Average	Range	Weighted Average	Range
Discount rate	14.5%	14.5%	14.5%	14.5%
Prepayment rate	27%	22.09% - 37.95%	24%	18.2% - 43.73%
Projected Cumulative Loss Rate	6%	1.87% - 11.74%	6%	1.49% - 16.25%

For the nine-month period ended on September 30, 2010, the Corporation recorded OTTI of approximately $0.4 million on certain equity securities held in its available-for-sale investment portfolio related to financial institutions in Puerto Rico, no OTTI losses on equity securities were recognized for the nine-month period ended September 30, 2011. Management concluded that the declines in value of the securities were other-than-temporary; as such, the cost basis of these securities was written down to the market value as of the date of the analysis and is reflected in earnings as a realized loss.

Total proceeds from the sale of securities available for sale during the nine-month period ended September 30, 2011 amounted to approximately $1.2 billion (2010 $2.4 billion). As part of its balance sheet restructuring strategies, the Corporation sold during the first nine-months of 2011 approximately $500 million of low-yielding U.S. Treasury Notes and $105 million of floating rate U.S. Agency collateralized mortgage obligations (CMOs) and used the proceeds, in part, to prepay $400 million of repurchase agreements that carried an average rate of 2.74%. The Corporation offset prepayment penalties of $10.6 million with gains of $11.0 million from the sale of U.S. Treasury Notes and floating rates U.S. Agency CMOs. This transaction contributed to improvements in the net interest margin.

5 OTHER EQUITY SECURITIES

Institutions that are members of the FHLB system are required to maintain a minimum investment in FHLB stock. Such minimum is calculated as a percentage of aggregate outstanding mortgages, and an additional investment is required that is calculated as a percentage of total FHLB advances, letters of credit, and the collateralized portion of interest-rate swaps outstanding. The stock is capital stock issued at $100 par value. Both stock and cash dividends may be received on FHLB stock.

As of September 30, 2011 and December 31, 2010, the Corporation had investments in FHLB stock with a book value of $39.4 million and $54.6 million, respectively. The net realizable value is a reasonable proxy for the fair value of these instruments. Dividend income from FHLB stock for the third quarter and nine-month period ended September 30, 2011 amounted to $0.4 million and $1.6 million, respectively, compared to $0.6 million and $2.1 million, respectively, for the same periods in 2010.

The FHLB stocks owned by the Corporation are issued by the FHLB of New York and by the FHLB of Atlanta. Both Banks are part of the Federal Home Loan Bank System, a national wholesale banking network of 12 regional, stockholder-owned congressionally chartered banks. The Federal Home Loan Banks are all privately capitalized and operated by their member stockholders. The system is supervised by the Federal Housing Finance Agency, which ensures that the Home Loan Banks operate in a financially safe and sound manner, remain adequately capitalized and able to raise funds in the capital markets, and carry out their housing finance mission.

The Corporation has other equity securities that do not have a readily available fair value. The carrying value of such securities as of September 30, 2011 and December 31, 2010 was $1.3 million. An impairment charge of $0.25 million was recorded in the first quarter of 2010 related to an investment in a failed financial institution in the United States. During the first quarter of 2010, the Corporation recognized a $10.7 million gain on the sale of VISA Class C shares. The Corporation no longer holds any VISA shares.

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6 LOAN PORTFOLIO

The following is a detail of the loan portfolio held for investment:

	September 30, 2011	December 31, 2010
	(In thousands)	
Residential mortgage loans, mainly secured by first mortgages	$ 2,873,966	$ 3,417,417
Commercial loans:		
Construction loans	473,812	700,579
Commercial mortgage loans	1,584,787	1,670,161
Commercial and Industrial loans [1]	3,844,690	3,861,545
Loans to local financial institutions collateralized by real estate mortgages	278,484	290,219
Commercial loans	6,181,773	6,522,504
Finance leases	254,515	282,904
Consumer loans	1,322,888	1,432,611
Loans receivable	10,633,142	11,655,436
Allowance for loan and lease losses	(519,687)	(553,025)
Loans receivable, net	$ 10,113,455	$ 11,102,411

1 - As of September 30, 2011, includes $1.6 billion of commercial loans that are secured by real estate but are not dependent upon the real estate for repayment.

Loans held for investment on which accrual of interest income had been discontinued as of September 30, 2011 and December 31, 2010 were as follows:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Non-performing loans:		
Residential mortgage	$ 364,561	$ 392,134
Commercial mortgage	188,326	217,165
Commercial and Industrial	315,360	317,243
Construction	270,411	263,056
Consumer:		
Auto loans	22,460	25,350
Finance leases	3,879	3,935
Other consumer loans	18,692	20,106

Total non-performing loans held for investment [1]	$ 1,183,689	$ 1,238,989

1 -As of September 30, 2011 and December 31, 2010, excludes $5.1 million and $159.3 million, respectively, in non- performing loans held for sale.

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The Corporation s aging of the loans held for investment portfolio as of September 30, 2011 and December 31, 2010, follows:

As of September 30, 2011	Current	30-89 days Past Due	90 days or more Past Due (1)	Total Portfolio	90 days and still accruing
			(in thousands)		
Residential Mortgage:					
FHA/VA and other government guaranteed loans (2)	$ 165,336	$ 13,668	$ 86,646	$ 265,650	$ 86,646
Other residential mortage loans	2,139,574	90,499	378,243	2,608,316	13,682
Commercial:					
Commercial & Industrial Loans	3,718,612	55,983	348,579	4,123,174	33,219
Commercial Mortgage Loans	1,336,745	53,306	194,736	1,584,787	6,410
Construction Loans	185,017	1,566	287,229	473,812	16,818
Consumer:					
Auto	837,255	82,851	22,460	942,566	
Finance Leases	233,801	16,835	3,879	254,515	
Other Consumer Loans	344,856	16,774	18,692	380,322	
Total Loans Receivable	$ 8,961,196	$ 331,482	$ 1,340,464	$ 10,633,142	$ 156,775

(1) Includes non-performing loans and accruing loans which are contractually delinquent 90 days or more (i.e. FHA/VA and other guaranteed loans).

(2) As of September 30, 2011, includes $62.9 million of defaulted loans collateralizing Ginnie Mae (GNMA) securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.

As of December 31, 2010	Current	30-89 days Past Due	90 days or more Past Due (1)	Total Portfolio	90 days and still accruing
			(in thousands)		
Residential Mortgage:					
FHA/VA and other government guaranteed loans (2)	$ 136,412	$ 14,780	$ 81,330	$ 232,522	$ 81,330
Other residential mortage loans	2,654,430	116,438	414,027	3,184,895	21,893
Commercial:					
Commercial & Industrial Loans	3,701,788	98,790	351,186	4,151,764	33,943
Commercial Mortgage Loans	1,412,943	40,053	217,165	1,670,161	
Construction Loans	418,339	12,236	270,004	700,579	6,948
Consumer:					
Auto	888,720	94,906	25,350	1,008,976	
Finance Leases	258,990	19,979	3,935	282,904	
Other Consumer Loans	379,566	23,963	20,106	423,635	
Total Loans Receivable	$ 9,851,188	$ 421,145	$ 1,383,103	$ 11,655,436	$ 144,114

(1) Includes non-performing loans and accruing loans which are contractually delinquent 90 days or more (i.e. FHA/VA and other guaranteed loans)

(2) As of December 31, 2010, includes $54.2 million of defaulted loans collateralizing GNMA securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans

The Corporation s primary lending area is Puerto Rico. The Corporation s Puerto Rico banking subsidiary, FirstBank, also lends in the U.S. and British Virgin Islands markets and in the United States (principally in the state of Florida). Of the total gross loans held for investment portfolio of $10.6 billion as of September 30, 2011, approximately 83% have credit risk concentration in Puerto Rico, 8% in the United States and 9% in the Virgin Islands.

The largest loan to one borrower as of September 30, 2011 in the amount of $278.5 million is with one mortgage originator in Puerto Rico, Doral Financial Corporation. This commercial loan is secured by individual real-estate loans, mostly 1-4 family residential mortgage loans.

As of September 30, 2011, the Corporation had $207.0 million outstanding of credit facilities granted to the Puerto Rico Government and/or its political subdivisions, down from $325.1 million as of December 31, 2010, and $140.1 million granted to the Virgin Islands government, up from $84.3 million as of December 31, 2010. A substantial portion of these credit facilities are obligations that have a specific source of income or revenues identified for their repayment, such as property taxes collected by the central Government and/or municipalities. Another portion of these obligations consists of loans to public corporations that obtain revenues from rates charged for services or products, such as electric power and water utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The Corporation also has loans to various municipalities in Puerto Rico for which the good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment.

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7 ALLOWANCE FOR LOAN AND LEASE LOSSES AND IMPAIRED LOANS

The changes in the allowance for loan and lease losses were as follows:

(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Quarter ended September 30, 2011						
Allowance for loan and lease losses:						
Beginning balance	$ 67,404	$ 90,785	$ 188,562	$ 131,344	$ 62,783	540,878
Charge-offs	(16,076)	(3,316)	(22,703)	(17,008)	(11,086)	(70,189)
Recoveries	260	7	177	185	1,923	2,552
Provision	17,744	13,324	10,437	(2,547)	7,488	46,446
Ending balance	$ 69,332	$ 100,800	$ 176,473	$ 111,974	$ 61,108	$ 519,687
Ending balance: specific reserve for impaired loans	$ 49,350	$ 35,928	$ 77,932	$ 48,209	$ 2,878	$ 214,297
Ending balance: general allowance	$ 19,982	$ 64,872	$ 98,541	$ 63,765	$ 58,230	$ 305,390
Loans receivables:						
Ending balance	$ 2,873,966	$ 1,584,787	$ 4,123,174	$ 473,812	$ 1,577,403	$ 10,633,142
Ending balance: impaired loans	$ 548,677	$ 245,439	$ 384,640	$ 237,701	$ 15,325	$ 1,431,782
Ending balance: loans with general allowance	$ 2,325,289	$ 1,339,348	$ 3,738,534	$ 236,111	$ 1,562,078	$ 9,201,360

(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Nine-month period ended September 30, 2011						
Allowance for loan and lease losses:						
Beginning balance	$ 62,330	$ 105,596	$ 152,641	$ 151,972	$ 80,486	$ 553,025
Charge-offs	(30,571)	(37,647)	(50,858)	(83,483)	(35,168)	(237,727)
Recoveries	657	84	1,281	2,215	5,790	10,027
Provision	36,916	32,767	73,409	41,270	10,000	194,362
Ending balance	$ 69,332	$ 100,800	$ 176,473	$ 111,974	$ 61,108	$ 519,687
Ending balance: specific reserve for impaired loans	$ 49,350	$ 35,928	$ 77,932	$ 48,209	$ 2,878	$ 214,297
Ending balance: general allowance	$ 19,982	$ 64,872	$ 98,541	$ 63,765	$ 58,230	$ 305,390
Loans receivables:						
Ending balance	$ 2,873,966	$ 1,584,787	$ 4,123,174	$ 473,812	$ 1,577,403	$ 10,633,142
Ending balance: impaired loans	$ 548,677	$ 245,439	$ 384,640	$ 237,701	$ 15,325	$ 1,431,782
Ending balance: loans with general allowance	$ 2,325,289	$ 1,339,348	$ 3,738,534	$ 236,111	$ 1,562,078	$ 9,201,360

There were no significant purchases of loans during 2011. The Corporation did sell approximately $518 million of performing residential mortgage loans to another financial institution and $85.4 million of performing residential mortgage loans in the secondary market to FNMA and FHLMC during the nine-month period ended September 30, 2011. Also, the Corporation securitized approximately $152.0 million of FHA/VA mortgage loans to GNMA mortgage-backed securities during 2011. Refer to Note 8 Loans held for sale for additional information about loans sold during 2011.

Changes in the allowance for the quarter and nine-month period ended September 30, 2010 were as follows:

	Quarter ended September 30, 2010	**Nine-month period ended September 30, 2010**
	(In thousands)	
Balance at beginning of the period	$ 604,304	$ 528,120
Provision for loan and lease losses	120,482	438,240
Losses charged against the allowance	(120,487)	(367,309)
Recoveries credited to the allowance	4,227	9,475
Balance at end of period	$ 608,526	$ 608,526

The allowance for impaired loans is part of the allowance for loan and lease losses. The allowance for impaired loans covers those loans for which management has determined that it is probable that the debtor will be unable to pay all the amounts due in accordance with the contractual terms of the loan agreement, and does not necessarily represent loans for which the Corporation will incur a loss.

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Information regarding impaired loans for the quarter and nine-month period ended September 30, 2011 and for the year ended December 31, 2010 was as follows:

Impaired Loans

(Dollars in thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized Quarter to date	Interest Income Recognized Year to date
As of September 30, 2011						
With no related allowance recorded:						
FHA/VA Guaranteed loans	$	$	$	$	$	$
Other residential mortage loans	136,170	149,266		157,304	1,397	4,451
Commercial:						
Commercial mortgage loans	34,377	37,203		27,172	345	896
Commercial & Industrial Loans	&nbs					