FIRST BANCORP /PR/
Form 10-Q
May 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

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

For the transition period from __________ to __________

COMMISSION FILE NUMBER 001-14793

FIRST BANCORP.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

(787) 729-8200
(Registrant s telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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 o No o

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

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

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

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

Common stock: 21,303,669 outstanding as of April 30, 2011.

FIRST BANCORP.
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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 expressio meant to identify forward-looking statements.

First BanCorp wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and 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 attain certain capital levels and reduce its special mention, classified, delinquent and non-accrual assets;

uncertainty as to whether the Corporation will be able to issue $350 million of equity so as to meet the remaining substantive condition necessary to compel the United States Department of the Treasury (the U.S. Treasury) to convert into common stock the shares of the Corporation s Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series G (the Series G Preferred Stock), that the Corporation issued to the U.S. Treasury;

uncertainty as to whether the Corporation will be able to complete any other future capital-raising efforts;

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 Order;

the risk of not being able to fulfill the Corporation s cash obligations or resume paying dividends to the Corporation s stockholders due to the Corporation s inability to receive approval from the FED to receive dividends from the Corporation s banking subsidiary, FirstBank;

the risk of being subject to possible additional regulatory actions;

the strength or weakness of the real estate market 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 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 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;

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- 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;

- 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 our non-interest expense;

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

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

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

- the adverse effect of litigation;

- risks that further 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 our businesses, business practices and cost of operations;

- general competitive factors and industry consolidation; and

- the future dilution to holders of the Corporation s common stock resulting from additional issuances of common stock or securities convertible into common stock.

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 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)	March 31, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 663,581	$ 254,723
Money market investments:		
Federal funds sold	5,382	6,236
Time deposits with other financial institutions	1,355	1,346
Other short-term investments	202,976	107,978
Total money market investments	209,713	115,560
Investment securities available for sale, at fair value:		
Securities pledged that can be repledged	1,667,261	1,344,873
Other investment securities	1,056,906	1,399,580
Total investment securities available for sale	2,724,167	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	99,060	55,932
Loans, net of allowance for loan and lease losses of $561,695 (2010 - $553,025)	10,528,080	11,102,411
Loans held for sale, at lower of cost or market	305,494	300,766
Total loans, net	10,833,574	11,403,177
Premises and equipment, net	206,863	209,014
Other real estate owned	91,948	84,897
Accrued interest receivable on loans and investments	55,580	59,061
Due from customers on acceptances	598	1,439
Other assets	219,006	211,434

Total assets	$ 15,104,090	$ 15,593,077
LIABILITIES		
Deposits:		
Non-interest-bearing deposits	$ 707,938	$ 668,052
Interest-bearing deposits	11,008,498	11,391,058
Total deposits	11,716,436	12,059,110
Securities sold under agreements to repurchase	1,400,000	1,400,000
Advances from the Federal Home Loan Bank (FHLB)	540,440	653,440
Notes payable (including $12,437 and $11,842 measured at fair value as of March 31, 2011 and December 31, 2010, respectively)	27,837	26,449
Other borrowings	231,959	231,959
Bank acceptances outstanding	598	1,439
Accounts payable and other liabilities	159,551	162,721
Total liabilities	14,076,821	14,535,118
Commitments and Contingencies (Note 22)		
STOCKHOLDERS EQUITY		
Preferred stock, authorized 50,000,000 shares: issued 22,828,174; outstanding 2,946,046; aggregate liquidation value of $487,221:		
Fixed Rate Cumulative Mandatorily Convertible Preferred Stock: issued and outstanding 424,174 shares	363,677	361,962
Non-cumulative Perpetual Monthly Income Preferred Stock: issued 22,004,000 shares and outstanding 2,521,872 shares	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	319,483	319,459
Legal surplus	299,006	299,006
Accumulated deficit	(35,498)	(5,363)
Accumulated other comprehensive income, net of tax expense of $5,205 (December 31, 2010 - $5,351)	15,424	17,718
Total stockholders equity	1,027,269	1,057,959
Total liabilities and stockholders equity	$ 15,104,090	$ 15,593,077

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF LOSS
(Unaudited)

	Quarter Ended	
(In thousands, except per share data)	March 31, 2011	March 31, 2010
Interest income:		
Loans	$ 157,971	$ 177,433
Investment securities	22,623	43,119
Money market investments	309	436
Total interest income	180,903	220,988
Interest expense:		
Deposits	54,059	65,966
Loans payable		2,177
Federal funds purchased and securities sold under agreements to repurchase	13,136	25,282
Advances from FHLB	4,745	7,694
Notes payable and other borrowings	2,684	3,006
Total interest expense	74,624	104,125
Net interest income	106,279	116,863
Provision for loan and lease losses	88,732	170,965
Net interest income (loss) after provision for loan and lease losses	17,547	(54,102)
Non-interest income:		
Other service charges on loans	1,718	1,756
Service charges on deposit accounts	3,332	3,468
Mortgage banking activities	6,591	2,500
Net gain on sale of investments, net of impairments on equity securities	19,341	30,764
Other non-interest income	9,503	6,838
Total non-interest income	40,485	45,326
Non-interest expenses:		
Employees compensation and benefits	30,439	31,728
Occupancy and equipment	15,250	14,851
Business promotion	2,664	2,205
Professional fees	5,137	5,287
Taxes, other than income taxes	3,255	3,821

Insurance and supervisory fees	15,177	18,518
Net loss on real estate owned (REO) operations	5,500	3,693
Other non-interest expenses	5,444	11,259
Total non-interest expenses	82,866	91,362
Loss before income taxes	(24,834)	(100,138)
Income tax expense	(3,586)	(6,861)
Net loss	$ (28,420)	$ (106,999)
Net loss attributable to common stockholders	$ (35,437)	$ (113,151)
Net loss per common share:		
Basic	$ (1.66)	$ (18.34)
Diluted	$ (1.66)	$ (18.34)
Dividends declared per common share	$	$

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Quarter Ended	
(In thousands)	March 31, 2011	March 31, 2010
Cash flows from operating activities:		
Net Loss	$ (28,420)	$ (106,999)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	5,810	5,171
Amortization and impairment of core deposit intangible	589	666
Provision for loan and lease losses	88,732	170,965
Deferred income tax expense	1,746	4,076
Stock-based compensation recognized	24	24
Gain on sale of investments, net	(18,710)	(31,364)
Other-than-temporary impairments on investment securities		600
Derivatives instruments and hedging activities loss	518	1,733
Gain on sale of assets FB Insurance VI	(2,845)	
Net gain on sale of loans and impairments	(5,505)	(220)
Net amortization of premiums and discounts on deferred loan fees and costs	395	246
Net increase in mortgage loans held for sale	(1,382)	(4,385)
Amortization of broker placement fees	5,359	5,465
Net amortization of premium and discounts on investment securities	1,736	968
Increase in accrued income tax payable	1,642	2,384
Decrease in accrued interest receivable	3,481	8,517
Decrease in accrued interest payable	(22)	(417)
(Increase) decrease in other assets	(2,355)	13,208
(Decrease) increase in other liabilities	(7,145)	12,659
Total adjustments	72,068	190,296
Net cash provided by operating activities	43,648	83,297
Cash flows from investing activities:		
Principal collected on loans	569,498	1,050,262
Loans originated	(503,164)	(565,515)
Purchases of loans	(32,728)	(41,893)
Proceeds from sale of loans	330,978	19,064
Proceeds from sale of repossessed assets	21,920	19,575
Proceeds from sale of available-for-sale securities	41,422	393,433
Proceeds from sale of held-to-maturity securities	348,798	
Purchases of securities available for sale		(99,867)
Proceeds from principal repayments and maturities of securities held to maturity	33,726	35,998

Proceeds from principal repayments and maturities of securities available for sale	106,117	423,747
Additions to premises and equipment	(3,810)	(6,278)
Proceeds from sale of other investment securities		5,602
Proceeds from sale of assets FB Insurance VI	2,940	
Proceeds from securities litigations settlement	631	
Decrease in other equity securities	4,500	
Net cash provided by investing activities	920,828	1,234,128
Cash flows from financing activities:		
Net (decrease) increase in deposits	(348,465)	203,321
Net decrease in loans payable		(300,000)
Net decrease in securities sold under agreements to repurchase		(576,631)
Net FHLB advances paid	(113,000)	(18,000)
Net cash used in financing activities	(461,465)	(691,310)
Net increase in cash and cash equivalents	503,011	626,115
Cash and cash equivalents at beginning of period	370,283	704,084
Cash and cash equivalents at end of period	$ 873,294	$ 1,330,199
Cash and cash equivalents include:		
Cash and due from banks	$ 663,581	$ 675,551
Money market instruments	209,713	654,648
	$ 873,294	$ 1,330,199

The accompanying notes are an integral part of these statements.

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

(In thousands)	Quarter Ended March 31, 2011	Quarter Ended March 31, 2010
Preferred Stock:		
Balance at beginning of period	$ 425,009	$ 928,508
Accretion of preferred stock discount	1,715	1,152
Balance at end of period	426,724	929,660
Common Stock outstanding	2,130	6,169
Additional Paid-In-Capital:		
Balance at beginning of period	319,459	220,596
Stock-based compensation recognized	24	24
Balance at end of period	319,483	220,620
Legal Surplus	299,006	299,006
(Accumulated deficit) Retained Earnings :		
Balance at beginning of period	(5,363)	118,291
Net loss	(28,420)	(106,999)
Cash dividends declared on common stock		
Cash dividends declared on preferred stock		
Accretion of preferred stock discount	(1,715)	(1,152)
Balance at end of period	(35,498)	10,140
Accumulated Other Comprehensive Income (Loss), net of tax:		
Balance at beginning of period	17,718	26,493
Other comprehensive loss, net of tax	(2,294)	(3,545)
Balance at end of period	15,424	22,948
Total stockholders equity	$ 1,027,269	$ 1,488,543

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	Quarter Ended	
	March 31, 2011	**March 31, 2010**
Net loss	$ (28,420)	$ (106,999)
Other comprehensive loss:		
Unrealized gains and losses on available-for-sale securities:		
Unrealized holding (losses) gains arising during the period	(5,181)	17,529
Reclassification adjustments for net gain included in net income	(48)	(20,696)
Reclassification adjustments for other-than-temporary impairment on equity securities		350
Net unrealized gains on securities reclassified from held to maturity to available for sale	2,789	
Income tax benefit (expense) related to items of other comprehensive income	146	(728)
Other comprehensive loss for the period, net of tax	(2,294)	(3,545)
Total comprehensive loss	$ (30,714)	$ (110,544)

The accompanying notes are an integral part of these statements.

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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 ended March 31, 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 loans 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 first quarter of 2011 was primarily related to credit losses. As of March 31, 2011, the Corporation s Total Capital, Tier 1 Capital and Leverage ratios were 11.97%, 10.65% and 7.78%, respectively, compared to 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 March 31, 2011 were 11.71%, 10.40% and 7.60%, respectively, up from 11.57%, 10.28% and 7.25%, respectively, as of December 31, 2010. The improvement in the capital ratios for FirstBank was primarily related to a $22 million capital contribution from the holding company.

As described in Note 17, Regulatory Matters, FirstBank is currently operating under a Consent Order (the FDIC Order) with the FDIC and the OCIF and First BanCorp has entered into a Written Agreement (the Written Agreement and collectively with the Order the Agreements) with the Federal Reserve. The minimum capital ratios established by the FDIC Order are 8% for Leverage (Tier 1 Capital to Average Total Assets), 10% for Tier 1 Capital to Risk-Weighted Assets and 12% for Total Capital to Risk-Weighted Assets. The FDIC Order does not contain a specific date for achieving the minimum capital ratios.

The Corporation is working to complete a capital raise to ensure that the projected level of regulatory capital can support its balance sheet over the long-term. As part of the Corporation s capital raising efforts, the Corporation has been engaged in conversations with a number of entities, including private equity firms. The issuance of additional equity securities and other capital management or business strategies could depress the market price of our common stock and result in the dilution of our common stockholders.

In March 2011, the Corporation submitted an updated Capital Plan (the Capital Plan) to the regulators. The Capital Plan contemplates a $350 million capital raise through the issuance of new common shares for cash, and other actions to further 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 further reduction of the Corporation s loan portfolio and investment 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. As of March 31, 2011, all capital ratios for FirstBank are above the targeted capital levels and the Corporation expects to be in compliance with the minimum capital ratios under the FDIC Order by June 30, 2011.

If the Bank fails to achieve the capital ratios as provided in the FDIC Order, within 45 days of being out of compliance, the Bank would be required to increase capital in an amount sufficient to comply with the capital ratios set forth in the Capital Plan, or submit to

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the regulators a contingency plan for the sale, merger, or liquidation of the institution in the event the primary sources of capital are not available. Thereafter the FDIC would determine whether and when to initiate an acceptable contingency plan.

Should the Corporation s efforts to raise capital not be completed, the Corporation s Capital Plan includes other actions which could allow the Bank to attain the minimum capital ratios under the FDIC Order. The strategies incorporated into the Capital Plan to meet the minimum capital ratios include the following:

Strategies completed during the first quarter of 2011:

Sale of performing first lien residential mortgage loans The Bank sold approximately $236 million in mortgage loans to another financial institution during February 2011. Proceeds were used, in part, to reduce funding sources and to support liquidity reserves.

Sale of Investment securities The Bank sold approximately $330 million in investment securities during March 2011. Proceeds were used, in part, to reduce funding sources and to support liquidity reserves.

The Corporation contributed $22 million of capital to the Bank during March 2011.

Strategies completed or expected to be completed by June 30, 2011:

Sale of performing first lien residential mortgage loans- The Bank entered into a letter of intent to sell mortgage loans before June 30, 2011. During the first quarter of 2011, the Corporation reclassified from held for investment to held for sale approximately $282 million related to this transaction. The loans were sold in April 2011.

Sale of investment securities The Bank sold approximately $268 million in investment securities on April 6, 2011.

Sale of commercial loan participations The Bank has commenced negotiations to sell approximately $150 million in loan participations to other financial institutions by June 30, 2011.

The proceeds received from the above three transactions will be used to reduce funding sources.

Upon the successful completion of these actions, when combined with the achievement of operating results in line with management s current expectations, management expects that the Corporation and the Bank will attain the minimum capital ratios set forth in the Capital Plan. However, no assurance can be given that the Corporation and the Bank will be able to achieve such ratios.

In the event the Corporation is unable to complete its capital raising efforts during 2011 and actual credit losses exceed amounts projected, the Capital Plan includes additional actions designed to allow the Bank to maintain the minimum capital ratios for the foreseeable future, including the sale of additional assets.

Both the Corporation and the Bank actively manage liquidity and cash flow needs. The Corporation suspended common and preferred dividends to stockholders since August 2009. As of March 31, 2011, the holding company had $19.8 million of cash and cash equivalents. Cash and cash equivalents at the Bank as of March 31, 2011 were approximately $873.3 million. The Bank has $100 million, $187 million and $15.4 million, in repurchase agreements, FHLB advances and notes payable, respectively, maturing over the next twelve months. In addition, it had $5.7 billion in brokered CDs as of March 31, 2011, of which $3.0 billion mature over the next twelve months. Liquidity at the Bank level is highly dependent on bank deposits, which fund 77.82% of the Bank s assets (or 39.91% excluding brokered CDs). The Corporation has continued to issue brokered CDs pursuant to approvals received from the FDIC to renew or roll over certain amounts of brokered CDs through June 30, 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. As of March 31, 2011, the Bank held approximately $332 million of readily pledgeable or sellable investment securities. As previously noted above, the Corporation plans to sell certain loans and investments in 2011 to that would allow it to meet and maintain minimum capital ratios required by the FDIC Order. Based on current and expected liquidity needs and sources, management expects First BanCorp to be able to meet its

obligations for a reasonable period of time. During 2010, the Corporation and the Bank suffered credit downgrades. The Bank suffered a further downgrade in April 2011. The Corporation does not have any outstanding debt or derivative agreements that would be affected by the credit downgrades. Furthermore, given our non-reliance on corporate debt or other instruments directly linked in terms of pricing or volume to credit ratings, the liquidity of the Corporation so far has not been affected in any material way by the downgrades. The Corporation s ability to access new non-deposit funding, however, could be adversely affected by these downgrades and any additional downgrades.

If unanticipated market factors emerge, such as a significant increase in the provision for loan and lease losses, or if the Corporation is unable to raise additional capital or complete identified capital preservation initiatives, successfully execute its strategic operating plans, issue a sufficient amount of brokered CDs or comply with the FDIC Order, its banking regulators could take further action, which could include actions that may have a material adverse effect on the Bank s business, results of operations and financial position, including the appointment of a conservator or receiver.

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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 an 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 is currently evaluating the impact of the adoption of this guidance on the financial statements.

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.

2 EARNINGS PER COMMON SHARE

The calculations of earnings per common share for the quarters ended on March 31, 2011 and 2010 are as follows:

	Quarter Ended	
	March 31, 2011	March 31, 2010
	(In thousands, except per share data)	
Net loss:		
Net loss	$ (28,420)	$ (106,999)
Cumulative non-convertible preferred stock dividends (Series F)		(5,000)
Cumulative convertible preferred stock dividend (Series G)	(5,302)	
Preferred stock discount accretion (Series G and F)	(1,715)	(1,152)
Net loss attributable to common stockholders	$ (35,437)	$ (113,151)
Average common shares outstanding [(1)]	21,303	6,168
Average potential common shares [(1)]		
Average common shares outstanding- assuming dilution [(1)]	21,303	6,168
Basic loss per common share [(1)]	$ (1.66)	$ (18.34)
Diluted loss per common share [(1)]	$ (1.66)	$ (18.34)

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

Loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average common shares issued and outstanding. Net loss attributable to common stockholders represents net loss 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. 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. For the quarters ended March 31, 2011 and 2010, there were 131,532 and 163,687 outstanding stock options, respectively; warrants outstanding to purchase 389,483 shares of common stock and 716 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.

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 March 31, 2011, 720 remain restricted.

For the quarters ended March 31, 2011 and 2010, the Corporation recognized $23,333 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 $62,223 as of March 31, 2011 which expected to be recognized over the next eight months.

The Corporation accounts for stock options using the modified prospective method. 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 first quarter of 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.

Stock options outstanding as of March 31, 2011 follows:

	Quarter Ended March 31, 2011			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
End of period outstanding and exercisable	131,532	$ 202.91	4.28	$

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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 March 31, 2011 and December 31, 2010 were as follows:

	March 31, 2011						December 31, 2010					
	Amortized cost	Non-Credit Loss Component of OTTI Recorded in OCI	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%	Amortized cost	Non-Credit Loss Component of OTTI Recorded in OCI	Gross Unrealized gains	Gross Unrealized losses	Fair value	We ave yie
	(Dollars in thousands)											
Treasury rities:												
within one	$ 58,430	$	$ 329	$	$ 58,759	0.91	$	$	$	$	$	
1 to 5 years	550,081		6,953		557,034	1.37	599,987		8,727		608,714	
gations of Government sored cies:												
1 to 5 years	554,322		2,398	5,027	551,693	1.09	604,630		2,714	3,991	603,353	
o Rico rnment ations:												
within one	709		16		725	6.68						
1 to 5 years	38,613		1,350		39,963	5.08	26,768		522		27,290	
5 to ears	111,374		276	2	111,648	5.21	104,352		432		104,784	
10 years	9,458		60		9,518	5.87	4,746		21		4,767	
ed States and o Rico rnment ations	1,322,987		11,382	5,029	1,329,340	1.70	1,340,483		12,416	3,991	1,348,908	
gage-backed rities: MC ficates:												
1 to 5 years	2,043		32		2,075	3.79						
10 years	1,533		101		1,634	5.00	1,716		101		1,817	

	3,576		133		3,709	4.31	1,716		101		1,817
MA ficates: within one	15				15	6.18	30				30
r 1 to 5 years	243		11		254	3.90					
r 5 to ears	1,015		61		1,076	5.06	1,319		74		1,393
r 10 years	933,292		29,245	2,545	959,992	4.24	962,246		31,105	3,396	989,955
	934,565		29,317	2,545	961,337	4.24	963,595		31,179	3,396	991,378
IA ficates:											
r 1 to 5 years	2,062		101		2,163	3.86					
r 5 to ears	96,630		5,117		101,747	4.36	75,547		3,987		79,534
r 10 years	139,002		8,682		147,684	5.48	126,847		8,678		135,525
	237,694		13,900		251,594	5.01	202,394		12,665		215,059
ateralized gage gations d or anteed by MC, FNMA GNMA:											
r 10 years	107,222		1,268		108,490	0.99	112,989		1,926		114,915
r mortgage through trust ficates:											
r 10 years	95,417	27,063	1		68,355	2.04	100,130	27,814	1		72,317
gage-backed rities	1,378,474	27,063	44,619	2,545	1,393,485	3.97	1,380,824	27,814	45,872	3,396	1,395,486
orate bonds:											
r 10 years	2,000			705	1,295	5.80					
ty securities out ractual	77			30	47		77			18	59

rity) (1)

investment ities able for sale	$ 2,703,538	$ 27,063	$ 56,001	$ 8,309	$ 2,724,167	2.86	$ 2,721,384	$ 27,814	$ 58,288	$ 7,405	$ 2,744,453

(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 $50 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 March 31, 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 March 31, 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	$ 247,990	$ 5,027	$	$	$ 247,990	$ 5,027
Puerto Rico Government obligations	99,998	2			99,998	2
Mortgage-backed securities:						
GNMA	196,374	2,545			196,374	2,545
Other mortgage pass-through trust certificates			68,145	27,063	68,145	27,063
Corporate bonds			1,295	705	1,295	705
Equity securities	47	30			47	30
	$ 544,409	$ 7,604	$ 69,440	$ 27,768	$ 613,849	$ 35,372

	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

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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.

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				
		Gross			Weighted
	Amortized	Unrealized		Fair	average
	cost	gains	losses	value	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 March 31, 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

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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.

Prior to April 1, 2009, unrealized losses that were determined to be temporary were recorded, net of tax, in other comprehensive income for available-for-sale securities, whereas unrealized losses related to held-to-maturity securities determined to be temporary were not recognized. Regardless of whether the security was classified as available-for-sale or held to maturity, unrealized losses that were determined to be other-than-temporary were recorded through earnings. An unrealized loss was considered other-than-temporary if (i) it was probable that the holder would not collect all amounts due according to the contractual terms of the debt security, or (ii) the fair value was below the amortized cost of the debt security for a prolonged period of time and the Corporation did not have the positive intent and ability to hold the security until recovery or maturity.

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.

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 91% of the total available-for-sale portfolio as of March 31, 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 $95 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.

No OTTI losses on available-for-sale debt securities were recorded during the quarters ended March 31, 2011 and 2010. Cumulative unrealized OTTI losses recognized in OCI as of March 31, 2011 amounted to $27.1 million.

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.

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, no credit losses were reflected in earnings for the quarters ended March 31, 2011 and 2010. Significant assumptions in the valuation of the private label MBS as of March 31, 2011 and December 31, 2010 were as follow:

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	March 31, 2011		December 31, 2010	
	Weighted Average	Range	Weighted Average	Range
Discount rate	14.5%	14.5%	14.5%	14.5%
Prepayment rate	18%	13.56% - 26.82%	24%	18.2% - 43.73%
Projected Cumulative Loss Rate	5%	1.53% - 10.77%	6%	1.49% - 16.25%

For of the quarter ended on March 31, 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 were recognized for the first quarter of 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 quarter ended March 31, 2011 amounted to approximately $41.4 million (2010 $393.4 million excluding unsettled proceeds of $57.1 million of securities sold).

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 March 31, 2011 and December 31, 2010, the Corporation had investments in FHLB stock with a book value of $50.1 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 quarters ended March 31, 2011 and 2010 amounted to $0.7 million and $0.8 million, respectively.

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 March 31, 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.

During the first quarter of 2011, the Corporation completed the sale of loans with a book value of $269.3 million to a new joint venture in exchange for $88.5 million of cash, a $136.1 million acquisition loan and a $47.6 million, or 35%, equity interest in the new joint venture. The Corporation recorded the investment in the new joint venture using the equity method of accounting. Accordingly, the Corporation recorded the investment in the new joint venture at its transaction date fair value of $47.6 million and included the investment as part of Other Equity Securities in the Statement of Financial Condition. Subsequently, the Corporation will recognize its share of earnings and losses of the new joint venture in the period in which the earnings or losses are recorded.

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6 LOANS RECEIVABLE

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

	March 31, 2011	December 31, 2010
	(In thousands)	
Residential mortgage loans, mainly secured by first mortgages	$ 2,896,692	$ 3,417,417
Commercial loans:		
Construction loans	682,245	700,579
Commercial mortgage loans	1,588,768	1,670,161
Commercial and Industrial loans (1)	3,977,301	3,861,545
Loans to local financial institutions collateralized by real estate mortgages	285,359	290,219
Commercial loans	6,533,673	6,522,504
Finance leases	272,392	282,904
Consumer loans	1,387,018	1,432,611
Loans receivable	11,089,775	11,655,436
Allowance for loan and lease losses	(561,695)	(553,025)
Loans receivable, net	$ 10,528,080	$ 11,102,411

1 - As of March 31, 2011, includes $1.7 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 March 31, 2011 and December 31, 2010 were as follows:

(Dollars in thousands)	March 31, 2011	December 31, 2010
Non-performing loans:		
Residential mortgage	$ 391,962	$ 392,134
Commercial mortgage	129,828	217,165
Commercial and Industrial	327,477	317,243
Construction	341,179	263,056
Consumer:		
Auto loans	19,987	25,350
Finance leases	3,632	3,935
Other consumer loans	18,986	20,106

Total non-performing loans held for investment [1]	$ 1,233,051	$ 1,238,989

1 - As of March 31, 2011 and December 31, 2010, excludes $5.5 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 March 31, 2011, follows:

As of March 31, 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)	$ 142,570	$ 16,582	$ 84,425	$ 243,577	$ 84,425
Other residential mortage loans	2,144,706	104,008	404,401	2,653,115	12,439
Commercial:					
Commercial & Industrial Loans	3,811,285	81,032	370,343	4,262,660	42,866
Commercial Mortgage Loans	1,360,791	93,459	134,518	1,588,768	4,690
Construction Loans	315,823	15,364	351,058	682,245	9,879
Consumer:					
Auto	869,931	93,250	19,987	983,168	
Finance Leases	250,171	18,589	3,632	272,392	
Other Consumer Loans	364,426	20,438	18,986	403,850	
Total Loans Receivable	$ 9,259,703	$ 442,722	$ 1,387,350	$ 11,089,775	$ 154,299

(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 March 31, 2011, includes $58.1 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.

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 $11.1 billion as of March 31, 2011, approximately 83% have credit risk concentration in Puerto Rico, 8% in the United States and 9% in the Virgin Islands.

As of March 31, 2011, the Corporation had $325.9 million outstanding of credit facilities granted to the Puerto Rico Government and/or its political subdivisions, up from $325.1 million as of December 31, 2010, and $98.8 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.

Aside from loans extended to the Puerto Rico Government and its political subdivision, the largest loan to one borrower as of March 31, 2011 in the amount of $285.4 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 residential mortgage loans.

7 ALLOWANCE FOR LOAN AND LEASE LOSSES AND IMPAIRED LOANS

The changes in the allowance for loan and lease losses for the period ended March 31, 2011 were as follows:

(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
March 31, 2011						
Allowance for loan and lease losses:						
Beginning balance	$ 62,330	$ 105,596	$ 152,641	$ 151,972	$ 80,486	$ 553,025
Charge-offs	(5,404)	(31,171)	(16,344)	(19,165)	(11,969)	(84,053)
Recoveries	243	67	56	1,927	1,698	3,991
Provision	6,327	13,381	41,486	22,463	5,075	88,732
Ending balance	$ 63,496	$ 87,873	$ 177,839	$ 157,197	$ 75,290	$ 561,695
Ending balance: specific reserve for impaired loans	$ 43,295	$ 29,610	$ 81,989	$ 98,167	$ 415	$ 253,476
Ending balance: general allowance	$ 20,201	$ 58,263	$ 95,850	$ 59,030	$ 74,875	$ 308,219
Loans receivables:						
Ending balance	$ 2,896,692	$ 1,588,768	$ 4,262,660	$ 682,245	$ 1,659,410	$ 11,089,775
Ending balance: impaired loans	$ 566,270	$ 232,054	$ 395,979	$ 365,412	$ 2,407	$ 1,562,122
Ending balance: loans with general allowance	$ 2,330,422	$ 1,356,714	$ 3,866,681	$ 316,833	$ 1,657,003	$ 9,527,653

There were no significant purchases of loans during 2011. The Corporation did sell approximately $236 million of performing residential mortgage loans to another financial institution and $20.7 million of performing residential mortgage loans in the secondary market to FNMA and FHLMC during the first quarter of 2011. Also, the Corporation securitized approximately $41.5 million of

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FHA/VA mortgage loan production to GNMA mortgage-backed securities during 2011. Refer to Note 8 Loans held for sale for additional information about loans sold and loans reclassified from held for investment to held for sale during the first quarter of 2011.
Changes in the allowance for the quarter ended March 31, 2010 were as follows:

	March 31, 2010
	(In thousands)
Balance at beginning of the period	$ 528,120
Provision for loan and lease losses	170,965
Losses charged against the allowance	(126,306)
Recoveries credited to the allowance	2,524
Balance at end of period	$ 575,303

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.
Information regarding impaired loans for the periods ended March 31, 2011 and December 31, 2010 was as follows:

Impaired Loans (Dollars in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
As of March 31, 2011					
With no related allowance recorded:					
FHA/VA Guaranteed loans	$	$	$	$	$
Other residential mortage loans	293,488	301,581		269,068	3,463
Commercial:					
Commercial mortgage loans	18,628	19,824		25,478	543
Commercial & Industrial Loans	63,328	73,342		58,980	225
Construction Loans	37,910	40,220		31,492	127
Consumer:					
Auto loans					
Finance leases					
Other consumer loans	1,141	1,496		901	6
	$ 414,495	$ 436,463	$	$ 385,919	$ 4,364
With an allowance recorded:					
FHA/VA Guaranteed loans	$	$	$	$	$
Other residential mortage loans	272,782	309,570	43,295	291,984	1,307
Commercial:					
Commercial mortgage loans	213,426	268,508	29,610	181,934	2,051
Commercial & Industrial Loans	332,651	430,517	81,989	328,929	2,154
Construction Loans	327,502	433,556	98,167	282,737	1,478
Consumer:					

Auto loans					
Finance leases					
Other consumer loans	1,266	1,266	415	1,381	6
	$ 1,147,627	$ 1,443,417	$ 253,476	$ 1,086,965	$ 6,996
Total:					
FHA/VA Guaranteed loans	$	$	$	$	$
Other residential mortage loans	566,270	611,151	43,295	561,052	4,770
Commercial:					
Commercial mortgage loans	232,054	288,332	29,610	207,412	2,594
Commercial & Industrial Loans	395,979	503,859	81,989	387,909	2,379
Construction Loans	365,412	473,776	98,167	314,229	1,605
Consumer:					
Auto loans					
Finance leases					
Other consumer loans	2,407	2,762	415	2,282	12
	$ 1,562,122	$ 1,879,880	$ 253,476	$ 1,472,884	$ 11,360

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	Recorded Investment	Unpaid Principal Balance	Related Allowance
As of December 31, 2010			
With no related allowance recorded:			
FHA/VA Guaranteed loans	$	$	$
Other residential mortage loans	244,648	253,636	
Commercial:			
Commercial mortgage loans	32,328	32,868	
Commercial & Industrial Loans	54,631	58,927	
Construction Loans	25,074	26,557	
Consumer:			
Auto loans			
Finance leases			
Other consumer loans	659	1,015	
	$ 357,340	$ 373,003	$
With an allowance recorded:			
FHA/VA Guaranteed loans	$	$	$
Other residential mortage loans	311,187	350,576	42,666
Commercial:			
Commercial mortgage loans	150,442	186,404	26,869
Commercial & Industrial Loans	325,206	416,919	65,030
Construction Loans	237,970	323,127	57,833
Consumer:			
Auto loans			
Finance leases			
Other consumer loans	1,496	1,496	264
	$ 1,026,301	$ 1,278,522	$ 192,662
Total:			
FHA/VA Guaranteed loans	$	$	$
Other residential mortage loans	555,835	604,212	42,666
Commercial:			
Commercial mortgage loans	182,770	219,272	26,869
Commercial & Industrial Loans	379,837	475,846	65,030
Construction Loans	263,044	349,684	57,833
Consumer:			
Auto loans			
Finance leases			
Other consumer loans	2,155	2,511	264
	$ 1,383,641	$ 1,651,525	$ 192,662

Interest income of approximately $6.9 million was recognized on impaired loans for the quarter ended March 31, 2010. The average recorded investment in impaired loans for the first quarter of 2010 was $1.7 billion.

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The following tables show the activity for impaired loans and the related specific reserve during the first quarter of 2011 and 2010:

	Quarter Ended	
	March 31, 2011	March 31, 2010
	(In thousands)	
Impaired Loans:		
Balance at beginning of period	$ 1,383,641	$ 1,656,264
Loans determined impaired during the period	277,548	317,333
Net charge-offs	(60,620)	(101,259)
Loans sold, net of charge-offs	(850)	(18,749)
Loans foreclosed, paid in full and partial payments or no longer considered impaired	(37,597)	(7,503)
Balance at end of period	$ 1,562,122	$ 1,846,086

	Quarter Ended	
	March 31, 2011	March 31, 2010
	(In thousands)	
Specific Reserve:		
Balance at beginning of period	$ 192,662	$ 182,145
Provision for loan losses	121,434	164,414
Net charge-offs	(60,620)	(101,259)
Balance at end of period	$ 253,476	$ 245,300

The Corporation s credit quality indicators by loan type as of March 31, 2011 and December 31, 2010 are summarized below:

	Commercial Credit Exposure-Credit risk Profile based on Creditworthiness category:	
March 31, 2011	**Adversely Classified[1]**	**Total Portfolio**
	(In thousands)	
Commercial Mortgage	$ 245,008	$ 1,588,768
Construction	404,301	682,245
Commercial and Industrial	596,596	4,262,660

	Commercial Credit Exposure-Credit risk Profile based on Creditworthiness category:	
December 31, 2010	**Adversely Classified[1]**	**Total Portfolio**
	(In thousands)	

Commercial Mortgage	$ 353,860	$ 1,670,161
Construction	323,880	700,579
Commercial and Industrial	558,937	4,151,764

(1) Excludes $5.5 million (construction) as of March 31, 2011 and $261.8 million as of December 31, 2010 ($205.7 million construction; $35.4 million commercial mortgage; $20.7 million commercial and industrial) of adversely classified loans held for sale.

The Corporation considered a loan as adversely classified if its risk rating is Substandard, Doubtful or Loss. These categories are defined as follows:

Substandard- A Substandard Asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful- Doubtful classifications have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. A Doubtful classification may be appropriate in cases where significant risk exposures are perceived, but Loss cannot be determined because of specific reasonable pending factors which may strengthen the credit in the near term.

Loss- Assets classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. There is little or no prospect for near term improvement and no realistic strengthening action of significance pending.

March 31, 2011	Consumer Credit Exposure-Credit risk Profile based on payment activity				
	Residential Real-Estate		Consumer		
	FHA/VA/Guaranteed	Other residential loans	Auto	Finance Leases	Other Consumer
	(In thousands)				
Performing	$ 243,577	$ 2,261,153	$ 963,181	$ 268,760	$ 384,864
Non-performing		391,962	19,987	3,632	18,986
Total	$ 243,577	$ 2,653,115	$ 983,168	$ 272,392	$ 403,850

December 31, 2010	Consumer Credit Exposure-Credit risk Profile based on payment activity				
	Residential Real-Estate		Consumer		
	FHA/VA/Guaranteed	Other residential loans	Auto	Finance Leases	Other Consumer
	(In thousands)				
Performing	$ 232,522	$ 2,792,761	$ 983,626	$ 278,969	$ 403,529
Non-performing		392,134	25,350	3,935	20,106
Total	$ 232,522	$ 3,184,895	$ 1,008,976	$ 282,904	$ 423,635

The Corporation provides homeownership preservation assistance to its customers through a loss mitigation program in Puerto Rico and through programs sponsored by the Federal Government. Depending upon the nature of borrowers financial condition, restructurings or loan modifications through this program as well as other restructurings of individual commercial, commercial mortgage, construction and residential mortgage loans in the U.S. mainland fit the definition of TDR. A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor s financial difficulties grants a concession to the debtor that it would not otherwise consider. Modifications involve changes in one or more of the loan terms that bring a defaulted loan current and provide sustainable affordability. Changes may include the refinancing of any past-due amounts, including interest and escrow, the extension of the maturity of the loan and modifications of the loan rate. As of March 31, 2011, the Corporation s TDR loans consisted of $291.2 million of residential mortgage loans, $40.7 million commercial and industrial loans, $139.9 million commercial mortgage loans and $15.4 million of construction loans. Outstanding unfunded loan commitments on TDR loans amounted to $1.2 million as of March 31, 2011.

Included in the $139.9 million of commercial mortgage TDR loans are certain loan relationships restructured through loan splitting, one in the first quarter of 2011 and one in the fourth quarter of 2010. Each of these loan relationships were restructured into two notes; one that represents the portion of the loan that is expected to be fully collected along with contractual interest and the second note that represents the portion of the original loan that was charged-off. The renegotiations of these loans have been made after analyzing the borrowers and guarantors capacity to repay the debt and ability to perform under the modified terms. For the relationship restructured in the first quarter

of 2011, the first note of $57.5 million was placed on a monthly payment that amortize the debt over 30 years at a market rate of interest. The second note, amounting to $28.3 million was fully charged-off. For the relationship restructured in the fourth quarter of 2010, as part of the renegotiation of the loans, the first note of $17 million was placed on a monthly payment schedule that amortizes the debt over 30 years at a market rate of interest. The second note for $2.7 million was fully charged-off. The following tables provide additional information about the volume of this type of loan restructurings and the effect on the allowance for loan and lease losses in 2011.

Principal balance deemed collectible at end of period	$ 74,442
Amount charged-off during the first quarter of 2011	$ 28,340

Allowance for loan losses:	
Balance at beginning of period	$ 23,108
Provision for loan losses	7,205
Charge-offs	(28,340)
Balance at end of period	$ 1,973

The loans comprising the $74.4 million that have been deemed collectible were placed in accruing status as the borrowers have exhibited a period of sustained performance but continue to be individually evaluated for impairment purposes. These transactions contributed to a $105.3 million decrease in non-performing loans over the last two quarters.

As of March 31, 2011, the Corporation maintains a $5.5 million reserve for unfunded loan commitments mainly related to outstanding construction loans commitments. The reserve for unfunded loan commitments is an estimate of the losses inherent in off-balance sheet loan commitments at the balance sheet date. It is calculated by multiplying an estimated loss factor by an estimated probability of funding, and then by the period-end amounts for unfunded commitments. The reserve for unfunded loan commitments is included as part of accounts payable and other liabilities in the consolidated statement of financial condition.

8 LOANS HELD FOR SALE

As of March 31, 2011 and December 31, 2010, the Corporation s loans held for sale portfolio was composed of:

	March 31, 2011	December 31, 2010
	(In thousands)	
Residential mortgage loans	$ 299,441	$ 19,148
Construction loans	6,053	207,270
Commercial and Industrial loans		20,643
Commercial mortgage loans		53,705
Total	$ 305,494	$ 300,766

During the first quarter of 2011, the Corporation reclassified approximately $282 million of loans, mainly residential mortgage loans, from held for investment to held for sale pursuant to a letter of intent to sell loans entered into by FirstBank with another financial institution. The loans were subsequently sold in April 2011.

Non-performing loans held for sale totaled $5.5 million (construction) and $159.3 million ($140.1 million construction loans and $19.2 million commercial mortgage loans) as of March 31, 2011 and December 31, 2010, respectively.

At the end of the fourth quarter of 2010, the Corporation transferred $447 million of loans to held for sale at a value of $281.6 million. This resulted in charge-offs at the time of transfer of $165.1 million. During the first quarter of 2011, these loans with a book value of $269.3 million were sold to a new joint venture 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 $47.6 million, or 35%, interest in the joint venture. At March 31, 2011, the only related balance remaining from loans transferred in the fourth quarter of 2010 amounted to $5.5 million. Further details of this transaction are discussed in Note 11.

9 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

One of the market risks facing the Corporation is interest rate risk, which includes the risk that changes in interest rates will result in changes in the value of the Corporation s assets or liabilities and the risk that net interest income from its loan and investment portfolios will be adversely affected by changes in interest rates. The overall objective of the Corporation s interest rate risk management activities is to reduce the variability of earnings caused by changes in interest rates.

The Corporation designates a derivative as a fair value hedge, cash flow hedge or as an economic undesignated hedge when it enters into the derivative contract. As of March 31, 2011 and December 31, 2010, all derivatives held by the Corporation were considered economic undesignated hedges. These undesignated hedges are recorded at fair value with the resulting gain or loss recognized in current earnings.

The following summarizes the principal derivative activities used by the Corporation in managing interest rate risk:

Interest rate cap agreements Interest rate cap agreements provide the right to receive cash if a reference interest rate rises above a contractual rate. The value increases as the reference interest rate rises. The Corporation enters into interest rate cap agreements for protection from rising interest rates. Specifically, the interest rate on certain of the Corporation s commercial loans to other financial institutions is generally a variable rate limited to the weighted-average coupon of the referenced residential mortgage collateral, less a contractual servicing fee. During the

second quarter of 2010, the counterparty for interest rate caps for certain private label MBS was taken over by the FDIC, which resulted in the immediate cancelation of all outstanding commitments, and

as a result, interest rate caps with a notional amount of $103 million are no longer considered to be derivative financial instruments. The total exposure to fair value of $3.0 million related to such contracts was reclassified to an account receivable.

Interest rate swaps Interest rate swap agreements generally involve the exchange of fixed and floating-rate interest payment obligations without the exchange of the underlying notional principal amount. As of March 31, 2011, most of the interest rate swaps outstanding are used for protection against rising interest rates. Similar to unrealized gains and losses arising from changes in fair value, net interest settlements on interest rate swaps are recorded as an adjustment to interest income or interest expense depending on whether an asset or liability is being economically hedged.

Indexed options Indexed options are generally over-the-counter (OTC) contracts that the Corporation enters into in order to receive the appreciation of a specified Stock Index (e.g., Dow Jones Industrial Composite Stock Index) over a specified period in exchange for a premium paid at the contract s inception. The option period is determined by the contractual maturity of the notes payable tied to the performance of the Stock Index. The credit risk inherent in these options is the risk that the exchange party may not fulfill its obligation.

Forward Contracts Forward contracts are sales of to-be-announced (TBA) mortgage-backed securities that will settle over the standard delivery date and do not qualify as regular way security trades. Regular-way security trades are contracts with no net settlement provision and no market mechanism to facilitate net settlement and they provide for delivery of a security within the time generally established by regulations or conventions in the market-place or exchange in which the transaction is being executed. The forward sales are considered derivative instruments that need to be marked-to-market. These securities are used to hedge the loan production of GNMA securities of the mortgage-banking operations. Unrealized gains (losses) are recognized as part of mortgage banking activities in the Consolidated Statement of (Loss) Income.

To satisfy the needs of its customers, the Corporation may enter into non-hedging transactions. On these transactions, generally, the Corporation participates as a buyer in one of the agreements and as a seller in the other agreement under the same terms and conditions.

In addition, the Corporation enters into certain contracts with embedded derivatives that do not require separate accounting as these are clearly and closely related to the economic characteristics of the host contract. When the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated, carried at fair value, and designated as a trading or non-hedging derivative instrument.

The following table summarizes the notional amounts of all derivative instruments as of March 31, 2011 and December 31, 2010:

	Notional Amounts	
	As of March 31, 2011	**As of December 31, 2010**
	(In thousands)	
Economic undesignated hedges:		
Interest rate contracts:		
Interest rate swap agreements used to hedge loans	$ 40,860	$ 41,248
Written interest rate cap agreements	71,364	71,602
Purchased interest rate cap agreements	71,364	71,602
Equity contracts:		
Embedded written options on stock index deposits and notes payable	53,515	53,515
Purchased options used to manage exposure to the stock market on embedded stock index options	53,515	53,515

Forward contracts:		
Sales of TBA GNMA MBS pools	27,000	
	$ 317,618	$ 291,482

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The following table summarizes the fair value of derivative instruments and the location in the Statement of Financial Condition as of March 31, 2011 and December 31, 2010:

	Asset Derivatives			Liability Derivatives		
	Statement of Financial Condition Location	March 31, 2011 Fair Value	December 31, 2010 Fair Value	Statement of Financial Condition Location	March 31, 2011 Fair Value	December 31, 2010 Fair Value
	(In thousands)					
Economic undesignated hedges:						
Interest rate contracts:						
Interest rate swap agreements used to hedge loans	Other assets	$ 316	$ 351	Accounts payable and other liabilities	$ 4,813	$ 5,192
Written interest rate cap agreements	Other assets			Accounts payable and other liabilities	1	1
Purchased interest rate cap agreements	Other assets	1	1	Accounts payable and other liabilities		
Equity contracts:						
Embedded written options on stock index deposits	Other assets			Interest-bearing deposits		
Embedded written options on stock index notes payable	Other assets			Notes payable	2,167	1,508
Purchased options used to manage exposure to the stock market on embedded stock index options	Other assets	2,207	1,553	Accounts payable and other liabilities		
Forward Contracts:						
Sales of TBA GNMA MBS pools	Other assets	32		Accounts payable and other liabilities	296	
		$ 2,556	$ 1,905		$ 7,276	$ 6,701

The following table summarizes the effect of derivative instruments on the Statement of Loss for the quarters ended March 31, 2011 and March 31, 2010:

	Location of Gain or (Loss) Recognized in Income on Derivatives	Unrealized Gain (Loss) Quarter Ended March 31, 2011	2010

		(In thosands)	
ECONOMIC UNDESIGNATED HEDGES:			
Interest rate contracts:			
Interest rate swap agreements used to hedge fixed-rate:			
Loans	Interest income - Loans	$ 345	$ (13)
Written and purchased interest rate cap agreements - mortgage-backed securities	Interest income - Investment securities		(697)
Written and purchased interest rate cap agreements - loans	Interest income - loans		(34)
Equity contracts:			
Embedded written and purchased options on stock index deposits	Interest expense - Deposits		(1)
Embedded written and purchased options on stock index notes payable	Interest expense - Notes payable and other borrowings	(5)	(30)
Forward contracts:			
Sales of TBA GNMA MBS pools	Mortgage Banking Activities	(264)	
Total gain (loss) on derivatives		$ 76	$ (775)

Derivative instruments, such as interest rate swaps, are subject to market risk. As is the case with investment securities, the market value of derivative instruments is largely a function of the financial market s expectations regarding the future direction of interest rates. Accordingly, current market values are not necessarily indicative of the future impact of derivative instruments on earnings. This will depend, for the most part, on the shape of the yield curve, the level of interest rates, as well as the expectations for rates in the future.

A summary of interest rate swaps as of March 31, 2011 and December 31, 2010 follows:

	As of March 31, 2011	As of December 31, 2010
	(Dollars in thousands)	
Pay fixed/receive floating :		
Notional amount	$40,860	$ 41,248
Weighted-average receive rate at period end	2.13%	2.14%
Weighted-average pay rate at period end	6.83%	6.83%
Floating rates range from 167 to 252 basis points over 3-month LIBOR		

As of March 31, 2011, the Corporation has not entered into any derivative instrument containing credit-risk-related contingent features.

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10 GOODWILL AND OTHER INTANGIBLES

Goodwill as of March 31, 2011 and December 31, 2010 amounted to $28.1 million, recognized as part of Other Assets . The Corporation conducted its annual evaluation of goodwill and intangibles during the fourth quarter of 2010. The evaluation was a two step process. The Step 1 evaluation of goodwill allocated to the Florida reporting unit indicated potential impairment of goodwill. The Step 1 fair value for the unit was below the carrying amount of its equity book value as of the October 1, 2010 valuation date, requiring the completion of Step 2. The Step 2 required a valuation of all assets and liabilities of the Florida unit, including any recognized and unrecognized intangible assets, to determine the fair value of net assets. To complete Step 2, the Corporation subtracted from the unit s Step 1 fair value the determined fair value of the net assets to arrive at the implied fair value of goodwill. The results of the Step 2 analysis indicated that the implied fair value of goodwill exceeded the goodwill carrying value by $12.3 million, resulting in no goodwill impairment. Goodwill was not impaired as of December 31, 2010, nor was any goodwill written-off due to impairment during 2010. There have been no events related to the Florida reporting unit that could indicate potential goodwill impairment since the date of the last evaluation; therefore, no goodwill impairment evaluation was performed during the first quarter of 2011. Goodwill and other indefinite life intangibles are reviewed at least annually for impairment.

As of March 31, 2011, the gross carrying amount and accumulated amortization of core deposit intangibles was $41.8 million and $28.4 million, respectively, recognized as part of Other Assets in the consolidated statements of financial condition (December 31, 2010 $41.8 million and $27.8 million, respectively). For the quarter ended March 31, 2011, the amortization expense of core deposit intangibles amounted to $0.6 million (2010 $0.7 million).

11 VARIABLE INTEREST ENTITIES AND SERVICING ASSETS

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

When evaluating transfers and other transactions with Variable Interest Entities (VIEs) for consolidation under the recently adopted guidance, the Corporation first determines if the counterparty is an entity for which a variable interest exists. If no scope exception is applicable and a variable interest exists, the Corporation then evaluates if it is the primary beneficiary of the VIE and whether the entity should be consolidated or not.

Below is a summary of transfers of financial assets to VIEs for which the Corporation has retained some level of continuing involvement:

Ginnie Mae

The Corporation typically transfers first lien residential mortgage loans in conjunction with Ginnie Mae securitization transactions whereby the loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights. The securities issued through these transactions are guaranteed by the issuer and, as such, under seller/servicer agreements the Corporation is required to service the loans in accordance with the issuers servicing guidelines and standards. As of March 31, 2011, the Corporation serviced loans securitized through GNMA with principal balance of $502.6 million.

Trust Preferred Securities

In 2004, FBP Statutory Trust I, a financing subsidiary of the Corporation, sold to institutional investors $100 million of its variable rate trust preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.1 million of FBP Statutory Trust I variable rate common securities, were used by FBP Statutory Trust I to purchase $103.1 million aggregate principal amount of the Corporation s Junior Subordinated Deferrable Debentures. Also in 2004, FBP Statutory Trust II, a statutory trust that is wholly-owned by the Corporation, sold to institutional investors $125 million of its variable rate trust preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.9 million of FBP Statutory Trust II variable rate common securities, were used by FBP Statutory Trust II to purchase $128.9 million aggregate principal amount of the Corporation s Junior Subordinated Deferrable Debentures. The trust preferred debentures are presented in the Corporation s Consolidated Statement of Financial Condition as Other Borrowings, net of related issuance costs. The variable rate trust preferred securities are fully and unconditionally guaranteed by the Corporation. The $100 million Junior Subordinated Deferrable Debentures issued by the Corporation in April 2004 and the

$125 million issued in September 2004 mature on September 17, 2034 and September 20, 2034, respectively; however, under certain circumstances, the maturity of Junior Subordinated Debentures may be shortened (such shortening would result in a mandatory redemption of the variable rate trust preferred securities). The trust preferred securities, subject to certain limitations, qualify as Tier I regulatory capital under current Federal Reserve rules and regulations. The Collins Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act eliminates certain trust preferred securities from Tier 1 Capital, but TARP preferred securities are exempted from this treatment. These regulatory capital deductions for trust preferred securities are to be phased in incrementally over a period of 3 years beginning on January 1, 2013.

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Grantor Trusts

During 2004 and 2005, a third party to the Corporation, from now on identified as the seller, established a series of statutory trusts to effect the securitization of mortgage loans and the sale of trust certificates. The seller initially provided the servicing for a fee, which is senior to the obligations to pay trust certificate holders. The seller then entered into a sales agreement through which it sold and issued the trust certificates in favor of the Corporation s banking subsidiary. Currently, the Bank is the sole owner of the trust certificates; the servicing of the underlying residential mortgages that generate the principal and interest cash flows, is performed by another third party, which receives a fee compensation for services provided, the servicing fee. The securities are variable rate securities indexed to 90 day LIBOR plus a spread. The principal payments from the underlying loans are remitted to a paying agent (servicer) who then remits interest to the Bank; interest income is shared to a certain extent with the FDIC, that has an interest only strip (IO) tied to the cash flows of the underlying loans, whereas it is entitled to received the excess of the interest income less a servicing fee over the variable rate income that the Bank earns on the securities. This IO is limited to the weighted average coupon of the securities. The FDIC became the owner of the IO upon the intervention of the seller, a failed financial institution. No recourse agreement exists and the risk from losses on non accruing loans and repossessed collateral are absorbed by the Bank as the sole holder of the certificates. As of March 31, 2011, the outstanding balance of Grantor Trusts amounted to $95 million with a weighted average yield of 2.04%.

Joint Venture

On February 16, 2011, the Corporation sold an asset portfolio consisting of performing and non-performing construction, commercial mortgage and C&I loans with an aggregate book value of $269.3 million to a new joint venture (the Joint Venture) organized under the Laws of the Commonwealth of Puerto Rico and majority owned by PRLP Ventures LLC (PRLP), a company created by Goldman, Sachs & Co. and Caribbean Property Group (CPG). In exchange for the sale, the Corporation received $88.5 million in cash; a 35% interest in the Joint Venture, valued at $47.6 million; and $136.1 million representing seller financing provided by FirstBank, which has a 7-year maturity and bears variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity s assets as well as the PRLP s 65% ownership interest in the Joint Venture. As of March 31, 2011, the carrying amount of the loan is $136.1 million and is included in the Corporation s C&I loan receivable portfolio; while the carrying value of FirstBank s equity interest is $47.6 million as of March 31, 2011 and is included as part of Other Equity Securities in the Statement of Financial Condition.

FirstBank will additionally provide an $80 million advance facility to the Joint Venture to fund unfunded commitments and costs to complete projects under construction, of which $45.7 million were disbursed in the first quarter of 2011, and a $20 million working capital line of credit to fund certain expenses of the Joint Venture. These loans will bear variable interest at 30-day LIBOR plus 300 basis points. As of March 31, 2011, the carrying value of the advance facility and working capital line were $45.7 million and $0, respectively, and are included in the Corporation s C&I loan receivable portfolio.

The Corporation has determined that the Joint Venture is a VIE in which the Corporation is not the primary beneficiary. In determining the primary beneficiary of the Joint Venture, the Corporation considered applicable guidance which requires the Corporation to qualitatively assess the determination of the primary beneficiary (or consolidator) of the Joint Venture on whether it has both the power to direct the activities of the Joint Venture that most significantly impact the entity s economic performance; and the obligation to absorb losses of the Joint Venture that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The Corporation determined that it does not have the power to direct the activities that most significantly impact the economic performance of the Joint Venture as it does not have the right to manage the loan portfolio, impact foreclosure proceedings, or manage the construction and sale of the property; therefore, the Corporation concluded that it is not the primary beneficiary of the Joint Venture. As a creditor to the Joint Venture, the Corporation has certain rights related to the Joint Venture, however, these are intended to be protective in nature and do not provide the Corporation with the ability to manage the operations of the Joint Venture. Because the Joint Venture is not a consolidated subsidiary of the Corporation, the Corporation accounted for this transaction as a true sale, recognizing in books the cash received, the notes receivable and the interest in the joint venture and derecognizing the loan portfolio sold.

Servicing Assets

The Corporation is actively involved in the securitization of pools of FHA-insured and VA-guaranteed mortgages for issuance of GNMA mortgage-backed securities. Also, certain conventional conforming-loans are sold to FNMA or FHLMC with servicing retained. The Corporation recognizes as separate assets the rights to service loans for others, whether those servicing assets are originated or purchased.

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The changes in servicing assets are shown below:

	March 31, 2011	March 31, 2010
	(In thousands)	
Balance at beginning of period	$ 15,597	$ 11,902
Capitalization of servicing assets	1,231	1,686
Amortization	(524)	(435)
Adjustment to servicing assets for loans repurchased (1)	(61)	(559)
Balance before valuation allowance at end of period	16,243	12,594
Valuation allowance for temporary impairment	(1,237)	(180)
Balance at end of period	$ 15,006	$ 12,414

(1) Amount represents the adjustment to fair value related to the repurchase in the quarters ended March 31, 2011 and 2010 of $12.0 million and $53.5 million, respectively, in principal balance of loans serviced for others.

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

Changes in the impairment allowance were as follows:

	March 31, 2011	March 31, 2010
	(In thousands)	
Balance at beginning of period	$ 434	$ 745
Temporary impairment charges	974	136
Recoveries	(171)	(701)
Balance at end of period	$ 1,237	$ 180

The components of net servicing income are shown below:

	March 31, 2011	March 31, 2010
	(In thousands)	
Servicing fees	$ 1,251	$ 928
Late charges and prepayment penalties	244	114
Other (1)	(61)	(559)
Servicing income, gross	1,434	483
(Amortization and impairment) recovery of servicing assets	(1,327)	130

Servicing income, net	$ 107	$ 613

(1) Amount represents the adjustment to fair value related to the repurchase in the quarters ended March 31, 2011 and 2010 of $12.0 million and $53.5 million, respectively, in principal balance of loans serviced for others.

The Corporation s servicing assets are subject to prepayment and interest rate risks. Constant prepayment rate assumptions for the Corporation s servicing assets for the quarter ended March 31, 2011 and the quarter ended March 31, 2010 were 10.6% and 12.7% for government guaranteed mortgage loans, respectively. For conventional conforming mortgage loans, the Corporation used 12.7% and 14.8% and for conventional non-conforming mortgage loans 11.7% and 11.5% for the periods ended March 31, 2011 and March 31, 2010, respectively. Discount rate assumptions used were 11.3% and 10.3% for government guaranteed mortgage loans; 9.3% for conventional conforming mortgage loans; and 15.0% and 13.1% for conventional non-conforming mortgage loans for the periods ended March 31, 2011 and March 31, 2010, respectively.

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At March 31, 2011, fair values of the Corporation s servicing assets were based on a valuation model that incorporates market driven assumptions, adjusted by the particular characteristics of the Corporation s servicing portfolio, regarding discount rates and mortgage prepayment rates. The weighted-averages of the key economic assumptions used by the Corporation in its valuation model and the sensitivity of the current fair value to immediate 10 percent and 20 percent adverse changes in those assumptions for mortgage loans at March 31, 2011, were as follows:

	(Dollars in thousands)
Carrying amount of servicing assets	$ 15,006
Fair value	$ 15,719
Weighted-average expected life (in years)	8.5
Constant prepayment rate (weighted-average annual rate)	11.74%
Decrease in fair value due to 10% adverse change	$ 707
Decrease in fair value due to 20% adverse change	$ 1,368
Discount rate (weighted-average annual rate)	10.42%
Decrease in fair value due to 10% adverse change	$ 614
Decrease in fair value due to 20% adverse change	$ 1,186

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

12 DEPOSITS

The following table summarizes deposit balances:

	March 31, 2011	December 31, 2010
	(In thousands)	
Type of account:		
Non-interest bearing checking accounts	$ 707,938	$ 668,052
Savings accounts	1,968,350	1,938,475
Interest-bearing checking accounts	1,055,648	1,012,009
Certificates of deposit	2,263,273	2,181,205
Brokered certificates of deposit	5,721,227	6,259,369
	$ 11,716,436	$ 12,059,110

The following are the components of interest expense on deposits:

	Quarter Ended	
	March 31, 2011	March 31, 2010
	(In thousands)	
Interest expense on deposits	$ 48,700	$ 60,500

Amortization of broker placement fees	5,359	5,465
Interest expense on deposits excluding net unrealized loss (gain) on derivatives and brokered CDs measured at fair value	54,059	65,965
Net unrealized loss on derivatives		1
Total interest expense on deposits	$ 54,059	$ 65,966

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13 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase (repurchase agreements) consist of the following:

	March 31, 2011	December 31, 2010
	(In thousands)	
Repurchase agreements, interest ranging from 0.99% to 4.51%	$ 1,400,000	$ 1,400,000

Repurchase agreements mature as follows:

	March 31, 2011
	(In thousands)
Over ninety days to one year	$ 100,000
One to three years	700,000
Three to five years	600,000
Total	$ 1,400,000

As of March 31, 2011 and December 31, 2010, the securities underlying such agreements were delivered to the dealers with whom the repurchase agreements were transacted.

Repurchase agreements as of March 31, 2011, grouped by counterparty, were as follows:

Counterparty	Amount	Weighted-Average Maturity
		(In Months)
UBS Financial Services, Inc.	$ 100,000	16
Barclays Capital	200,000	17
Credit Suisse First Boston	400,000	27
Dean Witter / Morgan Stanley	200,000	28
JP Morgan Chase	200,000	36
Citigroup Global Markets	300,000	37
	$ 1,400,000	

14 ADVANCES FROM THE FEDERAL HOME LOAN BANK (FHLB)

Following is a summary of the advances from the FHLB:

	March 31, 2011	December 31, 2010
	(In thousands)	
Fixed-rate advances from FHLB, with a weighted-average interest rate of 3.32% (2010 - 3.33%)	$ 540,440	$ 653,440

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Advances from FHLB mature as follows:

	March 31, 2011 (In thousands)
One to thirty days	$ 5,000
Over thirty to ninety days	15,000
Over ninety days to one year	167,000
One to three years	353,440
Total	$ 540,440

As of March 31, 2011, the Corporation had additional capacity of approximately $486.4 million on this credit facility based on collateral pledged at the FHLB, including haircuts reflecting the perceived risk associated with holding the collateral.

15 NOTES PAYABLE

Notes payable consist of:

	March 31, 2011	December 31, 2010
	(Dollars in thousands)	
Callable step-rate notes, bearing step increasing interest from 5.00% to 7.00% (6.00% as of March 31, 2011 and December 31, 2010) maturing on October 18, 2019, measured at fair value	$ 12,437	$ 11,842
Dow Jones Industrial Average (DJIA) linked principal protected notes:		
Series A maturing on February 28, 2012	7,175	6,865
Series B maturing on May 27, 2011	8,225	7,742
	$ 27,837	$ 26,449

16 OTHER BORROWINGS

Other borrowings consist of:

	March 31, 2011	December 31, 2010
	(Dollars in thousands)	
Junior subordinated debentures due in 2034, interest-bearing at a floating-rate of 2.75% over 3-month LIBOR (3.06% as of March 31, 2011 and 3.05% as of December 31, 2010)	$ 103,093	$ 103,093
Junior subordinated debentures due in 2034, interest-bearing at a floating-rate of 2.50% over 3-month LIBOR (2.81% as of March 31, 2011 and 2.80% as of December 31, 2010)	128,866	128,866
	$ 231,959	$ 231,959

17 STOCKHOLDERS EQUITY

Common Stock

As of March 31, 2011, the Corporation had 2,000,000,000 authorized shares of common stock with a par value of $0.10 per share. As of both March 31, 2011 and December 31, 2010, there were 21,963,522 shares issued and 21,303,669 shares outstanding. The Corporation stopped paying common and preferred stock dividends since August 2009.

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As of March 31, 2011, there were 716 shares of restricted stock outstanding that are expected to vest in the fourth quarter of 2011. The shares of restricted stock may vest more quickly in the event of death, disability, retirement, or a change in control. Based on particular circumstances evaluated by the Compensation Committee as they may relate to the termination of a restricted stock holder, the Corporation s Board of Directors may, with the recommendation of the Compensation Committee, grant the full vesting of the restricted stock held upon termination of employment. Holders of restricted stock have the right to dividends or dividend equivalents, as applicable, during the restriction period. Such dividends or dividend equivalents will accrue during the restriction period, but will not be paid until restrictions lapse. The holder of restricted stock has the right to vote the shares.

Effective January 7, 2011, the Corporation implemented a one-for-fifteen reverse stock split of all outstanding shares of its common stock. At the Corporation s Special Meeting of Stockholders held on August 24, 2010, stockholders approved an amendment to the Corporation s Restated Articles of Incorporation to implement a reverse stock split at a ratio, to be determined by the board in its sole discretion, within the range of one new share of common stock for 10 old shares and one new share for 20 old shares. As authorized, the board elected to effect a reverse stock split at a ratio of one-for-fifteen. The reverse stock split allowed the Corporation to regain compliance with listing standards of the New York Stock Exchange. The one-for-fifteen reverse stock split reduced the number of outstanding shares of common stock from 319,557,932 shares to 21,303,669 shares of common stock. All share and per share amounts included in these financial statements have been adjusted to retroactively reflect the 1-for-15 reverse stock split.

Preferred Stock

The Corporation has 50,000,000 authorized shares of preferred stock with a par value of $1, redeemable at the Corporation s option subject to certain terms. This stock may be issued in series and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. As of March 31, 2011, the Corporation has five outstanding series of non-convertible non-cumulative preferred stock: 7.125% non-cumulative perpetual monthly income preferred stock, Series A; 8.35% non-cumulative perpetual monthly income preferred stock, Series B; 7.40% non-cumulative perpetual monthly income preferred stock, Series C; 7.25% non-cumulative perpetual monthly income preferred stock, Series D; and 7.00% non-cumulative perpetual monthly income preferred stock, Series E. The liquidation value per share is $25. The Corporation is currently in the process of voluntarily delisting the Series A through E preferred stock from the New York Stock Exchange.

On July 20, 2010, the Corporation issued $424.2 million Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series G (the Series G Preferred Stock), in exchange of the $400 million of Fixed Rate Cumulative Perpetual Preferred Stock, Series F (the Series F Preferred Stock), that the U.S. Treasury had acquired pursuant to the TARP Capital Purchase Program, and dividends accrued on such stock. A key benefit of this transaction was obtaining the right, under the terms of the new Series G Preferred Stock, to compel the conversion of this stock into shares of the Corporation s common stock, provided that the Corporation meets a number of conditions, and by the Treasury and any subsequent holder at any time and, unless earlier converted, is automatically convertible into common stock on the seventh anniversary of issuance. On the seventh anniversary of issuance, each share of the Series G Preferred Stock will mandatorily convert into a number of shares of the Corporation s common stock equal to a fraction, the numerator of which is $1,000 and the denominator of which is the market price of the Corporation s common stock on the second trading day preceding the mandatory conversion date, provided, however, holders of the Series G Preferred Stock shall not be entitled to convert shares until the converting holder has first received any applicable regulatory approvals. On August, 24, 2010, the Corporation obtained its stockholders approval to increase the number of authorized shares of common stock from 750 million to 2 billion and decrease the par value of its common stock from $1.00 to $0.10 per share. These approvals and the issuance in 2010 of common stock in exchange for Series A through E preferred stock satisfy all but one of the substantive conditions to the Corporation s ability to compel the conversion of the 424,174 shares of the new series of Series G Preferred Stock, issued to the U.S. Treasury. The other substantive condition to the Corporation s ability to compel the conversion of the Series G Preferred Stock is the issuance of a minimum amount of additional capital, subject to terms, other than the price per share, reasonably acceptable to the U.S. Treasury in its sole discretion. On September 16, 2010, the Corporation filed a registration statement for a

proposed underwritten offering of $500 million of its common stock with the SEC. Thereafter, it amended the registration statement to lower the size of the offering to $350 million as a result of the negotiation of an amendment to the exchange agreement with the U.S Treasury.

During the fourth quarter of 2010, the U.S. Treasury agreed to a reduction from $500 million to $350 million in the size of the capital raise required to satisfy the remaining substantive condition to compel the conversion of the Series G Preferred Stock owned by the U.S. Treasury into shares of common stock. Additionally, the U.S. Treasury agreed to extend to October 7, 2011, the date by when the Corporation is required to complete an equity raise in order to compel conversion of the Series G Preferred Stock into shares of common stock. In connection with the negotiation of this reduction, the Corporation agreed to a reduction in the previously agreed upon discount of the liquidation preference of the Series G Preferred Stock from 35% to 25%, thus, increasing the number of shares of common stock into which the Series G Preferred Stock. Based on an initial conversion rate of 68.9465 shares of common stock for each share of Series G Preferred Stock(calculated by dividing $750, or a discount of 25% from the $1,000 liquidation preference per share of Series G Preferred Stock, by the initial conversion price of $10.878 per share, which is subject to adjustment), the number of shares into which the Series G Preferred Stock would be convertible would increase from 25.3 million to 29.2 million shares of common stock. As a result of the change in the discount, a non-cash adjustment of $11.3 million was recorded in the fourth quarter of 2010 as an acceleration of the Series G Preferred Stock discount accretion.

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The value of the base preferred stock component of the Series G Preferred Stock was determined using a discounted cash flow method and applying a discount rate. The cash flows, which consist of the sum of the discounted quarterly dividends plus the principal repayment, were discounted considering the Corporation s credit rating. The short and long call options were valued using a Cox-Rubinstein binomial option pricing model-based methodology. The valuation methodology considered the likelihood of option conversions under different scenarios, and the valuation interactions of the various components under each scenario. The difference from the par amount of the Series G Preferred Stock is accreted to preferred stock over 7 years using the interest method with a corresponding adjustment to preferred dividends.

The Series G Preferred Stock qualifies as Tier 1 regulatory capital. Cumulative dividends on the Series G Preferred Stock accrue on the liquidation preference on a quarterly basis at a rate of 5% per annum for the first five years, and thereafter at a rate of 9% per annum, but will only be paid when, as and if declared by the Corporation s Board of Directors out of assets legally available therefore. The Series G Preferred Stock ranks pari passu with the Corporation s existing Series A through E preferred stock in terms of dividend payments and distributions upon liquidation, dissolution and winding up of the Corporation. The exchange agreement relating to the issuance of the Series G Preferred Stock limits the payment of dividends on common stock, including limiting regular quarterly cash dividends to an amount not exceeding the last quarterly cash dividend paid per share, or the amount publicly announced (if lower), on common stock prior to October 14, 2008, which is $1.05 per share.

Additionally, the Corporation issued an amended 10-year warrant (the Warrant) to the U.S. Treasury to purchase 389,483 shares of the Corporation s common stock at an initial exercise price of $10.878 per share instead of the exercise price on the original warrant of $154.05 per share. The Warrant has a 10-year term and is exercisable at any time. The exercise price and the number of shares issuable upon exercise of the Warrant are subject to certain anti-dilution adjustments.

The possible future issuance of equity securities through the exercise of the Warrant could affect the Corporation s current stockholders in a number of ways, including by:

- diluting the voting power of the current holders of common stock (the shares underlying the warrant represent approximately 2% of the Corporation s shares of common stock as of March 31, 2011);
- diluting the earnings per share and book value per share of the outstanding shares of common stock; and
- making the payment of dividends on common stock more expensive.

As mentioned above the Corporation stopped paying dividends for common and all its outstanding series of preferred stock. This suspension was effective with the dividends for the month of August 2009 on the Corporation s five outstanding series of non-cumulative preferred stock and dividends or the Corporation s then outstanding Series F Preferred Stock and the Corporation s common stock. Prior to any resumption of the payment of dividends on or repurchases of any of the remaining outstanding noncumulative preferred stock or common stock, the Corporation must comply with the terms of the Series G Preferred Stock. In addition, prior to the repurchase of any stock for cash, the Corporation must obtain the consent of the U.S. Treasury under certain circumstances.

Stock repurchase plan and treasury stock

The Corporation has a stock repurchase program under which, from time to time, it repurchases shares of common stock in the open market and holds them as treasury stock. No shares of common stock were repurchased during the first quarter of 2011 and 2010 by the Corporation. As of March 31, 2011 and December 31, 2010, of the total amount of common stock repurchased in prior years, 659,853 shares were held as treasury stock and were available for general corporate purposes.

Legal surplus

The Banking Act 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.

18 REGULATORY MATTERS

The Corporation is subject to various regulatory capital requirements imposed by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting

practices. The Corporation s capital amounts and classification are also subject to qualitative judgment by the regulators about components, risk weightings and other factors.

Capital standards established by regulations require the Corporation to maintain minimum amounts and ratios for Leverage (Tier 1 capital to average total assets) and ratios of Tier 1 Capital to Risk-Weighted Assets and Total Capital to Risk-Weighted Assets as defined in the regulations. The total amount of risk-weighted assets is computed by applying risk-weighting factors to the Corporation s assets and certain off-balance sheet items, which generally vary from 0% to 100% depending on the nature of the asset.

Effective June 2, 2010, FirstBank, by and through its Board of Directors, entered into the FDIC Order with the FDIC and the Office of the Commissioner of Financial Institutions of Puerto Rico. This Order provides for various things, including (among other things) the following: (1) having and retaining qualified management; (2) increased participation in the affairs of FirstBank by its board of directors; (3) development and implementation by FirstBank of a capital plan to attain a leverage ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 10% and a total risk-based capital ratio of at least 12%; (4) adoption and implementation of strategic, liquidity and fund management and profit and budget plans and related projects within certain timetables set forth in the Order and on an ongoing basis; (5) adoption and implementation of plans for reducing FirstBank s positions in certain classified assets and delinquent and non-accrual loans within timeframes set forth in the Order; (6) refraining from lending to delinquent or classified borrowers already obligated to FirstBank on any extensions of credit so long as such credit remains uncollected, except where FirstBank s failure to extend further credit to a particular borrower would be detrimental to the best interests of FirstBank, and any such additional credit is approved by the FirstBank s board of directors; (7) refraining from accepting, increasing, renewing or rolling over brokered deposits without the prior written approval of the FDIC; (8) establishment of a comprehensive policy and methodology for determining the allowance for loan and lease losses and the review and revision of FirstBank s loan policies, including the non-accrual policy; and (9) adoption and implementation of adequate and effective programs of independent loan review, appraisal compliance and an effective policy for managing FirstBank s sensitivity to interest rate risk. The foregoing summary is not complete and is qualified in all respects by reference to the actual language of the FDIC Order. Although all the regulatory capital ratios exceeded the established well capitalized levels at March 31, 2011, because of the FDIC Order with the FDIC, FirstBank cannot be treated as well capitalized institution under regulatory guidance.

Effective June 3, 2010, First BanCorp entered into the Written Agreement with the FED. The Agreement provides, among other things, that the holding company must serve as a source of strength to FirstBank, and that, except upon consent of the FED, (1) the holding company may not pay dividends to stockholders or receive dividends from FirstBank, (2) the holding company and its nonbank subsidiaries may not make payments on trust preferred securities or subordinated debt, and (3) the holding company cannot incur, increase or guarantee debt or repurchase any capital securities. The Written Agreement also requires that the holding company submit a capital plan which reflects sufficient capital at First BanCorp on a consolidated basis, which must be acceptable to the FED, and follow certain guidelines with respect to the appointment or change in responsibilities of senior officers. The foregoing summary is not complete and is qualified in all respects by reference to the actual language of the Written Agreement.

The Corporation submitted its capital plan setting forth how it plans to improve capital positions to comply with the FDIC Order and the Written Agreement over time. Additional information about, the Corporation s achievement of various aspects of the Capital Plan and the terms of the Capital Plan are described above in Note 1.

In addition to the Capital Plan, the Corporation has submitted to its regulators a liquidity and brokered deposit 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. Further, the Corporation has reviewed and enhanced the Corporation s loan review program, various credit policies, the Corporation s treasury and investments policy, the Corporation s asset classification and allowance for loan and lease losses and non-accrual policies, the Corporation s charge-off policy and the Corporation s appraisal program. The Agreements also require the submission to the regulators of quarterly progress reports.

The FDIC Order imposes no other restrictions on the FirstBank s products or services offered to customers, nor does it or the Written Agreement impose any type of penalties or fines upon FirstBank or the Corporation. Concurrent with the FDIC Order, the FDIC has granted FirstBank temporary waivers to enable it to continue accessing the

brokered deposit market through June 30, 2011. FirstBank will request approvals for future periods.

19 INCOME TAXES

Income tax expense includes Puerto Rico and Virgin Islands income taxes as well as applicable U.S. federal and state taxes. The Corporation is subject to Puerto Rico income tax on its income from all sources. As a Puerto Rico corporation, First BanCorp is treated as a foreign corporation for U.S. income tax purposes and is generally subject to United States income tax only on its income from sources within the United States or income effectively connected with the conduct of a trade or business within the United States. Any such tax paid is creditable, within certain conditions and limitations, against the Corporation s Puerto Rico tax liability. The Corporation is also subject to U.S.Virgin Islands taxes on its income from sources within that jurisdiction. Any such tax paid is also creditable against the Corporation s Puerto Rico tax liability, subject to certain conditions and limitations.

Under the Puerto Rico Internal Revenue Code of 1994, as amended (the PR Code), the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns and, thus, the Corporation is not able to utilize losses from one subsidiary to offset gains in another subsidiary. Accordingly, in order to obtain a tax benefit from a net operating loss, a particular subsidiary must be able to demonstrate sufficient taxable income within the applicable carry forward period (7 years under the PR Code). The PR Code provides a dividend received deduction of 100% on dividends received from controlled subsidiaries subject to taxation in Puerto Rico and 85% on dividends received from other taxable domestic corporations. Dividend payments from a U.S. subsidiary to the Corporation are subject to a 10% withholding tax based on the provisions of the U.S. Internal Revenue Code.

Under the PR Code, First BanCorp is subject to a maximum statutory tax rate of 39%. In 2009 the Puerto Rico Government approved Act No. 7 (the Act), to stimulate Puerto Rico s economy and to reduce the Puerto Rico Government s fiscal deficit. The Act imposes a series of temporary and permanent measures, including the imposition of a 5% surtax over the total income tax determined, which is applicable to corporations, among others, whose combined income exceeds $100,000, effectively resulting in an increase in the maximum statutory tax rate from 39% to 40.95% and an increase in the capital gain statutory tax rate from 15% to 15.75%. These temporary measures are effective for tax years that commenced after December 31, 2008 and before January 1, 2012. The PR Code also includes an alternative minimum tax of 22% that applies if the Corporation s regular income tax liability is less than the alternative minimum tax requirements.

The Corporation has maintained an effective tax rate lower than the maximum statutory rate mainly by investing in government obligations and mortgage-backed securities exempt from U.S. and Puerto Rico income taxes and by doing business through International Banking Entity (IBE) of the Bank (FirstBank IBE) and through the Bank s subsidiary, FirstBank Overseas Corporation, in which the interest income and gain on sales is exempt from Puerto Rico and U.S. income taxation. Under the Act, all IBE are subject to the special 5% tax on their net income not otherwise subject to tax pursuant to the PR Code. This temporary measure is also effective for tax years that commenced after December 31, 2008 and before January 1, 2012. FirstBank IBE and FirstBank Overseas Corporation were created under the International Banking Entity Act of Puerto Rico, which provides for total Puerto Rico tax exemption on net income derived by IBEs operating in Puerto Rico. IBEs that operate as a unit of a bank pay income taxes at normal rates to the extent that the IBEs net income exceeds 20% of the bank s total net taxable income.

On January 31, 2011, the Puerto Rico Government approved Act No. 1, which repealed the 1994 PR Code and replaces it with the Puerto Rico Internal Revenue Code of 2010 (the 2010 PR Code). The provisions of the 2010 Code are generally applicable to taxable years commencing after December 31, 2010. The matters discussed above are equally applicable under the 2010 Code except that the maximum corporate tax rate has been reduced from 39% (40.95% for calendar years 2009 and 2010) to 30% (25% for taxable years commencing after December 31, 2013 if certain economic conditions are met by the Puerto Rico economy). Corporations are entitled to elect continue to determine its Puerto Rico income tax responsibility for such 5 year period under the provisions of the 1994 Code.

For the quarter ended March 31, 2011, the Corporation recorded an income tax expense of $3.6 million compared to an income tax expense of $6.9 million for the same period in 2010. As a result of the reduction in the statutory income tax rates from 39% to 30% under the new 2010 Code, the Corporation recorded a $102.0 million reduction in its deferred tax assets and a $100.0 million reduction in the valuation allowance. Since the majority of the deferred tax assets were reserved prior to 2011, the net charge to the income statement during the first quarter of 2011 attributed to changes in tax rates was approximately $2.0 million in connection with profitable subsidiaries. As of March 31, 2011, the deferred tax asset, net of a valuation allowance of $355.4 million, amounted to $7.7 million compared to $9.3 million as of December 31, 2010. The Corporation continued to reserve deferred tax assets created in connection with the operations of its banking subsidiary, FirstBank.

Accounting for income taxes requires that companies assess whether a valuation allowance should be recorded against their deferred tax asset based on the consideration of all available evidence, using a more likely than not realization standard. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized. In making such assessment, significant weight is to be given to evidence that can be objectively verified, including both positive and negative evidence. The accounting for income taxes

guidance requires the consideration of all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing temporary differences, future taxable income exclusive of the reversal of temporary differences and carryforwards, taxable income in carryback years and tax planning strategies. In estimating taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial and regulatory guidance, and recognizes tax benefits only when deemed probable of realization.

In assessing the weight of positive and negative evidence, a significant negative factor that resulted in increases of the valuation allowance was that the Corporation s banking subsidiary, FirstBank Puerto Rico, continues in a three-year historical cumulative loss position as of the end of the first quarter of 2011, and has projected to be in a loss position for the remaining of 2011. As of March 31, 2011, management concluded that $7.7 million of the deferred tax asset will be realized. The Corporation s deferred tax assets for which it has not established a valuation allowance relate to profitable subsidiaries and to amounts that can be realized through future reversals of existing taxable temporary differences. To the extent the realization of a portion, or all, of the tax asset becomes more

likely than not based on changes in circumstances (such as, improved earnings, changes in tax laws or other relevant changes), a reversal of that portion of the deferred tax asset valuation allowance will then be recorded.

The tax effect of the unrealized holding gain or loss on securities available-for-sale, excluding that on securities held by the Corporation s international banking entities which is exempt, was computed based on a 15% capital gain tax rate, and is included in accumulated other comprehensive income as part of stockholders equity.

The FASB guidance prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken on income tax returns. Under the authoritative accounting guidance, income tax benefits are recognized and measured based upon a two-step model: 1) a tax position must be more likely than not to be sustained based solely on its technical merits in order to be recognized, and 2) the benefit is measured as the largest dollar amount of that position that is more likely than not to be sustained upon settlement. The difference between the benefit recognized in accordance with this model and the tax benefit claimed on a tax return is referred to as an UTB.

The Corporation classified all interest and penalties, if any, related to tax uncertainties as income tax expense. The amount of UTBs may increase or decrease for various reasons, including changes in the amounts for current tax year positions, the expiration of open income tax returns due to the expiration of statutes of limitations, changes in management s judgment about the level of uncertainty, the status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions. There were no UTBs outstanding as of March 31, 2011 and December 31, 2010.

20 FAIR VALUE

Fair Value Option

FASB authoritative guidance permits the measurement of selected eligible financial instruments at fair value.

Medium-Term Notes

The Corporation elected the fair value option for certain medium term notes that were hedged with interest rate swaps that were previously designated for fair value hedge accounting. As of March 31, 2011 and December 31, 2010, these medium-term notes with a principal balance of $15.4 million, had a fair value of $12.4 million and $11.8 million, respectively, recorded in notes payable. Interest paid/accrued on these instruments is recorded as part of interest expense and the accrued interest is part of the fair value of the notes. Electing the fair value option allows the Corporation to eliminate the burden of complying with the requirements for hedge accounting (e.g., documentation and effectiveness assessment) without introducing earnings volatility.

Medium-term notes for which the Corporation elected the fair value option were priced using observable market data in the institutional markets.

Fair Value Measurement

The FASB authoritative guidance for fair value measurement defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value:

Level 1 Valuations of Level 1 assets and liabilities are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 1 assets and liabilities include equity securities that are traded in an active exchange market, as well as certain U.S. Treasury and other U.S. government and agency securities and corporate debt securities that are traded by dealers or brokers in active markets.

Level 2 Valuations of Level 2 assets and liabilities are based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include (i) mortgage-backed securities for which the fair value is estimated based on the value of identical or comparable assets, (ii) debt securities with quoted prices that are traded less frequently than exchange-traded instruments and (iii) derivative contracts and financial liabilities (e.g., medium-term

notes elected to be measured at fair value) whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

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Level 3 Valuations of Level 3 assets and liabilities are based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models for which the determination of fair value requires significant management judgment or estimation.

For 2011, there have been no transfers into or out of Level 1 and Level 2 measurement of the fair value hierarchy.

Estimated Fair Value of Financial Instruments

The information about the estimated fair value of financial instruments required by GAAP is presented hereunder. The aggregate fair value amounts presented do not necessarily represent management s estimate of the underlying value of the Corporation.

The estimated fair value is subjective in nature and involves uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in the underlying assumptions used in calculating fair value could significantly affect the results. In addition, the fair value estimates are based on outstanding balances without attempting to estimate the value of anticipated future business.

The following table presents the estimated fair value and carrying value of financial instruments as of March 31, 2011 and December 31, 2010.

	Financial Condition 3/31/2011	Fair Value Estimated 3/31/2011	Financial Condition 12/31/2010	Fair Value Estimated 12/31/2010
	(In thousands)			
Assets:				
Cash and due from banks and money market investments	$ 873,294	$ 873,294	$ 370,283	$ 370,283
Investment securities available for sale	2,724,167	2,724,167	2,744,453	2,744,453
Investment securities held to maturity			453,387	476,516
Other equity securities	99,060	99,060	55,932	55,932
Loans held for sale	305,494	312,253	300,766	300,766
Loans, held for investment	11,089,775		11,655,436	
Less: allowance for loan and lease losses	(561,695)		(553,025)	
Loans held for investment, net of allowance	10,528,080	10,019,395	11,102,411	10,581,221
Derivatives, included in assets	2,556	2,556	1,905	1,905
Liabilities:				
Deposits	11,716,436	11,837,155	12,059,110	12,207,613
Securities sold under agreements to repurchase	1,400,000	1,507,010	1,400,000	1,513,338
Advances from FHLB	540,440	560,436	653,440	677,866
Notes Payable	27,837	25,702	26,449	24,909
Other borrowings	231,959	122,722	231,959	71,488
Derivatives, included in liabilities	7,276	7,276	6,701	6,701

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Assets and liabilities measured at fair value on a recurring basis, including financial liabilities for which the Corporation has elected the fair value option, are summarized below:

	As of March 31, 2011 Fair Value Measurements Using				As of December 31, 2010 Fair Value Measurements Using			
(In thousands)	Level 1	Level 2	Level 3	Assets / Liabilities at Fair Value	Level 1	Level 2	Level 3	Assets / Liabilities at Fair Value
Assets:								
Securities available for sale :								
Equity securities	$ 47	$	$	$ 47	$ 59	$	$	$ 59
U.S. Treasury Securities	615,793			615,793	608,714			608,714
Non-callable U.S. agency debt	303,704			303,704	304,257			304,257
Callable U.S. agency debt and MBS		1,573,119		1,573,119		1,622,265		1,622,265
Puerto Rico Government Obligations		158,771	3,083	161,854		134,165	2,676	136,841
Private label MBS			68,355	68,355			72,317	72,317
Corporate bonds			1,295	1,295				
Derivatives, included in assets:								
Interest rate swap agreements		316		316		351		351
Purchased interest rate cap agreements		1		1		1		1
Purchased options used to manage exposure to the stock market on embeded stock indexed options		2,207		2,207		1,553		1,553
Forward Contracts		32		32				

Liabilities:				
Medium-term notes	12,437	12,437	11,842	11,842
Derivatives, included in liabilities:				
Interest rate swap agreements	4,813	4,813	5,192	5,192
Written interest rate cap agreements	1	1	1	1
Embedded written options on stock index deposits and notes payable	2,167	2,167	1,508	1,508
Forward Contracts	296	296		

	Changes in Fair Value for items Measured at Fair Value Pursuant to Election of the Fair Value Option For the Quarter ended March 31,	
	2011	**2010**
(In thousands)	**Unrealized Gains and Interest Expense included in Current-Period Earnings (1)**	
Medium-term notes	$ (824)	$ (1,029)

(1) Changes in fair value for the quarter ended March 31, 2011 and 2010 include interest expense on medium-term notes of $0.2 million and $0.1 million, respectively. Interest expense on medium-term notes that have been elected to be carried at fair value are recorded in interest expense in the Consolidated Statement of Loss based on their contractual coupons.

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarters ended March 31, 2011 and 2010.

Level 3 Instruments Only	**Total Fair Value Measurements (Quarter Ended March 31, 2011) Securities**	**Total Fair Value Measurements (Quarter Ended March 31, 2010)**	
(In thousands)	**Available For Sale(1)**	**Derivatives(2)**	**Securities Available For Sale(1)**
Beginning balance	$ 74,993	$ 4,199	$ 84,354
Total gains or (losses) (realized/unrealized):			
Included in earnings		(712)	
Included in other comprehensive income	46		323
Held-to-Maturity investment securities reclassified to Available-for-Sale	2,000		

Principal repayments and amortization	(4,306)		(3,794)
Ending balance	$ 72,733	$ 3,487	$ 80,883

(1) Amounts mostly related to private label mortgage-backed securities.

(2) Amounts related to the valuation of interest rate cap agreements. The counterparty to these interest rate cap agreements failed on April 30, 2010 and was acquired by another financial institution in an FDIC assisted transaction. The Corporation currently has a claim with the FDIC.

The table below summarizes changes in unrealized gains and losses recorded in earnings for the quarter ended March 31, 2010 for Level 3 assets and liabilities that are still held at the end of the period.

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Level 3 Instruments Only *(In thousands)*		**Changes in Unrealized Losses (Quarter Ended March 31, 2010) Derivatives**
Changes in unrealized losses relating to assets still held at reporting date[1] [2]:		
Interest income on loans	$	(15)
Interest income on investment securities		(697)
	$	(712)

(1) Amounts represent valuation of interest rate cap agreements

(2) Unrealized losses of $0.3 million on Level 3 available-for-sale securities was recognized as part of other comprehensive income for the quarter ended March 31, 2010.

Additionally, fair value is used on a non-recurring basis to evaluate certain assets in accordance with GAAP. Adjustments to fair value usually result from the application of lower-of-cost-or-market accounting (e.g., loans held for sale carried at the lower of cost or fair value and repossessed assets) or write-downs of individual assets (e.g., goodwill, loans).

As of March 31, 2011, impairment or valuation adjustments were recorded for assets recognized at fair value on a non-recurring basis as shown in the following table:

	Carrying value as of March 31, 2011			**Losses recorded for the Quarter Ended**
	Level 1	**Level 2**	**Level 3**	**March 31, 2011**
	(In thousands)			
Loans receivable (1)	$	$	$1,331,634	$ 95,786
Other Real Estate Owned (2)			91,948	2,975

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

(2) The fair value is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g. absorption rates), which are not market observable. Losses are related to market valuation adjustments after the transfer from the loan to the OREO portfolio.

As of March 31, 2010, impairment or valuation adjustments were recorded for assets recognized at fair value on a non-recurring basis as shown in the following table:

Losses recorded for

	Carrying value as of March 31, 2010			the Quarter Ended
	Level 1	Level 2	Level 3	March 31, 2010
	(In thousands)			
Loans receivable (1)	$	$	$1,390,467	$ 137,767
Other Real Estate Owned (2)			73,444	1,195
Loans held for sale (3)		19,927		140

(1) Mainly impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral.

The fair values are derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g. absorption rates), which are not market observable.

(2) The fair value is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g. absorption rates), which are not market observable. Losses are related to market valuation adjustments after the transfer from the loan to the Other Real Estate Owned (OREO) portfolio.

(3) Fair value is primarily derived from quotations based on the mortgage-backed securities market.

The following is a description of the valuation methodologies used for instruments for which an estimated fair value is presented as well as for instruments for which the Corporation has elected the fair value option. The estimated fair value was calculated using certain facts and assumptions, which vary depending on the specific financial instrument.

Cash and due from banks and money market investments

The carrying amounts of cash and due from banks and money market investments are reasonable estimates of their fair value. Money market investments might include held-to-maturity U.S. Government obligations, which have a contractual maturity of three months or less. The fair value of these securities is based on quoted market prices in active markets that incorporate the risk of nonperformance.

Investment securities available for sale and held to maturity

The fair value of investment securities is the market value based on quoted market prices (as is the case with equity securities, U.S. Treasury notes and non-callable U.S. Agency debt securities), when available, or market prices for identical or comparable assets (as is the case with MBS and callable U.S. agency debt) that are based on observable market parameters including benchmark yields, reported trades, quotes from brokers or dealers, issuer spreads, bids, offers and reference data including market research operations. Observable prices in the market already consider the risk of nonperformance. If listed prices or quotes are not available, fair value is based upon models that use unobservable inputs due to the limited market activity of the instrument, as is the case with certain private label mortgage-backed securities held by the Corporation.

Private label MBS are collateralized by fixed-rate mortgages on single-family residential properties in the United States; the interest rate on the securities is variable, tied to 3-month LIBOR and limited to the weighted-average coupon of the underlying collateral. The market valuation represents the estimated net cash flows over the projected life of the pool of underlying assets applying a discount rate that reflects market observed floating spreads over LIBOR, with a widening spread bias on a nonrated security. The market valuation is derived from a model that utilizes relevant assumptions such as prepayment rate, default rate, and loss severity on a loan level basis. The Corporation modeled the cash flow from the fixed-rate mortgage collateral using a static cash flow analysis according to collateral attributes of the underlying mortgage pool (i.e. loan term, current balance, note rate, rate adjustment type, rate adjustment frequency, rate caps, others) in combination with prepayment forecasts obtained from a commercially available prepayment model (ADCO). The variable cash flow of the security is modeled using the 3-month LIBOR forward curve. Loss assumptions were driven by the combination of default and loss severity estimates, taking into account loan credit characteristics (loan-to-value, state, origination date, property type, occupancy loan purpose, documentation type, debt-to-income ratio, other) to provide an estimate of default and loss severity. Refer to Note 4 for additional information about assumptions used in the valuation of private label MBS.

Other equity securities

Equity or other securities that do not have a readily available fair value are stated at the net realizable value, which management believes is a reasonable proxy for their fair value. This category is principally composed of stock that is owned by the Corporation to comply with FHLB regulatory requirements. Their realizable value equals their cost as these shares can be freely redeemed at par. Also includes, the Corporation s 35% interest in a joint venture. The initial value of $47.6 million represents 35% of all the assets of the joint venture. Please refer to Note 11 for additional information.

Loans receivable, including loans held for sale

The fair value of loans held for investment and for mortgage loans held for sale was estimated using discounted cash flow analyses, based on interest rates currently being offered for loans with similar terms and credit quality and with adjustments that the Corporation s management believes a market participant would consider in determining fair value. Loans were classified by type such as commercial, residential mortgage, and automobile. These asset categories were further segmented into fixed- and adjustable-rate categories. The fair values of performing fixed-rate and adjustable-rate loans were calculated by discounting expected cash flows through the estimated maturity date. Loans with no stated maturity, like credit lines, were valued at book value. Prepayment assumptions were considered for non-residential loans. For residential mortgage loans, prepayment estimates were based on recent historical prepayment experience of the Corporation s residential mortgage portfolio. Discount rates were based on the Treasury

and LIBOR/Swap Yield Curves at the date of the analysis, and included appropriate adjustments for expected credit losses and liquidity. For impaired collateral dependent loans, the impairment was primarily measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observable transactions involving similar assets in similar locations. For construction, commercial mortgage and commercial loans transferred to held for sale during the fourth quarter of 2010, the fair value equals the established sales price of these loans. The Corporation completed the sale of substantially all of these loans on February 16, 2011.

Deposits

The estimated fair value of demand deposits and savings accounts, which are deposits with no defined maturities, equals the amount payable on demand at the reporting date. The fair values of retail fixed-rate time deposits, with stated maturities, are based on the present value of the future cash flows expected to be paid on the deposits. The cash flows were based on contractual maturities; no early repayments are assumed. Discount rates were based on the LIBOR yield curve.

The estimated fair value of total deposits excludes the fair value of core deposit intangibles, which represent the value of the customer relationship measured by the value of demand deposits and savings deposits that bear a low or zero rate of interest and do not fluctuate in response to changes in interest rates.

The fair value of brokered CDs, which are included within deposits, is determined using discounted cash flow analyses over the full term of the CDs. The valuation uses a Hull-White Interest Rate Tree approach, an industry-standard approach for valuing instruments with interest rate call options. The fair value of the CDs is computed using the outstanding principal amount. The discount rates used are based on US dollar LIBOR and swap rates. At-the-money implied swaption volatility term structure (volatility by time to maturity) is used to calibrate the model to current market prices. The fair value does not incorporate the risk of nonperformance, since interests in brokered CDs are generally sold by brokers in amounts of less than $100,000 and, therefore, insured by the FDIC.

Securities sold under agreements to repurchase

Some repurchase agreements reprice at least quarterly, and their outstanding balances are estimated to be their fair value. Where longer commitments are involved, fair value is estimated using exit price indications of the cost of unwinding the transactions as of the end of the reporting period. Securities sold under agreements to repurchase are fully collateralized by investment securities.

Advances from FHLB

The fair value of advances from FHLB with fixed maturities is determined using discounted cash flow analyses over the full term of the borrowings, using indications of the fair value of similar transactions. The cash flows assume no early repayment of the borrowings. Discount rates are based on the LIBOR yield curve. For advances from FHLB that reprice quarterly, their outstanding balances are estimated to be their fair value. Advances from FHLB are fully collateralized by mortgage loans and, to a lesser extent, investment securities.

Derivative instruments

The fair value of most of the derivative instruments is based on observable market parameters and takes into consideration the credit risk component of paying counterparties when appropriate, except when collateral is pledged. That is, on interest rate swaps, the credit risk of both counterparties is included in the valuation; and, on options and caps, only the seller s credit risk is considered. The Hull-White Interest Rate Tree approach is used to value the option components of derivative instruments, and discounting of the cash flows is performed using US dollar LIBOR-based discount rates or yield curves that account for the industry sector and the credit rating of the counterparty and/or the Corporation. Derivatives include interest rate swaps used for protection against rising interest rates. For these interest rate swaps, a credit component was not considered in the valuation since the Corporation has fully collateralized with investment securities any mark to market loss with the counterparty and, if there were market gains, the counterparty had to deliver collateral to the Corporation.

Although most of the derivative instruments are fully collateralized, a credit spread is considered for those that are not secured in full. The cumulative mark-to-market effect of credit risk in the valuation of derivative instruments resulted in an unrealized gain of approximately $0.6 million as of March 31, 2011, which includes an unrealized loss of $0.2 million recorded in the first quarter of 2011 and an unrealized loss of $0.1 million for the first quarter of 2010.

Term notes payable

The fair value of term notes is determined using a discounted cash flow analysis over the full term of the borrowings. This valuation also uses the Hull-White Interest Rate Tree approach to value the option components of the term notes. The model assumes that the embedded options are exercised economically. The fair value of medium-term notes is computed using the notional amount outstanding. The discount rates used in the valuations are based on US dollar LIBOR and swap rates. At-the-money implied swaption volatility term structure (volatility by time to maturity) is used to calibrate the model to current market prices and value the cancellation option in the term notes.

For the medium-term notes, the credit risk is measured using the difference in yield curves between swap rates and a yield curve that considers the industry and credit rating of the Corporation as issuer of the note at a tenor comparable to the time to maturity of the note and option. The net loss from fair value changes attributable to the Corporation s own credit to the medium-term notes for which the Corporation has elected the fair value option recorded for the first quarter of 2011 amounted to $0.6 million, compared to an unrealized loss of $1.0 million for the first quarter of 2010. The cumulative mark-to-market unrealized gain on the medium-term notes since measured at fair value attributable to credit risk amounted to $3.1 million as of March 31, 2011.

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Other borrowings

Other borrowings consist of junior subordinated debentures. Projected cash flows from the debentures were discounted using the LIBOR yield curve plus a credit spread. This credit spread was estimated using the difference in yield curves between Swap rates and a yield curve that considers the industry and credit rating of the Corporation as issuer of the note at a tenor comparable to the time to maturity of the debentures.

21 SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information follows:

	Quarter Ended March 31,	
	2011	2010
	(In thousands)	
Cash paid for:		
Interest on borrowings	$ 68,257	$98,088
Income tax	242	
Non-cash investing and financing activities:		
Additions to other real estate owned	28,483	18,930
Additions to auto repossesions	16,691	18,909
Capitalization of servicing assets	1,231	1,686
Loan securitizations	41,474	57,204
Loans sold to a joint venture in exchange for an acquisition loan and an equity interest in the joint venture	183,709	
Reclassification of Held-to-Maturity investment securities to Available-for-Sale	88,751	

22 SEGMENT INFORMATION

Based upon the Corporation s organizational structure and the information provided to the Chief Executive Officer of the Corporation and, to a lesser extent, the Board of Directors, the operating segments are driven primarily by the Corporation s lines of business for its operations in Puerto Rico, the Corporation s principal market, and by geographic areas for its operations outside of Puerto Rico. As of March 31, 2011, the Corporation had six reportable segments: Commercial and Corporate Banking; Mortgage Banking; Consumer (Retail) Banking; Treasury and Investments; United States operations and Virgin Islands operations. Management determined the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Corporation s organizational chart, nature of the products, distribution channels and the economic characteristics of the products were also considered in the determination of the reportable segments.

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

Operations segments are allocated based on market rates. The difference between the allocated interest income or expense and the Corporation s actual net interest income from centralized management of funding costs is reported in the Treasury and Investments segment. The United States operations segment consists of all banking activities conducted by FirstBank in the United States mainland, including commercial and retail banking services. The Virgin Islands

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operations segment consists of all banking activities conducted by the Corporation in the U.S. and British Virgin Islands, including commercial and retail banking services and insurance activities.

The accounting policies of the segments are the same as those referred to in Note 1 to the Corporation s financial statements for the year ended December 31, 2010 contained in the Corporation s Annual Report or Form 10-K.

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

The following table presents information about the reportable segments (in thousands):

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
For the quarter ended March 31, 2011:							
Interest income	$ 34,880	$ 43,413	$ 52,390	$ 22,630	$ 12,342	$ 15,248	$ 180,903
Net (charge) credit for transfer of funds	(18,692)	1,838	(3,230)	15,505	4,579		
Interest expense		(11,505)		(50,691)	(10,797)	(1,631)	(74,624)
Net interest income	16,188	33,746	49,160	(12,556)	6,124	13,617	106,279
Provision for loan and lease losses	(675)	(5,192)	(51,124)		(7,900)	(23,841)	(88,732)
Non-interest income	6,787	6,929	2,220	19,143	143	5,263	40,485
Direct non-interest expenses	(7,815)	(22,355)	(9,153)	(1,476)	(8,602)	(10,069)	(59,470)
Segment income (loss)	$ 14,485	$ 13,128	$ (8,897)	$ 5,111	$ (10,235)	$ (15,030)	$ (1,438)
Average earnings assets	$ 2,438,536	$ 1,492,909	$ 5,387,552	$ 3,584,468	$ 904,348	$ 910,154	$ 14,717,967
For the quarter ended March 31, 2010:							
Interest income	$ 40,026	$ 47,562	$ 58,842	$ 42,774	$ 13,930	$ 17,854	$ 220,988
Net (charge) credit	(25,327)	2,140	(6,826)	30,013			

for transfer of funds							
Interest expense		(13,568)		(77,740)	(11,267)	(1,550)	(104,125)
Net interest income	14,699	36,134	52,016	(4,953)	2,663	16,304	116,863
Provision for loan and lease losses	(16,014)	(12,493)	(59,448)		(71,202)	(11,808)	(170,965)
Non-interest income	2,251	7,307	1,602	30,585	154	3,427	45,326
Direct non-interest expenses	(8,095)	(24,000)	(17,586)	(1,612)	(9,317)	(11,009)	(71,619)
Segment (loss) income	$ (7,159)	$ 6,948	$ (23,416)	$ 24,020	$ (77,702)	$ (3,086)	$ (80,395)
Average earnings assets	$ 2,708,763	$ 1,667,043	$ 6,452,243	$ 5,466,721	$ 1,261,836	$ 1,041,767	$ 18,598,373

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

	Quarter ended March 31, 2011	2010
	(In thousands)	
Net loss:		
Total loss for segments and other	$ (1,438)	$ (80,395)
Other operating expenses	(23,396)	(19,743)
Loss before income taxes	(24,834)	(100,138)
Income tax expense	(3,586)	(6,861)
Total consolidated net loss	$ (28,420)	$ (106,999)
Average assets:		
Total average earning assets for segments	$ 14,717,967	$ 18,598,373
Average non-earning assets	661,017	716,679
Total consolidated average assets	$ 15,378,984	$ 19,315,052

23 COMMITMENTS AND CONTINGENCIES

The Corporation enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments may include commitments to extend credit and commitments to sell mortgage loans at fair value. As of March 31, 2011, commitments to extend credit amounted to approximately $667.9 million and commercial and financial standby letters of credit amounted to approximately $80.5 million. Commitments to extend credit are agreements to lend to a

customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses. For most of the commercial lines of credit, the Corporation has the option to reevaluate the agreement prior to additional disbursements. In the case of credit cards and personal lines of credit, the Corporation can at any time and without cause, cancel the unused credit facility. Generally, the Corporation s mortgage banking activities do not enter into interest rate lock agreements with prospective borrowers.

Lehman Brothers Special Financing, Inc. (Lehman) was the counterparty to the Corporation on certain interest rate swap agreements. During the third quarter of 2008, Lehman failed to pay the scheduled net cash settlement due to the Corporation, which constituted an event of default under those interest rate swap agreements. The Corporation terminated all interest rate swaps with Lehman and replaced them with other counterparties under similar terms and conditions. In connection with the unpaid net cash settlement due as of March 31, 2011 under the swap agreements, the Corporation has an unsecured counterparty exposure with Lehman, which filed for bankruptcy on October 3, 2008, of approximately $1.4 million. This exposure was reserved in the third quarter of 2008. The Corporation had pledged collateral of $63.6 million with Lehman to guarantee its performance under the swap agreements in the event payment there under was required. The book value of pledged securities with Lehman as of December 31, 2010 amounted to approximately $64.5 million.

The Corporation believes that the securities pledged as collateral should not be part of the Lehman bankruptcy estate given the fact that the posted collateral constituted a performance guarantee under the swap agreements and was not part of a financing agreement, and that ownership of the securities was never transferred to Lehman. Upon termination of the interest rate swap agreements, Lehman s obligation was to return the collateral to the Corporation. During the fourth quarter of 2009, the Corporation discovered that Lehman Brothers, Inc., acting as agent of Lehman, had deposited the securities in a custodial account at JP Morgan Chase, and that, shortly before the filing of the Lehman bankruptcy proceedings, it had provided instructions to have most of the securities transferred to Barclays Capital (Barclays) in New York. After Barclays s refusal to turn over the securities, during December 2009, the Corporation filed a lawsuit against Barclays in federal court in New York demanding the return of the securities.

During February 2010, Barclays filed a motion with the court requesting that the Corporation s claim be dismissed on the grounds that the allegations of the complaint are not sufficient to justify the granting of the remedies therein sought. Shortly thereafter, the Corporation filed its opposition motion. A hearing on the motions was held in court on April 28, 2010. The court, on that date, after hearing the arguments by both sides, concluded that the Corporation s equitable-based causes of action, upon which the return of the investment securities is being demanded, contain allegations that sufficiently plead facts warranting the denial of Barclays motion to dismiss the Corporation s claim. Accordingly, the judge ordered the case to proceed to trial. Subsequent to the court decision, the district court judge transferred the case to the Lehman bankruptcy court for trial. While the Corporation believes it has valid reasons to support its claim for the return of the securities, the Corporation may not succeed in its litigation against Barclays to recover all or a substantial portion of the securities. Upon such transfer, the Bankruptcy court began to entertain the pre-trial procedures including discovery of evidence. In this regard, an initial scheduling conference was held before the United States Bankruptcy Court for the Southern District of New York on November 17, 2010, at which time a proposed case management plan was approved. Discovery has commenced pursuant to that case management plan and is currently scheduled for completion by September 15, 2011, but this timing is subject to adjustment.

Additionally, the Corporation continues to pursue its claim filed in January 2009 in the proceedings under the Securities Protection Act with regard to Lehman Brothers Incorporated in Bankruptcy Court, Southern District of New York. An estimated loss was not accrued as the Corporation is unable to determine the timing of the claim resolution or whether it will succeed in recovering all or a substantial portion of the collateral or its equivalent value. If additional relevant negative facts become available in future periods, a need to recognize a partial or full reserve of this claim may arise. Considering that the investment securities have not yet been recovered by the Corporation, despite its efforts in this regard, the Corporation has maintained such investments classified as non-performing since the second quarter of 2009.

As of March 31, 2011, First BanCorp and its subsidiaries were defendants in various legal proceedings arising in the ordinary course of business. Management believes that the final disposition of these matters will not have a material adverse effect on the Corporation s financial position, results of operations or cash flows.

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24 FIRST BANCORP (Holding Company Only) Financial Information

The following condensed financial information presents the financial position of the Holding Company only as of March 31, 2011 and December 31, 2010 and the results of its operations for the quarters ended March 31, 2011 and 2010.

	As of March 31, 2011	As of December 31, 2010
	(In thousands)	
Assets		
Cash and due from banks	$ 19,760	$ 42,430
Money market investments		
Investment securities available for sale, at market:		
Equity investments	47	59
Other investment securities	1,300	1,300
Investment in First Bank Puerto Rico, at equity	1,224,020	1,231,603
Investment in First Bank Insurance Agency, at equity	6,659	6,275
Investment in FBP Statutory Trust I	3,093	3,093
Investment in FBP Statutory Trust II	3,866	3,866
Other assets	6,660	5,395
Total assets	$ 1,265,405	$ 1,294,021
Liabilities & Stockholders Equity		
Liabilities:		
Other borrowings	$ 231,959	$ 231,959
Accounts payable and other liabilities	6,177	4,103
Total liabilities	238,136	236,062
Stockholders equity	1,027,269	1,057,959
Total liabilities and stockholders equity	$ 1,265,405	$ 1,294,021

	Quarter Ended	
	March 31, 2011	March 31, 2010
	(In thousands)	
Income:		
Dividends from FirstBank Puerto Rico	$	$ 751
Other income	52	50
	52	801

Expense:		
Notes payable and other borrowings	1,718	1,672
Other operating expenses	510	689
	2,228	2,361
Investment-related proceeds and impairments on equity securities	679	(600)
Loss before income taxes and equity in undistributed losses of subsidiaries	(1,497)	(2,160)
Income tax benefit		
Equity in undistributed losses of subsidiaries	(26,923)	(104,839)
Net loss	$ (28,420)	$ (106,999)

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25 SUBSEQUENT EVENTS

On April 6, 2011, consistent with the Corporation s deleverage strategy included in the Capital Plan submitted to regulators in the first quarter of 2011, the Corporation sold approximately $268 million in U.S. Agency MBS for which an approximate $20 million gain was recognized.

On April 15, 2011, the Corporation sold mortgage loans with an unpaid principal balance of $282 million to another financial institution. The Corporation recognized a gain of approximately $6.8 million associated with this transaction in the second quarter of 2011. These loans were reclassified to held for sale in the first quarter of 2011.

The Corporation has performed an evaluation of all other events occurring subsequent to March 31, 2011; management has determined that there are no additional events occurring in this period that required disclosure in or adjustment to the accompanying financial statements.

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

SELECTED FINANCIAL DATA

(In thousands, except for per share and financial ratios)

	Quarter Ended March 31,	
	2011	**2010**
Condensed Income Statement:		
Total interest income	$180,903	$ 220,988
Total interest expense	74,624	104,125
Net interest income	106,279	116,863
Provision for loan and lease losses	88,732	170,965
Non-interest income	40,485	45,326
Non-interest expenses	82,866	91,362
Loss before income taxes	(24,834)	(100,138)
Income tax expense	(3,586)	(6,861)
Net loss	(28,420)	(106,999)
Net loss attributable to common stockholders	(35,437)	(113,151)
Per Common Share Results (1):		
Net loss per share basic	$ (1.66)	$ (18.34)
Net loss per share diluted	$ (1.66)	$ (18.34)
Cash dividends declared	$	$
Average shares outstanding	21,303	6,168
Book value per common share	$ 28.19	$ 90.59
Tangible book value per common share (2)	$ 26.24	$ 83.45
Selected Financial Ratios (In Percent):		
Profitability:		
Return on average assets	(0.75)	(2.25)
Interest rate spread (3)	2.63	2.45
Net interest margin (3)	2.89	2.73
Return on average total equity	(11.09)	(27.07)
Return on average common equity	(23.42)	(68.06)
Average total equity to average total assets	6.76	8.30
Tangible common equity ratio (2)	3.71	2.74
Dividend payout ratio		
Efficiency ratio (4)	56.46	56.33
Asset Quality:		
Allowance for loan and lease losses to period end loans held for investment	5.06	4.33
Net charge-offs (annualized) to average loans	2.74	3.65
Provision for loan and lease losses to net charge-offs	110.83	138.12
Non-performing assets to total assets	9.34 (5)	9.49

Non-performing loans held for investment to total loans held for investment	11.12	12.35
Allowance to total non-performing loans held for investment	45.55	35.09
Allowance to total non-performing loans held for investment, excluding residential real estate loans	66.78	48.24
Other Information:		
Common Stock Price: End of period	$ 5.00	$ 36.15

	As of March 31, 2011	As of December 31, 2010
Balance Sheet Data:		
Total loans	$11,395,269	$11,956,202
Allowance for loan and lease losses	561,695	553,025
Money market and investment securities	2,933,880	3,369,332
Intangible assets	41,552	42,141
Deferred tax asset, net	7,669	9,269
Total assets	15,104,090	15,593,077
Deposits	11,716,436	12,059,110
Borrowings	2,200,236	2,311,848
Total preferred equity	426,724	425,009
Total common equity	585,121	615,232
Accumulated other comprehensive loss, net of tax	15,424	17,718
Total equity	1,027,269	1,057,959

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

(2) Non-GAAP measure. Refer to Capital discussion below for additional information of the components and reconciliation of these measures.

(3) On a tax-equivalent basis and excluding the changes in fair value of derivative instruments and financial liabilities measured at fair value (see Net Interest Income discussion below for a reconciliation of this non-GAAP measure).

(4) Non-interest expense to the sum of net interest income and non-interest income. The denominator includes non-recurring income and changes in the fair value of derivative instruments and financial instruments measured at fair value.

(5) Non-performing assets, excluding non-performing loans held for sale, to total assets, excluding non-performing loans transferred to held for sale was 9.30% as of March 31, 2011.

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The following Management s Discussion and Analysis of Financial Condition and Results of Operations relates to the accompanying consolidated unaudited financial statements of First BanCorp (the Corporation or First BanCorp) and should be read in conjunction with such financial statements and the notes thereto.

DESCRIPTION OF BUSINESS

Description of Business

First BanCorp is a diversified financial holding company headquartered in San Juan, Puerto Rico offering a full range of financial products to consumers and commercial customers through various subsidiaries. First BanCorp is the holding company of FirstBank Puerto Rico (FirstBank or the Bank) and FirstBank Insurance Agency. Through its wholly-owned subsidiaries, the Corporation operates offices in Puerto Rico, the United States and British Virgin Islands and the State of Florida (USA) specializing in commercial banking, residential mortgage loan originations, finance leases, personal loans, small loans, auto loans, insurance agency and broker-dealer activities.

As described in Note 18, Regulatory Matters, FirstBank is currently operating under a Consent Order (the Order) with the Federal Deposit Insurance Corporation (FDIC) and First BanCorp has entered into a Written Agreement (the Written Agreement and collectively with the Order the Agreements) with the Board of Governors of the Federal Reserve System (the FED or Federal Reserve).

As discussed in Note 1 to the Consolidated Financial Statements, the Corporation has assessed its ability to continue as a going concern and has concluded that, based on current and expected liquidity needs and sources, management expects the Corporation to be able to meet its obligations for a reasonable period of time. If unanticipated market factors emerge, or if the Corporation is unable to raise additional capital or complete identified capital preservation initiatives, successfully execute its strategic operating plans, issue a sufficient amount of brokered deposits or comply with the Order, its banking regulators could take further action, which could include actions that may have a material adverse effect on the Corporation s business, results of operations and financial position, including, the appointment of a conservator or receiver. Also see Liquidity Risk and Capital Adequacy.

OVERVIEW OF RESULTS OF OPERATIONS

First BanCorp s results of operations generally depend primarily upon its net interest income, which is the difference between the interest income earned on its interest-earning assets, including investment securities and loans, and the interest expense incurred on its interest-bearing liabilities, including deposits and borrowings. Net interest income is affected by various factors, including: the interest rate scenario; the volumes, mix and composition of interest-earning assets and interest-bearing liabilities; and the re-pricing characteristics of these assets and liabilities. The Corporation s results of operations also depend on the provision for loan and lease losses, which significantly affected the results for the past two years, non-interest expenses (such as personnel, occupancy, deposit insurance premiums and other costs), non-interest income (mainly service charges and fees on loans and deposits and insurance income), gains (losses) on sales of investments, gains (losses) on mortgage banking activities, and income taxes.

Net loss for the quarter ended March 31, 2011 amounted to $28.4 million, or $1.66 loss per diluted common share, compared to a net loss of $107.0 million, or $18.34 loss per diluted common share for the quarter ended March 31, 2010. The Corporation s financial results for the first quarter of 2011, as compared to the first quarter of 2010, were principally impacted by (i) a decrease in the provision for loan and lease losses of $82.2 million primarily related to lower charges to specific reserves, a decrease in the volume non-performing loans as well as reductions in charge-offs and the overall reduction of the loan portfolio, and (ii) a decrease of $8.5 million in non-interest expenses mainly related to a decrease in the reserve for off-balance sheet exposures such as letters of credit and unfunded commitments as well as a decrease in the FDIC deposit insurance premium. These factors were partially offset by a decrease of $10.6 million in net interest income primarily related to a decrease in average interest earning assets and a decrease of $4.8 million in non-interest income mainly related to lower gains on sales of investment securities.

The key drivers of the Corporation s financial results for the quarter ended March 31, 2011 include the following:

- Net interest income for the quarter ended March 31, 2011 was $106.3 million, compared to $116.9 million for the same period in 2010. The decrease largely due to a decrease in the volume of interest earning assets, consistent with the Corporation s deleveraging initiatives to preserve and improve the Corporation s capital position. Average interest-earning assets decreased by $3.8 billion when compared to the first quarter of 2010, reflecting a $1.9 billion reduction in average total loans and leases mainly due to loan sales combined

with non-renewal of maturing government credit facilities and pay-downs; average investment securities and other short-term investments decreased by $1.9 billion primarily related to sales and prepayments of U.S. agency MBS. Refer to the Net Interest Income discussion below for additional information.

For the first quarter of 2011, the Corporation s provision for loan and lease losses amounted to $88.7 million, compared to $171.0 million for the same period in 2010. The decrease in the provision for 2011 was primarily due to lower charges to specific reserves, a decrease in non-performing

loans, charge-offs and the overall reduction of the loan portfolio. Much of the decrease in the provision is related to the construction and residential mortgage loan portfolios. Refer to the discussions under Provision for loan and lease losses and Risk Management below for an analysis of the allowance for loan and lease losses and non-performing assets and related ratios.

As previously reported, at the end of the 2010 fourth quarter, the Corporation transferred $447 million of loans ($335 million of construction loans, $83 million of commercial mortgage loans and $29 million of commercial and industrial loans) to held for sale at a value of $281.6 million. This resulted in charge-offs at the time of transfer of $165.1 million ($127.0 million related to construction loans, $29.5 million related to commercial mortgage loans and $8.6 million related to commercial and industrial (C&I) loans). The 2010 fourth quarter provision for loan losses included $102.9 million related to this transfer of loans to loans held for sale. During the first quarter of 2011, these loans with a book value of $269.3 million were sold at essentially book value. The completion of the loan sale was the main driver of the reduction of $159.8 million in total non-performing loans during the first quarter of 2011.

For the quarter ended March 31, 2011, the Corporation s non-interest income amounted to $40.5 million, compared to $45.3 million for the quarter ended March 31, 2010. The decrease mainly reflects the impact of a $10.7 million gain on the sale of VISA Class C shares recognized in the first quarter of 2010, partially offset by a $4.3 million increase in income from mortgage banking activities. The increase in mortgage banking activities is mainly related to a $5.3 million gain recognized on the bulk sale of $236 million of performing residential mortgage loans to another financial. Refer to the Non Interest Income discussion below for additional information.

Non-interest expenses for the first quarter of 2011 amounted to $82.9 million, compared to $91.4 million for the same period in 2010. The decrease is mainly related to a decrease of $6.6 million in charges to the reserve for off-balance sheet exposures due to reductions in letters of credit and unfunded loan commitment balances, a decrease of $3.2 million in the FDIC deposit insurance premium and a $1.3 million decrease in employee compensation and benefits. Refer to the Non Interest Expenses discussion below for additional information.

For the first quarter of 2011, the Corporation recorded an income tax expense of $3.6 million, compared to an income tax expense of $6.9 million for the same period in 2010. The income tax expense for 2011 is mainly related to a net reduction of $2.0 million of the Corporation s deferred tax assets associated with a reduction in statutory tax rates. Refer to the Income Taxes discussion below for additional information.

Total assets as of March 31, 2011 amounted to $15.1 billion, down $489.0 million from $15.6 billion as of December 31, 2010. The Corporation continued to execute deleveraging initiatives and total loans decreased by $560.9 million due to loan sales completed in the first quarter of 2011. Total investment securities decreased by $430.5 million mainly due to sale and prepayments of U.S. agency MBS. Partially off- setting these decreases was an increase of $503.0 million in cash and cash equivalent related to proceeds received from sales of loans and investments. Refer to the Financial Condition and Operating Data discussion below for additional information.

As of March 31, 2011, total liabilities amounted to $14.1 billion, a decrease of $458.3 million when compared to the balance as of December 31, 2010. The decrease is mainly attributable to a decrease of $538.1 million in brokered deposits, and a $113.0 million decrease in advances from FHLB, partially offset by an increase in core deposits of $177.2 million and an increase of $18.2 million in public funds. Refer to the Risk Management Liquidity and Capital Adequacy discussion below for additional information about the Corporation s funding sources.

The Corporation s stockholders equity amounted to $1.0 billion as of March 31, 2011, a decrease of $30.7 million compared to the balance as of December 31, 2010, driven by the net loss of $28.4 million for the first quarter, as well as a decrease of $2.3 million in accumulated other comprehensive income. Refer to the Risk Management Capital section below for additional information, including information about the Corporation s Capital Plan execution.

Total loan production, including purchases, for the quarter ended March 31, 2011 was $696.0 million, compared to $637.0 million for the comparable period in 2010. The increase in loan production during 2011, as compared to the first quarter of 2010, was mainly related to the acquisition loan of $136 million provided by the Corporation to a new joint venture for the financing of loans sold to this entity and additional disbursements of approximately $45.7 million to the joint venture as part of a credit facility used to finance completion costs of the underlying projects under construction.

Total non-performing loans as of March 31, 2011 amounted to $1.24 billion, a decrease of $159.8 million when compared to the balance as of December 31, 2010. The completion of the previously reported loan sale transaction with a joint venture removed approximately $153.6 million of non-performing loans from the balance sheet. Excluding the impact of the loan sale transaction, non-performing loans decreased by $5.9 million, reflecting declines in commercial mortgage and consumer non-performing loans

partially offset by increases in construction and C&I non-performing loans. Refer to the Risk Management Non-accruing and Non-performing Assets section below for additional information.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

The accounting principles of the Corporation and the methods of applying these principles conform with generally accepted accounting principles in the United States (GAAP). The Corporation s critical accounting policies relate to the 1) allowance for loan and lease losses; 2) other-than-temporary impairments; 3) income taxes; 4) classification and related values of investment securities; 5) valuation of financial instruments; and 6) income recognition on loans. These critical accounting policies involve judgments, estimates and assumptions made by management that affect the amounts recorded for assets and liabilities and for contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from estimates, if different assumptions or conditions prevail. Certain determinations inherently require greater reliance on the use of estimates, assumptions, and judgments and, as such, have a greater possibility of producing results that could be materially different than those originally reported.

The Corporation s critical accounting policies are described in the Management s Discussion and Analysis of Financial Condition and Results of Operations included in First BanCorp s 2010 Annual Report on Form 10-K. There have not been any material changes in the Corporation s critical accounting policies since December 31, 2010.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the excess of interest earned by First BanCorp on its interest-earning assets over the interest incurred on its interest-bearing liabilities. First BanCorp s net interest income is subject to interest rate risk due to the re-pricing and maturity mismatch of the Corporation s assets and liabilities. Net interest income for the quarter ended March 31, 2011 was $106.3 million compared to $116.9 million for the comparable period in 2010. On a tax-equivalent basis and excluding the changes in the fair value of derivative instruments and unrealized gains and losses on liabilities measured at fair value, net interest income for the quarter ended March 31, 2011 was $108.8 million compared to $128.5 million for the comparable period of 2010.

The following tables include a detailed analysis of net interest income. Part I presents average volumes and rates on an adjusted tax-equivalent basis and Part II presents, also on an adjusted tax-equivalent basis, the extent to which changes in interest rates and changes in volume of interest-related assets and liabilities have affected the Corporation s net interest income. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (changes in volume multiplied by prior period rates), and (ii) changes in rate (changes in rate multiplied by prior period volumes). Rate-volume variances (changes in rate multiplied by changes in volume) have been allocated to the changes in volume and rate based upon their respective percentage of the combined totals.

The net interest income is computed on an adjusted tax-equivalent basis and excluding: (1) the change in the fair value of derivative instruments, and (2) unrealized gains or losses on liabilities measured at fair value. For definition and reconciliation of this non-GAAP measure, refer to discussions below.

Part I

Quarter ended March 31,	Average Volume		Interest income [1] / expense		Average Rate [1]	
	2011	2010	2011	2010	2011	2010
			Dollars in thousands)			
Interest-earning assets:						
Money market and other short-term investments	$ 488,087	$ 904,600	$ 309	$ 436	0.26%	0.20%
Government obligations [2]	1,344,053	1,283,568	6,189	8,820	1.87%	2.79%
Mortgage-backed securities	1,701,179	3,266,239	17,005	40,582	4.05%	5.04%
Corporate bonds	2,000	2,000	29	29	5.88%	5.88%
FHLB stock	51,332	68,380	713	843	5.63%	5.00%
Equity securities	24,662	1,802	1	15	0.02%	3.38%
Total investments [3]	3,611,313	5,526,589	24,246	50,725	2.72%	3.72%
Residential mortgage loans	3,262,780	3,554,096	47,844	53,599	5.95%	6.12%
Construction loans	811,530	1,483,314	6,377	8,753	3.19%	2.39%
C&I and commercial mortgage loans	5,907,727	6,652,754	58,191	67,404	3.99%	4.11%
Finance leases	278,642	313,899	5,694	6,343	8.29%	8.20%
Consumer loans	1,411,940	1,565,404	40,520	44,820	11.64%	11.61%
Total loans [4] [5]	11,672,619	13,569,467	158,626	180,919	5.51%	5.41%
Total interest-earning assets	$ 15,283,932	$ 19,096,056	$ 182,872	$ 231,644	4.85%	4.92%
Interest-bearing liabilities:						
Brokered CDs	$ 6,019,057	$ 7,452,195	$ 32,769	$ 44,382	2.21%	2.42%
Other interest-bearing deposits	5,238,157	4,678,391	21,290	21,583	1.65%	1.87%
Loans payable		804,444		2,177		1.10%
Other borrowed funds	1,660,759	3,004,155	15,222	27,300	3.72%	3.69%
FHLB advances	576,729	971,596	4,745	7,694	3.34%	3.21%
Total interest-bearing liabilities [6]	$ 13,494,702	$ 16,910,781	$ 74,026	$ 103,136	2.22%	2.47%
Net interest income			$ 108,846	$ 128,508		
Interest rate spread					2.63%	2.45%
Net interest margin					2.89%	2.73%

(1)

On an adjusted tax-equivalent basis. The adjusted tax-equivalent yield was estimated by dividing the interest rate spread on exempt assets by 1 less Puerto Rico statutory tax rate as adjusted for changes to enacted tax rates (30.0% for the Corporation s subsidiaries other than IBEs and 25.0% for the Corporation s IBEs in 2011; 40.95% for the Corporation s subsidiaries other than IBEs and 35.95% for the Corporation s IBEs in 2010) and adding to it the cost of interest-bearing liabilities. The tax-equivalent adjustment recognizes the income tax savings when comparing taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest income, interest rate spread and net interest margin on a fully tax-equivalent basis. Therefore, management believes these measures provide useful information to investors by allowing them to make peer comparisons. Changes in the fair value of derivative and unrealized gains or losses on liabilities measured at fair value are excluded from interest income and interest expense because the changes in valuation do not affect interest paid or received.

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

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

(4) Average loan balances include the average of non-performing loans.

(5) Interest income on loans includes $2.2 million and $3.1 million for the first quarter of 2011 and 2010, respectively, of income from prepayment penalties and late fees related to the Corporation s loan portfolio.

(6) Unrealized gains and losses on liabilities measured at fair value are excluded from the average volumes.

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Part II

	Quarter ended March 31, 2011 compared to 2010 Increase (decrease)		
		Due to:	
	Volume	**Rate**	**Total**
		(In thousands)	
Interest income on interest-earning assets:			
Money market and other short-term investments	$ (235)	$ 108	$ (127)
Government obligations	370	(3,001)	(2,631)
Mortgage-backed securities	(16,746)	(6,831)	(23,577)
Corporate bonds			
FHLB stock	(226)	96	(130)
Equity securities	97	(111)	(14)
Total investments	(16,740)	(9,739)	(26,479)
Residential mortgage loans	(4,302)	(1,453)	(5,755)
Construction loans	(4,669)	2,293	(2,376)
C&I and commercial mortgage loans	(7,380)	(1,833)	(9,213)
Finance leases	(722)	73	(649)
Consumer loans	(4,430)	130	(4,300)
Total loans	(21,503)	(790)	(22,293)
Total interest income	(38,243)	(10,529)	(48,772)
Interest expense on interest-bearing liabilities:			
Brokered CDs	(8,029)	(3,584)	(11,613)
Other interest-bearing deposits	2,465	(2,758)	(293)
Loan payable	(2,177)		(2,177)
Other borrowed funds	(12,347)	269	(12,078)
FHLB advances	(3,212)	263	(2,949)
Total interest expense	(23,300)	(5,810)	(29,110)
Change in net interest income	(14,943)	(4,719)	(19,662)

Portions of the Corporation s interest-earning assets, mostly investments in obligations of some U.S. Government agencies and sponsored entities, generate interest which is exempt from income tax, principally in Puerto Rico. Also, interest and gains on sales of investments held by the Corporation s international banking entities are tax-exempt under the Puerto Rico tax law, except for a temporary 5% tax rate imposed by the Puerto Rico Government on IBEs net

income effective for years that commenced after December 31, 2008 and before January 1, 2012 (refer to the Income Taxes discussion below for additional information). To facilitate the comparison of all interest data related to these assets, the interest income has been converted to an adjusted taxable equivalent basis. The tax equivalent yield was estimated by dividing the interest rate spread on exempt assets by 1 less the Puerto Rico statutory tax rate as adjusted for changes to enacted tax rates (30.0% for the Corporation s subsidiaries other than IBEs and 25.0% for the Corporation s IBEs in 2011) and adding to it the average cost of interest-bearing liabilities. The computation considers the interest expense disallowance required by Puerto Rico tax law. Refer to the Income Taxes discussion below for additional information of the Puerto Rico tax law.

The presentation of net interest income excluding the effects of the changes in the fair value of the derivative instruments and unrealized gains or losses on liabilities measured at fair value (valuations) provides additional information about the Corporation s net interest income and facilitates comparability and analysis. The changes in the fair value of the derivative instruments and unrealized gains or losses on liabilities measured at fair value have no effect on interest due or interest earned on interest-bearing liabilities or interest-earning assets, respectively, or on interest payments exchanged with interest rate swap counterparties.

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

	Quarter Ended March 31,	
	2011	2010
Net Interest Income (in thousands)		
Interest Income GAAP	$ 180,903	$ 220,988
Unrealized (gain) loss on derivative instruments	(345)	744
Interest income excluding valuations	180,558	221,732
Tax-equivalent adjustment	2,314	9,912
Interest income on a tax-equivalent basis excluding valuations	182,872	231,644
Interest Expense GAAP	74,624	104,125
Unrealized (loss) gain on derivative instruments and liabilities measured at fair value	(598)	(989)
Interest expense excluding valuations	74,026	103,136
Net interest income GAAP	$ 106,279	$ 116,863
Net interest income excluding valuations	$ 106,532	$ 118,596
Net interest income on a tax-equivalent basis excluding valuations	$ 108,846	$ 128,508
Average Balances (in thousands)		
Loans and leases	$ 11,672,619	$ 13,569,467
Total securities and other short-term investments	3,611,313	5,526,589
Average Interest-Earning Assets	$ 15,283,932	$ 19,096,056
Average Interest-Bearing Liabilities	$ 13,494,702	$ 16,910,781
Average Yield/Rate		
Average yield on interest-earning assets GAAP	4.80%	4.69%
Average rate on interest-bearing liabilities GAAP	2.24%	2.50%
Net interest spread GAAP	2.56%	2.19%
Net interest margin GAAP	2.82%	2.48%

Average yield on interest-earning assets excluding valuations	4.79%	4.71%
Average rate on interest-bearing liabilities excluding valuations	2.22%	2.47%
Net interest spread excluding valuations	2.57%	2.24%
Net interest margin excluding valuations	2.83%	2.52%
Average yield on interest-earning assets on a tax-equivalent basis and excluding valuations	4.85%	4.92%
Average rate on interest-bearing liabilities excluding valuations	2.22%	2.47%
Net interest spread on a tax-equivalent basis and excluding valuations	2.63%	2.45%
Net interest margin on a tax-equivalent basis and excluding valuations	2.89%	2.73%

The following table summarizes the components of the changes in fair values of interest rate swaps and interest rate caps, which are included in interest income:

	Quarter Ended March 31,	
(In thousands)	**2011**	**2010**
Unrealized gain (loss) on derivatives (economic undesignated hedges):		
Interest rate caps	$	$ (731)
Interest rate swaps on loans	345	(13)
Net unrealized gain (loss) on derivatives (economic undesignated hedges)	$ 345	$ (744)

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The following table summarizes the components of the net unrealized gain and loss on derivatives (economic undesignated hedges) and net unrealized gain and loss on liabilities measured at fair value which are included in interest expense: