FIRST BANCORP /PR/
Form S-1/A
October 29, 2010

Table of Contents

As filed with the Securities and Exchange Commission on October 29, 2010

Registration No. 333-169399

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

Amendment No. 2
to
Form S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

FIRST BANCORP.
(Exact name of registrant as specified in its charter)

Puerto Rico	**6022**	**66-0561882**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

1519 Ponce de León Avenue, Stop 23
Santurce, Puerto Rico 00908
(787) 729-8200
(Address, including zip code and telephone number, including area code, of registrant s principal executive offices)

Lawrence Odell
Executive Vice President and General Counsel
First BanCorp.
1519 Ponce de León Avenue, Stop 23
Santurce, Puerto Rico 00908
(787) 729-8109
(Name, address, including zip code and telephone number, including area code, of agent for service)

Copies to:

Linda L. Griggs	**Richard A. Drucker, Esq.**
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1111 Pennsylvania Avenue, NW	**450 Lexington Avenue**
Washington, DC 20004	**New York, NY 10017**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. 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 þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION: DATED OCTOBER 29, 2010

PRELIMINARY PROSPECTUS

Shares

Common Stock

First BanCorp. is the holding company for FirstBank Puerto Rico, a Puerto Rico-chartered commercial bank headquartered in San Juan, Puerto Rico.

We are offering post-reverse stock split (as defined below) shares of our common stock representing an aggregate offering price of $500,000,000. Our common stock is traded on the New York Stock Exchange under the symbol FBP. On October 28, 2010, the last reported sale price of our common stock on the New York Stock Exchange was $0.29 per pre-reverse stock split share.

Before the registration statement of which this prospectus is a part is declared effective, we will effect a reverse stock split (the reverse stock split) in the range of between one new share of common stock for 10 old shares of common stock and one new share of common stock for 20 old shares of common stock, which is the range that our stockholders approved at our Special Meeting of Stockholders on August 24, 2010. The number of authorized shares of common stock will remain the same after the reverse stock split. Once the ratio for the reverse stock split is determined, except where we state otherwise, all of the numbers and prices of shares presented in this prospectus will be restated on a post-reverse stock split basis.

The public offering price for each share of our post-reverse stock split shares of common stock will be determined by a negotiation between us and the underwriters based upon market conditions, an estimate of the change in the market price of our common stock as a result of the reverse stock split and other factors on the day we price the shares. In the usual case, as a result of a reverse stock split (all other things being equal), the market price of common stock may not rise proportionally to the decrease in outstanding shares resulting from the reverse stock split. While it is not possible to predict the impact of the reverse stock split in our case, consideration of the impact of the reverse stock split will be necessary in determining the number of post-reverse stock split shares to include in this offering.

Although we want to receive gross proceeds of at least $500 million in this offering, we may determine to complete an offering for a number of shares of common stock that results in a lower amount of gross proceeds.

Investing in our common stock involves risks. See Risk Factors beginning on page 24 to read about factors you should consider before you make your investment decision.

	Per post-reverse stock split share	Total
Price to public	$	$

Underwriting discount	$	$
Proceeds, before expenses, to First BanCorp.	$	$

We have granted the underwriters a 30-day option to purchase up to additional post-reverse stock split shares of common stock (equal to 15% of the total number of shares we are offering) solely to cover over-allotments, if any.

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

These securities are not savings accounts, deposits, or other obligations of any bank and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

The underwriters expect to deliver the common stock to purchasers on or about , 2010, subject to customary closing conditions.

Sole Book-Running Manager

Lead Manager

UBS Investment Bank

The date of this prospectus is , 2010

TABLE OF CONTENTS

	Page
About This Prospectus	i
Additional Information	i
Incorporation by Reference	ii
Prospectus Summary	1
Risk Factors	24
Forward-looking Statements	46
Regulatory and Other Capital Ratios	49
Non-GAAP Data	50
Other Capital Raising Efforts	55
Use of Proceeds	56
Market Price, Dividend and Distribution Information	57
Capitalization	58
Description of Capital Stock	60
Underwriting	64
Legal Matters	70
Experts	70
EX-23.1	

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

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

For investors outside the United States: Neither we nor any of the underwriters have taken any action to permit a public offering of the shares of our common stock or the possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

This prospectus includes statistical and other industry and market data that we obtained from industry publications and research, surveys and studies conducted by third parties. Industry publications and third party research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. While we believe these industry publications and third party research, surveys and studies are reliable, we have not independently verified such data.

Table of Contents

About This Prospectus

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

Additional Information

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

We file annual, quarterly and special reports and other information with the SEC. You may read and copy any document we file with the SEC at the SEC s public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings are also available to the public from the SEC s web site at *http://www.sec.gov*.

Table of Contents

Incorporation by Reference

The SEC allows us to incorporate by reference the information we file with the SEC, which means we can disclose important information to you by referring to these documents. The information included in the following documents is incorporated by reference and is considered a part of this prospectus. The most recent information that we file with the SEC automatically updates and supersedes previously filed information.

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

Our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 2, 2010;

Our Quarterly Reports on Form 10-Q for the quarter ended March 31, 2010 and June 30, 2010 filed with the SEC on May 10, 2010 and August 9, 2010, respectively;

Our Current Reports on Form 8-K filed with the SEC on February 3, 2010 (excluding Item 2.02 and Exhibit 99.2 of Item 9.01), April 29, 2010 (excluding Items 2.02 and 9.01, as amended by Form 8-K/A filed with the SEC on May 3, 2010), June 4, 2010, July 2, 2010, July 7, 2010, July 15, 2010, July 16, 2010, July 20, 2010, August 17, 2010, August 18, 2010, August 23, 2010, August 24, 2010, August 26, 2010 and October 26, 2010 (excluding the three paragraphs immediately following the bullets under the section heading Third Quarter Highlights beginning on the first page of Exhibit 99.1);

Our Proxy Statement for the Annual Meeting of Stockholders held on April 27, 2010 filed with the SEC on April 6, 2010; and

Our Proxy Statement for the August 24, 2010 Special Meeting of Stockholders filed with the SEC on August 2, 2010.

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

PROSPECTUS SUMMARY

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

First BanCorp

OUR COMPANY

Founded in 1948, First BanCorp is the second-largest publicly owned financial holding company in Puerto Rico as measured by total assets as of June 30, 2010. We are subject to regulation, supervision and examination by the Federal Reserve Bank of New York (the Federal Reserve) and the Board of Governors of the Federal Reserve System. First BanCorp was incorporated under the laws of the Commonwealth of Puerto Rico to serve as the bank holding company for FirstBank Puerto Rico (FirstBank). We are a full-service provider of financial services and products with operations in Puerto Rico, the mainland United States (the U.S.), the United States Virgin Islands (the USVI) and the British Virgin Islands (the BVI and together with the USVI, the Virgin Islands). As of June 30, 2010, we had total assets of $18.1 billion, total deposits of $12.7 billion and total stockholders equity of $1.4 billion.

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

FirstBank is subject to the supervision, examination and regulation of both the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico (the OCIF) and the Federal Deposit Insurance Corporation (the FDIC). Deposits are insured through the FDIC Deposit Insurance Fund. In addition, within FirstBank, the operations in the USVI are subject to regulation and examination by the United States Virgin Islands Banking Board and, in the BVI, operations are subject to regulation by the British Virgin Islands Financial Services Commission. FirstBank Insurance Agency is subject to the supervision, examination and regulation of the Office of the Insurance Commissioner of the Commonwealth of Puerto Rico and operates six offices in Puerto Rico.

FirstBank conducts its business through its main office located in San Juan, Puerto Rico, forty-eight full service banking branches in Puerto Rico, fourteen branches in the USVI and the BVI and ten branches in the State of Florida.

In addition to the banking operations of FirstBank, we provide, through directly or indirectly owned subsidiaries, small loan origination services in Puerto Rico and the USVI, residential mortgage loan origination services, local municipal bond underwriting services and insurance services in Puerto Rico and the USVI.

BUSINESS SEGMENTS

We have six operating segments: Commercial and Corporate Banking, Mortgage Banking, Consumer (Retail) Banking and Treasury and Investments in Puerto Rico; United States Operations; and Virgin Islands Operations. Each of our six operating segments is described below:

Commercial and Corporate Banking

The Commercial and Corporate Banking segment consists of our lending and other services across a broad spectrum of industries ranging from small businesses to large corporate clients. FirstBank has developed expertise in industries including healthcare, tourism, financial institutions, food and beverage, income-producing real estate

Table of Contents

and the public sector. The Commercial and Corporate Banking segment offers commercial loans, including commercial real estate (CRE) and construction loans, and other products such as cash management and business management services. A substantial portion of this portfolio is secured by the underlying value of the real estate collateral and personal guarantees of the borrowers.

Mortgage Banking

The Mortgage Banking segment conducts its operations mainly through FirstBank and its mortgage origination subsidiary, FirstMortgage, Inc (FirstMortgage). These operations consist of the origination, sale and servicing of a variety of residential mortgage loans products. Originations are sourced through different channels such as FirstBank branches, mortgage bankers and in association with new project developers. FirstMortgage focuses on originating residential real estate loans, some of which conform to Federal Housing Administration (FHA), Veterans Administration (VA) and Rural Development (RD) standards. Loans originated that meet FHA standards qualify for FHA s insurance program whereas loans that meet VA and RD standards are guaranteed by their respective federal agencies.

The Mortgage Banking segment also acquires and sells mortgages in the secondary markets. More than 90% of FirstBank s residential mortgage loan portfolio consists of fixed-rate, fully amortizing, full documentation loans. FirstBank is not actively engaged in offering negative amortization loans or option adjustable rate mortgage loans.

Consumer (Retail) Banking

The Consumer (Retail) Banking segment consists of our consumer lending and deposit-taking activities conducted mainly through FirstBank s branch network and loan centers in Puerto Rico. Loans to consumers include auto, boat and personal loans and lines of credit. Deposit products include interest bearing and non-interest bearing checking and savings accounts, individual retirement accounts and retail certificates of deposit (CDs). Retail deposits gathered through each branch of FirstBank s retail network serve as one of the funding sources for its lending and investment activities. Credit card accounts are issued under FirstBank s name through an alliance with a nationally recognized financial institution, which bears the credit risk.

Treasury and Investments

The Treasury and Investments segment is responsible for our treasury and investment management functions. In the treasury function, which includes funding and liquidity management, the Treasury and Investments segment sells funds to the Commercial and Corporate Banking segment, the Mortgage Banking segment and the Consumer (Retail) Banking segment to finance their respective lending activities and purchases funds gathered by those segments.

United States Operations

The United States Operations segment consists of all banking activities conducted by FirstBank in the U.S. mainland. FirstBank provides a wide range of banking services to individual and corporate customers primarily in southern Florida through its ten branches and two specialized lending centers. Our success in attracting core deposits in Florida has enabled us to become less dependent on brokered deposits. The United States Operations segment offers an array of both retail and commercial banking products and services. Consumer banking products include checking, savings and money market accounts, retail CDs, internet banking services, residential mortgages, home equity loans and lines of credit, automobile loans and credit cards through an alliance with a nationally recognized financial institution, which bears the credit risk.

The commercial banking services include checking, savings and money market accounts, CDs, internet banking services, cash management services, remote data capture and automated clearing house, or ACH, transactions. Loan products include the traditional commercial and industrial (C&I) and CRE products, such as lines of credit, term loans and construction loans.

Table of Contents

Virgin Islands Operations

The Virgin Islands Operations segment consists of all banking activities conducted by FirstBank in the USVI and BVI, including retail and commercial banking services, with a total of fourteen branches serving St. Thomas, St. Croix, St. John, Tortola and Virgin Gorda. The Virgin Islands Operations segment is driven by its consumer, commercial lending and deposit-taking activities. Since 2005, FirstBank has been the largest bank in the USVI as measured by total assets.

CURRENT SITUATION

Like many financial institutions across the U.S., our operations have been adversely affected by sustained adverse economic conditions that have affected Puerto Rico and the U.S. The economy in Puerto Rico continues to be challenging, although the year-over-year economic activity and recent employment increases in the services, financial activities and tourism industries suggest some improvement. The Government Development Bank for Puerto Rico Economic Activity Index (GDB-EAI), which is a coincident index consisting of four major monthly economic indicators, namely total payroll employment, total electric power consumption, cement sales and gas consumption, monitors the actual trend of Puerto Rico s economy. The GDB-EAI showed a slowing of the rate of contraction of Puerto Rico s economy in the six-month period ended June 30, 2010 as compared to the six-month period ended June 30, 2009, but the results for July 2010 showed a decline in the year-over-year growth rate after five consecutive months of improvement. These results are similar to the trend observed in the national economy for the month of July 2010.

The adverse economic conditions have negatively affected our capital position and reduced our profitability, particularly as a result of the dramatic reductions in the underlying collateral values of real estate for our secured loans. Since the beginning of 2009, we have taken a number of steps to enable us to emerge from the current adverse economic conditions as a stronger organization:

Capital Ratios. As of June 30, 2010, FirstBank s capital ratios exceeded the minimum established capital ratios required for a well-capitalized depository institution, with approximately $355 million and $695 million of capital in excess of that required to satisfy the minimum ratios for total capital to risk-weighted assets and Tier 1 capital to risk-weighted assets, respectively. We recently completed an offer to exchange newly issued shares of our common stock for any and all of the issued and outstanding shares of Noncumulative Perpetual Monthly Income Preferred Stock, Series A through E, and an exchange of shares of our Series F Preferred Stock (as defined below) that we previously had sold to the United States Department of the Treasury (the U.S. Treasury), plus dividends accrued thereon, for shares of Series G Preferred Stock (as defined below). See Our Strategy Strengthen our Capital Position. The exchange offer improved the quality of our capital position by substantially increasing tangible common equity and enhanced our ability to meet any new capital requirements. As of June 30, 2010, on a pro forma basis after giving effect to the exchange offer and the exchange of Series F Preferred Stock for Series G Preferred Stock, our Tier 1 common equity to risk-weighted assets ratio would increase from 2.86% as of June 30, 2010 on an as reported basis to 6.93% and our tangible common equity to tangible assets ratio would increase from 2.57% as of June 30, 2010 on an as reported basis to 5.40%. See Regulatory and Other Capital Ratios and Non-GAAP Data. Further, we believe the completion of the exchange offer improves our ability to operate in the current economic environment, access the capital markets to fund strategic initiatives or other business needs and absorb any future credit losses.

Regulatory Agreements. On June 4, 2010, we announced that FirstBank had agreed to a Consent Order (the Order) issued by the FDIC and OCIF, dated as of June 2, 2010, and we had entered into a Written Agreement with the Federal Reserve, dated as of June 3, 2010 (the Written Agreement and collectively with the Order, the Agreements). The Agreements require us and FirstBank to take certain actions to, among other things, develop and adopt plans to attain certain capital levels and reduce non-performing and classified assets that have impacted FirstBank s financial condition and performance. We have submitted our capital plan setting forth how we plan to improve our capital positions to comply with the above mentioned Agreements over time. Specifically, the capital plan

Table of Contents

details how we will achieve a total capital to risk-weighted assets ratio of at least 12%, a Tier 1 capital to risk-weighted assets ratio of at least 10% and a leverage ratio of at least 8%. In addition to the capital plan, we have submitted to our 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, we have reviewed and enhanced our loan review program, various credit policies, our treasury and investments policy, our asset classification and allowance for loan and lease losses and non-accrual policies, our charge-off policy and our appraisal program. The Agreements also require the submission to the regulators of quarterly progress reports.

Deleverage. We have deleveraged our balance sheet in order to preserve capital, principally by selling investments and reducing the size of the loan portfolio. Significant decreases in assets have been achieved mainly through the non-renewal of matured commercial loans, such as temporary loan facilities to the Puerto Rico government, and through the charge-off of portions of loans deemed uncollectible. In addition, a reduced volume of loan originations has contributed to this deleveraging strategy.

During the first half of 2010, we reduced our investment portfolio by approximately $284 million, while our loan portfolio decreased by $1.3 billion. The net reduction in securities and loans has reduced our total assets to $18.1 billion as of June 30, 2010, a decrease of $1.5 billion from December 31, 2009. This decrease in securities and loans allowed a reduction of $1.9 billion in wholesale funding as of June 30, 2010, including repurchase agreements, advances, and brokered CDs.

Furthermore, during July and August of 2010, we achieved an additional reduction of $1.3 billion in investment securities mostly as a result of a balance sheet repositioning strategy that resulted in the sale during August of $1.2 billion in investment securities combined with the early termination of repurchase agreements, which, given the yield and cost combination of the instruments, eliminated assets that were providing no positive marginal contribution to earnings.

Asset Quality. We have strengthened our processes to enhance asset quality through the implementation of stricter loan approval processes. In addition, the responsibilities of our Special Assets Group, which reports directly to our chief executive officer, have been expanded to include management of all activities related to our classified credits and non-performing assets for the commercial business with the purpose of improving their quality or disposing of the assets. See Our Strategy Improve our Profitability. Our Special Assets Group focuses on strategies for the accelerated reduction of non-performing assets through note sales, troubled debt restructurings, loss mitigation programs, sales of real estate owned and sales of loans through special purpose vehicles. In addition to the management of the resolution process for problem loans, the Special Assets Group oversees collection efforts for all loans to prevent migration to the non-performing and or classified status. Therefore, the Special Assets Group not only implements a remediation strategy, but also provides preventive oversight at a corporate level to reduce non-performing migration trends within the commercial loan portfolio.

As a result of these strategies, FirstBank has reduced delinquencies within the 30 to 89 days past due range and the level of non-performing loans as of June 30, 2010, when compared to the first quarter of 2010. Total non-performing loans decreased by $88.7 million to $1.55 billion when compared to $1.64 billion as of March 31, 2010. This decrease resulted from the sale of non-performing loans, charge-off activity and a reduction in the migration of loans to non-accrual status. This decrease was reflected in all three geographic areas in which FirstBank operates. During the first half of 2010, we sold non-performing assets totaling approximately $115.5 million, which includes $88.4 million of non-performing loans, and $27.1 million of real estate owned properties.

Our entire construction portfolio has been transferred to the Special Assets Group and is in the workout phase. Strategies are being implemented to expedite the resolution of problem loans through restructurings, note sales and short sales, among others. The portfolio is increasingly moving into the project completion phase. During July and August of 2010, $84.4 million of construction loans were converted to CRE loans, of which $78 million have Puerto Rico government guarantees. We expect additional conversions of construction loans to commercial loans or CRE loans in the amounts of $9.8 million in the fourth quarter of 2010 and $133.1 million in 2011. Absorption rates on residential construction projects in Puerto Rico, that is, the rates at which newly constructed units are sold, have increased for the third consecutive quarter from 6% in the third quarter of 2009 to 11% in the fourth quarter of 2009 to 17% in the first quarter of 2010 and to 18% in the second quarter of 2010. As a key initiative to increase the absorption rate in residential construction projects, we have engaged in discussions with developers to review the sales strategies and to reduce the sale price per unit. In addition, we believe that absorption rate may increase as a result of recent legislation enacted in Puerto Rico. In September, the Puerto Rico government enacted a housing stimulus package that provides various incentives to buyers of residences in Puerto Rico. See Recent Developments. With respect to non-performing residential construction loans, we are providing mortgage financing incentives for buyers of the units.

The United States Operations segment has also had success in substantially reducing its construction loan portfolio and the level of non-performing assets. The construction portfolio in Florida has been reduced to $192 million as of June 30, 2010 from $981 million as of June 30, 2006 when construction lending in this segment was halted. Non-performing assets in Florida decreased by $99 million, or 26%, from $384 million as of December 31, 2009 to $285 million as of June 30, 2010.

With respect to the residential mortgage portfolio, delinquencies appear to be stabilizing. Residential mortgages originated during 2004 through 2008 are starting to reflect a reduction in delinquencies that are 30 days past due. As part of its asset quality initiatives for the residential mortgage portfolio, FirstBank developed a loss mitigation program in 2007 focused on providing homeownership preservation assistance. In 2010, FirstBank expanded the loss mitigation program, dedicated additional personnel and engaged a third party to further expand our resources in this area.

With respect to the consumer loan portfolio, performance of the portfolio has been stable since 2008. We continue to believe that this portfolio will remain stable.

Corporate Governance. We reorganized our management structure to better implement and execute our business strategies. In addition, since September of 2009 we have an independent chairman who is separate from the chief executive officer. Two new committees at the board level, a Strategic Planning Committee and a Compliance Committee, were established to provide ongoing monitoring of business strategies, financial targets and corporate objectives as well as compliance with regulatory Agreements.

We believe that these steps, together with our established, integrated and geographically diverse network, position us to emerge from the current adverse economic conditions as a stronger organization.

QUALITY OF LOAN PORTFOLIO

Loan Reviews

We regularly perform internal assessments of all loan portfolios. Our internal loan review unit (Loan Review) assesses a variety of factors, including the soundness of the loan structure, the value of the underlying collateral, the ability of the primary borrower to repay the debt as contracted, the accuracy of the risk ratings and the adherence to FirstBank s policies. Loan Review is an independent function and, as such, reports to the audit committee of our board of directors. Loan Review applies a risk-based approach in selecting commercial loans for review purposes. The scope of our annual plan to internally review loans, which is designed to include a representative mix of our commercial loan portfolio, encompasses nearly 65% of our total commercial loan portfolio as measured in dollars. The annual plan contemplates the quarterly review of those loans classified as special mention or worse and/or in non-accrual status and an annual review. The review of the retail credit portfolio (consumer, auto and mortgage loan portfolios) is accomplished through assessments performed by the Quality Assurance units (Quality Assurance) over a sample of loans. Quality Assurance assesses compliance with FirstBank s retail credit policies and procedures, including documentation, and applicable laws and regulations. We believe that our loan review process is consistent with the requirement in the Order that FirstBank operate under an adequate and effective program of independent loan review.

In addition to our ongoing internal assessment of our loan portfolio, since October 2007 we have engaged an external loan review firm to review our Florida loan portfolio on a semi-annual basis. This firm typically reviews approximately 60% to 75% of our commercial loan portfolio in Florida, which includes construction, C&I and CRE loans and was $688 million in size at June 30, 2010. These loan reviews are designed to verify the accuracy of our internal risk-grading process and compliance with our loan policy and regulatory and accounting guidelines.

Stress Testing Analysis

For the last four years, FirstBank s operations have been adversely affected by sustained adverse economic conditions as a result of the recessionary environment in Puerto Rico, the Virgin Islands and the mainland U.S. During this period, FirstBank s loan portfolios have deteriorated as reflected in the significant reductions in collateral values and the higher delinquencies resulting from the reduced income generation capacity of its borrowers. We have conducted a detailed portfolio level credit stress test that assumes an economic outlook that is more adverse than the current environment, adjusted for the particular characteristics of our loan portfolio and markets in which we operate. Our analysis was generally consistent with the guidelines utilized for the Supervisory Capital Assessment Program (SCAP) analysis, which was intended to measure the financial strength of the nation s 19 largest financial institutions on a going forward basis. The 19 financial institutions were asked to project potential losses over a two-year period, however, our analysis projected losses over longer periods, as described below.

With respect to the residential mortgage portfolio, the analysis was performed by a third party consulting firm based on market information from such firm s database and FirstBank s portfolio specific information provided by management. With our concurrence, the consultants used risk characteristics of the portfolio such as historical loss migration by region, vintage, rank and credit scores to analyze the performance of the portfolio at the individual loan level. These factors were analyzed under the assumption of a continued recessionary environment where there is a prolonged decline in the House Price Index (HPI) and foreclosures are approximately 5% compared to the current 3.1% level. HPI was stressed by applying an additional reduction from current price levels of 20% in year one, 10% in year two and 5% in year three, leveling off in year four and with a 3% recovery in year five. The model also provided for risk adjusted prepayment curves, default curves and loss severity curves. Management believes that the cumulative effect of the additional reduction in HPI in addition to the reductions that have already been experienced in our markets applied a significant level of stress to the portfolio.

With respect to the construction, CRE and C&I portfolios, we performed a stress test with the assistance of a consultant by applying stress factors, as described below, to a representative sample of loans from FirstBank s respective loan portfolios in Puerto Rico. The statistical sample selection achieved a 95% confidence level with a 5% margin of error. The resulting coverage of the sample, measured in dollars, was 34% of the construction portfolio, 43% of the CRE portfolio and 15% of the C&I portfolio. The results obtained on the tested samples were then applied by FirstBank s credit risk group to the overall loan portfolios.

For the construction portfolio, severity was measured by reducing absorption rates by 50% and property selling prices by 40% from those reflected on recent appraisals. For land loans, recent appraised collateral values were reduced by 35%. In the case of CRE loans secured by income producing properties, vacancy rates were increased to 25% coupled with the loss of the anchor tenant, and, for owner occupied properties, net operating income was reduced by 25%. For C&I loans, the severity factor was applied by reducing borrowers current net operating income by 25% and applying haircuts to existing collateral values between 10% and

50%, depending on the type of collateral. In the event the collateral on the loans included real estate properties, we applied a haircut of 20% to the appraised value with respect to appraisals older than two years at the time of the analysis. Loss factors were computed based on the deficiency reflected on all sampled loans where debt service coverage fell below 1.15x under the above stressed conditions. For the loan portfolios described herein, the appraisal, net operating income and vacancy rates information used for the stress analysis consisted of the most recent information available as of the third quarter of 2009 when the detailed testing of the sample was performed.

With respect to the consumer portfolio, which consists mostly of personal and auto loans, the stress analysis was performed internally by increasing the current loss rates by the worst percentage loss rate change experienced by FirstBank on each product type between 2005 through 2009 and generally an additional 20% related to bankruptcy increases. FirstBank does not have any credit card receivables and home equity loans amounted to only $29 million, or less than 2% of the consumer loan portfolio, as of June 30, 2010.

Presented below is a comparison of FirstBank s stress test loss factors on the more adverse loss scenario described above as compared to the average of the highest and lowest SCAP factors of the institutions tested:

	FirstBank s more adverse loss factor	**Average of SCAP loss factor range on the more adverse(1)**
Residential Mortgage	9.51%	11.51%
Construction	51.28%	16.50%
CRE	19.09%	8.00%
C&I	7.35%	6.50%
Consumer	10.23%	10.00%

(1) Average of high/low cumulative two-year loss factors

The application of FirstBank s more adverse loss factors to the gross outstanding loan portfolios as of June 30, 2010 would represent additional losses of approximately $1.5 billion over the next two to five years, in excess of the charge-offs we have already taken. Losses on the residential mortgage portfolio were estimated over five years while consumer losses were based on the average life of the portfolio, which approximates two and a half years. Construction, CRE and C&I losses are mostly expected to occur over two years. These losses are not considered forecasts of expected losses but a calculation of the loss impact on the loan portfolio based on a hypothetical exercise which assumes that market financial conditions deteriorate to the levels considered in the more adverse stress factors.

As of June 30, 2010, we had a total capital ratio of 13.35%, a Tier I capital ratio of 12.05% and a leverage ratio of 8.14%. We believe that the likelihood of the level of loan losses projected in the more adverse economic scenario is remote. Notwithstanding this view, we used stress testing to gauge the amount of regulatory capital that would be required in the event that the more adverse conditions were to prevail. In performing this analysis, we considered the current level of pre-tax, pre-provision earnings, the portion of the $604 million in allowance for loan losses as of June 30, 2010 available to absorb losses after allocating a normalized reserve level to the remaining loan portfolio, the time it would take for the losses to occur and the current level of capital. If we adjust our pro forma and as adjusted capital ratios as of June 30, 2010 disclosed in the section Regulatory and Other Capital Ratios, which give effect to the additional $500 million in capital from this offering, to reflect three years of the annualized 2010 level of pre-tax, pre-provision earnings, the assumed additional $1.5 billion of losses and the allocation of a portion of our allowance, our adjusted pro forma and as adjusted capital ratios would exceed currently established regulatory well-capitalized capital ratio requirements.

Table of Contents

OUR STRATEGY

We developed and have been implementing a strategy to strengthen our capital position and improve our profitability, which have been adversely affected over the past few years as a result of the sustained adverse economic conditions that have affected Puerto Rico and the U.S. To implement this strategy, we have modified our business model to respond to economic conditions and to maintain our business on a sound course. We have undergone an extensive strategic exercise that has enabled us to identify opportunities to stabilize portfolios and increase revenues. The challenges ahead and current economic conditions mandate this new focus.

Since late 2009, we have developed and pursued a strategic plan that includes the following key features:

- capital preservation and optimization through the implementation of capital restructuring initiatives;
- enhanced and proactive management action plans on all loan portfolios across the entire credit cycle to improve asset quality, with the expectation of increased spreads and reduced portfolio risk;
- heightened efforts to grow core deposits and reduce dependency on brokered deposits, including increasing deposit growth through network optimization and core deposit penetration in commercial loan and government customers and in Florida and the Virgin Islands, which provide an additional source of funds to increase core deposits;
- initiatives to increase non-interest income through insurance fees and transaction banking services, among other things;
- initiatives to increase margins and loan yields through pricing rationalization; and
- continued operating efficiency improvements and expense reduction by expanding the specific initiatives and enhancing our technological infrastructure through targeted investments.

We believe that the recent consolidation of the Puerto Rico banking market provides a significant opportunity for us to grow organically and to capture market share as a wide gap currently exists between the market share leader and other banks in Puerto Rico. Given our franchise strengths and proven track record of growing organically, we are confident that we will capitalize on these opportunities and solidify our position in Puerto Rico. Our competitive strengths, which we believe will enable us to successfully implement our strategic plan and to accomplish these goals, and further details about our strategy are set forth below.

Our competitive strengths have enabled us to deliver positive pre-tax, pre-provision earnings during the past five years although we have had GAAP losses since 2009. See Non-GAAP Data. These strengths include:

- our position as the second largest financial holding company in Puerto Rico and as the largest bank in the USVI as measured by total assets as of June 30, 2010;
- FirstBank s recognized brand in Puerto Rico and the Virgin Islands, with consistent execution of a banking strategy focused on customer satisfaction and personalized service in both retail and commercial operations;
- a well-diversified operation with a wide range of financial services, including a diversified portfolio of products and services and over 630,000 retail and commercial customers who enable FirstBank to continue to grow and who provide FirstBank with opportunities to cross-sell its products;

an ability to attract new customers and to cross-sell products due to its strong market share in retail deposits, commercial lending, automobile lending, finance leasing, personal loans and small loans;

a high-quality technology and operating infrastructure that supports our customer focus while maintaining non-interest expenses at an efficient level;

an experienced management team; and

- FirstBank s established, integrated and geographically diverse network of branches, offices and service centers that are located in Puerto Rico, the Virgin Islands and Florida.

Our specific strengths as of June 30, 2010 by geographic area are described below in further detail:

Puerto Rico

- a strong diversified franchise with 48 bank branches located throughout much of the island of Puerto Rico;
- an attractive business mix with substantial market share, ranking second in total loans and third in total deposits net of brokered CDs;
- a proven track record of organic growth and a core deposit growth strategy that has driven a $888.9 million, or 38%, increase in core deposits since December 31, 2007; and
- assets of $15.2 billion representing 84% of our total assets.

Virgin Islands

- a strong market position with market share in excess of 40% and limited competition;
- 14 branches serving St. Thomas, St. Croix, St. John, Tortola and Virgin Gorda;
- an attractive customer and business segment mix, skewed more towards mass affluent retail customers and retail-oriented businesses; and
- assets of $1.1 billion representing 6% of our total assets.

Florida

- a limited market presence in highly attractive counties;
- 10 branches serving primarily the south Florida region and a loan production office;
- 64% increase in core deposits since December 2009 to $1.4 billion as of June 30, 2010;
- a local market that provides expansion opportunities under improved market conditions; and
- assets of $1.7 billion, representing 10% of our total assets.

We have a two-pronged strategy, which is consistent with the plans we have submitted to our regulators in accordance with the Agreements into which we entered in early June 2010 and contains elements intended to strengthen our capital position and elements intended to improve our profitability. These elements are described below:

Strengthen our Capital Position

Completion of Exchange of Series F Preferred Stock into Convertible Preferred Stock. On July 20, 2010, we exchanged our Fixed Rate Cumulative Perpetual Preferred Stock, Series F, $1,000 liquidation preference per share (Series F Preferred Stock), that we previously had sold to the U.S. Treasury, plus accrued dividends on the Series F Preferred Stock, for 424,174 shares of a new series of Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series G, $1,000 liquidation preference per share (Series G Preferred Stock), that has similar terms (including the same liquidation preference), but which we can convert, under the conditions described herein, into shares of common stock. This conversion of the Series G Preferred Stock would help to increase our tangible common equity, which has already been substantially improved by our completion of our offer to exchange shares of common stock for shares of preferred stock discussed below. See Recent Developments.

Completion of Exchange of Series A through E Preferred Stock into Common Stock. On August 30, 2010, we completed our offer to exchange shares of common stock for our outstanding shares of

Series A through E Preferred Stock. See Recent Developments. Our issuance of 227,015,210 shares of common stock in the exchange offer increased our common equity to provide additional protection from the need to recognize future loan loss reserves against our loan portfolio and credit losses associated with the disposition of non-performing assets due to the current adverse economic situation and improves our Tier 1 common equity to risk-weighted assets ratio and tangible common equity to tangible assets ratio. Our ratio of Tier 1 common equity to risk-weighted assets, which was 2.86% as of June 30, 2010, would be 6.93% on a pro forma basis after giving effect to the exchange offer and the exchange of Series F Preferred Stock for Series G Preferred Stock, and our ratio of tangible common equity to tangible assets, which was 2.57% as of June 30, 2010, would be 5.40% on a pro forma basis after giving effect to the exchange offer and the exchange of Series F Preferred Stock for Series G Preferred Stock. See Non-GAAP Data for reconciliations of Tier 1 common equity and tangible common equity to stockholders equity, the most directly comparable GAAP financial measure, and tangible assets to total assets, the most directly comparable GAAP financial measure, as of June 30, 2010. In addition, the issuance of shares of common stock in the exchange offer satisfies a substantive condition to our ability to mandatorily convert the Series G Preferred Stock into common stock and improves our ability to meet any new capital requirements. See Recent Developments.

Obtain Stockholder Approval of Charter Amendments. Our stockholders approved amendments to our Restated Articles of Incorporation to increase the number of authorized shares of our common stock and decrease the par value of our common stock. Such approval was obtained on August 24, 2010. See Recent Developments.

Opportunistic Deleveraging Strategies and Sales of Non-Performing Assets. We intend to continue with the targeted deleveraging of our balance sheet through reduction of our construction portfolio, sales of investment securities on an opportunistic basis and the reduction of non-performing assets.

Completion of this Common Stock Offering. The completion of this common stock offering is the final element of our capital strategy. See Recent Developments.

Improve our Profitability

Improve Asset Quality. We intend to improve asset quality and reduce our level of delinquencies, non-performing assets and classified loans by:

- aggressively monitoring asset quality through our Special Assets Group, which was created in 2009 to address challenges faced by our operations in Florida and was recently tasked with managing all activities related to our classified credits and non-performing assets for the commercial business at a centralized level and overseeing collection efforts for performing loans that are not classified to prevent excess migration to the non-performing and/or classified status;

- accelerating the disposition and sale of certain non-performing assets and by engaging in other loss mitigation measures, such as the restructuring of certain credits;

- continuing to not originate construction loans until the adverse economic conditions in the markets in which we operate improve and reducing outstanding construction loan commitments through the sale of such loans and implementing other work-out initiatives, which also reduce the carrying costs associated with such loans;

- expanding FirstBank s loss mitigation programs and its home ownership preservation assistance;

taking advantage of the recently enacted Puerto Rico housing stimulus package, which we believe may increase our residential construction loan portfolio s absorption rate;

controlling the early delinquency stages with strengthened collection activities in all loan portfolios, including the use of external service providers for collection and loss mitigation programs; and accelerating the disposition of other real estate owned (OREO) properties by increasing sale channels and OREO unit resources.

Growth of Core Deposits. We intend to continue to grow our core deposits and reduce our dependence on brokered certificates of deposit by expanding and optimizing our network of retail branches, continuing local initiatives to increase our retail deposits, seeking to attract customers looking to diversify their banking relationships resulting from the recent consolidation in Puerto Rico s banking industry and realigning our sales force to increase our presence in the commercial and governmental deposit and transaction banking market. The implementation of our core deposit growth strategy has resulted in an increase of $514.1 million, or 10%, in non-brokered deposits during the first half of 2010.

Increase Non-Interest Income. We intend to increase our non-interest income by expanding our fee-based businesses, such as cash management, merchant banking, interchange income and retail and commercial insurance programs through increased product offerings and incorporation of new technologies. Non-interest income represented approximately 11% and 12.7% of net interest income for the 2009 fiscal year and for the first six months of 2010, respectively. To grow our cash management and merchant services, we intend to further leverage our branch network as a selling channel in order to increase the cross-selling to current customers through training and new procedures to be implemented in branches and cash management operations. To grow our insurance business, we will continue to focus on targeted cross-selling of our various insurance offerings to FirstBank s customer base. Currently, we have insurance relationships with approximately 18% of FirstBank s retail clients and approximately 1% of FirstBank s commercial clients.

Improve Net Interest Margins. We have been enhancing our risk based loan pricing by applying minimum acceptable pricing thresholds which include interest rate floors. Also, we have been changing the terms of our funding mix to incorporate other balance sheet strategies we have been implementing, such as originating a higher proportion of the residential mortgage loans production in conforming paper that can be sold in the market, thus eliminating the longer term asset from the balance sheet, and the maintenance of higher liquidity levels in short term instruments to properly position us under the current economic scenario. The execution of our capital strategy, including the completion of this common stock offering, will allow us to reposition our liquidity needs which we expect that, coupled with a stabilization of economic conditions, will also enable us to improve our net interest margin.

Operational Efficiencies. We intend to continue to improve our operating efficiency by further reducing controllable expenses, consolidating our infrastructure in a new service center building, rationalizing our business operations and enhancing our technological infrastructure through targeted investments. We have reduced the number of our employees from approximately 3,000 full time equivalents (FTEs) as of December 31, 2008 to 2,605 FTEs as of June 30, 2010.

In addition, our management strives for prudent financial management, employs a conservative investment philosophy, and seeks to maintain strong capitalization and ample liquidity.

We believe that our effective implementation of the various elements of our strategy will afford us the following opportunities for increased profitability:

the investment of excess liquidity in higher yielding instruments;

the further reduction in operating expenses;

the increase in non-interest income;

the reduction in nonrecurring operating expenses including, but not limited to, professional service fees;

the reduction in expenses incurred with respect to real estate owned as such real estate is divested;

Table of Contents

improvement in net interest margin and the reduction in expenses incurred with respect to non-performing assets as our loan portfolio is strengthened;

as our risk profile improves, the reduction in FDIC deposit insurance premiums, subject to increases mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act); and

the realization of the benefit of the reversal of the $277.7 million valuation allowance on the deferred tax asset as FirstBank returns to profitability.

RECENT DEVELOPMENTS

Financial Results For Quarterly Period Ended September 30, 2010

On October 21, 2010, we released our financial results for the quarterly period ended September 30, 2010. The press release setting forth our results is an exhibit to our Current Report on Form 8-K filed with the SEC on October 26, 2010. We reported a net loss of $75.2 million for the quarterly period ended September 30, 2010 compared to a net loss of $165.2 million for the quarterly period ended September 30, 2009.

Table of Contents

The following table provides a reconciliation of earnings (loss) per common share for the quarterly periods ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine-month periods ended September 30, 2010 and September 30, 2009:

	Quarter Ended			Nine-Month Period Ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(in thousands, except per share data)				
Net loss	$ (75,233)	$ (90,640)	$ (165,218)	$ (272,872)	$ (221,985)
Non-cumulative preferred stock dividends (Series A through E)			(3,356)		(23,494)
Cumulative non-convertible preferred stock dividends (Series F)	(1,618)	(5,000)	(5,000)	(11,618)	(14,167)
Cumulative convertible preferred stock dividend (Series G)	(4,183)			(4,183)	
Preferred stock discount accretion (Series F and G)	(1,688)	(1,170)	(1,115)	(4,010)	(3,095)
Favorable impact from issuing common stock in exchange for Series A through E preferred stock, net of issuance costs[(1)]	385,387			385,387	
Favorable impact from issuing Series G mandatorily convertible preferred stock in exchange for Series F preferred stock[(2)]	55,122			55,122	
Net income (loss) available to common stockholders basic	$ 357,787	$ (96,810)	$ (174,689)	$ 147,826	$ (262,741)
Convertible preferred stock dividends and accretion	5,626			5,626	
Net income (loss) available to common stockholders diluted	$ 363,413	$ (96,810)	$ (174,689)	$ 153,452	$ (262,741)
Average common shares outstanding	171,483	92,521	92,511	119,131	92,511
Average potential common shares	1,126,792			379,725	
Average common shares outstanding assuming dilution	1,298,275	92,521	92,511	498,856	92,511
Basic earnings (loss) per common share	$ 2.09	$ (1.05)	$ (1.89)	$ 1.24	$ (2.84)

Diluted earnings (loss) per common share	$	0.28	$	(1.05)	$	(1.89)	$	0.31	$	(2.84)

(1) Excess of carrying amount of Series A through E Preferred Stock exchanged over the fair value of new common shares issued.

(2) Excess of carrying amount of Series F Preferred Stock exchanged and original warrant over the fair value of new Series G Preferred Stock issued and amended warrant.

Table of Contents

The following table provides certain consolidated financial data for the quarterly periods ended September 30, 2010, June 30, 2010, March 31, 2010, December 31, 2009 and September 30, 2009:

	Quarter Ended				
	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
	(dollars in thousands, except share data)				
Earnings					
Net loss	$ (75,233)	$ (90,640)	$ (106,999)	$ (53,202)	$ (165,218)
Net income (loss) available to common stockholders basic	$ 357,787	$ (96,810)	$ (113,151)	$ (59,334)	$ (174,689)
Net income (loss) available to common stockholders diluted	$ 363,413	$ (96,810)	$ (113,151)	$ (59,334)	$ (174,689)
Adjusted pre-tax, pre-provision income(1)	$ 43,410	$ 35,739	$ 40,063	$ 62,909	$ 62,280
Common share data					
Earnings (loss) per common share basic	$ 2.09	$ (1.05)	$ (1.22)	$ (0.64)	$ (1.89)
Earnings (loss) per common share diluted	$ 0.28	$ (1.05)	$ (1.22)	$ (0.64)	$ (1.89)
Financial ratios					
Return on average assets	(1.73)%	(1.94)%	(2.25)%	(1.08)%	(3.27)%
Return on average common equity	(50.80)%	(70.31)%	(68.06)%	(30.54)%	(74.62)%
Tier 1 capital	11.96%	12.05%	11.98%	12.16%	12.52%
Total capital	13.25%	13.35%	13.26%	13.44%	13.79%
Leverage	8.35%	8.14%	8.37%	8.91%	8.97%
Tangible common equity(2)	5.21%	2.57%	2.74%	3.20%	3.62%
Tier 1 common equity to risk-weight assets(2)	6.62%	2.86%	3.36%	4.10%	4.51%
Net interest margin(3)	2.83%	2.66%	2.73%	3.03%	2.95%
Efficiency	66.69%	62.18%	56.33%	50.43%	46.21%
Common shares outstanding	319,557,932	92,542,722	92,542,722	92,542,722	92,542,722

Average common shares outstanding					
Basic	171,483,057	92,521,245	92,521,245	92,514,124	92,510,506
Diluted	1,298,275,316	92,521,245	92,521,245	92,514,124	92,510,506

(1) For a reconciliation of adjusted pre-tax, pre-provision income, a non-GAAP financial measure, to (loss) before income taxes, its comparable GAAP equivalent, for the quarterly periods ended September 30, 2010, June 30, 2010, March 31, 2010, December 31, 2009 and September 30, 2009, refer to the table set forth immediately below under Non-GAAP Measures Earnings Data.

(2) For reconciliations of these ratios to GAAP for the quarterly periods ended September 30, 2010, June 30, 2010, March 31, 2010, December 31, 2009 and September 30, 2009, refer to the tables set forth immediately below under Non-GAAP Measures Financial Ratios.

(3) On a tax-equivalent basis and excluding valuations. For a reconciliation of this non-GAAP financial measure to the comparable GAAP measure for the quarterly periods ended September 30, 2010, June 30, 2010, March 31, 2010, December 31, 2009 and September 30, 2009, refer to the table set forth immediately below under Non-GAAP Measures Net Interest Margin.

Table of Contents

Non-GAAP Measures

Earnings Data

Adjusted Pre-Tax, Pre-Provision Income	Quarter Ended September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
	(in thousands)				
(Loss) before income taxes	$ (76,196)	$ (86,817)	$ (100,138)	$ (49,891)	$ (51,745)
Add: Provision for loan and lease losses	120,482	146,793	170,965	137,187	148,090
Less: Net (gain) on sale and OTTI of investment securities	(48,281)	(24,237)	(30,764)	(24,387)	(34,065)
Add: Loss on early extinguishment of repurchase agreements	47,405				
Adjusted pre-tax, pre-provision income	$ 43,410	$ 35,739	$ 40,063	$ 62,909	$ 62,280

Financial Ratios

Tangible Common Equity	As of September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
	(in thousands, except per share data and ratio results)				
Tangible Equity:					
Total equity GAAP	$ 1,321,979	$ 1,438,289	$ 1,488,543	$ 1,599,063	$ 1,698,843
Preferred equity	(411,876)	(930,830)	(929,660)	(928,508)	(927,374)
Goodwill	(28,098)	(28,098)	(28,098)	(28,098)	(28,098)
Core deposit intangible	(14,673)	(15,303)	(15,934)	(16,600)	(17,297)
Tangible common equity	**$ 867,332**	**$ 464,058**	**$ 514,851**	**$ 625,857**	**$ 726,074**
Tangible Assets:					
Total assets GAAP	$ 16,678,879	$ 18,116,023	$ 18,850,964	$ 19,628,448	$ 20,081,185
Goodwill	(28,098)	(28,098)	(28,098)	(28,098)	(28,098)
Core deposit intangible	(14,673)	(15,303)	(15,934)	(16,600)	(17,297)
Tangible assets	**$ 16,636,108**	**$ 18,072,622**	**$ 18,806,932**	**$ 19,583,750**	**$ 20,035,790**
Common shares outstanding	**319,558**	**92,542**	**92,542**	**92,542**	**92,542**
Tangible common equity ratio	**5.21%**	**2.57%**	**2.74%**	**3.20%**	**3.62%**

Tangible book value per common share	**$**	**2.71**	**$**	**5.01**	**$**	**5.56**	**$**	**6.76**	**$**	**7.85**

Table of Contents

Tier 1 Common Equity to Risk-Weighted Assets	As of September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
	(dollars in thousands)				
Tier 1 Common Equity:					
Total equity GAAP	$ 1,321,979	$ 1,438,289	$ 1,488,543	$ 1,599,063	$ 1,698,843
Qualifying preferred stock	(411,876)	(930,830)	(929,660)	(928,508)	(927,374)
Unrealized (gain) on available-for-sale securities[1]	(30,295)	(63,311)	(22,948)	(26,617)	(73,095)
Disallowed deferred tax asset[2]	(43,552)	(38,078)	(40,522)	(11,827)	(1,721)
Goodwill	(28,098)	(28,098)	(28,098)	(28,098)	(28,098)
Core deposit intangible	(14,673)	(15,303)	(15,934)	(16,600)	(17,297)
Cumulative change gain in fair value of liabilities accounted for under a fair value option	(2,654)	(3,170)	(951)	(1,535)	(1,647)
Other disallowed assets	(24)	(66)	(24)	(24)	(514)
Tier 1 common equity	**$ 790,807**	**$ 359,433**	**$ 450,406**	**$ 585,854**	**$ 649,097**
Total risk-weighted assets	**$ 11,940,412**	**$ 12,570,330**	**$ 13,402,979**	**$ 14,303,496**	**$ 14,394,968**
Tier 1 common equity to risk-weighted assets ratio	**6.62%**	**2.86%**	**3.36%**	**4.10%**	**4.51%**

(1) Tier 1 capital excludes net unrealized gains (losses) on available-for-sale debt securities and net unrealized gains on available-for-sale equity securities with readily determinable fair values, in accordance with regulatory risk-based capital guidelines. In arriving at Tier 1 capital, institutions are required to deduct net unrealized losses on available-for-sale equity securities with readily determinable fair values, net of tax.

(2) Approximately $64 million of our deferred tax assets at September 30, 2010 (June 30, 2010 $71 million; March 31, 2010 $69 million December 31, 2009 $102 million; September 30, 2009 $112 million) were included without limitation in regulatory capital pursuant to the risk-based capital guidelines, while approximately $44 million of such assets at September 30, 2010 (June 30, 2010 $38 million; March 31, 2010 $41 million; December 31, 2009 $12 million; September 30, 2009 $2 million) exceeded the limitation imposed by these guidelines and, as disallowed deferred tax assets, were deducted in arriving at Tier 1 capital. According to regulatory capital guidelines, the deferred tax assets that are dependent upon future taxable income are limited for inclusion in Tier 1 capital to the lesser of: (i) the amount of such deferred tax asset that the entity expects to realize within one year of the calendar quarter end-date, based on its projected future taxable income for that year, or (ii) 10% of the amount of the entity s Tier 1 capital. Approximately $7 million of our other net deferred tax liability at September 30, 2010 (June 30, 2010 $12 million; March 31, 2010 $5 million; December 31, 2009 $5 million; September 30, 2009 $6 million) represented primarily the deferred tax effects of unrealized gains and losses on available-for-sale debt securities, which are permitted to be excluded prior to deriving the amount of net deferred tax assets subject to limitation under the guidelines.

16

Table of Contents

Net Interest Margin

Net Interest Income (in thousands)	Quarter Ended September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Interest Income GAAP	$ 204,028	$ 214,864	$ 220,988	$ 243,449	$ 242,022
Unrealized loss (gain) on derivative instruments	938	487	744	(2,764)	1,485
Interest income excluding valuations	204,966	215,351	221,732	240,685	243,507
Tax-equivalent adjustment	6,777	7,222	9,912	12,311	12,925
Interest income on a tax-equivalent basis excluding valuations	211,743	222,573	231,644	252,996	256,432
Interest Expense GAAP	90,326	95,802	104,125	106,152	112,889
Unrealized (loss) gain on derivative instruments and liabilities measured at fair value	(527)	3,896	(989)	(247)	(1,589)
Interest expense excluding valuations	89,799	99,698	103,136	105,905	111,300
Net interest income GAAP	$ 113,702	$ 119,062	$ 116,863	$ 137,297	$ 129,133
Net interest income excluding valuations	$ 115,167	$ 115,653	$ 118,596	$ 134,780	$ 132,207
Net interest income on a tax-equivalent basis excluding valuations	$ 121,944	$ 122,875	$ 128,508	$ 147,091	$ 145,132
Average Balances (in thousands)					
Loans and leases	$ 12,443,055	$ 13,025,808	$ 13,569,467	$ 13,777,928	$ 13,321,100
Total securities and other short-term investments	4,640,055	5,485,934	5,526,589	5,505,527	6,220,156
Average Interest-Earning Assets	$ 17,083,110	$ 18,511,742	$ 19,096,056	$ 19,283,455	$ 19,541,256
Average Interest-Bearing Liabilities	$ 15,002,168	$ 16,378,022	$ 16,910,781	$ 17,112,556	$ 17,308,432

Net Interest Income	Quarter Ended September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Average Yield/Rate					
Average yield on interest-earning assets GAAP	4.74%	4.66%	4.69%	5.01%	4.91%
Average rate on interest-bearing liabilities GAAP	2.39%	2.35%	2.50%	2.46%	2.59%
Net interest spread GAAP	2.35%	2.31%	2.19%	2.55%	2.32%
Net interest margin GAAP	2.64%	2.58%	2.48%	2.82%	2.62%
Average yield on interest-earning assets excluding valuations	4.76%	4.66%	4.71%	4.95%	4.94%
Average rate on interest-bearing liabilities excluding valuations	2.37%	2.44%	2.47%	2.46%	2.55%
Net interest spread excluding valuations	2.39%	2.22%	2.24%	2.49%	2.39%
Net interest margin excluding valuations	2.67%	2.51%	2.52%	2.77%	2.68%
Average yield on interest-earning assets on a tax-equivalent basis and excluding valuations	4.92%	4.82%	4.92%	5.21%	5.21%
Average rate on interest-bearing liabilities excluding valuations	2.37%	2.44%	2.47%	2.46%	2.55%
Net interest spread on a tax-equivalent basis and excluding valuations	2.55%	2.38%	2.45%	2.75%	2.66%
Net interest margin on a tax-equivalent basis and excluding valuations	2.83%	2.66%	2.73%	3.03%	2.95%

Other Developments

On August 24, 2010, our stockholders approved the following proposals at a special meeting of stockholders:

the issuance of up to 256,401,610 shares of common stock in exchange (the Exchange Offer) for shares of our (i) 7.125% Noncumulative Perpetual Monthly Income Preferred Stock, Series A (Series A Preferred Stock), (ii) 8.35% Noncumulative Perpetual Monthly Income Preferred Stock, Series B (Series B Preferred Stock), (iii) 7.40% Noncumulative Perpetual Monthly Income Preferred Stock, Series C (Series C Preferred Stock), (iv) 7.25% Noncumulative Perpetual Monthly Income Preferred Stock, Series D (Series D Preferred Stock) and (v) 7.00% Noncumulative Perpetual Monthly Income Preferred Stock, Series E (Series E

Preferred Stock and together with the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, the Preferred Stock);

the issuance of shares of common stock to a director and to The Bank of Nova Scotia (BNS) if BNS exercises its anti-dilution right under the Stockholder Agreement, dated as of August 24, 2007 (the Stockholder Agreement), that we entered into with BNS at the time it acquired approximately 10% of our outstanding shares of common stock;

an amendment to our Restated Articles of Incorporation to decrease the par value of our common stock from $1.00 to $0.10 per share;

an amendment to our Restated Articles of Incorporation to increase the total number of authorized shares of common stock from 750 million to 2 billion; and

Table of Contents

an amendment to our Restated Articles of Incorporation empowering our board of directors to effect a reverse stock split, thereby enabling us to comply with New York Stock Exchange (NYSE) listing requirements, and pursuant to which the total number of authorized shares would remain at 2 billion.

On August 30, 2010, we issued 227,015,210 shares of common stock to participants in our offer to issue shares of common stock in the Exchange Offer to holders of validly tendered shares of Preferred Stock. Approval of our stockholders to the issuance of shares in the Exchange Offer, which was required by NYSE listing requirements, and to the decrease in the par value of our common stock were conditions to the completion of the Exchange Offer. The Exchange Offer, which commenced on July 16, 2010 and expired at 9:30 a.m., New York City time, on August 25, 2010, resulted in the tender of $487.1 million, or 88.54%, of the aggregate liquidation preference of the Preferred Stock.

The tender of over $385 million of the liquidation preference of the Preferred Stock and our stockholders approval of the amendments to our Restated Articles of Incorporation to increase the number of authorized shares of common stock and decrease the par value of our common stock satisfy all but one of the substantive conditions to our ability to compel the conversion of the 424,174 shares of a new series of Series G Preferred Stock, that we issued to the U.S. Treasury on July 20, 2010 in exchange for the $400 million liquidation value of our Series F Preferred Stock, plus accrued and unpaid dividends pursuant to the Exchange Agreement, dated as of July 7, 2010, by and between us and the U.S. Treasury. The other substantive condition to our ability to compel the conversion of the Series G Preferred Stock is our issuance of a minimum aggregate amount of $500 million of additional capital, subject to terms, other than the price per share, reasonably acceptable to the U.S. Treasury in its sole discretion. In addition, neither we nor any of our subsidiaries must have dissolved or became subject to insolvency or similar proceedings, or become subject to other materially adverse regulatory or other actions.

In September 2010, the Puerto Rico government passed Act 132 of 2010, known as the Puerto Rico Housing Stimulus Package (the Stimulus Package), creating an incentive program to facilitate and promote the purchase of homes and other real estate properties in the Puerto Rico market. The Puerto Rico government has estimated that there is an unsold inventory of new residences totaling roughly 20,000 in Puerto Rico. This backlog contributes to depressed housing prices and continuing stagnation and unemployment in the construction sector. As part of the Stimulus Package, the following stimulus measures are effective from September 1, 2010 through June 30, 2011:

owners of new residences would be exempt from capital gain taxes to the extent the residences are bought on or after September 1, 2010 but prior to June 30, 2011;

owners of existing residences would be exempt from capital gain taxes to the extent the residences are sold on or after September 1, 2010 but prior to June 30, 2011;

buyers of existing residences and non-residential properties purchased on or after September 1, 2010 but prior to June 30, 2011 will be entitled to a 50% exemption on capital gain taxes provided that, with respect to non-residential properties, the purchase price does not exceed $3.0 million;

owners of non-residential properties sold on or after September 1, 2010 but prior to June 30, 2011 will be exempt from capital gain taxes to the extent the sale price does not exceed $3.0 million;

buyers of new residences bought on or after September 1, 2010 but prior to June 30, 2011 will be exempt from property taxes for five years;

owners of new and existing residences will be exempt from income taxes on rental income derived from these properties for 10 years;

new residences sold on or after September 1, 2010 but prior to June 30, 2011 will be fully exempt from recording costs; and existing residences and non-residential properties sold on or after September 1, 2010 but prior to June 30, 2011 will be entitled to a 50% exemption from recording costs.

As of August 31, 2010, FirstBank s borrowers have 901 units completed and ready for immediate sale under the Stimulus Package. We believe the Stimulus Package may increase sales of current inventory and the disposition of OREO properties.

OUR CORPORATE INFORMATION

Our principal executive offices are located at 1519 Ponce de Leon Avenue, Stop 23, Santurce, Puerto Rico 00908 and our telephone number is (787) 729-8200. Our website address is www.firstbankpr.com.

Table of Contents

THE OFFERING

Aggregate offering price of shares of common stock offered by us	$500,000,000*
Common stock to be outstanding after this offering	post-reverse stock split shares.*
Over allotment option	We have granted the underwriters an option for 30 days from the date of this prospectus to purchase up to additional shares of common stock (equal to 15% of the total number of shares we are offering) to cover over allotments.
Use of proceeds	We expect to use the net proceeds from the sale of our common stock for general corporate purposes, including strengthening FirstBank s capital position. See Use of Proceeds.
Dividend policy	We suspended the payment of dividends on our common stock effective in August 2009 and do not intend to pay cash dividends on our common stock for the foreseeable future. In addition, under the terms of the Written Agreement with the Federal Reserve, we are required to obtain prior approval from the Federal Reserve to declare or pay dividends and to receive dividends from FirstBank. See Description of Capital Stock Dividends and Distributions.
Voting	Holders of shares of our common stock are entitled to one vote per share on all matters voted on by our stockholders. There are no cumulative voting rights for the election of directors.
New York Stock Exchange symbol	FBP
Risk factors	You should read the Risk Factors section of this prospectus for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.

* The public offering price for each share of our post-reverse stock split shares of common stock will be determined by a negotiation between us and the underwriters based upon market conditions, an estimate of the change in the market price of our common stock as a result of the reverse stock split and other factors on the day we price the shares. In the usual case, as a result of a reverse stock split (all other things being equal), the market price of common stock may not rise proportionally to the decrease in outstanding shares resulting from the reverse stock split. While it is not possible to predict the impact of the reverse stock split in our case, consideration of the impact of the reverse stock split will be necessary in determining the number of post-reverse stock split shares to include in this offering.

Although we want to receive gross proceeds of at least $500 million, we may determine to complete an offering for a number of shares of common stock that results in a lower amount of gross proceeds. In that case, we would not be able to fulfill the remaining substantive condition required for us to compel the conversion of the Series G Preferred Stock into common stock, which would mean that our tangible common equity would not benefit from an increase in the number of outstanding shares of common stock resulting from such a conversion and that we will continue to have to accrue dividends payable on the Series G Preferred Stock. In addition, the lower level of proceeds may require us to implement additional de-leveraging strategies to ensure our compliance with the capital plans we submitted to our regulators.

Table of Contents

SUMMARY SELECTED CONSOLIDATED FINANCIAL DATA

The following summary selected consolidated financial data summarizes our consolidated financial information as of and for each of the five years ended December 31, 2009 and the six months ended June 30, 2010 and 2009. You should read the following financial data in conjunction with the information set forth under Selected Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the related notes thereto included in our Annual Reports on Form 10-K for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 and our reports on Form 10-Q for the quarters ended March 31, 2010 and 2009 and June 30, 2010 and 2009, respectively, from which this information is derived. For more information, see Incorporation by Reference. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

	Six-month period ended June 30, 2010 (unaudited)	Six-month period ended June 30, 2009 (unaudited)	Year ended December 31, 2009	2008	2007	2006	20
			(dollars in thousands, except per share data)				
y of ns							
ncome	$ 435,852	$ 511,103	$ 996,574	$ 1,126,897	$ 1,189,247	$ 1,288,813	$ 1,0
xpense	199,927	258,491	477,532	599,016	738,231	845,119	6
st income	235,925	252,612	519,042	527,881	451,016	443,694	4
for loan	317,758	294,581	579,858	190,948	120,610	74,991	
st (loss) ter for loan	(81,833)	(41,969)	(60,816)	336,933	330,406	368,703	3
est income	84,851	53,468	142,264	74,643	67,156	31,336	
expenses	189,973	180,516	352,101	333,371	307,843	287,963	3
x (expense)	(10,684)	112,250	(4,534)	31,732	(21,583)	(27,442)	(
income	(197,639)	(56,767)	(275,187)	109,937	68,136	84,634	1
income le to stock	(209,961)	(88,052)	(322,075)	69,661	27,860	44,358	
income per e stock split share							
	(2.27)	(0.95)	(3.48)	0.75	0.32	0.54	
	(2.27)	(0.95)	(3.48)	0.75	0.32	0.53	
income per rse stock e							

Financial							
eriod-End							
ets	18,116,023	20,012,887	19,628,448	19,491,268	17,186,931	17,390,256	19,9
ıs	12,603,738	13,135,710	13,949,226	13,088,292	11,799,746	11,263,980	12,6
	12,727,575	12,035,427	12,669,047	13,057,430	11,034,521	11,004,287	12,4
ers equity	1,438,289	1,840,686	1,599,063	1,548,117	1,421,646	1,229,553	1,1
nce Ratios							
n average							
	(2.10)%	(0.58)%	(1.39)%	0.59%	0.40%	0.44%	
average							
equity	(69.13)	(16.99)	(34.07)	7.89	3.59	6.85	
st margin[1]	2.70	2.89	2.93	3.20	2.83	2.84	

22

Table of Contents

	Six-month period ended June 30, 2010 (unaudited)	Six-month period ended June 30, 2009 (unaudited)	Year ended December 31, 2009	2008	2007	2006	2005
	(dollars in thousands, except per share data)						
Capital Ratios							
Total capital ratio (total capital to risk-weighted assets)	13.35%	14.35%	13.44%	12.80%	13.86%	12.25%	10.72%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	12.05	13.08	12.16	11.55	12.61	11.06	9.71
Leverage ratio (Tier 1 capital to average assets)	8.14	9.12	8.91	8.30	9.29	7.82	6.72
Credit Quality Data							
Non-performing assets to total assets	9.39%	6.53%	8.71%	3.27%	2.56%	1.54%	0.75%
Non-performing loans to total loans receivable	12.40	8.94	11.23	4.49	3.50	2.24	1.06
Net charge offs to average loans held-in-portfolio	3.63	2.52	2.48	0.87	0.79	0.55	0.39
Allowance for loan losses to non-performing loans	38.97	34.81	33.77	47.95	46.04	62.79	110.18
Allowance for loan losses to year end loans held-in-portfolio	4.83	3.11	3.79	2.15	1.61	1.41	1.17
Other Data							
Book value per share	$ 5.48	$ 9.88	$ 7.25	$ 10.78	$ 9.42	$ 8.16	$ 8.01
Average total equity to average total assets	8.11	9.79	9.36	7.74	7.70	6.25	7.09
	130,803	125,564	309,205	269,153	210,329	187,067	180,264

Pre-tax, pre-provision earnings[2]							
Adjusted pre-tax, pre-provision earnings[3]	75,802	98,870	224,059	247,960	213,055	195,261	167,925

(1) On a tax-equivalent basis and excluding valuations. For information about management s use of this non-GAAP financial measure and a reconciliation of this non-GAAP financial measure to its comparable GAAP equivalent, see Non-GAAP Data.

(2) Pre-tax, pre-provision earnings is net (loss) income without regard to the provision for loan losses and income tax expense (benefit). See Non-GAAP Data for information about management s use of this financial measure and a reconciliation of pre-tax, pre-provision earnings to net loss (income).

(3) Adjusted pre-tax, pre-provision earnings is net (loss) income without regard to the provision for loan losses, income tax expense (benefit), gain on sale of securities and recognition of other-than-temporary impairment. See Non-GAAP Data for information about management s use of this financial measure and a reconciliation of this adjusted earnings measure to net (loss) income.

Table of Contents

RISK FACTORS

Investing in our common stock involves a high degree of risk. Before you decide to invest in our common stock, you should consider carefully the risks described below, together with the other information contained in or incorporated by reference into this prospectus, including our financial statements and the related notes thereto. We believe the risks described below are the risks that are material to us as of the date of this prospectus. If any of the following risks actually occur, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you could lose all or part of your investment.

Risks Related to Our Business

FirstBank is operating under the Order with the FDIC and OCIF and we are operating under the Written Agreement with the Federal Reserve.

On June 4, 2010, we announced that FirstBank agreed to the Order, dated as of June 2, 2010, issued by the FDIC and OCIF, and we entered into the Written Agreement, dated as of June 3, 2010, with the Federal Reserve. The Agreements stem from the FDIC s examination as of the period ended June 30, 2009 conducted during the second half of 2009. Although our regulatory capital ratios exceeded the required established minimum capital ratios for a well-capitalized institution as of June 30, 2010, because of the Order, FirstBank cannot be regarded as well-capitalized as of June 30, 2010.

Under the Order, FirstBank has agreed to address specific areas of concern to the FDIC and OCIF through the adoption and implementation of procedures, plans and policies designed to improve the safety and soundness of FirstBank. These actions include, among others, (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 Written Agreement, which is designed to enhance our ability to act as a source of strength to FirstBank, requires that we obtain prior Federal Reserve approval before declaring or paying dividends, receiving dividends from FirstBank, making payments on subordinated debt or trust preferred securities, incurring, increasing or guaranteeing debt (whether such debt is incurred, increased or guaranteed, directly or indirectly, by us or any of our non-banking subsidiaries) or purchasing or redeeming any capital stock. The Written Agreement also requires us to submit to the Federal Reserve a capital plan and progress reports, comply with certain notice provisions prior to appointing new directors or senior executive officers and comply with certain payment restrictions on severance payments and indemnification restrictions.

We anticipate that we will need to continue to dedicate significant resources to our efforts to comply with the Agreements, which may increase operational costs or adversely affect the amount of time our management has to conduct our operations. If we need to continue to recognize significant reserves, cannot raise additional capital pursuant to this offering of common stock, or cannot accomplish other contemplated alternative capital preservation strategies, including among others, an accelerated deleverage strategy and the divestiture of profitable businesses, we and FirstBank may not be able to comply with the minimum capital requirements included in the capital plans required by the Agreements. These capital plans, which we have submitted but are subject to the approval of our regulators, set forth our plan to attain the capital ratio requirements set forth in the Order over time.

If, at the end of any quarter, we do not comply with any specified minimum capital ratios, we must notify our regulators. We must notify the Federal Reserve within 30 days of the end of any quarter of our inability to comply with a capital ratio requirement and submit an acceptable written plan that details the steps we will take to comply with the requirement. FirstBank must immediately notify the FDIC of its inability to comply with a capital ratio requirement and, within 45 days, it must either increase its capital to comply with the capital ratio requirements or submit a contingency plan to the FDIC for its sale, merger or liquidation. In the event of a liquidation of FirstBank, the holders of our outstanding preferred stock would rank senior to the holders of our common stock with respect to rights upon any liquidation of First BanCorp. If we fail to comply with the Agreements, we may become subject to additional regulatory enforcement action up to and including the appointment of a conservator or receiver for FirstBank. In many cases when a conservator or receiver is appointed for a wholly owned bank, the bank holding company files for bankruptcy protection.

We may need additional capital resources in the future, and these capital resources may not be available when needed or at all.

Due to our financial results during 2009 and the first half of 2010, we need to access the capital markets in order to raise additional capital to absorb future credit losses due to the distressed economic environment and potential further deterioration in our loan portfolio, to maintain adequate liquidity and capital resources, to finance future growth, investments or strategic acquisitions and to implement the capital plans required by the Agreements. We have been taking steps, including this offering, to obtain additional capital. Based on our stress test analysis, we believe that the proceeds from this offering will be sufficient to withstand the deterioration of current economic conditions to the levels assumed in that analysis, particularly in the residential and CRE markets where our business is primarily concentrated. We may need to raise significant additional capital if such deterioration exceeds the assumptions utilized for purposes of the stress test. Ultimately, the factors affecting whether we would need to raise additional capital include, among others, the requirements of regulators, additional provisions for loan losses and loan charge-offs and other risks discussed in this Risk Factors section. If we are unable to obtain additional necessary capital or otherwise improve our financial condition in the near future, or are unable to accomplish other alternate capital preservation strategies, which could allow us to meet the minimum capital requirements included in the capital plans required by the Agreements, we will be required to notify our regulators and take the additional steps described above, which may include submitting a contingency plan to the FDIC for the sale, liquidation or merger of FirstBank.

Certain funding sources may not be available to us and our funding sources may prove insufficient to replace deposits and support future growth.

FirstBank relies primarily on its issuance of brokered CDs, as well as customer deposits and advances from the Federal Home Loan Bank, to pay its operating expenses and interest on its debt, to maintain its lending activities and to replace certain maturing liabilities. As of June 30, 2010, we had $7.1 billion in brokered deposits outstanding, representing approximately 56% of our total deposits, and a reduction from $7.6 billion at year end 2009. The average term to maturity of the retail brokered CDs outstanding as of June 30, 2010 was approximately 1.2 years. Approximately 3% of the principal value of these certificates is callable at our option.

Although FirstBank has historically been able to replace maturing deposits and advances as desired, the Order requires FirstBank to obtain FDIC approval prior to issuing, increasing, renewing or rolling over brokered CDs and to develop a plan to reduce its reliance on brokered CDs. Although the FDIC has issued temporary approvals permitting FirstBank to renew and/or roll over certain amounts of brokered CDs maturing through December 31, 2010, the FDIC may not continue to issue such approvals, and, even if issued, such approvals may not be for amounts of brokered CDs sufficient for FirstBank to meet its funding needs. The use of brokered CDs has been particularly important for the funding of our operations. If we are unable to issue brokered CDs, or are unable to maintain access to our other funding sources, our results of operations and liquidity would be adversely affected.

If we are required to rely more heavily on more expensive funding sources, profitability would be adversely affected. Although we consider such funding sources currently to be adequate for our liquidity needs, we may seek additional debt financing in the future to achieve our long-term business objectives. Any additional debt financing requires the prior approval from the Federal Reserve, and the Federal Reserve may not approve such additional debt. Additional borrowings, if sought, may not be available to us or on acceptable terms. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, our credit ratings and our credit capacity. If additional financing sources are unavailable or are not available on acceptable terms, our profitability and future prospects could be adversely affected.

We depend on cash dividends from FirstBank to meet our cash obligations, but the Written Agreement with the Federal Reserve prohibits the receipt of such dividends without prior Federal Reserve approval, which may adversely affect our ability to fulfill our obligations.

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

We cannot pay any dividends on common stock or preferred stock or any interest, principal or other sums on subordinated debentures or trust preferred securities without prior Federal Reserve approval, which adversely affects our ability to make such payments.

The Written Agreement provides that we cannot declare or pay any dividends (including on the Series G Preferred Stock) or make any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities without prior written approval of the Federal Reserve. With respect to our $231.9 million of outstanding subordinated debentures, we have provided, within the time frame prescribed by the indentures governing the subordinated debentures, a notice to the trustees of the subordinated debentures of our election to an extension period. Under the indentures, we have the right, from time to time, and without causing an event of default, to defer payments of interest on the subordinated debentures by extending the interest payment period at any time and from time to time during the term of the subordinated debentures for up to twenty consecutive quarterly periods. We have elected to defer the interest payments that would be due in September 2010 because the Federal Reserve did not approve our request submitted pursuant to the Written Agreement to pay interest on the subordinated debentures. To the extent our capital is insufficient, we may elect additional extension periods for future quarterly interest payments.

Our inability to receive approval from the Federal Reserve to make distributions of interest, principal or other sums on our trust preferred securities and subordinated debentures could result in a default under those obligations if we need to defer such payments for longer than twenty consecutive quarterly periods.

Banking regulators could take additional adverse action against us.

We are subject to supervision and regulation by the Federal Reserve. We are a bank holding company and a financial holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act). As such, we are permitted to engage in a broader spectrum of activities than those permitted to bank holding companies that are not financial holding companies. At this time, under the BHC Act, we may not be able to engage in new activities or acquire shares or control of other companies. As of June 30, 2010, we and FirstBank continue to satisfy all applicable established capital guidelines. However, we have agreed to regulatory actions by our banking regulators that include, among other things, the submission of a capital plan by FirstBank to comply with more stringent capital requirements under an established time period in the capital plan. Our regulators could take additional action against us if we fail to comply with the Agreements, including the requirements of the submitted capital plans. Additional adverse action against us by our primary regulators could adversely affect our business.

Credit quality may result in future additional losses.

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

We have a significant construction loan portfolio, in the amount of $1.31 billion as of June 30, 2010, mostly secured by commercial and residential real estate properties. Due to their nature, these loans entail a higher credit risk than consumer and residential mortgage loans, since they are larger in size, concentrate more risk in a single borrower and are generally more sensitive to economic downturns. Although we have ceased new originations of construction loans, decreasing collateral values, difficult economic conditions and numerous other factors continue to create volatility in the housing markets and have increased the possibility that additional losses may have to be recognized with respect to our current nonperforming assets. Furthermore, given the current slowdown in the real estate market, the properties securing these loans may be difficult to dispose of if they are foreclosed.

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

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

While we have substantially increased our allowance for loan and lease losses in 2009 and the first half of 2010, we may have to recognize additional provisions in the third and fourth quarters of 2010 to cover future credit losses in the portfolio. The level of the allowance reflects management s estimates based upon various assumptions and judgments as to specific credit risks, evaluation of industry concentrations, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan and lease losses inherently involves a high degree of subjectivity and requires management to make significant estimates and judgments regarding current credit risks and future trends, all of which may undergo material changes. If our estimates prove to be incorrect, our allowance for credit losses may not be

27

sufficient to cover losses in our loan portfolio and our expense relating to the additional provision for credit losses could increase substantially.

Any such increases in our provision for loan losses or any loan losses in excess of our provision for loan losses would have an adverse effect on our future financial condition and results of operations. Given the difficulties facing some of our largest borrowers, these borrowers may fail to continue to repay their loans on a timely basis or we may not be able to assess accurately any risk of loss from the loans to these borrowers.

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

Substantially all of our loan portfolio is located within the boundaries of the U.S. economy. Whether the collateral is located in Puerto Rico, the USVI, the BVI or the U.S. mainland, the performance of our loan portfolio and the collateral value backing the transactions are dependent upon the performance of and conditions within each specific real estate market. Recent economic reports related to the real estate market in Puerto Rico indicate that certain pockets of the real estate market are subject to readjustments in value driven not by demand but more by the purchasing power of the consumers and general economic conditions. In southern Florida, we have been seeing the negative impact associated with low absorption rates and property value adjustments due to overbuilding. We measure the impairment based on the fair value of the collateral, if collateral dependent, which is generally obtained from appraisals. Updated appraisals are obtained when we determine that loans are impaired and are updated annually thereafter. In addition, appraisals are also obtained for certain residential mortgage loans on a spot basis based on specific characteristics such as delinquency levels, age of the appraisal and loan-to-value ratios. The appraised value of the collateral may decrease or we may not be able to recover collateral at its appraised value. A significant decline in collateral valuations for collateral dependent loans may require increases in our specific provision for loan losses and an increase in the general valuation allowance. Any such increase would have an adverse effect on our future financial condition and results of operations.

Worsening in the financial condition of critical counterparties may result in higher losses than expected.

The financial stability of several counterparties is critical for their continued financial performance on covenants that require the repurchase of loans, posting of collateral to reduce our credit exposure or replacement of delinquent loans. Many of these transactions expose us to credit risk in the event of a default by one of our counterparties. Any such losses could adversely affect our business, financial condition and results of operations.

Interest rate shifts may reduce net interest income.

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest-earning assets and the interest paid by us on our interest-bearing liabilities. When interest rates rise, the rate of interest we pay on our liabilities rises more quickly than the rate of interest that we receive on our interest-bearing assets, which may cause our profits to decrease. The impact on earnings is more adverse when the slope of the yield curve flattens, that is, when short-term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short-term interest rates.

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

Fixed-rate securities acquired by us are generally subject to decreases in market value when interest rates rise, which may require recognition of a loss (e.g., the identification of other-than-temporary impairment on our available for sale or held to maturity investments portfolio), thereby adversely affecting our results of operations. Market-related reductions in value also influence our ability to finance these securities.

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

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

Accelerated prepayments may adversely affect net interest income.

Net interest income of future periods will be affected by our decision to deleverage our investment securities portfolio to preserve our capital position. Also, net interest income could be affected by prepayments of mortgage-backed securities. Acceleration in the prepayments of mortgage-backed securities would lower yields on these securities, as the amortization of premiums paid upon acquisition of these securities would accelerate. Conversely, acceleration in the prepayments of mortgage-backed securities would increase yields on securities purchased at a discount, as the amortization of the discount would accelerate. These risks are directly linked to future period market interest rate fluctuations. Also, net interest income in future periods might be affected by our investment in callable securities.

Changes in interest rates may reduce net interest income due to basis risk.

Basis risk is the risk of adverse consequences resulting from unequal changes in the difference, also referred to as the spread, between two or more rates for different instruments with the same maturity and occurs when market rates for different financial instruments or the indices used to price assets and liabilities change at different times or by different amounts. The interest expense for liability instruments such as brokered CDs at times does not change by the same amount as interest income received from loans or investments. The liquidity crisis that erupted in late 2008, and that slowly began to subside during 2009, caused a wider than normal spread between brokered CD costs and London Interbank Offered Rates (LIBOR) for similar terms. This, in turn, has prevented us from capturing the full benefit of a decrease in interest rates, as the floating rate loan portfolio re-prices with changes in the LIBOR indices, while the brokered CD rates decreased less than the LIBOR indices. To the extent that such pressures fail to subside in the near future, the margin between our LIBOR-based assets and the higher cost of the brokered CDs may compress and adversely affect net interest income.

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

For the year ended December 31, 2009 and the first half of 2010, we recognized a total of $1.7 million and $0.6 million, respectively, in other-than-temporary impairments. To the extent that any portion of the unrealized losses in our investment securities portfolio is determined to be other-than-temporary and, in the case of debt securities, the loss is related to credit factors, we would recognize a charge to earnings in the quarter during which such determination is made and capital ratios could be adversely affected. Even if we do not determine that the unrealized losses associated with this portfolio require an impairment charge, increases in these unrealized losses adversely affect our tangible common equity ratio, which may adversely affect credit rating agency and investor sentiment towards us. This negative perception also may adversely affect our ability to access the capital markets or might increase our cost of capital. Valuation and other-than-temporary impairment determinations will continue to be affected by external market factors including default rates, severity rates and macro-economic factors.

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

Fitch Ratings Ltd. (Fitch) currently rates First BanCorp s and FirstBank s long-term senior debt B– , six notches below investment grade. Standard and Poor s (S&P) rates First BanCorp CCC+ , or seven notches below investment grade. Moody s Investor Service (Moody s) rates FirstBank s long-term senior debt B3 , and S&P rates it CCC+ . On June 4

2010, Moody s placed FirstBank on Credit Watch

29

Negative. Furthermore, on June 25, 2010, Fitch placed First BanCorp and FirstBank on Credit Watch Negative.

We do not have any outstanding debt or derivative agreements that would be affected by a credit downgrade. Our liquidity is contingent upon our ability to obtain new external sources of funding to finance our operations; however, our current credit ratings and any future downgrades in credit ratings could hinder our access to external funding and/or cause external funding to be more expensive, which could in turn adversely affect our results of operations. Changes in credit ratings may also affect the fair value of certain liabilities and unsecured derivatives, measured at fair value in the financial statements, for which our own credit risk is an element considered in the fair value determination.

These debt and financial strength ratings are current opinions of the rating agencies. As such, they may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances.

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

We may fail to identify and manage risks related to a variety of aspects of our business, including, but not limited to, operational risk, interest-rate risk, trading risk, fiduciary risk, legal and compliance risk, liquidity risk and credit risk. We have adopted various controls, procedures, policies and systems to monitor and manage risk. While we currently believe that our risk management policies and procedures are effective, the Order required us to review and revise our policies relating to risk management, including the policies relating to the assessment of the adequacy of the allowance for loan and lease losses and credit administration. Any improvements to our controls, procedures, policies and systems may not be adequate to identify and manage the risks in our various businesses. If our risk framework is ineffective, either because it fails to keep pace with changes in the financial markets or our businesses or for other reasons, we could incur losses, suffer reputational damage or find ourselves out of compliance with applicable regulatory mandates or expectations.

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

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

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

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

The FDIC insures deposits at FDIC insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund (the DIF). Current economic conditions have resulted in higher bank failures and expectations of future bank failures. In the event of a bank failure, the FDIC takes control of a failed bank and ensures payment of deposits up to insured limits (which have recently been increased) using the resources of the DIF. The FDIC is required by law to maintain adequate funding of the DIF, and the FDIC may increase premium assessments to maintain such funding.

The Dodd-Frank Act signed into law on July 21, 2010 requires the FDIC to increase the DIF s reserves against future losses, which will necessitate increased deposit insurance premiums that are to be borne primarily by institutions with assets of greater than $10 billion. Although the precise impact on us will not be clear until implementing rules are issued, any future increases in assessments will decrease our earnings and could have a material adverse effect on the value of, or market for, our common stock.

On October 19, 2010, the FDIC further addressed plans to bolster the DIF by increasing the required reserve ratio for the industry to 1.35 percent (ratio of reserves to insured deposits) by September 30, 2020, as required by the Dodd-Frank Act. Current assessment rates will remain in effect until such time as the industry s reserve ratio reaches 1.15 percent, which the FDIC estimates will occur at the end of 2018. The FDIC also proposed to raise its industry target ratio of reserves to insured deposits to 2 percent, 65 basis points above the statutory minimum, but the FDIC does not project that goal to be met until 2027.

We may not be able to recover all assets pledged to Lehman Brothers Special Financing, Inc.

Lehman Brothers Special Financing, Inc. (Lehman) was the counterparty to First BanCorp on certain interest rate swap agreements. During the third quarter of 2008, Lehman failed to pay the scheduled net cash settlement due to us, which constituted an event of default under those interest rate swap agreements. We 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 June 30, 2010 under the swap agreements, we have 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. We had pledged collateral of $63.6 million with Lehman to guarantee our performance under the swap agreements in the event payment thereunder was required. The book value of pledged securities with Lehman as of June 30, 2010 amounted to approximately $64.5 million.

We believe that the securities pledged as collateral should not be part of the Lehman bankruptcy estate given the facts 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 us. During the fourth quarter of 2009, we 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, we 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 our 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, we filed our 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 our 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 our claim. Accordingly, the judge ordered the case to proceed to trial. Subsequent to the decision handed down by the court, the district court judge transferred the case to the Lehman bankruptcy court for trial. While we believe we have valid reasons to support our claim for the return of the securities, we may not succeed in our litigation against Barclays to recover all or a substantial portion of the securities.

Additionally, we continue to pursue our 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 we are unable to determine the timing of the claim resolution or whether we 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 us, despite our efforts in this regard, we decided to classify such investments as non-performing during the second quarter of 2009.

Our businesses may be adversely affected by litigation.

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

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

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

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

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