FIRST BANCORP /PR/
Form 10-Q
May 11, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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

For the transition period from to

COMMISSION FILE NUMBER 001-14793

FIRST BANCORP.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

(787) 729-8200

(Registrant s telephone number, including area code)

Not applicable

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

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

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

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

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

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

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

Common stock: 206,134,458 outstanding as of April 30, 2012.

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Forward Looking Statements

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

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

- uncertainty about whether the Corporation and FirstBank Puerto Rico (FirstBank or the Bank) will be able to fully comply with the written agreement dated June 3, 2010 (the Written Agreement) that the Corporation entered into with the Federal Reserve Bank of New York (the FED or Federal Reserve) and the order dated June 2, 2010 (the FDIC Order) and together with the Written Agreement, (the Agreements) that the Corporation s banking subsidiary, FirstBank entered into with the Federal Deposit Insurance Corporation (FDIC) and the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico (OCIF) that, among other things, require the Bank to maintain certain capital levels and reduce its special mention, classified, delinquent and non-performing assets;

- the risk of being subject to possible additional regulatory actions;

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

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

- the risk of not being able to fulfill the Corporation s cash obligations or resume paying dividends to the Corporation s stockholders in the future due to the Corporation s inability to receive approval from the FED to receive dividends from FirstBank or FirstBank s failure to generate sufficient cash flow to make a dividend payment to the Corporation;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- general competitive factors and industry consolidation.

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

Investors should refer to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2011 for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

(In thousands, except for share information)	March 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 380,065	$ 206,897
Money market investments:		
Federal funds sold	1,069	2,603
Time deposits with other financial institutions	955	955
Other short-term investments	236,116	236,111
Total money market investments	238,140	239,669
Investment securities available for sale, at fair value:		
Securities pledged that can be repledged	1,169,822	1,167,265
Other investment securities	673,662	756,003
Total investment securities available for sale	1,843,484	1,923,268
Other equity securities	37,951	37,951
Investment in unconsolidated entities	36,990	43,401
Loans, net of allowance for loan and lease losses of $483,943 (2011 - $493,917)	9,811,842	10,065,475
Loans held for sale, at lower of cost or market	44,352	15,822
Total loans, net	9,856,194	10,081,297
Premises and equipment, net	189,966	194,942
Other real estate owned	135,905	114,292
Accrued interest receivable on loans and investments	47,840	49,957
Other assets	319,088	235,601
Total assets	$ 13,085,623	$ 13,127,275
LIABILITIES		
Non-interest-bearing deposits	$ 761,744	$ 705,789
Interest-bearing deposits	9,146,500	9,201,965
Total deposits	9,908,244	9,907,754
Securities sold under agreements to repurchase	1,000,000	1,000,000
Advances from the Federal Home Loan Bank (FHLB)	353,440	367,440

Notes payable (including $16,016 and $15,968 measured at fair value as of March 31, 2012 and December 31, 2011, respectively)	16,016	23,342
Other borrowings	231,959	231,959
Accounts payable and other liabilities	142,941	152,636
Total liabilities	11,652,600	11,683,131
Commitments and Contingencies (Note 22)		
STOCKHOLDERS EQUITY		
Preferred stock, authorized 50,000,000 shares:		
Non-cumulative Perpetual Monthly Income Preferred Stock: issued - 22,004,000 shares, outstanding - 2,521,872 shares, aggregate liquidation value of $63,047	63,047	63,047
Common stock, $0.10 par value, authorized 2,000,000,000 shares; issued 206,629,311 shares (2011 - 205,794,024 shares issued)	20,663	20,579
Less: Treasury stock (at par value)	(49)	(66)
Common stock outstanding, 206,134,458 shares outstanding (2011 - 205,134,171 shares outstanding)	20,614	20,513
Additional paid-in capital	884,938	884,002
Retained earnings	444,202	457,384
Accumulated other comprehensive income, net of tax expense of $7,534 (2011 - $7,751)	20,222	19,198
Total stockholders equity	1,433,023	1,444,144
Total liabilities and stockholders equity	$ 13,085,623	$ 13,127,275

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF LOSS

(Unaudited)

(In thousands, except per share data)	Quarter Ended	
	March 31, 2012	March 31, 2011
Interest income:		
Loans	$ 140,526	$ 157,971
Investment securities	11,212	22,623
Money market investments	369	309
Total interest income	152,107	180,903
Interest expense:		
Deposits	36,735	54,059
Securities sold under agreements to repurchase	8,090	13,136
Advances from FHLB	3,241	4,745
Notes payable and other borrowings	2,175	2,684
Total interest expense	50,241	74,624
Net interest income	101,866	106,279
Provision for loan and lease losses	36,197	88,732
Net interest income after provision for loan and lease losses	65,669	17,547
Non-interest income:		
Service charges on deposit accounts	3,247	3,332
Other service charges	1,519	1,718
Mortgage banking activities	4,475	6,591
Net gain on sale of investments	26	19,341
Other-than-temporary impairment losses on investment securities:		
Total other-than-temporary impairment losses		
Portion of loss previously recognized in other comprehensive income	(1,233)	
Net impairment losses on investment securities	(1,233)	
Equity in losses of unconsolidated entities	(6,236)	
Other non-interest income	6,677	9,503
Total non-interest income	8,475	40,485
Non-interest expenses:		
Employees compensation and benefits	31,611	30,439
Occupancy and equipment	15,676	15,250
Business promotion	2,547	2,664
Professional fees	5,179	5,137

Taxes, other than income taxes	3,416	3,255
Insurance and supervisory fees	13,008	15,177
Net loss on real estate owned (REO) operations	3,443	5,500
Other non-interest expenses	10,313	5,444
Total non-interest expenses	85,193	82,866
Loss before income taxes	(11,049)	(24,834)
Income tax expense	(2,133)	(3,586)
Net loss	$ (13,182)	$ (28,420)
Net loss attributable to common stockholders	$ (13,182)	$ (35,437)
Net loss per common share:		
Basic	$ (0.06)	$ (1.66)
Diluted	$ (0.06)	$ (1.66)
Dividends declared per common share	$	$

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

	Quarter Ended	
	March 31, 2012	March 31, 2011
Net loss	$ (13,182)	$ (28,420)
Available-for-sale debt securities on which an other-than-temporary impairment has been recognized:		
Subsequent unrealized gain on debt securities on which an other-than-temporary impairment has been recognized	3,397	751
Reclassification adjustment for other-than-temporary impairment on debt securities included in net income	(1,233)	
All other unrealized gains and losses on available-for-sale securities:		
All other unrealized holding losses arising during the period	(1,357)	(5,932)
Reclassification adjustments for net gain included in net income		(48)
Net unrealized gains on securities reclassified from held to maturity to available for sale		2,789
Income tax benefit related to items of other comprehensive income	217	146
Other comprehensive income (loss) for the period, net of tax	1,024	(2,294)
Total comprehensive loss	$ (12,158)	$ (30,714)

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Quarter Ended	
(In thousands)	**March 31, 2012**	**March 31, 2011**
Cash flows from operating activities:		
Net Loss	$ (13,182)	$ (28,420)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	6,440	5,810
Amortization and impairment of core deposit intangible	589	589
Provision for loan and lease losses	36,197	88,732
Deferred income tax expense	714	1,746
Stock-based compensation recognized		24
Gain on sale of investments, net		(18,710)
Other-than-temporary impairments on investment securities	1,233	
Derivatives instruments and financial liabilities measured at fair value (gain) loss	(456)	518
Equity in losses of unconsolidated entities	6,236	
Loss (gain) on sale of premises and equipment and other assets	272	(2,845)
Net gain on sale of loans held for investment and impairments	(132)	(5,505)
Net amortization of premiums, discounts and deferred loan fees and costs	(886)	395
Originations and purchases of loans held for sale	(69,979)	(21,809)
Proceeds from sales and repayments of loans held for sale	96,119	20,427
Amortization of broker placement fees	2,774	5,359
Net amortization of premium and discounts on investment securities	3,754	1,736
(Decrease) increase in accrued income tax payable	(1,787)	1,642
Decrease in accrued interest receivable	1,617	3,481
Decrease in accrued interest payable	(1,198)	(22)
Decrease (increase) in other assets	14,041	(2,355)
Increase (decrease) in other liabilities	4,028	(7,145)
Total adjustments	99,576	72,068
Net cash provided by operating activities	86,394	43,648
Cash flows from investing activities:		
Principal collected on loans	592,965	569,498
Loans originated	(457,219)	(503,164)
Purchases of loans	(34,899)	(32,728)
Proceeds from sale of loans held for investment	5,225	330,978
Proceeds from sale of repossessed assets	26,784	21,920
Proceeds from sale of available-for-sale securities		41,422
Proceeds from sale of held-to-maturity securities		348,798
Purchases of securities available for sale	(164,120)	
Proceeds from principal repayments and maturities of securities available for sale	140,442	106,117
Proceeds from principal repayments and maturities of securities held to maturity		33,726
Additions to premises and equipment	(2,744)	(3,810)
Proceeds from sale of premises and equipment and other assets	1,008	2,940

Proceeds from securities litigation settlement and other proceeds	26	631
Decrease in other equity securities		4,500
Net cash provided by investing activities	107,468	920,828
Cash flows from financing activities:		
Net decrease in deposits	(2,745)	(348,465)
Repayments of medium-term notes	(6,515)	
Net FHLB advances paid	(14,000)	(113,000)
Proceeds from common stock sold	1,037	
Net cash used in financing activities	(22,223)	(461,465)
Net increase in cash and cash equivalents	171,639	503,011
Cash and cash equivalents at beginning of period	446,566	370,283
Cash and cash equivalents at end of period	$ 618,205	$ 873,294
Cash and cash equivalents include:		
Cash and due from banks	$ 380,065	$ 663,581
Money market instruments	238,140	209,713
	$ 618,205	$ 873,294

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited)

(In thousands)	Quarter Ended March 31, 2012	Quarter Ended March 31, 2011
Preferred Stock:		
Balance at beginning of period	$ 63,047	$ 425,009
Accretion of preferred stock discount		1,715
Balance at end of period	63,047	426,724
Common Stock outstanding:		
Balance at beginning of period	20,513	2,130
Common stock sold	29	
Restricted stock grants	72	
Balance at end of period	20,614	2,130
Additional Paid-In-Capital:		
Balance at beginning of period	884,002	319,459
Restricted stock grants	(72)	
Common stock sold	1,008	
Stock-based compensation recognized		24
Balance at end of period	884,938	319,483
Retained Earnings:		
Balance at beginning of period	457,384	293,643
Net loss	(13,182)	(28,420)
Accretion of preferred stock discount		(1,715)
Balance at end of period	444,202	263,508
Accumulated Other Comprehensive Income (Loss), net of tax:		
Balance at beginning of period	19,198	17,718
Other comprehensive income (loss), net of tax	1,024	(2,294)
Balance at end of period	20,222	15,424
Total stockholders equity	$ 1,433,023	$ 1,027,269

The accompanying notes are an integral part of these statements.

FIRST BANCORP.

PART I NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements (unaudited) of First BanCorp. (First BanCorp or the Corporation) have been prepared in conformity with the accounting policies stated in the Corporation s Audited Consolidated Financial Statements included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2011. Certain information and note disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) have been condensed or omitted from these statements pursuant to the rules and regulations of the SEC and, accordingly, these financial statements should be read in conjunction with the Audited Consolidated Financial Statements of the Corporation for the year ended December 31, 2011, included in the Corporation s 2011 Annual Report on Form 10-K. All adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the statement of financial position, results of operations and cash flows for the interim periods have been reflected. All significant intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the quarter ended March 31, 2012 are not necessarily indicative of the results to be expected for the entire year.

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

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

In April 2011, the FASB updated the Accounting Standards Codification (Codification) to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update remove from the assessment of effective control the criterion relating to the transferor s ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The Board concluded that this criterion is not a determining factor of effective control. Consequently, the amendments in this Update also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. Eliminating the transferor s ability criterion and related implementation guidance from an entity s assessment of effective control should improve the accounting for repurchase agreements and other similar transactions. The amendments in this Update are effective for the first interim or annual period beginning on or after December 15, 2011, and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Corporation adopted this guidance with no impact on the financial statements.

In May 2011, the FASB updated the Codification to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards (IFRSs). The amendments in this Update apply to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity s shareholders equity in the financial statements and result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. The amendments in this Update are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The Corporation adopted this guidance in 2012, refer to note 19 for applicable disclosures. The adoption of this guidance did not have a material impact in the Corporation s consolidated financial position or results of operations.

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

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

In December 2011, the FASB updated the Codification to clarify the guidance on the derecognition of in substance real estate in order to resolve the diversity in practice when a parent ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt. Under the amendments in this Update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. That is, even if the reporting entity ceases to have a controlling financial interest, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary s operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. The Corporation is currently evaluating the impact, if any, of the adoption of this guidance on its consolidated financial statements.

In December 2011, the FASB updated the Codification to enhance and provided converged disclosures about financial and derivative instruments that are either offset on the balance sheet, or are subject to an enforceable master netting arrangement (or other similar

arrangement). Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The amendments in this Update are effective for interim and annual period beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of the adoption of this guidance, if any, on its consolidated financial statements.

2 EARNINGS PER COMMON SHARE

The calculations of earnings per common share for the quarters ended on March 31, 2012 and 2011 are as follows:

	Quarter Ended	
	March 31, 2012	March 31, 2011
	(In thousands, except per share data)	
Net loss:		
Net loss	$ (13,182)	$ (28,420)
Cumulative convertible preferred stock dividend (Series G)		(5,302)
Preferred stock discount accretion (Series G)		(1,715)
Net loss attributable to common stockholders	$ (13,182)	$ (35,437)
Average common shares outstanding	205,217	21,303
Average potential common shares		
Average common shares outstanding- assuming dilution	205,217	21,303
Basic loss per common share	$ (0.06)	$ (1.66)
Diluted loss per common share	$ (0.06)	$ (1.66)

Loss per common share is computed by dividing the net loss attributable to common stockholders by the weighted average common shares issued and outstanding. Net loss attributable to common stockholders represents net loss adjusted for preferred stock dividends including dividends declared, and cumulative dividends related to the current dividend period that have not been declared as of the end of the period, and the accretion of discount on preferred stock issuances. Basic weighted average common shares outstanding exclude unvested shares of restricted stock.

Potential common shares consist of common stock issuable under the assumed exercise of stock options, unvested shares of restricted stock, and outstanding warrants using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from the exercise, in addition to the amount of compensation cost attributable to future services, are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Stock options, unvested shares of restricted stock, and outstanding warrants that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect on earnings per share. For the quarters ended March 31, 2012 and 2011, there were 120,221 and 131,532 outstanding stock options, respectively; warrants outstanding to purchase 1,285,899 and 389,483 shares of common stock, respectively, and 719,500 and 716 unvested shares of restricted stock, respectively, which were excluded from the computation of diluted earnings per common share because their inclusion would have an antidilutive effect.

3 STOCK-BASED COMPENSATION PLAN

Between 1997 and January 2007, the Corporation had a stock option plan (the 1997 stock option plan) that authorized the granting of up to 579,740 options on shares of the Corporation s common stock to eligible employees. The options granted under the plan could not exceed 20% of the number of common shares outstanding. Each option provides for the purchase of one share of common stock at a price not less than the fair

market value of the stock on the date the option was granted. Stock options were fully vested upon grant. The maximum term to exercise the options is ten years. The stock option plan provides for a proportionate adjustment in the exercise price and the number of shares that can be purchased in the event of a stock dividend, stock split, reclassification of stock, merger or reorganization and certain other issuances and distributions such as stock appreciation rights.

Under the 1997 stock option plan, the Compensation and Benefits Committee (the Compensation Committee) had the authority to grant stock appreciation rights at any time subsequent to the grant of an option. Pursuant to stock appreciation rights, the optionee surrenders the right to exercise an option granted under the plan in consideration for payment by the Corporation of an amount equal

to the excess of the fair market value of the shares of common stock subject to such option surrendered over the total option price of such shares. Any option surrendered is cancelled by the Corporation and the shares subject to the option are not eligible for further grants under the option plan. On January 21, 2007, the 1997 stock option plan expired; all outstanding awards granted under this plan continue in full force and effect, subject to their original terms. No awards for shares could be granted under the 1997 stock option plan as of its expiration.

Stock options outstanding under the 1997 stock option plan as of March 31, 2012 follows:

	Quarter Ended March 31, 2012			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Beginning of period	129,934	$ 202.99		
Options expired	(9,713)	140.25		
End of period outstanding and exercisable	120,221	$ 208.08	3.55	$

On April 29, 2008, the Corporation s stockholders approved the First BanCorp 2008 Omnibus Incentive Plan (the Omnibus Plan). The Omnibus Plan provides for equity-based compensation incentives (the awards) through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, and other stock-based awards. This plan allows the issuance of up to 8,169,807 shares of common stock, subject to adjustments for stock splits, reorganizations and other similar events. The Corporation s Board of Directors, upon receiving the relevant recommendation of the Compensation Committee, has the power and authority to determine those eligible to receive awards and to establish the terms and conditions of any awards subject to various limits and vesting restrictions that apply to individual and aggregate awards.

Under the Omnibus Plan, late in the first quarter of 2012, the Corporation issued 719,500 shares of restricted stock which will vest based on the employees continued service with the Corporation. Fifty percent (50%) of the shares vest in two years from the grant date and the remaining 50% vest in three years from the grant date. Included in the 719,500 shares of restricted stock are 557,000 shares granted to certain senior executive officers consistent with the requirements of the Troubled Asset Relief Program (TARP) Interim Final Rule. Notwithstanding the vesting period mentioned above, the employees covered by TARP are restricted from transferring the shares. Specifically, the stock that has otherwise vested may not become transferable at any time earlier than as permitted under the schedule set forth by TARP, which is based on the repayment in 25% increments of the aggregate financial assistance received from the U.S. Department of Treasury (the Treasury).

The following table summarizes the restricted stock activity in 2012 under the Omnibus Plan for both executive officers covered by the TARP requirements and other employees:

	Quarter Ended March 31, 2012	
	Number of shares of restricted stock	Weighted-Average Grant Date Fair Value
Non-vested shares at beginning of period		$
Granted	719,500	2.45
Non-vested shares at March 31, 2012	719,500	$ 2.45

As of March 31, 2012, there was $1.7 million of total unrecognized compensation cost related to nonvested shares of restricted stock. That cost is expected to be recognized for 50% of the awards over a two year period and the other 50% over a three year period, as if they were multiple awards. No shares of restricted stock were granted or vested during the first quarter of 2011.

The fair value of the shares of restricted stock granted was based on the market price of the Corporation s outstanding common stock on the date of the grant, $4.00. For the 557,000 shares of restricted stock granted under the TARP requirements, the market price was discounted due to post-vesting restrictions. For purposes of computing the discount, the Corporation assumes a common stock appreciation of 25% and a holding period by the Treasury of its outstanding common stock of the Corporation of 3 years, resulting in a fair value of $2.00 for restricted shares granted under the TARP requirements. Also, the Corporation uses empirical data to estimate employee termination, separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes.

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No compensation cost has been recognized yet in the consolidated statement of loss for these awards in 2012. For the quarter ended March 31, 2011, the Corporation recognized $23,333 of stock based compensation related to 720 shares of restricted stock granted in 2008 to members of the Board of Directors that vested in the fourth quarter of 2011.

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

4 INVESTMENT SECURITIES

Investment Securities Available for Sale

The amortized cost, non-credit loss component of other-than-temporary impairment (OTTI) on securities with changes in fair value recorded in other comprehensive income (OCI), gross unrealized gains and losses recorded in OCI, approximate fair value, weighted-average yield and contractual maturities of investment securities available for sale as of March 31, 2012 and December 31, 2011 were as follows:

	March 31, 2012						December 31, 2011					
	Amortized cost	Non-Credit Loss Component of OTTI Recorded in OCI	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%	Amortized cost	Non-Credit Loss Component of OTTI Recorded in OCI	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%
	(Dollars in thousands)											
U.S. Treasury securities:												
Due within one year	$ 375,137	$	$ 2	$ 18	$ 375,121	0.16	$ 476,665	$	$ 327	$	$ 476,992	0.34
Obligations of U.S. Government sponsored agencies:												
Due within one year	300,071		424		300,495	1.15	300,381		1,204		301,585	1.15
Puerto Rico Government obligations:												
Due within one year	8,560		57		8,617	4.20	8,560		110		8,670	4.20
After 1 to 5 years	9,600		165		9,765	5.41	70,590		171	1	70,760	2.63
After 5 to 10 years	118,977		590		119,567	4.94	118,186		76	13	118,249	5.07
After 10 years	23,394		836		24,230	5.77	24,154		781	1	24,934	5.74
United States and Puerto Rico Government obligations	835,739		2,074	18	837,795	1.45	998,536		2,669	15	1,001,190	1.47
Mortgage-backed securities:												
FHLMC certificates:												
Due within one year	625		5		630	3.68						
After 1 to 5 years							928		8		936	3.67
After 10 years	100,307		329	11	100,625	2.41	24,974		238		25,212	2.59
	100,932		334	11	101,255	2.42	25,902		246		26,148	2.62
GNMA certificates:												

After 1 to 5 years	175		9		184	3.80	179		9		188	3.88
After 5 to 10 years	541		44		585	4.10	596		47		643	4.09
After 10 years	684,765		43,373		728,138	4.00	717,237		43,938		761,175	3.98
	685,481		43,426		728,907	4.00	718,012		43,994		762,006	3.98
FNMA certificates:												
After 1 to 5 years	724		29		753	3.81	1,019		42		1,061	3.82
After 5 to 10 years	17,353		915		18,268	3.99	18,826		1,007		19,833	3.97
After 10 years	92,931		3,107	10	96,028	3.80	47,485		3,285		50,770	5.46
	111,008		4,051	10	115,049	3.83	67,330		4,334		71,664	5.02
Other mortgage pass-through trust certificates:												
After 10 years	81,043	31,951	10,537		59,629	2.48	85,014	31,951	8,143		61,206	2.19
Total mortgage-backed securities	978,464	31,951	58,348	21	1,004,840	3.69	896,258	31,951	56,717		921,024	3.85
Corporate bonds:												
After 10 years	1,447	434		230	783	5.80	1,447	434			1,013	5.80
Equity securities (without contractual maturity) [1]	77			11	66		77			36	41	
Total investment securities available for sale	$ 1,815,727	$ 32,385	$ 60,422	$ 280	$ 1,843,484	2.66	$ 1,896,318	$ 32,385	$ 59,386	$ 51	$ 1,923,268	2.60

(1) Represents common shares of another financial institution in Puerto Rico.

Maturities of mortgage-backed securities are based on contractual terms assuming no prepayments. Expected maturities of investments might differ from contractual maturities because they may be subject to prepayments and/or call options as was the case with approximately $101 million of Puerto Rico Government Obligations called during the first quarter of 2012. The weighted-average yield on investment securities available-for-sale is based on amortized cost and, therefore, does not give effect to changes in fair value. The net unrealized gain or loss on securities available-for-sale and the non-credit loss component of OTTI are presented as part of OCI.

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The following tables show the Corporation s available-for-sale investments fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2012 and December 31, 2011. The table also includes debt securities for which an OTTI was recognized and only the amount related to a credit loss was recognized in earnings. Unrealized losses for which OTTI had been recognized have been reduced by any subsequent recoveries in fair value:

	As of March 31, 2012					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Government agencies obligations	$ 367,622	$ 18	$	$	$ 367,622	$ 18
Mortgage-backed securities:						
FNMA	47,761	10			47,761	10
FHLMC	29,969	11			29,969	11
Other mortgage pass-through trust certificates			59,454	21,414	59,454	21,414
Corporate bonds			783	664	783	664
Equity securities	66	11			66	11
	$ 445,418	$ 50	$ 60,237	$ 22,078	$ 505,655	$ 22,128

	As of December 31, 2011					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
Puerto Rico Government obligations	$ 15,982	$ 15	$	$	$ 15,982	$ 15
Mortgage-backed securities:						
Other mortgage pass-through trust certificates			61,017	23,809	61,017	23,809
Corporate bonds			1,013	434	1,013	434
Equity securities	41	36			41	36
	$ 16,023	$ 51	$ 62,030	$ 24,243	$ 78,053	$ 24,294

Total proceeds from the sale of securities available for sale during the quarter ended March 31, 2011 amounted to approximately $41.4 million, none in the first quarter of 2012.

Assessment for OTTI

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

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

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

Debt securities issued by U.S. government agencies, government-sponsored entities and the U.S. Treasury accounted for more than 87% of the total available-for-sale portfolio as of March 31, 2012 and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government. The Corporation s assessment was concentrated mainly on private label mortgage-backed securities with an amortized cost of $81 million and in the Corporation s $1.4 million investment in a collateralized debt obligation transaction for which credit losses are evaluated on a quarterly basis. The Corporation considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

The length of time and the extent to which the fair value has been less than the amortized cost basis.

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- Changes in the near term prospects of the underlying collateral of a security such as changes in default rates, loss severity given default and significant changes in prepayment assumptions;

- The level of cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

- Any adverse change to the credit conditions and liquidity of the issuer, taking into consideration the latest information available about the overall financial condition of the issuer, credit ratings, recent legislation and government actions affecting the issuer s industry and actions taken by the issuer to deal with the present economic climate.

No OTTI losses on available-for-sale debt securities were recorded during the quarter ended March 31, 2011.

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

	Quarter ended March 31,	
(In thousands)	2012	2011
Credit losses at the beginning of the period	$ 3,823	$ 1,852
Additions:		
Credit losses on debt securities for which an OTTI was previously recognized [(1)]	1,233	
Ending balance of credit losses on debt securities held for which a portion of an OTTI was recognized in OCI	$ 5,056	$ 1,852

(1) Related to private label MBS.

During the first quarter of 2012, a $1.2 million credit related impairment loss is related to Private label MBS, which are collateralized by fixed-rate mortgages on single family residential properties in the United States. The interest rate on these private-label MBS is variable, tied to 3-month LIBOR and limited to the weighted-average coupon of the underlying collateral. The underlying mortgages are fixed-rate single family loans with original high FICO scores (over 700) and moderate original loan-to-value ratios (under 80%), as well as moderate delinquency levels.

Based on the expected cash flows derived from the model, and since the Corporation does not have the intention to sell the securities and has sufficient capital and liquidity to hold these securities until a recovery of the fair value occurs, only the credit loss component was reflected in earnings. Significant assumptions in the valuation of the private label MBS as of March 31, 2012 and December 31, 2011 were as follow:

	March 31, 2012		December 31, 2011	
	Weighted Average	Range	Weighted Average	Range
Discount rate	14.5%	14.5%	14.5%	14.5%
Prepayment rate	28%	18.80% - 39.44%	27%	21.33% - 37.97%
Projected Cumulative Loss Rate	7%	1.36% - 15.71%	6%	1.94% - 11.89%

No OTTI losses on equity securities held in the available-for-sale investment portfolio were recognized for the first quarter of 2012 or 2011.

5 OTHER EQUITY SECURITIES

Institutions that are members of the Federal Home Loan Bank (FHLB) system are required to maintain a minimum investment in FHLB stock. Such minimum is calculated as a percentage of aggregate outstanding mortgages, and an additional investment is required that is calculated as a percentage of total FHLB advances, letters of credit, and the collateralized portion of interest-rate swaps outstanding. The stock is capital stock

issued at $100 par value. Both stock and cash dividends may be received on FHLB stock.

As of March 31, 2012 and December 31, 2011, the Corporation had investments in FHLB stock with a book value of $36.7 million. The net realizable value is a reasonable proxy for the fair value of these instruments. Dividend income from FHLB stock for the quarters ended March 31, 2012 and 2011 amounted to $0.4 million and $0.7 million, respectively.

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

The Corporation has other equity securities that do not have a readily available fair value. The carrying value of such securities as of March 31, 2012 and December 31, 2011 was $1.3 million.

6 LOANS HELD FOR INVESTMENT

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

	March 31, 2012	December 31, 2011
	(In thousands)	
Residential mortgage loans, mainly secured by first mortgages	$ 2,799,224	$ 2,873,785
Commercial loans:		
Construction loans	399,056	427,863
Commercial mortgage loans	1,500,746	1,565,411
Commercial and Industrial loans	3,774,913	3,856,695
Loans to local financial institutions collateralized by real estate mortgages	269,020	273,821
Commercial loans	5,943,735	6,123,790
Finance leases	242,228	247,003
Consumer loans	1,310,598	1,314,814
Loans held for investment	10,295,785	10,559,392
Allowance for loan and lease losses	(483,943)	(493,917)
Loans held for investment, net	$ 9,811,842	$ 10,065,475

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Loans held for investment on which accrual of interest income had been discontinued as of March 31, 2012 and December 31, 2011 were as follows:

(Dollars in thousands)	**March 31, 2012**	**December 31, 2011**
Non-performing loans:		
Residential mortgage	$ 341,188	$ 338,208
Commercial mortgage	244,391	240,414
Commercial and Industrial	263,604	270,171
Construction	231,071	250,022
Consumer:		
Auto loans	18,616	19,641
Finance leases	3,387	3,485
Other consumer loans	17,156	16,421
Total non-performing loans held for investment	$ 1,119,413	$ 1,138,362

The Corporation s aging of the loans held for investment portfolio as of March 31, 2012 and December 31, 2011, follows:

As of March 31, 2012 (Dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 days or more Past Due (1)**	**Total Past Due**	**Current**	**Total loans held for investment**	**90 days past due and still accruing**
Residential mortgage:							
FHA/VA and other government guaranteed loans (2) (3)	$	$ 18,186	$ 83,995	$ 102,181	$ 126,132	$ 228,313	$ 83,995
Other residential mortgage loans (3)		95,969	356,845	452,814	2,118,097	2,570,911	15,657
Commercial:							
Commercial & Industrial loans	27,140	7,373	287,489	322,002	3,721,931	4,043,933	23,885
Commercial mortgage loans (3)		17,394	245,980	263,374	1,237,372	1,500,746	1,589
Construction loans (3)		533	239,136	239,669	159,387	399,056	8,065
Consumer:							
Auto loans	61,801	17,069	18,616	97,486	840,753	938,239	
Finance leases	11,451	3,447	3,387	18,285	223,943	242,228	
Other consumer loans	9,439	4,062	17,156	30,657	341,702	372,359	
Total loans held for investment	$ 109,831	$ 164,033	$ 1,252,604	$ 1,526,468	$ 8,769,317	$ 10,295,785	$ 133,191

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

(2) As of March 31, 2012, includes $54.9 million of defaulted loans collateralizing Ginnie Mae (GNMA) securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.

(3) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve, residential mortgage, commercial mortgage and construction loans are considered past due when the borrower is in arrears 2 or more monthly payments.

As of December 31, 2011	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 days or more Past Due (1)**	**Total Past Due**	**Current**	**Total loans held for**	**90 days past due and still**

(Dollars in thousands)						**investment**	**accruing**
Residential mortgage:							
FHA/VA and other government guaranteed loans (2) (3)	$	$ 17,548	$ 85,188	$ 102,736	$ 165,417	$ 268,153	$ 85,188
Other residential mortgage loans (3)		90,274	350,495	440,769	2,164,863	2,605,632	12,287
Commercial:							
Commercial & Industrial loans	27,674	10,714	294,723	333,111	3,797,405	4,130,516	24,552
Commercial mortgage loans (3)		8,891	240,414	249,305	1,316,106	1,565,411	
Construction loans (3)		8,211	258,811	267,022	160,841	427,863	8,789
Consumer:							
Auto loans	61,265	18,963	19,641	99,869	837,697	937,566	
Finance leases	11,110	4,172	3,485	18,767	228,236	247,003	
Other consumer loans	10,170	4,699	16,421	31,290	345,958	377,248	
Total loans held for investment	$ 110,219	$ 163,472	$ 1,269,178	$ 1,542,869	$ 9,016,523	$ 10,559,392	$ 130,816

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

(2) As of December 31, 2011, includes $66.4 million of defaulted loans collateralizing Ginnie Mae (GNMA) securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.

(3) According to the Corporation's delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve, residential mortgage, commercial mortgage and construction loans are considered past due when the borrower is in arrears 2 or more monthly payments.

The Corporation s primary lending area is Puerto Rico. The Corporation s Puerto Rico banking subsidiary, FirstBank, also lends in the U.S. and British Virgin Islands markets and in the United States (principally in the state of Florida). Of the total gross loans held for investment portfolio of $10.3 billion as of March 31, 2012, approximately 84% have credit risk concentration in Puerto Rico, 8% in the United States and 8% in the Virgin Islands.

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As of March 31, 2012, the Corporation had $342.3 million outstanding in credit facilities granted to the Puerto Rico Government and/or its political subdivisions, down from $360.1 million as of December 31, 2011, and $142.0 million granted to the Virgin Islands government, up from $139.4 million as of December 31, 2011. A substantial portion of these credit facilities consist of loans to the central Government. Another portion of these obligations consists of loans to public corporations that obtain revenues from rates charged for services or products, such as electric power and water utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The Corporation also has loans to various municipalities in Puerto Rico for which the good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment.

Aside from loans extended to the Puerto Rico Government and its political subdivision, the largest loan to one borrower as of March 31, 2012 in the amount of $269.0 million is with one mortgage originator in Puerto Rico. This commercial loan is secured by individual real-estate loans, mostly 1-4 residential mortgage loans.

7 ALLOWANCE FOR LOAN AND LEASE LOSSES AND IMPAIRED LOANS

The changes in the allowance for loan and lease losses for the periods ended March 31, 2012 and 2011 were as follows:

(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
March 31, 2012						
Allowance for loan and lease losses:						
Beginning balance	$ 68,678	$ 108,992	$ 164,490	$ 91,386	$ 60,371	$ 493,917
Charge-offs	(5,858)	(3,624)	(13,491)	(17,543)	(10,487)	(51,003)
Recoveries	127	30	822	2,151	1,702	4,832
Provision	2,336	1,578	20,158	7,716	4,409	36,197
Ending balance	$ 65,283	$ 106,976	$ 171,979	$ 83,710	$ 55,995	$ 483,943
Ending balance: specific reserve for impaired loans	$ 47,105	$ 57,932	$ 67,248	$ 46,796	$ 5,495	$ 224,576
Ending balance: general allowance	$ 18,178	$ 49,044	$ 104,731	$ 36,914	$ 50,500	$ 259,367
Loans receivables:						
Ending balance	$ 2,799,224	$ 1,500,746	$ 4,043,933	$ 399,056	$ 1,552,826	$ 10,295,785
Ending balance: impaired loans	$ 600,651	$ 367,533	$ 261,438	$ 222,599	$ 24,811	$ 1,477,032
Ending balance: loans with general allowance	$ 2,198,573	$ 1,133,213	$ 3,782,495	$ 176,457	$ 1,528,015	$ 8,818,753

(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
March 31, 2011						
Allowance for loan and lease losses:						
Beginning balance	$ 62,330	$ 105,596	$ 152,641	$ 151,972	$ 80,486	$ 553,025
Charge-offs	(5,404)	(31,171)	(16,344)	(19,165)	(11,969)	(84,053)
Recoveries	243	67	56	1,927	1,698	3,991
Provision	6,327	13,381	41,486	22,463	5,075	88,732
Ending balance	$ 63,496	$ 87,873	$ 177,839	$ 157,197	$ 75,290	$ 561,695
Ending balance: specific reserve for impaired loans	$ 43,295	$ 29,610	$ 81,989	$ 98,167	$ 415	$ 253,476

Ending balance: general allowance	$	20,201	$	58,263	$	95,850	$	59,030	$	74,875	$	308,219
Loans receivables:												
Ending balance	$	2,896,692	$	1,588,768	$	4,262,660	$	682,245	$	1,659,410	$	11,089,775
Ending balance: impaired loans	$	566,270	$	232,054	$	395,979	$	365,412	$	2,407	$	1,562,122
Ending balance: loans with general allowance	$	2,330,422	$	1,356,714	$	3,866,681	$	316,833	$	1,657,003	$	9,527,653

Purchases of loans of $42.0 million during the first quarter of 2012 were consistent with a strategic program established by the Corporation in 2005 to purchase ongoing residential mortgage loan production from mortgage bankers in Puerto Rico. Generally, the loans purchased from mortgage bankers were conforming residential mortgage loans. Purchases of conforming residential mortgage loans provide the Corporation the flexibility to retain or sell the loans, including through securitization transactions depending upon whether the Corporation wants to retain high yielding loans and improve net interest margins or generate profits by selling loans. When the Corporation sells such loans, it generally keeps the servicing of the loans. The Corporation sold approximately $46.9 million of performing residential mortgage loans in the secondary market to FNMA and FHLMC during the first quarter of 2012. Also, the Corporation securitized approximately $54.3 million of FHA/VA mortgage loans into GNMA mortgage-backed securities during the first quarter of 2012.

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

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Information regarding impaired loans for the periods ended March 31, 2012 and December 31, 2011 was as follows:

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
As of March 31, 2012					
With no related allowance recorded:					
FHA/VA Guaranteed loans	$	$	$	$	$
Other residential mortage loans	185,194	201,403		183,138	2,486
Commercial:					
Commercial mortgage loans	53,854	57,863		35,827	223
Commercial & Industrial Loans	10,356	16,333		25,404	6
Construction Loans	37,895	49,851		33,826	23
Consumer:					
Auto loans					
Finance leases					
Other consumer loans	3,139	3,467		2,989	29
	$ 290,438	$ 328,917	$	$ 281,184	$ 2,767
With an allowance recorded:					
FHA/VA Guaranteed loans	$	$	$	$	$
Other residential mortage loans	415,457	463,349	47,105	419,399	2,718
Commercial:					
Commercial mortgage loans	313,679	361,271	57,932	199,046	1,898
Commercial & Industrial Loans	251,082	352,562	67,248	237,327	650
Construction Loans	184,704	299,832	46,796	334,316	97
Consumer:					
Auto loans	9,897	9,953	3,964	9,304	163
Finance leases	2,143	2,143	57	1,974	52
Other consumer loans	9,632	9,728	1,474	9,655	276
	$ 1,186,594	$ 1,498,838	$ 224,576	$ 1,211,021	$ 5,854
Total:					
FHA/VA Guaranteed loans	$	$	$	$	$
Other residential mortage loans	600,651	664,752	47,105	602,537	5,204
Commercial:					
Commercial mortgage loans	367,533	419,134	57,932	234,873	2,121
Commercial & Industrial Loans	261,438	368,895	67,248	262,731	656
Construction Loans	222,599	349,684	46,796	368,142	120
Consumer:					
Auto loans	9,897	9,953	3,964	9,304	163
Finance leases	2,143	2,143	57	1,974	52
Other consumer loans	12,771	13,195	1,474	12,644	305
	$ 1,477,032	$ 1,827,756	$ 224,576	$ 1,492,205	$ 8,621

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
As of December 31, 2011			
With no related allowance recorded:			
FHA/VA Guaranteed loans	$	$	$
Other residential mortage loans	181,081	192,757	
Commercial:			
Commercial mortgage loans	13,797	15,283	
Commercial & Industrial Loans	40,453	45,948	
Construction Loans	33,759	45,931	
Consumer:			
Auto loans			
Finance leases			
Other consumer loans	2,840	3,846	
	$ 271,930	$ 303,765	$
With an allowance recorded:			
FHA/VA Guaranteed loans	$	$	$
Other residential mortage loans	423,340	465,495	48,566
Commercial:			
Commercial mortgage loans	354,954	383,890	59,167
Commercial & Industrial Loans	223,572	316,641	58,652
Construction Loans	213,388	344,035	44,768
Consumer:			
Auto loans	8,710	8,710	1,039
Finance leases	1,804	1,804	41
Other consumer loans	9,678	9,678	2,669
	$ 1,235,446	$ 1,530,253	$ 214,902
Total:			
FHA/VA Guaranteed loans	$	$	$
Other residential mortage loans	604,421	658,252	48,566
Commercial:			
Commercial mortgage loans	368,751	399,173	59,167
Commercial & Industrial Loans	264,025	362,589	58,652
Construction Loans	247,147	389,966	44,768
Consumer:			
Auto loans	8,710	8,710	1,039
Finance leases	1,804	1,804	41
Other consumer loans	12,518	13,524	2,669
	$ 1,507,376	$ 1,834,018	$ 214,902

Interest income of approximately $11.4 million was recognized on impaired loans for the quarter ended March 31, 2011. The average recorded investment in impaired loans for the first quarter of 2011 was $1.5 billion.

The following tables show the activity for impaired loans and the related specific reserve during the three-month period ended March 31, 2012:

	March 31, 2012 (In thousands)
Impaired Loans:	
Balance at beginning of period	$ 1,507,376
Loans determined impaired during the period	98,275
Net charge-offs	(38,139)
Increases to impaired loans (disbursements)	4,918
Foreclosures	(41,018)
Loans no longer considered impaired	(25,913)
Paid in full or partial payments	(28,467)
Balance at end of period	$ 1,477,032

	March 31, 2012 (In thousands)
Specific Reserve:	
Balance at beginning of period	$ 214,902
Provision for loan losses	47,813
Net charge-offs	(38,139)
Balance at end of period	$ 224,576

The Corporation s credit quality indicators by loan type as of March 31, 2012 and December 31, 2011 are summarized below:

	Commercial Credit Exposure-Credit risk Profile based on Creditworthiness category:				
March 31, 2012	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified**	**Total Portfolio**
			(In thousands)		
Commercial Mortgage	$ 440,949	$ 10,101	$	$ 451,050	$ 1,500,746
Construction	224,665	38,432	605	263,702	399,056
Commercial and Industrial	437,215	51,681	1,837	490,733	4,043,933

	Commercial Credit Exposure-Credit risk Profile based on Creditworthiness category:				
December 31, 2011	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified**	**Total Portfolio**
			(In thousands)		
Commercial Mortgage	$ 414,355	$ 8,462	$	$ 422,817	$ 1,565,411
Construction	247,560	32,059	2,916	282,535	427,863
Commercial and Industrial	457,927	31,100	1,373	490,400	4,130,516

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

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

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

because of specific reasonable pending factors which may strengthen the credit in the near term.

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

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Consumer Credit Exposure-Credit risk Profile based on payment activity

March 31, 2012	Residential Real-Estate FHA/VA/Guaranteed	Residential Real-Estate Other residential loans	Auto	Consumer Finance Leases	Other Consumer
	(In thousands)				
Performing	$ 228,313	$ 2,229,723	$ 919,623	$ 238,841	$ 355,203
Non-performing		341,188	18,616	3,387	17,156
Total	$ 228,313	$ 2,570,911	$ 938,239	$ 242,228	$ 372,359

Consumer Credit Exposure-Credit risk Profile based on payment activity

December 31, 2011	Residential Real-Estate FHA/VA/Guaranteed	Residential Real-Estate Other residential loans	Auto	Consumer Finance Leases	Other Consumer
	(In thousands)				
Performing	$ 268,153	$ 2,267,424	$ 917,925	$ 243,518	$ 360,827
Non-performing		338,208	19,641	3,485	16,421
Total	$ 268,153	$ 2,605,632	$ 937,566	$ 247,003	$ 377,248

The Corporation provides homeownership preservation assistance to its customers through a loss mitigation program in Puerto Rico and in accordance with the government s Home Affordable Modification Program guidelines. Depending upon the nature of borrowers financial condition, restructurings or loan modifications through this program as well as other restructurings of individual commercial, commercial mortgage, construction and residential mortgage loans in the U.S. mainland fit the definition of Troubled debt restructurings (TDR). A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor s financial difficulties grants a concession to the debtor that it would not otherwise consider. Modifications involve changes in one or more of the loan terms that bring a defaulted loan current and provide sustainable affordability. Changes may include the refinancing of any past-due amounts, including interest and escrow, the extension of the maturity of the loan and modifications of the loan rate. As of March 31, 2012, the Corporation s total TDR loans of $853.6 million consisted of $386.3 million of residential mortgage loans, $113.8 million of commercial and industrial loans, $223.6 million of commercial mortgage loans, $108.0 million of construction loans and $21.9 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to $3.7 million as of March 31, 2012.

The Corporation s loss mitigation programs for residential mortgage and consumer loans can provide for one or a combination of the following: movement of interest past due to the end of the loan, extension of the loan term, deferral of principal payments for a significant period of time, and reduction of interest rates either permanently (up to 2010) or for a period of up to two years (step-up rates). Additionally, in remote cases, the restructuring may provide for the forgiveness of contractually due principal or interest. Uncollected interest is added to the end of the loan term at the time of the restructuring and not recognized as income until collected or when the loan is paid off. These programs are available to only those borrowers who have defaulted, or are likely to default, permanently on their loan and would lose their homes in foreclosure action absent some lender concession. Notwithstanding, if the Corporation is not reasonably assured that the borrower will comply with its contractual commitment, properties are foreclosed.

In addition to residential loans modified in TDRs described above, the Corporation also enters into trial modifications with certain borrowers. Trial modifications generally represent a three month period whereby the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Trial modifications lasting more than three months are considered TDRs. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification where the terms of the loan are formally modified. Approximately 79% of all loans that entered into a trial modification during the last twelve months became permanent modifications as of March 31, 2012. Substantially all permanent modifications are considered TDRs and are included in the TDR disclosures herein. As of March 31, 2012, the Corporation had 202 loans that were in trial modifications and were not considered TDRs, with an unpaid principal balance of $30.8 million and a carrying value of $28.4 million.

For the commercial real estate, commercial and industrial, and the construction portfolios, at the time of the restructuring, the Corporation determines, on a loan by loan basis, whether a concession was granted for economic or legal reasons related to the borrower s financial difficulty. Concessions granted for commercial loans could include: reductions in interest rates to rates that are considered below market; extension of repayment schedules and maturity dates beyond original contractual terms; waiving of borrower covenants; forgiveness of principal or interest; or other contract changes that would be considered a concession. The Corporation mitigates loan defaults for its commercial loan portfolios through its collections function. The function s objective is to minimize both early stage delinquencies and losses upon default of commercial loans. In the case of C&I, commercial mortgage and construction loan portfolios, the Special Asset Group (SAG) focuses on strategies for the

accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of REO. In addition to the management of the resolution process for problem loans, the SAG oversees collection efforts for all loans to prevent migration to the non-performing and/or adversely classified status. The SAG utilizes relationship officers, collection specialists and attorneys. In the case of residential construction projects, the workout function monitors project specifics, such as project management and marketing, as deemed necessary. The SAG utilizes its collections infrastructure of workout collection officers, credit work-out specialists, in-house legal counsel, and third party consultants. In the case of residential construction projects and large commercial loans, the function also utilizes third-party specialized consultants to monitor the residential and commercial construction projects in terms of construction, marketing and sales,

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and restructuring of large commercial loans. In addition, the Corporation extends, renews and restructures loans with satisfactory credit profiles. Many commercial loan facilities are structured as lines of credit, which are mainly one year in term and therefore are required to be renewed annually. Other facilities may be restructured or extended from time to time based upon changes in the borrower s business needs, use of funds, timing of completion of projects and other factors. If the borrower is not deemed to have financial difficulties, extensions, renewals and restructurings are done in the normal course of business and not considered concessions, and the loans continue to be recorded as performing.

Selected information on TDRs that includes the recorded investment by loan class and modification type is summarized in the following table. This information reflects all TDRs at March 31, 2012:

	March 31, 2012						
(In thousands)	Interest rate below market	Maturity or term extension	Combination of reduction in interest rate and extension of maturity	Forgiveness of Principal and/or interest	Forbearance Agreement (1)	Other (2)	Total
Troubled Debt Restructurings							
Non- FHA/VA Residential Mortgage loans	$ 9,722	$ 3,885	$ 336,096	$	$	$ 36,587	$ 386,290
Commercial Mortgage Loans	73,723	18,466	118,820	838		11,772	223,619
Commercial & Industrial Loans	21,856	12,792	20,053	7,537	12,514	39,063	113,815
Construction Loans	6,338	724	4,112		90,851	5,990	108,015
Consumer Loans - Auto		1,224	7,266			1,408	9,898
Finance Leases		2,143					2,143
Consumer Loans - Other	773	574	4,921	27		3,549	9,844
Total Troubled Debt Restructurings	$ 112,412	$ 39,808	$ 491,268	$ 8,402	$ 103,365	$ 98,369	$ 853,624

(1) Mainly related to one construction relationship amounting to $73.1 million.

(2) Other concessions granted by the Corporation include deferral of principal and/or interest payments for a period longer than what would be considered insignificant, payment plans under judicial stipulation or a combination of the concessions listed in the table.

The following table presents the Corporation s TDR activity for the quarter ended March 31, 2012:

(In thousands)	Quarter ended March 31, 2012
Beginning Balance of TDRs	$ 820,499
New TDRs	68,268
Increases to existing TDRs (disbursements)	9,675
Charge-offs post modification	(7,700)
Foreclosures	(9,007)
Removed from TDR classification	(5,059)
Paid-off and partial payments	(23,052)
Ending balance of TDRs	$ 853,624

TDRs are classified as either accrual or nonaccrual loans. A loan on nonaccrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform under the modified structure for a minimum of six months and there is evidence that such payments can and are likely to continue as agreed. Performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loans being returned to accrual at the time of the restructuring or after a shorter performance period. If the borrower s ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan. Loan modifications increase Corporation s interest income by returning a non-performing loan to performing status, if applicable, and increase cash flows by providing for payments to be made by the borrower, and avoid increases in

foreclosure and real estate owned (REO) costs. The Corporation continues to consider a modified loan as an impaired loan for purposes of estimating the allowance for loan and lease losses. A TDR loan that specifies an interest rate that at the time of the restructuring is greater than or equal to the rate the Corporation is willing to accept for a new loan with comparable risk may not be reported as a TDR or an impaired loan in the calendar years subsequent to the restructuring if it is in compliance with its modified terms. During the quarter ended March 31, 2012, $5.1 million were removed from the TDR classification, as reflected in the table above.

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The following table provides a breakdown between accrual and nonaccrual status of TDRs as of March 31, 2012:

	March 31, 2012		
(In thousands)	Accrual	Nonaccrual (1)	Total TDRs
Non- FHA/VA Residential Mortgage loans	$ 281,832	$ 104,458	$ 386,290
Commercial Mortgage Loans	123,381	100,238	223,619
Commercial & Industrial Loans	18,751	95,064	113,815
Construction Loans	2,188	105,827	108,015
Consumer Loans - Auto	5,851	4,047	9,898
Finance Leases	2,054	89	2,143
Consumer Loans - Other	7,692	2,152	9,844
Total Troubled Debt Restructurings	$ 441,749	$ 411,875	$ 853,624

(1) Included in non-accrual loans are $186.5 million in loans that are performing under the terms of the restructuring agreement but are reported in non-accrual until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and there is no doubt about full collectibility.

TDRs exclude restructured mortgage loans that are government guaranteed (i.e. FHA/VA loans) totaling $87.3 million. The Corporation excludes government guaranteed loans from TDRs given that in the event that the borrower defaults on the loan, the principal and interest are guaranteed by the U.S. Government, therefore, the risk of loss on these types of loans is very low. The Corporation does not consider loans with government guarantees to be impaired loans for the purpose of calculating the allowance for loan and lease losses.

Loan modifications that are considered TDRs completed during the quarters ended March 31, 2012 and 2011 were as follows:

	Quarter ended March 31, 2012		
(Dollars in thousands)	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Non- FHA/VA Residential Mortgage loans	155	$ 24,792	$ 25,095
Commercial Mortgage Loans	15	13,290	13,326
Commercial & Industrial Loans	31	28,147	24,890
Construction Loans	1	724	724
Consumer Loans - Auto	154	1,796	1,796
Finance Leases	32	619	619
Consumer Loans - Other	297	1,818	1,818
Total Troubled Debt Restructurings	685	$ 71,186	$ 68,268

	Quarter ended March 31, 2011		
(Dollars in thousands)	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Non- FHA/VA Residential Mortgage loans	267	$ 44,844	$ 46,825
Commercial Mortgage Loans	28	94,802	66,900
Commercial & Industrial Loans	27	61,802	20,272

Construction Loans	1		176		222
Consumer Loans - Auto	224		2,785		2,814
Finance Leases	23		414		427
Consumer Loans - Other	356		2,929		2,959
Total Troubled Debt Restructurings	926	$	207,752	$	140,419

Recidivism, or the borrower defaulting on its obligation pursuant to a modified loan, results in the loan once again becoming a non-performing loan. Recidivism occurs at a notably higher rate than do defaults on new origination loans, so modified loans present a higher risk of loss than do new origination loans. The Corporation considers a loan to have defaulted if the borrower has failed to make payments of either principal, interest, or both for a period of 90 days or more.

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Loan modifications considered troubled debt restructurings that defaulted during the periods ended March 31, 2012 and March 31, 2011 and had been modified in a TDR during the 12-months preceding the default date were as follows:

	Quarter ended March 31, 2012		
	Number of contracts	Recorded Investment	
Non- FHA/VA Residential Mortgage loans	53	$	7,356
Commercial Mortgage Loans	4		2,047
Commercial & Industrial Loans	3		5,894
Construction Loans			
Consumer Loans - Auto			
Consumer Loans - Other			
Finance Leases	2		67
Total	62	$	15,364

	Quarter ended March 31, 2011		
	Number of contracts	Recorded Investment	
Non- FHA/VA Residential Mortgage loans	40	$	7,342
Commercial Mortgage Loans	4		542
Commercial & Industrial Loans			
Construction Loans			
Consumer Loans - Auto			
Consumer Loans - Other			
Finance Leases			
Total	44	$	7,884

For certain TDRs, the Corporation splits the loans into two new notes, A and B notes. The A note is restructured to comply with the Corporation s lending standards at current market rates, and is tailored to suit the customer s ability to make timely interest and principal payments. The B note includes the granting of the concession to the borrower and varies by situation. The B note is charged-off but the obligation is not forgiven to the borrower, and any payments collected are accounted for as recoveries. At the time of restructuring, the A note is identified and classified as a TDR. If the loan performs for at least six months according to the modified terms, the A note may be returned to accrual status. The borrower s payment performance prior to the restructuring are included in assessing whether the borrower can meet the new terms and may result in that the loans be returned to accrual status at the time of restructuring. In the periods following the calendar year in which a loan was restructured, the Note A may no longer be reported as a TDR if it is on accrual, is in compliance with its modified terms, and yields a market rate (as determined and documented at the time of the restructure)

The recorded investment in loans restructured using the A/B note restructure workout strategy was approximately $126.4 million at March 31, 2012. The following table provides additional information about the volume of this type of loan restructuring and the effect on the allowance for loan and lease losses in the first quarter of 2012:

	(In thousands)	
Principal balance deemed collectible at end of period	$	126,415
Amount charged-off	$	1,949
Charges to the provision for loan losses	$	1,051

Allowance for loan losses as of December 31, 2011	$	4,971

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Of the loans comprising the $126.4 million that have been deemed collectible, approximately $105.8 million were placed in accruing status as the borrowers have exhibited a period of sustained performance. These loans continue to be individually evaluated for impairment purposes.

As of March 31, 2012, the Corporation maintains a $2.8 million reserve for unfunded loan commitments mainly related to outstanding construction loans commitments. The reserve for unfunded loan commitments is an estimate of the losses inherent in off-balance sheet loan commitments at the balance sheet date. It is calculated by multiplying an estimated loss factor by an estimated probability of funding, and then by the period-end amounts for unfunded commitments. The reserve for unfunded loan commitments is included as part of accounts payable and other liabilities in the consolidated statement of financial condition.

8 LOANS HELD FOR SALE

As of March 31, 2012 and December 31, 2011, the Corporation s loans held for sale portfolio was composed of:

	March 31, 2012	December 31, 2011
	(In thousands)	
Residential mortgage loans	$ 44,352	$ 11,058
Construction loans		4,764
Total	$ 44,352	$ 15,822

9 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

The Corporation designates a derivative as a fair value hedge, cash flow hedge or as an economic undesignated hedge when it enters into the derivative contract. As of March 31, 2012 and December 31, 2011, all derivatives held by the Corporation were considered economic undesignated hedges. These undesignated hedges are recorded at fair value with the resulting gain or loss recognized in current earnings.

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

Interest rate cap agreements Interest rate cap agreements provide the right to receive cash if a reference interest rate rises above a contractual rate. The value increases as the reference interest rate rises. The Corporation enters into interest rate cap agreements for protection from rising interest rates. Specifically, the interest rate on certain of the Corporation s commercial loans to other financial institutions is generally a variable rate limited to the weighted-average coupon of the referenced residential mortgage collateral, less a contractual servicing fee. During the second quarter of 2010, the counterparty for interest rate caps for certain private label MBS was taken over by the FDIC, which resulted in the immediate cancelation of all outstanding commitments, and as a result, interest rate caps with a notional amount of $87.0 million are no longer considered to be derivative financial instruments. The total exposure to fair value of $3.0 million related to such contracts was reclassified to an account receivable.

Interest rate swaps Interest rate swap agreements generally involve the exchange of fixed and floating-rate interest payment obligations without the exchange of the underlying notional principal amount. As of March 31, 2012 and December 31, 2011, most of the interest rate swaps outstanding are used for protection against rising interest rates. Similar to unrealized gains and losses arising from changes in fair value, net interest settlements on interest rate swaps are recorded as an adjustment to interest income or interest expense depending on whether an asset or liability is being economically hedged.

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

Forward Contracts Forward contracts are sales of to-be-announced (TBA) mortgage-backed securities that will settle over the standard delivery date and do not qualify as regular way security trades. Regular-way security trades are contracts with no net

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settlement provision and no market mechanism to facilitate net settlement and they provide for delivery of a security within the time generally established by regulations or conventions in the market-place or exchange in which the transaction is being executed. The forward sales are considered derivative instruments that need to be marked-to-market. These securities are used to economically hedge the FHA/VA residential mortgage loans securitizations of the mortgage-banking operations. Unrealized gains (losses) are recognized as part of mortgage banking activities in the Consolidated Statement of Loss.

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

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

The following table summarizes the notional amounts of all derivative instruments as of March 31, 2012 and December 31, 2011:

	Notional Amounts	
	As of March 31, 2012	As of December 31, 2011
	(In thousands)	
Economic undesignated hedges:		
Interest rate contracts:		
Interest rate swap agreements used to hedge loans	$ 39,392	$ 39,786
Written interest rate cap agreements	67,650	67,894
Purchased interest rate cap agreements	67,650	67,894
Equity contracts:		
Embedded written options on stock index deposits and notes payable	40,000	46,515
Purchased options used to manage exposure to the stock market on embedded stock index options	40,000	46,515
Forward Contracts:		
Sale of TBA GNMA MBS pools	8,000	19,000
	$ 262,692	$ 287,604

The following table summarizes the fair value of derivative instruments and the location in the Statement of Financial Condition as of March 31, 2012 and December 31, 2011:

	Asset Derivatives			Liability Derivatives		
	Statement of Financial Condition Location	March 31, 2012 Fair Value	December 31, 2011 Fair Value	Statement of Financial Condition Location	March 31, 2012 Fair Value	December 31, 2011 Fair Value
			(In thousands)			
Economic undesignated hedges:						
Interest rate contracts:						
Interest rate swap agreements used to hedge loans	Other assets	$ 349	$ 378	Accounts payable and other liabilities	$ 6,406	$ 6,767
Equity contracts:						
	Other assets			Notes payable		899

Embedded written options on stock index notes payable						
Purchased options used to manage exposure to the stock market on embedded stock index options	Other assets		899	Accounts payable and other liabilities		
Forward Contracts:						
Sales of TBA GNMA MBS pools	Other assets	7		Accounts payable and other liabilities	2	168
		$ 356	$ 1,277		$ 6,408	$ 7,834

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The following table summarizes the effect of derivative instruments in the Consolidated Statement of Loss for the quarters ended March 31, 2012 and March 31, 2011:

	Location of Gain or (Loss) Recognized in Income on Derivatives	Unrealized Gain (Loss) Quarter Ended March 31, 2012	2011
		(In thousands)	
ECONOMIC UNDESIGNATED HEDGES:			
Interest rate contracts:			
Interest rate swap agreements used to hedge fixed-rate:			
Loans	Interest income - Loans	$ 332	$ 345
Equity contracts:			
Embedded written and purchased options on stock index notes payable	Interest expense - Notes payable and other borrowings		(5)
Forward contracts:			
Sales of TBA GNMA MBS pools	Mortgage Banking Activities	173	(264)
Total gain on derivatives		$ 505	$ 76

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

A summary of interest rate swaps as of March 31, 2012 and December 31, 2011 follows:

	As of March 31, 2012	As of December 31, 2011
	(Dollars in thousands)	
Pay fixed/receive floating :		
Notional amount	$ 39,392	$ 39,786
Weighted-average receive rate at period end	2.10%	2.13%
Weighted-average pay rate at period end	6.81%	6.82%
Floating rates range from 167 to 252 basis points over 3-month LIBOR		

As of March 31, 2012, the Corporation has not entered into any derivative instrument containing credit-risk-related contingent features.

10 GOODWILL AND OTHER INTANGIBLES

Goodwill as of March 31, 2012 and December 31, 2011 amounted to $28.1 million, recognized as part of Other Assets . The Corporation conducted its annual evaluation of goodwill and intangibles during the fourth quarter of 2011. The evaluation was a two step process. The Step 1 evaluation of goodwill allocated to the Florida reporting unit indicated potential impairment of goodwill. The Step 1 fair value for the unit was below the carrying amount of its equity book value as of the October 1, 2011 valuation date, requiring the completion of Step 2. The Step 2 required a valuation of all assets and liabilities of the Florida unit, including any recognized and unrecognized intangible assets, to determine the fair value of net assets. To complete Step 2, the Corporation subtracted from the unit s Step 1 fair value the determined fair value of the net assets to arrive at the implied fair value of goodwill. The results of the Step 2 analysis indicated that the implied fair value of goodwill exceeded the goodwill carrying value by $13.7 million, resulting in no goodwill impairment. Goodwill was not impaired as of December 31, 2011, nor was any goodwill written-off due to impairment during 2011. There have been no events related to the Florida reporting unit that could indicate

potential goodwill impairment since the date of the last evaluation; therefore, no goodwill impairment evaluation was performed during the first quarter of 2012. Goodwill and other indefinite life intangibles are reviewed at least annually for impairment.

As of March 31, 2012, the gross carrying amount and accumulated amortization of core deposit intangibles was $41.8 million and $30.7 million, respectively, recognized as part of Other Assets in the consolidated statements of financial condition (December 31, 2011 $41.8 million and $30.1 million, respectively). For the quarter ended March 31, 2012, the amortization expense of core deposit intangibles amounted to $0.6 million (2011 $0.6 million).

11 VARIABLE INTEREST ENTITIES AND SERVICING ASSETS

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

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

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

Ginnie Mae

The Corporation typically transfers first lien residential mortgage loans in conjunction with Ginnie Mae securitization transactions whereby the loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights. The securities issued through these transactions are guaranteed by the issuer and, as such, under seller/servicer agreements the Corporation is required to service the loans in accordance with the issuers servicing guidelines and standards. As of March 31, 2012, the Corporation serviced loans securitized through GNMA with principal balance of $680.5 million.

Trust Preferred Securities

In 2004, FBP Statutory Trust I, a financing subsidiary of the Corporation, sold to institutional investors $100 million of its variable rate trust preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.1 million of FBP Statutory Trust I variable rate common securities, were used by FBP Statutory Trust I to purchase $103.1 million aggregate principal amount of the Corporation s Junior Subordinated Deferrable Debentures. Also in 2004, FBP Statutory Trust II, a statutory trust that is wholly-owned by the Corporation, sold to institutional investors $125 million of its variable rate trust preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.9 million of FBP Statutory Trust II variable rate common securities, were used by FBP Statutory Trust II to purchase $128.9 million aggregate principal amount of the Corporation s Junior Subordinated Deferrable Debentures. The trust preferred debentures are presented in the Corporation s Consolidated Statement of Financial Condition as Other Borrowings, net of related issuance costs. The variable rate trust preferred securities are fully and unconditionally guaranteed by the Corporation. The $100 million Junior Subordinated Deferrable Debentures issued by the Corporation in April 2004 and the $125 million issued in September 2004 mature on September 17, 2034 and September 20, 2034, respectively; however, under certain circumstances, the maturity of Junior Subordinated Debentures may be shortened (such shortening would result in a mandatory redemption of the variable rate trust preferred securities). The trust preferred securities, subject to certain limitations, qualify as Tier I regulatory capital under current Federal Reserve rules and regulations. The Collins Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act eliminates certain trust preferred securities from Tier 1 Capital. These regulatory capital deductions for trust preferred securities are to be phased in incrementally over a period of 3 years beginning on January 1, 2013.

Grantor Trusts

During 2004 and 2005, a third party to the Corporation, from now on identified as the seller, established a series of statutory trusts to effect the securitization of mortgage loans and the sale of trust certificates. The seller initially provided the servicing for a fee, which is senior to the obligations to pay trust certificate holders. The seller then entered into a sales agreement through which it sold and issued the trust certificates in favor of the Corporation s banking subsidiary. Currently, the Bank is the sole owner of the trust certificates; the servicing of the underlying residential mortgages that generate the principal and interest cash flows, is performed by another third party, which receives a fee compensation for services provided, the servicing fee. The securities are variable rate securities indexed to 90 day LIBOR plus a spread. The principal payments from the underlying loans are remitted to a paying agent (servicer) who then remits interest to the Bank; interest income is shared to a certain extent with the FDIC, that has an interest only strip (IO) tied to the cash flows of the underlying loans, whereas it is entitled to received the excess of the interest income less a servicing fee over the variable rate income that the Bank earns on the securities. This IO is limited to the weighted average coupon of the securities. The FDIC became the owner of the IO upon the intervention of the seller, a failed financial institution. No recourse agreement exists and the risk from losses on non accruing loans and repossessed collateral are absorbed by the Bank as the sole holder of the certificates. As of March 31, 2012, the amortized balance of Grantor Trusts amounted to $81 million with a weighted average yield of 2.48%.

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Investment in unconsolidated entities

On February 16, 2011, FirstBank sold an asset portfolio consisting of performing and non-performing construction, commercial mortgage and C&I loans with an aggregate book value of $269.3 million to CPG/GS PR NPL, LLC (CPG/GS or the Joint Venture) organized under the Laws of the Commonwealth of Puerto Rico and majority owned by PRLP Ventures LLC (PRLP), a company created by Goldman, Sachs & Co. and Caribbean Property Group. In connection with the sale, the Corporation received $88.5 million in cash and a 35% interest in CPG/GS, and made a loan in the amount of $136.1 million representing seller financing provided by FirstBank. The loan has a 7-year maturity and bears variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity s assets as well as the PRLP s 65% ownership interest in CPG/GS. As of March 31, 2012, the carrying amount of the loan is $122.6 million and is included in the Corporation s C&I loan receivable portfolio; the carrying value of FirstBank s equity interest in CPG/GS is $37.0 million as of March 31, 2012, accounted under the equity method and included as part of Investment in unconsolidated entities in the Consolidated Statements of Financial Condition. When applying the equity method, the Bank follows the Hypothetical Liquidation Book Value method (HLBV) to determine its share in CPG/GS earnings or losses. Under HLBV, the Bank determines its share in CPG/GS earnings or losses by determining the difference between its claim on CPG/GS s book value at the end of the period as compared to the beginning of the period. This claim is calculated as the amount the Bank would receive if CPG/GS were to liquidate all of its assets at recorded amounts determined in accordance with GAAP and distribute the resulting cash to the investors, PRLP and FirstBank, according to their respective priorities as provided in the contractual agreement. The Bank reports its share of CPG/GS operating results on a one-quarter lag basis. In addition, as a result of using HLBV, the difference between the Bank s investment in CPG/GS and its claim in the book value of CPG/GS at the date of the investment, known as the basis difference, is amortized over the estimated life of the investment, or five years as of March 31, 2012. CPG/GS records its loans receivable under the fair value option. Equity in losses of unconsolidated entities for the quarter ended March 31, 2012 of approximately $6.2 million, includes $1.1 million related to the amortization of the basis differential.

FirstBank also provided an $80 million advance facility to CPG/GS to fund unfunded commitments and costs to complete projects under construction, which was fully disbursed in the year ended December 31, 2011, and a $20 million working capital line of credit to fund certain expenses of CPG/GS. These loans bear variable interest at 30-day LIBOR plus 300 basis points. As of March 31, 2012, the carrying value of the advance facility and working capital line were $72.4 million and $0, respectively, and are included in the Corporation s C&I loan receivable portfolio.

Cash proceeds received by CPG/GS are first used to cover operating expenses and debt service payments, including the note receivable, the advanced facility and the working capital line, described above, which must be fully repaid before proceeds can be used for other purposes, including the return of capital to both PRLP and FirstBank. FirstBank will not receive any return on its equity interest until PRLP receives an aggregate amount equivalent to its initial investment and a priority return of at least 12%, resulting in FirstBank s interest in CPG/GS being subordinate to PRLP s interest. CPG/GS will then begin to make payments pro rata to PRLP and FirstBank, 35% and 65%, respectively, until FirstBank has achieved a 12% return on its invested capital and the aggregate amount of distributions is equal to FirstBank s capital contributions to CPG/GS. FirstBank may experience further losses associated with this transaction due to this subordination in an amount equal to up to the value of its interest in CPG/GS. Factors that could impact FirstBank s recoverability of its equity interest include lower than expected sale prices of units underlying CPG/GS assets and/or lower than projected liquidation value of the underlying collateral and changes in the expected timing of cash flows, among others.

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

The initial fair value of the investment in CPG/GS was determined using techniques with significant unobservable (Level 3) inputs. The valuation inputs included an estimate of future cash flows, expectations about possible variations in the amount and timing of cash flows, and a discount factor based on a rate of return. The Corporation researched available market data and internal information (i.e. proposals received for the servicing of distressed assets and public disclosures and information of similar structures and/or of distressed asset sales) and determined reasonable ranges of expected returns for FirstBank s equity interest.

The rate of return of 17.57% was used as the discount factor used to estimate the value of the FirstBank s equity interest and validated from a market participants perspective. A reasonable range of equity returns was assessed considering the range of company specific risk premiums. The valuation of this type of equity interest is highly subjective and somewhat dependent on non-observable market assumptions, which may result in variations from market participant to market participant.

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Servicing Assets

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

The changes in servicing assets are shown below:

	March 31, 2012	March 31, 2011
	(In thousands)	
Balance at beginning of period	$ 15,226	$ 15,163
Capitalization of servicing assets	1,406	1,231
Amortization	(661)	(524)
Adjustment to servicing assets for loans repurchased (1)	(67)	(61)
Adjustment to fair value	250	(803)
Balance at end of period	$ 16,154	$ 15,006

(1) Amount represents the adjustment to fair value related to the repurchase in the quarters ended March 31, 2012 and 2011 of $6.5 million and $6.0 million, respectively, in principal balance of loans serviced for others.

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

Changes in the impairment allowance were as follows:

	March 31, 2012	March 31, 2011
	(In thousands)	
Balance at beginning of period	$ 2,725	$ 434
Temporary impairment charges	69	974
OTTI of servicing assets	(2,447)	
Recoveries	(319)	(171)
Balance at end of period	$ 28	$ 1,237

The components of net servicing income are shown below:

	March 31, 2012	March 31, 2011
	(In thousands)	
Servicing fees	$ 1,343	$ 1,251
Late charges and prepayment penalties	170	244
Adjustment for loans repurchased	(67)	(61)
Servicing income, gross	1,446	1,434

Amortization and impairment of servicing assets	(411)	(1,327)
Servicing income, net	$ 1,035	$ 107

The Corporation s servicing assets are subject to prepayment and interest rate risks. Constant prepayment rate assumptions for the Corporation s servicing assets for the quarter ended March 31, 2012 and the quarter ended March 31, 2011 were 11.6% and 10.6% for government guaranteed mortgage loans, respectively. For conventional conforming mortgage loans, the Corporation used 12.6% and

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12.7% and for conventional non-conforming mortgage loans 13.8% and 11.7% for the periods ended March 31, 2012 and March 31, 2011, respectively. Discount rate assumptions used were 12.0% and 11.3% for government guaranteed mortgage loans; 10.0% and 9.3% for conventional conforming mortgage loans; and 14.3% and 15.0% for conventional non-conforming mortgage loans for the periods ended March 31, 2012 and March 31, 2011, respectively.

At March 31, 2012, fair values of the Corporation s servicing assets were based on a valuation model that incorporates market driven assumptions, adjusted by the particular characteristics of the Corporation s servicing portfolio, regarding discount rates and mortgage prepayment rates. The weighted-averages of the key economic assumptions used by the Corporation in its valuation model and the sensitivity of the current fair value to immediate 10 percent and 20 percent adverse changes in those assumptions for mortgage loans at March 31, 2012, were as follows:

	(in thousands)
Carrying amount of servicing assets	$ 16,154
Fair value	$ 17,078
Weighted-average expected life (in years)	8.2
Constant prepayment rate (weighted-average annual rate)	12.18%
Decrease in fair value due to 10% adverse change	$ 785
Decrease in fair value due to 20% adverse change	$ 1,513
Discount rate (weighted-average annual rate)	11.10%
Decrease in fair value due to 10% adverse change	$ 580
Decrease in fair value due to 20% adverse change	$ 1,124

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

12 DEPOSITS

The following table summarizes deposit balances:

	March 31, 2012	December 31, 2011
	(In thousands)	
Type of account:		
Non-interest bearing checking accounts	$ 761,744	$ 705,789
Savings accounts	2,244,811	2,145,625
Interest-bearing checking accounts	1,085,075	1,066,753
Certificates of deposit	2,194,387	2,258,216
Brokered certificates of deposit	3,622,227	3,731,371
	$ 9,908,244	$ 9,907,754

Brokered CDs mature as follows:

	Total (In thousands)
One to ninety days	$ 577,255
Over ninety days to one year	1,880,423
Over one year to two years	1,057,184
Over two years to three years	96,372
Over five years	10,993
Total	$ 3,622,227

The following are the components of interest expense on deposits:

	Quarter Ended March 31, 2012	Quarter Ended March 31, 2011
	(In thousands)	
Interest expense on deposits	$ 33,961	$ 48,700
Amortization of broker placement fees	2,774	5,359
Total interest expense on deposits	36,735	54,059

13 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

	March 31, 2012	December 31, 2011
	(In thousands)	
Repurchase agreements, interest ranging from 2.45% to 4.38% (December 31, 2011 - 2.50% to 4.40%)	$ 1,000,000	$ 1,000,000

Repurchase agreements mature as follows:

	March 31, 2012 (In thousands)
One to thirty days	$ 100,000
Three to five years	600,000
Over five years	300,000
Total	$ 1,000,000

As of March 31, 2012 and December 31, 2011, the securities underlying such agreements were delivered to the dealers with whom the repurchase agreements were transacted.

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Repurchase agreements as of March 31, 2012, grouped by counterparty, were as follows:

Counterparty	Amount	Weighted-Average Maturity (In Months)
Dean Witter / Morgan Stanley	$ 200,000	34
Citigroup Global Markets	300,000	55
JP Morgan Chase	200,000	59
Credit Suisse First Boston	300,000	69
	$ 1,000,000	

14 ADVANCES FROM THE FEDERAL HOME LOAN BANK (FHLB)

Following is a summary of the advances from the FHLB:

	March 31, 2012	December 31, 2011
	(In thousands)	
Fixed-rate advances from FHLB, with a weighted-average interest rate of 3.56% (December 31, 2011 - 3.59%)	$ 353,440	$ 367,440

Advances from FHLB mature as follows:

	March 31, 2012 (In thousands)
One to thirty days	$ 5,000
Over thirty to ninety days	15,000
Over ninety days to one year	255,000
One to two years	78,440
Total	$ 353,440

As of March 31, 2012, the Corporation had additional capacity of approximately $539 million on this credit facility based on collateral pledged at the FHLB, including haircuts reflecting the perceived risk associated with holding the collateral.

15 NOTES PAYABLE

Notes payable consist of:

	March 31, 2012	December 31, 2011
	(Dollars in thousands)	
Callable step-rate notes, bearing step increasing interest from 5.00% to 7.00% (6.00% as of March 31, 2011 and December 31, 2011) maturing on October 18, 2019, measured at fair value	$ 16,016	$ 15,968

Dow Jones Industrial Average (DJIA) linked principal protected notes:		
Series A maturing on February 28, 2012		7,374
	$ 16,016	$ 23,342

16 OTHER BORROWINGS

Other borrowings consist of:

	March 31, 2012	December 31, 2011
	(Dollars in thousands)	
Junior subordinated debentures due in 2034, interest-bearing at a floating-rate of 2.75% over 3-month LIBOR (3.22% as of March 31, 2012 and 3.31% as of December 31, 2011)	$ 103,093	$ 103,093
Junior subordinated debentures due in 2034, interest-bearing at a floating-rate of 2.50%over 3-month LIBOR (2.97% as of March 31, 2012 and 3.06% as of December 31, 2011)	128,866	128,866
	$ 231,959	$ 231,959

17 STOCKHOLDERS EQUITY

Common Stock

As of March 31, 2012 and December 31, 2011, the Corporation had 2,000,000,000 authorized shares of common stock with a par value of $0.10 per share. As of March 31, 2012 and December 31, 2011, there were 206,629,311 and 205,794,024 shares issued, respectively, and 206,134,458 and 205,134,171 shares outstanding, respectively. On July 30, 2009, the Corporation announced the suspension of common and preferred stock dividends effective with the preferred dividend for the month of August 2009.

In March of 2012 the Corporation granted 719,500 shares of restricted stock under the Omnibus Plan, as amended, to certain senior executive officers and certain other employees. The restrictions on such restricted stock will lapse 50% over a two year period and 50% over a three year period. Included in the 719,500 shares of restricted stock are 557,000 shares granted to certain senior executive officers consistent with the requirements of the TARP Interim Final Rule. The shares of restricted stock may vest more quickly in the event of death, disability, retirement, or a change in control. Based on particular circumstances evaluated by the Compensation Committee as they may relate to the termination of a restricted stock holder, the Corporation s Board of Directors may, with the recommendation of the Compensation Committee, grant the full vesting of the restricted stock held upon termination of employment. Holders of restricted stock have the right to dividends or dividend equivalents, as applicable, during the restriction period. Such dividends or dividend equivalents will accrue during the restriction period, but will not be paid until restrictions lapse. The holder of restricted stock has the right to vote the shares.

Preferred Stock

The Corporation has 50,000,000 authorized shares of preferred stock with a par value of $1, redeemable at the Corporation s option subject to certain terms. This stock may be issued in series and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. As of March 31, 2012, the Corporation has five outstanding series of non-convertible non-cumulative preferred stock: 7.125% non-cumulative perpetual monthly income preferred stock, Series A; 8.35% non-cumulative perpetual monthly income preferred stock, Series B; 7.40% non-cumulative perpetual monthly income preferred stock, Series C; 7.25% non-cumulative perpetual monthly income preferred stock, Series D; and 7.00% non-cumulative perpetual monthly income preferred stock, Series E. The liquidation value per share is $25. Effective January 17, 2012, the Corporation delisted all of the series of non-convertible, non-cumulative preferred stock from the New York Stock Exchange. The Corporation has not arranged for listing and/or registration on another national securities exchange or for quotation of the preferred stock in a quotation medium.

As mentioned above, the Corporation stopped paying dividends for common and all its outstanding series of preferred stock. This suspension was effective with the dividends for the month of August 2009 on the Corporation s five outstanding series of non-cumulative preferred stock.

Stock repurchase plan and treasury stock

The Corporation has a stock repurchase program under which, from time to time, it repurchases shares of common stock in the open market and holds them as treasury stock. No shares of common stock were repurchased during the first quarter of 2012 or in 2011 by the Corporation. On February 17, 2012, the Corporation sold 165,000 shares of treasury stock at a purchase price of $3.79 per share to a director. As of March 31,

2012 and December 31, 2011 the Corporation had 494,853 and 659,853 shares held as treasury stock, respectively, that were available for general corporate purposes.

FirstBank Statutory Reserve

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of FirstBank s net income for the year be transferred to legal surplus until such surplus equals the total of paid-in-capital on common and preferred stock. Amounts transferred to the legal surplus account from the retained earnings account are not available for distribution to the stockholders without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The net loss experienced in 2011 exhausted FirstBank s statutory reserve fund. The Bank cannot pay dividends until it can replenish the reserve fund to an amount of at least 20% of the original capital contributed.

18 INCOME TAXES

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

On January 31, 2011, the Puerto Rico Government approved Act No. 1, which repealed the 1994 Code (1994 PR Code) and replaces it with the Puerto Rico Internal Revenue Code of 2011 (2011 PR Code). The provisions of the 2011 PR Code are generally applicable to taxable years commencing after December 31, 2010. Under the 2011 PR Code, the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns and, thus, the Corporation is not able to utilize losses from one subsidiary to offset gains in another subsidiary. Accordingly, in order to obtain a tax benefit from a net operating loss, a particular subsidiary must be able to demonstrate sufficient taxable income within the applicable carry forward period (7 years under the 2011 PR Code, except for losses incurred during tax years commenced after December 31, 2004 and before December 31, 2012, that the carry forward period is extended to 10 years). The 2011 PR Code provides a dividend received deduction of 100% on dividends received from controlled subsidiaries subject to taxation in Puerto Rico and 85% on dividends received from other taxable domestic corporations. Dividend payments from a U.S. subsidiary to the Corporation are subject to a 10% withholding tax based on the provisions of the U.S. Internal Revenue Code.

Under the 2011 PR Code, First BanCorp is subject to a maximum statutory tax rate of 30% (25% for taxable years commencing after December 31, 2013 if certain economic conditions are met by the Puerto Rico economy). The 2011 PR Code also includes an alternative minimum tax of 20% that applies if the Corporation s regular income tax liability is less than the alternative minimum tax requirements.

The Corporation has maintained an effective tax rate lower than the maximum statutory rate mainly by investing in government obligations and mortgage-backed securities exempt from U.S. and Puerto Rico income taxes and by doing business through International Banking Entity (IBE) of the Bank and through the Bank s subsidiary, FirstBank Overseas Corporation, in which the interest income and gain on sales is exempt from Puerto Rico and U.S. income taxation except for tax yeas that commenced after December 31, 2008 and before January 1, 2012, for which a special 5% tax was imposed to all IBEs. The IBEs and FirsBank Overseas Corporation were created under the International Banking Entity Act of Puerto Rico, which provides for total Puerto Rico tax exemption on net income derived by IBEs operating in Puerto Rico. IBEs that operate as a unit of a bank pay income taxes at normal rates to the extent that the IBEs net income exceeds 20% of the bank s total net taxable income.

For the quarter ended March 31, 2012, the Corporation recorded an income tax expense of $2.1 million compared to an income tax expense of $3.6 million for the same period in 2011. As of March 31, 2012, the deferred tax asset, net of a valuation allowance of $371.2 million, amounted to $4.9 million compared to $5.4 million as of December 31, 2011. The Corporation continued to reserve deferred tax assets created in connection with the operations of its banking subsidiary, FirstBank.

Accounting for income taxes requires that companies assess whether a valuation allowance should be recorded against their deferred tax asset based on the consideration of all available evidence, using a more likely than not realization standard. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized. In making such assessment, significant weight is to be given to evidence that can be objectively verified, including both positive and negative evidence. Consideration must be given to all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing temporary differences, future taxable income exclusive of the reversal of temporary differences and carryforwards, taxable income in carryback years and tax planning strategies. In estimating taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial and regulatory guidance, and recognizes tax benefits only when deemed probable of realization.

In assessing the weight of positive and negative evidence, a significant negative factor that resulted in increases of the valuation allowance was that the Corporation s banking subsidiary, FirstBank Puerto Rico, continues in a three-year historical cumulative loss position as of March 31, 2012, mainly due to charges to the provision for loan and lease losses as a result of the economic downturn. As of March 31, 2012, management concluded that $4.9 million of the deferred tax asset will be realized. The Corporation s deferred tax assets for which it has not established a valuation allowance relate to profitable subsidiaries and to amounts that can be realized through future reversals of existing taxable temporary differences. To the extent the realization of a portion, or all, of the tax asset becomes more likely than not based on changes in circumstances (such as, improved earnings, changes in tax laws or other relevant changes), a reversal of that portion of the deferred tax asset valuation allowance will then be recorded.

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

During the third quarter of 2011, the Corporation recorded new UTBs of $2.4 million, all of which would, if recognized, affect the Corporations effective tax rate. The Corporation classified all interest and penalties, if any, related to tax uncertainties as income tax expense. As of March 31, 2012, the Corporation s accrued interest that relates to tax uncertainties amounted to $0.9 million and there is no need to accrue for the payment of penalties. For the quarter ended March 31, 2012, the total amount of interest recognized by the Corporation as part of income tax expense related to tax uncertainties was $0.1 million. During the first quarter of 2012 there was no change to the UTB of $2.4 million. The amount of UTBs may increase or decrease for various reasons, including changes in the amounts for current tax year positions, the expiration of open income tax returns due to the expiration of statutes of limitations, changes in management s judgment based on new information about the level of uncertainty, the status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions. The years 2007 through 2009 have been examined by the United States Internal Revenue Service (IRS) and disputed issues have been taken to administrative appeals. Although the timing of the resolution and/or closure of audits is highly uncertain, the Corporation believes it is reasonably possible that the IRS will conclude this audit within the next twelve months. If any issues addressed in the IRS audit are resolved in a manner not consistent with the Corporation s expectations, the Corporation could be required to adjust its provision for income taxes in the period such resolution occurs. The Corporation currently cannot reasonably estimate a range of possible changes to existing reserves.

The Corporation s liability for income taxes includes the liability for UTBs, and interest which relates to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has passed. The statute of limitations under the PR Code is 4 years; and for Virgin Islands and U.S. income tax purposes is 3 years after a tax return is due or filed, whichever is later. The completion of an audit by the taxing authorities or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Corporation s liability for income taxes. Any such adjustment could be material to results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. All tax years subsequent to 2009 remain open to examination under the PR Code, taxable years from 2008 remain open to examination for Virgin Islands and U.S. income tax purpose.

19 FAIR VALUE

Fair Value Option

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

Medium-Term Notes

The Corporation elected the fair value option for certain medium term notes that were hedged with interest rate swaps that were previously designated for fair value hedge accounting. As of both March 31, 2012 and December 31, 2011, these medium-term notes with a principal balance of $15.4 million, had a fair value of $16.0 million, recorded in notes payable. Interest paid/accrued on these instruments is recorded as part of interest expense and the accrued interest is part of the fair value of the notes. Electing the fair value option allows the Corporation to eliminate the burden of complying with the requirements for hedge accounting (e.g., documentation and effectiveness assessment) without introducing earnings volatility.

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Fair Value Measurement

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

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

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

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

For 2012, there have been no transfers into or out of Level 1, Level 2 or Level 3 measurement of the fair value hierarchy.

Financial instruments Recorded at Fair Value on a Recurring Basis

Investment securities available for sale

The fair value of investment securities is the market value based on quoted market prices (as is the case with equity securities, U.S. Treasury notes and non-callable U.S. Agency debt securities), when available (Level 1), or market prices for identical or comparable assets (as is the case with MBS and callable U.S. agency debt) that are based on observable market parameters including benchmark yields, reported trades, quotes from brokers or dealers, issuer spreads, bids, offers and reference data including market research operations, (Level 2). Observable prices in the market already consider the risk of nonperformance. If listed prices or quotes are not available, fair value is based upon models that use unobservable inputs due to the limited market activity of the instrument, as is the case with certain private label mortgage-backed securities and certain corporate bonds held by the Corporation, (Level 3).

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

Corporate bonds held by the Corporation are collateralized by an agency zero-coupon bond and a synthetic Collateralized Debt Obligation of 125 corporate bonds rated investment grade at the time of structuring. The value of the bonds is tied to the level of credit default swap spreads.

Derivative instruments

The fair value of most of the derivative instruments is based on observable market parameters and takes into consideration the credit risk component of paying counterparties when appropriate, except when collateral is pledged. That is, on interest rate swaps, the

credit risk of both counterparties is included in the valuation; and, on options and caps, only the seller s credit risk is considered. The derivative instruments, namely swaps and caps, were valued using a discounted cash flow approach using the related US LIBOR and swap rate for each cash flow. Derivatives include interest rate swaps used for protection against rising interest rates. For these interest rate swaps, a credit component was not considered in the valuation since the Corporation has fully collateralized with investment securities any mark to market loss with the counterparty and, if there were market gains, the counterparty had to deliver collateral to the Corporation.

Although most of the derivative instruments are fully collateralized, a credit spread is considered for those that are not secured in full. The cumulative mark-to-market effect of credit risk in the valuation of derivative instruments for the quarter ended March 31, 2011 was immaterial.

Term notes payable

The fair value of term notes is determined using a discounted cash flow analysis over the full term of the borrowings. The model assumes that the embedded options are exercised economically. The fair value of medium-term notes is determined using a discounted cash flow analysis over the full term of the borrowings computed using the notional amount outstanding. The discount rates used in the valuations consider 3-month LIBOR forward curves and the credit spread at every cash flow. The net gain from fair value changes attributable to the Corporation s own credit to the medium-term notes for which the Corporation has elected the fair value option recorded for the first quarter of 2012 amounted to $0.6 million, compared to an unrealized loss of $0.6 million for the first quarter of 2011. The cumulative mark-to-market unrealized gain on the medium-term notes since measured at fair value attributable to credit risk amounted to $3.5 million as of March 31, 2012.

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

	As of March 31, 2012 Fair Value Measurements Using				As of December 31, 2011 Fair Value Measurements Using			
(In thousands)	Level 1	Level 2	Level 3	Assets / Liabilities at Fair Value	Level 1	Level 2	Level 3	Assets / Liabilities at Fair Value
Assets:								
Securities available for sale:								
Equity securities	$ 66	$	$	$ 66	$ 41	$	$	$ 41
U.S. Treasury Securities	375,121			375,121	476,992			476,992
Non-callable U.S. agency debt	300,495			300,495	301,585			301,585
Callable U.S. agency debt and MBS		945,211		945,211		859,818		859,818
Puerto Rico Government Obligations		158,833	3,346	162,179		219,369	3,244	222,613
Private label MBS			59,629	59,629			61,206	61,206
Corporate bonds			783	783			1,013	1,013
Derivatives, included in assets:								
Interest rate swap agreements		349		349		378		378
Purchased interest rate cap agreements								
Purchased options used to manage exposure to the stock market on embeded stock indexed options						899		899
Forward Contracts		7		7				
Liabilities:								
Medium-term notes		16,016		16,016		15,968		15,968
Derivatives, included in liabilities:								
Interest rate swap agreements		6,406		6,406		6,767		6,767
Embedded written options on stock index deposits and notes payable						899		899
Forward Contracts		2		2		168		168

Total	$ 675,682	$ 1,126,824	$ 63,758	$ 1,866,264	$ 778,618	$ 1,104,266	$ 65,463	$ 1,948,347

(In thousands)	Changes in Fair Value for items Measured at Fair Value Pursuant to Election of the Fair Value Option For the Quarter ended March 31, 2012	2011
	Unrealized (Loss) Gains and Interest Expense included in Current-Period Earnings [(1)]	
Medium-term notes	$ (280)	$ (824)

(1) Changes in fair value for the each of the quarters ended March 31, 2012 and 2011 include interest expense on medium-term notes of $0.2 million. Interest expense on medium-term notes that have been elected to be carried at fair value are recorded in interest expense in the Consolidated Statement of Loss based on their contractual coupons.

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarters ended March 31, 2012 and 2011.

Level 3 Instruments Only *(In thousands)*	Total Fair Value Measurements (Quarter Ended March 31, 2012) Securities Available For Sale [(1)]	Total Fair Value Measurements (Quarter Ended March 31, 2011) Securities Available For Sale [(1)]
Beginning balance	$ 65,463	$ 74,993
Total gains or (losses) (realized/unrealized):		
Included in earnings	(1,233)	
Included in other comprehensive income	2,216	46
Held-to-Maturity investment securities reclassified to Available-for-Sale		2,000
Principal repayments and amortization	(2,688)	(4,306)
Ending balance	$ 63,758	$ 72,733

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

The table below presents qualitative information for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at March 31, 2012:

	March 31, 2012			
	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Range
Investment securities available-for-sale:				
Private label MBS	$ 59,629	Discounted cash flow	Discount rate	14.5%
			Prepayment rate	18.80% - 39.44% (Weighted

				Average 28%)
			Projected Cumulative Loss Rate	1.36% - 15.71% (Weighted Average 7%)
Corporate Bonds	783	Market Quote approach	Default of underlying reference	12-14
			Post-default recovery rate	17% - 18%
Puerto Rico Government Obligations	3,346	Discounted cash flow	Prepayment Speed	3%

Information about Sensitivity to Changes in Significant Unobservable Inputs

Private label MBS: The significant unobservable inputs in the valuation include probability of default, the loss severity assumption, and the pre-payment rates. Shifts in those inputs would result in different fair value measurements. Increases in the probability of default, loss severity assumptions and pre-payment rates in isolation would generally result in an adverse effect in the fair value of the instruments. Meaningful and possible shifts of each input were modeled to assess the effect on the fair value estimation.

Corporate Bonds: The significant unobservable inputs in the valuation include probability of default of the underlying reference corporate bonds, and the recovery rate assumptions in the event of default. Shifts in those inputs would result in different fair value measurements. Increases in the probability of default, and decreases in the recovery rate assumptions in the event of default would result in an adverse effect in the fair value of the bonds.

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Puerto Rico Government Obligations: The significant unobservable input used in the fair value measurement is the assumed prepayment speed. A significant increase (decrease) in the assumed speed would lead to a higher (lower) fair value estimate. Loss severity and probability of default are not included as significant unobservable variables because the note is guaranteed by the Puerto Rico Housing Finance Authority (PRHFA). The PRHFA credit risk is modeled by discounting the cash flows using a curve appropriate to the PRHFA credit rating.

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

As of March 31, 2012, impairment or valuation adjustments were recorded for assets recognized at fair value on a non-recurring basis as shown in the following table:

	Carrying value as of March 31, 2012			Gains (losses) recorded for the Quarter Ended March 31, 2012
	Level 1	Level 2	Level 3	
			(In thousands)	
Loans receivable [1]	$	$	$ 858,548	$ (33,108)
Other Real Estate Owned [2]			135,905	(2,198)
Mortgage servicing rights [3]			16,154	250

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

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

(3) Fair value adjustments to the mortgage servicing rights were mainly due to assumptions associated with mortgage prepayment rates. The Corporation carries its mortgage servicing rights at lower-of-cost or market, and they are accordingly measured at fair value on a non-recurring basis. Assumptions for the value of mortgage servicing rights include: Prepayment Rate 12.18%, Discount Rate 11.10%.

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

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

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

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

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Qualitative information regarding the fair value measurements for Level 3 financial instruments are as follows:

	March 31, 2012	
	Method	**Inputs**
Loans	Income, Market, Comparable Sales, Discounted Cash Flows	External appraised values; probability weighting of broker price opinions; management assumptions regarding market trends or other relevant factors
OREO	Income, Market, Comparable Sales, Discounted Cash Flows	External appraised values; probability weighting of broker price opinions; management assumptions regarding market trends or other relevant factors
Mortgage servicing rights	Discounted Cash Flow	Weighted average prepayment speed 12.18%; weighted average discount rate 11.10%

The following is a description of the valuation methodologies used for instruments that are not measured and reported at fair value on a recurring basis or non-recurring basis. The estimated fair value was calculated using certain facts and assumptions, which vary depending on the specific financial instrument.

Cash and due from banks and money market investments

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

Other equity securities

Equity or other securities that do not have a readily available fair value are stated at the net realizable value, which management believes is a reasonable proxy for their fair value. This category is principally composed of stock that is owned by the Corporation to comply with FHLB regulatory requirements. Their realizable value equals their cost as these shares can be freely redeemed at par.

Loans receivable, including loans held for sale

The fair value of loans held for investment and for mortgage loans held for sale was estimated using discounted cash flow analyses, based on interest rates currently being offered for loans with similar terms and credit quality and with adjustments that the Corporation s management believes a market participant would consider in determining fair value. Loans were classified by type such as commercial, residential mortgage, and automobile. These asset categories were further segmented into fixed- and adjustable-rate categories. The fair values of performing fixed-rate and adjustable-rate loans were calculated by discounting expected cash flows through the estimated maturity date. This fair value is not currently an indication of an exit price as that type of assumption could result in a different fair value estimate. Loans with no stated maturity, like credit lines, were valued at book value. Prepayment assumptions were considered for non-residential loans. For residential mortgage loans, prepayment estimates were based on recent historical prepayment experience of the Corporation s residential mortgage portfolio. Discount rates were based on the Treasury and LIBOR/Swap Yield Curves at the date of the analysis, and included appropriate adjustments for expected credit losses and liquidity.

Deposits

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

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