

FIRST BANCORP /PR/
Form 10-Q
May 11, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 001-14793

FIRST BANCORP.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Puerto Rico
(State or other jurisdiction of
incorporation or organization)

66-0561882
(I.R.S. employer
identification number)

1519 Ponce de León Avenue, Stop 23
Santurce, Puerto Rico
(Address of principal executive offices)

00908
(Zip Code)

(787) 729-8200

(Registrant's telephone number, including area code)

Not applicable

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

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

Common stock: 92,546,749 outstanding as of April 30, 2009.

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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 meant to identify forward-looking statements.

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

risks arising from credit and other risks of the Corporation's lending and investment activities, including the Corporation's condo-conversion loans from its Miami Corporate Banking operations and the construction and commercial loan portfolio in Puerto Rico, which have affected and may continue to affect, among other things, the level of non-performing assets, charge-offs and the provision expense;

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

decreased demand for the Corporation's products and services and lower revenue and earnings because of the recession in the United States, the continued recession in Puerto Rico and current fiscal problems and the budget deficit of the Puerto Rico government;

changes in general economic conditions in the United States and Puerto Rico, including the interest rate environment, market liquidity, market rates and prices, and disruptions in the U.S. capital markets, which may reduce interest margins, impact funding sources and affect demand for the Corporation's products and services and the value of the Corporation's assets, including the value of the interest rate swaps that economically hedge the interest rate risk mainly relating to brokered certificates of deposit and medium-term notes as well as other derivative instruments used for protection from interest rate fluctuations;

uncertainty about the impact of measures adopted by the Puerto Rico government in response to its fiscal situation on the different sectors of the economy;

uncertainty about the effectiveness and impact of the U.S. government's rescue plan, including the bailout of U.S. government-sponsored housing agencies, on the financial markets in general and 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 System (FED), the Federal Deposit Insurance Corporation (FDIC), government-sponsored housing agencies and local regulators in Puerto Rico and the U.S. and British Virgin Islands;

risks associated with the soundness of other financial institutions;

risks of not being able to recover all assets pledged to Lehman Brothers Special Financing, Inc.;

changes in the Corporation's expenses associated with acquisitions and dispositions;

developments in technology;

the impact of the financial condition of Doral Financial Corporation (Doral) and R&G Financial Corporation (R&G Financial) on the repayment of their outstanding secured loans to the Corporation;

the Corporation s ability to issue brokered certificates of deposit and fund operations;

risks associated with downgrades in the credit ratings of the Corporation s securities;

general competitive factors and industry consolidation; and

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

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

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Investors should carefully consider these factors and the risk factors outlined under Item 1A, Risk Factors, in this Quarterly Report on Form 10-Q.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

(In thousands, except for share information)	March 31, 2009	December 31, 2008
ASSETS		
Cash and due from banks	\$ 107,414	\$ 329,730
Money market investments:		
Federal funds sold	3,782	54,469
Time deposits with other financial institutions	1,540	600
Other short-term investments	19,402	20,934
Total money market investments	24,724	76,003
Investment securities available for sale, at fair value:		
Securities pledged that can be repledged	2,725,527	2,913,721
Other investment securities	1,220,925	948,621
Total investment securities available for sale	3,946,452	3,862,342
Investment securities held to maturity, at amortized cost:		
Securities pledged that can be repledged	759,739	968,389
Other investment securities	690,164	738,275
Total investment securities held to maturity, fair value of \$1,468,591 (2008 -\$1,720,412)	1,449,903	1,706,664
Other equity securities	85,918	64,145
Loans, net of allowance for loan and lease losses of \$302,531 (2008 - \$281,526)	13,207,421	12,796,363
Loans held for sale, at lower of cost or market	23,135	10,403
Total loans, net	13,230,556	12,806,766
Premises and equipment, net	187,281	178,468
Other real estate owned	49,434	37,246
Accrued interest receivable on loans and investments	80,641	98,565
Due from customers on acceptances	514	504
Accounts receivable from investment sales	248,154	

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Other assets		298,159		330,835
Total assets	\$	19,709,150	\$	19,491,268

LIABILITIES

Deposits:

Non-interest-bearing deposits	\$	641,740	\$	625,928
Interest-bearing deposits (including \$322,465 and \$1,150,959 measured at fair value as of March 31, 2009 and December 31, 2008, respectively)		10,977,608		12,431,502

Total deposits		11,619,348		13,057,430
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Loans payable		935,000		
Securities sold under agreements to repurchase		3,173,780		3,421,042
Advances from the Federal Home Loan Bank (FHLB)		1,540,440		1,060,440
Notes payable (including \$9,886 and \$10,141 measured at fair value as of March 31, 2009 and December 31, 2008, respectively)		22,592		23,274
Other borrowings		231,939		231,914
Bank acceptances outstanding		514		504
Accounts payable from investment purchases		74,635		
Accounts payable and other liabilities		133,662		148,547

Total liabilities		17,731,910		17,943,151
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Commitments and Contingencies (Note 21)

STOCKHOLDERS EQUITY

Preferred stock, authorized 50,000,000 shares: issued and outstanding 22,404,000 shares (2008 - 22,004,000) at an aggregate liquidation value of \$950,100 (2008 - \$550,100)		925,162		550,100
Common stock, \$1 par value, authorized 250,000,000 shares; issued 102,444,549		102,444		102,444
Less: Treasury stock (at par value)		(9,898)		(9,898)
Common stock outstanding, 92,546,749 shares outstanding		92,546		92,546
Additional paid-in capital		134,153		108,299
Legal surplus		299,006		299,006
Retained earnings		443,622		440,777
Accumulated other comprehensive income, net of tax expense of \$1,209 (2008 - \$717)		82,751		57,389
Total stockholders equity		1,977,240		1,548,117
Total liabilities and stockholders equity	\$	19,709,150	\$	19,491,268

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Quarter Ended	
	March 31, 2009	March 31, 2008
(In thousands, except per share information)		
Interest income:		
Loans	\$ 187,945	\$ 213,811
Investment securities	70,287	62,053
Money market investments	91	3,223
 Total interest income	 258,323	 279,087
 Interest expense:		
Deposits	95,310	106,197
Loans payable	346	
Federal funds purchased and securities sold under agreements to repurchase	30,145	33,939
Advances from FHLB	8,292	11,148
Notes payable and other borrowings	2,632	3,345
 Total interest expense	 136,725	 154,629
 Net interest income	 121,598	 124,458
 Provision for loan and lease losses	 59,429	 45,793
 Net interest income after provision for loan and lease losses	 62,169	 78,665
 Non-interest income:		
Other service charges on loans	1,529	1,313
Service charges on deposit accounts	3,165	3,364
Mortgage banking activities	806	319
Net gain on investment and impairments	17,450	16,193
Rental income	449	543
Other non-interest income	6,654	7,648
 Total non-interest income	 30,053	 29,380
 Non-interest expenses:		
Employees compensation and benefits	34,242	36,326
Occupancy and equipment	14,774	14,979
Business promotion	3,116	4,265

Professional fees	3,186	5,059
Taxes, other than income taxes	4,001	4,026
Insurance and supervisory fees	6,672	3,984
Net loss on real estate owned (REO) operations	5,375	3,256
Other non-interest expenses	13,162	10,292
Total non-interest expenses	84,528	82,187
Income before income taxes	7,694	25,858
Income tax benefit	14,197	7,731
Net income	\$ 21,891	\$ 33,589
Net income available to common stockholders	\$ 6,773	\$ 23,520
Net income per common share:		
Basic	\$ 0.07	\$ 0.25
Diluted	\$ 0.07	\$ 0.25
Dividends declared per common share	\$ 0.07	\$ 0.07

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Quarter Ended	
	March 31,	March 31,
	2009	2008
(In thousands)		
Cash flows from operating activities:		
Net income	\$ 21,891	\$ 33,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,161	4,368
Amortization and impairment of core deposit intangible	4,713	878
Provision for loan and lease losses	59,429	45,793
Deferred income tax benefit	(13,302)	(15,387)
Stock-based compensation recognized	26	
Gain on sale of investments, net	(17,838)	(16,193)
Other-than-temporary impairments on available-for-sale securities	388	
Derivatives instruments and hedging activities gain	(11,246)	(6,959)
Net gain on sale of loans and impairments	(1,183)	(707)
Net amortization of premiums and discounts and deferred loan fees and costs	300	3
Net increase in mortgage loans held for sale	(16,339)	
Amortization of broker placement fees	7,083	2,823
Net amortization (accretion) of premium and discounts on investment securities	2,547	(8,896)
(Decrease) increase in accrued income tax payable	(1,907)	6,190
Decrease in accrued interest receivable	16,906	9,637
Decrease in accrued interest payable	(13,814)	(22,285)
Decrease (increase) in other assets	38,979	(6,782)
Decrease in other liabilities	(7,515)	(4,409)
Total adjustments	52,388	(11,926)
Net cash provided by operating activities	74,279	21,663
Cash flows from investing activities:		
Principal collected on loans	668,786	697,011
Loans originated	(1,182,123)	(978,515)
Purchases of loans	(51,053)	(59,168)
Proceeds from sale of loans	3,657	21,421
Proceeds from sale of repossessed assets	15,319	20,390
Purchase of servicing assets		(69)
Proceeds from sale of available-for-sale securities	191,167	245,291
Purchases of securities held to maturity		(99)
Purchases of securities available for sale	(564,771)	(1,136,025)
Principal repayments and maturities of securities held to maturity	255,583	362,317

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Principal repayments of securities available for sale	232,343	67,713
Additions to premises and equipment	(13,974)	(6,258)
Proceeds from redemption of other investment securities		9,342
(Increase) decrease in other equity securities	(21,773)	2,940
Net cash inflow on acquisition of business		5,154
 Net cash used in investing activities	 (466,839)	 (748,555)
 Cash flows from financing activities:		
Net (decrease) increase in deposits	(1,430,620)	502,632
Net increase in loans payable	935,000	
Net (decrease) increase in federal funds purchased and securities sold under repurchase agreements	(247,262)	462,384
Net FHLB advances taken (paid)	480,000	(68,000)
Dividends paid	(18,161)	(16,544)
Issuance of preferred stock and associated warrant	400,000	
Other financing activities	8	
 Net cash provided by financing activities	 118,965	 880,472
 Net (decrease) increase in cash and cash equivalents	 (273,595)	 153,580
 Cash and cash equivalents at beginning of period	 405,733	 378,945
 Cash and cash equivalents at end of period	 \$ 132,138	 \$ 532,525
 Cash and cash equivalents include:		
Cash and due from banks	\$ 107,414	\$ 214,847
Money market instruments	24,724	317,678
	\$ 132,138	\$ 532,525

The accompanying notes are an integral part of these statements.

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

(In thousands)	Quarter Ended	
	March 31, 2009	March 31, 2008
Preferred Stock:		
Balance at beginning of period	\$ 550,100	\$ 550,100
Issuance of preferred stock Series F	400,000	
Preferred stock discount Series F, net of accretion	(24,938)	
Balance at end of period	925,162	550,100
Common Stock outstanding	92,546	92,504
Additional Paid-In-Capital:		
Balance at beginning of period	108,299	108,279
Issuance of common stock warrants	25,820	
Stock-based compensation recognized	26	
Other	8	
Balance at end of period	134,153	108,279
Legal Surplus	299,006	286,049
Retained Earnings:		
Balance at beginning of period	440,777	409,978
Net income	21,891	33,589
Cash dividends declared on common stock	(6,483)	(6,475)
Cash dividends declared on preferred stock	(11,681)	(10,069)
Accretion of preferred stock discount Series F	(882)	
Balance at end of period	443,622	427,023
Accumulated Other Comprehensive Income (Loss), net of tax:		
Balance at beginning of period	57,389	(25,264)
Other comprehensive income, net of tax	25,362	11,567
Balance at end of period	82,751	(13,697)
Total stockholders' equity	\$ 1,977,240	\$ 1,450,258

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Quarter Ended	
	March 31, 2009	March 31, 2008
(In thousands)		
Net income	\$ 21,891	\$ 33,589
Other comprehensive income:		
Unrealized gain on securities:		
Unrealized holding gain arising during the period	43,304	18,179
Less: Reclassification adjustments for net gain and other-than-temporary impairments included in net income	(17,450)	(6,851)
Income tax (expense) benefit related to items of other comprehensive income	(492)	239
Other comprehensive income for the period, net of tax	25,362	11,567
Total comprehensive income	\$ 47,253	\$ 45,156

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
PART I NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements (unaudited) have been prepared in conformity with the accounting policies stated in the Corporation's Audited Consolidated Financial Statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008. 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, 2008, included in the Corporation's 2008 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, 2009 are not necessarily indicative of the results to be expected for the entire year.

Adoption of new accounting standards and recently issued but not yet effective accounting pronouncements

In May 2008, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standard No. (SFAS) 163, Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60. This Statement requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how SFAS 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for some disclosures about the insurance enterprise's risk-management activities which are effective since the first interim period after the issuance of this statement. The adoption of this Statement did not have a significant impact on the Corporation's financial statements.

In June 2008, the FASB issued Staff Position No. (FSP) EITF 03-6-1 (FSP EITF 03-6-1), Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. FSP EITF 03-6-1 applies to entities with

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outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends. Furthermore, awards with dividends that do not need to be returned to the entity if the employee forfeits the award are considered participating securities. Accordingly, under FSP EITF 03-6-1 unvested share-based payment awards that are considered to be participating securities should be included in the computation of EPS pursuant to the two-class method under SFAS 128. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. The adoption of this Statement did not have an impact on the Corporation's financial statements since, as of March 31, 2009, the outstanding unvested shares of restricted stock do not contain rights to nonforfeitable dividends.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. FSP No. FAS 141(R)-1 will amend the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under SFAS 141(R), Business Combinations. The FSP will carry forward the requirements in SFAS 141 for acquired contingencies, thereby requiring that such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. Otherwise, entities would typically account for the acquired contingencies in accordance with SFAS 5, Accounting for Contingencies. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this Statement did not have an impact on the Corporation's financial statements.

In April 2009, the FASB issued FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FSP No. FAS 157-4 provides guidelines for making fair value measurements more consistent with the principles presented in SFAS 157, Fair Value Measurements. The FSP relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what SFAS 157 states is the objective of fair value measurement-to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. This FSP is effective for interim and annual reporting periods ending after June 15, 2009 on a prospective basis. Early adoption is permitted for periods ending after March 15, 2009. The Corporation is currently evaluating the impact, if any, of the implementation of this statement on its financial statements.

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In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. FSP FAS 115-2 and FAS 124-2 provides additional guidance designed to create greater clarity and consistency in accounting and presenting impairment losses on securities. The FSP is intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. The FSP also requires increased and more timely disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Corporation is currently evaluating the impact of the adoption of this statement on its financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. FSP FAS 107-1 and APB 28-1 amends SFAS 107, *Disclosures about Fair Value of Financial Instruments*, and enhances consistency in financial reporting by increasing the frequency of fair value disclosures by requiring disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009.

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The calculations of earnings per common share for the quarters ended on March 31, 2009 and 2008 follows:

	Quarter Ended	
	March 31, 2009	March 31, 2008
	(In thousands, except per share information)	
Net Income:		
Net income	\$ 21,891	\$ 33,589
Less: Preferred stock dividends (1)	(14,236)	(10,069)
Less: Preferred stock discount accretion	(882)	
Net income available to common stockholders	\$ 6,773	\$ 23,520
Weighted-Average Shares:		
Basic weighted-average common shares outstanding	92,511	92,504
Average potential common shares		88
Diluted weighted-average number of common shares outstanding	92,511	92,592
Earning per common share:		
Basic	\$ 0.07	\$ 0.25
Diluted	\$ 0.07	\$ 0.25

(1) In 2009, preferred stock dividends include \$2.6 million of Series F Preferred Stock cumulative preferred dividends not declared as of the end of the period. Refer to Note 16 for additional information related to the Series F Preferred Stock issued to the U.S. Treasury in connection with

the Troubled
Asset Relief
Program
(TARP) Capital
Purchase
Program.

Earnings per common share are computed by dividing net income available to common stockholders by the weighted average common shares issued and outstanding. Net income available to common stockholders represents net income adjusted for preferred stock dividends including dividends declared, accretion of discount on preferred stock issuances and cumulative dividends related to the current dividend period that have not been declared as of the end of the period. 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, 2009 and 2008, a total of 3,910,910 and 2,337,300 weighted-average outstanding stock options, respectively, were not included in the computation of dilutive earnings per share because they were antidilutive. In addition, warrants outstanding to purchase 5,842,259 shares of

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common stock related to the TARP Capital Purchase Program and 36,243 unvested shares of restricted stock were excluded from the March 31, 2009 computation as they would have an antidilutive effect on earnings per share. Refer to Note 16 for additional information related to the issuance of the Series F Preferred Stock and warrant under the TARP Capital Purchase Program.

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 options for 8,696,112 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. On January 21, 2007, the 1997 stock option plan expired; all outstanding awards grants under this plan continue to be in full force and effect, subject to their original terms. All shares that remained available for grants under the 1997 stock option plan were cancelled.

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 3,800,000 shares of common stock, subject to adjustments for stock splits, reorganization and other similar events. The Corporation s Board of Directors, upon receiving the relevant recommendation of the Compensation Committee, has the power and authority to determine those eligible to receive awards and to establish the terms and conditions of any awards subject to various limits and vesting restrictions that apply to individual and aggregate awards. During the fourth quarter of 2008, pursuant to its independent director compensation plan, the Corporation granted 36,243 shares of restricted stock with a fair value of \$8.69 under the Omnibus Plan to the Corporation s independent directors. The restrictions on such restricted stock awards will lapse ratably on an annual basis over a three-year period commencing on December 1, 2009. For the quarter ended March 31, 2009, the Corporation recognized \$26,250 of stock-based compensation expense related to the aforementioned restricted stock awards. The total unrecognized compensation cost related to these non-vested restricted stocks was \$280,000 as of March 31, 2009 and is expected to be recognized over the next 2.7 years.

The Corporation accounted for stock options using the modified prospective method upon adoption of SFAS 123R, Share-Based Payment. There were no stock options granted during 2009 and 2008 and therefore no compensation expense associated with stock options for the first quarter of 2009 and 2008.

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SFAS 123R requires the Corporation to develop an estimate of the number of share-based awards which will be forfeited due to employee 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. There were no forfeiture adjustments during the first quarter of 2009 for the unvested shares of restricted stock. When unvested options or shares of restricted stock are forfeited, any compensation expense previously recognized on the forfeited awards is reversed in the period of the forfeiture.

Stock options outstanding at the end of the first quarter of 2009 are set forth below:

	Quarter Ended March 31, 2009			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Stock options outstanding and exercisable at the beginning and end of period	3,910,610	\$ 12.82	6.0	\$

There were no stock options granted or exercised during the first quarter of 2009 and 2008.

Table of Contents**4 INVESTMENT SECURITIES****Investment Securities Available for Sale**

The amortized cost, gross unrealized gains and losses, approximate fair value, weighted-average yield and contractual maturities of investment securities available for sale as of March 31, 2009 and December 31, 2008 were as follows:

	March 31, 2009					December 31, 2008				
	Amortized cost	Gross Unrealized gains	losses	Fair value	Weighted average yield %	Amortized cost	Gross Unrealized gains	losses	Fair value	Weighted average yield %
(Dollars in thousands)										
Obligations of U.S. Government sponsored agencies:										
After 1 to 5 years	\$ 514,741	\$ 1,894	\$	\$ 516,635	2.26	\$	\$	\$		
Puerto Rico Government obligations:										
Due within one year	4,283	58		4,341	6.14	4,593	46		4,639	6.18
After 1 to 5 years	110,673	208	415	110,466	5.41	110,624	259	479	110,404	5.41
After 5 to 10 years	6,321	236	112	6,445	5.79	6,365	283	128	6,520	5.80
After 10 years	15,797	46	255	15,588	5.31	15,789	45	264	15,570	5.30
Obligations of U.S. Government sponsored agencies and Puerto Rico Government obligations	651,815	2,442	782	653,475	2.93	137,371	633	871	137,133	5.44
Mortgage-backed securities:										
FHLMC certificates:										
Due within one year	17			17	6.39	37			37	5.94
After 1 to 5 years	119	1		120	6.93	157	2		159	7.07
After 5 to 10 years	30	3		33	8.40	31	3		34	8.40
After 10 years	1,526,909	58,396		1,585,305	5.45	1,846,386	45,743	1	1,892,128	5.46
	1,527,075	58,400		1,585,475	5.45	1,846,611	45,748	1	1,892,358	5.46
GNMA certificates:										

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Due within one year	65			65	3.59	45	1		46	5.72
After 1 to 5 years	99	4		103	6.56	180	6		186	6.71
After 5 to 10 years	542	12		554	5.35	566	9		575	5.33
After 10 years	237,311	8,360		245,671	5.56	331,594	10,283	10	341,867	5.38
	238,017	8,376		246,393	5.56	332,385	10,299	10	342,674	5.38
FNMA certificates:										
After 1 to 5 years	49	4		53	10.30	53	5		58	10.20
After 5 to 10 years	256,584	8,132		264,716	4.94	269,716	4,678		274,394	4.96
After 10 years	924,569	36,722	1	961,290	5.57	1,071,521	28,005	1	1,099,525	5.60
	1,181,202	44,858	1	1,226,059	5.43	1,341,290	32,688	1	1,373,977	5.47
Collateralized Mortgage Obligations issued or guaranteed by FHLMC and GNMA:										
After 10 years	122,320		88	122,232	1.45					
Other mortgage pass-through certificates:										
After 10 years	140,088	2	29,108	110,982	3.33	144,217	2	30,236	113,983	5.43
Mortgage-backed securities	3,208,702	111,636	29,197	3,291,141	5.21	3,664,503	88,737	30,248	3,722,992	5.46
Corporate bonds:										
After 5 to 10 years	241		85	156	7.70	241			241	7.70
After 10 years	1,307	146	63	1,390	7.89	1,307			1,307	7.97
Corporate bonds	1,548	146	148	1,546	7.86	1,548			1,548	7.93
Equity securities (without contractual maturity)	427	32	169	290	3.09	814		145	669	2.38

Total investment securities

available for sale	\$ 3,862,492	\$ 114,256	\$ 30,296	\$ 3,946,452	4.83	\$ 3,804,236	\$ 89,370	\$ 31,264	\$ 3,862,342	5.46
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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. 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 is presented as part of accumulated other comprehensive income.

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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, 2009 and December 31, 2008:

	Less than 12 months		As of March 31, 2009 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	\$ 12,330	\$ 15	\$ 13,393	\$ 767	\$ 25,723	\$ 782
Mortgage-backed securities						
FNMA	315	1	16		331	1
Collateralized Mortgage Obligations issued or guaranteed by FHLMC and GNMA	47,627	88			47,627	88
Other mortgage pass-through trust certificates			110,692	29,108	110,692	29,108
Corporate bonds			601	148	601	148
Equity securities	126	169			126	169
	\$ 60,398	\$ 273	\$ 124,702	\$ 30,023	\$ 185,100	\$ 30,296
	Less than 12 months		As of December 31, 2008 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	\$	\$	\$ 13,288	\$ 871	\$ 13,288	\$ 871
Mortgage-backed securities						
FHLMC	68	1			68	1
GNMA	903	10			903	10
FNMA	361	1	21		382	1
			113,685	30,236	113,685	30,236

Other mortgage
pass-through trust
certificates

Equity securities	318	145		318	145
	\$ 1,650	\$ 157	\$ 126,994	\$ 31,107	\$ 128,644
					\$ 31,264

The Corporation's investment securities portfolio is comprised mainly of (i) fixed-rate mortgage-backed securities issued or guaranteed by FNMA, GNMA or FHLMC and other securities secured by mortgage loans and (ii) U.S. Government sponsored agencies debt securities and obligations of the Puerto Rico Government. Thus, payment of a substantial portion of these instruments is either guaranteed or secured by mortgages together with a guarantee of a U.S. government sponsored entity or by the full faith and credit of the Puerto Rico Government. In connection with the placement of FNMA and FHLMC into conservatorship by the U.S. Treasury in September 2008, the Treasury committed to invest as much as \$200 billion in preferred stock and extend credit through 2009 to keep the agencies solvent and operating and to, among other things, protect debt and mortgage-backed securities of the agencies. Furthermore, the announcement of the Federal Reserve that it will invest up to \$600 billion in obligations from U.S. government-sponsored agencies, including \$500 billion in mortgage-backed securities backed by FNMA, FHLMC

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and GNMA has caused a surge in prices, since the latter part of 2008. Principal and interest on these securities are deemed recoverable.

The unrealized losses in the available-for-sale portfolio as of March 31, 2009 are substantially related to certain private label mortgage-backed securities due to increases in the discount rate used to value such instruments resulting from lack of liquidity and credit concerns in the U.S. mortgage loan market. Refer to Note 18 for additional information with respect to the methodology to determine the fair value of the private label mortgage-backed securities. The underlying mortgages are fixed-rate single family loans related with high FICO scores borrowers (over 700) and moderate original loan-to-value ratios (under 80%), as well as moderate delinquency levels. Principal and interest cash flow expectations have not changed to a material degree and are expected to cover the carrying amount of these mortgage-backed securities. Private label mortgage-backed securities relates to mortgage pass-through certificates bought from R&G Financial Corporation (R&G Financial). R&G Financial must cover losses up to 10% of the aggregate outstanding unpaid principal balance according to recourse provisions included in the agreements. The Corporation s investment in equity securities is minimal and it does not own any equity securities of U.S. financial institutions that recently failed in the midst of the current market turmoil. The Corporation s policy is to review its investment portfolio for possible other-than-temporary impairment at least quarterly. As of March 31, 2009, management has the intent and ability to hold these investments for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments; as a result, there is no other-than-temporary impairment.

For the quarter ended on March 31, 2009, the Corporation recorded other-than-temporary impairments of approximately \$0.4 million on certain equity securities held in its available-for-sale investment portfolio. Management concluded that the declines in value of the securities were other-than-temporary; as such, the cost basis of these securities was written down to the market value as of the date of the analyses and reflected in earnings as a realized loss. No other-than-temporary impairment charges were recorded during the first quarter of 2008.

Total proceeds from the sale of securities available for sale during the first quarter of 2009 amounted to approximately \$439.4 million (2008 \$245.3 million), including unsettled proceeds of \$248.2 million as of March 31, 2009 of securities sold. Unsettled proceeds of securities sold as of March 31, 2009 amounted to approximately \$248.2 million. The Corporation realized gross gains of approximately \$17.8 million (2008 \$6.9 million in gross realized gains).

Table of Contents**Investment Securities Held to Maturity**

The amortized cost, gross unrealized gains and losses, approximate fair value, weighted-average yield and contractual maturities of investment securities held-to-maturity as of March 31, 2009 and December 31, 2008 were as follows:

	March 31, 2009					December 31, 2008				
	Amortized cost	Gross Unrealized gains	losses	Fair value	Weighted average yield % (Dollars in thousands)	Amortized cost	Gross Unrealized gains	losses	Fair value	
Treasury securities:										
within 1 year	\$ 8,477	\$ 18	\$	\$ 8,495	1.07	\$ 8,455	\$ 34	\$	\$ 8,489	
Bonds of other U.S. Government issued agencies:										
0 years	725,279	3,025	1,268	727,036	5.75	945,061	5,281	728	949,614	
Puerto Rico Government obligations:										
to 10 years	18,085	437	538	17,984	5.86	17,924	480	97	18,307	
0 years	5,145		7	5,138	5.50	5,145	35		5,180	
States and Puerto Rico Government bonds	756,986	3,480	1,813	758,653	5.70	976,585	5,830	825	981,590	
Mortgage-backed securities:										
Certificate:										
to 5 years	7,409	62	3	7,468	3.88	8,338	71	5	8,404	
Certificate:										
to 5 years	6,861	98		6,959	3.87	7,567	88		7,655	
to 10 years	651,734	17,469		669,203	4.47	686,948	9,227		696,175	
0 years	24,913	355		25,268	5.31	25,226	247	25	25,448	
Mortgage-backed securities	690,917	17,984	3	708,898	4.49	728,079	9,633	30	737,682	
Corporate bonds:										
0 years	2,000		960	1,040	5.80	2,000		860	1,140	
Investment securities held-to-maturity	\$ 1,449,903	\$ 21,464	\$ 2,776	\$ 1,468,591	5.12	\$ 1,706,664	\$ 15,463	\$ 1,715	\$ 1,720,412	

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.

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The following tables show the Corporation's held-to-maturity investments' fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2009 and December 31, 2008:

	Less than 12 months		As of March 31, 2009 12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Debt securities						
U.S. Government sponsored agencies	\$	\$	\$ 6,843	\$ 1,268	\$ 6,843	\$ 1,268
Puerto Rico Government obligations	11,698	448	4,495	97	16,193	545
Mortgage-backed securities						
FHLMC	763	1	539	2	1,302	3
Corporate bonds			1,040	960	1,040	960
	\$ 12,461	\$ 449	\$ 12,917	\$ 2,327	\$ 25,378	\$ 2,776

	Less than 12 months		As of December 31, 2008 12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Debt securities						
U.S. Government sponsored agencies	\$	\$	\$ 7,262	\$ 728	\$ 7,262	\$ 728
Puerto Rico Government obligations			4,436	97	4,436	97
Mortgage-backed securities						
FHLMC			600	5	600	5
FNMA			6,825	25	6,825	25
Corporate bonds			1,140	860	1,140	860
	\$	\$	\$ 20,263	\$ 1,715	\$ 20,263	\$ 1,715

Held-to-maturity securities in an unrealized loss position as of March 31, 2009 are primarily U.S. agency securities. The vast majority of them are rated the equivalent of AAA by major rating agencies. The unrealized losses in the held-to-maturity portfolio as of March 31, 2009 are substantially related to market interest rate fluctuations and to some extent to credit spread widening. Refer to the Investment Securities Available for Sale discussion above for additional information regarding government-sponsored agencies. At this time, the Corporation has the intent and ability to hold these investments until maturity, and principal and interest are deemed recoverable. The impairment is considered temporary.

Table of Contents**5 OTHER EQUITY SECURITIES**

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

As of March 31, 2009 and December 31, 2008, the Corporation had investments in FHLB stock with a book value of \$84.4 million and \$62.6 million, respectively. The net realizable value is a reasonable proxy for the fair value of these instruments. Dividend income from FHLB stock for the quarters ended March 31, 2009 and 2008 amounted to \$0.4 million and \$1.1 million, respectively.

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, 2009 and December 31, 2008 was \$1.6 million. During the first quarter of 2008, the Corporation realized a one-time gain of \$9.3 million on the mandatory redemption of part of its investment in VISA, Inc., which completed its initial public offering (IPO) in March 2008.

6 LOAN PORTFOLIO

The following is a detail of the loan portfolio:

	As of March 31, 2009	As of December 31, 2008
	(In thousands)	
Residential real estate loans, mainly secured by first mortgages	\$ 3,475,061	\$ 3,481,325
Commercial loans:		
Construction loans	1,561,813	1,526,995
Commercial mortgage loans	1,519,267	1,535,758
Commercial loans	4,346,552	3,857,728
Loans to local financial institutions collateralized by real estate mortgages	556,859	567,720
Commercial loans	7,984,491	7,488,201
Finance leases	352,247	363,883
Consumer loans	1,698,153	1,744,480
Loans receivable	13,509,952	13,077,889
Allowance for loan and lease losses	(302,531)	(281,526)
Loans receivable, net	13,207,421	12,796,363
Loans held for sale	23,135	10,403
Total loans	\$ 13,230,556	\$ 12,806,766

The Corporation's primary lending area is Puerto Rico. The Corporation's Puerto Rico banking subsidiary (First Bank or the Bank) 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

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gross loan portfolio, including loans held for sale, of \$13.5 billion as of March 31, 2009, approximately 82% has regional credit risk concentration in Puerto Rico, 11% in the United States (mainly in the state of Florida) and 7% in the Virgin Islands.

The Corporation's largest loan concentration to one borrower as of March 31, 2009 is a \$500 million facility extended to the Puerto Rico Sales Tax Financing Corp. (COFINA under its Spanish acronym), an instrumentality of the Government of Puerto Rico, which will help the local government implement its economic stimulus plan. The loan has a three-year term and will be repaid with funds from future COFINA bond issues.

The next largest loan concentration to one borrower of \$343.2 million is with one mortgage originator in Puerto Rico, Doral Financial Corporation, and \$213.7 million with another mortgage originator in Puerto Rico, R&G Financial. The Corporation's total loans granted to these mortgage originators amounted to \$556.9 million as of March 31, 2009. These commercial loans to mortgage originators are secured by individual mortgage loans on residential and commercial real estate.

7 ALLOWANCE FOR LOAN AND LEASE LOSSES

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

	Quarter Ended March 31,	
	2009	2008
	(In thousands)	
Balance at beginning of period	\$ 281,526	\$ 190,168
Provision for loan and lease losses	59,429	45,793
Charge-offs	(42,460)	(27,386)
Recoveries	4,036	1,920
Balance at end of period	\$ 302,531	\$ 210,495

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 substantial loss. As of March 31, 2009 and December 31, 2008, impaired loans and their related allowance were as follows:

	As of March 31, 2009	As of December 31, 2008
	(In thousands)	
Impaired loans with valuation allowance	\$ 583,161	\$ 384,914
Impaired loans without valuation allowance	157,632	116,315
Total impaired loans	\$ 740,793	\$ 501,229
Allowance for impaired loans	\$ 103,128	\$ 83,353

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During the first quarter of 2009, the Corporation identified several commercial and construction loans amounting to \$237.0 million that it determined should be classified as impaired, of which \$215.1 million have a specific reserve of \$28.1 million.

Interest income in the amount of approximately \$4.2 million and \$2.2 million was recognized on impaired loans for the first quarters ended March 31, 2009 and 2008, respectively. The average recorded investment in impaired loans for the first quarters of 2009 and 2008 was \$581.1 million and \$167.4 million, respectively.

The Corporation provides homeownership preservation assistance to its customers through a loss mitigation program in Puerto Rico. Due to the nature of the borrower's financial condition, the restructure or loan modification through this program as well as other individual modified commercial, commercial mortgage loans and residential mortgages in the U.S. mainland fits the definition of Troubled Debt Restructuring (TDR) as defined by the SFAS 15 Accounting by Debtors and Creditors of Troubled Debt Restructurings. Such restructures are identified as TDRs and accounted for based on the provisions of SFAS 114, Accounting by Creditors for Impairment of a Loan. As of

March 31, 2009, the Corporation's TDR loans consisted of \$50.0 million, \$15.0 million and \$24.4 million of residential mortgage, commercial and commercial mortgage loans, respectively.

8 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 change in response to 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 uses various financial instruments, including derivatives, to manage the interest rate risk related primarily to the values of its brokered certificates of deposit (CDs) and medium-term notes.

The Corporation designates a derivative as a fair value hedge, a cash flow hedge or an economic undesignated hedge when it enters into the derivative contract. As of March 31, 2009 and December 31, 2008, 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.

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The following summarizes most of the derivative activities used by the Corporation in managing interest rate risk: *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. Since a substantial portion of the Corporation's loans, mainly commercial loans, yield variable rates, interest rate swaps are utilized to convert fixed-rate brokered CDs (liabilities), mainly those with long-term maturities, to a variable rate and mitigate the interest rate risk inherent in these variable rate loans. 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.

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 against rising interest rates. Specifically, the interest rate on certain private label mortgage pass-through securities and certain of the Corporation's commercial loans to other financial institutions is generally a variable rate limited to the weighted-average coupon of the pass-through certificate or referenced residential mortgage collateral, less a contractual servicing fee.

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.

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 the 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.

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The following table summarizes the notional amounts of all derivative instruments as of March 31, 2009 and December 31, 2008:

	Notional Amounts	
	As of March 31, 2009	As of December 31, 2008
	(In thousands)	
Economic undesignated hedges:		
Interest rate contracts:		
Interest rate swap agreements used to hedge fixed-rate brokered CDs, notes payable and loans	\$ 299,157	\$ 1,184,820
Written interest rate cap agreements	128,035	128,043
Purchase interest rate cap agreements	272,213	276,400
Equity contracts:		
Embedded written options on stock index deposits and notes payable	53,515	53,515
Purchased options used to manage exposure to the stock market on embedded stock index options	53,515	53,515
	\$ 806,435	\$ 1,696,293

The following table summarizes the fair values of derivative instruments and the location in the Statement of Financial Condition as of March 31, 2009 and December 31, 2008:

	Asset Derivatives		Liability Derivatives	
	As of March 31, 2009	As of December 31, 2008	As of March 31, 2009	As of December 31, 2008
Statement of Financial Condition Location	Fair Value	Fair Value	Statement of Financial Condition Location	Fair Value
	(Dollars in thousands)			
Economic undesignated hedges:				
Interest rate contracts:				
Interest rate swap agreements used to hedge fixed rate brokered CDs, notes payable and loans	Other Assets \$ 1,265	\$ 5,649	Accounts payable and other liabilities	\$ 6,606 \$ 7,188
Written interest rate cap agreements	Other Assets		Accounts payable and other liabilities	5 3
Purchase interest rate cap agreements	Other Assets 987	764	Accounts payable and other liabilities	

Equity contracts:

Embedded written options on stock index deposits	Other Assets			Interest bearing deposits	55	241
Embedded written options on stock index notes payable	Other Assets			Notes payable	520	1,073
Purchased options used to manage exposure to the stock market on embedded stock index options	Other Assets	678	1,597	Accounts payable and other liabilities		
		\$ 2,930	\$ 8,010		\$ 7,186	\$ 8,505

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The following table summarizes the effect of derivative instruments on the Statement of Income for the quarters ended on March 31, 2009 and 2008:

	Location of Unrealized Gain or (loss) Recognized in Income on Derivatives	Unrealized Gain or (Loss) Quarter Ended March 31, 2009 2008 (In thousands)	
Interest rate contracts:			
Interest rate swap agreements used to hedge fixed-rate:			
Brokered CDs	Interest Expense on Deposit	\$ (4,359)	\$ 55,357
Notes payable	Interest Expense on Notes Payable and Other Borrowings	3	133
Loans	Interest Income on Loans	553	(2,508)
Written and purchased interest rate cap agreements mortgage-backed securities			
	Interest Income on Investment Securities	217	(2,184)
Written and purchased interest rate cap agreements loans			
	Interest Income on Loans	5	(31)
Equity contracts:			
Embedded written and purchased options on stock index deposits			
	Interest Expense on Deposits	(67)	(21)
Embedded written and purchased options on stock index notes payable			
	Interest Expense on Notes Payable and Other Borrowings	(113)	180
Total Unrealized (Loss) Gain on derivatives		\$ (3,761)	\$ 50,926

Derivative instruments, such as interest rate swaps, are subject to market risk. The Corporation's derivatives are mainly composed of interest rate swaps that are used to convert the fixed interest payment on its brokered CDs and medium-term notes to variable payments (receive fixed/pay floating). 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 as well as the level of interest rates. The unrealized gains and losses in the fair value of derivatives that economically hedge certain callable brokered CDs and medium-term notes are partially offset by unrealized gains and losses on the valuation of such economically hedged liabilities that were elected to be measured at fair value under the provisions of SFAS 159. The Corporation includes the gain or loss on those economically hedged liabilities (brokered CDs and medium-term notes) in the same line item as the offsetting loss or gain on the related derivatives as set forth below:

	Quarter ended March 31,					
	2009		2008			
(In thousands)	Loss on Derivatives	Gain on SFAS 159 liabilities	Net Unrealized Gain	Gain on Derivatives	(Loss) / Gain on SFAS 159 liabilities	Net Unrealized Gain
Interest expense on Deposits	\$ (4,426)	\$ 7,141	\$ 2,715	\$ 55,336	\$ (49,557)	\$ 5,779

Interest expense on Notes Payable and Other Borrowings	(110)	255 26	145	313	897	1,210
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A summary of interest rate swaps as of March 31, 2009 and December 31, 2008 follows:

	As of March 31, 2009	As of December 31, 2008
	(Dollars in thousands)	
Pay fixed/receive floating (generally used to economically hedge variable rate loans):		
Notional amount	\$ 78,358	\$ 78,855
Weighted-average receive rate at period end	2.42%	3.21%
Weighted-average pay rate at period end	6.75%	6.75%
Floating rates range from 167 to 252 basis points over 3-month LIBOR		
Receive fixed/pay floating (generally used to economically hedge fixed-rate brokered CDs and notes payable):		
Notional amount	\$ 220,799	\$ 1,105,965
Weighted-average receive rate at period end	5.22%	5.30%
Weighted-average pay rate at period end	1.31%	3.09%
Floating rates range from 3 basis points to 6 basis points over 3-month LIBOR		

During the first quarter of 2009, approximately \$870.0 million of interest rate swaps that economically hedge brokered CDs were called by the counterparties, mainly due to lower 3-month LIBOR. Following the cancellation of the interest rate swaps, the Corporation exercised its call option on approximately \$812.0 million swapped-to- floating brokered CDs. The Corporation recorded a net loss of \$1.6 million as a result of these transactions resulting from the reversal of the cumulative mark-to-market valuation of the swaps and the brokered CDs called.

As of March 31, 2009, the Corporation has not entered into any derivative instrument containing credit-risk-related contingent features.

Table of Contents**9 GOODWILL AND OTHER INTANGIBLES**

Goodwill as of March 31, 2009 and December 31, 2008 amounted to \$28.1 million recognized as part of Other Assets. The goodwill resulted primarily from the acquisition of Ponce General Corporation in 2005. No goodwill impairment was recognized during 2009 and 2008. Goodwill and other indefinite life intangibles are reviewed for impairment at least annually.

As of March 31, 2009, the gross carrying amount and accumulated amortization of core deposit intangibles was \$42.1 million and \$22.8 million, respectively, recognized as part of Other Assets in the Consolidated Statements of Financial Condition (December 31, 2008 \$45.8 million and \$21.8 million, respectively). During the quarters ended March 31, 2009 and 2008, the amortization expense of core deposits amounted to \$1.0 million and \$0.9 million, respectively. As a result of an impairment evaluation on core deposit intangibles, in accordance with SFAS 144

Accounting for the Impairment or Disposal of Long-Lived Assets, there was an impairment charge of \$3.7 million recognized during the first quarter of 2009 related to core deposits in FirstBank Florida attributed to decreases in the base of core deposits acquired.

10 DEPOSITS

The following table summarizes deposit balances:

	As of March 31, 2009	As of December 31, 2008
	(In thousands)	
Non-interest bearing checking account deposits	\$ 641,740	\$ 625,928
Savings accounts	1,499,947	1,288,179
Interest-bearing checking accounts	794,590	726,731
Certificates of deposit	1,800,281	1,986,770
Brokered CDs (includes \$322,465 and \$1,150,959 measured at fair value as of March 31, 2009 and December 31, 2008, respectively)	6,882,790	8,429,822
	\$ 11,619,348	\$ 13,057,430

The interest expense on deposits includes the valuation to market of interest rate swaps that economically hedge brokered CDs, the related interest exchanged, the amortization of broker placement fees related to brokered CDs not elected for the fair value option and changes in fair value of callable brokered CDs elected for the fair value option under SFAS 159 (SFAS 159 brokered CDs).

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The following are the components of interest expense on deposits:

	Quarter Ended	
	March 31, 2009	March 31, 2008
	(In thousands)	
Interest expense on deposits	\$ 90,942	\$ 109,153
Amortization of broker placement fees ⁽¹⁾	7,083	2,823
Interest expense on deposits excluding net unrealized gain on derivatives and SFAS 159 brokered CDs	98,025	111,976
Net unrealized gain on derivatives and SFAS 159 brokered CDs	(2,715)	(5,779)
Total interest expense on deposits	\$ 95,310	\$ 106,197

(1) Related to brokered CDs not elected for the fair value option under SFAS 159.

Total interest expense on deposits includes net cash settlements on interest rate swaps that economically hedge brokered CDs that for the quarters ended March 31, 2009 and 2008 amounted to net interest realized of \$4.7 million and \$7.0 million, respectively.

11 LOANS PAYABLE

As of March 31, 2009, loans payable consisted of \$935 million in short-term borrowings under the Federal Reserve (FED) Discount Window Program bearing interest within a range of 0.25% to 0.50% (weighted average of 0.37%). In the first quarter of 2009, the Corporation received approval to participate in the Borrower-in-Custody (BIC) Program of the FED. Through the BIC Program, a broad range of loans (including commercial, consumer and mortgages) may be pledged as collateral for borrowings through the FED Discount Window. As of March 31, 2009, the Corporation had an additional capacity of approximately \$957.7 million on this credit facility based on collateral pledged at the FED, including the haircut reflecting the perceived risk associated with holding the collateral.

12 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

	March 31, 2009	December 31, 2008
	(In thousands)	
Repurchase agreements, interest ranging from 0.60% to 5.39% (2008 - 2.29% to 5.39%)	\$ 3,173,780	\$ 3,421,042

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Repurchase agreements mature as follows:

	(In thousands)
One to thirty days	\$ 86,280
Over thirty to ninety days	100,000
Over ninety days to one year	487,500
One to three years	900,000
Three to five years	1,000,000
Over five years	600,000
Total	\$ 3,173,780

As of March 31, 2009 and December 31, 2008, the securities underlying such agreements were delivered to the dealers with whom the repurchase agreements were transacted.

Repurchase agreements as of March 31, 2009, grouped by counterparty, were as follows:

(Dollars in thousands)	Amount	Weighted-Average Maturity (In Months)
Counterparty		
Credit Suisse First Boston	\$ 1,098,780	30
Citigroup Global Markets	600,000	46
JP Morgan	575,000	29
Barclays Capital	500,000	32
Dean Witter / Morgan Stanley	300,000	39
UBS Financial Services, Inc.	100,000	39
	\$ 3,173,780	

13 ADVANCES FROM THE FEDERAL HOME LOAN BANK (FHLB)

Following is a detail of the advances from the FHLB:

	March 31, 2009	December 31, 2008
	(In thousands)	
Fixed-rate advances from FHLB, with a weighted-average interest rate of 2.18% (2008 - 3.09%)	\$ 1,540,440	\$ 1,060,440

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Advances from FHLB mature as follows:

	(In thousands)
One to thirty days	\$ 700,000
Over thirty to ninety days	15,000
Over ninety days to one year	65,000
One to three years	507,000
Three to five years	253,440
Total	\$ 1,540,440

As of March 31, 2009, the Corporation had additional capacity of approximately \$262.2 million on this credit facility based on collateral pledged at the FHLB, including the haircut reflecting the perceived risk associated with holding the collateral.

14 NOTES PAYABLE

Notes payable consist of:

	March 31, 2009	December 31, 2008
	(In thousands)	
Callable step-rate notes, bearing step increasing interest from 5.00% to 7.00% (5.50% as of March 31, 2009 and December 31, 2008) maturing on October 18, 2019, measured at fair value under SFAS 159	\$ 9,886	\$ 10,141
Dow Jones Industrial Average (DJIA) linked principal protected notes:		
Series A maturing on February 28, 2012	6,037	6,245
Series B maturing on May 27, 2011	6,669	6,888
Total	\$ 22,592	\$ 23,274

15 OTHER BORROWINGS

Other borrowings consist of:

	March 31, 2009	December 31, 2008
	(In thousands)	
Junior subordinated debentures due in 2034, interest-bearing at a floating-rate of 2.75% over 3-month LIBOR (4.07% as of March 31, 2009 and 4.62% as of December 31, 2008)	\$ 103,073	\$ 103,048
Junior subordinate debentures due in 2034, interest-bearing at a floating-rate of 2.50% over 3-month LIBOR (3.79% as of March 31, 2009 and 4.00% as of December 31, 2008)	\$ 128,866	\$ 128,866
Total	\$ 231,939	\$ 231,914

Table of Contents**16 STOCKHOLDERS EQUITY*****Common stock***

The Corporation has 250,000,000 authorized shares of common stock with a par value of \$1 per share. As of March 31, 2009 and December 31, 2008, there were 102,444,549 shares issued and 92,546,749 shares outstanding. In February 2009, the Corporation's Board of Directors declared a first quarter cash dividend of \$0.07 per common share which was paid on March 31, 2009 to common stockholders of record on March 15, 2009.

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 2009 and 2008 by the Corporation. As of March 31, 2009 and December 31, 2008, of the total amount of common stock repurchased, 9,897,800 shares were held as treasury stock and were available for general corporate purposes.

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, 2009, 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, which trade on the NYSE. The liquidation value per share is \$25. Annual dividends of \$1.75 per share (Series E), \$1.8125 per share (Series D), \$1.85 per share (Series C), \$2.0875 per share (Series B) and \$1.78125 per share (Series A) are payable monthly, if declared by the Board of Directors. Dividends declared on the non-convertible non-cumulative preferred stock for the first quarter of 2009 and 2008 amounted to \$10.1 million.

In January 2009, in connection with the TARP Capital Purchase Program, established as part of the Emergency Economic Stabilization Act of 2008, the Corporation issued to the U.S. Treasury 400,000 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series F, \$1,000 liquidation preference value per share. The Series F Preferred Stock has a call feature after three years. In connection with this investment, the Corporation also issued to the U.S. Treasury 10-year warrants to purchase 5,842,259 shares of the Corporation's common stock at an exercise price of \$10.27 per share. The Corporation

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registered the Series F Preferred Stock, the warrants and the shares of common stock underlying the warrants for resale under the Securities Act of 1933. The allocated carrying values of the Series F Preferred Stock and the warrant on the date of issuance (based on the relative fair values) were \$374.2 million and \$25.8 million, respectively. The Series F Preferred Stock will accrete to the redemption price of \$400 million over five years.

The Series F Preferred Stock qualifies as Tier 1 regulatory capital. Cumulative dividends on the Series F Preferred Stock will accrue on the liquidation preference amount on a quarterly basis at a rate of 5% per annum for the first five years, and thereafter at a rate of 9% per annum, but will only be paid when, as and if declared by the Corporation's Board of Directors out of assets legally available therefore. The Series F Preferred Stock will rank pari passu with the Corporation's existing Series A through E, in terms of dividend payments and distributions upon liquidation, dissolution and winding up of the Corporation. The Purchase Agreement of this issuance contains limitations on the payment of dividends on common stock, including limiting regular quarterly cash dividends to an amount not exceeding the last quarterly cash dividend paid per share, or the amount publicly announced (if lower), of common stock prior to October 14, 2008, which is \$0.07 per share. For the quarter ended March 31, 2009, preferred stock dividends of Series F Preferred Stock amounted to \$4.2 million, including \$2.6 million of cumulative preferred dividends not declared as of the end of the period.

The Warrant has a 10-year term and is exercisable at any time. The exercise price and the number of shares issuable upon exercise of the Warrant are subject to certain anti-dilution adjustments.

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

- diluting the voting power of the current holders of common stock (the shares underlying the Warrant represent approximately 6% of the Corporation's shares of common stock as of March 31, 2009);
- diluting the earnings per share and book value per share of the outstanding shares of common stock; and
- potentially making the payment of dividends on common stock potentially more expensive.

17 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

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income tax only on its income from sources within the United States or income effectively connected with the conduct of a trade or business within the United States. Any such tax paid is creditable, within certain conditions and limitations, against the Corporation's Puerto Rico tax liability. The Corporation is also subject to U.S. Virgin Islands taxes on its income from sources within this jurisdiction. Any such tax paid is creditable against the Corporation's Puerto Rico tax liability, subject to certain conditions and limitations.

Under the Puerto Rico Internal Revenue Code of 1994, as amended (PR Code), First BanCorp is subject to a maximum statutory tax rate of 39%, except that in 2009 the Puerto Rico Government approved legislation, Act No. 7 (the Act), to stimulate Puerto Rico's economy and to reduce the Puerto Rico Government's fiscal deficit. The Act imposes a series of temporary and permanent measures, including the imposition of a 5% surtax over the total income tax determined, which is applicable to corporations, among others, whose combined income exceeds \$100,000; which raised the maximum statutory tax rate from 39% to 40.95%. This temporary measure is effective for tax years that commenced after December 31, 2008 and before January 1, 2012. The PR Code also includes an alternative minimum tax of 22% that applies if the Corporation's regular income tax liability is less than the alternative minimum tax requirements.

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

For the quarter ended March 31, 2009, the Corporation recognized an income tax benefit of \$14.2 million, compared to an income tax benefit of \$7.7 million recorded for the same period in 2008. The positive fluctuation in the financial results was mainly attributable to lower taxable income and adjustments to deferred tax asset, as a result of the aforementioned changes to the PR Code enacted tax rates. The Corporation recorded an additional income tax benefit of \$4.3 million for the quarter ended March 31, 2009 in connection with changes to enacted tax rates, net of a \$1.8 million provision recorded for the operations of FirstBank Overseas Corporation. Deferred tax amounts have been adjusted for the effect of the change in the income tax rate considering the enacted tax rate expected to apply to taxable income in the period in which the deferred tax asset or liability is expected to be settled or realized.

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As of March 31, 2009, the Corporation evaluated its ability to realize the deferred tax asset and concluded, based on the evidence available, that it is more likely than not that some of the deferred tax asset will not be realized and, thus, established a valuation allowance of \$7.9 million, compared to a valuation allowance of \$7.3 million as of December 31, 2008. As of March 31, 2009, the deferred tax asset, net of the valuation allowance of \$7.9 million, amounted to approximately \$140.9 million compared to \$128.0 million, net of the valuation allowance of \$7.3 million as of December 31, 2008.

FASB Interpretation No. 48 (FIN 48) 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 FIN 48, 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 FIN 48 and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit (UTB).

As of March 31, 2009, the balance of the Corporation's UTBs amounted to \$15.5 million (excluding accrued interest), all of which, if recognized, would affect the Corporation's effective tax rate. The Corporation classifies all interest and penalties, if any, related to tax uncertainties as income tax expense. As of March 31, 2009 and December 31, 2008, the Corporation's accrual for interest that relates to tax uncertainties amounted to \$7.2 million and \$6.8 million, respectively. As of March 31, 2009, there is no need to accrue for the payment of penalties. For the first quarter ended on March 31, 2009 and 2008, the total amount of interest recognized by the Corporation as part of income tax expense related to tax uncertainties was \$0.4 million and \$0.6 million, respectively. The amount of UTBs may increase or decrease in the future for various reasons, including changes in the amounts for current tax year positions, the expiration of open income tax returns due to the expiration of statutes of limitations, changes in management's judgment about the level of uncertainty, the status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions. The Corporation expects to reverse during the second quarter of 2009 approximately \$10.8 million of UTBs, and \$5.3 million of related accrued interest due to the lapse of the statute of limitations for the 2004 taxable year. For the remaining outstanding UTBs, the Corporation cannot make any reasonably reliable estimate of the timing of future cash flows or changes, if any, associated with such obligations.

The Corporation's UTBs and interest relate to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has expired. 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 2004 remain open to

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examination under the PR Code and taxable years subsequent to 2005 remain open to examination for Virgin Islands and U.S. income tax purposes.

18 FAIR VALUE

SFAS 159 generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. The Corporation elected to adopt the fair value option for certain of its brokered CDs and medium-term notes (SFAS 159 liabilities) on the adoption date.

Fair Value Option

Callable Brokered CDs and Certain Medium-Term Notes

The Corporation elected the fair value option for certain financial liabilities that were hedged with interest rate swaps that were previously designated for fair value hedge accounting in accordance with SFAS 133. As of March 31, 2009 and December 31, 2008, these liabilities included callable brokered CDs with an aggregate fair value of \$322.5 million and \$1.15 billion, respectively, and principal balance of \$318.2 million and \$1.13 billion, respectively, recorded in interest-bearing deposits, and certain medium-term notes with a fair value of \$9.9 million and \$10.1 million, respectively, and principal balance of \$15.4 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 SFAS 159 liabilities. Electing the fair value option allows the Corporation to eliminate the burden of complying with the requirements for hedge accounting under SFAS 133 (e.g., documentation and effectiveness assessment) without introducing earnings volatility. Interest rate risk on the callable brokered CDs measured at fair value under SFAS 159 continues to be economically hedged with callable interest rate swaps with the same terms and conditions. The Corporation did not elect the fair value option for the vast majority of other brokered CDs because these are not hedged by derivatives.

Callable brokered CDs and medium-term notes for which the Corporation has elected the fair value option are priced using observable market data in the institutional markets.

Fair Value Measurement

SFAS 157 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. SFAS 157 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. The standard describes three levels of inputs that may be used to measure fair value:

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- 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., callable brokered CDs and medium-term notes elected for fair value option under SFAS 159) 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.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Callable Brokered CDs

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

Table of Contents***Medium-Term Notes***

The fair value of medium-term notes is determined using a discounted cash flow analysis over the full term of the borrowings. This valuation also uses the Hull-White Interest Rate Tree approach to value the option components of the term notes. The model assumes that the embedded options are exercised economically. The fair value of medium-term notes is computed using the notional amount outstanding. The discount rates used in the valuations are based on US dollar LIBOR and swap rates. At-the-money implied swaption volatility term structure (volatility by time to maturity) is used to calibrate the model to current market prices and value the cancellation option in the term notes. For the medium-term notes, the credit risk is measured using the difference in yield curves between Swap rates and a yield curve that considers the industry and credit rating of the Corporation as issuer of the note at a tenor comparable to the time to maturity of the note and option. The net 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 2009 and 2008 amounted to \$0.3 million and \$0.9 million, respectively. The cumulative mark-to-market unrealized gain on the medium-term notes since the adoption of SFAS 159 attributable to credit risk amounted to \$6.0 million as of March 31, 2009.

Investment Securities

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices for identical or comparable assets that are based on observable market parameters including benchmark yields, reported trades, quotes from brokers or dealers, issuer spreads, bids offers and reference data including market research operations. Observable prices in the market already consider the risk of nonperformance. If listed prices or quotes are not available, fair value is based upon models that use unobservable inputs due to the limited market activity of the instrument, as is the case with certain private label mortgage-backed securities held by the Corporation. Unlike U.S. agency mortgage-backed securities, the fair value of these private label securities cannot be readily determined because they are not actively traded in securities markets. Significant inputs used for fair value determination consist of specific characteristics such as information used in the prepayment model, which follows the amortizing schedule of the underlying loans, which is an unobservable input.

Private label mortgage-backed securities are collateralized by mortgages on single-family residential properties in the United States and the interest rate is variable tied to 3-month LIBOR and limited to the weighted-average coupon of the underlying collateral. The market valuation is derived from a model and 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 non-rated security. The model uses prepayment, default and interest rate assumptions that market participants would commonly use for similar mortgage asset classes that are subject to prepayment, credit and interest rate risk. The Corporation modeled the cash flow from the fixed-rate mortgage collateral using a static cash flow analysis in combination with prepayment forecasts obtained from a commercially available

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prepayment model (ADCO) and the variable cash flow of the security is modeled using the 3-month LIBOR forward curve. The expected foreclosure frequency estimates used in the model are based on the 100% Public Securities Association (PSA) Standard Default Assumption (SDA) with a loss severity assumption of 10% after taking into consideration that the issuer must cover losses up to 10% of the aggregate outstanding balance according to recourse provisions.

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, when appropriate. The Hull-White Interest Rate Tree approach is used to value the option components of derivative instruments, and discounting of the cash flows is performed using USD dollar LIBOR-based discount rates or yield curves that account for the industry sector and the credit rating of the counterparty and/or the Corporation. Derivatives are mainly composed of interest rate swaps used to economically hedge brokered CDs and medium-term notes. For these interest rate swaps, a credit component is not considered in the valuation since the Corporation fully collateralizes with investment securities any mark-to-market loss with the counterparty and if there are market gains the counterparty must deliver collateral to the Corporation.

Certain derivatives with limited market activity, as is the case with derivative instruments named as reference caps, are valued using models that consider unobservable market parameters (Level 3). Reference caps are used to mainly hedge interest rate risk inherent in private label mortgage-backed securities, thus are tied to the notional amount of the underlying fixed-rate mortgage loans originated in the United States. Significant inputs used for fair value determination consist of specific characteristics such as information used in the prepayment model which follows the amortizing schedule of the underlying loans, which is an unobservable input. The valuation model uses the Black formula, which is a benchmark standard in the financial industry. The Black formula is similar to the Black-Scholes formula for valuing stock options except that the spot price of the underlying is replaced by the forward price. The Black formula uses as inputs the strike price of the cap, forward LIBOR rates, volatility estimates and discount rates to estimate the option value. LIBOR rates and swap rates are obtained from Bloomberg L.P. (Bloomberg) every day and build zero coupon curve based on the Bloomberg LIBOR/Swap curve. The discount factor is then calculated from the zero coupon curve. The cap is the sum of all caplets. For each caplet, the rate is reset at the beginning of each reporting period and payments are made at the end of each period. The cash flow of caplet is then discounted from each payment date.

Although most of the derivative instruments are fully collateralized, a credit spread is considered for those that are not secured in full. The cumulative mark-to-market effect of credit risk in the valuation of derivative instruments resulted in an unrealized gain of approximately \$1.9 million as of March 31, 2009 which includes an unrealized loss of \$0.5 million recorded in the first quarter of 2009 and an unrealized gain of \$0.3 million for the first quarter of 2008.

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

(In thousands)	As of March 31, 2009				As of December 31, 2008			
	Fair Value Measurements Using				Fair Value Measurements Using			
	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 ⁽¹⁾	\$1,836	\$3,833,634	\$110,982	\$3,946,452	\$2,217	\$3,746,142	\$113,983	\$3,862,342
Derivatives, included in assets ⁽¹⁾		1,948	982	2,930		7,250	760	8,010
Liabilities:								
Callable brokered CDs ⁽²⁾		322,465		322,465		1,150,959		1,150,959
Medium-term notes ⁽²⁾		9,886		9,886		10,141		10,141
Derivatives, included in liabilities ⁽¹⁾		7,186		7,186		8,505		8,505

(1) Carried at fair value prior to the adoption of SFAS 159.

(2) Items for which the Corporation has elected the fair value option under SFAS 159.

**Changes in Fair Value for the Quarter Ended
March 31, 2009, for items Measured at Fair Value Pursuant
to Election of the Fair Value Option**

(In thousands)	Unrealized Gains and Interest Expense included in Interest Expense on Deposits ⁽¹⁾	Unrealized Gains and Interest Expense included in Interest Expense on Notes Payable ⁽¹⁾	Total Changes in Fair Value Unrealized Gains and Interest Expense included in Current-Period Earnings ⁽¹⁾
	Callable brokered CDs	\$ (1,781)	\$
Medium-term notes		43	43
	\$ (1,781)	\$ 43	\$ (1,738)

- (1) Changes in fair value for the quarter ended March 31, 2009 include interest expense on callable brokered CDs of \$8.9 million and interest expense on medium-term notes of \$0.2 million. Interest expense on callable brokered CDs and medium-term notes that have been elected to be carried at fair value under the provisions of SFAS 159 is recorded in interest expense in the Consolidated Statement of Income based on their contractual coupons.

**Changes in Fair Value for the Quarter Ended
March 31, 2008, for items Measured at Fair Value Pursuant
to Election of the Fair Value Option**

	Unrealized Loss and Interest Expense included in Interest Expense on Deposits⁽¹⁾	Unrealized Gains and Interest Expense included in Interest Expense on Notes Payable⁽¹⁾	Total Changes in Fair Value Unrealized Gains and Interest Expense included in Current-Period Earnings⁽¹⁾
--	--	--	---

(In thousands)

Callable brokered CDs	\$ (98,672)	\$		\$	(98,672)
Medium-term notes			685		685
	\$ (98,672)	\$	685	\$	(97,987)

(1) Changes in fair value for the quarter ended March 31, 2008 include interest expense on callable brokered CDs of \$49.1 million and interest expense on medium-term notes of \$0.2 million. Interest expense on callable brokered CDs and medium-term notes that have been elected to be carried at fair value under the provisions of SFAS 159 is recorded in interest expense in the Consolidated Statement of Income based on their contractual coupons.

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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, 2009 and 2008.

	Total Fair Value Measurements (Quarter Ended March 31, 2009)		Total Fair Value Measurements (Quarter Ended March 31, 2008)	
	Derivatives⁽¹⁾	Securities Available For Sale⁽²⁾	Derivatives⁽¹⁾	Securities Available For Sale⁽²⁾
(In thousands)				
Beginning balance	\$ 760	\$ 113,983	\$ 5,103	\$ 133,678
Total gains or (losses) (realized / unrealized):				
Included in earnings	222		(2,215)	
Included in other comprehensive income		1,128		(10,632)
Principal repayments and amortization		(4,129)		(3,995)
Ending balance	\$ 982	\$ 110,982	\$ 2,888	\$ 119,051

(1) Amounts related to the valuation of interest rate cap agreements which were carried at fair value prior to the adoption of SFAS 159.

(2) Amounts mostly related to certain private label mortgage-backed securities which were carried at fair value prior to the adoption of SFAS 159.

The table below summarizes changes in unrealized gains and losses recorded in earnings for the quarters ended March 31, 2009 and 2008 for Level 3 assets and liabilities that are still held as of the end of each period.

	Changes in Unrealized Gains Quarter Ended March 31, 2009	Changes in Unrealized Losses Quarter Ended March 31, 2008
(In thousands)		

Changes in unrealized gains (losses) relating to assets still held at reporting date ^{(1) (2)}

Interest income on loans	\$	5	\$	(31)
Interest income on investment securities		217		(2,184)
	\$	222	\$	(2,215)

(1) Amounts represent valuation of interest rate cap agreements which were carried at fair value prior to the adoption of SFAS 159.

(2) Unrealized gain of \$1.1 million and unrealized loss of \$10.6 million on Level 3 available-for-sale securities was recognized as part of other comprehensive income for the quarters ended March 31, 2009 and 2008, respectively.

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).

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As of March 31, 2009, 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, 2009			Losses recorded for the Quarter Ended March 31, 2009
	Level 1	Level 2	Level 3	
	(In thousands)			
Loans receivable ⁽¹⁾	\$	\$	\$ 360,442	\$ 31,361
Other Real Estate Owned ⁽²⁾			49,434	3,173
Core deposit intangible ⁽³⁾			7,952	3,718

(1) Mainly impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral in accordance with the provisions of SFAS 114. The fair values are derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g., absorption rates), which are not market observable.

- (2) The fair value is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g., absorption rates), which are not market observable. Losses are related to market valuation adjustments after the transfer from the loan to the Other Real Estate Owned (OREO) portfolio.
- (3) Amount represents core deposit intangible of FirstBank Florida. The impairment was generally measured based on internal information about decreases in the base of core deposits acquired upon the acquisition of FirstBank Florida.

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As of March 31, 2008, 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, 2008			Losses recorded for the Quarter Ended
	Level 1	Level 2	Level 3	March 31, 2008
(In thousands)				
Loans receivable ⁽¹⁾	\$	\$	\$ 67,772	\$ 21,722
Other Real Estate Owned ⁽²⁾			33,913	336

(1) Mainly impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral in accordance with the provisions of SFAS 114. The fair values are derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g., absorption rates), which are not market observable.

(2) The fair value is derived from

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

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Supplemental cash flow information follows:

	Quarter Ended March 31,	
	2009	2008
	(In thousands)	
Cash paid for:		
Interest on borrowings	\$ 158,578	\$ 192,791
Income tax		1,000
Non-cash investing and financing activities:		
Additions to other real estate owned	25,402	24,546
Additions to auto repossession	19,626	23,472
Capitalization of servicing assets	1,142	302
Loan securitizations	73,411	

On January 28, 2008, the Corporation completed the acquisition of VICB with operations in St. Croix, U.S. Virgin Islands, at a purchase price of \$2.5 million. The Corporation acquired cash of approximately \$7.7 million from VICB.

20 SEGMENT INFORMATION

Based upon the Corporation's organizational structure and the information provided to the Chief Operating Decision Maker and, to a lesser extent, the Board of Directors, the operating segments are driven primarily by the Corporation's legal entities. As of March 31, 2009, the Corporation had four reportable segments: Commercial and Corporate Banking; Mortgage Banking; Consumer (Retail) Banking; and Treasury and Investments. There is also an Other category reflecting other legal entities reported separately on an aggregate basis. Management determined the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Corporation's organizational chart, nature of the products, distribution channels and the economic characteristics of the products were also considered in the determination of the reportable segments.

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

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Banking, Mortgage Banking and Consumer (Retail) Banking segments to finance their lending activities and borrows from those segments. The Consumer (Retail) Banking segment also loans funds to other segments. The interest rates charged or credited by Treasury and Investments and the Consumer (Retail) Banking segments are allocated based on market rates. The difference between the allocated interest income or expense and the Corporation's actual net interest income from centralized management of funding costs is reported in the Treasury and Investments segment. The Other category is mainly composed of insurance, finance leases and other products.

The accounting policies of the business segments are the same as those described in Note 1 to the Corporation's financial statements for the year ended December 31, 2008 contained in the Corporation's Annual Report on Form 10-K.

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

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

	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	Other	Total
For the quarter ended March 31, 2009:						
Interest income	\$ 47,415	\$ 40,802	\$ 70,297	\$ 69,756	\$ 30,053	\$ 258,323
Net (charge) credit for transfer of funds	(34,304)	19,800	(29,469)	44,152	(179)	
Interest expense		(19,089)		(109,909)	(7,727)	(136,725)
Net interest income	13,111	41,513	40,828	3,999	22,147	121,598
Provision for loan and lease losses	(8,442)	(4,242)	(36,285)		(10,460)	(59,429)
Non-interest income	837	6,873	1,266	17,522	3,555	30,053
Direct non-interest expenses	(7,484)	(25,227)	(9,977)	(1,722)	(16,276)	(60,686)
Segment (loss) income	\$ (1,978)	\$ 18,917	\$ (4,168)	\$ 19,799	\$ (1,034)	\$ 31,536
Average earnings assets	\$ 3,078,005	\$ 1,831,508	\$ 6,759,533	\$ 5,559,249	\$ 1,357,110	\$ 18,585,405
For the quarter ended March 31, 2008:						
Interest income	\$ 45,105	\$ 42,390	\$ 94,080	\$ 64,618	\$ 32,894	\$ 279,087
Net (charge) credit for transfer of funds	(34,080)	22,191	(57,774)	70,658	(995)	
Interest expense		(19,162)		(126,671)	(8,796)	(154,629)
Net interest income	11,025	45,419	36,306	8,605	23,103	124,458
Provision for loan and lease losses	(5,709)	(14,575)	(13,044)		(12,465)	(45,793)
Non-interest income	376	7,294	1,011	16,321	4,378	29,380
Direct non-interest expenses	(6,380)	(27,569)	(9,497)	(1,850)	(11,439)	(56,735)
Segment (loss) income	\$ (688)	\$ 10,569	\$ 14,776	\$ 23,076	\$ 3,577	\$ 51,310
Average earnings assets	\$ 2,812,072	\$ 1,743,524	\$ 5,853,703	\$ 5,100,977	\$ 1,351,709	\$ 16,861,985

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

	Quarter Ended March 31,	
	2009	2008
Net income:		
Total income for segments and other	\$ 31,536	\$ 51,310
Other operating expenses	(23,842)	(25,452)
Income before income taxes	7,694	25,858
Income tax benefit	14,197	7,731
Total consolidated net income	\$ 21,891	\$ 33,589
Average assets:		
Total average earning assets for segments	\$ 18,585,405	\$ 16,861,985
Average non-earning assets	724,662	676,837
Total consolidated average assets	\$ 19,310,067	\$ 17,538,822

21 COMMITMENTS AND CONTINGENCIES

The Corporation enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments may include commitments to extend credit and commitments to sell mortgage loans at fair value. As of March 31, 2009, commitments to extend credit amounted to approximately \$1.5 billion and standby letters of credit amounted to approximately \$101.0 million. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Commitments generally have fixed expiration dates or other termination clauses. Since certain commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. For most of the commercial lines of credit, the Corporation has the option to reevaluate the agreement prior to additional disbursements. In the case of credit cards and personal lines of credit, the Corporation can, at any time and without cause, cancel the unused credit facility. Generally, the Corporation's mortgage banking activities do not enter into interest rate lock agreements with its prospective borrowers.

In March 2009 and December 2008, the Corporation obtained from GNMA, a Commitment Authority to issue GNMA mortgage-backed securities for approximately \$100.5 million and \$50.5 million, respectively. Under this program, as of March 31, 2009, the Corporation had securitized approximately \$73 million of FHA/VA mortgage loan production into GNMA mortgage-backed securities.

Lehman Brothers Special Financing, Inc. (Lehman) was the counterparty to the Corporation on certain interest rate swap agreements. During the third quarter of 2008, Lehman failed to pay the scheduled net cash settlement due to the Corporation, which constitutes an event of default under these interest rate swap agreements. The Corporation terminated all interest rate swaps with Lehman and replaced them with another counterparty under similar terms and conditions. In connection with the unpaid

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net cash settlement due as of March 31, 2009, under the swap agreements, the Corporation has an unsecured counterparty exposure with Lehman, which filed for bankruptcy on October 3, 2008, of approximately \$1.4 million. This exposure was reserved in the third quarter of 2008. The Corporation had pledged collateral of \$63.6 million with Lehman to guarantee its performance under the swap agreements in the event payment thereunder was required. The market value of pledged securities with Lehman as of March 31, 2009 amounted to approximately \$59.1 million (amortized cost of \$57.4 million). The position of the Corporation with respect to the recovery of the collateral, after discussion with its outside legal counsel, is that at all times title to the collateral has been vested in the Corporation and that, therefore, this collateral should not, for any purpose, be considered property of the bankruptcy estate available for distribution among Lehman's creditors. On January 30, 2009, the Corporation filed a customer claim with the trustee and at this time the Corporation is unable to determine the timing of the claim resolution or whether it will succeed in recovering all or a substantial portion of the collateral or its equivalent value. As additional relevant facts become available in future periods, a need to recognize a partial or full reserve of this claim may arise.

As of March 31, 2009, First BanCorp and its subsidiaries were defendants in various legal proceedings arising in the ordinary course of business. Management believes that the final disposition of these matters will not have a material adverse effect on the Corporation's financial position or results of operations.

Table of Contents**22 FIRST BANCORP (Holding Company Only) Financial Information**

The following condensed financial information presents the financial position of the Holding Company only as of March 31, 2009 and December 31, 2008 and the results of its operations for the quarters ended March 31, 2009 and 2008.

	As of March 31, 2009	As of December 31, 2008
	(In thousands)	
Assets		
Cash and due from banks	\$ 82,686	\$ 58,075
Money market investments	300	300
Investment securities available for sale, at market:		
Equity investments	290	669
Other investment securities	1,550	1,550
Investment in FirstBank Puerto Rico, at equity	1,938,094	1,574,940
Investment in FirstBank Insurance Agency, at equity	6,162	5,640
Investment in Ponce General Corporation, at equity	165,054	123,367
Investment in PR Finance, at equity	2,855	2,789
Investment in FBP Statutory Trust I	3,093	3,093
Investment in FBP Statutory Trust II	3,866	3,866
Other assets	6,002	6,596
Total assets	\$ 2,209,952	\$ 1,780,885
Liabilities & Stockholders Equity		
Liabilities:		
Other borrowings	\$ 231,939	\$ 231,914
Accounts payable and other liabilities	773	854
Total liabilities	232,712	232,768
Stockholders equity	1,977,240	1,548,117
Total Liabilities & Stockholders Equity	\$ 2,209,952	\$ 1,780,885

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	Quarter Ended	
	March	March 31,
	31,	2008
	2009	2008
	(In thousands)	
Income:		
Interest income on investment securities	\$	\$ 733
Interest income on other investments	1	529
Dividends from FirstBank Puerto Rico	19,977	11,871
Dividends from other subsidiaries		2,500
Other income	72	120
	20,050	15,753
Expense:		
Notes payable and other borrowings	2,438	4,263
Interest on funding to subsidiaries		550
Recovery for loan losses		(1,398)
Other operating expenses	411	471
	2,849	3,886
Net loss on investments and impairments	(388)	
Income before income taxes and equity in undistributed earnings of subsidiaries	16,813	11,867
Income tax benefit (provision)	8	(545)
Equity in undistributed earnings of subsidiaries	5,070	22,267
Net income	\$ 21,891	\$ 33,589

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

	Quarter ended	
	March 31, 2009	March 31, 2008
Condensed Income Statements:		
Total interest income	\$258,323	\$279,087
Total interest expense	136,725	154,629
Net interest income	121,598	124,458
Provision for loan and lease losses	59,429	45,793
Non-interest income	30,053	29,380
Non-interest expenses	84,528	82,187
Income before income taxes	7,694	25,858
Income tax benefit	14,197	7,731
Net income	21,891	33,589
Net income attributable to common stockholders	6,773	23,520
Per Common Share Results:		
Net income per share basic	\$ 0.07	\$ 0.25
Net income per share diluted	\$ 0.07	\$ 0.25
Cash dividends declared	\$ 0.07	\$ 0.07
Average shares outstanding	92,511	92,504
Average shares outstanding diluted	92,511	92,592
Book value per common share	\$ 11.37	\$ 9.73
Tangible book value per common share (1)	\$ 10.86	\$ 9.13
Selected Financial Ratios (In Percent):		
Profitability:		
Return on Average Assets	0.45	0.77
Interest Rate Spread (2)	2.47	2.64
Net Interest Margin (2)	2.85	3.09
Return on Average Total Equity	4.66	9.36
Return on Average Common Equity	2.65	10.63
Average Total Equity to Average Total Assets	9.73	8.18
Tangible common equity ratio (1)	5.11	4.67
Dividend payout ratio	95.72	27.53
Efficiency ratio (3)	55.74	53.42
Asset Quality:		
Allowance for loan and lease losses to loans receivable	2.24	1.74
Net charge-offs (annualized) to average loans	1.16	0.85
Provision for loan and lease losses to net charge-offs	154.66	179.82
Non-performing assets to total assets	3.92	2.56
Non-accruing loans to total loans receivable	5.27	3.49
Allowance to total non-accruing loans	42.49	49.94
Allowance to total non-accruing loans excluding residential real estate loans	76.28	109.73
Other Information:		
Common Stock Price: End of period	\$ 4.26	\$ 10.16

	As of March 31, 2009	As of December 31, 2008
Balance Sheet Data:		
Loans and loans held for sale	\$13,533,087	\$13,088,292
Allowance for loan and lease losses	302,531	281,526
Money market and investment securities	5,506,997	5,709,154
Intangible assets	47,371	52,083
Deferred tax asset, net	140,851	128,039
Total assets	19,709,150	19,491,268
Deposits	11,619,348	13,057,430
Borrowings	5,903,751	4,736,670
Total preferred equity	925,162	550,100
Total common equity	969,327	940,628
Accumulated other comprehensive income, net of tax	82,751	57,389
Total equity	1,977,240	1,548,117

- 1- Non-gaap measures. Refer to Capital discussion below for additional information of the components and reconciliation of these measures.
- 2- On a tax equivalent basis (see Net Interest Income discussion below).
- 3- Non-interest expenses to the sum of net interest income and non-interest income. The denominator includes non-recurring income and changes in the fair value of derivative instruments and financial

instruments
measured at fair
value under
SFAS 159.

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

DESCRIPTION OF BUSINESS

First BanCorp is a diversified financial holding company headquartered in San Juan, Puerto Rico offering a full range of financial products to consumers and commercial customers through various subsidiaries. First BanCorp is the holding company of FirstBank Puerto Rico (FirstBank or the Bank), Ponce General Corporation (the holding company of FirstBank Florida), Grupo Empresas de Servicios Financieros (d/b/a PR Finance Group) and FirstBank Insurance Agency. Through its wholly-owned subsidiaries, the Corporation operates offices in Puerto Rico, the United States and British Virgin Islands and the State of Florida (USA) specializing in commercial banking, residential mortgage loan originations, finance leases, personal loans, small loans, auto loans, vehicle rental and insurance agency services.

OVERVIEW OF RESULTS OF OPERATIONS

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

Net income for the quarter ended March 31, 2009 amounted to \$21.9 million or \$0.07 per diluted common share, compared to \$33.6 million or \$0.25 per diluted common share for the quarter ended March 31, 2008. The Corporation's financial performance for the first quarter of 2009, as compared to the first quarter of 2008, was principally impacted by: (i) an increase of \$13.6 in the provision for loan and lease losses attributable to higher specific reserves for impaired loans, higher general reserves for the construction and residential mortgage loan portfolio and the overall growth on the Corporation's loan portfolio, (ii) a decrease of \$2.9 million in net interest income adversely impacted by lower loan yields that more than offset the benefit of lower short-term rates in the average cost of funding and the increase in average interest-earning assets, and (iii) an increase of \$2.3 million in non-interest expenses driven primarily by a 7 basis points increase in the Federal Deposit Insurance Corporation (FDIC) deposit insurance premium, which is a non-controllable expense, and by higher losses in Real Estate Owned (REO)

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operations. These factors were partially offset by: (i) an increase of \$0.7 million in non-interest income mainly related to a realized gain of \$17.8 million on the sale of investment securities (mainly U.S. sponsored agency fixed-rate MBS) during the first quarter of 2009, compared to a realized gain of \$6.9 million for the first quarter of 2008, partially offset, when compared to the first quarter of 2008, by the \$9.3 million gain recorded in the first quarter of 2008 on the mandatory redemption of a portion of the Corporation's investment in VISA, Inc. (VISA) as part of VISA's Initial Public Offering (IPO) in March 2008, and (ii) a net income tax benefit increase of \$6.5 million resulting from lower taxable income and changes in enacted tax rates in Puerto Rico.

The highlights and key drivers of the Corporation's financial results for the quarter ended March 31, 2009 include the following:

Net interest income for the quarter ended March 31, 2009 was \$121.6 million, compared to \$124.5 million for the same period in 2008. The net interest spread and margin, on an adjusted tax equivalent basis, for the quarter ended March 31, 2009 were 2.47% and 2.85%, respectively, compared to 2.64% and 3.09%, respectively, for the same period in 2008. Net interest income was adversely impacted by the repricing of floating-rate commercial and construction loans at lower rates, a significant increase in non-accrual loans and the acceleration of mortgage-backed securities (MBS) prepayments. Lower loan yields more than offset the benefit of lower short-term rates in the average cost of funding and the increase in average interest-earning assets.

Average interest-earning assets for the first quarter of 2009 increased by approximately \$1.8 billion as compared to the same period in 2008. Average loans increased by \$1.3 billion driven by the Corporation's internal commercial and residential mortgage loan originations and selected purchases, including the previously reported acquisition of a \$218 million auto loan portfolio during the third quarter of 2008. Refer to the Net Interest Income discussion below for additional information about, among other things, recent actions taken by the Corporation to restructure its investment portfolio.

For the first quarter of 2009, the Corporation's provision for loan and lease losses amounted to \$59.4 million, compared to \$45.8 million for the same period in 2008. Refer to the discussion under the Risk Management section below for an analysis of the allowance for loan and lease losses and non-performing assets and related ratios. The increase in the provision for 2009 was primarily due to: a higher volume of impaired construction and commercial loans, in particular construction loans in the U.S. mainland; higher general reserves for potential losses inherent in the construction and residential mortgage loan portfolio in Puerto Rico, to account for trends in delinquency and charge-offs levels, as well as the continuing deterioration of the economic and housing market environment; and the overall growth on the Corporation's loan portfolio.

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The Corporation's net charge-offs for the first quarter of 2009 were \$38.4 million or 1.16% of average loans on an annualized basis, compared to \$25.5 million or 0.85% of average loans on an annualized basis for the same period in 2008. The increase in net charge-offs was driven by higher charge-offs for residential, commercial and construction loans.

Refer to Provision for Loan and Lease Losses and Risk Management Non-performing assets and Allowance for Loan and Lease Losses sections below for additional information.

For the quarter ended March 31, 2009, the Corporation's non-interest income amounted to \$30.1 million, compared to \$29.4 million for the quarter ended March 31, 2008. The financial results for the first quarter of 2008 include the \$9.3 million gain recorded in the first quarter of 2008 on the mandatory redemption of a portion of the Corporation's investment in VISA in connection with VISA's IPO in March 2008. Excluding this transaction, non-interest income increased by \$10.0 million, as compared to the first quarter of 2008 mainly due to a realized gain of \$17.8 million on the sale of certain investments (mainly U.S. sponsored agency fixed-rate MBS) during the first quarter of 2009, compared to a realized gain of \$6.9 million for the first quarter of 2008. Refer to the Non Interest Income discussion below for additional information.

Non-interest expenses for the first quarter of 2009 amounted to \$84.5 million, compared to \$82.2 million for the same period in 2008. The increase was driven primarily by a 7 basis points increase in the FDIC deposit insurance premium, which is a non-controllable expense, and by higher losses in REO operations, driven by a higher inventory and declining real estate prices that have caused write-downs of the value of repossessed properties. Also contributing to higher non-interest expenses was a \$3.7 million impairment of the core deposit intangible of FirstBank Florida. However, the Corporation had decreases in its ordinary operating expenses, including a \$1.9 million decrease in professional service fees, a decrease of \$1.1 million in business promotion expenses and a decrease of \$2.1 million in employees' compensation and benefit expenses, as the Corporation continues with cost reduction efforts. Refer to the Non Interest Expenses discussion below for additional information.

For the first quarter of 2009, the Corporation recorded an income tax benefit of \$14.2 million, compared to an income tax benefit of \$7.7 million for the same period in 2008. The fluctuation is mainly related to increased deferred tax benefits due to a lower current income tax provision due to lower taxable-income and adjustments to deferred tax asset, as a result of changes to the Puerto Rico Internal Revenue Code of 1994, as amended (the PR Code), enacted rates. Refer to Income Taxes discussion below for additional information.

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Total assets as of March 31, 2009 amounted to \$19.7 billion, an increase of \$217.9 million compared to total assets as of December 31, 2008. The Corporation's loan portfolio increased by \$444.8 million (before the allowance for loan and lease losses), driven by a \$500 million facility extended to the Puerto Rico Sales Tax Financing Corp. (COFINA under its Spanish acronym), a public corporation of the Government of Puerto Rico, which will help the local government implement its economic stimulus plan. The loan has a three-year term and will be repaid with funds from future COFINA bond issues. Partially offsetting the increase in the loan portfolio were the aforementioned sale of approximately \$423 million of investment securities (mainly U.S. agency MBS), \$220 million of U.S. agency debentures called during the first quarter of 2009, the acceleration of MBS prepayments and the use of excess liquidity to pay down maturing borrowings. Refer to Financial Condition and Operating Data discussion below for additional information.

As of March 31, 2009, total liabilities amounted to \$17.7 billion, a decrease of approximately \$211.2 million, as compared to \$17.9 billion as of December 31, 2008. The decrease in total liabilities was mainly attributable to excess liquidity used to repay maturing borrowings, in particular brokered CDs and repurchase agreements. Also, the Corporation is using low-cost alternate sources of funding, such as advances from the Federal Home Loan Bank (FHLB) and from the Federal Reserve (FED), for refinancing brokered CDs called or matured. Total deposits, excluding brokered CDs, increased by \$109.0 million from the balance as of December 31, 2008, reflecting increases in core-deposit products such as savings and interest-bearing checking accounts. Refer to Risk management Liquidity and Capital Adequacy discussion below for additional information about the Corporation's funding sources.

The Corporation's stockholders' equity amounted to \$2.0 billion as of March 31, 2009, an increase of \$429.1 million compared to the balance as of December 31, 2008, driven by the \$400 million investment by the United States Department of the Treasury (the U.S. Treasury) in preferred stock of the Corporation through the U.S. Treasury Troubled Asset Relief Program (TARP) Capital Purchase Program and a net unrealized gain of \$25.4 million on the fair value of available-for-sale securities recorded as part of comprehensive income. Partially offsetting these increases were dividends amounting to \$18.2 million for the first quarter of 2009 (\$6.5 million, or \$0.07 per common stock, and \$11.7 million in preferred stock). Refer to Risk Management Capital section below for additional information.

Total loan production, including purchases, for the quarter ended March 31, 2009 was \$1.3 billion, compared to \$1.0 billion for the comparable period in 2008. The increase in loan production during 2009, as compared to the first quarter of 2008, was mainly associated with the \$500 million facility extended to COFINA. Despite the present economic climate, the Corporation's residential mortgage loan originations, including purchases of approximately \$58.7 million, amounted to \$142.9 million. During the first quarter of 2009, and for the first time in several years, the Corporation completed the securitization of approximately \$73 million of

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FHA/VA mortgage loans into GNMA MBS. Approximately 52% of the residential mortgage loan originations in Puerto Rico during the first quarter of 2009 consisted of conforming mortgage loans.

Total non-performing assets as of March 31, 2009 were \$773.5 million, compared to \$637.2 million as of December 31, 2008. The slumping economy and continuing deterioration of the housing market in the United States coupled with recessionary conditions in Puerto Rico's economy have resulted in higher non-performing balances in most of the Corporation's loan portfolios. Refer to Risk Management Non-accruing and Non-performing Assets section below for additional information.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

The accounting principles of the Corporation and the methods of applying these principles conform with generally accepted accounting principles in the United States (GAAP) and to general practices within the banking industry. The Corporation's critical accounting policies relate to the 1) allowance for loan and lease losses; 2) other-than-temporary impairments; 3) income taxes; 4) classification and related values of investment securities; 5) valuation of financial instruments; 6) derivative financial instruments; and 7) income recognition on loans. These critical accounting policies involve judgments, estimates and assumptions made by management that affect the recorded assets and liabilities and contingent assets and liabilities disclosed as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from estimates, if different assumptions or conditions prevail. Certain determinations inherently have greater reliance on the use of estimates, assumptions, and judgments and, as such, have a greater possibility of producing results that could be materially different than those originally reported.

The Corporation's critical accounting policies are described in the Management Discussion and Analysis of Financial Condition and Results of Operations section of First BanCorp's 2008 Annual Report on Form 10-K. There have not been any material changes in the Corporation's critical accounting policies since December 31, 2008.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the excess of interest earned by First BanCorp on its interest-earning assets over the interest incurred on its interest-bearing liabilities. First BanCorp's net interest income is subject to interest rate risk due to the re-pricing and maturity mismatch of the Corporation's assets and liabilities. Net interest income for the quarter ended March 31, 2009 was \$121.6 million, compared to \$124.5 million for the comparable period in 2008. On a tax equivalent basis and excluding the changes in the fair value of derivative instruments and unrealized gains and losses on liabilities elected to be measured at fair value under SFAS 159, The Fair Value Option for Financial

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Assets and Financial Liabilities, net interest income for the quarter ended March 31, 2009 was \$132.4 million, compared to \$131.3 million for the first quarter of 2008.

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

The net interest income is computed on a tax equivalent basis (for definition and reconciliation of this non-GAAP measure, refer to discussions below) and excluding: (1) the change in the fair value of derivative instruments and (2) unrealized gains or losses on SFAS 159 liabilities.

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Quarter ended March 31,	Average Volume		Interest income ⁽¹⁾ / expense		Average Rate ⁽¹⁾	
	2009	2008	2009	2008	2009	2008
Interest-earning assets:						
Money market & other short-term investments	\$ 114,837	\$ 429,441	\$ 91	\$ 3,259	0.32%	3.05%
Government obligations ⁽²⁾	1,141,091	2,268,554	19,601	37,145	6.97%	6.59%
Mortgage-backed securities	4,254,355	2,392,283	63,421	33,991	6.05%	5.71%
Corporate bonds	7,711	7,711	33	141	1.74%	7.35%
FHLB stock	71,119	61,748	360	1,121	2.05%	7.30%
Equity securities	2,360	4,263	18	11	3.09%	1.04%
Total investments ⁽³⁾	5,591,473	5,164,000	83,524	75,668	6.06%	5.89%
Residential real estate loans	3,496,429	3,188,296	54,049	51,720	6.27%	6.52%
Construction loans	1,545,731	1,472,488	14,102	23,720	3.70%	6.48%
Commercial loans	6,110,754	5,221,823	64,145	85,440	4.26%	6.58%
Finance leases	360,276	378,002	7,582	8,288	8.53%	8.82%
Consumer loans	1,725,350	1,653,520	48,594	48,056	11.42%	11.69%
Total loans ^{(4) (5)}	13,238,540	11,914,129	188,472	217,224	5.77%	7.33%
Total interest-earning assets	\$ 18,830,013	\$ 17,078,129	\$ 271,996	\$ 292,892	5.86%	6.90%
Interest-bearing liabilities:						
Brokered CDs	\$ 7,461,148	\$ 7,199,623	\$ 72,833	\$ 85,681	3.96%	4.79%
Other interest-bearing deposits	4,027,725	3,306,610	25,192	26,295	2.54%	3.20%
Loans payable	297,556		346		0.47%	0.00%
Other borrowed funds	3,651,695	3,670,829	32,922	38,494	3.66%	4.22%
FHLB advances	1,246,373	1,067,070	8,292	11,148	2.70%	4.20%
Total interest-bearing liabilities ⁽⁶⁾	\$ 16,684,497	\$ 15,244,132	\$ 139,585	\$ 161,618	3.39%	4.26%
Net interest income			\$ 132,411	\$ 131,274		
Interest rate spread					2.47%	2.64%
Net interest margin					2.85%	3.09%
(1) On an adjusted tax equivalent						

basis. The adjusted tax equivalent yield was estimated by dividing the interest rate spread on exempt assets by (1 less Puerto Rico statutory tax rate as adjusted for recent changes to enacted tax rates (40.95% for the Corporation's subsidiaries other than IBEs in 2009, 35.95% for the Corporation's IBEs in 2009 and 39% for all subsidiaries in 2008)) and adding to it the cost of interest-bearing liabilities. The tax equivalent adjustment recognizes the income tax savings when comparing taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest income, interest rate spread and net interest margin on a fully tax equivalent basis. Therefore, management believes these measures provide useful

information to investors by allowing them to make peer comparisons. Changes in the fair value of derivative and unrealized gains or losses on SFAS 159 liabilities are excluded from interest income and interest expense because the changes in valuation do not affect interest paid or received.

- (2) Government obligations include debt issued by government sponsored agencies.
- (3) Unrealized gains and losses in available-for-sale securities are excluded from the average volumes.
- (4) Average loan balances include the average of non-accruing loans.
- (5) Interest income on loans includes \$2.8 million and \$2.5 million for the first quarter of 2009 and 2008, respectively, of income from prepayment

penalties and late fees related to the Corporation's loan portfolio.

- (6) Unrealized gains and losses on SFAS 159 liabilities are excluded from the average volumes.

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	Quarter ended March 31, 2009 compared to 2008		
	Increase (decrease)		
	Due to:		
	Volume	Rate	Total
	(In thousands)		
Interest income on interest-earning assets:			
Money market & other short-term investments	\$ (1,426)	\$ (1,742)	\$ (3,168)
Government obligations	(19,132)	1,588	(17,544)
Mortgage-backed securities	27,371	2,059	29,430
Corporate bonds		(108)	(108)
FHLB stock	111	(872)	(761)
Equity securities	(10)	17	7
Total investments	6,914	942	7,856
Residential real estate loans	4,694	(2,365)	2,329
Construction loans	899	(10,517)	(9,618)
Commercial loans	11,832	(33,127)	(21,295)
Finance leases	(419)	(287)	(706)
Consumer loans	1,869	(1,331)	538
Total loans	18,875	(47,627)	(28,752)
Total interest income	25,789	(46,685)	(20,896)
Interest expense on interest-bearing liabilities:			
Brokered CDs	2,622	(15,470)	(12,848)
Other interest-bearing deposits	5,075	(6,178)	(1,103)
Loans payable	346		346
Other borrowed funds	(209)	(5,363)	(5,572)
FHLB advances	1,520	(4,376)	(2,856)
Total interest expense	9,354	(31,387)	(22,033)
Change in net interest income	16,435	(15,298)	1,137

A portion of the Corporation's interest-earning assets, mostly investments in obligations of some U.S. Government agencies and sponsored entities, generate interest which is exempt from income tax, principally in Puerto Rico. Also interest and gains on sale of investments held by the Corporation's international banking entities are tax-exempt under the Puerto Rico tax law (Refer to Income Taxes discussion below for additional information regarding recent legislation that imposes a temporary 5% tax rate on IBEs net income). To facilitate the comparison of all interest data related to these assets, the interest income has been converted to a taxable equivalent basis. The tax equivalent yield was estimated by dividing the interest rate spread on exempt assets by (1 less the Puerto Rico statutory tax rate as

adjusted for recent changes to enacted tax rates (40.95% for the Corporation's subsidiaries other than IBEs in 2009, 35.95% for the Corporation's IBEs in 2009 and 39% for all subsidiaries in 2008)) and adding to it the cost of interest-bearing liabilities. The computation considers the interest expense disallowance required by Puerto Rico tax law. A significant increase in revenues was observed in connection with the increase in volume and interest rate spread in tax-exempt MBS held by the Corporation's international banking entities. Refer to "Income Taxes" discussion below for additional information of the Puerto Rico tax law.

The presentation of net interest income excluding the effects of the changes in the fair value of the derivative instruments and unrealized gains or losses on SFAS 159 liabilities provides additional information about the Corporation's net interest income and facilitates comparability and analysis. The changes in the fair value of the derivative instruments and unrealized gains or losses on SFAS 159 liabilities have no effect on

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interest due or interest earned on interest-bearing assets or interest-bearing liabilities, respectively, or on interest payments exchanged with interest rate swap counterparties.

The following table reconciles the interest income on an adjusted tax equivalent basis set forth in Part I above to interest income set forth in the Consolidated Statements of Income:

(In thousands)	Quarter Ended March 31,	
	2009	2008
Interest income on interest-earning assets on an adjusted tax equivalent basis	\$ 271,996	\$ 292,892
Less: tax equivalent adjustments	(14,448)	(9,082)
Plus: net unrealized gain (loss) on derivatives	775	(4,723)
Total interest income	\$ 258,323	\$ 279,087

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

(In thousands)	Quarter Ended March	
	2009	31, 2008
Unrealized gain (loss) on derivatives (economic undesignated hedges):		
Interest rate caps	\$ 222	\$ (2,215)
Interest rate swaps on loans	553	(2,508)
Net unrealized gain (loss) on derivatives (economic undesignated hedges)	\$ 775	\$ (4,723)

The following table summarizes the components of interest expense for the quarter ended March 31, 2009 and 2008. As previously stated, the net interest margin analysis excludes the changes in the fair value of derivatives and unrealized gains or losses on SFAS 159 liabilities.

(In thousands)	Quarter Ended March 31,	
	2009	2008
Interest expense on interest-bearing liabilities	\$ 137,154	\$ 165,837
Net interest realized on interest rate swaps	(4,652)	(7,042)
Amortization of placement fees on brokered CDs	7,083	2,823
Interest expense excluding net unrealized gain on derivatives (economic undesignated hedges) and net unrealized gain on SFAS 159 liabilities	139,585	161,618
Net unrealized gain on derivatives (economic undesignated) and SFAS 159 liabilities	(2,860)	(6,989)
Total interest expense	\$ 136,725	\$ 154,629

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The following table summarizes the components of the net unrealized gain and loss on derivatives (economic undesignated hedges) and net unrealized gain on SFAS 159 liabilities which are included in interest expense.

	Quarter Ended March 31,	
	2009	2008
(In thousands)		
Unrealized loss (gain) on derivatives (economic undesignated hedges):		
Interest rate swaps and other derivatives on brokered CDs	\$ 4,426	\$ (55,336)
Interest rate swaps and other derivatives on medium-term notes	110	(313)
Net unrealized loss (gain) on derivatives (economic undesignated hedges)	\$ 4,536	\$ (55,649)
Unrealized (gain) loss on SFAS 159 liabilities:		
Unrealized (gain) loss on brokered CDs	(7,141)	49,557
Unrealized (gain) on medium-term notes	(255)	(897)
Net unrealized (gain) loss on SFAS 159 liabilities	\$ (7,396)	\$ 48,660
Net unrealized gain on derivatives (economic undesignated hedges) and SFAS 159 liabilities	\$ (2,860)	\$ (6,989)

Interest income on interest-earning assets primarily represents interest earned on loans receivable and investment securities.

Interest expense on interest-bearing liabilities primarily represents interest paid on brokered CDs, branch-based deposits, repurchase agreements, advances from the FHLB and FED and notes payable.

Net interest incurred or realized on interest rate swaps primarily represents net interest exchanged on pay-float swaps that economically hedge brokered CDs and medium-term notes.

The amortization of broker placement fees represents the amortization of fees paid to brokers upon issuance of related financial instruments (i.e., brokered CDs not elected for the fair value option under SFAS 159).

Unrealized gains or losses on derivatives represent changes in the fair value of derivatives, primarily interest rate swaps, that economically hedge liabilities (i.e., brokered CDs and medium-term notes) or assets (i.e., loans and investments).

Unrealized gains or losses on SFAS 159 liabilities represent the change in the fair value of liabilities (medium-term notes and brokered CDs), other than the accrual of interests, for which the Corporation elected the fair value option under SFAS 159.

Derivative instruments, such as interest rate swaps, are subject to market risk. While the Corporation does have certain trading derivatives to facilitate customer transactions, the Corporation does not utilize derivative instruments for speculative purposes. The Corporation's derivatives are mainly composed of interest rate swaps that are used to convert the fixed interest payment on its brokered CDs and medium-term notes to variable payments (receive fixed/pay floating). Refer to Note 8 of the accompanying unaudited consolidated financial statements for further details concerning the notional

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amounts of derivative instruments and additional information. 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 net interest income. This will depend, for the most part, on the shape of the yield curve as well as the level of interest rates.

Net interest income decreased 2% to \$121.6 million for the first quarter of 2009, from \$124.5 million in the first quarter of 2008. Net interest income was adversely impacted by the repricing of floating-rate commercial and construction loans at lower rates, a significant increase in non-accrual loans and the acceleration of MBS prepayments. Net interest margin on an adjusted tax-equivalent basis decreased from 3.09% for the first quarter of 2008 to 2.85% for the first quarter of 2009. Lower loan yields more than offset the benefit of lower short-term rates in the average cost of funding and the increase in average interest-earning assets. The Corporation's balance sheet moved modestly into an asset sensitive position, exacerbated by the significant increase of over \$300 million in non-performing assets since March 2008 and the high level of MBS prepayments. Since the latter part of 2008 and exacerbated in 2009, MBS prepayments have accelerated as a result of low interest rates on mortgages, and are expected to continue to occur at high levels for the upcoming months because the U.S. Government's economic recovery plan includes measures designed to facilitate mortgage re-financings. This scenario presents an additional challenge for the Corporation since the current interest rate environment may require the reinvestment of proceeds at lower prevailing rates. Refer to Financial Condition and Operating Data discussion below for information about the Corporation's recent actions to restructure its investment portfolio.

On the asset side, the average yield on the Corporation's interest-earning assets decreased by 104 basis points driven by lower yields on the variable-rate commercial and construction loan portfolio tied to short-term indexes and the increase in non-performing loans. The weighted-average yield on loans decreased by 156 basis points as compared to the first quarter of 2008. The target for the Federal Funds rate was lowered between 400 and 425 basis points from December 31, 2007 to March 31, 2009 and the Prime Rate dropped to 3.25% from 7.25% as of December 31, 2007. The Corporation is currently originating loans and renegotiating existing ones at higher credit spreads to account for inherent risks in the current economy. Such actions are expected to impact positively net interest income going forward.

Average earning assets for the first quarter of 2009 increased by \$1.8 billion, as compared to the first quarter of 2008, driven by commercial and residential real estate loan originations, and to a lesser extent, purchases of loans during 2008 that contributed to a wider spread. Also, the average volume of investment securities increased by \$427.5 million mainly attributable to U.S. agency MBS purchased in 2008 (approximately \$2.2 billion for the last three quarters of 2008). However, in response to high prepayment expectations, during the first quarter of 2009 the Corporation began to restructure its investment portfolio, completing the sale of approximately \$423 million in investment securities (mainly U.S. agency MBS), taking advantage of the surge in MBS prices and

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realizing gains in the process (refer to Non-interest income discussion below). Proceeds from the sale and prepayments of MBS, as well as proceeds from the \$220 million U.S. agency debentures called during the quarter, were reinvested in part in U.S. agency callable debentures with contractual maturities ranging from two to three years (approximately \$515 million) and U.S. agency floating-rate collateral-mortgage obligations (approximately \$125 million).

On the funding side, the average cost of the Corporation's interest-bearing liabilities decreased by 87 basis points mainly due to lower short-term rates and the mix of borrowings. During 2009, the Corporation relied more on low-cost sources of funding such as advances from the FHLB and FED to replace brokered CDs that matured or were called, which decreased interest expense and improved the matching with current loan yields. The volume of swapped-to-floating brokered CDs decreased from \$3.1 billion as of March 31, 2008 to \$1.1 billion at the beginning of the year and to \$318 million as of March 31, 2009. The current low interest rate levels made available short-term brokered CD rates with lower spreads over LIBOR rates, as reflected in the \$1.2 billion of new brokered CDs issued in the latter part of the first quarter of 2009 at an average rate of 0.72%, which contributed to the overall decrease in the cost of funding. The effect of lower short-term rates on the Corporation's average cost of funds was partially mitigated by interest risk management strategies implemented by the Corporation, in particular during the second half of 2008, to reduce its exposure to high levels of market volatility by, among other things, entering into long-term and structured repurchase agreements, which replaced short-term borrowings.

On an adjusted tax equivalent basis, net interest income increased by \$1.1 million, or 1%, for the first quarter of 2009 compared to the same period in 2008. The increase was principally due to the \$5.4 million increase in the tax-equivalent adjustment. The tax-equivalent adjustment increases interest income on tax-exempt securities and loans by an amount which makes tax-exempt income comparable, on a pre-tax basis, to the Corporation's taxable income as previously stated. The increase in the tax-equivalent adjustment was mainly related to increases in the interest rate spread on tax-exempt assets due to lower short-term rates and a higher average volume of MBS held by the Corporation's international banking entity subsidiary, FirstBank Overseas Corporation.

Provision and Allowance for Loan and Lease Losses

The provision for loan and lease losses is charged to earnings to maintain the allowance for loan and lease losses at a level that the Corporation considers adequate to absorb probable losses inherent in the portfolio. The adequacy of the allowance for loan and lease losses is also based upon a number of additional factors including historical loan and lease loss experience, current economic conditions, the fair value of the underlying collateral and the financial condition of the borrowers, and, as such, includes amounts based on judgments and estimates made by the Corporation. Although the Corporation believes that the allowance for loan and lease losses is adequate, factors beyond the Corporation's control, including factors affecting the economies of Puerto

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Rico, the United States (principally the state of Florida), the U.S. Virgin Islands and the British Virgin Islands may contribute to delinquencies and defaults, thus necessitating additional reserves.

For the quarter ended on March 31, 2009, the Corporation provided \$59.4 million for loan and lease losses, as compared to \$45.8 million for the same period in 2008. Refer to the discussions under Credit Risk Management below for an analysis of the allowance for loan and lease losses and non-performing assets and related information.

The increase in the allowance for loan and lease losses, as compared to the first quarter of 2008, is mainly attributable to: higher specific reserves for impaired loans, in particular construction loans in the U.S. mainland; higher general reserves for potential losses inherent in the construction and residential mortgage loan portfolio in Puerto Rico, to account for trends in delinquency and charge-offs levels, as well as the continuing deterioration of the economic and housing market environment; and the overall growth on the Corporation's loan portfolio.

During the first quarter of 2009, several commercial and construction loans were classified as impaired under SFAS 114 due to current economic conditions. As of March 31, 2009, there was \$690.8 million of impaired construction and commercial loans with a related specific reserve of \$102.1 million, compared to \$481.3 million with a related specific reserve of \$83.4 million as of December 31, 2008, and \$178.3 million with a related specific reserve of \$22.7 million as of March 31, 2008. The increase in impaired loans for the first quarter of 2009 was mainly driven by impaired construction loans in the U.S. mainland, which increased by approximately \$103.8 million and the specific reserve of construction loans in the U.S. mainland increased \$9.8 million since December 2008.

Among construction loans classified as impaired in the U.S mainland during the first quarter of 2009 are a \$65.8 million loan extended for the acquisition and development of land and commercial properties (resort development) in Miami Beach, Florida and a \$39.2 million land loan for future development of a residential project in Miami-Dade County, Florida, both affected by the real estate market slowdown. It is probable that the Corporation will not be able to collect all amounts due according to the original contractual terms of these loan agreements; however, loan-to-value ratios continue to be adequate despite the current deterioration of the real estate market in Florida. The Corporation's loan portfolio in the United States mainland, primarily in the state of Florida, totals \$1.5 billion, or 11% of the total loan portfolio.

The construction loan portfolio in Puerto Rico accounted for \$36.5 million, or 15% of the total increase in impaired loans since December 2008. In Puerto Rico, a \$20.3 million construction loan extended for land development and construction of a residential housing project was classified as impaired during the first quarter of 2009. The development of this project has been delayed in light of lower than expected demand due to diminished consumer purchasing power and general economic conditions.

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Refer to the discussions under Financial Condition and Operating Analysis Loan Portfolio and under Risk Management Credit Risk Management below for additional information concerning the Corporation's loan portfolio exposure in the geographic areas where the Corporation does business.

Non-Interest Income

	Quarter Ended	
	March 31, 2009	March 31, 2008
	(In thousands)	
Other service charges on loans	\$ 1,529	\$ 1,313
Service charges on deposit accounts	3,165	3,364
Mortgage banking activities	806	319
Rental income	449	543
Insurance income	2,370	2,728
Other operating income	4,284	4,920
Non-interest income before net gain on investments	12,603	13,187
Gain on VISA shares		9,342
Net gain on sale of investments	17,838	6,851
Impairment on investments	(388)	
Net gain on investments	17,450	16,193
Total	\$ 30,053	\$ 29,380

Non-interest income primarily consists of other service charges on loans; service charges on deposit accounts; commissions derived from various banking, securities and insurance activities; gains and losses on mortgage banking activities; and net gains and losses on investments and impairments.

Other service charges on loans consist mainly of service charges on credit card-related activities and other non-deferrable fees.

Service charges on deposit accounts include monthly fees and other fees on deposit accounts.

Income from mortgage banking activities includes gains on sales and securitization of loans and revenues earned administering residential mortgage loans originated by the Corporation and subsequently sold with servicing retained. In addition, lower-of-cost-or-market valuation adjustments to the Corporation's residential mortgage loans held for sale portfolio and servicing rights portfolio, if any, are recorded as part of mortgage banking activities.

Rental income represents income generated by the Corporation's subsidiary, First Leasing and Rental Corporation, on the rental of various types of motor vehicles.

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Insurance income consists of insurance commissions earned by the Corporation's subsidiary FirstBank Insurance Agency, Inc., and the Bank's subsidiary in the U.S. Virgin Islands, FirstBank Insurance V.I., Inc. These subsidiaries offer a wide variety of insurance business.

The other operating income category is composed of miscellaneous fees such as debit, credit card and point of sale (POS) interchange fees and check and cash management fees.

The net gain (loss) on investment securities reflects gains or losses as a result of sales that are consistent with the Corporation's investment policies as well as other-than-temporary impairment charges on the Corporation's investment portfolio.

Non-interest income increased to \$30.1 million for the first quarter of 2009 from \$29.4 million for the first quarter of 2008. The increase is mainly related to the sale of investment securities, including a realized gain of \$17.8 million on the sale of certain investments (mainly U.S. sponsored agency fixed-rate MBS) during the first quarter of 2009, compared to a realized gain of \$6.9 million for the first quarter of 2008. During the first quarter of 2009, the Corporation sold approximately \$423 million of investment securities (mainly U.S. agency MBS). As the U.S. Government continues to engineer an economic recovery plan, some of the tactics include measures designed to facilitate and spur mortgage re-financings. Part of the objective is to allow homeowners to avoid foreclosures, but, as a result, mortgage-backed bondholders would experience a sharp increase in the prepayment of their securities, albeit at a price of par.

It is widely anticipated that a high prepayment scenario will prevail through the rest of the year. As an example, early in the year such expectations translated to a constant prepayment rate (CPR) of over 40% in 2009 for FNMA 5.50% 30-year residential pass-through securities. Given the outlook, and the fact that certain available-for-sale securities were trading at a substantial premium over par, the Corporation began to re-structure its investment portfolio, which has resulted in the realization of gains on sales in the process rather than getting them pre-paid at par.

The impact of realized gains on sale of MBS securities was partially offset, when compared to the first quarter of 2008, by: (i) the \$9.3 million gain recorded in the first quarter of 2008 on the mandatory redemption of a portion of the Corporation's investment in VISA as part of VISA's IPO, (ii) a decrease of \$0.2 million, as compared to the first quarter of 2008, in service charges on deposit accounts mainly due to a lower volume of transactions in response to the current economic environment that influences customers' behavior, (iii) a decrease of \$0.4 million in insurance-related activities impacted by the deteriorated economic conditions and a lower volume of business and (iv) other-than-temporary impairment charges of \$0.4 million for certain equity securities recorded during the first quarter of 2009; no other-than-temporary impairment charges were recorded in the first quarter of 2008. The Corporation's exposure to equity securities

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(other than FHLB stock) as of March 31, 2009 was approximately \$1.8 million, while the exposure to auto industry corporate bonds amounted to \$1.5 million.

Non-Interest Expenses

The following table presents the detail of non-interest expenses for the periods indicated:

	Quarter Ended	
	March	March 31,
	31,	2008
	2009	2008
	(In thousands)	
Employees compensation and benefits	\$ 34,242	\$ 36,326
Occupancy and equipment	14,774	14,979
Deposit insurance premium	4,880	2,346
Other taxes, insurance and supervisory fees	5,793	5,664
Professional fees recurring	2,823	4,560
Professional fees non-recurring	363	499
Servicing and processing fees	2,312	2,588
Business promotion	3,116	4,265
Communications	2,127	2,273
Net loss on REO operations	5,375	3,256
Other	8,723	5,431
Total	\$ 84,528	\$ 82,187

Non-interest expenses increased to \$84.5 million from \$82.2 million for the first quarter of 2008. The increase was driven primarily by a 7 basis points increase in the FDIC deposit insurance premium, which is a non-controllable expense, and by higher losses in REO operations. However, the Corporation had decreases in its ordinary operating expenses, including a \$1.9 million decrease in professional service fees, a decrease of \$1.1 million in business promotion expenses and a decrease of \$2.1 million in employees compensation and benefit expenses, as the Corporation continues with cost reduction efforts.

The increase in the regular assessment rate imposed by the FDIC for the first quarter of 2009 resulted in approximately a \$2.5 million increase in the deposit insurance premium expense. An emergency special assessment of 20 cents per \$100 insured deposits was approved by the FDIC during the first quarter of 2009, for collection by the FDIC in the third quarter of 2009, based on applicable deposits balance as of June 30, 2009. The Corporation's estimated charge of approximately \$25 million for this special assessment will be accrued during the second quarter of 2009 when the assessment becomes effective. The FDIC is considering halving the emergency fee to 10 cents per \$100 insured deposits, from the 20 cents per \$100 insured deposits approved in February 2009. The U.S. Senate passed a bill on May 6, 2009 that would permanently increase the borrowing authority for the FDIC from \$30 billion to \$100 billion. Increasing the FDIC's credit would allow the agency to reduce large new

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premiums it has begun charging banks to insure deposits. In addition, the bill extends through 2013 an increase in deposit insurance by the FDIC from \$100,000 to \$250,000.

Losses in REO operations increased by \$2.1 million for the first quarter of 2009, as compared to the same period a year ago, driven by a higher inventory and declining real estate prices that have caused write-downs of the value of repossessed properties.

Also contributing to higher non-interest expenses was a \$3.7 million impairment of the core deposit intangible of FirstBank Florida. The core deposit intangible represents the value of the premium paid to acquire core deposits of an institution. Upon the acquisition of FirstBank Florida in 2005, the Corporation recorded a core deposit intangible of \$17.3 million. During the quarter ended March 31, 2009, the amortized book value of \$11.7 million was evaluated and the evaluation calculated an estimated value of \$8.0 million under SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This non-cash impairment charge, attributable to decreases in the base of core deposits acquired, does not affect the Corporation's cash balances, liquidity or operations. Moreover, the charge will not have a negative impact on the Corporation's tangible capital and regulatory capital ratios.

Excluding the non-controllable increase of 7 basis points to the deposit insurance assessment rate, or \$2.5 million increase, and the increase in losses on REO operations of \$2.1 million, non-interest expenses decreased by \$2.3 million, or 3%, compared to the first quarter of 2008. The Corporation has been able to continue the growth of its operations without incurring substantial additional operating expenses and is committed to its business rationalization program that includes cost-cutting initiatives, which are being reflected in lower expenses and an efficiency ratio of 56%.

Income Taxes

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

Under the PR Code, First BanCorp is subject to a maximum statutory tax rate of 39%, except that in 2009 the Government of Puerto Rico approved legislation, Act No. 7 (the Act), to stimulate Puerto Rico's economy and to reduce the Puerto Rico Government's fiscal deficit. The Act imposes a series of temporary and permanent measures, including the imposition of a 5% surtax over the total income tax determined, which is applicable to corporations, among others, whose combined income exceeds \$100,000, which raised the

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maximum statutory tax rate from 39% to 40.95%. This temporary measure is effective for tax years that commenced after December 31, 2008 and before January 1, 2012. The PR Code also includes an alternative minimum tax of 22% that applies if the Corporation's regular income tax liability is less than the alternative minimum tax requirements.

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

For the quarter ended March 31, 2009, the Corporation recognized an income tax benefit of \$14.2 million, compared to an income tax benefit of \$7.7 million recorded for the same period in 2008. The positive fluctuation in the financial results was mainly attributable to lower taxable income and adjustments to deferred tax asset, as a result of the aforementioned changes to the PR Code enacted tax rates. The Corporation recorded an additional income tax benefit of \$4.3 million for the quarter ended March 31, 2009 in connection with changes in enacted tax rates, net of a \$1.8 million provision recorded for the operations of FirstBank Overseas Corporation. Deferred tax amounts have been adjusted for the effect of the change in the income tax rate considering the enacted tax rate expected to apply to taxable income in the period in which the deferred tax asset or liability is expected to be settled or realized.

As of March 31, 2009, the Corporation evaluated its ability to realize the deferred tax asset and concluded, based on the evidence available, that it is more likely than not that some of the deferred tax asset will not be realized and, thus, established a valuation allowance of \$7.9 million, compared to a valuation allowance of \$7.3 million as of December 31, 2008. As of March 31, 2009, the deferred tax asset, net of the valuation allowance of \$7.9 million, amounted to approximately \$140.9 million compared to \$128.0 million, net of the valuation allowance of \$7.3 million as of December 31, 2008.

The Corporation expects to reverse during the second quarter of 2009 approximately \$16.1 million of Unrecognized Tax Benefits, including \$5.3 million of related accrued interest, for positions taken on income tax returns recorded under the provisions of Financial Accounting Standard Board Interpretation No. 48 due to the lapse of the statute of limitations.

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For additional information relating to income taxes, see Note 17 in the accompanying notes to the unaudited interim consolidated financial statements.

Table of Contents**FINANCIAL CONDITION AND OPERATING DATA ANALYSIS****Loan Production**

First BanCorp relies primarily on its retail network of branches to originate residential and consumer loans. The Corporation supplements its residential mortgage loan originations with wholesale servicing released mortgage loan purchases from mortgage bankers. The Corporation manages its construction and commercial loan originations through a centralized unit and most of its originations come from existing customers as well as through referrals and direct solicitations. For commercial loan originations, the Corporation also has regional offices to provide services to designated territories.

Total loan production, including purchases, for the quarter ended March 31, 2009 was \$1.3 billion compared to \$1.0 billion for the comparable period in 2008. The increase in loan production during 2009, as compared to the first quarter of 2008, was mainly associated with the \$500 million facility extended to COFINA. Despite the present economic climate, the Corporation's residential mortgage loan originations, including purchases of approximately \$58.7 million, amounted to \$142.9 million. During the first quarter of 2009, and for the first time in several years, the Corporation completed the securitization of approximately \$73 million of FHA/VA mortgage loans into GNMA MBS. Approximately 52% of the residential mortgage loan originations in Puerto Rico during the first quarter of 2009 consisted of conforming mortgage loans.

The following table details the First BanCorp's loan production for the periods indicated:

	Quarter Ended March 31,	
	2009	2008
	(In thousands)	
Residential real estate	\$ 142,856	\$ 185,818
Commercial and construction	980,018	684,990
Finance leases	19,594	29,302
Consumer	124,395	137,573
Total loan production	\$ 1,266,863	\$ 1,037,683

Residential Real Estate Loans

Residential loan production for the first quarter of 2009 decreased by \$43.0 million, or 23%, compared to the same period in 2008. These loans are mainly fully amortizing fixed-rate loans and the decrease is mainly related to a slowing real estate market due to deteriorated economic conditions.

The Corporation has not been active in subprime or adjustable rate mortgage loans (ARMs), nor has it been exposed to collateral debt obligations or other types of exotic products that aggravated the current global financial crisis. More than 90% of the Corporation's outstanding balance in its residential mortgage loan portfolio consists of fixed-rate, fully amortizing, full documentation loans.

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Commercial and Construction Loans

Commercial and construction loan production for the first quarter of 2009 increased by \$295.0 million, or 43%, compared to the same period in 2008. The increase is mainly associated with the \$500 million facility extended to COFINA, a public corporation of the Government of Puerto Rico, which will help the local government implement its economic stimulus plan. The loan has a three-year term and will be repaid with funds from future COFINA bond issues. The Corporation is committed to assisting in the efforts to revitalize the local economy. This was partially offset by lower construction loan originations due to the slowdown in the housing market and weakening economic conditions in both Puerto Rico and the United States. The Corporation has reduced its exposure to condo-conversion loans in its Miami Corporate Banking operations and is closely evaluating market conditions and opportunities in Puerto Rico. Construction loan originations during 2009 consisted mainly of additional disbursements on existing commitments. Current absorption rates in condo-conversion loans in the United States are low and properties collateralizing some of these condo-conversion loans have been formally reverted to rental properties with a future plan for the sale of converted units upon an improvement in the United States real estate market. As of March 31, 2009, approximately \$47.7 million of loans originally disbursed as condo-conversion construction loans have been reverted to income-producing commercial loans. Given more conservative underwriting standards of the banks in general and a reduction of market participants in the lending business, the Corporation believes that the rental market will grow and rental properties will hold their values.

Commercial loan originations come from existing customers as well as through referrals and direct solicitations. The Corporation follows a strategy aimed to cater to customer needs in the commercial loans middle-market segment by building strong relationships and offering financial solutions that meet customers' unique needs. The Corporation has expanded its distribution network and participation in the commercial loans middle-market segment by focusing on customers with financing needs in amounts up to \$5 million. The Corporation has 5 regional offices that provide coverage throughout Puerto Rico. The offices are staffed with sales, marketing and credit officers able to provide a high level of personalized service and prompt decision-making.

Consumer Loans

Consumer loan originations are principally driven through the Corporation's retail network. For the first quarter of 2009, consumer loan originations decreased by \$13.2 million compared to the same period in 2008, adversely impacted by economic conditions in Puerto Rico and the United States.

Finance Leases

For the first quarter of 2009, finance lease originations were also affected by adverse economic conditions in Puerto Rico. For the first quarter of 2009, finance lease

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originations, which are mostly composed of loans to individuals to finance the acquisition of a motor vehicle, decreased by \$9.7 million, or 33%, as compared to the same period in 2008.

Assets

Total assets as of March 31, 2009 amounted to \$19.7 billion, an increase of \$217.9 million compared to total assets as of December 31, 2008. The Corporation's loan portfolio increased by \$444.8 million (before the allowance for loan and lease losses), driven by the \$500 million facility extended to COFINA. Partially offsetting the increase in the loan portfolio were the aforementioned sale of approximately \$423 million of investment securities (mainly U.S. agency MBS), \$220 million of U.S. agency debentures called during the first quarter of 2009, the acceleration in MBS prepayments and the use of excess liquidity to pay down maturing borrowings.

MBS prepayments have accelerated as a result of low interest rates on mortgages, and are expected to continue to occur at high levels for the upcoming months because the U.S. Government's economic recovery plan includes measures designed to facilitate mortgage re-financings. This scenario presents an additional challenge for the Corporation since the current interest rate environment may require the reinvestment of proceeds at lower prevailing rates. In response to high prepayment expectations, during the first quarter of 2009 the Corporation began to restructure its investment portfolio, completing the sale of approximately \$423 million in investment securities (mainly U.S. agency MBS). Proceeds from the sale and prepayments of MBS, as well as proceeds from the \$220 million U.S. agency debentures called during the quarter, were reinvested in part in U.S. agency callable debentures with contractual maturities ranging from two to three years (approximately \$515 million) and U.S. agency floating-rate collateral-mortgage obligations (approximately \$125 million). Also, during the first quarter of 2009, the Corporation began and completed the securitization of approximately \$73 million of FHA/VA mortgage loans into GNMA MBS, of which approximately \$25 million were sold before the end of the first quarter with the remaining portion retained as part of the investment portfolio.

Table of Contents**Loan Portfolio**

The composition of the Corporation's loan portfolio, including loans held for sale, for the periods indicated is as follows:

(In thousands)	March 31, 2009	December 31, 2008
Residential real estate loans	\$ 3,498,196	\$ 3,491,728
Commercial loans:		
Construction loans	1,561,813	1,526,995
Commercial real estate loans	1,519,267	1,535,758
Commercial loans	4,346,552	3,857,728
Loans to local financial institutions collateralized by real estate mortgages	556,859	567,720
Total commercial loans	7,984,491	7,488,201
Finance leases	352,247	363,883
Consumer and other loans	1,698,153	1,744,480
	\$ 13,533,087	\$ 13,088,292

As of March 31, 2009, the Corporation's total loans increased by \$444.8 million, when compared with the balance as of December 31, 2008. The increase in the Corporation's total loans primarily relates to the aforementioned \$500 million facility extended to COFINA.

Of the total gross loan portfolio of \$13.5 billion as of March 31, 2009, approximately 82% has regional credit risk concentration in Puerto Rico, 11% in the United States (mainly in the state of Florida) and 7% in the Virgin Islands, as shown in the following table.

As of March 31, 2009	Puerto Rico	Virgin Islands	United States	Total
	(In thousands)			
Residential real estate loans, including loans held for sale	\$ 2,645,338	\$ 449,105	\$ 403,753	\$ 3,498,196
Construction loans (1)	875,874	181,083	504,856	1,561,813
Commercial real estate loans	961,066	78,134	480,067	1,519,267
Commercial loans	4,141,868	171,167	33,517	4,346,552
Loans to local financial institutions collateralized by real estate mortgages	556,859			556,859
Total commercial loans	6,535,667	430,384	1,018,440	7,984,491
Finance leases	352,247			352,247

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Consumer loans	1,535,933	120,503	41,717	1,698,153
Total loans, gross	11,069,185	999,992	1,463,910	13,533,087
Allowance for loan and lease losses	(209,393)	(14,322)	(78,816)	(302,531)
	\$ 10,859,792	\$ 985,670	\$ 1,385,094	\$ 13,230,556

(1) Construction loans in the United States include approximately \$197.8 million of condo-conversion loans, of which \$150.1 million are considered impaired as of March 31, 2009 with a specific reserve of \$36.8 million

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Residential Real Estate Loans

As of March 31, 2009, the Corporation's residential real estate loan portfolio increased by \$6.5 million as compared to the balance as of December 31, 2008. More than 90% of the Corporation's outstanding balance of residential mortgage loan portfolio consists of fixed-rate, fully amortizing, full documentation loans. In accordance with the Corporation's underwriting guidelines, residential real estate loans are mostly fully documented loans, and the Corporation is not actively involved in the origination of negative amortization loans or adjustable-rate mortgage loans. Partially offsetting the increase driven by loan originations was the aforementioned securitization of approximately \$73 million of FHA/VA mortgage loans into GNMA MBS. Refer to Contractual Obligations and Commitments discussion below for additional information about outstanding commitments to sell mortgage loans.

Commercial and Construction Loans

As of March 31, 2009, the Corporation's commercial and construction loan portfolio increased by \$496.3 million, as compared to the balance as of December 31, 2008. The Corporation has been able to obtain new originations from corporate customers as well as commercial real estate and construction loans. A substantial portion of this portfolio is collateralized by real estate. The Corporation's commercial and construction loans are primarily variable- and adjustable-rate loans.

The Corporation's largest loan concentration to one borrower as of March 31, 2009 is the \$500 million facility extended to COFINA, an instrumentality of the Government of Puerto Rico.

Also, there are outstanding \$343.2 million with one mortgage originator in Puerto Rico, Doral Financial Corporation. Together with the Corporation's next largest loan concentration to one borrower of \$213.7 million with another mortgage originator in Puerto Rico, R&G Financial Corporation (R&G Financial), the Corporation's total loans granted to these mortgage originators amounted to \$556.9 million as of March 31, 2009. These commercial loans to mortgage originators are secured by individual mortgage loans on residential and commercial real estate.

The Corporation's construction lending volume has decreased due to the slowdown in the U.S. housing market and the current economic environment in Puerto Rico. The Corporation has reduced its exposure to condo-conversion loans in its Miami Corporate Banking operations and is closely evaluating market conditions and opportunities in Puerto Rico. Construction loan originations during 2009 consisted mainly of additional disbursements on existing commitments. Current absorption rates in condo-conversion loans in the United States are low and properties collateralizing some of these condo conversion loans have been formally reverted to rental properties with a future plan for the sale of converted units upon an improvement in the United States real estate market. As of March 31, 2009, approximately \$47.7 million of loans originally disbursed as condo-conversion construction loans have been reverted to income-producing loans. Given more conservative underwriting standards of the banks in general and a reduction

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of market participants in the lending business, the Corporation believes that the rental market will grow and rental properties will hold their values.

The composition of the Corporation's construction loan portfolio as of March 31, 2009 by category and geographic location follows:

As of March 31, 2009	Puerto Rico	Virgin Islands	United States	Total
	(In thousands)			
Loans for residential housing projects:				
High-rise ⁽¹⁾	\$ 196,923	\$	\$ 559	\$ 197,482
Mid-rise ⁽²⁾	105,845	6,943	50,193	162,981
Single-family detach	115,447	2,704	44,892	163,043
Total for residential housing projects	418,215	9,647	95,644	523,506
Construction loans to individuals secured by residential properties	12,673	36,750		49,423
Condo-conversion loans			197,814	197,814
Loans for commercial projects	245,425	97,970	8,165	351,560
Bridge and Land loans	173,432	37,482	203,510	414,424
Working capital	29,861			29,861
Total before net deferred fees and allowance for loan losses	879,606	181,849	505,133	1,566,588
Net deferred fees	(3,732)	(766)	(277)	(4,775)
Total construction loan portfolio, gross	875,874	181,083	504,856	1,561,813
Allowance for loan losses	(43,211)	(5,973)	(56,332)	(105,516)
Total construction loan portfolio, net	\$ 832,663	\$ 175,110	\$ 448,524	\$ 1,456,297

(1) For purposes of the above table, high-rise portfolio is composed of buildings with more than 7 stories, mainly composed of two projects that represent approximately 73% of the Corporation's total outstanding high-rise residential

construction
loan portfolio in
Puerto Rico.

- (2) Mid-rise relates
to buildings up
to 7 stories.

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The following table presents further information on the Corporation's construction portfolio as of and for the quarter ended March 31, 2009:

(In thousands)

Total undisbursed funds under existing commitments	\$ 523,541
Construction loans in non-accrual status	\$ 155,494
Net charge offs - Construction loans (1)	\$ 8,523
Allowance for loan losses - Construction loans	\$ 105,516
Non-performing construction loans to total construction loans	9.96%
Allowance for loan losses - construction loans to total construction loans	6.76%
Net charge-offs to total average construction loans (1)	2.21%

(1) Includes charge-offs of \$5.2 million related to an impaired residential housing project construction loan in Puerto Rico.

The following summarizes the construction loans for residential housing projects in Puerto Rico segregated by the estimated selling price of the units:

(In thousands)

Under \$300K	\$ 92,619
\$300K-\$600k	178,131
Over \$600k	147,465
	\$ 418,215

Consumer Loans

As of March 31, 2009, the Corporation's consumer loan portfolio decreased by \$46.3 million, as compared to the portfolio balance as of December 31, 2008. This is mainly the result of repayments and charge-offs that on a combined basis more than offset the volume of loan originations during the first quarter of 2009. Nevertheless, the

Corporation experienced a decrease in net charge-offs for consumer loans that amounted to \$12.9 million for the first quarter of 2009, as compared to \$13.9 million for the same period a year ago. The decrease in net charge offs as compared to 2008 is attributable to improvement in the credit quality of this portfolio and changes in underwriting standards implemented in late 2005 and as a consumer loan portfolio with an average life of approximately four years has been replenished by new originations under these revised standards.

Finance Leases

As of March 31, 2009, finance leases, which are mostly composed of loans to individuals to finance the acquisition of a motor vehicle, decreased by \$11.6 million as compared to the portfolio balance as of December 31, 2008 as repayments and charge-offs exceeded the volume of loan originations during the first quarter of 2009. These leases typically have five-year terms and are collateralized by a security interest in the underlying assets.

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Investment Activities

As part of its strategy to diversify its revenue sources and maximize its net interest income, First BanCorp maintains an investment portfolio that is classified as available-for-sale or held-to-maturity. The Corporation's investment portfolio as of December 31, 2008 amounted to \$5.5 billion, a decrease of \$202.2 million when compared with the investment portfolio of \$5.7 billion as of December 31, 2008. The decrease in investment securities resulted mainly from the previously discussed sale of approximately \$423 million in investment securities with a weighted average coupon of 5.46% (mainly U.S. agency MBS), taking advantage of the surge in MBS prices and realizing gains in the process. The decrease was also due to the acceleration of MBS prepayments, and due to approximately \$220 million U.S. agency debentures called during the quarter that carried a weighted-average coupon of 5.82%. Proceeds from sales and called securities were reinvested in part in U.S. agency callable debentures with contractual maturities ranging from two to three years (approximately \$515 million with a weighted average coupon of 2.26%) and U.S. agency floating-rate collateral-mortgage obligations (approximately \$125 million) financed at current low rates. Also, during the first quarter of 2009, the Corporation began and completed the securitization of approximately \$73 million of FHA/VA mortgage loans into GNMA MBS, of which approximately \$25 million were sold before the end of the first quarter with the remaining portion retained as part of the investment portfolio.

Over 90% of the Corporation's securities portfolio is invested in U.S. Government and Agency debentures and fixed-rate U.S. government sponsored-agency MBS (mainly FNMA and FHLMC fixed-rate securities). As of March 31, 2009, the Corporation had \$3.5 billion and \$1.2 billion in FNMA and FHLMC mortgage-backed securities and debt securities, respectively, representing 87% of the total investment portfolio. The Corporation's investment in equity securities is minimal, and it does not own any equity or debt securities of U.S. financial institutions that recently failed.

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The following table presents the carrying value of investments at the indicated dates:

(In thousands)	As of March 31, 2009	As of December 31, 2008
Money market investments	\$ 24,724	\$ 76,003
Investment securities held to maturity:		
U.S. Government and agencies obligations	733,756	953,516
Puerto Rico Government obligations	23,230	23,069
Mortgage-backed securities	690,917	728,079
Corporate bonds	2,000	2,000
	1,449,903	1,706,664
Investment securities available for sale:		
U.S. Government and agencies obligations	516,635	
Puerto Rico Government obligations	136,840	137,133
Mortgage-backed securities	3,291,141	3,722,992
Corporate bonds	1,546	1,548
Equity securities	290	669
	3,946,452	3,862,342
Other equity securities, including \$84.4 million and \$62.6 million of FHLB stock as of March 31, 2009 and December 31, 2008, respectively	85,918	64,145
Total investments	\$ 5,506,997	\$ 5,709,154

Mortgage-backed securities at the indicated dates consist of:

(In thousands)	As of March 31, 2009	As of December 31, 2008
Held-to-maturity securities		
FHLMC certificates	\$ 7,409	\$ 8,338
FNMA certificates	683,508	719,741
	690,917	728,079
Available-for-sale securities		
FHLMC certificates	1,585,475	1,892,358
GNMA certificates	246,393	342,674

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FNMA certificates	1,226,059	1,373,977
Collateralized Mortgage Obligations issued or guaranteed by FHLMC and GNMA	122,232	
Mortgage pass-through certificates	110,982	113,983
	3,291,141	3,722,992
Total mortgage-backed securities	\$ 3,982,058	\$ 4,451,071

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The carrying values of investment securities classified as available-for-sale and held-to-maturity as of March 31, 2009 by contractual maturity (excluding mortgage-backed securities and equity securities) are shown below:

(Dollars in thousands)	Carrying Amount	Weighted Average Yield %
U.S. Government and agencies obligations		
Due within one year	\$ 8,477	1.07
Due after one year through five years	516,635	2.26
Due after ten years	725,279	5.75
	1,250,391	4.28
Puerto Rico Government obligations Due within one year	4,341	6.14
Due after one year through five years	110,466	5.41
Due after five years through ten years	24,530	5.84
Due after ten years	20,733	5.36
	160,070	5.49
Corporate bonds		
Due after five years through ten years	156	7.70
Due after ten years	3,390	6.66
	3,546	6.71
Total	1,414,007	4.42
Mortgage-backed securities	3,982,058	5.09
Equity securities	290	3.09
Total investment securities available for sale and held to maturity	\$ 5,396,355	4.91

Net interest income of future periods may be affected by the acceleration in prepayments of mortgage-backed securities. Acceleration in the prepayments of mortgage-backed securities would lower yields on securities purchased at a premium, as the amortization of premiums paid upon acquisition of these securities would accelerate. Conversely, acceleration in the prepayments of mortgage-backed securities would increase yields on securities purchased at a discount, as the amortization of the discount would accelerate. Also, net interest income in future periods might be affected by the Corporation's investment in callable securities. Approximately \$220 billion of U.S. Agency debentures with an average yield of 5.82% were called during 2009. As of March 31, 2009, the Corporation has approximately \$1.2 billion in U.S. agency debentures with embedded calls (approximately \$0.7 billion with an average rate of 5.75% and \$0.5 billion with an average rate of 2.26%). Lower reinvestment rates and a time lag between calls, prepayments and/or the maturity of investments and actual reinvestment of proceeds into new investments might affect net interest income in the future. These risks are directly linked to future period market interest rate fluctuations. Refer to the Risk

Management section discussion below for further analysis of the effects of changing interest rates on the Corporation's net interest income and for the interest rate risk management strategies followed by the Corporation. Also refer to Note 4 to the accompanying unaudited consolidated financial statements for additional information regarding the Corporation's investment portfolio.

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RISK MANAGEMENT

Risks are inherent in virtually all aspects of the Corporation's business activities and operations. Consequently, effective risk management is fundamental to the success of the Corporation. The primary goals of risk management are to ensure that the Corporation's risk taking activities are consistent with the Corporation's objectives and risk tolerance and that there is an appropriate balance between risk and reward in order to maximize stockholder value.

The Corporation has in place a risk management framework to monitor, evaluate and manage the principal risks assumed in conducting its activities. First BanCorp's business is subject to eight broad categories of risks: (1) liquidity risk, (2) interest rate risk, (3) market risk, (4) credit risk, (5) operational risk, (6) legal and compliance risk, (7) reputation risk, and (8) contingency risk. First BanCorp has adopted policies and procedures designed to identify and manage risks to which the Corporation is exposed, specifically those relating to liquidity risk, interest rate risk, credit risk, and operational risk.

The Corporation's risk management policies are described below as well as in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of First BanCorp's 2008 Annual Report on Form 10-K.

Liquidity and Capital Adequacy

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations, and meet contractual obligations through unconstrained access to funding at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet the needs and accommodate fluctuations in asset and liability levels due to changes in the Corporation's business operations or unanticipated events.

The Corporation manages liquidity at two levels. The first is the liquidity of the parent company, which is the holding company that owns the banking and nonbanking subsidiaries. The second is the liquidity of the banking subsidiaries. The Asset and Liability Committee of the Board of Directors is responsible for establishing the Corporation's liquidity policy as well as approving operating and contingency procedures, and monitoring liquidity on an ongoing basis. The Management's Investment and Asset Liability Committee (MIALCO), using measures of liquidity developed by management, which involve the use of several assumptions, reviews the Corporation's liquidity position on a monthly basis. The MIALCO oversees liquidity management, interest rate risk and other related matters. The MIALCO, which reports to the Board of Directors' Asset and Liability Committee, is composed of senior management officers, including the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Chief Risk Officer, the Wholesale Banking Executive, the Risk Manager of the Treasury and Investments Division, the Asset/Liability Manager and the Treasurer. The Treasury and Investments Division is responsible for planning and executing the

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Corporation's funding activities and strategy; monitors liquidity availability on a daily basis and reviews liquidity measures on a weekly basis. The Treasury and Investments Accounting and Operations area of the Comptroller's Department is responsible for calculating the liquidity measurements used by the Treasury and Investment Division to review the Corporation's liquidity position.

In order to ensure adequate liquidity through the full range of potential operating environments and market conditions, the Corporation conducts its liquidity management and business activities in a manner that will preserve and enhance funding stability, flexibility and diversity. Key components of this operating strategy include a strong focus on customer-based funding, maintaining direct relationships with wholesale market funding providers, and maintaining the ability to liquidate certain assets when, and if, requirements warrant.

The Corporation develops and maintains contingency funding plans for both, the parent company and bank liquidity positions. These plans evaluate the Corporation's liquidity position under various operating circumstances and allow the Corporation to ensure that it will be able to operate through periods of stress when access to normal sources of funding is constrained. The plans project funding requirements during a potential period of stress, specify and quantify sources of liquidity, outline actions and procedures for effectively managing through a difficult period, and define roles and responsibilities. In the Contingency Funding Plan, the Corporation stresses the balance sheet and the liquidity position to critical levels that imply difficulties in getting new funds or even maintaining its current funding position, thereby ensuring the ability to honor its commitments, and establishing liquidity triggers monitored by the MIALCO in order to maintain the ordinary funding of the banking business. Three different scenarios are defined in the Contingency Funding Plan: local market event, credit rating downgrade, and a concentration event. They are reviewed and approved annually by the Board of Directors' Asset and Liability Committee.

The Corporation has maintained a basic surplus (cash, short-term assets minus short-term liabilities, and secured lines of credit) in excess of a 5% self-imposed minimum limit amount over total assets. As of March 31, 2009, the estimated basic surplus ratio of approximately 9.6% included un-pledged assets, FHLB lines of credit, collateral pledged at the FED Discount Window Program, and cash. Un-pledged assets as of March 31, 2009 mainly consisted of fixed-rate MBS and U.S. agency debentures totaling \$681 million, which can be sold under agreements to repurchase. The Corporation does not rely on uncommitted inter-bank lines of credit (federal funds lines) to fund its operations; and does not include them in the basic surplus computation. The Corporation has taken direct actions to keep sound liquidity levels and to safeguard its access to credit. Such initiatives include, among other things, the posting of additional collateral thereby increasing its borrowing capacity with the FHLB and the FED through the discount window program. In the first quarter of 2009, the Corporation received approval to participate in the Borrower-in-Custody Program (BIC) of the FED. Through the BIC program, a broad range of loans (including commercial, consumer and mortgages) may be pledged as collateral for borrowings through the FED Discount Window and the

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Corporation has increased its use of this low-cost source of funding. As of March 31, 2009, approximately \$1.9 billion of assets were pledged under the BIC program including auto loans and commercial loans. The Corporation will continue to monitor the different alternatives available under programs currently in place by the FED and the FDIC.

Sources of Funding

The Corporation utilizes different sources of funding to help ensure that adequate levels of liquidity are available when needed. Diversification of funding sources is of great importance to protect the Corporation's liquidity from market disruptions. The principal sources of short-term funds are deposits, securities sold under agreements to repurchase, and lines of credit with the FHLB, the FED Discount Window Program, and other unsecured lines established with financial institutions. The Credit Committee of the Board of Directors reviews credit availability on a regular basis. The Corporation has also securitized and sold mortgage loans as a supplementary source of funding. Commercial paper has also provided additional funding as well as long-term funding through the issuance of notes and long-term brokered CDs. The cost of these different alternatives, among other things, is taken into consideration.

Recent initiatives by the FED to ease the credit crisis have included, among other things, cuts to the discount rate, the availability of the Term Auction Facility (TAF) to provide short-term loans to banks and expanding the qualifying collateral it will lend against, to include commercial paper. The FDIC also raised the cap on deposit insurance coverage from \$100,000 to \$250,000 until December 31, 2009. These actions made the federal government a viable source of funding in the current environment.

The Corporation's principal sources of funding are:

Brokered CDs A large portion of the Corporation's funding is retail brokered CDs issued by the Bank subsidiary, FirstBank Puerto Rico. Total brokered CDs decreased from \$8.4 billion at year end 2008 to \$6.9 billion as of March 31, 2009. The Corporation has been refinancing brokered CDs, that matured or were called during 2009, with alternate sources of funding at a lower cost. Approximately \$2.7 billion of brokered CDs matured or were called during the first quarter of 2009, of which approximately \$1.4 billion were replaced with advances from the FHLB and from the FED to decrease interest expense and improve the matching with current loan yields. The volume of swapped-to-floating brokered CDs decreased in 2009 from \$1.1 billion at the beginning of the year to \$318 million as of March 31, 2009.

In the event that the Corporation's Bank subsidiary falls below the ratios of a well-capitalized institution, it faces the risk of not being able to replace funding through this source. The Bank currently complies and exceeds the minimum requirements of ratios for a well-capitalized institution and does not foresee falling below required levels to issue brokered deposits. The average term to maturity of the retail brokered CDs outstanding as of March 31, 2009 is approximately 1.3 years. Approximately 5% of the principal value of these certificates is callable at the Corporation's option.

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The use of brokered CDs has been important for the growth of the Corporation. The Corporation encounters intense competition in attracting and retaining regular retail deposits in Puerto Rico. The brokered CDs market is very competitive and liquid, and the Corporation has been able to obtain substantial amounts of funding in short periods of time. This strategy enhances the Corporation's liquidity position, since the brokered CDs are insured by the FDIC up to regulatory limits and can be obtained faster compared to regular retail deposits. Demand for brokered CDs has recently increased as a result of the move by investors from riskier investments, such as equities, to federally guaranteed instruments such as brokered CDs and the recent increase in FDIC deposit insurance from \$100,000 to \$250,000. For the year ended December 31, 2008, the Corporation issued \$1.2 billion in brokered CDs (including rollover of short-term broker CDs and replacement of brokered CDs called).

The following table presents a maturity summary of CDs with denominations of \$100,000 or higher as of March 31, 2009.

	Total (In thousands)
Three months or less	\$ 1,904,885
Over three months to six months	1,328,839
Over six months to one year	2,449,707
Over one year	2,277,282
Total	\$ 7,960,713

Certificates of deposit in denominations of \$100,000 or higher include brokered CDs of \$6.9 billion issued to deposit brokers in the form of large (\$100,000 or more) certificates of deposit that are generally participated out by brokers in shares of less than \$100,000, therefore, insured by the FDIC. Certificates of deposit include \$18.4 million of deposits through the Certificate of Deposit Account Registry Service (CDARS). In an effort to meet customer needs and provide its customers with the best products and services available, the Corporation's bank subsidiary, FirstBank Puerto Rico, has launched a new program giving depositors the ability to insure their money beyond the standard FDIC coverage. CDARS can offer customers access to multi-million dollar FDIC insurance coverage up to \$50 million, when they enter into the CDARS Deposit Placement Agreement, while earning attractive returns on their deposits.

Retail deposits The Corporation's deposit products also include regular savings accounts, demand deposit accounts, money market accounts and retail CDs. Total deposits, excluding brokered CDs, increased by \$109.0 million from the balance as of December 31, 2008, reflecting increases in core-deposit products such as savings and interest-bearing checking accounts. In Puerto Rico, the Corporation's primary market, total deposits, excluding brokered CDs, increased by \$153.3 million from the balance as

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of December 31, 2008, reflecting successful direct campaigns and cross-selling strategies. Refer to Note 10 in the accompanying unaudited financial statements for further details.

Refer to the Net Interest Income discussion above for information about average balances of interest-bearing deposits, and the average interest rate paid on deposits for the quarters ended March 31, 2009 and 2008.

Securities sold under agreements to repurchase The growth of the Corporation's investment portfolio is substantially funded with repurchase agreements. Securities sold under repurchase agreements were \$3.2 billion at March 31, 2009, compared with \$3.4 billion at December 31, 2008. One of the Corporation's strategies is the use of structured repurchase agreements and long-term repurchase agreements to reduce exposure to interest rate risk by lengthening the final maturities of its liabilities while keeping funding cost at reasonable levels. Of the total of \$3.2 billion repurchase agreements outstanding as of March 31, 2009, approximately \$2.4 billion consist of structured repos and \$600 million of long-term repos. The access to this type of funding has been affected by the current liquidity problems in the financial markets as certain counterparties are not willing to enter into additional repurchase agreements and the capacity to extend the term of maturing repurchase agreements has been reduced. Refer to Note 12 in the accompanying notes to the unaudited interim consolidated financial statements for further details about repurchase agreements outstanding by counterparty and maturities.

Under the Corporation's repurchase agreements, as is the case with derivative contracts, the Corporation is required to deposit cash or qualifying securities to meet margin requirements. To the extent that the value of securities previously pledged as collateral declines because of changes in interest rates, a liquidity crisis or any other factor, the Corporation will be required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity. Given the quality of the collateral pledged, the Corporation did not experience significant margin calls from counterparties recently arising from writedowns in valuations with only \$0.9 million of cash deposited to collateralized repurchase agreements and \$1.8 million to collateralized interest rate swap agreements.

Advances from the FHLB The Corporation's Bank subsidiary is a member of the FHLB system and obtains advances to fund its operations under a collateral agreement with the FHLB that requires the Bank to maintain minimum qualifying mortgages as collateral for advances taken. As of March 31, 2009 and December 31, 2008, the outstanding balance of FHLB advances was \$1.5 billion and \$1.1 billion, respectively. Approximately \$760.4 million of outstanding advances from the FHLB mature in over one year. As part of its precautionary initiatives to safeguard access to credit and the low level of interest rates, the Corporation increased its capacity under FHLB credit facilities by posting additional collateral and, as of March 31, 2009, it had \$262 million available for additional borrowings.

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FED Discount window FED initiatives to ease the credit crisis have included cuts to the discount rate, which was lowered from 4.75% to 0.50% through eight separate actions since December 2007, and adjustments to previous practices to facilitate financing for longer periods. This makes the FED Discount Window a viable source of funding given current market conditions. In the first quarter of 2009, the Corporation received approval to participate in the BIC Program of the FED and, as of March 31, 2009, approximately \$1.9 billion of assets were pledged under the BIC program including auto loans and commercial loans. As of March 31, 2009, the Corporation had \$935 million outstanding in short-term borrowings from the FED Discount Window.

Credit Lines The Corporation maintains unsecured and un-committed lines of credit with other banks. As of March 31, 2009, the Corporation's total unused lines of credit with other banks amounted to \$205 million. The Corporation has not used these lines of credit.

Though currently not in use, other sources of short-term funding for the Corporation include commercial paper and federal funds purchased. Furthermore, the Corporation has entered in previous years into several financing transactions to diversify its funding sources, including the issuance of notes payable and Junior subordinated debentures as part of its longer-term liquidity and capital management activities. The Corporation continues to evaluate its financing options, including available options resulting from recent federal government initiatives to deal with the crisis in the financial markets.

The Corporation's principal uses of funds are the origination of loans and the repayment of maturing brokered CDs and borrowings. Over the last four years, the Corporation has committed substantial resources to its mortgage banking subsidiary, FirstMortgage Inc. As a result, residential real estate loans as a percentage of total loans receivable have increased over time from 14% at December 31, 2004 to 26% at March 31, 2009. Commensurate with the increase in its mortgage banking activities, the Corporation has also invested in technology and personnel to enhance the Corporation's secondary mortgage market capabilities. The enhanced capabilities improve the Corporation's liquidity profile as it allows the Corporation to derive liquidity, if needed, from the sale of mortgage loans in the secondary market. Recent disruptions in the credit markets and a reduced investors' demand for mortgage debt have adversely affected the liquidity of the secondary mortgage markets. The U.S. (including Puerto Rico) secondary mortgage market is still highly liquid in large part because of the sale or guarantee programs of the FHA, VA, HUD, FNMA and FHLMC. The Corporation obtained from GNMA, Commitment Authority to issue GNMA mortgage-backed securities and under this program the Corporation completed the securitization of approximately \$73 million of FHA/VA mortgage loans into GNMA MBS, of which approximately \$25 million were sold before the end of the first quarter.

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FirstBank's long-term senior debt rating is currently rated Ba1 by Moody's Investor Service (Moody's) and BB+ by Standard & Poor's (S&P), one notch under their definition of investment grade. Fitch Ratings Ltd. (Fitch) has rated the Corporation's long-term senior debt a rating of BB, which is two notches under investment grade. The Corporation does not have any outstanding debt or derivative agreements that would be affected by a credit downgrade. The Corporation's liquidity is contingent upon its ability to obtain external sources of funding to finance its operations. Any future downgrades in credit ratings can hinder the Corporation's access to external funding and/or cause external funding to be more expensive, which could in turn adversely affect the results of operations. Also, any change in credit ratings may affect the fair value of certain liabilities and unsecured derivatives that consider the Corporation's own credit risk as part of the valuation.

Cash Flows

Cash and cash equivalents were \$132.1 million and \$532.5 million at March 31, 2009 and 2008, respectively. These balances decreased by \$273.6 million and increased by \$153.6 million from December 31, 2008 and 2007, respectively. The following discussion highlights the major activities and transactions that affected the Corporation's cash flows during the first quarter of 2009 and 2008.

Cash Flows from Operating Activities

First BanCorp's operating assets and liabilities vary significantly in the normal course of business due to the amount and timing of cash flows. Management believes cash flows from operations, available cash balances and the Corporation's ability to generate cash through short and long-term borrowings will be sufficient to fund the Corporation's operating liquidity needs.

For the quarter ended March 31, 2009, net cash provided by operating activities was \$74.3 million. Net cash generated from operating activities was higher than net income largely as a result of adjustments for operating items such as the provision for loan and lease losses.

For the quarter ended March 31, 2008, net cash provided by operating activities was \$21.7 million, which was lower than net income mainly as a result of adjustments to net income from gain on sale of investments (including the gain on the mandatory redemption of part of the Corporation's investment in VISA in March 2008), deferred income tax benefits and a decrease in accrued interest payable.

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Cash Flows from Investing Activities

The Corporation's investing activities primarily include originating loans to be held to maturity and its available-for-sale and held-to-maturity investment portfolios. For the quarter ended March 31, 2009, net cash of \$466.8 million was used in investing activities, primarily for loan origination disbursements, including the \$500 million facility extended to COFINA and purchases of available-for-sale investment securities to mitigate in part the impact of investments securities, mainly U.S. Agency debentures, called by counterparties prior to maturity and MBS prepayments. Partially offsetting these uses of cash were proceeds from sales and maturities of available-for-sale securities as well as proceeds from held-to-maturity securities called during 2008; and proceeds from sales of loans and from MBS prepayments.

For the quarter ended March 31, 2008, net cash used in investing activities was \$748.6 million, primarily due to loan origination disbursements and purchases of MBS that provided an attractive yield given the interest rate scenario during the early part of 2008.

Cash Flows from Financing Activities

The Corporation's financing activities primarily include the receipt of deposits and issuance of brokered CDs, the issuance and payments of long-term debt, the issuance of equity instruments and activities related to its short-term funding. In addition, the Corporation pays monthly dividends on its preferred stock and quarterly dividends on its common stock. In the first quarter of 2009, net cash provided by financing activities was \$119.0 million due to the investment of \$400 million by the U.S. Treasury in preferred stock of the Corporation through the U.S. Treasury TARP Capital Purchase Program and due to the use of the FED Discount Window Program and advances from the FHLB to refinance brokered CDs at a lower cost and finance the Corporation's lending activities. Partially offsetting these cash proceeds was the payment of cash dividends and pay down of maturing borrowings, in particular brokered CDs and repurchase agreements.

In the first quarter of 2008, net cash provided by financing activities was \$880.5 million due to an increase in the Corporation's deposit base and a net increase in securities sold under repurchase agreements used to fund purchases of investment securities back in 2008. Partially offsetting these cash inflows were funds used to pay dividends and maturing advances from FHLB.

Table of Contents**Capital**

The Corporation's stockholders' equity amounted to \$2.0 billion as of March 31, 2009, an increase of \$429.1 million compared to the balance as of December 31, 2008, driven by the U.S. Treasury's \$400 million investment in the Corporation through the TARP Capital Purchase Program and a net unrealized gain of \$25.4 million on the fair value of available-for-sale securities recorded as part of comprehensive income. The increase in the fair value of available-for-sale securities resulted from the recent surge in MBS prices as mortgage rates decreased. Partially offsetting these increases were dividends amounting to \$18.2 million for the first quarter of 2009 (\$6.5 million, or \$0.07 per common stock, and \$11.7 million in preferred stock). The Return on Average Common Equity ratio decreased from 10.63% for the first quarter of 2008 to 2.65% for the first quarter of 2009, mainly attributable to the increase in preferred dividends and lower earnings. Net income available to common stockholders was affected by \$4.2 million in dividends (including \$2.6 million cumulative dividends not declared as of March 31, 2009) and \$0.9 million non-cash discount amortization on the Corporation's Cumulative Preferred Stock issued under the U.S. Treasury's TARP Capital Purchase Program.

The Corporation's tangible common equity ratio stands at 5.11% as of March 31, 2009, compared to 4.87% as of December 31, 2008, positively affected by unrealized gains on the available-for-sale securities portfolio. The tangible common equity ratio and the tangible book value per common share are non-GAAP measures generally used by financial analysts and investment bankers to evaluate capital adequacy. Tangible common equity is total equity less preferred equity, goodwill and core deposit intangibles. Tangible Assets are total assets less goodwill and core deposit intangibles. Many stock analysts use the tangible common equity ratio and the tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase accounting method for mergers and acquisitions. Neither tangible common equity nor tangible assets or related measures should be considered in isolation or as a substitute for stockholders' equity, total assets or any other measure calculated in accordance with GAAP. Moreover, the manner in which the Corporation calculates its tangible common equity, tangible assets and any other related measures may differ from that of other companies reporting measures with similar names. The following table is a reconciliation of the Corporation's tangible common equity and tangible assets for the periods ended March 31, 2009 and December 31, 2008.

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<i>(In thousands)</i>	March 31, 2009	December 31, 2008
Total equity per consolidated financial statements	\$ 1,977,240	\$ 1,548,117
Preferred equity	(925,162)	(550,100)
Goodwill	(28,098)	(28,098)
Core deposit intangible	(19,273)	(23,985)
Tangible common equity	\$ 1,004,707	\$ 945,934
Total assets per consolidated financial statements	\$ 19,709,150	\$ 19,491,268
Goodwill	(28,098)	(28,098)
Core deposit intangible	(19,273)	(23,985)
Tangible assets	\$ 19,661,779	\$ 19,439,185
Common shares outstanding	92,546	92,546
Tangible common equity ratio	5.11%	4.87%
Tangible book value per common share	\$ 10.86	\$ 10.22

As of March 31, 2009, First BanCorp, FirstBank Puerto Rico and FirstBank Florida were in compliance with regulatory capital requirements that were applicable to them as a financial holding company, a state non-member bank and a thrift, respectively (i.e., total capital and Tier 1 capital to risk-weighted assets of at least 8% and 4%, respectively, and Tier 1 capital to average assets of at least 4%). Set forth below are First BanCorp's, FirstBank Puerto Rico's and FirstBank Florida's regulatory capital ratios as of March 31, 2009 and December 31, 2008, based on existing Federal Reserve, Federal Deposit Insurance Corporation and the Office of Thrift Supervision guidelines.

	Banking Subsidiaries			
	First BanCorp	FirstBank	FirstBank Florida	To be well capitalized
As of March 31, 2009				
Total capital (Total capital to risk-weighted assets)	15.29%	14.35%	20.20%	10.00%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	14.03%	13.10%	19.00%	6.00%
Leverage ratio ⁽¹⁾	10.38%	9.70%	13.75%	5.00%
 As of December 31, 2008				
Total capital (Total capital to risk-weighted assets)	12.80%	12.23%	13.53%	10.00%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	11.55%	10.98%	12.43%	6.00%
Leverage ratio ⁽¹⁾	8.30%	7.90%	8.78%	5.00%

(1) Tier 1 capital to average assets

in the case of
First BanCorp
and FirstBank
and Tier 1
Capital to
adjusted total
assets in the
case of
FirstBank
Florida.

The increase in regulatory capital ratios is mainly related to the \$400 million investment by the U.S. Treasury in preferred stock of the Corporation through the U.S. Treasury TARP Capital Purchase Program. Refer to Note 16 of the accompanying unaudited consolidated financial statements and Item 5 of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 for additional information regarding this issuance. Together with private and public

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sector initiatives, the Corporation looks to support the local economy and the communities it serves during the current economic environment and extend a \$500 million facility to an instrumentality of the Government of Puerto Rico to help the local government implement its economic stimulus plan.

The Corporation is well-capitalized and in a good position to manage the economic downturn, having unprecedented margins over minimum well-capitalized regulatory requirements. The total regulatory capital ratio is 15.3% and the Tier 1 capital ratio is 14% as of March 31, 2009. This translates to approximately \$748 million and \$1.1 billion of total capital and Tier 1 capital, respectively, in excess of the total capital and Tier 1 capital well capitalized requirements of 10% and 6%, respectively.

Off -Balance Sheet Arrangements

In the ordinary course of business, the Corporation engages in financial transactions that are not recorded on the balance sheet, or may be recorded on the balance sheet in amounts that are different than the full contract or notional amount of the transaction. These transactions are designed to (1) meet the financial needs of customers, (2) manage the Corporation's credit, market or liquidity risks, (3) diversify the Corporation's funding sources and (4) optimize capital.

As a provider of financial services, the Corporation routinely enters into commitments with off-balance sheet risk to meet the financial needs of its customers. These financial instruments may include loan commitments and standby letters of credit. These commitments are subject to the same credit policies and approval process used for on-balance sheet instruments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. As of March 31, 2009, commitments to extend credit and commercial and financial standby letters of credit amounted to approximately \$1.5 billion and \$101.0 million, respectively. Commitments to extend credit are agreements to lend to customers as long as the conditions established in the contract are met. Generally, the Corporation's mortgage banking activities do not enter into interest rate lock agreements with its prospective borrowers.

Table of Contents**Contractual Obligations and Commitments**

The following table presents a detail of the maturities of the Corporation's contractual obligations and commitments, which consist of CDs, long-term contractual debt obligations, commitments to sell mortgage loans and commitments to extend credit:

	Contractual Obligations and Commitments				
	As of March 31, 2009				
Total	Less than 1	1-3 years	3-5 years	After 5	
	year	(In thousands)		years	
Contractual obligations ⁽¹⁾ :					
Certificates of deposit ⁽²⁾	\$ 8,683,071	6,235,667	1,698,379	435,181	313,844
Loan payable	935,000	935,000			
Federal funds purchased and securities sold under agreements to repurchase	3,173,780	673,780	900,000	1,000,000	600,000
Advances from FHLB	1,540,440	780,000	507,000	253,440	
Notes payable	22,592		12,706		9,886
Other borrowings	231,938				231,938
Total contractual obligations	\$ 14,586,821	\$ 8,624,447	\$ 3,118,085	\$ 1,688,621	\$ 1,155,668
Commitments to sell mortgage loans	\$ 78,408	\$ 78,408			
Standby letters of credit	\$ 101,023	\$ 101,023			
Commitments to extend credit:					
Lines of credit	\$ 954,066	\$ 954,066			
Letters of credit	40,896	40,896			
Commitments to originate loans	528,846	528,846			
Total commercial commitments	\$ 1,523,808	\$ 1,523,808			

(1) \$22.7 million of tax liability, including accrued interest of \$7.2 million, associated with unrecognized tax benefits under FIN 48 has been

excluded due to the high degree of uncertainty regarding the timing of future cash outflows associated with such obligations.

- (2) Includes \$6.9 million of brokered CDs generally sold by third-party intermediaries in denominations of \$100,000 or less, within FDIC insurance limits and \$18.4 million in CDARS.

The Corporation has obligations and commitments to make future payments under contracts, such as debt and lease agreements, and under other commitments to sell mortgage loans at fair value and commitments to extend credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Other contractual obligations result mainly from contracts for the rental and maintenance of equipment. Since certain commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. For most of the commercial lines of credit, the Corporation has the option to reevaluate the agreement prior to additional disbursements. There have been no significant or unexpected draws on existing commitments. The funding needs patterns of the customers have not significantly changed as a result of the latest market disruptions. In the case of credit cards and personal lines of credit, the Corporation can at any time and without cause cancel the unused credit facility. In the ordinary course of business, the Corporation enters into operating leases and other commercial commitments. There have been no significant changes in such contractual obligations since December 31, 2008.

Lehman Brothers Special Financing, Inc. (Lehman) was the counterparty to the Corporation on certain interest rate swap agreements. During the third quarter of 2008, Lehman failed to pay the scheduled net cash settlement due to the Corporation, which constitutes an event of default under these interest rate swap agreements. The Corporation terminated all interest rate swaps with Lehman and replaced them with

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another counterparty under similar terms and conditions. In connection with the unpaid net cash settlement due as of March 31, 2009, under the swap agreements, the Corporation has an unsecured counterparty exposure with Lehman, which filed for bankruptcy on October 3, 2008, of approximately \$1.4 million. This exposure was reserved in the third quarter of 2008. The Corporation had pledged collateral of \$63.6 million with Lehman to guarantee its performance under the swap agreements in the event payment thereunder was required. The market value of pledged securities with Lehman as of March 31, 2009 amounted to approximately \$59.1 million (amortized cost of \$57.4 million). The position of the Corporation with respect to the recovery of the collateral, after discussion with its outside legal counsel, is that at all times title to the collateral has been vested in the Corporation and that, therefore, this collateral should not, for any purpose, be considered property of the bankruptcy estate available for distribution among Lehman's creditors. On January 30, 2009, the Corporation filed a customer claim with the trustee and at this time the Corporation is unable to determine the timing of the claim resolution or whether it will succeed in recovering all or a substantial portion of the collateral or its equivalent value. As additional relevant facts become available in future periods, a need to recognize a partial or full reserve of this claim may arise.

Interest Rate Risk Management

First BanCorp manages its asset/liability position in order to limit the effects of changes in interest rates on net interest income and to maintain stability in the profitability under varying interest rate environments. The MIALCO oversees interest rate risk and meetings focus on, among other things, current and expected conditions in world financial markets, competition and prevailing rates in the local deposit market, liquidity, unrealized gains and losses in securities, recent or proposed changes to the investment portfolio, alternative funding sources and their costs, hedging and the possible purchase of derivatives such as swaps and caps, and any tax or regulatory issues which may be pertinent to these areas. The MIALCO approves funding decisions in light of the Corporation's overall growth strategies and objectives.

The Corporation performs on a quarterly basis a net interest income simulation analysis on a consolidated basis to estimate the potential change in future earnings from projected changes in interest rates. These simulations are carried out over a one-year and a five-year time horizon, assuming gradual upward and downward interest rate movements of 200 basis points, achieved during a twelve-month period. Simulations are carried out in two ways:

- (1) using a static balance sheet as the Corporation had on the simulation date, and
- (2) using a growing balance sheet based on recent growth patterns and strategies.

The balance sheet is divided into groups of assets and liabilities detailed by maturity or re-pricing and their corresponding interest yields and costs. As interest rates rise or fall, these simulations incorporate expected future lending rates, current and expected future funding sources and costs, the possible exercise of options, changes in prepayment rates,

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deposits decay and other factors which may be important in projecting the future growth of net interest income.

The Corporation uses a simulation model to project future movements in the Corporation's balance sheet and income statement. The starting point of the projections generally corresponds to the actual values of the balance sheet on the date of the simulations.

These simulations are highly complex, and use many simplifying assumptions that are intended to reflect the general behavior of the Corporation over the period in question. There can be no assurance that actual events will match these assumptions in all cases. For this reason, the results of these simulations are only approximations of the true sensitivity of net interest income to changes in market interest rates.

The following table presents the results of the simulations as of March 31, 2009 and December 31, 2008. Consistent with prior years, these exclude non-cash changes in the fair value of derivatives and SFAS 159 liabilities:

	March 31, 2009				December 31, 2008			
	Net Interest Income Risk (Projected for the next 12 months)				Net Interest Income Risk (Projected for the next 12 months)			
	Static Simulation		Growing Balance Sheet		Static Simulation		Growing Balance Sheet	
	\$	%	\$	%	\$	%	\$	%
(Dollars in millions)	Change	Change	Change	Change	Change	Change	Change	Change
+ 200 bps ramp	\$ 11.8	2.24%	8.4	1.46%	\$ 6.5	1.39%	6.4	1.29%
- 200 bps ramp	\$(21.8)	(4.12)%	(16.1)	(2.79)%	\$(12.8)	(2.77)%	(15.5)	(3.15)%

During the first 12 months of the income simulation, under a parallel falling rates scenario, net interest income is expected to compress. The Corporation's loan and investment portfolio is subject to prepayment risk, which results from the ability of a third party to repay their debt obligations prior to maturity. In a declining rate scenario, the prepayment risk in our U.S. government agency fixed-rate MBS portfolio expected to increase substantially, combined with the callable feature of the U.S. Agency debentures that would shorten the duration of the assets with the potential of triggering the call options; which could lead to reinvestment of proceeds from called securities in lower yielding assets. Due to current market conditions and the drop in the long end of the yield curve since 2008, the probability of exercise of the embedded calls on approximately \$717 million of U.S. Agency debentures has increased and is expected to be effective in both, the base and falling rates scenarios.

According to the Corporation's risk management policies, the downward parallel rates moves are modeling by anchoring the short-end of the curve, (falling rates with a flattening curve) until the curve allows for falling rates in a parallel fashion.

Taking into consideration the above described facts for purpose modeling, the net interest income for the next twelve months in a growing balance sheet scenario, is estimated to decrease by \$16.1 million in a parallel downward move of 200 basis points, and the change for the same period, is an increase of \$8.4 million in a parallel upward

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move of 200 basis points. As noted, the impact of the callability feature in the Agency Securities combined with the prepayment risk of the loan and investment portfolio, and the reinvestment of those securities into lower yielding assets continue showing the Corporation's interest rate risk exposure in an asset sensitive position for the first twelve months of the simulation. Assuming parallel shifts in interest rates, the Corporation's net interest income would continue to increase in rising rates scenarios and reduce in falling rates scenarios over a five-year modeling horizon.

The Corporation used the gap analysis tool to evaluate the potential effect of rate shocks on income over the selected time periods. The gap report as of March 31, 2009 showed a positive cumulative gap for 3 month of \$ 1.8 billion and a positive cumulative gap of \$0.2 billion for 1 year, compared to positive cumulative gaps of \$2.1 billion and \$1.4 billion for 3 months and 1 year, respectively, as of December 31, 2008.

Derivatives

First BanCorp uses derivative instruments and other strategies to manage its exposure to interest rate risk caused by changes in interest rates beyond management's control.

The following summarizes major strategies, including derivative activities, used by the Corporation in managing interest rate risk:

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. Since a substantial portion of the Corporation's loans, mainly commercial loans, yield variable rates, the interest rate swaps are utilized to convert fixed-rate brokered CDs (liabilities), mainly those with long-term maturities, to a variable rate and mitigate the interest rate risk inherent in these variable rate loans.

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 to protect against rising interest rates. Specifically, the interest rate on certain private label mortgage pass-through securities and certain of the Corporation's commercial loans to other financial institutions is generally a variable rate limited to the weighted-average coupon of the pass-through certificate or referenced residential mortgage collateral, less a contractual servicing fee.

Structured repurchase agreements The Corporation uses structured repurchase agreements, with embedded call options, to reduce the Corporation's exposure to interest rate risk by lengthening the contractual maturities of its liabilities, while keeping funding costs low. Another type of structured repurchase agreement includes repurchased agreements with embedded cap corridors; these instruments also provide protection for a rising rate scenario.

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For detailed information regarding the volume of derivative activities (e.g. notional amounts), location and fair values of derivative instruments in the Statement of Financial Condition and the amount of gains and losses reported in the Statement of Income, refer to Note 8 in the accompanying unaudited consolidated financial statements.

The following tables summarize the fair value changes in the Corporation's derivatives as well as the sources of the fair values:

	Three-month period ended March 31, 2009	
(In thousands)		
Fair value of contracts outstanding at the beginning of the period	\$	(495)
Contracts terminated or called during the period		(2,950)
Changes in fair value during the period		(811)
Fair value of contracts outstanding as of March 31, 2009	\$	(4,256)

Source of Fair Value

	Payments Due by Period				Total Fair Value
	Maturity Less Than One Year	Maturity 1-3 Years	Maturity 3-5 Years	Maturity In Excess of 5 Years	
(In thousands)					
As of March 31, 2009					
Pricing from observable market inputs	\$ (906)	\$ 104	\$ (773)	\$ (3,663)	\$ (5,238)
Pricing that consider unobservable market inputs				982	982
	\$ (906)	\$ 104	\$ (773)	\$ (2,681)	\$ (4,256)

Derivative instruments, such as interest rate swaps, are subject to market risk. The Corporation's derivatives are mainly composed of interest rate swaps that are used to convert the fixed interest payment on its brokered CDs and medium-term notes to variable payments (receive fixed/pay floating). 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 as well as the level of interest rates.

As of March 31, 2009, all of the derivative instruments held by the Corporation were considered economic undesignated hedges.

During the first quarter of 2009, approximately \$870.0 million of interest rate swaps were called by the counterparties, mainly due to the low short-term interest rates scenario. Following the cancellation of the interest rate swaps, the Corporation exercised its call option on approximately \$812.0 million swapped to floating brokered CDs. The Corporation recorded a net unrealized loss of \$1.6 million as a result of these transactions resulting from the reversal of the cumulative mark-to-market valuation of the swaps and the brokered CDs called.

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The use of derivatives involves market and credit risk. The market risk of derivatives stems principally from the potential for changes in the value of derivative contracts based on changes in interest rates. The credit risk of derivatives arises from the potential of default from the counterparty. To manage this credit risk, the Corporation deals with counterparties of good credit standing, enters into master netting agreements whenever possible and, when appropriate, obtains collateral. Master netting agreements incorporate rights of set-off that provide for the net settlement of contracts with the same counterparty in the event of default. Currently the Corporation is mostly engaged in derivative instruments with counterparties with a credit rating of single A or better. All of the Corporation's interest rate swaps are supported by securities collateral agreements, which allow the delivery of securities to and from the counterparties depending on the fair value of the instruments, to minimize credit risk.

Set forth below is a detailed analysis of the Corporation's credit exposure by counterparty with respect to derivative instruments outstanding as of March 31, 2009 and December 31, 2008.

(In thousands)	Counterparty	Rating ⁽¹⁾	Notional	As of March 31, 2009			Accrued Interest Receivable (Payable)
				Total Exposure at Fair Value ⁽²⁾	Negative Fair Values	Total Fair Values	
Interest rate swaps with rated counterparties:							
	Citigroup	A+	\$ 64,738	\$ 179	\$	\$ 179	\$ 1,326
	Credit Suisse First Boston	A+	54,710	2	(1,248)	(1,246)	
	JP Morgan	A+	201,772	575	(5,359)	(4,784)	196
	UBS Financial Services, Inc.	A+	4,775	35		35	71
	Goldman Sachs	A	6,515	267		267	
	Merrill Lynch	A	81,477	325		325	96
	Morgan Stanley	A	64,000	178		178	176
			477,987	1,561	(6,607)	(5,046)	1,865
	Other derivatives ⁽³⁾		328,448	1,370	(580)	790	(248)
			\$ 806,435	\$ 2,931	\$ (7,187)	\$ (4,256)	\$ 1,617

(1) Based on the S&P and Fitch Long Term Issuer Credit Ratings.

(2) For each counterparty, this amount includes derivatives with positive fair value excluding the related

accrued interest
receivable /
payable.

- (3) Credit exposure with several local companies for with a credit rating in not readily available. Approximately \$1.0 million of the credit exposure with local companies relates to caps referenced to mortgages bought from R&G Premier Bank.

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		As of December 31, 2008				
			Total Exposure at Fair Value⁽²⁾	Negative Fair Values	Total Fair Values	Accrued Interest Receivable
(In thousands)		Rating⁽¹⁾	Notional			(Payable)
Interest rate swaps with rated counterparties:						
Wachovia	AA-	\$ 16,570	\$ 41	\$	\$ 41	\$ 108
Citigroup	A+	295,130	1,516	(1)	1,515	2,299
Credit Suisse First Boston	A+	151,884	178	(1,461)	(1,283)	512
JP Morgan	A+	531,886	2,319	(5,726)	(3,407)	1,094
UBS Financial Services, Inc.	A+	14,384	88		88	179
Goldman Sachs	A	16,165	597		597	158
Merrill Lynch	A	230,190	1,366		1,366	(106)
Mortgan Stanley	A	107,450	735		735	59
		1,363,659	6,840	(7,188)	(348)	4,303
Other derivatives ⁽³⁾		332,634	1,170	(1,317)	(147)	(203)
		\$ 1,696,293	\$ 8,010	\$ (8,505)	\$ (495)	\$ 4,100

(1) Based on the S&P and Fitch Long Term Issuer Credit Ratings.

(2) For each counterparty, this amount includes derivatives with positive fair value excluding the related accrued interest receivable / payable.

(3) Credit exposure with several local companies for with a credit rating in not readily

available.
 Approximately
 \$0.8 million of
 the credit
 exposure with
 local companies
 relates to caps
 referenced to
 mortgages
 bought from
 R&G Premier
 Bank.

A Hull-White Interest Rate Tree approach is used to value the option components of derivative instruments. The discounting of the cash flows is performed using US dollar LIBOR-based discount rates or yield curves that account for the industry sector and the credit rating of the counterparty and/or the Corporation. Although most of the derivative instruments are fully collateralized, a credit spread is considered for those that are not secured in full. The cumulative mark-to-market effect of credit risk in the valuation of derivative instruments resulted in an unrealized gain of approximately \$1.9 million as of March 31, 2009 (an unrealized loss of approximately \$0.5 million relates to the first quarter of 2009 and an unrealized gain of approximately \$0.3 million relates to the first quarter of 2008). The Corporation compares the valuations obtained with valuations received from counterparties, as an internal control procedure.

Credit Risk Management

First BanCorp is subject to credit risk mainly with respect to its portfolio of loans receivable and off-balance sheet instruments, mainly derivatives and loan commitments. Loans receivable represents loans that First BanCorp holds for investment and, therefore, First BanCorp is at risk for the term of the loan. Loan commitments represent commitments to extend credit, subject to specific conditions, for specific amounts and maturities. These commitments may expose the Corporation to credit risk and are subject to the same review and approval process as for loans. Refer to

Contractual Obligations and Commitments above for further details. The credit risk of derivatives arises from the potential of the counterparty's default on its contractual obligations. To manage this credit risk, the Corporation deals with counterparties of good credit standing, enters into master netting agreements whenever possible and, when appropriate, obtains collateral. For further details and information on the Corporation's derivative credit risk exposure, refer to Interest Rate Risk Management section above. The Corporation manages its credit risk through credit policy, underwriting, and quality control procedures and an established delinquency committee. The Corporation also employs proactive collection

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and loss mitigation efforts. Also, there are Loan Workout functions responsible for avoiding defaults and minimizing losses upon default of commercial and construction loans. The group 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 Corporation may also have risk of default in the securities portfolio. The securities held by the Corporation are principally fixed-rate mortgage-backed securities and U.S. Treasury and agency securities. Thus, a substantial portion of these instruments is backed by mortgages, a guarantee of a U.S. government-sponsored entity or backed by the full faith and credit of the U.S. government and is deemed to be of the highest credit quality.

Management's Credit Committee, comprised of the Corporation's Chief Credit Risk Officer and other senior executives, has primary responsibility for setting strategies to achieve the Corporation's credit risk goals and objectives. These goals and objectives are documented in the Corporation's Credit Policy.

Table of Contents***Allowance for Loan and Lease Losses and Non-performing Assets******Allowance for Loan and Lease Losses***

The provision for loan and lease losses is charged to earnings to maintain the allowance for loan and lease losses at a level that the Corporation considers adequate to absorb probable losses inherent in the portfolio. Management allocates specific portions of the allowance for loan and lease losses to problem loans that are identified through an asset classification analysis. The adequacy of the allowance for loan and lease losses is based upon a number of factors including historical loan and lease loss experience that may not fully represent current conditions inherent in the portfolio. For example, factors affecting the Puerto Rico, Florida (USA), US Virgin Islands or British Virgin Islands economies may contribute to delinquencies and defaults above the Corporation's historical loan and lease losses. The Corporation addresses this risk by actively monitoring the delinquency and default experience and by considering current economic and market conditions and their probable impact on the borrowers. Based on the assessment of current conditions, the Corporation makes appropriate adjustments to the historically developed assumptions when necessary to adjust historical factors to account for present conditions. The Corporation also takes into consideration information about trends on non-accrual loans, delinquencies, changes in underwriting policies, and other risk characteristics relevant to the particular loan category and delinquencies. Although management believes that the allowance for loan and lease losses is adequate, factors beyond the Corporation's control, including factors affecting the economies of Puerto Rico, the United States (principally the state of Florida), the U.S. VI or British VI may contribute to delinquencies and defaults, thus necessitating additional reserves.

For small, homogeneous loans, including auto loans, consumer loans, finance lease loans, residential mortgage, commercial and construction loans in amounts under \$1.0 million, the Corporation evaluates the allowance based on average historical loss experience segmented by risk classification and for each corresponding type of loans according to market conditions. For residential mortgage the reserve analysis was based under a going-forward home price appreciation stressed scenario taking into consideration the appraisal experience as of analysis date. The methodology of accounting for all probable losses is made in accordance with the guidance provided by SFAS 5, Accounting for Contingencies.

The Corporation measures impairment individually for those commercial and construction loans with a principal balance of \$1 million or more in accordance with the provisions of SFAS 114. A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. A specific reserve is determined for those commercial and real estate loans classified as impaired, primarily based on each such loan's collateral value (if collateral dependent) or the present value of expected future cash flows discounted at the loan's effective interest rate. If foreclosure is probable, the creditor is required to measure the impairment based on the fair value of the

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collateral. The fair value of the collateral is generally obtained from appraisals. Updated appraisals are obtained when the Corporation determines that loans are impaired and are updated periodically thereafter, also for certain loans and on a spot basis selected by specific characteristics such as delinquency levels, age of the appraisal, and loan-to-value ratios. Should there be a deficiency, the Corporation records a specific allowance for loan losses related to these loans.

As a general procedure, the Corporation internally reviews appraisals on a spot basis as part of the underwriting and approval process. For construction loans related to the Miami Corporate Banking operations, appraisals are reviewed by an outsourced contracted appraiser. Once a loan backed by real estate collateral deteriorates or is accounted for in non-accrual status, a full assessment of the value of the collateral is performed. If the Corporation commences litigation to collect an outstanding loan or commences foreclosure proceedings against a borrower (which includes the collateral), a new appraisal report is requested and the book value is adjusted accordingly, either by a corresponding reserve or a charge-off.

Substantially all of the Corporation's loan portfolio is located within the boundaries of the U.S. economy. Whether the collateral is located in Puerto Rico, the U.S. Virgin Islands or the U.S. mainland, the performance of the Corporation's loan portfolio and the value of the collateral backing the transactions are dependent upon the performance of and conditions within each specific area real estate market. Recent economic reports related to the real estate market in Puerto Rico indicate that certain pockets of the real estate market are subject to readjustments in value driven by the deteriorated purchasing power of the consumers and general economic conditions. The Corporation is protected by healthy loan-to-value ratios set upon original approval and driven by the Corporation's regulatory and credit policy standards. The real estate market for the U.S. Virgin islands remains fairly stable.

The following tables set forth an analysis of the activity in the allowance for loan and lease losses during the periods indicated :

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(Dollars in thousands)	Quarter Ended March 31,	
	2009	2008
Allowance for loan and lease losses, beginning of period	\$ 281,526	\$ 190,168
Provision for loan and lease losses	59,429	45,793
Loans charged-off:		
Residential real estate	(7,162)	(1,239)
Commercial	(8,109)	(4,418)
Construction	(8,534)	(3,785)
Finance leases	(2,570)	(2,915)
Consumer	(16,085)	(15,029)
Recoveries	4,036	1,920
Net charge-offs	(38,424)	(25,466)
Allowance for loan and lease losses, end of period	\$ 302,531	\$ 210,495
Allowance for loan and lease losses to period end total loans receivable	2.24%	1.74%
Net charge-offs annualized to average loans outstanding during the period	1.16%	0.85%
Provision for loan and lease losses to net charge-offs during the period	1.55x	1.80x

The following tables set forth information concerning the allocation of the allowance for loan and lease losses by loan category and the percentage of loans in each category to total loans as of the dates indicated:

(In thousands)	As of March 31, 2009		As of December 31, 2008	
	Amount	Percent	Amount	Percent
Residential real estate	\$ 21,103	26%	\$ 15,016	27%
Commercial real estate loans	20,932	11%	17,775	12%
Construction loans	105,516	12%	83,482	12%
Commercial loans (including loans to local financial institutions)	73,314	36%	74,358	33%
Consumer loans (1)	81,666	15%	90,895	16%
	\$ 302,531	100%	\$ 281,526	100%

(1) Includes lease financing.

First BanCorp's allowance for loan and lease losses was \$302.5 million as of March 31, 2009, compared to \$281.5 million as of December 31, 2008. The provision for loan and lease losses for the quarter ended March 31, 2009 amounted to \$59.4 million compared to \$45.8 million for the same period in 2008.

The increase, as compared to the first quarter of 2008, is mainly attributable to: higher specific reserves for impaired loans, in particular construction loans in the U.S. mainland; higher general reserves for potential losses inherent in the construction and residential mortgage loan portfolio in Puerto Rico, to account for trends in delinquency and charge-offs levels, as well as the continuing deterioration of the economic and housing market environment; and the overall growth of the Corporation's loan portfolio. For the residential mortgage portfolio the expected performance of each loan, including the timing and magnitude of the expected losses is projected and then aggregated to provide the estimate of the expected loss rate. Partially offsetting increases in the construction and residential mortgage loan portfolio was a decrease in the consumer loans allowance

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due to the lower historical loss ratios and non-performing loans, in particular from the auto, finance leases and unsecured portfolios.

During the first quarter of 2009, the Corporation identified several commercial and construction loans amounting to \$237.0 million that it determined should be classified as impaired, of which \$215.1 million have a specific reserve of \$28.1 million. Approximately \$140.6 million of the \$237.0 million commercial and construction loans that were determined to be impaired during 2009 related to the United States mainland portfolio, mainly construction loans.

As of March 31, 2009, approximately \$335.1 million, or 49%, of the total impaired commercial and construction loan portfolio of \$690.8 million relates to the mainland United States portfolio.

The following table sets forth information concerning the composition of the Corporation's allowance for loan and lease losses by loan category and whether the allowance and related provisions were calculated individually through the requirements of SFAS 114 or through a general valuation allowance in accordance with the provisions of SFAS 5 as of March 31, 2009:

	Construction Loans	Commercial Loans	Commercial Mortgage Loans	Residential Mortgage Loans	Consumer and Finance Leases	Total
(Dollars in thousands)						
SFAS 114 - Specific Reserves						
Principal balance of loans	\$ 421,003	\$ 169,102	\$ 100,653	\$ 54,035	\$	\$ 740,793
Allowance for loan and lease losses	66,272	24,302	11,546	1,008		103,128
Allowance for loan and lease losses to principal balance	15.74%	14.37%	11.47%	2.01%		13.92%
SFAS 5 - General Allowance						
Principal balance of loans	1,140,810	4,734,309	1,418,614	3,425,026	2,050,400	12,769,159
Allowance for loan and lease losses	39,244	49,012	9,386	20,095	81,666	199,403
Allowance for loan and lease losses to principal balance	3.44%	1.04%	0.66%	0.59%	3.98%	1.56%
Total portfolio, excluding loans held for sale						
Principal balance of loans	\$1,561,813	\$4,903,411	\$1,519,267	\$3,475,061	\$2,050,400	\$13,509,952
Allowance for loan and lease losses	105,516	73,314	20,932	21,103	81,666	302,531
Allowance for loan and lease losses to principal balance	6.76%	1.50%	1.38%	0.61%	3.98%	2.24%

Refer to Provision and Allowance for Loan and Lease Losses and Loan Portfolio Commercial and Construction Loans discussion above for specific details about significant impaired loans identified during the first quarter of 2009

and the exposure in the geographic areas where the Corporation operates and detailed information about the Corporation's construction loan portfolio.

The Corporation's net charge-offs for the first quarter of 2009 were \$38.4 million or 1.16% of average loans on an annualized basis, compared to \$25.5 million or 0.85% of average loans on an annualized basis for the same period in 2008. The increase in net charge-offs was driven by higher charge-offs for residential, commercial and construction loans. A significant portion of charge-offs for the residential mortgage loan portfolio were related to a higher volume of foreclosed properties acquired in satisfaction of loans during the first quarter of 2009 and subsequent sales at lower prices due to the Corporation's intent not to

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accumulate REO inventory. The increase in residential mortgage charge-offs was also driven by periodic analyses performed on a higher volume of past-due residential mortgage loans with high original loan-to-value ratios that consider recent trends, such as lower prices, as well as other conditions and relevant factors. Also, the commercial loan portfolio in Puerto Rico has been adversely impacted by the deteriorating economic conditions, while a \$5.2 million charge-off was recorded on a residential housing project construction loan in Puerto Rico that is part of the impaired relationship discussed above (refer to Provision for Loan and Lease Losses discussion). This impaired relationship consisted of two impaired residential housing construction loans; a \$9.9 million loan (net of the \$5.2 million charge-off) and the \$20.3 million loan classified as impaired during the first quarter of 2009. The ratio of net charge-offs to average loans on the Corporation's residential mortgage loan portfolio was 0.82% for the quarter ended March 31, 2009, lower than the approximately 1.6% average charge-off rate for commercial banks in the U.S. mainland reported for the fourth quarter of 2008. The Puerto Rico housing market has not seen the dramatic decline in housing prices that is affecting the U.S. mainland, but there is a lower demand due to the diminished consumer purchasing power. The Corporation also does business in the Eastern Caribbean Region.

The following table presents annualized charge-offs to average loans held-in-portfolio by geographic segment:

	Quarter Ended	
	March 31, 2009	March 31, 2008
PUERTO RICO:		
Residential mortgage loans	0.86%	0.20%
Commercial loans	0.53%	0.36%
Construction loans	3.17%	0.00%
Consumer loans (1)	2.61%	3.22%
Total loans	1.19%	0.85%
VIRGIN ISLANDS:		
Residential mortgage loans	0.03%	0.00%
Commercial loans (2)	0.38%	-0.04%
Construction loans	0.00%	0.00%
Consumer loans	4.00%	2.92%
Total loans	0.60%	0.43%
UNITED STATES:		
Residential mortgage loans	1.43%	0.03%
Commercial loans	0.43%	0.00%
Construction loans	1.37%	2.37%

Consumer loans	9.95%	3.44%
Total loans	1.31%	1.13%

(1) Includes Lease Financing.

(2) Loan recoveries of commercial loans for the first quarter of 2008 in Virgin Islands exceeded loan charge-offs.

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The Corporation observed decreases in net charge-offs for consumer loans (including finance leases) which amounted to \$14.8 million for the first quarter of 2009, as compared to \$16.3 million for the same period a year ago.

Total credit losses (equal to net charge-offs plus losses on REO operations) increased 52% to \$43.8 million, or 1.32% on an annualized basis to average loans and repossessed assets for the first quarter of 2009, in contrast to credit losses of \$28.7 million, or a loss rate of 0.96%, for the first quarter of 2008.

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The following table presents a detail of the REO inventory and credit losses for the periods indicated:

Credit Loss Performance

	Quarter Ended March 31,	
	2009	2008
	(Dollars in thousands)	
REO		
REO balances, carrying value:		
Residential	\$ 31,460	\$ 14,847
Commercial	3,289	3,519
Condo-conversion projects	9,500	14,797
Construction	5,185	750
Total	\$ 49,434	\$ 33,913
REO activity (number of properties):		
Beginning property inventory,	155	87
Properties acquired	74	32
Properties disposed	(24)	(11)
Ending property inventory	205	108
Average holding period (in days)		
Residential	132	172
Commercial	188	141
Condo-conversion projects	396	31
Construction	215	96
	195	106
REO operations (loss) gain:		
Market adjustments and (losses) gain on sale:		
Residential	\$ (3,185)	\$ (444)
Commercial	(399)	85
Condo-conversion projects		
Construction	(463)	(22)
	(4,047)	(381)
Other REO operations expenses	(1,328)	(2,875)
Net loss on REO operations	\$ (5,375)	\$ (3,256)

CHARGE-OFFS

Residential charge-offs, net	(7,162)	(1,239)
Commercial charge-offs, net	(7,907)	(4,172)
Construction charge-offs, net	(8,523)	(3,785)
Consumer and finance leases charge-offs, net	(14,832)	(16,270)
Total charge-offs, net	(38,424)	(25,466)
TOTAL CREDIT LOSSES (1)	\$ (43,799)	\$ (28,722)

LOSS RATIO PER CATEGORY (2):

Residential	1.17%	0.21%
Commercial	0.54%	0.31%
Construction	2.30%	1.03%
Consumer	2.83%	3.19%
TOTAL CREDIT LOSS RATIO (3)	1.32%	0.96%

(1) Equal to REO operations (losses) gains plus Charge-offs, net.

(2) Calculated as net charge-offs plus market adjustments and gains (losses) on sale of REO divided by average loans and repossessed assets.

(3) Calculated as net charge-offs plus net loss on REO operations divided by average loans and repossessed assets.

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Non-accruing and Non-performing Assets

Total non-performing assets are the sum of non-accruing loans, foreclosed real estate and other repossessed properties. Non-accruing loans are loans as to which interest is no longer being recognized. When loans fall into non-accruing status, all previously accrued and uncollected interest is reversed and charged against interest income.

Non-accruing Loans Policy

Residential Real Estate Loans The Corporation classifies real estate loans in non-accruing status when interest and principal have not been received for a period of 90 days or more.

Commercial and Construction Loans The Corporation places commercial loans (including commercial real estate and construction loans) in non-accruing status when interest and principal have not been received for a period of 90 days or more. The risk exposure of this portfolio is diversified as to individual borrowers and industries among other factors. In addition, a large portion is secured with real estate collateral.

Finance Leases Finance leases are classified in non-accruing status when interest and principal have not been received for a period of 90 days or more.

Consumer Loans Consumer loans are classified in non-accruing status when interest and principal have not been received for a period of 90 days or more.

Other Real Estate Owned (OREO)

OREO acquired in settlement of loans is carried at the lower of cost (carrying value of the loan) or fair value less estimated costs to sell off the real estate at the date of acquisition (estimated realizable value).

Other Repossessed Property

The other repossessed property category includes repossessed boats and autos acquired in settlement of loans. Repossessed boats and autos are recorded at the lower of cost or estimated fair value.

Past Due Loans

Past due loans are accruing loans which are contractually delinquent 90 days or more. Past due loans are either current as to interest but delinquent in the payment of principal or are insured or guaranteed under applicable FHA and VA programs.

The Corporation may also classify loans in non-accruing status and recognize revenue only when cash payments are received because of the deterioration in the financial

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condition of the borrower and payment in full of principal or interest is not expected. During the third quarter of 2007, the Corporation started a loan loss mitigation program providing homeownership preservation assistance. Loans modified through this program are reported as non-performing loans and interest is recognized on a cash basis. When there is reasonable assurance of repayment and the borrower has made payments over a sustained period, the loan is returned to accruing status.

The following table presents non-performing assets as of the dates indicated:

<i>(Dollars in thousands)</i>	March 31, 2009	December 31, 2008
Non-accruing loans:		
Residential real estate	\$ 315,385	\$ 274,923
Commercial and commercial real estate	197,238	144,301
Construction	155,494	116,290
Finance leases	5,599	6,026
Consumer	38,295	45,635
	712,011	587,175
REO (1)	49,434	37,246
Other repossessed property	12,088	12,794
Total non-performing assets	\$ 773,533	\$ 637,215
Past due loans 90 days and still accruing	\$ 208,339	\$ 471,364
Non-performing assets to total assets	3.92%	3.27%
Non-accruing loans to total loans receivable	5.27%	4.49%
Allowance for loan and lease losses	\$ 302,531	\$ 281,526
Allowance to total non-accruing loans	42.49%	47.95%
Allowance to total non-accruing loans, excluding residential real estate loans	76.28%	90.16%

(1) As of March 31, 2009 and December 31, 2008, REO include approximately \$15.6 million and \$14.8 million, respectively, of foreclosed properties in the U.S. mainland.

Total non-performing assets as of March 31, 2009 were \$773.5 million, compared to \$637.2 million as of December 31, 2008. The slumping economy and deteriorating housing market in the United States coupled with recessionary conditions in Puerto Rico's economy have resulted in higher non-performing balances in most of the Corporation's loan portfolios.

With regards to the United States mainland portfolio, total non-performing assets increased by \$34.9 million to \$138.9 million as of March 31, 2009. Several commercial mortgage loans that entered non-accruing status accounted for approximately \$20.4 million of the increase in non-performing assets as compared to December 31, 2008. These commercial mortgage loans are individually collateralized by shopping centers, office buildings and a hotel facility, all located in the State of Florida. In addition, a \$6.7 million, net of impairment of \$0.8 million, construction loan granted for the development of an 18 unit residential complex was classified as non-accruing during the quarter. The balance of non-accruing residential mortgage loans continued to be adversely affected by the deteriorating economic conditions in the United States, which accounted for \$16.1

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million of the increase in non-accruing residential mortgage loans and for \$0.8 million of the increase in foreclosed residential properties compared to balances as of December 31, 2008. The increases in non-performing United States mainland assets were partially offset by a \$7.1 million construction loan (net of a charge-off and total loss of \$1.1 million) that was paid-off during the quarter.

Non-performing assets in Puerto Rico increased to \$617.0 million as of March 31, 2009 from \$512.6 million as of December 31, 2008. There were three construction loans in Puerto Rico that accounted for \$41.1 million of the increase in non-performing assets and are primarily residential real estate construction loans adversely impacted by the slow real estate market that affected the loan's source of repayment. The weakening economic conditions in Puerto Rico have also affected the volume of non-performing residential mortgage and commercial loans, which increased by \$24.5 million and \$32.5 million, respectively, since December 31, 2008. The volume of repossessed real estate properties in Puerto Rico also increased from \$22.0 million as of December 31, 2008 to \$33.1 million as of March 31, 2009. The Corporation continues to provide homeownership preservation assistance to its customers through a loss mitigation program in Puerto Rico. Due to the nature of the borrower's financial condition, the restructure or loan modification through this program as well as other individual modified commercial, commercial mortgage loans and residential mortgages in the U.S. mainland fits the definition of Troubled Debt Restructuring (TDR) as defined by the SFAS 15 Accounting by Debtors and Creditors of Troubled Debt Restructurings. Such restructures are identified as TDRs and accounted for based on the provisions SFAS 114, Accounting by Creditors for Impairment of a Loan. Total TDR loans as of March 31, 2009 amounted to \$89.4 million (\$50.0 million, \$15.0 million and \$24.4 million of residential mortgage, commercial and commercial mortgage loans, respectively). From the \$89.4 million total TDR loans, approximately \$55.7 million are in accruing status and \$33.7 million are classified as non-accrual as of March 31, 2009.

In view of current conditions in the United States mainland housing market and weakening economic conditions in Puerto Rico, the Corporation may experience further deterioration in its portfolio, in particular the commercial, construction and residential loan portfolio.

In contrast to the above, non-performing consumer assets (including finance leases) decreased by \$7.8 million compared to December 31, 2008 balances. This portfolio continues to show signs of stability and benefited from changes in underwriting standards implemented in late 2005. The consumer loan portfolio with an average life of approximately four years has been replenished by new originations under revised standards.

Past due loans 90-days and still accruing significantly decreased during the first quarter of 2009. Most of these loans consisted of matured construction loans according to contractual terms, but current with respect to interest payments, and decreased from \$471.4 million as of December 31, 2008 to \$208.3 million as of March 31, 2009, a 56% decrease. The \$208.3 million outstanding as of March 31, 2008 includes the \$65.8 million impaired loan extended for the acquisition and development of land and commercial properties (former hotel building) in Miami Beach, Florida, discussed above.

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The Corporation has successfully renewed most of these loans and is committed to complete the renewal process for the remaining portion in the upcoming months.

Operational Risk

The Corporation faces ongoing and emerging risk and regulatory pressure related to the activities that surround the delivery of banking and financial products. Coupled with external influences such as market conditions, security risks, and legal risk, the potential for operational and reputational loss has increased. In order to mitigate and control operational risk, the Corporation has developed, and continues to enhance, specific internal controls, policies and procedures that are designated to identify and manage operational risk at appropriate levels throughout the organization. The purpose of these mechanisms is to provide reasonable assurance that the Corporation's business operations are functioning within the policies and limits established by management.

The Corporation classifies operational risk into two major categories: business specific and corporate-wide affecting all business lines. For business specific risks, a risk assessment group works with the various business units to ensure consistency in policies, processes and assessments. With respect to corporate-wide risks, such as information security, business recovery, legal and compliance, the Corporation has specialized groups, such as the Legal Department, Information Security, Corporate Compliance, Information Technology and Operations. These groups assist the lines of business in the development and implementation of risk management practices specific to the needs of the business groups.

Legal and Compliance Risk

Legal and compliance risk includes the risk of non-compliance with applicable legal and regulatory requirements, the risk of adverse legal judgments against the Corporation, and the risk that a counterparty's performance obligations will be unenforceable. The Corporation is subject to extensive regulation in the different jurisdictions in which it conducts its business, and this regulatory scrutiny has been significantly increasing over the last several years. The Corporation has established and continues to enhance procedures based on legal and regulatory requirements that are reasonably designed to ensure compliance with all applicable statutory and regulatory requirements. The Corporation has a Compliance Director who reports to the Chief Risk Officer and is responsible for the oversight of regulatory compliance and implementation of an enterprise-wide compliance risk assessment process. The Compliance division has officer roles in each major business areas with direct reporting relationships to the Corporate Compliance Group.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding market risk to which the Corporation is exposed, see the information contained under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Control and Procedures

First BanCorp's management, including its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of First BanCorp's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of March 31, 2009. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

Internal Control over Financial Reporting

There have been no changes to the Corporation's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the opinion of the Company's management, the pending and threatened legal proceedings of which management is aware will not have a material adverse effect on the financial condition of the Corporation.

ITEM 1A. RISK FACTORS

For a detailed discussion of certain risk factors that could affect First BanCorp's operations, financial condition or results for future periods see the risk factors below and Item 1A, Risk Factors, in First BanCorp's 2008 Annual Report on Form 10-K.

Regulatory considerations and restriction of dividends

As a result of the ongoing financial crisis and challenging market conditions, we expect to face increased regulation and regulatory scrutiny of the financial services industry, including as a result of our participation in the TARP Capital Purchase Program. In January 2009, we issued preferred stock and warrants to purchase our common stock to the U.S. Treasury under the TARP Capital Purchase Program. Pursuant to the terms of this issuance, we are prohibited from increasing the current dividend rate on our common stock (currently \$0.07 per share) without approval. Furthermore, as long as the preferred stock issued to the U.S. Treasury is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including our common stock, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions.

The United States Congress (Congress) has held hearings on the implementation of TARP. On January 21, 2009, the U.S. House of Representatives approved legislation amending the TARP provisions of Emergency Economic Stabilization Act (EESA) to include quarterly reporting requirements with respect to lending activities, examinations by an institution's primary federal regulator of the use of funds and compliance with program requirements, restrictions on acquisitions by depository institutions receiving TARP funds, and authorization for U.S. Treasury to have an observer at board meetings of recipient institutions, among other things. In addition, on April 1, 2009, the U.S. House of Representatives approved legislation amending the TARP provisions of the EESA that would impose additional limitations on the compensation arrangements of TARP recipients while the TARP capital investment remains outstanding. If enacted, such limitations would prohibit compensation payments (other than longevity bonuses or restricted stock payments) to any executive or employee that are unreasonable or excessive as defined by the Secretary of the Treasury or that include any bonus or other supplemental payment that is not directly determined by performance based measures. Although it is unclear whether such legislation will be enacted into law, its provisions, or similar ones, may be imposed administratively by the U.S. Treasury. In addition, Congress may adopt other legislation impacting financial institutions that obtain funding under the TARP or changing lending practices that legislators believe led to the current economic situation. The new legal requirements and the adoption of any additional requirements could restrict or require

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changes to our lending, executive compensation or governance practices, increase governmental oversight of our businesses and adversely affect our ability to retain senior officers.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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The Annual Stockholders Meeting of the Corporation was held on April 28, 2009. A quorum was obtained with 87,356,441 votes represented in person or by proxy, which represented approximately 94% of all votes eligible to be cast at the meeting. Eleven directors of the Corporation were elected for a term of one year to expire at the 2010 annual meeting of stockholders. The appointment of PricewaterhouseCoopers LLP as the Corporation's independent registered public accounting firm for 2009 was also approved as well as a non-binding resolution to approve the compensation of First BanCorp's named executive officers. The results of the voting for each of the proposals are set forth below:

Election of Directors**NOMINEES FOR A ONE-YEAR TERM EXPIRING IN 2010**

	VOTES FOR	VOTES AGAINST	VOTES WITHHELD
Luis M. Beauchamp	73,047,714	14,250,735	57,992
Aurelio Alemán	86,486,771	742,186	127,483
José Menéndez Cortada	85,499,904	1,122,298	734,238
Jose Teixidor	77,340,647	2,564,382	7,451,411
Jorge L. Díaz	75,088,691	12,119,920	147,830
José L. Ferrer Canals	70,085,558	14,322,092	2,948,790
Sharee Ann Umpierre Catinchi	75,494,169	2,648,252	9,214,019
Fernando Rodriguez Amaro	72,126,531	8,083,563	7,146,346
Hector M. Nevares	84,068,062	3,157,781	130,598
Frank Kolodziej	85,584,555	1,558,116	213,770
Jose F. Rodriguez	79,392,514	1,718,670	6,245,257

Ratification of the Appointment of PricewaterhouseCoopers LLP as the Corporation's Independent Registered Public Accounting Firm for 2009

For:	68,377,603
Against:	18,856,726
Abstain:	122,112

Non-binding resolution to approve the compensation of First BanCorp's named executive officers

For:	58,541,768
Against:	27,100,615
Abstain:	1,714,058

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

- | | | |
|------|---|-------------------|
| 10.1 | Amendment to Employment Agreement | Luis M. Beauchamp |
| 10.2 | Amendment to Employment Agreement | Aurelio Alemán |
| 10.3 | Amendment to Employment Agreement | Randolfo Rivera |
| 10.4 | Amendment to Employment Agreement | Lawrence Odell |
| 10.5 | Amendment to Employment Agreement | Fernando Scherrer |
| 12.1 | Ratio of Earnings to Fixed Charges and Preference Dividends | |
| 31.1 | CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | |
| 31.2 | CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | |
| 32.1 | CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | |

32.2 CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Corporation has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized:

First BanCorp.
Registrant

Date: May 11, 2009

By: /s/ Luis M. Beauchamp
Luis M. Beauchamp
Chairman, President and
Chief Executive Officer

Date: May 11, 2009

By: /s/ Fernando Scherrer
Fernando Scherrer
Executive Vice President and
Chief Financial Officer

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