

Form

Unknown document format

GN="bottom"> 173

Decreases related to positions taken during prior years

(317)

Expiration of statute of limitations

(10,733)

Audit settlement

(4,723)

Balance at end of year

\$2,374 \$ \$

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

Note 27 Lease Commitments

As of December 31, 2010, certain premises are leased with terms expiring through the year 2036. The Corporation has the option to renew or extend certain leases beyond the original term. Some of these leases require the payment of insurance, increases in property taxes and other incidental costs. As of December 31, 2011, the obligation under various leases follows:

	Amount (In thousands)
2012	\$ 8,527
2013	6,764
2014	5,803
2015	4,940
2016	4,487
2017 and later years	19,357
Total	\$ 49,878

Rental expense included in occupancy and equipment expense was \$10.0 million in 2011 (2010 \$10.8 million; 2009 \$11.8 million).

Note 28 Fair Value

Fair Value Option

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

Table of Contents

FIRST BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Medium-Term Notes

The Corporation elected the fair value option for certain medium term notes that were hedged with interest rate swaps that were previously designated for fair value hedge accounting. As of December 31, 2011 and 2010, these medium-term notes with a principal balance of \$15.4 million, had a fair value of \$16.0 million and \$11.8 million, respectively, recorded in notes payable. Interest paid/accrued on these instruments is recorded as part of interest expense and the accrued interest is part of the fair value of the notes. Electing the fair value option allows the Corporation to eliminate the burden of complying with the requirements for hedge accounting (e.g., documentation and effectiveness assessment) without introducing earnings volatility.

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

Callable brokered CDs

In the past, the Corporation also measured at fair value callable brokered CDs. All of the brokered CDs measured at fair value were called during 2009.

Fair Value Measurement

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

- Level 1** Valuations of Level 1 assets and liabilities are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 1 assets and liabilities include equity securities that are traded in an active exchange market, as well as certain U.S. Treasury and other U.S. government and agency securities and corporate debt securities that are traded by dealers or brokers in active markets.
- Level 2** Valuations of Level 2 assets and liabilities are based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include (i) mortgage-backed securities for which the fair value is estimated based on the value of identical or comparable assets, (ii) debt securities with quoted prices that are traded less frequently than exchange-traded instruments and (iii) derivative contracts and financial liabilities (e.g., medium-term notes elected to be measured at fair value) whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
- Level 3** Valuations of Level 3 assets and liabilities are based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models for which the determination of fair value requires significant management judgment or estimation.

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

Estimated Fair Value of Financial Instruments

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

Edgar Filing: - Form

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

F-70

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	Total Carrying Amount in Statement of Financial Condition December 31, 2011	Fair Value Estimated December 31, 2011	Total Carrying Amount in Statement of Financial Condition December 31, 2010	Fair Value Estimated December 31, 2010
(In thousands)				
Assets:				
Cash and due from banks and money market investments	\$ 446,566	\$ 446,566	\$ 370,283	\$ 370,283
Investment securities available for sale	1,923,268	1,923,268	2,744,453	2,744,453
Investment securities held to maturity			453,387	476,516
Other equity securities	37,951	37,951	55,932	55,932
Loans held for sale	15,822	16,038	300,766	300,766
Loans, held for investment	10,559,392		11,655,436	
Less: allowance for loan and lease losses	(493,917)		(553,025)	
Loans held for investment, net of allowance	10,065,475	9,618,267	11,102,411	10,581,221
Derivatives, included in assets	1,277	1,277	1,905	1,905
Liabilities:				
Deposits	9,907,754	9,974,119	12,059,110	12,207,613
Securities sold under agreements to repurchase	1,000,000	1,102,263	1,400,000	1,513,338
Advances from FHLB	367,440	379,730	653,440	677,866
Notes Payable	23,342	22,476	26,449	24,909
Other borrowings	231,959	160,603	231,959	71,488
Derivatives, included in liabilities	7,834	7,834	6,701	6,701

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 December 31, 2011 Fair Value Measurements Using				As of December 31, 2010 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 :								
Equity securities	\$ 41	\$	\$	\$ 41	\$ 59	\$	\$	\$ 59
U.S. Treasury Securities	476,992			476,992	608,714			608,714
Non-callable U.S. agency debt	301,585			301,585	304,257			304,257

Edgar Filing: - Form

Callable U.S. agency debt and MBS	859,818	859,818	1,622,265	1,622,265
Puerto Rico Government				
Obligations	219,369	3,244	222,613	134,165
Private label MBS		61,206	61,206	2,676
Corporate bonds		1,013	1,013	72,317
Derivatives, included in assets:				
Interest rate swap agreements	378	378	351	351
Purchased interest rate cap agreements			1	1
Purchased options used to manage exposure to the stock market on embedded stock indexed options	899	899	1,553	1,553
Liabilities:				
Medium-term notes	15,968	15,968	11,842	11,842
Derivatives, included in liabilities:				
Interest rate swap agreements	6,767	6,767	5,192	5,192
Written interest rate cap agreements			1	1
Embedded written options on stock index deposits and notes payable	899	899	1,508	1,508
Forward Contracts	168	168		

F-71

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Changes in Fair Value for the Year Ended December 31, 2011, for items Measured at Fair Value Pursuant to Election of the Fair Value Option Unrealized (Losses) and Interest Expense included in Current-Period Earnings (1)
(In thousands)	
Medium-term notes	(\$ 5,050)

- (1) Changes in fair value for the year ended December 31, 2011 include interest expense on medium-term notes of \$0.9 million. Interest expense on medium-term notes that have been elected to be carried at fair value are recorded in interest expense in the Consolidated Statement of Loss based on their contractual coupons.

	Changes in Fair Value for the Year Ended December 31, 2010, for items Measured at Fair Value Pursuant to Election of the Fair Value Option Unrealized Gains and Interest Expense included in Current-Period Earnings (1)
(In thousands)	
Medium-term notes	\$ 670

(1)

Edgar Filing: - Form

Changes in fair value for the year ended December 31, 2010 include interest expense on medium-term notes of \$0.8 million. Interest expense on medium-term notes that have been elected to be carried at fair value are recorded in interest expense in the Consolidated Statement of Loss based on their contractual coupons.

Changes in Fair Value for the Year Ended December 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 Losses and Interest Expense included in Interest Expense on Notes Payable⁽¹⁾	Total Changes in Fair Value Unrealized Losses and Interest Expense included in Current-Period Earnings⁽¹⁾
Callable brokered CDs	\$ (2,068)	\$	\$ (2,068)
Medium-term notes		(4,069)	(4,069)
	\$ (2,068)	\$ (4,069)	\$ (6,137)

- (1) Changes in fair value for the year ended December 31, 2009 include interest expense on callable brokered CDs of \$10.8 million and interest expense on medium-term notes of \$0.8 million. Interest expense on callable brokered CDs and medium-term notes that have been elected to be carried at fair value are recorded in interest expense in the Consolidated Statements of Income based on such instruments contractual coupons.

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 years ended December 31, 2011, 2010 and 2009. No level 3 assets were sold in 2011, 2010 or 2009.

	Total Fair Value Measurements (Year Ended December 31, 2011)		Total Fair Value Measurements (Year Ended December 31, 2010)		Total Fair Value Measurements (Year Ended December 31, 2009)	
Level 3 Instruments Only	Securities Available For Sale⁽²⁾		Securities Available For Sale⁽²⁾		Securities Available For Sale⁽²⁾	
<i>(In thousands)</i>	Derivatives⁽¹⁾		Derivatives⁽¹⁾		Derivatives⁽¹⁾	
Beginning balance	\$	74,993	\$	4,199	\$	84,354
Total gains or (losses) (realized/unrealized):						
Included in earnings		(1,971)		(1,152)		(582)
Included in other comprehensive income		3,946				3,439
New instruments acquired						(1,270)
Held-to-Maturity investment securities reclassified to Available-for-Sale		2,000				5,613
Principal repayments and amortization		(13,505)		(16,976)		(2,610)
Other ⁽¹⁾				(3,047)		
Ending balance	\$	65,463	\$	74,993	\$	84,354

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

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

The table below summarizes changes in unrealized gains and losses recorded in earnings for the years ended December 31, 2011, 2010 and 2009 for Level 3 assets and liabilities that are still held at the end of each year.

	Changes in Unrealized Losses (Year Ended December 31, 2011)		Changes in Unrealized Losses (Year Ended December 31, 2010)		Changes in Unrealized Gains (Losses) (Year Ended December 31, 2009)	
Level 3 Instruments Only	Securities Available For Sale		Securities Available For Sale		Securities Available For Sale	
<i>(In thousands)</i>	Derivatives		Derivatives		Derivatives	
Changes in unrealized losses relating to assets still held at reporting date⁽¹⁾ :						
Interest income on loans	\$		\$		\$	45
Interest income on investment securities						3,394
		(1,971)		(582)		(1,270)

Edgar Filing: - Form

Net impairment losses on investment securities (credit component)

	\$	(1,971)	\$	(582)	\$ 3,439	\$ (1,270)
--	----	---------	----	-------	----------	------------

- (1) Unrealized gain of \$3.9 million was recognized on Level 3 available-for-sale securities as part of other comprehensive income for the year ended December 31, 2011, while unrealized losses of \$5.6 million and \$2.6 million were recognized for the years ended December 31, 2010 and 2009, 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).

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

Edgar Filing: - Form

	Carrying value as of December 31, 2011			Losses recorded for the Year Ended December 31, 2011
	Level 1	Level 2	Level 3 (In thousands)	
Loans receivable (1)	\$	\$	\$ 703,855	\$ 200,263
Other Real Estate Owned (2)			114,292	10,855

- (1) Mainly impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral. The fair values are derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g. absorption rates), which are not market observable.
- (2) The fair value is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g. absorption rates), which are not market observable. Losses are related to market valuation adjustments after the transfer from the loan to the Other real estate owned (OREO) portfolio.

F-73

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	Carrying value as of December 31, 2010			Losses recorded for the Year Ended December 31, 2010
	Level 1	Level 2	Level 3 (In thousands)	
Loans receivable (1)	\$	\$	\$ 1,261,612	\$ 273,243
Other Real Estate Owned (2)			114,292	15,661
Loans held for sale (3)		19,148	281,618	103,536

- (1) Mainly impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral. The fair values are derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g. absorption rates), which are not market observable.
- (2) The fair value is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g. absorption rates), which are not market observable. Losses are related to market valuation adjustments after the transfer from the loan to the OREO portfolio.
- (3) Fair value is primarily derived from quotations based on the mortgage-backed securities market for level 2 assets. Level 3 loans held for sale are associated with the \$447 million loans transferred to held for sale during the fourth quarter of 2010 recorded at a value of \$281.6 million, or the sales price established for these loans by agreement entered into in February 2011. The Corporation completed the sale of substantially all of these loans on February 16, 2011.

As of December 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 December 31, 2009			Losses recorded for the Year Ended December 31, 2009
	Level 1	Level 2	Level 3 (In thousands)	
Loans receivable (1)	\$	\$	\$ 1,103,069	\$ 144,024
Other Real Estate Owned (2)			69,304	8,419
Core deposit intangible (3)			6,683	3,988
Loans held for sale (4)		20,775		58

- (1) Mainly impaired commercial and construction loans. The impairment was generally measured based on the fair value of the collateral. The fair values are derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the collateral (e.g. absorption rates), which are not market observable.
- (2) The fair value is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations but adjusted for specific characteristics and assumptions of the properties (e.g. absorption rates), which are not market observable. Losses are related to market valuation adjustments after the transfer from the loan to the Other Real Estate Owned (OREO) portfolio.
- (3)

Edgar Filing: - Form

Amount represents core deposit intangible of First Bank Florida. The impairment was generally measured based on internal information about decreases in the base of core deposits acquired upon the acquisition of First Bank Florida.

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

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

Cash and due from banks and money market investments

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

F-74

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Investment securities available for sale and held to maturity*

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

Private label MBS are collateralized by fixed-rate mortgages on single-family residential properties in the United States; the interest rate on the securities is variable, tied to 3-month LIBOR and limited to the weighted-average coupon of the underlying collateral. The market valuation represents the estimated net cash flows over the projected life of the pool of underlying assets applying a discount rate that reflects market observed floating spreads over LIBOR, with a widening spread bias on a nonrated security. The market valuation is derived from a model that utilizes relevant assumptions such as prepayment rate, default rate, and loss severity on a loan level basis. The Corporation modeled the cash flow from the fixed-rate mortgage collateral using a static cash flow analysis according to collateral attributes of the underlying mortgage pool (i.e. loan term, current balance, note rate, rate adjustment type, rate adjustment frequency, rate caps, others) in combination with prepayment forecasts obtained from a commercially available prepayment model (ADCO). The variable cash flow of the security is modeled using the 3-month LIBOR forward curve. Loss assumptions were driven by the combination of default and loss severity estimates, taking into account loan credit characteristics (loan-to-value, state, origination date, property type, occupancy loan purpose, documentation type, debt-to-income ratio, other) to provide an estimate of default and loss severity. Refer to Note 1 and Note 4 for additional information about assumptions used in the valuation of private label MBS.

Other equity securities

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

Loans receivable, including loans held for sale

The fair value of loans held for investment and for mortgage loans held for sale was estimated using discounted cash flow analyses, based on interest rates currently being offered for loans with similar terms and credit quality and with adjustments that the Corporation's management believes a market participant would consider in determining fair value. Loans were classified by type such as commercial, residential mortgage, and automobile. These asset categories were further segmented into fixed- and adjustable-rate categories. The fair values of performing fixed-rate and adjustable-rate loans were calculated by discounting expected cash flows through the estimated maturity date. Loans with no stated maturity, like credit lines, were valued at book value. Prepayment assumptions were considered for non-residential loans. For residential mortgage loans, prepayment estimates were based on recent historical prepayment experience of the Corporation's residential mortgage portfolio. Discount rates were based on the Treasury and LIBOR/Swap Yield Curves at the date of the analysis, and included appropriate adjustments for expected credit losses and liquidity. For impaired collateral dependent loans, the impairment was primarily measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observable transactions involving similar assets in similar locations. For construction, commercial mortgage and commercial loans transferred to held for sale during the fourth quarter of 2010, the fair value equals the established sales price of these loans. The Corporation completed the sale of substantially all of these loans on February 16, 2011.

Deposits

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

Edgar Filing: - Form

F-75

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

The fair value of brokered CDs, which are included within deposits, is determined using discounted cash flow analyses over the full term of the CDs. The fair value of the CDs is computed using the outstanding principal amount. The discount rates used are based on brokered CD market rates as of December 31, 2011. The fair value does not incorporate the risk of nonperformance, since interests in brokered CDs are generally sold by brokers in amounts of less than \$250,000 and, therefore, insured by the FDIC.

Securities sold under agreements to repurchase

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

Advances from FHLB

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

Derivative instruments

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

Certain derivatives with limited market activity, as is the case with derivative instruments named as reference caps, were valued using models that consider unobservable market parameters (Level 3). Reference caps were used mainly to hedge interest rate risk inherent in private label MBS, thus were tied to the notional amount of the underlying fixed-rate mortgage loans originated in the United States. The counterparty to these derivative instruments failed on April 30, 2010. The Corporation currently has a claim with the FDIC and the exposure to fair value of \$3.0 million was recorded as an accounts receivable. The Corporation no longer accounts for these reference caps as derivative instruments. In the past, significant inputs used for the fair value determination consisted of specific characteristics such as information used in the prepayment model which follow 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 a 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 each 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 \$0.8 million as of December 31, 2011.

Edgar Filing: - Form

F-76

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Term notes payable*

The fair value of term notes is determined using a discounted cash flow analysis over the full term of the borrowings. The model assumes that the embedded options are exercised economically. The fair value of medium-term notes is determined using a discounted cash flow analysis over the full term of the borrowings computed using the notional amount outstanding. The discount rates used in the valuations consider 3-month LIBOR forward curves and the credit spread at every cash flow. The net gain from fair value changes attributable to the Corporation's own credit to the medium-term notes for which the Corporation has elected the fair value option amounted to \$0.8 million for 2011, compared to an unrealized gain of \$1.1 million for 2010 and an unrealized loss of \$3.1 million for 2009. The cumulative mark-to-market unrealized gain on the medium-term notes, since measured at fair value, attributable to credit risk amounted to \$2.9 million as of December 31, 2011.

Other borrowings

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

Note 29 Supplemental Cash Flow Information

Supplemental cash flow information follows:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Cash paid for:			
Interest on borrowings	\$ 255,363	\$ 358,294	\$ 494,628
Income tax	2,852	1,248	7,391
Non-cash investing and financing activities:			
Additions to other real estate owned	155,621	113,997	98,554
Additions to auto and other repossessed assets	65,049	77,754	80,568
Capitalization of servicing assets	5,150	6,607	6,072
Loan securitizations	214,399	217,257	305,378
Non-cash acquisition of mortgage loans that previously served as collateral of a commercial loan to a local financial institution			205,395
Loans held for investment transferred to held for sale		281,618	
Change in par value of common stock		5,552	
Preferred Stock exchanged for new common stock issued:			
Preferred stock exchanged (Series A through E)		476,192	
New common stock issued		90,806	
Series F preferred stock exchanged for Series G preferred stock:			
Preferred stock exchanged (Series F)		378,408	
New Series G preferred stock issued		347,386	
Fair value adjustment on amended common stock warrant		1,179	
Preferred Stock exchanged for new common stock issued:			
Preferred stock exchanged (Series G)	361,962		
New common stock issued	89,602		
Loans sold to CPG/GS in exchange for an acquisition loan and an equity interest in CPG/GS	183,709		
Reclassification of Held-to-Maturity investment securities to Available-for-Sale	88,751		

Table of Contents

FIRST BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 30 Regulatory Matters, Commitments and Contingencies

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

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

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

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

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

In addition to the Capital Plan, the Corporation has submitted to its regulators a liquidity and brokered CD plan, including a contingency funding plan, a non-performing asset reduction plan, a budget and profit plan, a strategic plan and a plan for the reduction of classified and special mention assets. Further, the Corporation has reviewed and enhanced the Corporation's loan review program, various credit policies, the Corporation's treasury and investment policy, the Corporation's asset classification and allowance for loan and lease losses and non-accrual policies, the Corporation's charge-off policy and the Corporation's appraisal program. The Agreements also require the submission to the regulators of quarterly progress reports.

Edgar Filing: - Form

The FDIC Order imposes no other restrictions on FirstBank's products or services offered to customers, nor does it or the Written Agreement impose any type of penalties or fines upon FirstBank or the Corporation. Concurrent with the FDIC Order, the FDIC has granted FirstBank temporary waivers to enable it to continue accessing the brokered CD market through March 31, 2012. FirstBank will request approvals for future periods.

F-78

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Corporation's and its banking subsidiary's regulatory capital positions as of December 31, 2011 and 2010 were as follows:

Regulatory Requirements								
Actual		For Capital Adequacy Purposes		To be Well-Capitalized-Regular		Consent Order		
Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	
(Dollars in thousands)								
At December 31, 2011								
Total Capital (to Risk-Weighted Assets)								
First BanCorp	\$ 1,742,357	17.12%	\$ 814,418	8%	N/A	N/A	N/A	N/A
FirstBank	\$ 1,688,496	16.58%	\$ 814,789	8%	\$ 1,018,486	10%	\$ 1,222,184	12%
Tier I Capital (to Risk-Weighted Assets)								
First BanCorp	\$ 1,607,191	15.79%	\$ 407,209	4%	N/A	N/A	N/A	N/A
FirstBank	\$ 1,553,374	15.25%	\$ 407,395	4%	\$ 611,092	6%	\$ 1,018,486	10%
Leverage ratio								
First BanCorp	\$ 1,607,191	11.91%	\$ 539,942	4%	N/A	N/A	N/A	N/A
FirstBank	\$ 1,553,374	11.52%	\$ 539,500	4%	\$ 674,375	5%	\$ 1,078,999	8%
At December 31, 2010								
Total Capital (to Risk-Weighted Assets)								
First BanCorp	\$ 1,366,951	12.02%	\$ 909,828	8%	N/A	N/A	N/A	N/A
FirstBank	\$ 1,315,580	11.57%	\$ 909,575	8%	\$ 1,136,969	10%	\$ 1,364,363	12%
Tier I Capital (to Risk-Weighted Assets)								
First BanCorp	\$ 1,219,854	10.73%	\$ 454,914	4%	N/A	N/A	N/A	N/A
FirstBank	\$ 1,168,523	10.28%	\$ 454,788	4%	\$ 682,181	6%	\$ 1,136,969	10%
Leverage ratio								
First BanCorp	\$ 1,219,854	7.57%	\$ 644,805	4%	N/A	N/A	N/A	N/A
FirstBank	\$ 1,168,523	7.25%	\$ 644,283	4%	\$ 805,354	5%	\$ 1,288,567	8%

The following table presents a detail of commitments to extend credit, standby letters of credit and commitments to sell loans:

	December 31,	
	2011	2010
	(In thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
To originate loans	\$ 129,271	\$ 189,437
Unused personal lines of credit	31,134	32,230
Commercial lines of credit	409,297	390,171
Commercial letters of credit	52,340	71,641
Standby letters of credit	25,448	84,338
Commitments to sell loans	20,226	92,147

Edgar Filing: - Form

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. Management uses the same credit policies and approval process in entering into commitments and conditional obligations as it does for on-balance sheet instruments.

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. 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. In the case of credit cards and personal lines of credit, the Corporation can cancel the unused credit facility, at any time and without cause. Generally, the Corporation's mortgage banking activities do not enter into interest rate lock agreements with its prospective borrowers. The amount of any collateral obtained if deemed necessary by the Corporation upon an extension of credit is based on management's credit evaluation of the borrower. Rates charged on loans that are finally disbursed are the rates being offered at the time the loans are closed; therefore, no fee is charged on these commitments.

F-79

Table of Contents

FIRST BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In general, commercial and standby letters of credit are issued to facilitate foreign and domestic trade transactions. Normally, commercial and standby letters of credit are short-term commitments used to finance commercial contracts for the shipment of goods. The collateral for these letters of credit includes cash or available commercial lines of credit. The fair value of commercial and standby letters of credit is based on the fees currently charged for such agreements, which, as of December 31, 2011 and 2010, was not significant.

The Corporation obtained from GNMA, Commitment Authority to issue GNMA mortgage-backed securities. Under this program, for 2011, the Corporation securitized approximately \$214.4 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 constituted an event of default under those interest rate swap agreements. The Corporation terminated all interest rate swaps with Lehman and replaced them with other counterparties under similar terms and conditions. In connection with the unpaid net cash settlement due as of December 31, 2011 under the swap agreements, the Corporation has an unsecured counterparty exposure with Lehman, which filed for bankruptcy on October 3, 2008, of approximately \$1.4 million. This exposure was reserved in the third quarter of 2008. The Corporation had pledged collateral of \$63.6 million with Lehman to guarantee its performance under the swap agreements in the event payment thereunder was required. As of December 31, 2011, the Corporation maintained a non-performing account receivable of \$64.5 million related to the collateral pledged with Lehman.

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

During February 2010, Barclays filed a motion with the court requesting that the Corporation's claim be dismissed on the grounds that the allegations of the complaint are not sufficient to justify the granting of the remedies therein sought. Shortly thereafter, the Corporation filed its opposition motion. A hearing on the motions was held in court on April 28, 2010. The court, on that date, after hearing the arguments by both sides, concluded that the Corporation's equitable-based causes of action, upon which the return of the investment securities is being demanded, contain allegations that sufficiently plead facts warranting the denial of Barclays' motion to dismiss the Corporation's claim. Accordingly, the judge ordered the case to proceed to trial. Subsequent to the court decision, the district court judge transferred the case to the Lehman bankruptcy court for trial. Upon such transfer, the bankruptcy court began to entertain the pre-trial procedures including discovery of evidence. In this regard, an initial scheduling conference was held before the United States Bankruptcy Court for the Southern District of New York on November 17, 2010, at which time a proposed case management plan was approved. Discovery has commenced pursuant to that case management plan and is currently scheduled for completion by March 31, 2012, but this timing is subject to adjustment. While the Corporation believes it has valid reasons to support its claim for the return of the securities, the Corporation may not succeed in its litigation against Barclays to recover all or a substantial portion of the securities.

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

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

Edgar Filing: - Form

F-80

Table of Contents

FIRST BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 31 Derivative Instruments and Hedging Activities

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

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

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

Interest rate cap agreements - Interest rate cap agreements provide the right to receive cash if a reference interest rate rises above a contractual rate. The value increases as the reference interest rate rises. The Corporation enters into interest rate cap agreements for protection from rising interest rates. Specifically, the interest rate on certain of the Corporation's commercial loans to other financial institutions is generally a variable rate limited to the weighted-average coupon of the referenced residential mortgage collateral, less a contractual servicing fee. During the second quarter of 2010, the counterparty for interest rate caps for certain private label MBS was taken over by the FDIC, which resulted in the immediate cancellation of all outstanding commitments, and as a result, interest rate caps with a notional amount of \$90.4 million are no longer considered to be derivative financial instruments. The total exposure to fair value of \$3.0 million related to such contracts was reclassified to an account receivable.

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

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

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

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

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

Edgar Filing: - Form

F-81

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	Notional Amounts	
	As of December 31, 2011	As of December 31, 2010
	(In thousands)	
Economic undesignated hedges:		
Interest rate contracts:		
Interest rate swap agreements used to hedge loans	\$ 39,786	\$ 41,248
Written interest rate cap agreements	67,894	71,602
Purchased interest rate cap agreements	67,894	71,602
Equity contracts:		
Embedded written options on stock index deposits and notes payable	46,515	53,515
Purchased options used to manage exposure to the stock market on embedded stock index options	46,515	53,515
Forward Contracts		
Sale of TBA GNMA MBS pools	19,000	
	\$ 287,604	\$ 291,482

The following table summarizes the fair value of derivative instruments and the location in the statement of financial condition as of December 31, 2011 and 2010:

Asset Derivatives				Liability Derivatives			
Statement of Financial Condition Fair Location		As of		Statement of Financial Condition Fair Location		As of	
		December 31, 2011	2010			December 31, 2011	2010
		Fair Value	Fair Value			Fair Value	Fair Value
(In thousands)							
Economic undesignated hedges:							
Interest rate contracts:							
Interest rate swap agreements used to hedge loans	Other assets	\$ 378	\$ 351	Accounts payable and other liabilities		\$ 6,767	\$ 5,192
Written interest rate cap agreements	Other assets			Accounts payable and other liabilities			1
Purchased interest rate cap agreements	Other assets		1	Accounts payable and other liabilities			
Equity contracts:							
Embedded written options on stock index deposits	Other assets			Interest-bearing deposits			
Embedded written options on stock index notes payable	Other assets			Notes payable		899	1,508

Edgar Filing: - Form

Purchased options used to manage exposure to the stock market on embedded stock index options	Other assets	899	1,553	Accounts payable and other liabilities	
Forward Contracts:					
Sales of TBA GNMA MBS pools	Other assets			Accounts payable and other liabilities	168
		\$ 1,277	\$ 1,905		\$ 7,834 \$ 6,701

F-82

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the effect of derivative instruments on the statement of loss for the years ended December 31, 2011, 2010 and 2009:

	Location of Gain or (Loss) Recognized in Income on Derivatives	Gain or (Loss) Year Ended December 31,		
		2011 (In thousands)	2010	2009
ECONOMIC UNDESIGNATED HEDGES:				
Interest rate contracts:				
Interest rate swap agreements used to hedge fixed-rate:				
Brokered CDs	Interest expense - Deposits	\$	\$	\$ (5,236)
Notes payable	Interest expense - Notes payable and other borrowings			3
Loans	Interest income - Loans	(1,548)	(92)	2,023
Written and purchased interest rate cap agreements - mortgage-backed securities	Interest income - Investment securities		(1,136)	3,394
Written and purchased interest rate cap agreements - loans	Interest income - loans		(38)	102
Equity contracts:				
Embedded written and purchased options on stock index deposits	Interest expense - Deposits		(2)	(85)
Embedded written and purchased options on stock index notes payable	Interest expense - Notes payable and other borrowings	(45)	51	(202)
Forward contracts:				
Sales of TBA GNMA MBS pools	Mortgage banking activities	(168)		
Total (loss) gain on derivatives		\$ (1,761)	\$ (1,217)	\$ (1)

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

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

	As of December 31, 2011 (Dollars in thousands)	As of December 31, 2010
Pay fixed/receive floating:		
Notional amount	\$ 39,786	\$ 41,248
Weighted-average receive rate at period end	2.13%	2.14%
Weighted-average pay rate at period end	6.82%	6.83%
Floating rates range from 167 to 252 basis points over 3-month LIBOR		

Edgar Filing: - Form

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

Credit and Market Risk of Derivatives

The Corporation uses derivative instruments to manage interest rate risk. By using derivative instruments, the Corporation is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the extent of the Corporation's fair value gain in the derivative. When the fair value of a derivative instrument contract is positive, this generally indicates that the counterparty owes the Corporation and, therefore, creates a credit risk for the Corporation. When the fair value of a derivative instrument contract is negative, the Corporation owes the counterparty and, therefore, it has no credit risk. The Corporation minimizes the credit risk in derivative instruments by entering into transactions with reputable broker dealers (financial institutions) that are reviewed periodically by the Corporation's Management's Investment and Asset Liability Committee (MIALCO) and by the Board of Directors. The Corporation also maintains a policy of requiring that all derivative instrument contracts be governed by an International Swaps and Derivatives Association Master Agreement, which includes a provision for netting; most of the Corporation's agreements with derivative counterparties include bilateral collateral arrangements. The bilateral collateral arrangement permits the counterparties to perform margin calls in the form of cash or securities in the event that the fair market value of the derivative favors either

F-83

Table of Contents

FIRST BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

counterparty. The book value and aggregate market value of securities pledged as collateral for interest rate swaps as of December 31, 2011 was \$6.6 million and \$7.1 million, respectively (2010 \$40.6 million and \$42.4 million, respectively). The Corporation has a policy of diversifying derivatives counterparties to reduce the risk that any counterparty will default.

The Corporation has credit risk of \$1.3 million (2010 \$1.9 million) related to derivative instruments with positive fair values. The credit risk does not consider the value of any collateral and the effects of legally enforceable master netting agreements. There were no credit losses associated with derivative instruments recognized in 2011, 2010 or 2009. As of December 31, 2011, the Corporation had a total net interest settlement payable of \$0.2 million (2010 net interest settlement payable of \$0.1 million) related to the swap transactions. The net settlements receivable and net settlements payable on interest rate swaps are included as part of Other Assets and Accounts payable and other liabilities, respectively, on the Consolidated Statements of Financial Condition.

Market risk is the adverse effect that a change in interest rates or implied volatility rates has on the value of a financial instrument. The Corporation manages the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken.

The Corporation's derivative activities are monitored by the MIALCO as part of its risk-management oversight of the Corporation's treasury functions.

Note 32 Segment Information

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

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

The accounting policies of the segments are the same as those described in Note 1 Nature of Business and Summary of Significant Accounting Policies.

Edgar Filing: - Form

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

F-84

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

(In thousands)	Mortgage Banking	Consumer (Retail) Banking	Commercial and Corporate	Treasury and Investments	United States Operations	Virgin Islands Operations	Total
For the year ended December 31, 2011:							
Interest income	\$ 118,346	\$ 168,520	\$ 206,494	\$ 64,536	\$ 45,095	\$ 56,624	\$ 659,615
Net (charge) credit for transfer of funds	(61,466)	11,769	(16,002)	49,430	16,269		
Interest expense		(41,902)		(177,599)	(39,906)	(6,696)	(266,103)
Net interest income	56,880	138,387	190,492	(63,633)	21,458	49,928	393,512
Provision for loan and lease losses	(33,663)	(17,927)	(118,510)		(28,211)	(38,038)	(236,349)
Non-interest income	22,272	27,719	8,644	41,588	1,304	10,681	112,208
Direct non-interest expenses	(38,254)	(92,539)	(50,018)	(5,704)	(30,513)	(36,485)	(253,513)
Segment income (loss)	\$ 7,235	\$ 55,640	\$ 30,608	\$ (27,749)	\$ (35,962)	\$ (13,914)	\$ 15,858
Average earnings assets	\$ 2,154,543	\$ 1,448,520	\$ 5,163,940	\$ 3,123,323	\$ 851,608	\$ 889,906	\$ 13,631,840
For the year ended December 31, 2010:							
Interest income	\$ 155,058	\$ 186,227	\$ 233,335	\$ 138,695	\$ 51,784	\$ 67,587	\$ 832,686
Net (charge) credit for transfer of funds	(91,280)	7,255	(22,430)	97,436	9,019		
Interest expense		(52,306)		(266,638)	(45,630)	(6,437)	(371,011)
Net interest income	63,778	141,176	210,905	(30,507)	15,173	61,150	461,675
Provision for loan and lease losses	(76,882)	(51,668)	(359,440)		(119,489)	(27,108)	(634,587)
Non-interest income	13,159	28,887	9,044	55,237	896	10,680	117,903
Direct non-interest expenses	(38,963)	(94,677)	(62,991)	(5,876)	(42,361)	(41,571)	(286,439)
Segment (loss) income	\$ (38,908)	\$ 23,718	\$ (202,482)	\$ 18,854	\$ (145,781)	\$ 3,151	\$ (341,448)
Average earnings assets	\$ 2,646,054	\$ 1,601,581	\$ 5,973,226	\$ 4,846,430	\$ 1,076,876	\$ 975,915	\$ 17,120,082
For the year ended December 31, 2009:							
Interest income	\$ 156,729	\$ 199,580	\$ 249,921	\$ 251,949	\$ 67,936	\$ 70,459	\$ 996,574
Net (charge) credit for transfer of funds	(117,486)	(5,160)	(61,990)	184,636			
Interest expense		(60,661)		(342,161)	(65,360)	(9,350)	(477,532)

Edgar Filing: - Form

Net interest income	39,243	133,759	187,931	94,424	2,576	61,109	519,042
Provision for loan and lease losses	(29,717)	(46,198)	(290,081)		(188,651)	(25,211)	(579,858)
Non-interest income	8,497	31,992	5,706	84,369	1,460	10,240	142,264
Direct non-interest expenses	(32,314)	(95,337)	(44,874)	(7,416)	(37,704)	(45,364)	(263,009)
Segment (loss) income	\$ (14,291)	\$ 24,216	\$ (141,318)	\$ 171,377	\$ (222,319)	\$ 774	\$ (181,561)
Average earnings assets	\$ 2,654,504	\$ 1,771,196	\$ 6,313,356	\$ 5,831,078	\$ 1,449,878	\$ 996,508	\$ 19,016,520

F-85

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	2011	Year Ended December 31, 2010 (In thousands)	2009
Net loss:			
Total income (loss) for segments and other	\$ 15,858	\$ (341,448)	\$ (181,561)
Other non-interest income (loss) ⁽¹⁾	(4,227)		
Other operating expenses	(84,541)	(79,719)	(89,092)
Income before income taxes	(72,910)	(421,167)	(270,653)
Income tax (expense) benefit	(9,322)	(103,141)	(4,534)
Total consolidated net loss	\$ (82,232)	\$ (524,308)	\$ (275,187)
Average assets:			
Total average earning assets for segments	\$ 13,631,840	\$ 17,120,082	\$ 19,016,520
Other average earning assets ⁽¹⁾	39,747		
Average non-earning assets	684,129	750,960	790,702
Total consolidated average assets	\$ 14,355,716	\$ 17,871,042	\$ 19,807,222

(1) The activities related to the Bank's equity interest in CPG/GS are presented as an Other non-interest income (loss) and other average earning assets in the table above.

The following table presents revenues and selected balance sheet data by geography based on the location in which the transaction is originated:

	2011	2010 (In thousands)	2009
Revenues:			
Puerto Rico	\$ 637,623	\$ 810,623	\$ 988,743
United States	62,668	61,699	69,396
Virgin Islands	67,305	78,267	80,699
Total consolidated revenues	\$ 767,596	\$ 950,589	\$ 1,138,838
Selected Balance Sheet Information:			
Total assets:			
Puerto Rico	\$ 11,069,279	\$ 13,495,003	\$ 16,843,767
United States	1,129,846	1,133,971	1,716,694

Edgar Filing: - Form

Virgin Islands	928,150	964,103	1,067,987
Loans:			
Puerto Rico	\$ 8,844,885	\$ 10,070,078	\$ 11,614,866
United States	821,652	938,147	1,275,869
Virgin Islands	908,677	947,977	1,058,491
Deposits:			
Puerto Rico ⁽¹⁾	\$ 7,015,700	\$ 9,326,613	\$ 10,497,646
United States	1,964,447	1,834,788	1,252,977
Virgin Islands	927,607	897,709	918,424

- (1) For 2011, 2010, and 2009, includes \$3.7 billion, \$6.1 billion and \$7.2 billion, respectively of brokered CDs allocated to the Puerto Rico operations.

F-86

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 33 First BanCorp (Holding Company Only) Financial Information**

The following condensed financial information presents the financial position of the Holding Company only as of December 31, 2011 and 2010, and the results of its operations and cash flows for the years ended on December 31, 2011, 2010 and 2009.

Statements of Financial Condition

	As of December 31,	
	2011	2010
	(In thousands)	
Assets		
Cash and due from banks	\$ 41,681	\$ 42,430
Money market investments	3,111	
Investment securities available for sale, at market:		
Equity investments	41	59
Other investment securities	1,300	1,300
Investment in First Bank Puerto Rico, at equity	1,615,304	1,231,603
Investment in First Bank Insurance Agency, at equity	5,338	6,275
Investment in FBP Statutory Trust I	3,093	3,093
Investment in FBP Statutory Trust II	3,866	3,866
Other assets	3,488	5,395
Total assets	\$ 1,677,222	\$ 1,294,021
Liabilities & Stockholders' Equity		
Liabilities:		
Other borrowings	\$ 231,959	\$ 231,959
Accounts payable and other liabilities	1,119	4,103
Total liabilities	233,078	236,062
Stockholders' equity	1,444,144	1,057,959
Total liabilities and stockholders' equity	\$ 1,677,222	\$ 1,294,021

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Statements of Loss**

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Income:			
Interest income on other investments	\$ 1	\$ 1	\$ 38
Dividend from First Bank Puerto Rico		1,522	46,562
Dividend from other subsidiaries	3,000	1,400	1,000
Other income	212	209	496
	3,213	3,132	48,096
Expense:			
Notes payable and other borrowings	7,042	6,956	8,315
Other operating expenses	3,335	2,645	2,698
	10,377	9,601	11,013
Investment related proceeds and impairments on equity securities	679	(603)	(388)
Loss before income taxes and equity in undistributed losses of subsidiaries	(6,485)	(7,072)	36,695
Income tax provision		(8)	(6)
Equity in undistributed losses of subsidiaries	(75,747)	(517,228)	(311,876)
Net loss	(82,232)	(524,308)	(275,187)
Other comprehensive (loss) income, net of tax	1,480	(8,775)	(30,896)
Comprehensive (loss) income	\$ (80,752)	\$ (533,083)	\$ (306,083)

Table of Contents**FIRST BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Statements of Cash Flows**

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Cash flows from operating activities:			
Net loss	\$ (82,232)	\$ (524,308)	\$ (275,187)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Deferred income tax provision		8	3
Stock-based compensation recognized	38	71	71
Equity in undistributed losses of subsidiaries	75,747	517,228	311,876
Loss on impairment of investment securities		603	388
Net decrease (increase) in other assets	1,228	(2,214)	3,151
Net (decrease) increase in other liabilities	(2,984)	3,434	(144)
Total adjustments	74,029	519,130	315,345
Net cash (used in) provided by operating activities	(8,203)	(5,178)	40,158
Cash flows from investing activities:			
Capital contribution to subsidiaries	(457,000)		(400,000)
Proceeds from securities litigation settlement	679		248
Net cash used in investing activities	(456,321)		(399,752)
Cash flows from financing activities:			
Proceeds from common stock issued, net of costs	493,274		
Proceeds from preferred stock issued			400,000
Dividends paid	(26,388)		(43,066)
Issuance costs of common stock issued in exchange for preferred stock Series A through E		(8,115)	
Other financing activities			8
Net cash provided by (used in) financing activities	466,886	(8,115)	356,942
Net increase (decrease) in cash and cash equivalents	2,362	(13,293)	(2,652)
Cash and cash equivalents at the beginning of the year	42,430	55,723	58,375
Cash and cash equivalents at the end of the year	\$ 44,792	\$ 42,430	\$ 55,723
Cash and cash equivalents include:			
Cash and due from banks	\$ 41,681	\$ 42,430	\$ 55,423
Money market investments	3,111		300

\$ 44,792	\$ 42,430	\$ 55,723
-----------	-----------	-----------

34 Subsequent Events

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

F-89