

FIRST BANCORP /PR/  
Form S-1/A  
August 25, 2010

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As filed with the Securities and Exchange Commission on August 25, 2010

Registration No. 333-165252

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

**Amendment No. 8  
to  
Form S-4  
on  
Form S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**FIRST BANCORP.**

*(Exact name of registrant as specified in its charter)*

**Puerto Rico**

*(State or other jurisdiction of  
incorporation or organization)*

**6022**

*(Primary Standard Industrial  
Classification Code Number)*

**66-0561882**

*(I.R.S Employer  
Identification Number)*

**1519 Ponce de León Avenue, Stop 23  
Santurce, Puerto Rico 00908  
(787) 729-8200**

*(Address, including zip code and telephone number, including  
area code, of registrant's principal executive offices)*

**Lawrence Odell  
Executive Vice President and General Counsel  
First BanCorp.**

**1519 Ponce de León Avenue, Stop 23  
Santurce, Puerto Rico 00908  
(787) 729-8109**

*(Name, address, including zip code and telephone number,  
including area code, of agent for service)*

*Copies to:*

**Linda L. Griggs  
Gail A. Pierce  
Morgan, Lewis & Bockius LLP  
1111 Pennsylvania Avenue, NW**

**James R. Tanenbaum  
Anna T. Pinedo  
Morrison & Foerster LLP  
1290 Avenue of the Americas**

Washington, DC 20004

New York, New York 10104

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

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

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

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

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   
(Do not check if a smaller reporting  
company)

Smaller reporting  
company

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

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

PROSPECTUS

SUBJECT TO COMPLETION

Dated August 25, 2010

**Offer to Exchange**

**Up to 256,401,610 shares of our Common Stock for any and all issued and outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock  
(subject to the limitations and qualifications described herein)**

First BanCorp is offering to exchange (the Exchange Offer), on the terms and subject to the conditions set forth in this prospectus and in the accompanying letters of transmittal, up to 256,401,610 newly issued shares of our common stock, par value \$1.00 per share (our Common Stock), for any and all of the issued and outstanding shares of:

- Ø \$90,000,000 in aggregate liquidation preference of our 7.125% Noncumulative Perpetual Monthly Income Preferred Stock, Series A ( Series A Preferred Stock );
- Ø \$75,000,000 in aggregate liquidation preference of our 8.35% Noncumulative Perpetual Monthly Income Preferred Stock, Series B ( Series B Preferred Stock );
- Ø \$103,500,000 in aggregate liquidation preference of our 7.40% Noncumulative Perpetual Monthly Income Preferred Stock, Series C ( Series C Preferred Stock );
- Ø \$92,000,000 in aggregate liquidation preference of our 7.25% Noncumulative Perpetual Monthly Income Preferred Stock, Series D ( Series D Preferred Stock ); and
- Ø \$189,600,000 in aggregate liquidation preference of our 7.00% Noncumulative Perpetual Monthly Income Preferred Stock, Series E ( Series E Preferred Stock and, collectively with our Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, Preferred Stock ).

The Exchange Offer will expire at 9:30 a.m., New York City time, on August 25, 2010 (the expiration date), unless extended or earlier terminated by us. You must validly tender your shares of Preferred Stock for exchange in the Exchange Offer on or prior to the expiration date to receive shares of our Common Stock.

Our Common Stock trades on the New York Stock Exchange ( NYSE ) under the symbol FBP. As of August 17, 2010, the closing sale price for our Common Stock on the NYSE was \$0.52 per share.

None of First BanCorp, the dealer manager, the exchange agent, the information agent or any other person is making any recommendation as to whether you should tender your shares of Preferred Stock. You must make your own decision after reading this prospectus and the documents incorporated by reference herein and consulting with your advisors.

**Before deciding to exchange your securities for shares of our Common Stock, you are encouraged to read and carefully consider this prospectus (including the documents incorporated by reference herein) in its entirety, in particular the risk factors beginning on page 26 of this prospectus.**

**The shares of our Common Stock are not savings accounts, deposits or other obligations of any of our bank or non-bank subsidiaries and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

**Neither the Securities and Exchange Commission, any state or the Commonwealth of Puerto Rico securities commission, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System nor any other regulatory body has approved or disapproved of the Exchange Offer or of the securities to be issued in the Exchange Offer or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

*The Dealer Manager for the Exchange Offer is:*

**UBS Investment Bank**

*(Cover Page Continued on Next Page)*

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***The Exchange Agent and the Information Agent for the Exchange Offer is:***

**BNY Mellon Shareowner Services**

***In its capacity as the Exchange Agent:***

By Mail:  
BNY Mellon Shareowner Services  
Attn: Corporate Actions Dept.  
P.O. Box 3301  
South Hackensack, NJ 07606

By Hand or Overnight Courier:  
BNY Mellon Shareowner Services  
Attn: Corporate Actions Dept., 27th Floor  
480 Washington Boulevard  
Jersey City, NJ 07310

By Facsimile:  
(For Eligible Institutions Only)  
(201) 680-4626  
Confirm Facsimile Transmission:  
(201) 680-4860

***In its capacity as the Information Agent:***

BNY Mellon Shareowner Services  
480 Washington Boulevard, 27th Floor  
Jersey City, NJ 07310  
Toll Free: (800) 777-3674  
Call Collect: (201) 680-6579

The date of this prospectus is August , 2010.

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For each share of Preferred Stock that we accept for exchange in accordance with the terms of the Exchange Offer, we will issue a number of shares of our Common Stock having the aggregate dollar value (the Exchange Value) set forth in the applicable table below. We refer to the number of shares of our Common Stock we will issue (based on the Relevant Price (as defined below)) for each share of Preferred Stock we accept in the Exchange Offer as the exchange ratio. The Relevant Price was fixed on August 20, 2010 and was equal to the greater of (1) the average Volume Weighted Average Price, or VWAP, of a share of our Common Stock, determined as described on page 9 of this prospectus under the heading Questions and Answers about the Exchange Offer How will the Average VWAP be determined? during the five trading-day period ending on August 20, 2010 and (2) the Minimum Share Price of \$1.18 per share of our Common Stock. If the Minimum Share Price is used to determine the exchange ratio, 11.6525 shares of Common Stock will be issued in exchange for each share of Preferred Stock that we accept for tender in the Exchange Offer. The Relevant Price is \$1.18. **Depending on the trading price of our Common Stock compared to the Relevant Price, the market value of the Common Stock we issue in exchange for each share of Preferred Stock we accept for exchange may be less than, equal to or greater than the applicable Exchange Value.** If the trading price of our Common Stock is below \$1.18 per share, the market value of our Common Stock to be received in the Exchange Offer will be less than the applicable Exchange Value.

Based on the Exchange Values set forth in the table below and the Minimum Share Price disclosed above, we will accept tenders of all shares of Preferred Stock.

CUSIP	Title of Securities	Aggregate liquidation preference outstanding	Liquidation preference per share	Exchange Value
318672201	7.125% Noncumulative Perpetual Monthly Income Preferred Stock, Series A	\$ 90,000,000	\$ 25	\$ 13.75
318672300	8.35% Noncumulative Perpetual Monthly Income Preferred Stock, Series B	\$ 75,000,000	\$ 25	\$ 13.75
318672409	7.40% Noncumulative Perpetual Monthly Income Preferred Stock, Series C	\$ 103,500,000	\$ 25	\$ 13.75
318672508	7.25% Noncumulative Perpetual Monthly Income Preferred Stock, Series D	\$ 92,000,000	\$ 25	\$ 13.75
318672607	7.00% Noncumulative Perpetual Monthly Income Preferred Stock, Series E	\$ 189,600,000	\$ 25	\$ 13.75

The Exchange Offer will expire at 9:30 a.m., New York City time, on August 25, 2010 (unless we extend the Exchange Offer or terminate it early). You may withdraw any shares of Preferred Stock that you tender at any time prior to the expiration date of the Exchange Offer.

Our obligation to exchange shares of our Common Stock for shares of Preferred Stock in the Exchange Offer is subject to a number of conditions that must be satisfied or waived, including, among others, (i) pursuant to NYSE listing requirements, the approval by the holders of our Common Stock to the issuance of up to 256,401,610 shares of Common Stock upon the exchange of Preferred Stock in the Exchange Offer, (ii) the approval by the holders of our Common Stock of an amendment to our Restated Articles of Incorporation (Articles of Incorporation) to reduce the

par value of a share of Common Stock from \$1.00 to \$0.10 per share, if necessary to issue shares of Common Stock in the Exchange Offer, and (iii) the absence of any change or development (affecting our business or otherwise) that in our reasonable judgment may materially reduce the anticipated benefits to us of the Exchange Offer or that has had, or could reasonably be expected to have, a material adverse effect on us or our businesses, financial condition, operations or prospects. Our obligation to exchange is not subject to any minimum tender condition. The conditions in (i) and (ii) have been met.

The remainder of this prospectus has not been updated to reflect the results of the Special Meeting of Stockholders held on Tuesday, August 24, 2010 and the determination of the Relevant Price on August 20, 2010. Information regarding the results of the Special Meeting and the determination of the Relevant Price is included in the Current Reports on Form 8-K dated August 24, 2010 and August 23, 2010, respectively, which are incorporated into this prospectus.

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Important

Certain shares of Preferred Stock were issued in book-entry form, and are currently represented by one or more global certificates held for the account of The Depository Trust Company ( DTC ). If your securities are book-entry securities, you may tender your shares of Preferred Stock by transferring them through DTC 's Automated Tender Offer Program ( ATOP ) or following the other procedures described under The Exchange Offer Procedures for Tendering Shares of Preferred Stock.

If your interest as a holder of Preferred Stock is in certificated form, you must deliver to BNY Mellon Shareowner Services (the Exchange Agent ) (1) the certificates for the shares of your Preferred Stock to be exchanged in the manner specified in the accompanying letter of transmittal and (2) a proper assignment of the shares of Preferred Stock to First BanCorp, or to any transfer agent for the shares of Preferred Stock, or in blank.

If you are a beneficial owner of shares of Preferred Stock that are held by or registered in the name of a broker, securities dealer, custodian, commercial bank, trust company or other nominee, and you wish to participate in the Exchange Offer, you must promptly contact your broker, securities dealer, custodian, commercial bank, trust company or other nominee to instruct it to tender your shares of Preferred Stock and to agree to the terms of the accompanying letter of transmittal. **You are urged to instruct your broker, securities dealer, custodian, commercial bank, trust company or other nominee at least five business days prior to the expiration date of the Exchange Offer in order to allow adequate processing time for your instruction.** Tenders not received by the Exchange Agent, on or prior to the expiration date will be disregarded and have no effect.

We are not providing for guaranteed delivery procedures and, therefore, you must allow sufficient time for the necessary tender procedures to be completed during normal business hours of DTC on or prior to the expiration date of the Exchange Offer. **Tenders not received by the Exchange Agent on or prior to the expiration date will be disregarded and have no effect.**

We are incorporating by reference into this prospectus important business and financial information that is not included in or delivered with this prospectus. This information is available without charge to security holders upon written or oral request. Requests should be directed to either First BanCorp or BNY Mellon Shareowner Services (the Information Agent ) as follows:

First BanCorp.  
Attention: Lawrence Odell, Secretary  
P.O. Box 9146  
San Juan, Puerto Rico, 00908-0146  
(787) 729-8109

BNY Mellon Shareowner Services  
480 Washington Boulevard, 27th Floor  
Jersey City, NJ 07310  
Toll Free: (800) 777-3674  
Call Collect: (201) 680-6579

**In order to ensure timely delivery of such documents, security holders must request this information no later than five business days before the date by which they must make their investment decision. Accordingly, any request for documents should have been made by August 17, 2010 to ensure timely delivery of the documents on or prior to the expiration date of the Exchange Offer.**

**You should rely only on the information contained in or incorporated by reference into this prospectus. We have not authorized anyone to provide you with information that is different. You should assume that the information contained in or incorporated by reference into this prospectus is accurate only as of the date of this prospectus or as of the date of the document incorporated by reference, as applicable. We are not making an offer of these securities in any jurisdiction where such offer is not permitted.**

In this prospectus, unless otherwise stated or the context otherwise requires, Corporation, we, us, our and First BanCorp refer to First BanCorp. and its subsidiaries.

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Forward-looking Statements

Certain statements in this prospectus are forward-looking statements. These forward-looking statements may relate to First BanCorp's financial condition, results of operations, plans, objectives, future performance and business, including, but not limited to, statements with respect to the adequacy of the allowance for loan and lease losses, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity and the effect of new accounting guidance on the Corporation's financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words anticipate, believe, continues, expect, estimate, intend, project and similar expressions and future or conditional verbs such as will should, could, might, can, may, or similar expressions are generally intended to identify forward-looking statements.

These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, estimates and assumptions by us that are difficult to predict. Various factors, some of which are beyond our control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- Ø uncertainty about whether we will be able to fully comply with the written agreement dated June 3, 2010 (the Agreement ) that we entered into with the Federal Reserve Bank of New York (the Fed ) and the order dated June 2, 2010 (the Order ) and collectively with the Agreement, the Agreements ) that our banking subsidiary, First Bank Puerto Rico ( First Bank or the Bank ) entered into with the Federal Deposit Insurance Corporation ( FDIC ) and the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico ( OCIF ) that, among other things, require the Bank to attain certain capital levels and reduce its special mention, classified, delinquent and non-accrual assets;
- Ø uncertainty as to whether we will be able to meet the conditions necessary to compel the United States Department of the Treasury (the U.S. Treasury ) to convert into Common Stock the shares of our preferred stock that we issued to the U.S. Treasury;
- Ø uncertainty as to whether we will be able to complete future capital-raising efforts;
- Ø the risk of being subject to possible additional regulatory action, including as a result of an inability to implement the capital plans submitted in accordance with the Agreements;
- Ø the strength or weakness of the real estate market and of the consumer and commercial credit sector and their impact on the credit quality of our loans and other assets, including our construction and commercial real estate loan portfolios, which have contributed and may continue to contribute to, among other things, the increase in the levels of non-performing assets, charge-offs and the provision expense;
- Ø adverse changes in general economic conditions in the United States and in Puerto Rico, including the interest rate scenario, market liquidity, housing absorption rates, real estate prices and disruptions in the U.S. capital markets, which may reduce interest margins, impact funding sources and affect demand for all of our products and services and the value of our assets;
- Ø our reliance on brokered certificates of deposit and our ability to obtain, on a periodic basis, approval to issue brokered certificates of deposit to fund operations and provide liquidity in accordance with the terms of the Order;
- Ø an adverse change in our ability to attract new clients and retain existing ones;

Ø a decrease in demand for our products and services and lower revenues and earnings because of the continued recession in Puerto Rico, the recently announced consolidation of the banking industry in Puerto Rico and the current fiscal problems and budget deficit of the Puerto Rico government;

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**Forward-looking Statements**

- Ø a need to recognize additional impairments of financial instruments or goodwill relating to acquisitions;
- Ø uncertainty about regulatory and legislative changes for financial services companies in Puerto Rico, the United States and the U.S. and British Virgin Islands, which could affect our financial performance and could cause our actual results for future periods to differ materially from prior results and anticipated or projected results;
- Ø uncertainty about the effectiveness of the various actions undertaken to stimulate the U.S. economy and stabilize the U.S. financial markets, and the impact such actions may have on our business, financial condition and results of operations;
- Ø changes in the fiscal and monetary policies and regulations of the federal government, including those determined by the Fed, the FDIC, government-sponsored housing agencies and local regulators in Puerto Rico and the U.S. and British Virgin Islands;
- Ø the risk that the FDIC may further increase the deposit insurance premium and/or require special assessments to replenish its insurance fund, causing an additional increase in our non-interest expense;
- Ø risks of not being able to generate sufficient income to realize the benefit of the deferred tax asset;
- Ø risks of not being able to recover the assets pledged to Lehman Brothers Special Financing, Inc.;
- Ø changes in our expenses associated with acquisitions and dispositions;
- Ø developments in technology;
- Ø the impact of Doral Financial Corporation's financial condition on the repayment of its outstanding secured loans to us;
- Ø risks associated with further downgrades in the credit ratings of our securities;
- Ø general competitive factors and industry consolidation; and
- Ø the possible future dilution to holders of our Common Stock resulting from additional issuances of Common Stock or securities convertible into Common Stock.

Although the forward-looking statements are based on our current beliefs and expectations, we do not undertake, and specifically disclaim 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.

You should carefully consider these factors and the risk factors beginning on page 26 of this prospectus. All forward-looking statements attributable to First BanCorp or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this prospectus.



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Where You Can Find More Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). Our SEC filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>, which contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. You may also read and copy any document we file with the SEC at its public reference facilities located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.



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Incorporation of Certain Documents by Reference

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

- Ø Our Annual Report on Form 10-K for the year ended December 31, 2009 filed on March 2, 2010;
- Ø Our Proxy Statement for the Annual Meeting of Stockholders held on April 27, 2010 filed on April 6, 2010;
- Ø Our Proxy Statement for the August 24, 2010 Special Meeting of Stockholders filed on August 2, 2010;
- Ø Our Current Reports on Form 8-K filed on February 3, 2010 (excluding Items 2.02 and 9.01), April 29, 2010 (excluding Items 2.02 and 9.01, as amended by Form 8-K/A filed on May 3, 2010), June 4, 2010, July 2, 2010, July 7, 2010, July 15, 2010, July 16, 2010, July 20, 2010, August 17, 2010, August 18, 2010, August 23, 2010 and August 24, 2010; and
- Ø Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 and June 30, 2010 filed on May 10, 2010 and August 9, 2010, respectively.

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

Please note that this Registration Statement and the Schedule TO filed in connection with the Exchange Offer do not permit incorporation by reference of future filings. If a material change occurs in the information set forth in this prospectus, we will amend this Registration Statement and the Schedule TO accordingly.

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Questions and Answers about the Exchange Offer

*The following are certain questions regarding the Exchange Offer that you may have as a holder of shares of Preferred Stock and the answers to those questions. These questions and answers may not contain all of the information that is important to you and are qualified in their entirety by the more detailed information included or incorporated by reference into this prospectus. Before deciding to exchange your securities for shares of our Common Stock, you should carefully consider the information contained in or incorporated by reference into this prospectus, including the information set forth under the heading Risk Factors beginning on page 26 of this prospectus. For further information about us, see Where You Can Find More Information.*

**WHAT IS THE PURPOSE OF THE EXCHANGE OFFER?**

We decided to conduct this Exchange Offer to improve our capital structure given the continuing difficult economic conditions in the markets in which we operate and the evolving regulatory environment. We must increase our common equity to provide additional protection against the future recognition of additional loan loss reserves against our loan portfolio and credit losses associated with the disposition of non-performing assets due to the current economic situation in Puerto Rico and the United States that has impacted the Corporation's asset quality and earnings performance. Total non-performing loans to total loans increased to 12.40% as of June 30, 2010 from 11.23% as of December 31, 2009 and from 8.94% as of June 30, 2009.

The restructuring of our equity components through the Exchange Offer will strengthen the quality of our regulatory capital position and enhance our ability to meet any new capital requirements. Furthermore, through the Exchange Offer, we are seeking to improve the Corporation's Tier 1 common equity to risk-weighted assets ratio. In the Supervisory Capital Assessment Program (the SCAP) applied to large money-center banks in the U.S., federal regulators established a 4% Tier 1 common equity to risk-weighted assets ratio as the minimum threshold to determine the potential capital needs of such banks. While the SCAP is not applicable to us, we believe that the Tier 1 common equity ratio is being viewed by financial analysts and rating agencies as a guide for measuring the capital adequacy of banking institutions. The Exchange Offer will also improve our tangible common equity to tangible assets ratio, which is another metric used by financial analysts to determine a bank's capital requirements. As of June 30, 2010, our Tier 1 common equity ratio was 2.86% and our tangible common equity ratio was 2.57%. If 70% of our outstanding shares of Preferred Stock is exchanged in the Exchange Offer, which is the Corporation's targeted success rate for the Exchange Offer, our Tier 1 common equity ratio and tangible common equity ratio as of June 30, 2010 on a pro forma basis after giving effect to the Exchange Offer would have been 5.92% and 4.70%, respectively. Our Tier 1 common equity would be strengthened by \$385 million based on a 70% success rate for the exchange. See Regulatory and Other Capital Ratios Reconciliation of Tangible Common Equity and Tangible Assets and Regulatory and Other Capital Ratios Reconciliation of Common Stockholders' Equity (GAAP) to Tier 1 Common Equity (Non-GAAP).

Finally, if holders of \$385 million of the liquidation preference of the Preferred Stock tender their shares of Preferred Stock in the Exchange Offer, we raise \$500 million of additional capital, and the holders of our Common Stock approve amendments to our Articles of Incorporation, within nine months of the July 7, 2010 date of our agreement with the U.S. Treasury, we will meet the substantive conditions necessary for us to compel the U.S. Treasury to convert into Common Stock the shares of a new series of Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series G (the Series G Preferred Stock), that we issued to the U.S. Treasury in exchange for the \$400 million liquidation value of our Fixed Rate Cumulative Perpetual Preferred Stock, Series F, \$1,000 liquidation preference per share (Series F Preferred Stock), and accrued and unpaid dividends. No assurance can be given that we will



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**Questions and Answers about the Exchange Offer**

able to meet these conditions for the conversion of the Series G Preferred Stock, including the requirement to raise additional capital. See Agreement with the U.S. Treasury.

**WHAT ARE THE REQUIREMENTS OF THE RECENT REGULATORY AGREEMENTS?**

The Corporation entered into the Agreement with the Fed dated June 3, 2010 and our subsidiary, FirstBank Puerto Rico ( FirstBank or the Bank ), agreed to the Order with the FDIC and the OCIF dated June 2, 2010. Pursuant to these Agreements, the Corporation and FirstBank have agreed to take certain actions designed to improve their financial condition. These actions include the adoption and implementation of various plans, procedures and policies related to their capital, lending activities, liquidity and funds management and strategy. In addition, the Order requires FirstBank to develop and adopt a plan to attain a leverage ratio of at least 8%, a Tier 1 capital to risk-weighted assets ratio of at least 10% and a Total capital to risk-weighted assets ratio of at least 12%, and obtain approval prior to issuing, increasing, renewing or rolling over brokered deposits. The Agreement also requires the Corporation to obtain the approval of the Fed prior to paying dividends, receiving dividends from FirstBank, incurring, increasing or guaranteeing any debt, or purchasing or redeeming any stock, to comply with certain notice provisions prior to appointing any new directors or senior executive officers and to comply with certain restrictions on severance payments and indemnification.

Concurrently with the issuance by the FDIC of its Order, the FDIC granted FirstBank a temporary waiver through June 30, 2010 to enable it to continue accessing the brokered deposit market. FirstBank has obtained an additional waiver through September 30, 2010. FirstBank will request waivers for future periods although no assurance can be given that the FDIC will continue to issue such waivers. Any failure to obtain a future waiver would have a significantly adverse effect on FirstBank, which has relied on brokered deposits to fund a major part of its operations and had, as of June 30, 2010, \$7.1 billion in brokered deposits outstanding, representing approximately 56% of our total deposits. For more information about the Agreements, see Regulatory Agreements.

**WHAT ADDITIONAL EFFORTS IS THE CORPORATION TAKING TO IMPROVE ITS CAPITAL?**

We have assured our regulators that we are committed to raising capital and we have submitted capital plans to our regulators regarding how we plan to raise capital. In addition to this Exchange Offer, we have been taking steps to implement strategies to increase tangible common equity and regulatory capital through (1) the issuance of approximately \$500 million of equity in one or more public or private offerings (a Capital Raise ), (2) the conversion into Common Stock of the shares of Series G Preferred Stock that we issued to the U.S. Treasury in exchange for the Series F Preferred Stock that we sold to it on January 16, 2009, as further discussed below, and (3) a rights offering to common stockholders. With respect to a Capital Raise, we plan to seek to raise at least \$500 million of equity because we believe that amount would enable us to absorb possible additional losses based on a worst case evaluation of possible losses over the next five years while maintaining the capital ratios required for a well-capitalized financial institution as well as those required by the FDIC s Order. We expect to amend this Prospectus to disclose any material developments relating to a Capital Raise that occur prior to the expiration date of the Exchange Offer. If we complete a Capital Raise, we expect to issue rights to the holders of our currently outstanding 92,542,722 shares of Common Stock that entitle them to acquire one share of Common Stock for each share of Common Stock they own at a price equal to the purchase price in a Capital Raise. No assurance can be given that we will complete a Capital Raise, the conversion of the Series G Preferred Stock or a rights offering.

We believe that the Exchange Offer and, to the extent completed, the conversion of the Series G Preferred Stock into Common Stock and a Capital Raise would enhance our long-term financial stability, improve our ability to operate in the current economic environment, and improve our ability to access the capital markets in order to fund strategic initiatives or other business needs and to absorb any future credit losses.

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**Questions and Answers about the Exchange Offer**

Our inability to complete the Exchange Offer would hinder our efforts to sell Common Stock in a Capital Raise. If we need to continue to recognize significant reserves and we cannot complete a Capital Raise, the Corporation and FirstBank may not be able to comply with the minimum capital requirements included in the capital plans required by the Agreements. These capital plans, which are subject to the approval of our regulators, set forth our plan to attain the capital ratio requirements set forth in the Order over time. In addition to a Capital Raise, the capital plans contemplate alternative capital preservation strategies, including among other things, an accelerated deleverage strategy and the divestiture of profitable businesses. If, at the end of any quarter, we do not comply with any specified minimum capital ratios, we must notify our regulators. The Corporation must notify the Fed within 30 days of the end of any quarter of its inability to comply with a capital ratio requirement and submit an acceptable written plan that details the steps it will take to comply with the requirement. FirstBank must immediately notify the FDIC of its inability to comply with a capital ratio requirement and, within 45 days, it must either increase its capital to comply with the ratio requirements or submit a contingency plan to the FDIC for its sale, merger, or liquidation. In the event of a liquidation of FirstBank, the holders of any outstanding preferred stock would rank senior to the holders of our Common Stock with respect to rights upon any liquidation of the Corporation.

**WHAT ARE THE TERMS OF THE EXCHANGE OF THE SERIES F PREFERRED STOCK FOR SERIES G PREFERRED STOCK?**

On July 20, 2010, we exchanged our Series F Preferred Stock, which has a liquidation preference of \$400 million, and accrued and unpaid dividends on the Series F Preferred Stock, for 424,174 shares of a new series of Series G Preferred Stock, that has similar terms (including the same liquidation preference), but which we can convert, under the conditions described below, into shares of Common Stock based on an initial conversion rate of 896.3045 shares of Common Stock for each share of Series G Preferred Stock (calculated by dividing \$650, or a discount of 35% from the \$1,000 liquidation preference per share of Series G Preferred Stock, by the initial conversion price of \$0.7252 per share, which is subject to adjustment). No assurance can be given that we will be able to meet the conditions for the conversion of the Series G Preferred Stock, including the requirement to raise additional capital. See Agreement with the U.S. Treasury.

**HOW WOULD THE ISSUANCE OF ADDITIONAL SHARES OF COMMON STOCK AFFECT PARTICIPANTS IN THE EXCHANGE OFFER?**

Existing holders of Preferred Stock that participate in the Exchange Offer would be significantly diluted if we issue additional shares of Common Stock other than through the Exchange Offer. These possible additional issuances include: (i) the possible issuance of shares of Common Stock in a Capital Raise at a price significantly below the book value per share of Common Stock as of June 30, 2010 of \$5.48; (ii) the possible issuance of shares of Common Stock to the U.S. Treasury upon conversion of the Series G Preferred Stock; and (iii) the possible issuance of additional shares of Common Stock to The Bank of Nova Scotia ( BNS ) pursuant to its anti-dilution right, subject to the consent of the Federal Reserve (see Agreement with The Bank of Nova Scotia ). Our issuance of 256,401,610 shares of Common Stock in the Exchange Offer, which is 100% of the shares offered in the Exchange Offer, would reduce on a pro forma basis our loss per share for the six-month period ended June 30, 2010 from \$2.27 to \$0.60 and our book value per share as of June 30, 2010 from \$5.48 to \$3.03. If, subsequent to our issuance of 256,401,610 shares of Common Stock in the Exchange Offer, we were to issue shares of Common Stock to the U.S. Treasury upon conversion of the Series G Preferred Stock, to investors in a Capital Raise and to BNS, we estimate that we would issue approximately 1.43 billion additional shares based on (i) our agreement with the U.S. Treasury and (ii) a sale in a Capital Raise of \$500 million at a per-share price of \$0.57, the market price of our Common Stock on July 14, 2010.

Accordingly, our loss per share for the six-month period ended June 30, 2010 and our book value per share as of June 30, 2010 would be reduced on a pro forma basis to \$0.12 and \$1.16, respectively. Such

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additional issuances of shares of Common Stock would decrease the voting power of participants in the Exchange Offer from 73% after the completion of the Exchange Offer, assuming all of the Preferred Stock is tendered, to 14% if approximately 1.68 billion shares of Common Stock are issued in a Capital Raise, to the U.S. Treasury and to BNS upon its exercise in full of its anti-dilution right. Finally, the additional issuances of shares of Common Stock may adversely impact the market price of our Common Stock.

At this time, we expect that any investor in a Capital Raise would acquire less than 10% of our outstanding shares to avoid being considered a bank holding company under the Bank Holding Company Act of 1956. If the Series G Preferred Stock is converted into Common Stock, the U.S. Treasury would acquire a significant percentage of our Common Stock. Any such ownership would give the U.S. Treasury the ability to influence stockholder matters in a manner that may conflict with the interests of other holders of Common Stock.

**WHAT ARE THE KEY TERMS OF THE EXCHANGE OFFER?**

We are offering to exchange up to 256,401,610 newly issued shares of our Common Stock for any and all issued and outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock.

For each share of Preferred Stock that we accept for exchange in accordance with the terms of the Exchange Offer, we will issue a number of shares of our Common Stock having the Exchange Value set forth in the table below unless the Minimum Share Price is used to determine the exchange ratio, in which case we would issue 11.6525 shares of Common Stock for each share of Preferred Stock.

<b>CUSIP</b>	<b>Title of securities</b>	<b>Aggregate liquidation preference outstanding</b>	<b>Liquidation preference per share</b>	<b>Exchange Value</b>
318672201	7.125% Noncumulative Perpetual Monthly Income Preferred Stock, Series A	\$ 90,000,000	\$ 25	\$ 13.75
318672300	8.35% Noncumulative Perpetual Monthly Income Preferred Stock, Series B	\$ 75,000,000	\$ 25	\$ 13.75
318672409	7.40% Noncumulative Perpetual Monthly Income Preferred Stock, Series C	\$ 103,500,000	\$ 25	\$ 13.75
318672508	7.25% Noncumulative Perpetual Monthly Income Preferred Stock, Series D	\$ 92,000,000	\$ 25	\$ 13.75
318672607	7.00% Noncumulative Perpetual Monthly Income Preferred Stock, Series E	\$ 189,600,000	\$ 25	\$ 13.75



**Depending on the trading price of our Common Stock compared to the Relevant Price, the market value of the Common Stock we issue on the settlement date in exchange for each share of Preferred Stock we accept for exchange may be less than, equal to or greater than the applicable Exchange Value referred to above. If the trading price of our Common Stock is below \$1.18 per share, the market value of our Common Stock to be received in the Exchange Offer will be less than the applicable Exchange Value.**

**WHAT CONSIDERATION ARE WE OFFERING IN EXCHANGE FOR SHARES OF PREFERRED STOCK?**

For each share of Preferred Stock that we accept for exchange in accordance with the terms of the Exchange Offer, we will issue a number of shares of our Common Stock having the aggregate dollar value (based on the Relevant Price) equal to the applicable Exchange Value.

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**Depending on the trading price of our Common Stock compared to the Relevant Price, the market value of the Common Stock we issue in exchange for each share of Preferred Stock we accept for exchange may be less than, equal to or greater than the applicable Exchange Value.**

If the Minimum Share Price is used to determine the exchange ratio, 11.6525 shares of Common Stock will be issued in exchange for each share of Preferred Stock that we accept for tender in the Exchange Offer. If the trading price of our Common Stock is below \$1.18 per share, the market value of our Common Stock to be received in the Exchange Offer will be less than the applicable Exchange Value.

**HOW WILL THE AVERAGE VWAP BE DETERMINED?**

Average VWAP during a period means the arithmetic average of VWAP for each trading day during that period. VWAP for any day means the per share volume weighted average price of our Common Stock on that day as displayed under the heading Bloomberg VWAP on Bloomberg Page FBP US <equity> VAP (or its equivalent successor page if such page is not available) in respect of the period from the scheduled open of trading on the relevant trading day until the scheduled close of trading on the relevant trading day (or if such VWAP is unavailable, the market price of one share of our Common Stock on such trading day determined, using a volume weighted average method, by a nationally recognized investment banking firm we retain for that purpose).

**HOW MAY I OBTAIN INFORMATION REGARDING THE RELEVANT PRICE AND APPLICABLE EXCHANGE RATIOS?**

Throughout the Exchange Offer, the indicative average VWAP, the Minimum Share Price, the resultant indicative Relevant Price and the indicative exchange ratios will be available at [www.firstbankpr.com](http://www.firstbankpr.com), by clicking on Exchange Offer in the Investor Relations section at this address, and from the Information Agent, at one of its numbers listed on the back cover page of this prospectus.

We will announce the final exchange ratio for each series of Preferred Stock prior to 9:00 a.m., New York City time, on the business day immediately succeeding the second business day prior to the expiration date of the Exchange Offer, and those final exchange ratios will also be available by that time at [www.firstbankpr.com](http://www.firstbankpr.com), by clicking on Exchange Offer in the Investor Relations section at this address, and from the Information Agent. No additional information on our website is deemed to be part of or incorporated by reference into this prospectus.

**Depending on the trading price of our Common Stock compared to the Relevant Price, the market value of the Common Stock we issue in exchange for each share of Preferred Stock we accept for exchange may be less than, equal to or greater than the applicable Exchange Value.**

**WILL ALL SHARES OF PREFERRED STOCK THAT I TENDER BE ACCEPTED IN THE EXCHANGE OFFER?**

Yes, we will accept all shares of Preferred Stock validly tendered in the Exchange Offer.

**WHAT HAPPENS TO TENDERED SHARES OF PREFERRED STOCK THAT ARE NOT ACCEPTED FOR EXCHANGE?**

If your tendered shares of Preferred Stock are not accepted for exchange because the tender is not in proper form, our acceptance of the tender would be unlawful, in our opinion, or for any other reason pursuant to the terms and conditions of the Exchange Offer, such shares will be returned without expense to you or, in the case of shares of Preferred Stock tendered by book-entry transfer, such shares will be credited to an account maintained at DTC, designated by the participant who delivered such shares, in each case, promptly following the expiration or termination, as applicable, of the Exchange Offer.

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**Questions and Answers about the Exchange Offer**

**WILL FRACTIONAL SHARES BE ISSUED IN THE EXCHANGE OFFER?**

We will not issue fractional shares of our Common Stock in the Exchange Offer and no cash will be paid for fractional shares. Instead, the number of shares of Common Stock received by each holder whose shares of Preferred Stock are accepted for exchange in the Exchange Offer will be rounded down to the nearest whole number.

**WHAT ARE THE CONDITIONS APPLICABLE TO THE EXCHANGE OFFER?**

Our obligation to exchange shares of our Common Stock for shares of Preferred Stock in the Exchange Offer is subject to a number of conditions that must be satisfied or waived by us, including, among others, (i) pursuant to NYSE listing requirements, the approval by the holders of our Common Stock to the issuance of up to 256,401,610 shares of Common Stock upon the exchange of Preferred Stock in the Exchange Offer, (ii) the approval by the holders of our Common Stock of an amendment to our Articles of Incorporation to reduce the par value of a share of Common Stock from \$1.00 to \$0.10 per share if necessary to issue shares of Common Stock in the Exchange Offer, and (iii) the absence of any change or development (affecting our business or otherwise) that in our reasonable judgment may materially reduce the anticipated benefits to us of the Exchange Offer or that has had, or could reasonably be expected to have, a material adverse effect on us or our businesses, financial condition, operations or prospects. Our obligation to exchange is not subject to any minimum tender condition.

We will hold a special meeting of the holders of our Common Stock at our principal offices located at 1519 Ponce de Leon Avenue, Santurce, Puerto Rico, on August 24, 2010, for the purpose of seeking approval of such holders of the issuance of up to 256,401,610 shares of Common Stock upon the exchange of Preferred Stock in the Exchange Offer in an amount equal to a majority of the votes cast, provided that the total votes cast at such special meeting represents more than 50% of the issued and outstanding shares of our Common Stock, and the approval of the amendment to our Articles of Incorporation to reduce the par value of a share of Common Stock from \$1.00 to \$0.10 per share, if necessary. In addition, holders of our Common Stock will be asked to approve an amendment to our Articles of Incorporation to increase the number of authorized shares of Common Stock from 750,000,000 to 2,000,000,000 shares so that we will have sufficient shares of Common Stock in case we are able to issue shares of Common Stock upon conversion of the Series G Preferred Stock and in a Capital Raise. In addition, holders of Common Stock will be asked to approve the issuance of shares of Common Stock to (i) BNS if it exercises its anti-dilution right in connection with the Exchange Offer or the issuance of Series G Preferred Stock to the U.S. Treasury and (ii) a director pursuant to the terms of the Exchange Offer and to approve a reverse stock split.

**HOW DO I PARTICIPATE IN THE EXCHANGE OFFER?**

The Exchange Offer will expire at 9:30 a.m., New York City time on August 25, 2010, unless extended or earlier terminated by us. You may withdraw any shares of Preferred Stock that you previously tendered in the Exchange Offer on or prior to the expiration date of the Exchange Offer.

Certain shares of Preferred Stock were issued in book-entry form and are currently represented by one or more global certificates held for the account of DTC. If your securities are book-entry securities, you may tender your shares of Preferred Stock by transferring them through ATOP or following the other procedures described under The Exchange Offer Procedures for Tendering Shares of Preferred Stock.

If your interest as a holder of Preferred Stock is in certificated form, you must deliver to the Exchange Agent (1) the certificates for the shares of your Preferred Stock to be exchanged in the manner specified in the accompanying letter of transmittal and (2) a proper assignment of the shares of Preferred Stock to First BanCorp, or to any transfer agent for the shares of Preferred Stock, or in blank.

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**Questions and Answers about the Exchange Offer**

If you hold your shares of Preferred Stock through a bank, broker or other nominee, in order to validly tender your shares of Preferred Stock in the Exchange Offer, you must follow the instructions provided by your broker, securities dealer, custodian, commercial bank, trust company or other nominee with regard to procedures for tendering, in order to enable your broker, securities dealer, custodian, commercial bank, trust company or other nominee to comply with the procedures described below. **Beneficial owners are urged to appropriately instruct their broker, securities dealer, custodian, commercial bank, trust company or other nominee at least five business days prior to the expiration date in order to allow adequate processing time for their instruction.**

In order for a broker, securities dealer, custodian, commercial bank, trust company or other nominee to validly tender your shares of Preferred Stock in the Exchange Offer, such broker, securities dealer, custodian, commercial bank, trust company or other nominee must deliver to the Exchange Agent an electronic message that will contain:

- Ø your acknowledgment and agreement to, and agreement to be bound by, the terms of the accompanying letter of transmittal; and
- Ø a timely confirmation of book-entry transfer of your shares of Preferred Stock into the Exchange Agent's account.

Should you have any questions as to the procedures for tendering your shares of Preferred Stock, please call your broker, securities dealer, custodian, commercial bank, trust company or other nominee; or call the Information Agent.

**WE ARE NOT PROVIDING FOR GUARANTEED DELIVERY PROCEDURES AND, THEREFORE, YOU MUST ALLOW SUFFICIENT TIME FOR THE NECESSARY TENDER PROCEDURES TO BE COMPLETED DURING NORMAL BUSINESS HOURS OF DTC ON OR PRIOR TO THE EXPIRATION DATE.**

See The Exchange Offer Procedures for Tendering Shares of Preferred Stock.

**DO I HAVE A CHOICE IN WHETHER TO TENDER MY PREFERRED STOCK?**

Yes. Holders of Preferred Stock are not required to tender their Preferred Stock pursuant to this prospectus. All rights and obligations pursuant to which each series of Preferred Stock was issued will continue with respect to the Preferred Stock that remains outstanding after the expiration date.

**MAY I TENDER ONLY A PORTION OF THE PREFERRED STOCK THAT I HOLD?**

Yes. You may choose to tender in the Exchange Offer all or any portion of the Preferred Stock that you hold.

**WHAT ARE THE CONSEQUENCES OF NOT EXCHANGING MY PREFERRED STOCK?**

After the completion of the Exchange Offer, we intend to delist any remaining shares of our Preferred Stock from trading on the NYSE and, to the extent permitted by law, we intend to deregister any such remaining shares under the Exchange Act. The delisting of any such remaining shares, the reduction in the number of shares of Preferred Stock available for trading and our suspension of dividends on Preferred Stock may have a significant and adverse effect on the liquidity of any trading market for, and the price of, shares of Preferred Stock not exchanged in the Exchange

Offer. Therefore, if you do not exchange your Preferred Stock in the Exchange Offer, your shares of Preferred Stock may become illiquid for an indefinite period of time.

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**Questions and Answers about the Exchange Offer**

**WILL WE PAY DIVIDENDS ON PREFERRED STOCK THAT REMAINS OUTSTANDING AFTER THE COMPLETION OF THE EXCHANGE OFFER?**

The Agreement we entered into with the Fed requires, among other things, that we obtain the approval of the Fed before we pay dividends, including dividends on the Preferred Stock. We cannot determine if or when we may pay such dividends in the future. On July 30, 2009, we announced the suspension of dividends on our Common Stock, Preferred Stock and previously outstanding Series F Preferred Stock, which was sold to the U.S. Treasury on January 16, 2009, effective with the preferred dividend for August 2009. We have not paid dividends on the Preferred Stock since August 2009. Resumption of the payment of dividends on our Preferred Stock also will require us to conclude that their payment will not affect our capital position. Furthermore, we are generally not obligated or required to pay dividends on Preferred Stock and no such dividends can be paid unless they are declared by our board of directors out of funds legally available for payment.

**WILL THE COMMON STOCK TO BE ISSUED IN THE EXCHANGE OFFER BE LISTED FOR TRADING?**

We will file an application with the NYSE to list the shares of our Common Stock to be issued in the Exchange Offer. For more information regarding the market for our Common Stock, see Market Price, Dividend and Distribution Information.

**IS THE CORPORATION MAKING A RECOMMENDATION REGARDING WHETHER I SHOULD TENDER IN THE EXCHANGE OFFER?**

We are not making any recommendation regarding whether you should tender or refrain from tendering your Preferred Stock in the Exchange Offer. Accordingly, you must make your own determination as to whether to tender your Preferred Stock in the Exchange Offer and, if so, the number of shares of Preferred Stock to tender. Before making your decision, we urge you to carefully read this prospectus in its entirety, including the information set forth in the Risk Factors section of this prospectus and all documents incorporated by reference herein.

**WILL I HAVE TO PAY ANY FEES OR COMMISSIONS IF I TENDER MY PREFERRED STOCK?**

Tendering holders are not obligated to pay brokerage fees or commissions to us or to the Dealer Manager, the Exchange Agent or the Information Agent. If your shares of Preferred Stock are held through a broker, securities dealer, custodian, commercial bank, trust company or other nominee who tenders the Preferred Stock on your behalf, your broker, securities dealer, custodian, commercial bank, trust company or other nominee may charge you a commission for doing so. You should consult with your broker, securities dealer, custodian, commercial bank, trust company or other nominee to determine whether any charges will apply.

**WILL THE CORPORATION RECEIVE ANY CASH PROCEEDS FROM THE EXCHANGE OFFER?**

No. The Corporation will not receive any cash proceeds from the Exchange Offer.

**WILL THE EXCHANGE OFFER TRIGGER ANY ANTI-DILUTION RIGHTS?**

Both BNS and the U.S. Treasury have anti-dilution rights.



Pursuant to the terms of the Stockholder Agreement, dated August 24, 2007, by and between us and BNS (the Stockholder Agreement ), for as long as BNS beneficially owns at least 5% of our outstanding Common Stock, BNS has an anti-dilution right and a right of first refusal. For example, if we were to issue all 256,401,610 shares of Common Stock in the Exchange Offer, BNS would be entitled under its anti-dilution right to acquire up to 28,476,121 additional shares of our Common Stock at a price equal to the price per share at which the shares of our Common Stock were issued in the Exchange Offer, subject to the

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**Questions and Answers about the Exchange Offer**

consent of the Federal Reserve. If BNS declines to exercise any part of its anti-dilution right and we issue 256,401,610 shares of Common Stock in the Exchange Offer, BNS's beneficial ownership would be reduced to approximately 2.65%. See Agreement with The Bank of Nova Scotia.

In addition, the U.S. Treasury has an anti-dilution right relating to the warrant that it acquired at the same time that it acquired shares of our Series F Preferred Stock in January 2009. This right will be triggered if the value of the Preferred Stock exchanged for Common Stock in the Exchange Offer, as determined by our board of directors, is equal to less than 90% of the market value of the Common Stock as determined pursuant to the terms of the warrant. At the time we exchanged the Series F Preferred Stock for Series G Preferred Stock, we issued to the U.S. Treasury an amended and restated warrant to replace the original warrant. Like the original warrant, the amended and restated warrant has an anti-dilution right that requires an adjustment to the exercise price for, and the number of shares underlying, the warrant. This adjustment will be necessary under various circumstances, including if we issue shares of Common Stock for consideration per share that is lower than the initial conversion price of the Series G Preferred Stock, or \$0.7252. See Agreement with the U.S. Treasury.

**WILL THE EXCHANGE OFFER AFFECT OUR REGULATORY CAPITAL RATIOS?**

No. The Exchange Offer itself will not affect our Total capital or Tier 1 capital. These ratios will only be affected if BNS exercises its anti-dilution right under the Stockholder Agreement and acquires shares of our Common Stock. See Agreement with The Bank of Nova Scotia. However, the Exchange Offer will improve our tangible common equity ratio and our Tier 1 common equity to risk-weighted assets ratio, which are non-GAAP financial measures used by financial analysts, investment bankers and others to evaluate capital adequacy.

**WILL THE CORPORATION NEED TO RAISE ADDITIONAL CAPITAL AFTER THE COMPLETION OF THE EXCHANGE OFFER?**

We also intend to conduct a Capital Raise, given the continuing difficult economic conditions in Puerto Rico and the other markets in which we operate and the potential for future credit losses. Even if we are able to complete a Capital Raise, the Corporation expects to undertake additional efforts to raise capital through a rights offering and possibly a sale of additional shares of Common Stock in an offering later in 2010. No assurance can be given that any of these additional offerings will be completed.

If BNS continues to own at least 5% of our outstanding shares of Common Stock at the time of any such sale of Common Stock, it can exercise its anti-dilution right and right of first refusal in connection with any such offering. No assurance can be given that any issuance of shares of Common Stock in an offering will be possible at an acceptable price, or that BNS will exercise its anti-dilution right or right of first refusal in the event of an offering, or that the Federal Reserve will approve any such purchase by BNS. If BNS exercises its anti-dilution right or right of first refusal in connection with an offering, the NYSE listing requirements may require us to, once again, seek stockholder approval of the issuance of shares of our Common Stock to BNS. See Agreement with The Bank of Nova Scotia.

**WHAT ARE THE TAX CONSEQUENCES OF MY PARTICIPATING IN THE EXCHANGE OFFER?**

We anticipate that no gain or loss will be recognized upon completion of the Exchange Offer by any persons subject to United States federal or Puerto Rico income tax.

**WHO CAN I TALK TO IF I HAVE QUESTIONS?**

If you have questions regarding the Exchange Offer, please contact the Dealer Manager or the Information Agent at the addresses and telephone numbers included on the back cover of this prospectus.

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### Summary

*The following summary highlights material information contained in this prospectus. It may not contain all of the information that is important to you and is qualified in its entirety by the more detailed information included or incorporated by reference into this prospectus. Before deciding to exchange your securities for shares of our Common Stock, you should carefully consider the information contained in or incorporated by reference into this prospectus, including the information set forth under the heading *Risk Factors* starting on page 26 in this prospectus.*

## **THE CORPORATION**

First BanCorp is a publicly-owned financial holding company that is subject to regulation, supervision and examination by the Federal Reserve. The Corporation was incorporated under the laws of the Commonwealth of Puerto Rico to serve as the bank holding company for FirstBank Puerto Rico ( *FirstBank* or the *Bank* ). The Corporation controls two wholly-owned subsidiaries: FirstBank and FirstBank Insurance Agency, Inc. ( *FirstBank Insurance Agency* ), through which we operate a total of 176 branches, stand-alone offices and in-branch service centers throughout Puerto Rico, the United States and British Virgin Islands and the state of Florida specializing in commercial banking, residential mortgage loan originations, finance leases, personal loans, small loans, auto loans and insurance agency services. FirstBank is a Puerto Rico-chartered commercial bank and FirstBank Insurance Agency is a Puerto Rico-chartered insurance agency. FirstBank is subject to the supervision, examination and regulation of both the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico and the FDIC. Deposits are insured through the FDIC Deposit Insurance Fund. In addition, within FirstBank, the operations in the U.S. Virgin Islands are subject to regulation and examination by the United States Virgin Islands Banking Board; in the British Virgin Islands, operations are subject to regulation by the British Virgin Islands Financial Services Commission. As of June 30, 2010, First BanCorp had approximately \$18.1 billion in assets, \$12.7 billion in deposits and \$1.4 billion in stockholders' equity.

The Corporation's principal executive offices are located at 1519 Ponce de Leon Avenue, Stop 23, Santurce, Puerto Rico 00908, and its telephone number is (787) 729-8200.

## **REGULATORY AGREEMENTS**

The Corporation entered into the Agreement with the Fed dated June 3, 2010 and our subsidiary, FirstBank, agreed to the Order with the FDIC and the OCIF dated June 2, 2010. Pursuant to these Agreements, the Corporation and FirstBank have agreed to take certain actions designed to improve their financial condition. These actions include the adoption and implementation of various plans, procedures and policies related to their capital, lending activities, liquidity and funds management and strategy. In addition, the Order requires FirstBank to develop and adopt a plan to attain a leverage ratio of at least 8%, a Tier 1 capital to risk-weighted assets ratio of at least 10% and a Total capital to risk-weighted assets ratio of at least 12%, and obtain approval prior to issuing, increasing, renewing or rolling over brokered deposits. The Agreement also requires the Corporation to obtain the approval of the Fed prior to paying dividends, receiving dividends from FirstBank, incurring, increasing or guaranteeing any debt, or purchasing or redeeming any stock, to comply with certain notice provisions prior to appointing any new directors or senior executive officers and to comply with certain restrictions on severance payments and indemnification.

Concurrently with the issuance by the FDIC of its Order, the FDIC granted FirstBank a temporary waiver through June 30, 2010 to enable it to continue accessing the brokered deposit market. FirstBank has obtained an additional waiver through September 30, 2010. FirstBank will request waivers for future periods although no assurance can be given that the FDIC will continue to issue such waivers. Any failure to obtain a future waiver would have a

significantly adverse effect on FirstBank, which has relied on brokered deposits to fund a major part of its operations and had, as of June 30, 2010, \$7.1 billion in brokered deposits outstanding, representing approximately 56% of our total deposits. For more information about the Agreements, see Regulatory Agreements.

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**THE EXCHANGE OFFER**

We decided to conduct this Exchange Offer to improve our capital structure given the continuing difficult economic conditions in the markets in which we operate and the evolving regulatory environment. We must increase our common equity to provide additional protection against the future recognition of additional loan loss reserves against our loan portfolio and credit losses associated with the disposition of non-performing assets due to the current economic situation in Puerto Rico and the United States that has impacted the Corporation's asset quality and earnings performance. Total non-performing loans to total loans increased to 12.40% as of June 30, 2010 from 11.23% as of December 31, 2009 and from 8.94% as of June 30, 2009. The Exchange Offer will strengthen our capital position if it is successful. Our Tier 1 capital will only be affected if BNS decides to exercise its anti-dilution right under the Stockholder Agreement and acquires shares of our Common Stock. See Agreement with The Bank of Nova Scotia. The Exchange Offer will improve the Corporation's Tier 1 common equity to risk-weighted assets ratio and tangible common equity to tangible assets ratio, which, as of June 30, 2010, were 2.86% and 2.57%, respectively. If 70% of our outstanding shares of Preferred Stock is exchanged in the Exchange Offer, which is the Corporation's targeted success rate for the Exchange Offer, our Tier 1 common equity ratio and tangible common equity ratio as of June 30, 2010 on a pro forma basis after giving effect to the Exchange Offer would have been 5.92% and 4.70%, respectively. Our Tier 1 common equity would be strengthened by \$385 million based on a 70% success rate for the exchange. See Regulatory and Other Capital Ratios Reconciliation of Tangible Common Equity and Tangible Assets and Regulatory and Other Capital Ratios Reconciliation of Common Stockholders Equity (GAAP) to Tier 1 Common Equity (Non-GAAP). We believe that the Exchange Offer will enhance our long-term financial stability and improve our ability to operate in the current economic environment. In addition, it will improve our ability to access the capital markets in order to fund strategic initiatives or other business needs and to absorb any future credit losses. See The Exchange Offer Purpose of the Exchange Offer. Finally, if holders of \$385 million of the liquidation preference of the Preferred Stock tender their shares of Preferred Stock in the Exchange Offer, we raise \$500 million of additional capital, and the holders of our Common Stock approve amendments to our Articles of Incorporation, within nine months of the July 7, 2010 date of our agreement with the U.S. Treasury, we will meet the substantive conditions necessary for us to compel the U.S. Treasury to convert into Common Stock the shares of a new series of Series G Preferred Stock that we issued to the U.S. Treasury in exchange for the \$400 million liquidation value of our Series F Preferred Stock, and accrued and unpaid dividends. See Agreement with the U.S. Treasury.

**ADDITIONAL EFFORTS THE CORPORATION IS TAKING TO IMPROVE ITS CAPITAL**

We have assured our regulators that we are committed to raising capital and we have submitted capital plans to our regulators regarding how we plan to raise capital. In addition to this Exchange Offer, we have been taking steps to implement strategies to increase tangible common equity and regulatory capital through (1) a Capital Raise, (2) the conversion into Common Stock of the shares of Series G Preferred Stock, subject to the satisfaction of the conditions to such conversion, and (3) a rights offering to common stockholders. With respect to a Capital Raise, we are seeking to raise at least \$500 million of equity because we believe that amount would enable us to absorb possible additional losses based on a worst case evaluation of possible losses over the next five years while maintaining the capital ratios required for a well-capitalized financial institution as well as those required by the FDIC's Order. We expect to amend this Prospectus to disclose any material developments relating to a Capital Raise that occur prior to the expiration date of the Exchange Offer. If we complete a Capital Raise, we expect to issue rights to the holders of our currently outstanding 92,542,722 shares of Common Stock that entitle them to acquire one share of Common Stock for each share of Common Stock they own at a price equal to the purchase price in a Capital Raise. No assurance can be given that we will complete a Capital Raise, the conversion of the Series G Preferred Stock or a rights offering.

Our inability to complete the Exchange Offer would hinder our efforts to sell Common Stock in a Capital Raise. If we need to continue to recognize significant reserves and we cannot complete a Capital



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Raise, the Corporation and FirstBank may not be able to comply with the minimum capital requirements included in the capital plans required by the Agreements. These capital plans, which are subject to the approval of our regulators, set forth our plan to attain the capital ratio requirements set forth in the Order over time. In addition to a Capital Raise, the capital plans contemplate alternative capital preservation strategies, including among other things, an accelerated deleverage strategy and the divestiture of profitable businesses. If, at the end of any quarter, we do not comply with any specified minimum capital ratios, we must notify our regulators. The Corporation must notify the Fed within 30 days of the end of any quarter of its inability to comply with a capital ratio requirement and submit an acceptable written plan that details the steps it will take to comply with the requirement. FirstBank must immediately notify the FDIC of its inability to comply with a capital ratio requirement and, within 45 days, it must either increase its capital to comply with the ratio requirements or submit a contingency plan to the FDIC for its sale, merger, or liquidation. In the event of a liquidation of FirstBank, the holders of any outstanding preferred stock would rank senior to the holders of our Common Stock with respect to rights upon any liquidation of the Corporation.

## **AGREEMENT WITH THE U.S. TREASURY RELATING TO THE CONVERSION OF THE SERIES G PREFERRED STOCK**

On July 20, 2010, we issued to the U.S. Treasury shares of Series G Preferred Stock in exchange for our Series F Preferred Stock, which had a liquidation preference of \$400 million, and accrued and unpaid dividends on the Series F Preferred Stock. The Series G Preferred Stock has similar terms (including the same liquidation preference), but is convertible, as described below, into approximately 380.2 million shares of Common Stock based on an initial conversion rate of 896.3045 shares of Common Stock for each share of Series G Preferred Stock (calculated by dividing \$650, or a discount of 35% from the \$1,000 liquidation preference per share of Series G Preferred Stock, by the initial conversion price of \$0.7252 per share, which is subject to adjustment). See Agreement with the U.S. Treasury.

## **IMPACT OF ISSUANCE OF ADDITIONAL SHARES OF COMMON STOCK ON PARTICIPANTS IN THE EXCHANGE OFFER**

Participants in the Exchange Offer would be significantly diluted if we issue additional shares of Common Stock other than through the Exchange Offer. These additional issuances include: (i) the possible issuance of shares of Common Stock in a Capital Raise at a price significantly below the book value per share of Common Stock as of June 30, 2010 of \$5.48; (ii) the possible issuance of shares of Common Stock upon conversion of the Series G Preferred Stock; and (iii) the possible issuance of additional shares of Common Stock to BNS pursuant to its anti-dilution right, subject to the consent of the Federal Reserve (see Agreement with The Bank of Nova Scotia ).

Our issuance of 256,401,610 shares of Common Stock in the Exchange Offer would reduce on a pro forma basis our loss per share for the six-month period ended June 30, 2010 from \$2.27 to \$0.60 and our book value per share as of June 30, 2010 from \$5.48 to \$3.03. If, subsequent to our issuance of 256,401,610 shares of Common Stock in the Exchange Offer, we were to issue shares of Common Stock to the U.S. Treasury upon conversion of the Series G Preferred Stock, to investors in a Capital Raise and to BNS, we estimate that we would issue approximately 1.43 billion additional shares based on (i) our agreement with the U.S. Treasury and (ii) a sale in a Capital Raise of \$500 million at a per-share price of \$0.57, the market price of our Common Stock on July 14, 2010. Accordingly, our loss per share for the six-month period ended June 30, 2010 and our book value per share as of June 30, 2010 would be reduced on a pro forma basis to \$0.12 and \$1.16, respectively. Such additional issuances of shares of Common Stock would decrease the voting power of participants in the Exchange Offer from 73% after the completion of the Exchange Offer, assuming all of the Preferred Stock is tendered, to 14% if approximately 1.68 billion shares of Common Stock are issued in a Capital Raise, to the U.S. Treasury and to BNS upon its exercise in full of its anti-dilution right. Finally, the additional issuances of shares of Common Stock may adversely impact the market price of our Common Stock.





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The participants in the Exchange Offer may also experience additional dilution upon the exercise by the U.S. Treasury of its warrant. The Corporation has outstanding a warrant held by the U.S. Treasury to purchase 5,842,259 shares of Common Stock. If this warrant is exercised, the issuance of shares of Common Stock would further reduce the loss per share, book value per share and voting power of the participants in the Exchange Offer. In addition, as of June 30, 2010, there are approximately 2,073,200 shares of Common Stock underlying options granted to employees pursuant to the 1997 Stock Option Plan. The holders of these options are unlikely to exercise their options because the weighted average exercise price was \$13.24 as of June 30, 2010.

At this time, we expect that any investor in a Capital Raise would acquire less than 10% of our outstanding shares to avoid being considered a bank holding company under the Bank Holding Company Act of 1956. If the Series G Preferred Stock is converted into Common Stock, the U.S. Treasury would acquire approximately 21% of our Common Stock, assuming approximately 1.68 billion shares are issued in the Exchange Offer, in the Capital Raise, to the U.S. Treasury and to BNS. Any such ownership would give the U.S. Treasury the ability to influence stockholder matters in a manner that may conflict with the interests of other holders of Common Stock.

**REGULATORY AND OTHER CAPITAL RATIOS<sup>(1)</sup>**

The following table sets forth our capital ratios as of June 30, 2010 on an as reported basis, as well as on a pro forma basis after giving effect to the Exchange Offer. The pro forma ratios presented reflect (i) completion of the Exchange Offer under the Low Participation Scenario and (ii) completion of the Exchange Offer under the High Participation Scenario. This table should be read in conjunction with the information set forth under Selected Financial Data, Unaudited Pro Forma Financial Information, Regulatory and Other Capital Ratios and our consolidated audited financial statements set forth in our Form 10-Q for the quarter ended June 30, 2010, which are incorporated by reference into this prospectus. See also Risk Factors.

		<b>As of June 30, 2010</b>	
	<b>As reported</b>	<b>Pro forma for Exchange Offer (Low)<sup>(2)</sup></b>	<b>Pro forma for Exchange Offer (High)<sup>(3)</sup></b>
<b>Total capital (Total capital to risk-weighted assets)</b>	13.35%	13.35%	13.35%
<b>Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)</b>	12.05	12.05	12.05
<b>Leverage (Tier 1 capital to average assets)</b>	8.14	8.14	8.14
<b>Tangible common equity (Tangible common equity to tangible assets)</b>	2.57	4.09	5.31
<b>Tier 1 common (Tier 1 common equity to risk-weighted assets)</b>	2.86	5.05	6.80

*(1) The tangible common equity ratio is a non-GAAP financial measure. It is not prepared in accordance with generally accepted accounting principles in the United States ( GAAP ). The tangible common equity ratio is generally used by financial analysts and investment bankers to evaluate capital adequacy. The ratio of Tier 1 common equity to risk-weighted assets is a non-GAAP financial measure used by the Federal Reserve in*

*connection with the stress test administered to the 19 largest U.S. bank holding companies under the SCAP, the results of which were announced on May 7, 2009. For a reconciliation of these non-GAAP financial measures to U.S. GAAP, see Regulatory and Other Capital Ratios Reconciliation of Tangible Common Equity and Tangible Assets and Regulatory and Other Capital Ratios Reconciliation of Common Stockholders Equity (GAAP) to Tier 1 Common Equity (Non-GAAP).*

- (2) *The Low Participation Scenario assumes (i) the exchange of 50% of the outstanding shares of Preferred Stock (\$275.05 million aggregate liquidation preference) for 128,200,805 shares of our Common Stock, and (ii) a Relevant Price of \$1.18 per share.*

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*(3) The High Participation Scenario assumes (i) the exchange of 90% of the outstanding shares of Preferred Stock (\$495.09 million aggregate liquidation preference) for 230,761,449 shares of our Common Stock, and (ii) a Relevant Price of \$1.18 per share.*

**DIVIDEND SUSPENSION ON COMMON STOCK AND PREFERRED STOCK**

On July 30, 2009, we announced the suspension of dividends on our Common Stock, Preferred Stock and previously outstanding Series F Preferred Stock effective with the preferred dividend for August 2009. We are generally not obligated or required to pay dividends on our Common Stock or preferred stock and no such dividends can be paid unless they are declared by our board of directors out of funds legally available for payment. Moreover, the Agreement with the Fed requires us to obtain its approval before we pay any dividends. Furthermore, our board of directors cannot declare, set apart or pay any dividends on shares of our Common Stock unless (i) any accrued and unpaid dividends on our Preferred Stock for the twelve monthly dividend periods ending on the immediately preceding dividend payment date have been paid or are paid contemporaneously and the full monthly dividend on our Preferred Stock for the then current month has been or is contemporaneously declared and paid or declared and set apart for payment and, (ii) with respect to our Series G Preferred Stock, any accrued and unpaid dividends for past dividend periods, including the latest completed dividend period, on all outstanding shares of Series G Preferred Stock have been declared and paid in full.

**ANTI-DILUTION RIGHTS THAT MAY BE TRIGGERED BY THE EXCHANGE OFFER**

Both BNS and the U.S. Treasury have anti-dilution rights. BNS's anti-dilution right will be triggered by the Exchange Offer. If BNS exercises its anti-dilution right, BNS would be entitled to acquire up to that number of shares of Common Stock that would enable it to maintain its percentage interest in the Corporation, or up to 28,476,121 additional shares of our Common Stock if we issue 256,401,610 shares in the Exchange Offer, at a price equal to the price per share at which the shares of our Common Stock were issued in the Exchange Offer. The U.S. Treasury has an anti-dilution right relating to the warrant that it acquired at the same time that it acquired shares of our Series F Preferred Stock in January 2009. This right will be triggered if the value of the Preferred Stock exchanged for Common Stock in the Exchange Offer, as determined by our board of directors, is equal to less than 90% of the market value of the Common Stock as determined pursuant to the terms of the warrant. At the time we exchanged the Series F Preferred Stock for Series G Preferred Stock, we issued to the U.S. Treasury an amended and restated warrant to replace the original warrant. Like the original warrant, the amended and restated warrant has an anti-dilution right that requires an adjustment to the exercise price for, and the number of shares underlying, the warrant. This adjustment will be necessary under various circumstances, including if we issue shares of Common Stock for consideration per share that is lower than the initial conversion price of the Series G Preferred Stock, or \$0.7252. See Agreement with the U.S. Treasury and Agreement with The Bank of Nova Scotia.

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## Summary of Terms of the Exchange Offer

## Exchange Offer

We are offering to issue up to 256,401,610 newly issued shares of our Common Stock in exchange for any and all of the issued and outstanding shares of Preferred Stock, validly tendered and not validly withdrawn on or prior to the expiration date, upon the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal (including, if the Exchange Offer is extended or amended, the terms and conditions of any such extension or amendment).

For each share of Preferred Stock that we accept for exchange in accordance with the terms of the Exchange Offer, we will issue a number of shares of our Common Stock having the aggregate dollar value (based on the Relevant Price) equal to the Exchange Value set forth in the table below.

**Depending on the trading price of our Common Stock compared to the Relevant Price, the market value of the Common Stock we issue in exchange for each share of Preferred Stock we accept for exchange may be less than, equal to or greater than the applicable Exchange Value referred to below.**

Set forth below is a table that shows, with respect to each series of Preferred Stock, the aggregate liquidation preference outstanding, the liquidation preference per share of Preferred Stock and the applicable Exchange Value for each series.

CUSIP	Title of securities	Aggregate liquidation preference outstanding	Liquidation preference per share	Exchange Value
318672201	7.125% Noncumulative Perpetual Monthly Income Preferred Stock, Series A	\$90,000,000	\$ 25	\$ 13.75
318672300	8.35% Noncumulative Perpetual Monthly Income Preferred Stock, Series B	\$75,000,000	\$ 25	\$ 13.75
318672409	7.40% Noncumulative Perpetual Monthly Income Preferred Stock, Series C	\$103,500,000	\$ 25	\$ 13.75
318672508	7.25% Noncumulative Perpetual Monthly Income Preferred Stock, Series D	\$92,000,000	\$ 25	\$ 13.75
318672607	7.00% Noncumulative Perpetual Monthly Income Preferred Stock, Series E	\$189,600,000	\$ 25	\$ 13.75

See The Exchange Offer Terms of the Exchange Offer and The Exchange Offer Procedures for Tendering Shares of Preferred Stock.

Purpose of the Exchange Offer

We are conducting this Exchange Offer to improve our capital structure given the continuing difficult economic conditions in the markets in which we operate and the evolving regulatory environment. We believe that the Exchange Offer will enhance our long-term financial stability and improve our ability to operate in the current economic environment. In addition, it will improve our ability to access the capital markets in order to fund strategic initiatives or other business needs and to

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absorb any future credit losses. Finally, if holders of \$385 million of the liquidation preference of the Preferred Stock tender their shares of Preferred Stock in the Exchange Offer, we raise \$500 million of additional capital, and the holders of our Common Stock approve amendments to our Articles of Incorporation, within nine months of the July 7, 2010 date of our agreement with the U.S. Treasury, we will meet the substantive conditions necessary for us to compel the U.S. Treasury to convert into Common Stock the shares of Series G Preferred Stock that we issued to the U.S. Treasury in exchange for the \$400 million liquidation value of our Series F Preferred Stock, and accrued and unpaid dividends. See Agreement with the U.S. Treasury.

Consideration Offered in the Exchange Offer

We are offering to exchange up to 256,401,610 newly issued shares of our Common Stock for outstanding shares of Preferred Stock, on the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal.

As of August 13, 2010, we had approximately 92.5 million shares of Common Stock outstanding.

Our acceptance of validly tendered shares of Preferred Stock for exchange is subject to the terms and conditions of the Exchange Offer. We will promptly return any securities that are not accepted for exchange, such as, because the tender is not in proper form or our acceptance of the tender would be unlawful, in our opinion, following the expiration of the Exchange Offer. We will promptly return all tendered securities following termination of the Exchange Offer.

For each share of Preferred Stock that we accept for exchange in accordance with the terms of the Exchange Offer, we will issue a number of shares of our Common Stock having the aggregate dollar value (based on the Relevant Price) equal to the Exchange Value set forth in the table under The Exchange Offer Terms of the Exchange Offer Offer Consideration, subject to the Minimum Share Price limitation.

**Depending on the trading price of our Common Stock compared to the Relevant Price described above, the market value of the Common Stock we issue in exchange for each share of Preferred Stock we accept for exchange may be less than, equal to or greater than the relevant Exchange Value referred to above.**

If the Minimum Share Price is used to determine the exchange ratio, 11.6525 shares of Common Stock will be issued in exchange for each share of Preferred Stock that we accept for tender in the Exchange Offer; the market value of those shares will be less than the applicable Exchange Value if the trading price of our Common Stock is below \$1.18 per share.

We are not making a recommendation as to whether you should exchange your shares of Preferred Stock in the





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Exchange Offer. We have not retained, and do not intend to retain, any unaffiliated representatives to act solely on behalf of the holders of the shares of Preferred Stock for purposes of negotiating the Exchange Offer or preparing a report concerning the fairness of the Exchange Offer. You must make your own independent decision regarding your participation in the Exchange Offer.

Publication of Exchange Ratio Information

Throughout the Exchange Offer, the indicative average VWAP, the Minimum Share Price, the resultant indicative Relevant Price, and the indicative exchange ratios will be available at [www.firstbankpr.com](http://www.firstbankpr.com), by clicking on Exchange Offer in the Investor Relations section at this address, and from the Information Agent, at one of its numbers listed on the back cover page of this prospectus. We will announce the final exchange ratio for each series of Preferred Stock prior to 9:00 a.m., New York City time, on the business day immediately succeeding the second business day prior to the expiration date of the Exchange Offer, and those final exchange ratios will also be available by that time at [www.firstbankpr.com](http://www.firstbankpr.com), by clicking on Exchange Offer in the Investor Relations section at this address, and from the Information Agent. No additional information on our website is deemed to be part of or incorporated by reference into this prospectus.

Expiration Date

The Exchange Offer will expire at 9:30 a.m., New York City time, on August 25, 2010 unless the Exchange Offer is extended or earlier terminated by us. The term *expiration date* means such date and time or, if an Exchange Offer is extended, the latest date and time to which the Exchange Offer is so extended.

Fractional Shares

We will not issue fractional shares of our Common Stock in the Exchange Offer and no cash will be paid for fractional shares. Instead, the number of shares of Common Stock received by each holder whose shares of Preferred Stock are accepted for exchange in the Exchange Offer will be rounded down to the nearest whole number.

Settlement Date

The settlement date with respect to the Exchange Offer will be a date promptly following the expiration date. We currently expect the settlement date to be three trading days after the expiration date.

Withdrawal Rights

You may withdraw previously tendered shares of Preferred Stock at any time before the expiration date of the Exchange Offer. In addition, you may withdraw any shares of Preferred Stock that you tender that are not accepted by us for exchange after the expiration of 40 business days after the commencement of the Exchange Offer. See *The Exchange Offer Withdrawal of Tenders*.

Conditions to the Exchange Offer

Our obligation to issue shares of our Common Stock in exchange for shares of Preferred Stock in the Exchange Offer is subject to a number of conditions that must be satisfied or



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waived by us, including, among others, (i) pursuant to NYSE listing requirements, the approval by the holders of our Common Stock to the issuance of up to 256,401,610 shares of Common Stock upon the exchange of Preferred Stock in the Exchange Offer, (ii) the approval by the holders of our Common Stock of an amendment to our Articles of Incorporation to reduce the par value of a share of Common Stock from \$1.00 to \$0.10 per share, if necessary to issue shares of Common Stock in the Exchange Offer (the reduction will be necessary to complete the Exchange Offer if, for example, the market value of a share of Preferred Stock tendered in the exchange is less than \$10 at a time when the market value of the Common Stock would result in the issuance of more than 10 shares per tendered share of Preferred Stock), and (iii) the absence of any change or development (affecting our business or otherwise) that in our reasonable judgment may materially reduce the anticipated benefits to us of the Exchange Offer or that has had, or could reasonably be expected to have, a material adverse effect on us or our businesses, financial condition, operations or prospects. See *The Exchange Offer Conditions of the Exchange Offer*.

Extensions; Waivers and Amendments;  
Termination

Subject to applicable law, we reserve the right to: (1) extend the Exchange Offer; (2) waive any and all conditions to or amend the Exchange Offer in any respect, including amending the Exchange Value or the Minimum Share Price; or (3) terminate the Exchange Offer. Any extension, waiver, amendment or termination will be followed as promptly as practicable by a public announcement thereof, such announcement in the case of an extension to be issued no later than 9:00 a.m., New York City time, on the next business day after the last previously scheduled expiration date. See *The Exchange Offer Expiration Date; Extension; Termination; Amendment*.

Procedures for Tendering Shares of  
Preferred Stock

Certain shares of Preferred Stock were issued in book-entry form, and are currently represented by one or more global certificates held for the account of DTC. If your securities are book entry securities, you may tender your shares of Preferred Stock by transferring them through ATOP or following the other procedures described under *The Exchange Offer Procedures for Tendering Shares of Preferred Stock*.

If you hold your shares of Preferred Stock through a broker, securities dealer, custodian, commercial bank, trust company or other nominee, in order to validly tender your shares of Preferred Stock in the Exchange Offer, you must follow the instructions provided by your broker, securities dealer, custodian, commercial bank, trust company or other nominee with regard to procedures for tendering, in order to enable your broker, securities dealer, custodian, commercial bank, trust company or other nominee to comply with the procedures described below.

**Beneficial owners are urged to instruct appropriately their broker, securities dealer, custodian, commercial bank, trust**



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**company or other nominee at least five business days prior to the expiration date in order to allow adequate processing time for their instruction.**

In order for a broker, securities dealer, custodian, commercial bank, trust company or other nominee to tender validly your shares of Preferred Stock in the Exchange Offer, such broker, securities dealer, custodian, commercial bank, trust company or other nominee must deliver to the Exchange Agent an electronic message that will contain:

Ø your acknowledgment and agreement to, and agreement to be bound by, the terms of the accompanying letter of transmittal; and

Ø a timely confirmation of book-entry transfer of your shares of Preferred Stock into the Exchange Agent's account.

Should you have any questions as to the procedures for tendering your shares of Preferred Stock, please call your broker, securities dealer, custodian, commercial bank, trust company or other nominee; or call the Information Agent.

On the date of any tender for exchange, if your interest in shares of Preferred Stock is in certificated form, you must do each of the following in order to validly tender for exchange:

Ø complete and manually sign the accompanying letter of transmittal provided by the Information Agent, or a facsimile of the letter of transmittal, and deliver the signed letter to;

Ø surrender the certificates for your shares of Preferred Stock to the Information Agent;

Ø if required, furnish appropriate endorsements and transfer documents; and

Ø if required, pay all transfer or similar taxes.

You may obtain copies of the required form of the letter of transmittal from the Exchange Agent.

**WE ARE NOT PROVIDING FOR GUARANTEED DELIVERY PROCEDURES AND, THEREFORE, YOU MUST ALLOW SUFFICIENT TIME FOR THE NECESSARY TENDER PROCEDURES TO BE COMPLETED DURING NORMAL BUSINESS HOURS OF DTC ON OR PRIOR TO THE EXPIRATION DATE.**

**TENDERS RECEIVED BY THE EXCHANGE AGENT AFTER THE EXPIRATION DATE WILL BE DISREGARDED AND HAVE**

**NO EFFECT.**

See The Exchange Offer Procedures for Tendering Shares of Preferred Stock.

United States Federal Income Tax Considerations

For United States federal income tax purposes: (i) the exchange of shares of Preferred Stock for shares of our Common Stock

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pursuant to the Exchange Offer will be treated as a recapitalization within the meaning of Section 368(a)(1)(E) of the Internal Revenue Code of 1986, as amended, and (ii) it is intended that this prospectus, in combination with the related letter of transmittal, will constitute a plan of reorganization, within the meaning of Treasury Regulation Section 1.368-2(g). Therefore, we anticipate that no gain or loss will be recognized upon completion of the Exchange Offer by any persons subject to United States federal income tax. See Certain Material U.S. Federal Income Tax Considerations. Each holder should consult its own tax advisor regarding the U.S. federal, state, local, and foreign income and other tax consequences of exchanging shares of Preferred Stock for shares of our Common Stock and of owning and disposing of shares of our Common Stock.

**Puerto Rico Income Tax Considerations** For Puerto Rico income tax purposes: (i) the exchange of the shares of Preferred Stock for shares of our Common Stock pursuant to the Exchange Offer will be treated as a recapitalization within the meaning of Section 1112(g)(1)(E) of the Puerto Rico Internal Revenue Code of 1994, as amended (the PR Code ) and (ii) it is intended that this prospectus, in combination with the related letter of transmittal, will constitute a plan of reorganization, within the meaning of Article 1112(g)-2(i) of the Regulations under the PR Code. Therefore, we anticipate that no gain or loss will be recognized upon completion of the Exchange Offer by any persons subject to Puerto Rico income tax. See Taxation Certain Puerto Rico Tax Considerations. Each holder should consult its own tax advisor regarding the application to its particular circumstances of the Puerto Rico income tax consequences as well as the application of any, state, local and foreign income and other tax consequences of exchanging the shares of Preferred Stock for our Common Stock and of owning and disposing of our Common Stock.

**Consequences of Not Exchanging Shares of Preferred Stock** Shares of Preferred Stock not exchanged in the Exchange Offer will remain outstanding after completion of the Exchange Offer. The reduction in the number of shares available for trading after completing the Exchange Offer, our suspension of the payment of dividends on Preferred Stock since August 2009, our inability to pay any dividends without Fed approval under the Agreement, our delisting of any remaining shares of Preferred Stock from trading on the NYSE and, to the extent permitted by law, the deregistration of any such remaining shares under the Exchange Act may have a significant and adverse effect on the liquidity of any trading market for, and the price of, such shares of Preferred Stock and may result in the shares of Preferred Stock being illiquid for an indefinite period of time.

**Comparison of Rights** There are material differences between the rights of holders of our Common Stock and holders of preferred stock. See

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Description and Comparison of Preferred Stock, Series G Preferred Stock and Common Stock Rights.

Appraisal/Dissenters Rights

No appraisal or dissenters rights are available to holders of shares of Preferred Stock under applicable law in connection with the Exchange Offer.

Market Trading

Our Common Stock is traded on the NYSE under the symbol FBP. The last reported closing price of our Common Stock on August 17, 2010, the last trading day prior to the date of this prospectus, was \$0.52 per share. We will file an application with the NYSE to list the shares of our Common Stock to be issued in the Exchange Offer. The shares of Preferred Stock are traded on the NYSE. After the completion of the Exchange Offer, we intend to delist any remaining shares of our Preferred Stock from trading on the NYSE.

Brokerage Commissions

No brokerage commissions are payable by the holders of the shares of Preferred Stock to the Dealer Manager, the Exchange Agent and Information Agent or us.

Soliciting Dealer Fee

With respect to any tender of a series of shares of Preferred Stock, we will pay the relevant soliciting dealer a fee not to exceed 0.50% of the aggregate liquidation preference or liquidation amount, as applicable, of all securities accepted for exchange. See The Exchange Offer Soliciting Dealer Fee.

Dealer Manager

UBS Securities LLC

Exchange Agent and Information Agent

BNY Mellon Shareowner Services

Further Information

If you have questions about any of the terms of the Exchange Offer, please contact the Dealer Manager or the Information Agent. If you have questions regarding the procedures for tendering your shares of Preferred Stock, please contact your broker, securities dealer, custodian, commercial bank, trust company or other nominee; or contact the Exchange Agent and Information Agent. The contact information for the Dealer Manager and the Information Agent and Exchange Agent is set forth on the back cover page of this prospectus.

As required by the Securities Act of 1933, as amended, First BanCorp filed a registration statement (No. 333-165252) relating to the Exchange Offer with the Securities and Exchange Commission. This document is a part of that registration statement, which includes additional information. See also Where You Can Find More Information.



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Risk Factors

*You should carefully consider the risks described below and all of the information contained in or incorporated by reference into this prospectus before you decide whether to participate in the Exchange Offer.*

**RISK RELATING TO OUR BUSINESS**

**Our banking subsidiary is operating under a Consent Order with the FDIC and OCIF and the Corporation is operating under a Written Agreement with the Federal Reserve Bank of New York.**

On June 4, 2010, we announced that FirstBank has agreed to a Consent Order (the Order ) issued by the FDIC and OCIF dated June 2, 2010, and the Corporation has entered into a Written Agreement with the Fed dated June 3, 2010 (collectively, the Agreements ). These Agreements stem from the FDIC s examination as of the period ended June 30, 2009 conducted during the second half of 2009.

Under the Order, the Bank has agreed to address specific areas through the adoption and implementation of procedures, plans and policies designed to improve the safety and soundness of the Bank. These actions include, among others, that the Bank will have and retain qualified management and have active Board participation in the affairs of the Bank, develop and adopt a 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%, reduce the level of special mention and classified assets and delinquent and non-accrual loans, develop a funds management plan, which includes a reduction in the reliance on brokered deposits, obtain approval prior to the issuance of any brokered deposits and report quarterly on the Bank s progress in meeting the requirements of the Order.

The Written Agreement, which is designed to enhance the Corporation s ability to act as a source of strength to the Bank, requires that the Corporation obtain Fed approval before paying dividends, receiving dividends from the Bank, making payments on subordinated debt or trust preferred securities, incurring or guaranteeing debt or purchasing or redeeming any corporate stock. The Written Agreement also requires the Corporation to submit to the Fed a capital plan and progress reports, comply with certain notice provisions prior to appointing new directors or senior executive officers and comply with certain payment restrictions on severance payments and indemnification restrictions.

We anticipate that we will need to continue to dedicate significant resources to our efforts to comply with these Agreements, which may increase operational costs or adversely affect the amount of time our management has to conduct our operations. Our inability to complete the Exchange Offer or the conversion of the Series G Preferred Stock into Common Stock within the nine-month period required by our agreement with the U.S. Treasury would hinder our efforts to sell Common Stock in a Capital Raise. If we need to continue to recognize significant reserves and we cannot complete a Capital Raise, or cannot accomplish other alternate capital preservation strategies contemplated, including among others, an accelerated deleverage strategy and the divesture of profitable businesses the Corporation and FirstBank may not be able to comply with the minimum capital requirements included in the capital plans required by the Agreements. These capital plans, which we have submitted but are subject to the approval of our regulators, set forth our plan to attain the capital ratio requirements set forth in the Order over time. If, at the end of any quarter, we do not comply with any specified minimum capital ratios, we must notify our regulators. The Corporation must notify the Fed within 30 days of the end of any quarter of its inability to comply with a capital ratio requirement and submit an acceptable written plan that details the steps it will take to comply with the requirement. FirstBank must immediately notify the FDIC of its inability to comply with a capital ratio requirement and, within 45 days, it must either increase its capital to comply with the ratio requirements or submit a contingency plan to the FDIC for its sale, merger, or liquidation. In the event of a liquidation of FirstBank, the holders of any



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**Risk Factors**

outstanding preferred stock would rank senior to the holders of our Common Stock with respect to rights upon any liquidation of the Corporation. If we fail to comply with the Agreements, we may become subject to additional regulatory enforcement action up to and including the appointment of a conservator or receiver for the Bank. In many cases when a conservator or receiver is appointed for a wholly-owned bank, the bank holding company files for bankruptcy protection.

**Additional capital is necessary to assure future compliance with the Agreements.**

The Corporation must increase its common equity to provide additional protection against future operating losses resulting from the continuing adverse economic conditions in Puerto Rico and the United States. If we are not able to increase our capital or otherwise improve our financial condition in the near term, we believe that it is likely that our regulators could take additional regulatory action that could materially affect our business, operations, financial condition, or results of operations or the value of our Common Stock.

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

Due to financial results during 2009 and the first half of 2010, we need to access the capital markets in order to raise additional capital to absorb future credit losses due to the distressed economic environment, maintain adequate liquidity and capital resources, finance future growth, investments or strategic acquisitions and implement the capital plans required by the Agreements. We have been taking steps to raise \$500 million of common equity. We cannot provide assurances that such capital will be available on acceptable terms or at all. If we are unable to obtain additional capital or otherwise improve our financial condition in the near future, or are unable to accomplish other alternate capital preservation strategies, which could allow us to meet the minimum capital requirements included in the capital plans required by the Agreements, we believe that it is likely that our regulators would take additional regulatory action that could have a material adverse effect on our business, operations, financial condition or results of operations or the value of our Common Stock. In addition, without adequate capital, we may not be able to maintain adequate liquidity and capital resources or to finance future growth, make strategic acquisitions or investments.

**Certain funding sources may not be available to us.**

Our funding sources include core deposits, brokered deposits, borrowings from the Federal Home Loan Bank and repurchase agreements with several counterparties.

A large portion of FirstBank's funding is retail brokered certificates of deposit (CDs). We issue brokered CDs to, among other things, pay operating expenses, maintain our lending activities, replace certain maturing liabilities, and control interest rate risk. As of June 30, 2010, we had \$7.1 billion in brokered deposits outstanding, representing approximately 56% of our total deposits, and a reduction from \$7.6 billion at year end 2009. The average term to maturity of the retail brokered CDs outstanding as of June 30, 2010 was approximately 1.2 years. Approximately 3% of the principal value of these certificates is callable at our option.

The Order we recently entered into requires us to obtain approval prior to issuing, renewing or rolling over brokered CDs and to develop a plan to reduce our reliance on brokered CDs. Although the FDIC has issued temporary waivers through September 30, 2010, no assurance can be given that we will continue to receive such waivers or that such waivers will enable us to issue brokered CDs in amounts that meet our funding needs. The use of brokered CDs has

been particularly important for the funding of our operations. If we are unable to issue brokered CDs, our results of operations and liquidity would be adversely affected.

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During 2009 and 2010, the Bank participated in liquidity stimulus programs promoted by the U.S. Government. As market conditions improved, the stimulus was gradually withdrawn, and participating financial institutions have been asked to shift to regular funding sources, and re-pay borrowings such as Advances from the Federal Reserve Bank Discount Window. Although the Fed no longer permits FirstBank to borrow from the Discount Window for its regular funding needs, we believe that continued access to our regular funding sources will enable the Corporation to obtain adequate funds. The loss of access to the Discount Window could adversely affect access to funds if these other sources of funds prove to be inadequate.

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

As a holding company, dividends from FirstBank have provided a substantial portion of our cash flow used to service the interest payments on our trust preferred securities and other obligations. As outlined in the Agreement, the Bank cannot pay any cash dividends or other payments to the Corporation without prior written approval of the Fed. Additionally, the Corporation cannot declare or pay any dividends (including on the Series G Preferred Stock) or make any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities without prior written approval of the Fed. Our inability to receive dividends from FirstBank could adversely affect our ability to fulfill our obligations in the future.

**Banking regulators could take additional adverse action against us.**

We are subject to supervision and regulation by the Fed. We are a bank holding company that qualifies as a financial holding corporation. As such, we are permitted to engage in a broader spectrum of activities than those permitted to bank holding companies that are not financial holding companies. As of June 30, 2010, First BanCorp and FirstBank continue to satisfy all applicable established capital guidelines. Nevertheless, we agreed to regulatory actions by our banking regulators that included, among other things, the submission of a capital plan by FirstBank to comply with more stringent capital requirements under an established time period proposed by us in the capital plan. Our regulators could take additional action against us if we fail to comply with the Agreements, including the requirements of the submitted capital plans. If we were not to continue to qualify as a financial holding corporation, we might be required to discontinue certain activities and may be prohibited from engaging in new activities without prior regulatory approval. Additional adverse action against us by our primary regulators could adversely affect our business.

**Credit quality, which is continuing to deteriorate, may result in future additional losses.**

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

While we have substantially increased our allowance for loan and lease losses in 2009 and the first half of 2010, we may have to recognize additional provisions in the third and fourth quarters of 2010 to cover future credit losses in the

portfolio. We periodically review the allowance for loan and lease losses for adequacy considering economic conditions and trends, collateral values and credit quality indicators, including charge-off experience and levels of past due loans and non-performing assets. Our future

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results may be materially and adversely affected by worsening defaults and severity rates related to the underlying collateral.

**We may have more credit risk and higher credit losses due to our construction loan portfolio.**

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

**We are subject to default risk on loans, which may adversely affect our results.**

We are subject to the risk of loss from loan defaults and foreclosures with respect to the loans we originate. We establish a provision for loan losses, which leads to reductions in our income from operations, in order to maintain our allowance for inherent loan losses at a level which our management deems to be appropriate based upon an assessment of the quality of the loan portfolio. Although our management utilizes its best judgment in providing for loan losses, there can be no assurance that management has accurately estimated the level of inherent loan losses or that we will not have to increase our provision for loan losses in the future as a result of future increases in non-performing loans or for other reasons beyond our control.

Any such increases in our provision for loan losses or any loan losses in excess of our provision for loan losses would have an adverse effect on our future financial condition and results of operations. Given the difficulties facing some of our largest borrowers, we can give no assurance that these borrowers will continue to repay their loans on a timely basis or that we will continue to be able to accurately assess any risk of loss from the loans to these borrowers.

**Changes in collateral valuation for properties located in stagnant or distressed economies may require increased reserves.**

Substantially all of our loan portfolio is located within the boundaries of the U.S. economy. Whether the collateral is located in Puerto Rico, the U.S. Virgin Islands, British Virgin Islands or the U.S. mainland, the performance of our loan portfolio and the collateral value backing the transactions are dependent upon the performance of and conditions within each specific real estate market. Recent economic reports related to the real estate market in Puerto Rico indicate that certain pockets of the real estate market are subject to readjustments in value driven not by demand but more by the purchasing power of the consumers and general economic conditions. In South Florida, we have been seeing the negative impact associated with low absorption rates and property value adjustments due to overbuilding. A significant decline in collateral valuations for collateral dependent loans may require increases in our specific provision for loan losses and an increase in the general valuation allowance. Any such increase would have an adverse effect on our future financial condition and results of operations.

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

The financial stability of several counterparties is critical for their continued financial performance on covenants that require the repurchase of loans, posting of collateral to reduce our credit exposure or



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replacement of delinquent loans. Many of these transactions expose us to credit risk in the event of a default by one of our counterparties. Any such losses could adversely affect our business, financial condition and results of operations.

**Interest rate shifts may reduce net interest income.**

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amount received by us on our interest-earning assets and the interest paid by us on its interest-bearing liabilities. When interest rates rise, we must pay more in interest on our liabilities while the interest earned on our assets does not rise as quickly, which may cause our profits to decrease. This adverse impact on earnings is greater when the slope of the yield curve flattens, that is, when short-term interest rates increase more than long-term rates.

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

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

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

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

**Accelerated prepayments may adversely affect net interest income.**

Net interest income of future periods will be affected by our decision to deleverage our investment securities portfolio to preserve our capital position. Also, net interest income could be affected by prepayments of mortgage-backed securities. Acceleration in the prepayments of mortgage-backed securities would lower yields on these securities, as the amortization of premiums paid upon acquisition of these securities would accelerate.

Conversely, acceleration in the prepayments of mortgage-backed securities would increase yields on securities purchased at a discount, as the amortization of the discount would accelerate.

These risks are directly linked to future period market interest rate fluctuations. Also, net interest income in future periods might be affected by our investment in callable securities. Approximately \$951 million of investment securities, mainly U.S. Agency debentures, with an average yield of 2.10% were called during the first half of 2010. As of June 30, 2010, we had approximately \$392 million in debt securities (mainly U.S. agency securities) with embedded calls and with an average yield of 2.26% (mainly securities with contractual maturities of 2 to 3 years). However, we used proceeds from called securities and invested some of its liquidity in the second quarter of 2010 through the purchase of approximately \$1.9 billion of investment securities.

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

Basis risk occurs when market rates for different financial instruments or the indices used to price assets and liabilities change at different times or by different amounts. It is the risk of adverse consequences resulting from unequal changes in the difference, also referred to as the spread, between two or more rates for different instruments with the same maturity. The interest expense for liability instruments

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such as brokered CDs at times does not change by the same amount as interest income received from loans or investments. The liquidity crisis that erupted in late 2008, and that slowly began to subside during 2009, caused a wider than normal spread between brokered CD costs and LIBOR rates for similar terms. This, in turn, has prevented us from capturing the full benefit of a decrease in interest rates, as the floating rate loan portfolio re-prices with changes in the LIBOR indices, while the brokered CD rates decreased less than the LIBOR indices. To the extent that such pressures fail to subside in the near future, the margin between our LIBOR-based assets and the higher cost of the brokered CDs may compress and adversely affect net interest income.

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

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

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

Fitch Ratings Ltd. ( Fitch ) currently rates First BanCorp s and FirstBank s long-term senior debt B- , six notches below investment grade. Standard and Poor s ( S&P ) rates First BanCorp CCC+ , or seven notches below investment grade. Moody s Investor Service ( Moody s ) rates FirstBank s long-term senior debt B3 , and S&P rates it CCC+ . On June 4, 2010, Moody s placed FirstBank on Credit Watch Negative. Furthermore, on June 25, 2010, Fitch placed First BanCorp and FirstBank on Credit Watch Negative.

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

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

**Our funding sources may prove insufficient to replace deposits and support future growth.**

Our banking subsidiary, FirstBank, relies on customer deposits, brokered deposits and advances from the Federal Home Loan Bank ( FHLB ) to fund its operations. Although FirstBank has historically been able to replace maturing deposits and advances if desired, no assurance can be given that it would be

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able to replace these funds in the future if our financial condition or general market conditions were to change or the FDIC did not approve our request to issue brokered CDs as required by the Order. Our financial flexibility will be severely constrained if FirstBank is unable to maintain access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, revenues may not increase proportionately to cover costs. In this case, profitability would be adversely affected. Although we consider such sources of funds adequate for our liquidity needs, we may seek additional debt financing in the future to achieve our long-term business objectives. There can be no assurance that the Fed would approve such additional debt or that additional borrowings, if sought, would be available to us or on what terms. If additional financing sources are unavailable or are not available on reasonable terms, our growth and future prospects could be adversely affected.

#### **Adverse credit market conditions may affect our ability to meet liquidity needs.**

We need liquidity to, among other things, pay our operating expenses and interest on our debt, maintain our lending activities and replace certain maturing liabilities. Without sufficient liquidity, we may be forced to curtail our operations. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, our credit ratings and credit capacity. Our financial condition and cash flows could be materially affected by continued disruptions in financial markets.

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

We may fail to identify and manage risks related to a variety of aspects of our business, including, but not limited to, operational risk, interest-rate risk, trading risk, fiduciary risk, legal and compliance risk, liquidity risk and credit risk. We have adopted various controls, procedures, policies and systems to monitor and manage risk. While we currently believe that our risk management process is effective, we cannot provide assurance that those controls, procedures, policies and systems will always be adequate to identify and manage the risks in the various businesses. In addition, our businesses and the markets in which we operate are continuously evolving. We may fail to fully understand the implications of changes in our businesses or the financial markets and fail to adequately or timely enhance our risk framework to address those changes. If our risk framework is ineffective, either because it fails to keep pace with changes in the financial markets or our businesses or for other reasons, we could incur losses, suffer reputational damage or find ourselves out of compliance with applicable regulatory mandates or expectations.

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

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

Our success depends, in large part, on our ability to attract and/or retain key people. Competition for the best people in most activities in which we engage can be intense, and we may not be able to hire

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people or retain them, particularly in light of uncertainty concerning evolving compensation restrictions applicable to banks but not applicable to other financial services firms. The unexpected loss of services of one or more of our key personnel could adversely affect our business because the loss of their skills, knowledge of our markets, and years of industry experience and, in some cases, because of the difficulty of promptly finding qualified replacement personnel. Similarly, the loss of key employees, either individually or as a group, can adversely affect our customers' perception of our ability to continue to manage certain types of investment management mandates.

#### **Further increases in the FDIC deposit insurance premium may have a significant financial impact on us.**

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

On February 27, 2009, the FDIC determined that it would assess higher rates for institutions that relied significantly on secured liabilities or on brokered deposits but, for well-managed and well-capitalized banks, only when accompanied by rapid asset growth. On May 22, 2009, the FDIC adopted a final rule imposing a 5 basis-point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. On November 12, 2009, the FDIC adopted a final rule imposing a 13-quarter prepayment of FDIC premiums due on December 30, 2009. Although FirstBank obtained a waiver from the FDIC to make such prepayment, the FDIC may further increase our premiums or impose additional assessments or prepayment requirements on us in the future.

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

Lehman Brothers Special Financing, Inc. ("Lehman") was the counterparty to First BanCorp on certain interest rate swap agreements. During the third quarter of 2008, Lehman failed to pay the scheduled net cash settlement due to us, which constituted an event of default under those interest rate swap agreements. We terminated all interest rate swaps with Lehman and replaced them with other counterparties under similar terms and conditions. In connection with the unpaid net cash settlement due as of June 30, 2010 under the swap agreements, we have an unsecured counterparty exposure with Lehman, which filed for bankruptcy on October 3, 2008, of approximately \$1.4 million. This exposure was reserved in the third quarter of 2008. We had pledged collateral of \$63.6 million with Lehman to guarantee its performance under the swap agreements in the event payment thereunder was required. The book value of pledged securities with Lehman as of June 30, 2010 amounted to approximately \$64.5 million.

We believe that the securities pledged as collateral should not be part of the Lehman bankruptcy estate given the facts that the posted collateral constituted a performance guarantee under the swap agreements and was not part of a financing agreement, and ownership of the securities was never transferred to Lehman. Upon termination of the interest rate swap agreements, Lehman's obligation was to return the collateral to us. During the fourth quarter of 2009, we discovered that Lehman Brothers, Inc., acting as agent of Lehman, had deposited the securities in a custodial account at JP Morgan/Chase, and that, shortly before the filing of the Lehman bankruptcy proceedings, it had provided instructions to have most of the securities transferred to Barclay's Capital in New York. After Barclay's refusal to turn over the securities, during the month of December 2009, we filed a lawsuit against Barclay's Capital in federal court in New York demanding the return of the securities. During the month of February 2010, Barclays filed a

motion with the court requesting that the Corporation's claim be



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dismissed on the grounds that the allegations of the complaint are not sufficient to justify the granting of the remedies therein sought. Shortly thereafter, we filed our opposition motion. A hearing on the motions was held in court on April 28, 2010. The court on that date, after hearing the arguments by both sides, concluded that 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 our claim. Accordingly, the judge ordered the case to proceed to trial. A scheduling conference that had been set for August 26, 2010, for purposes of having the parties agree on a timetable for discovery has been temporarily suspended. The judge decided to order the parties to submit to a mediation process prior to a scheduling conference. While there have been preliminary telephonic conversations with the appointed mediator, no formal mediation sessions have been held. It is expected that within the next 30 days the mediator will issue a notice for mediation sessions. While we believe we have valid reasons to support our claim for the return of the securities, no assurances can be given that we will ultimately succeed in our litigation against Barclays' Capital to recover all or a substantial portion of the securities.

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

**Our businesses may be adversely affected by litigation.**

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

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

In view of the inherent difficulty of predicting the outcome of legal actions and regulatory matters, we cannot provide assurance as to the outcome of any pending matter or, if determined adversely against us, the costs associated with any such matter, particularly where the claimant seeks very large or indeterminate damages or where the matter presents novel legal theories, involves a large number of parties or is at a preliminary stage. The resolution of certain pending legal actions or regulatory matters, if unfavorable, could have a material adverse effect on our consolidated results of operations for the quarter in which such actions or matters are resolved or a reserve is established.



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

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

**Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our financial statements.**

Our financial statements are subject to the application of GAAP, which is periodically revised and/or expanded. Accordingly, from time to time, we are required to adopt new or revised accounting standards issued by the Financial Accounting Standards Board. Market conditions have prompted accounting standard setters to promulgate new requirements that further interpret or seek to revise accounting pronouncements related to financial instruments, structures or transactions as well as to issue new standards expanding disclosures. The impact of accounting pronouncements that have been issued but not yet implemented is disclosed in our annual reports on Form 10-K and quarterly reports on Form 10-Q. An assessment of proposed standards is not provided as such proposals are subject to change through the exposure process and, therefore, the effects on our financial statements cannot be meaningfully assessed. It is possible that future accounting standards that we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our financial condition and results of operations.

**Losses in future reporting periods may require us to adjust the valuation allowance against our deferred tax assets.**

We evaluate the deferred tax assets for recoverability based on all available evidence. This process involves significant management judgment about assumptions that are subject to change from period to period based on changes in tax laws or variances between the future projected operating performance and the actual results. We are required to establish a valuation allowance for deferred tax assets if we determine, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred tax assets will not be realized. In evaluating the more-likely-than-not criterion, we consider all positive and negative evidence as of the end of each reporting period. Future adjustments, either increases or decreases, to the deferred tax asset valuation allowance will be determined based upon changes in the expected realization of the net deferred tax assets. The realization of the deferred tax assets ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under the tax law. Due to significant estimates utilized in establishing the valuation allowance and the potential for changes in facts and circumstances, it is reasonably possible that we will be required to record adjustments to the valuation allowance in future reporting periods. Such a charge could have a material adverse effect on our results of operations, financial condition and capital position.



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**If our goodwill or amortizable intangible assets become impaired, it may adversely affect our operating results.**

If our goodwill or amortizable intangible assets become impaired, we may be required to record a significant charge to earnings. Under GAAP, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at least annually. Factors that may be considered a change in circumstances, indicating that the carrying value of the goodwill or amortizable intangible assets may not be recoverable, include reduced future cash flow estimates and slower growth rates in the industry.

The goodwill impairment evaluation process requires us to make estimates and assumptions with regards to the fair value of our reporting units. Actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact our results of operations and the reporting unit where goodwill is recorded.

We conducted our annual evaluation of goodwill during the fourth quarter of 2009. This evaluation is a two-step process. The Step 1 evaluation of goodwill allocated to the Florida reporting unit, which is one level below the United States business segment, indicated potential impairment of goodwill. The Step 1 fair value for the unit was below the carrying amount of its equity book value as of the December 31, 2009 valuation date, requiring the completion of Step 2. Step 2 required a valuation of all assets and liabilities of the Florida unit, including any recognized and unrecognized intangible assets, to determine the fair value of net assets. To complete Step 2, we subtracted from the unit's Step 1 fair value the determined fair value of the net assets to arrive at the implied fair value of goodwill. The results of the Step 2 analysis indicated that the implied fair value of goodwill exceeded the goodwill carrying value of \$27 million, resulting in no goodwill impairment. If we are required to record a charge to earnings in our consolidated financial statements because an impairment of the goodwill or amortizable intangible assets is determined, our results of operations could be adversely affected.

**RISK RELATED TO BUSINESS ENVIRONMENT AND OUR INDUSTRY**

**Difficult market conditions have affected the financial industry and may adversely affect us in the future.**

Given that almost all of our business is in Puerto Rico and the United States and given the degree of interrelation between Puerto Rico's economy and that of the United States, we are particularly exposed to downturns in the U.S. economy. Dramatic declines in the U.S. housing market over the past few years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial banks and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative and cash securities, in turn, have caused many financial institutions to seek additional capital from private and government entities, to merge with larger and stronger financial institutions and, in some cases, fail.

Reflecting concern about the stability of the financial markets in general and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, erosion of consumer confidence, increased market volatility and widespread reduction of business activity in general. The resulting economic pressure on consumers and erosion of confidence in the financial markets

has already adversely affected our industry and may adversely affect our business, financial condition and results of operations. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these

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difficult market conditions on us and other financial institutions. In particular, we may face the following risks in connection with these events:

- Ø Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage and underwrite the loans become less predictive of future behaviors.
- Ø The models used to estimate losses inherent in the credit exposure require difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of the borrowers to repay their loans, which may no longer be capable of accurate estimation and which may, in turn, impact the reliability of the models.
- Ø Our ability to borrow from other financial institutions or to engage in sales of mortgage loans to third parties (including mortgage loan securitization transactions with government-sponsored entities) on favorable terms, or at all, could be adversely affected by further disruptions in the capital markets or other events, including deteriorating investor expectations.
- Ø Competitive dynamics in the industry could change as a result of consolidation of financial services companies in connection with current market conditions.
- Ø We may be unable to comply with the Agreements, which could result in further regulatory enforcement actions.

#### **A prolonged economic slowdown or decline in the real estate market in the U.S. mainland could continue to harm our results of operations.**

The residential mortgage loan origination business has historically been cyclical, enjoying periods of strong growth and profitability followed by periods of shrinking volumes and industry-wide losses. The market for residential mortgage loan originations is currently in decline and this trend could also reduce the level of mortgage loans we may produce in the future and adversely affect our business. During periods of rising interest rates, refinancing originations for many mortgage products tend to decrease as the economic incentives for borrowers to refinance their existing mortgage loans are reduced. In addition, the residential mortgage loan origination business is impacted by home values. Over the past twenty-one months, residential real estate values in many areas of the U.S. mainland have decreased significantly, which has led to lower volumes and higher losses across the industry, adversely impacting our mortgage business.

The actual rates of delinquencies, foreclosures and losses on loans have been higher during the current economic slowdown. Rising unemployment, higher interest rates or declines in housing prices have had a greater negative effect on the ability of borrowers to repay their mortgage loans. Any sustained period of increased delinquencies, foreclosures or losses could continue to harm our ability to sell loans, the prices we receive for loans, the values of mortgage loans held-for-sale or residual interests in securitizations, which could harm our financial condition and results of operations. In addition, any additional material decline in real estate values would further weaken the collateral loan-to-value ratios and increase the possibility of loss if a borrower defaults. In such event, we will be subject to the risk of loss on such real asset arising from borrower defaults to the extent not covered by third-party credit enhancement.

#### **Our business concentration in Puerto Rico imposes risks.**

We conduct our operations in a geographically concentrated area, as our main market is Puerto Rico. This imposes risks from lack of diversification in the geographical portfolio. Our financial condition and results of operations are highly dependent on the economic conditions of Puerto Rico, where adverse political or economic developments, natural disasters, and other events could affect among others, the volume of loan originations, increase the level of non-performing assets, increase the rate of foreclosure losses on loans, and reduce the value of our loans and loan servicing portfolio.



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**Risk Factors**

**Our credit quality may be adversely affected by Puerto Rico's current economic condition.**

Beginning in March 2006 and continuing to today, a number of key economic indicators have shown that the economy of Puerto Rico has been in recession during that period of time.

Construction remained weak during 2009 and the first half of 2010, as Puerto Rico's fiscal situation and decreasing public investment in construction projects affected the sector. During the period from January to May 2010, cement sales, an indicator of construction activity, declined by 25.4% as compared to 2009. As of April 2010, exports increased by 7.9%, while imports decreased by 0.9%, a negative trade, which continues since the first negative trade balance of the last decade was registered in November 2006.

On March 12, 2010, the Puerto Rico Planning Board announced the release of Puerto Rico's projected macroeconomic data for the fiscal year ending on June 30, 2010. The fiscal year 2009 showed a reduction of real GNP of 3.7%, while the projections for the 2010 fiscal year point toward a reduction of 3.6%. In general, the Puerto Rico economy continued its trend of decreasing growth, primarily due to weaker manufacturing, softer consumption and decreased government investment in construction.

The above economic concerns and uncertainty in the private and public sectors may also have an adverse effect on the credit quality of our loan portfolios, as delinquency rates are expected to increase in the short term, until the economy stabilizes. A potential reduction in consumer spending may also impact growth in our other interest and non-interest revenue sources.

**Rating downgrades on the government of Puerto Rico's debt obligations may affect our credit exposure.**

Even though Puerto Rico's economy is closely integrated to that of the U.S. mainland and its government and many of its instrumentalities are investment grade rated borrowers in the U.S. capital markets, the current fiscal situation of the government of Puerto Rico has led nationally recognized rating agencies to downgrade its debt obligations in the past.

Between May 2006 and mid-2009, the government of Puerto Rico's bonds were downgraded as a result of factors such as its inability to implement meaningful steps to curb operating expenditures and to improve managerial and budgetary controls, high debt levels and chronic deficits and its continued reliance on operating budget loans from the Government Development Bank for Puerto Rico. Although the Puerto Rico bonds' ratings were subsequently upgraded, future downgrades may affect our credit exposure.

**The failure of other financial institutions could adversely affect us.**

Our ability to engage in routine funding transactions could be adversely affected by future failures of financial institutions and the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, investment companies and other institutional clients. In certain of these transactions, we are required to post collateral to secure the obligations to the counterparties. In the event of a bankruptcy or insolvency proceeding involving one of such counterparties, we may experience delays in recovering the assets posted as collateral or may incur a loss to the extent that the counterparty was holding collateral in excess of the obligation to such counterparty. There is no assurance that any such losses

would not materially and adversely affect our financial condition and results of operations.

In addition, many of these transactions expose us to credit risk in the event of a default by our counterparty or client. In addition, the credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or

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derivative exposure due to us. There is no assurance that any such losses would not materially and adversely affect our financial condition and results of operations.

**Legislative and regulatory actions taken now or in the future as a result of the current crisis in the financial industry may impact our business, governance structure, financial condition or results of operations.**

Current economic conditions, particularly in the financial markets, have resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. The U.S. government has intervened on an unprecedented scale, responding to what has been commonly referred to as the financial crisis, by temporarily enhancing the liquidity support available to financial institutions, establishing a commercial paper funding facility, temporarily guaranteeing money market funds and certain types of debt issuances and increasing insurance on bank deposits.

These programs have subjected financial institutions, particularly those participating in the U.S. Treasury's Troubled Asset Relief Program (the TARP), to additional restrictions, oversight and costs. In addition, new proposals for legislation continue to be introduced in the U.S. Congress that could further substantially increase regulation of the financial services industry, impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates, financial product offerings and disclosures, and have an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied.

We also face increased regulation and regulatory scrutiny as a result of our participation in the TARP. The Corporation issued Series G Preferred Stock to the U.S. Treasury in exchange for the shares of Series F Preferred Stock and accrued and unpaid dividends. We also issued to the U.S. Treasury an amended and restated warrant to replace the original warrant that we issued to the U.S. Treasury under the TARP. Pursuant to the terms of this issuance, we are prohibited from increasing the dividend rate on our Common Stock in an amount 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 was \$0.07 per share, without approval.

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 the U.S. Treasury to have an observer at board meetings of recipient institutions, among other things. On February 17, 2009, President Obama signed into law the American Reinvestment and Recovery Act of 2009 (the ARRA). The ARRA contains expansive new restrictions on executive compensation for financial institutions and other companies participating in the TARP. The ARRA amends the executive compensation and corporate governance provisions of EESA. In doing so, it continues all the same compensation and governance restrictions and adds substantially to restrictions in several areas. In addition, on June 10, 2009, the U.S. Treasury issued regulations implementing the compensation requirements under the ARRA. The regulations became applicable to existing TARP recipients upon publication in the Federal Register on June 15, 2009. On June 21, 2010, the banking agencies issued additional guidance on incentive compensation. The guidance is designed to provide employees with incentives that appropriately balance risk and reward, and ensure that incentive compensation arrangements are compatible with effective controls and risk management, and are supported by strong corporate governance, including active and

effective oversight by the holding company or bank's board of directors. The aforementioned compensation requirements and restrictions may adversely affect our ability to retain or hire senior bank officers.

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On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) was signed into law, which significantly changes the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes provisions affecting large and small financial institutions alike, including several provisions that will affect how community banks, thrifts, and small bank and thrift holding companies will be regulated in the future. The Act includes, among other things, provisions that, together with regulations to be developed thereunder, will affect corporate governance and executive compensation at all publicly-traded companies; abolish the Office of Thrift Supervision and transfer its functions to the other federal banking agencies, such as the Office of the Comptroller of Currency and the Federal Reserve; allow financial institutions to pay interest on business checking accounts; would change the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than upon its deposit base, and permanently raise the current standard maximum deposit insurance amount to \$250,000; expand the FDIC's authority to raise insurance premiums; and impose new capital requirements on bank and thrift holding companies. The Dodd-Frank Act also limits interchange fees on debit cards and establishes the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve, which will be given the authority to promulgate consumer protection regulations applicable to certain entities offering consumer financial services or products, including banks. The legislation also restricts proprietary trading, places restrictions on the owning or sponsoring of hedge and private equity funds, and the derivatives activities of banks and their affiliates. The legislation also calls for the FDIC to raise the ratio of reserves to deposits from 1.15% to 1.35% for deposit insurance purposes as to those institutions with assets in excess of \$10 billion. The Collins Amendment to the Dodd-Frank Act eliminates certain trust preferred securities from Tier 1 capital. TARP preferred securities are excepted from this treatment. These regulatory capital deductions are to be phased in incrementally over a period of three years beginning on January 1, 2013. This provision also requires the federal banking agencies, to establish minimum leverage and risk-based capital requirements that will apply to both insured banks and their holding companies. Regulations implementing this provision must be issued within 18 months of July 21, 2010.

These provisions, or any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of the business activities or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose the Corporation to additional costs, including increased compliance costs. These changes also may require the Corporation to invest significant management attention and resources to make any necessary changes to operations in order to comply, and could therefore also materially adversely affect our business, financial condition, and results of operations. The Corporation's management is actively reviewing the provisions of the Dodd-Frank Act, many of which are phased-in over the next several months and years, and assessing its probable impact on the operations of the Corporation. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and the Corporation in particular, is uncertain at this time.

A separate legislative proposal would impose a new fee or tax on U.S. financial institutions as part of the 2010 budget plans in an effort to reduce the anticipated budget deficit and to recoup losses anticipated from the TARP. Such an assessment is estimated to be 15-basis points, levied against bank assets minus Tier 1 capital and domestic deposits. It appears that this fee or tax would be assessed only against the 50 or so largest financial institutions in the U.S., which are those with more than \$50 billion in assets, and therefore would not directly affect us. However, the large banks that are affected by the tax may choose to seek additional deposit funding in the marketplace, driving up the cost of deposits for all banks. The administration has also considered a transaction tax on trades of stock in financial institutions and a tax on executive bonuses. The U.S. Congress has also recently adopted additional consumer

protection laws such as the Credit Card Accountability Responsibility and Disclosure Act of 2009, and the Federal Reserve has adopted numerous new regulations addressing banks' credit card,

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overdraft and mortgage lending practices. Additional consumer protection legislation and regulatory activity is anticipated in the near future. Internationally, both the Basel Committee on Banking Supervision (the Basel Committee ) and the Financial Stability Board (established in April 2009 by the Group of Twenty Finance Ministers and Central Bank Governors to take action to strengthen regulation and supervision of the financial system with greater international consistency, cooperation and transparency) have committed to raise capital standards and liquidity buffers within the banking system. Such proposals and legislation, if finally adopted, would change banking laws and our operating environment and that of our subsidiaries in substantial and unpredictable ways. We cannot determine whether such proposals and legislation will be adopted, or the ultimate effect that such proposals and legislation, if enacted, or regulations issued to implement the same, would have upon our financial condition or results of operations.

**Monetary policies and regulations of the Fed could adversely affect our business, financial condition and results of operations.**

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Fed is to regulate the money supply and credit conditions. Among the instruments used by the Fed to implement these objectives are open market operations in U.S. Government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

On January 6, 2010, the member agencies of the Federal Financial Institutions Examination Council, which includes the Fed, issued an interest rate risk advisory reminding banks to maintain sound practices for managing interest rate risk, particularly in the current environment of historically low short-term interest rates.

The monetary policies and regulations of the Fed have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

**We face extensive and changing government regulation, which may increase our costs of and expose us to risks related to compliance.**

Most of our businesses are subject to extensive regulation by multiple regulatory bodies. These regulations may affect the manner and terms of delivery of our services. If we do not comply with governmental regulations, we may be subject to fines, penalties, lawsuits or material restrictions on our businesses in the jurisdiction where the violation occurred, which may adversely affect our business operations. Changes in these regulations can significantly affect the services that we are asked to provide as well as our costs of compliance with such regulations. In addition, adverse publicity and damage to our reputation arising from the failure or perceived failure to comply with legal, regulatory or contractual requirements could affect our ability to attract and retain customers. In recent years, regulatory oversight and enforcement have increased substantially, imposing additional costs and increasing the potential risks associated with our operations. If this regulatory trend continues, it could adversely affect our operations and, in turn, our consolidated results of operations.

**The imposition of additional property tax payments in Puerto Rico may further deteriorate our commercial, consumer and mortgage loan portfolios.**

On March 9, 2009, the Governor of Puerto Rico signed into law the Special Act Declaring a State of Fiscal Emergency and Establishing an Integral Plan of Fiscal Stabilization to Save Puerto Rico's Credit, Act No. 7 (the Act). The Act imposes a series of temporary and permanent measures, including the



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imposition of a 0.591% special tax applicable to properties used for residential (excluding those exempt as detailed in the Act) and commercial purposes, and payable to the Puerto Rico Treasury Department. This temporary measure will be effective for tax years that commenced after June 30, 2009 and before July 1, 2012. The imposition of this special property tax could adversely affect the disposable income of borrowers from the commercial, consumer and mortgage loan portfolios and may cause an increase in our delinquency and foreclosure rates.

**RISKS RELATED TO THE FUTURE ISSUANCE OF A SIGNIFICANT AMOUNT OF OUR COMMON STOCK AND DILUTION OF HOLDERS OF OUR COMMON STOCK, INCLUDING PARTICIPANTS IN THE EXCHANGE OFFER**

**Additional issuances of Common Stock or securities convertible into Common Stock, including issuances to the U.S. Treasury, BNS and Investors in a Capital Raise, would further dilute existing holders of our Common Stock, including participants in the Exchange Offer.**

During the first quarter of 2010, the Corporation announced its plan to enhance its capital structure. The Corporation retained Sandler O'Neill + Partners and UBS Securities LLC to find purchasers for approximately \$500 million of Common Stock. Any issuance of Common Stock in a Capital Raise or to the U.S. Treasury upon conversion of the Series G Preferred Stock, in the Exchange Offer or to BNS pursuant to its anti-dilution right would adversely affect the voting power, earnings per share and book value per share of outstanding shares of Common Stock and perhaps also the market price of our Common Stock. The closing price of a share of Common Stock on August 17, 2010 was \$0.52, and the book value of a share of Common Stock as of June 30, 2010 was \$5.48.

In connection with our 2007 sale of 9,250,450 shares of Common Stock to BNS, we agreed to give BNS an anti-dilution right and a right of first refusal when we sell shares of Common Stock to third parties. This right will be triggered by the issuance of Common Stock in the Exchange Offer and any other issuances, including to the U.S. Treasury and investors in a Capital Raise. In addition, in January 2009, in connection with our issuance of Series F Preferred Stock to the U.S. Treasury, we also issued to the U.S. Treasury a warrant to purchase 5,842,259 shares of our Common Stock at an exercise price of \$10.27 per share. The warrant had a 10-year term and was exercisable at any time. At the time we exchanged the Series F Preferred Stock for Series G Preferred Stock, we issued to the U.S. Treasury an amended and restated warrant having a 10-year term to replace the original warrant. Like the original warrant, the amended and restated warrant has an anti-dilution right that requires an adjustment to the exercise price for, and the number of shares underlying, the warrant. This adjustment will be necessary under various circumstances, including if we issue shares of Common Stock for consideration per share that is lower than the initial conversion price of the Series G Preferred Stock, or \$0.7252. The possible future issuance of equity securities to BNS, the U.S. Treasury or investors in a Capital Raise would affect our current stockholders in a number of ways, including by:

- Ø diluting the voting power of the current holders of Common Stock;
- Ø diluting the earnings per share and book value per share of the outstanding shares of Common Stock; and
- Ø making the payment of dividends on Common Stock more expensive.

Our issuance of 256,401,610 shares of Common Stock in the Exchange Offer would reduce on a pro forma basis our loss per share for the six-month period ended June 30, 2010 from \$2.27 to \$0.60 and our book value per share as of

June 30, 2010 from \$5.48 to \$3.03. If, subsequent to our issuance of 256,401,610 shares of Common Stock in the Exchange Offer, we were to issue shares of Common Stock to the U.S. Treasury in exchange for the Series G Preferred Stock, to investors in a Capital Raise and to BNS, we estimate that we would issue approximately 1.68 billion additional shares based on (i) our agreement with the U.S. Treasury and (ii) a sale in a Capital Raise of \$500 million at a per-share price of \$0.57, the market price of our Common Stock on July 14, 2010. Accordingly, our loss per

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share for the six-month period ended June 30, 2010 and our book value per share as of June 30, 2010 would be reduced on a pro forma basis to \$0.12 and \$1.16, respectively. Such additional issuances of shares of Common Stock would decrease the voting power of participants in the Exchange Offer from 73% after the completion of the Exchange Offer, assuming all of the Preferred Stock is tendered, to 14% if approximately 1.68 billion shares of Common Stock are issued in a Capital Raise, to the U.S. Treasury and to BNS upon its exercise in full of its anti-dilution right. Finally, the additional issuances of shares of Common Stock may adversely impact the market price of our Common Stock.

If we do not complete a Capital Raise prior to completing the Exchange Offer, we will continue to seek to issue \$500 million of Common Stock. No assurance can be given, however, that we will be able to raise additional capital. An increase in the Corporation's capital through an issuance of Common Stock or other offering, or the perception that such issuance or offering may occur, may adversely affect the market price of our Common Stock.

If we do not improve our financial condition, or are unable to accomplish other alternate capital preservation strategies contemplated, including among others, an accelerated deleverage strategy and the divestiture of profitable businesses, which could allow us to meet the minimum capital requirements contemplated by the capital plans that we have submitted to our regulators, we believe that it is likely that our regulators could take additional regulatory action that would have a material adverse effect on our business, operations, financial condition or results of operations or the value of our Common Stock.

**RISKS RELATED TO THE MARKET PRICE AND VALUE OF THE COMMON STOCK OFFERED IN THE EXCHANGE OFFER**

**The Exchange Offer will result in a substantial amount of our Common Stock becoming available for sale in the market, which could adversely affect the market price of our Common Stock.**

As of August 13, 2010, we had 92,542,722 shares of our Common Stock outstanding. Following completion of the Exchange Offer, assuming we issue the maximum number of shares of our Common Stock in the Exchange Offer and assuming we issue the anti-dilution shares to BNS, this figure will increase to 377,420,453 shares of our Common Stock. The issuance of such a large number of shares of our Common Stock in such a short period of time will significantly reduce earnings per share and could adversely affect the market price of our Common Stock.

**The Minimum Share Price limitation may result in your receiving shares of our Common Stock worth significantly less than the shares you would receive in the absence of that constraint.**

The closing sale price for our Common Stock on the NYSE on August 17, 2010 was \$0.52 per share, which is less than the Minimum Share Price. If the average VWAP is less than the Minimum Share Price, we will use the Minimum Share Price and not the average VWAP to calculate the number of shares of our Common Stock you will receive. In that case you will receive shares of our Common Stock with a value that is significantly less than the value of the shares you would receive in the absence of that limitation.

**If the number of shares of our Common Stock offered in the Exchange Offer for each share of Preferred Stock is determined based on the average VWAP of our Common Stock during the five trading-day period ending on the second business day immediately preceding the expiration date (and not the Minimum Share Price of \$1.18 per share), the market price of our Common Stock may fluctuate, and the market price of shares of our**

**Common Stock upon settlement of the Exchange Offer could be less than the market price used to determine the number of shares you will receive.**

The number of shares of our Common Stock offered for each share of Preferred Stock accepted for exchange will be determined based on the average VWAP of our Common Stock during the five trading-day period ending on the second business day immediately preceding the currently scheduled

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expiration date (subject to the Minimum Share Price of \$1.18 per share), regardless of any increase or decrease in the market price of our Common Stock or Preferred Stock between the expiration date of the Exchange Offer and the settlement date. Therefore, the market price of our Common Stock at the time you receive your Common Stock on the settlement date could be significantly less than the market price used to determine the number of shares you will receive.

**The market price of our Common Stock may be subject to significant fluctuations and volatility.**

The stock markets have recently experienced high levels of volatility. These market fluctuations have adversely affected, and may continue to adversely affect, the trading price of our Common Stock. In addition, the market price of our Common Stock has been subject to significant fluctuations and volatility because of factors specifically related to our businesses and may continue to fluctuate or further decline. Factors that could cause fluctuations, volatility or further decline in the market price of our Common Stock, many of which could be beyond our control, include the following:

- Ø our ability to comply with the Agreements;
- Ø any additional regulatory actions against us;
- Ø our ability to complete this exchange, a Capital Raise, the conversion into Common Stock of the Series G Preferred Stock or any other issuances of Common Stock;
- Ø changes or perceived changes in the condition, operations, results or prospects of our businesses and market assessments of these changes or perceived changes;
- Ø announcements of strategic developments, acquisitions and other material events by us or our competitors, including any future failures of banks in Puerto Rico;
- Ø our announcement of the sale of Common Stock at a particular price per share;
- Ø changes in governmental regulations or proposals, or new governmental regulations or proposals, affecting us, including those relating to the current financial crisis and global economic downturn and those that may be specifically directed to us;
- Ø the continued decline, failure to stabilize or lack of improvement in general market and economic conditions in our principal markets;
- Ø the departure of key personnel;
- Ø changes in the credit, mortgage and real estate markets;
- Ø operating results that vary from the expectations of management, securities analysts and investors;
- Ø operating and stock price performance of companies that investors deem comparable to us; and

Ø market assessments as to whether and when the Exchange Offer and the acquisition of additional newly issued shares by BNS will be consummated.

You are urged to obtain current market quotations for our Common Stock when you consider the Exchange Offer.

**Our suspension of dividends could adversely affect our stock price and result in the expansion of our board of directors.**

In March 2009, the Board of Governors of the Federal Reserve issued a supervisory guidance letter intended to provide direction to bank holding companies ( BHCs ) on the declaration and payment of dividends, capital redemptions and capital repurchases by BHCs in the context of their capital planning process. The letter reiterates the long-standing Federal Reserve supervisory policies and guidance to the effect that BHCs should only pay dividends from current earnings. More specifically, the letter heightens expectations that BHCs will inform and consult with the Federal Reserve supervisory staff on the declaration and payment of dividends that exceed earnings for the period for which a dividend is being

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paid. In consideration of the financial results reported for the second quarter ended June 30, 2009, the Corporation decided, as a matter of prudent fiscal management and following the Federal Reserve guidance, to suspend payment of Common Stock dividends and dividends on our Preferred Stock and Series G Preferred Stock. Our Agreement with the Fed precludes us from declaring any dividends without the prior approval of the Fed. The Corporation cannot anticipate if and when the payment of dividends might be reinstated.

This suspension could adversely affect the Corporation's stock price. Further, in general, if dividends on our preferred stock are not paid for 18 monthly dividend periods or more, the preferred stockholders will have the right to elect two additional members of the our board of directors until all accrued and unpaid dividends for all past dividend periods have been declared and paid in full.

**The price of our Common Stock is depressed and may not recover.**

The price of our Common Stock has declined significantly from a closing price of \$12.17 on September 19, 2008, to a closing price of \$0.52 on August 17, 2010, the last trading day prior to the date of this prospectus. Our stock price may never recover to prior levels. Many factors that we cannot predict or control, including the factors listed under Risks Related to the Market Price and Value of the Common Stock Offered in the Exchange Offer The market price of our Common Stock may be subject to continued significant fluctuations and volatility, and factors over which we may only have limited control, including the factors listed under Risks Relating to Our Business, may cause sudden changes in the price of our Common Stock or prevent the price of our Common Stock from recovering.

**Our Common Stock could be delisted if we fall below applicable compliance standards.**

Under NYSE rules, a listed company will be considered below compliance standards if the average closing price of its common stock is less than \$1.00 over a consecutive 30 trading-day period. As of July 6, 2010, the average closing price of our Common Stock over the last 30 trading-day period was \$0.98. Accordingly, the price of our Common Stock is below the price criteria compliance standard. If we are unable to cure this deficiency within six months, our Common Stock may be suspended from trading on or delisted from the NYSE, which will adversely impact the market liquidity of our Common Stock.

**RISKS RELATED TO THE RIGHTS OF HOLDERS OF OUR COMMON STOCK COMPARED TO THE RIGHTS OF HOLDERS OF OUR DEBT OBLIGATIONS AND SHARES OF PREFERRED STOCK**

**The holders of our debt obligations, any shares of Preferred Stock that remain outstanding after the Exchange Offer and the Series G Preferred Stock will have priority over our Common Stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of dividends.**

In any liquidation, dissolution or winding up of First BanCorp, our Common Stock would rank below all debt claims against us and claims of all of our outstanding shares of preferred stock, including any shares of Preferred Stock that are not exchanged for Common Stock in the Exchange Offer and the Series G Preferred Stock.

As a result, holders of our Common Stock, including holders of shares of Preferred Stock whose securities are accepted for exchange in the Exchange Offer, will not be entitled to receive any payment or other distribution of assets upon the liquidation, dissolution or winding up of First BanCorp until after all our obligations to our debt holders have been satisfied and holders of senior equity securities and trust preferred securities have received any payment or

distribution due to them.

In addition, we are required to pay dividends on our preferred stock before we pay any dividends on our Common Stock. Holders of our Common Stock will not be entitled to receive payment of any dividends on their shares of our Common Stock unless and until we obtain the Fed's approval to resume



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payments of dividends on any shares of preferred stock remaining after completion of the Exchange Offer.

**Dividends on our Common Stock have been suspended and you may not receive funds in connection with your investment in our Common Stock without selling your shares of our Common Stock.**

The Agreement that we entered into with the Fed prohibits us from paying any dividends or making any distributions without the prior approval of the Fed. Holders of our Common Stock are only entitled to receive dividends as our board of directors may declare out of funds legally available for payment of such dividends. We have suspended dividend payments on our Common Stock since August 2009. Furthermore, so long as any shares of preferred stock remain outstanding and until we obtain the Fed's approval, we cannot declare, set apart or pay any dividends on shares of our Common Stock (i) unless any accrued and unpaid dividends on our preferred stock for the twelve monthly dividend periods ending on the immediately preceding dividend payment date have been paid or are paid contemporaneously and the full monthly dividend on our preferred stock for the then current month has been or is contemporaneously declared and paid or declared and set apart for payment and, (ii) with respect to our Series G Preferred Stock, unless any accrued and unpaid dividends for past dividend periods, including the latest completed dividend period, on all outstanding shares have been declared and paid in full. Prior to January 16, 2012, unless we have redeemed or converted all of the shares of Series G Preferred Stock or the U.S. Treasury has transferred all of Series G Preferred Stock to third parties, the consent of the U.S. Treasury will be required for us to, among other things, increase the dividend rate per share of Common Stock above \$0.07 per share or repurchase or redeem equity securities, including our Common Stock, subject to certain limited exceptions. This could adversely affect the market price of our Common Stock. Also, we are a bank holding company and our ability to declare and pay dividends is dependent also on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. Moreover, the Federal Reserve and the FDIC have issued policy statements stating that bank holding companies and insured banks should generally pay dividends only out of current operating earnings. In the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged dividend pay-out ratios that are at the 100% or higher level unless both asset quality and capital are very strong.

In addition, the terms of our outstanding junior subordinated debt securities held by trusts that issue trust preferred securities prohibit us from declaring or paying any dividends or distributions on our capital stock, including our Common Stock and preferred stock, or purchasing, acquiring, or making a liquidation payment on such stock, if we have given notice of our election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing.

Accordingly, you may have to sell some or all of your shares of our Common Stock in order to generate cash flow from your investment. You may not realize a gain on your investment when you sell your shares of Common Stock and may lose the entire amount of your investment.

**Offerings of debt, which would be senior to our Common Stock and/or to preferred equity securities, may adversely affect the market price of our Common Stock.**

Subject to any required approval of our regulators or if our capital ratios or those of our banking subsidiary fall below the required minimums, we or our banking subsidiary could be forced to raise additional capital by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock

and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our Common

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Stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our Common Stock, or both.

Our board of directors is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the stockholders. Our board of directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights and preferences over our Common Stock with respect to dividends or upon our dissolution, winding up and liquidation and other terms. If we issue preferred shares in the future that have a preference over our Common Stock with respect to the payment of dividends or upon liquidation, or if we issue preferred shares with voting rights that dilute the voting power of our Common Stock, the rights of holders of our Common Stock or the market price of our Common Stock could be adversely affected.

**ADDITIONAL RISKS RELATED TO THE EXCHANGE OFFER**

**We may not receive stockholder approval for the issuance of up to 256,401,610 shares of Common Stock upon the exchange of Preferred Stock in the Exchange Offer or the reduction of the par value of our Common Stock.**

We will not be able to complete the Exchange Offer if our holders of Common Stock do not approve the issuance of Common Stock in the Exchange Offer, and we may not be able to complete the Exchange Offer if they do not approve an amendment to our Articles of Incorporation to reduce the par value of a share of Common Stock from \$1.00 to \$0.10 per share. Because our Common Stock is listed on the NYSE, we are subject to NYSE listing requirements. NYSE Listed Company Manual Section 312.03(c) requires stockholder approval prior to the issuance of our Common Stock in any transaction or series of transactions, other than pursuant to a public offering, if (1) the shares of Common Stock will have upon issuance voting power equal to 20% or more of the voting power outstanding before the issuance of such Common Stock or (2) the number of shares of Common Stock to be issued will upon issuance equal 20% or more of the number of shares of Common Stock outstanding before the issuance of Common Stock. Pursuant to the terms of the Exchange Offer, up to 256,401,610 shares of Common Stock may be issued upon the exchange of Preferred Stock. Because the issuance of up to 256,401,610 shares of Common Stock in the aggregate causes the transaction to exceed the 20% thresholds described above, we are required to seek stockholder approval prior to the completion of the Exchange Offer.

If, for example, the market value of a share of Preferred Stock tendered in the exchange is less than \$10 at a time when the market value of a share of Common Stock would result in the issuance of more than 10 shares per tendered share of Preferred Stock, we would be precluded from issuing any shares of Common Stock in the exchange if the par value of our Common Stock is still \$1.00 per share. Therefore, we have requested the approval by the holders of our Common Stock of an amendment to our Articles of Incorporation to reduce the par value of a share of Common Stock from \$1.00 to \$0.10 per share, if necessary to complete the Exchange Offer.

**The value of the Common Stock you receive may be lower than the Exchange Value of your shares of Preferred Stock.**

Depending on the trading price of our Common Stock compared to the Relevant Price described above, the market value of the Common Stock we issue at the settlement date in exchange for each share of Preferred Stock we accept for exchange may be less than, equal to or greater than the applicable Exchange Value referred to above. If the Minimum Share Price is used to determine the exchange ratio, we will issue 11.6525 shares of Common Stock in

exchange for each share of Preferred Stock that we accept for tender in the Exchange Offer and, if the trading price of our Common Stock is below \$1.18

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**Risk Factors**

per share, the market value of such shares of Common Stock will be less than the applicable Exchange Value.

**Even if we complete the Exchange Offer, without a high level of participation, we may fail to realize the anticipated benefits of the Exchange Offer, including the intended goals of substantially improving our tangible common equity ratio and our Tier 1 common equity ratio.**

Important goals of the Exchange Offer are to improve our tangible common equity ratio and our Tier 1 common equity ratio and to convert the Series G Preferred Stock into Common Stock. A view has recently developed that the tangible common equity ratio and Tier 1 common equity ratio are important metrics for analyzing a financial institution's financial condition and capital strength. We believe that improving these two capital ratios will enhance our standing with our federal banking regulators, improve market and public perceptions of our financial strength and improve our ability to operate in the current economic environment and to access the capital markets in order to fund strategic initiatives or other business needs and to absorb any future credit losses. Moreover, our agreement with the U.S. Treasury provides that we can compel the conversion of the Series G Preferred Stock into Common Stock if \$385 million of the liquidation preference of the Preferred Stock is exchanged for Common Stock, we raise \$500 million of additional capital, and our stockholders approve amendments to our Articles of Incorporation. If the response to the Exchange Offer is less than \$385 million, we will not be able to compel the conversion of the Series G Preferred Stock and we may fail to reach our goals for our tangible common equity ratio and Tier 1 common equity ratio and, in this situation, we may have to increase these ratios through other means, including by seeking to sell more than \$500 million of equity in a Capital Raise, which could further dilute the existing holders of our Common Stock, including participants in the Exchange Offer. In addition, any such additional equity issuances would reduce any earnings available to the holders of our Common Stock and the return thereon unless our earnings increase correspondingly. We cannot predict the timing or size of future equity issuances, if any, or the effect that they may have on the market price of the Common Stock. As such, there is a risk that the benefits, if any, realized from the Exchange Offer will not be sufficient to restore market and public perceptions of our financial strength or to reach desired tangible common equity and Tier 1 capital levels.

**We have not obtained a third-party determination that the terms of the Exchange Offer are fair to holders of the shares of Preferred Stock.**

We are not making a recommendation as to whether you should exchange your shares of Preferred Stock in the Exchange Offer. We have not retained, and do not intend to retain, any unaffiliated representative to act solely on behalf of the holders of the shares of Preferred Stock for purposes of negotiating the Exchange Offer or preparing a report concerning the fairness of the Exchange Offer. You must make your own independent decision regarding your participation in the Exchange Offer.

**Failure to successfully complete the Exchange Offer could negatively affect the price of our Common Stock.**

Several conditions must be satisfied or waived in order to complete the Exchange Offer, including (i) pursuant to NYSE listing requirements, the receipt of the approval of the holders of our Common Stock to the issuance of up to 256,401,610 shares of Common Stock upon the exchange of Preferred Stock in the Exchange Offer, (ii) the approval by the holders of our Common Stock of an amendment to our Articles of Incorporation to reduce the par value of a share of Common Stock from \$1.00 to \$0.10 per share if necessary to issue shares of Common Stock in the Exchange Offer, and (iii) the absence of any event that in our reasonable judgment would materially impair the anticipated benefits to us of the Exchange Offer or that has had, or could reasonably be expected to have, a material adverse effect

on us or our businesses, financial condition, operations or prospects. See The Exchange Offer Conditions of the Exchange Offer.

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**Risk Factors**

The foregoing conditions may not be satisfied, and if not satisfied or waived, the Exchange Offer may not occur or may be delayed.

If the Exchange Offer is not completed or is delayed, we may be subject to the following material risks:

- Ø the market price of our Common Stock may decline to the extent that the current market price of our Common Stock is positively affected by market assumption that the Exchange Offer will be completed;
- Ø the market price of our shares of Preferred Stock may decline to the extent that the current market price of our shares of Preferred Stock is positively affected by a market assumption that the Exchange Offer has been or will be completed;
- Ø we may not be able to increase our regulatory and other capital ratios, including our tangible common equity ratio and Tier 1 common equity ratio and, as a result, we may fail to increase a key measure of financial strength as viewed by our federal banking regulators and the market and may not improve our ability to operate in the current economic environment and to access the capital markets in order to fund strategic initiatives or other business needs or to absorb any future credit losses; and
- Ø we may be required to attempt to raise capital.

**RISK RELATED TO NOT PARTICIPATING IN THE EXCHANGE OFFER**

**If the Exchange Offer is successful, there may no longer be a trading market for any remaining shares of Preferred Stock and the price for such shares of Preferred Stock may be depressed.**

The Exchange Offer is for any and all shares of Preferred Stock. Any shares of Preferred Stock not exchanged in the Exchange Offer will remain outstanding after the completion of the Exchange Offer. The reduction in the number of shares available for trading after the completion of the Exchange Offer, our suspension of the payment of dividends on Preferred Stock since August 2009, our inability to pay any dividends without Fed approval under the Agreement, our delisting of any remaining shares of Preferred Stock from trading on the NYSE and, to the extent permitted by law, the deregistration of any such remaining shares under the Exchange Act may have a significant and adverse effect on the liquidity of any trading market for, and the price of, any such remaining shares of Preferred Stock and may result in the shares of Preferred Stock being illiquid for an indefinite period of time.

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## Selected Financial Data

The following data summarizes our consolidated financial information as of and for each of the five years ended December 31, 2009 and the six-month period ended June 30, 2010 and 2009. You should read the following financial data in conjunction with the information set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the related notes thereto included in our Annual Reports on Form 10-K for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 and our report on Form 10-Q for the six-month period ended June 30, 2010 and 2009, respectively, from which this information is derived. For more information, see Where You Can Find More Information.

	<b>Six-Month Period ended June 30, 2010</b>	<b>Six-Month Period ended June 30, 2009</b>	<b>Year ended December 31,</b>				
			<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	
	<b>(in thousands, except per share and ratio results)</b>						
<b>Components of</b>							
<b>Income</b>	\$ 435,852	\$ 511,103	\$ 996,574	\$ 1,126,897	\$ 1,189,247	\$ 1,288,813	\$ 1,000,000
<b>Expense</b>	199,927	258,491	477,532	599,016	738,231	845,119	600,000
<b>Net income</b>	235,925	252,612	519,042	527,881	451,016	443,694	400,000
<b>Cost of loan</b>	317,758	294,581	579,858	190,948	120,610	74,991	
<b>Net (loss) after</b>							
<b>Cost of loan</b>	(81,833)	(41,969)	(60,816)	336,933	330,406	368,703	300,000
<b>Net income</b>	84,851	53,468	142,264	74,643	67,156	31,336	300,000
<b>Operating expenses</b>	189,973	180,516	352,101	333,371	307,843	287,963	300,000
<b>Provision for (expense)</b>	(10,684)	112,250	(4,534)	31,732	(21,583)	(27,442)	(100,000)
<b>Net income available to</b>	(197,639)	(56,767)	(275,187)	109,937	68,136	84,634	100,000
<b>Common stock</b>	(209,961)	(88,052)	(322,075)	69,661	27,860	44,358	
<b>Financial</b>							
<b>Period-End</b>							
<b>Assets</b>	18,116,023	20,012,887	19,628,448	19,491,268	17,186,931	17,390,256	19,900,000
<b>Liabilities</b>	12,603,738	13,135,710	13,949,226	13,088,292	11,799,746	11,263,980	12,600,000
<b>Equity</b>	12,727,575	12,035,427	12,669,047	13,057,430	11,034,521	11,004,287	12,400,000
<b>Commoners equity</b>	1,438,289	1,840,686	1,599,063	1,548,117	1,421,646	1,229,553	1,100,000
<b>Financial Ratios</b>							
<b>Return on average</b>	(2.10)%	(0.58)%	(1.39)%	0.59%	0.40%	0.44%	
<b>Return on average equity</b>	(69.13)	(16.99)	(34.07)	7.89	3.59	6.85	
<b>Dividend yield</b>	2.70	2.89	2.93	3.20	2.83	2.84	



Return on assets											
Return on equity											
Return on assets - based	12.05%	13.08%	12.16%	11.55%	12.61%	11.06%					
Return on equity - based	13.35	14.35	13.44	12.80	13.86	12.25					
Asset coverage ratio	8.14	9.12	8.91	8.30	9.29	7.82					
<b>Quality Data</b>											
Nonperforming loans											
to total loans	12.40%	8.94%	11.23%	4.49%	3.50%	2.24%					
to total assets											
to total portfolio	3.63	2.52	2.48	0.87	0.79	0.55					
to total assets for loan											
to total assets	38.97	34.81	33.77	47.95	46.04	62.79					
to total assets for loan											
at year end											
to total portfolio	4.83	3.11	3.79	2.15	1.61	1.41					
to total assets											
to total assets per	\$ 5.48	\$ 9.88	\$ 7.25	\$ 10.78	\$ 9.42	\$ 8.16					
to total assets											
<b>Earnings to Charges</b>											
Interest on											
to total assets	(A)	(A)	(A)	1.13	1.12	1.14					
to total assets	(A)	(A)	(A)	1.41	1.42	1.47					
<b>Earnings to Charges &amp; Dividends</b>											
Interest on											
to total assets	(B)	(B)	(B)	1.06	1.05	1.07					
to total assets	(B)	(B)	(B)	1.16	1.14	1.20					

(footnotes on following page)

**Table of Contents****Selected Financial Data**

(A) For the six-month periods ended June 30, 2010 and 2009, and for the year ended December 31, 2009, the ratio coverage was less than 1:1. The Corporation would have to generate additional earnings of \$187.0 million, \$169.0 million and \$270.7 million, respectively, to cover fixed charges and achieve a ratio of 1:1.

(B) For the six-month periods ended June 30, 2010 and June 30, 2009 and for the year ended December 31, 2009, the ratio coverage was less than 1:1. The Corporation would have to generate additional earnings of \$199.3 million, \$200.3 million, and \$317.5 million, respectively, to cover fixed charges and preferred dividends and achieve a ratio of 1:1.

For purposes of computing the consolidated ratios of earnings to fixed charges and earnings to fixed charges and Preferred Stock Dividends, earnings consist of pre-tax income from continuing operations plus fixed charges and amortization of capitalized interest, less interest capitalized. Fixed charges consist of interest expensed and capitalized, amortization of debt issuance costs, and First BanCorp's estimate of the interest component of rental expense. Ratios are presented both including and excluding interest on deposits. The term Preferred Stock Dividends is the amount of pre-tax earnings that is required to pay dividends on our outstanding Preferred Stock.

**LONG-TERM OBLIGATIONS AND OUTSTANDING PREFERRED STOCK**

The principal balance of our long-term obligations (excluding deposits) and our outstanding preferred stock on a consolidated basis as of the end of each of the five years ended December 31, 2009 and the six-month period ended June 30, 2010 and 2009 are set forth below.

	As of June 30, 2010	As of June 30, 2009	2009	As of December 31,			2006	2005
				2008	2007			
				(in thousands)				
Long-term obligations	\$ 2,869,306	\$ 3,396,787	\$ 3,312,516	\$ 3,821,128	\$ 2,730,860	\$ 2,042,047	\$ 3,849,275	
Cumulative preferred stock	380,730	376,159	378,408					
Non-cumulative preferred stock	550,100	550,100	550,100	550,100	550,100	550,100	550,100	

**PRO FORMA DATA FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2010 AND THE YEAR ENDED DECEMBER 31, 2009**

The following pro forma data reflects the impact on net loss per common share, net loss per common share attributable to common stockholders, the ratio of earnings to fixed charges and the ratio of earnings to fixed charges and preferred stock dividends for the six-month period ended June 30, 2010 and the year ended December 31, 2009 based on an assumed high and low participation rates in the

**Table of Contents****Selected Financial Data**

Exchange Offer. The data does not give effect to the conversion of the Series G Preferred Stock or a Capital Raise.

	<b>High Participation Scenario Six-Month Period Ended June 30, 2010</b>	<b>Low Participation Scenario Six-Month Period Ended June 30, 2010</b>	<b>High Participation Scenario FY 09</b>	<b>Low Participation Scenario FY 09</b>
Loss per common share from continuing operations (basic and diluted)	0.61	0.90	0.85	1.25
Net loss per common share (basic and diluted)	0.65	0.95	0.93	1.41
<b>Ratio of earnings to fixed charges</b>				
Including Interest on Deposits	(A)	(A)	(A)	(A)
Excluding Interest on Deposits	(A)	(A)	(A)	(A)
<b>Ratio of earnings to fixed charges &amp; Preferred Stock Dividends</b>				
Including Interest on Deposits	(B)	(B)	(B)	(B)
Excluding Interest on Deposits	(B)	(B)	(B)	(B)
Book value per share				

(A) For the six-month period ended June 30, 2010 and the year ended December 31, 2009, the ratio coverage was less than 1:1. The Corporation would have to generate additional earnings of \$187.0 million and \$270.7 million, respectively, under both, the High and Low Participation Scenarios, to achieve a ratio of 1:1 for the six-month period ended June 30, 2010 and year ended December 31, 2009.

(B) For the six-month period ended June 30, 2010 and the year ended December 31, 2009, the ratio coverage was less than 1:1. The Corporation would have to generate additional earnings of \$199.3 million and \$296.4 million, respectively, under both, the High Participation Scenario and Low Participation Scenario to achieve a ratio of 1:1 for the six-month period ended June 30, 2010 and the year ended December 31, 2009.

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Unaudited Pro Forma Financial Information

The following selected unaudited pro forma financial information has been presented to give effect to and show the pro forma impact of the Exchange Offer on First BanCorp's balance sheet as of June 30, 2010 and First BanCorp's results of operations for the fiscal year ended December 31, 2009 and the six-month period ended June 30, 2010 assuming two different levels of participation in the Exchange Offer as discussed below. The unaudited pro forma financial information does not give effect to the conversion of the Series G Preferred Stock or a Capital Raise.

The unaudited pro forma financial information is presented for illustrative purposes only and does not necessarily indicate the financial position or results that would have been realized had the Exchange Offer been completed as of the dates indicated or that will be realized in the future when and if the Exchange Offer is completed. The selected unaudited pro forma financial information has been derived from, and should be read in conjunction with, the summary historical consolidated financial information included elsewhere in this prospectus and First BanCorp's historical consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009 and our quarterly report on Form 10-Q for the period ended June 30, 2010 filed with the SEC, which are incorporated by reference into this prospectus.

**UNAUDITED PRO FORMA BALANCE SHEETS**

The unaudited pro forma consolidated balance sheet of First BanCorp as of June 30, 2010 has been presented as if the Exchange Offer had been completed on January 1, 2009. We have shown the pro forma impact of a "High Participation Scenario" and a "Low Participation Scenario" prepared using the assumptions set forth below.

The "High Participation Scenario" assumes (i) the exchange of 90% of the outstanding shares of Preferred Stock (\$495.09 million aggregate liquidation preference) for 230,761,449 shares of our Common Stock, and (ii) a Relevant Price of \$1.18 per share.

The "Low Participation Scenario" assumes (i) the exchange of 50% of the outstanding shares of Preferred Stock (\$275.05 million aggregate liquidation preference) for 128,200,805 shares of our Common Stock, and (ii) a Relevant Price of \$1.18 per share.

If the Relevant Price is greater than the \$1.18 per share amount assumed in the preceding paragraph, there will be a decrease in the number of shares of Common Stock being issued and an increase in surplus, and increase in earnings per share relative to the pro forma financial statement information.

There can be no assurance that the foregoing assumptions will be realized in the future.

**Table of Contents****Unaudited Pro Forma Financial Information****High Participation Scenario**

	<b>Actual June 30, 2010</b>	<b>Adjustments Exchange of Preferred Stock</b>	<b>Pro forma June 30, 2010</b>
<b>(In thousands, except per share amounts)</b>			
<b>ASSETS</b>			
Cash and due from banks	\$ 523,047	\$ (6,876) <sup>(5)</sup>	\$ 516,171
Money market investments:			
Federal funds sold and securities purchased under agreements to resell	5,066		5,066
Time deposits with other financial institutions	1,588		1,588
Other short-term investments	15,390		15,390
Total money market investments	22,044		22,044
Investment securities available for sale, at fair value	3,954,910		3,954,910
Investment securities held to maturity, at amortized cost	533,302		533,302
Other equity securities	69,843		69,843
Total investment securities	4,558,055		4,558,055
Loans receivable, net	11,898,808		11,898,808
Loans held for sale, at lower of cost or market	100,626		100,626
Total loans, net	11,999,434		11,999,434
Premises and equipment, net	207,440		207,440
Other real estate owned	72,358		72,358
Accrued interest receivable on loans and investments	66,390		66,390
Due from customers on acceptances	1,036		1,036
Accounts receivable from investment sales	319,459		319,459
Other assets	346,760		346,760
<b>Total assets</b>	<b>\$ 18,116,023</b>	<b>\$ (6,876)</b>	<b>\$ 18,109,147</b>
<b>LIABILITIES</b>			
Deposits:			
Non-interest-bearing deposits	\$ 715,166	\$	\$ 715,166

Interest bearing deposits	12,012,409		12,012,409
Total deposits	12,727,575		12,727,575
Advances from the Federal Reserve			
Securities sold under agreements to repurchase	2,584,438		2,584,438
Advances from the Federal Home Loan Bank (FHLB)	940,440		940,440
Notes payable	24,059		24,059
Other borrowings	231,959		231,959
Bank acceptances outstanding	1,036		1,036
Accounts payable from investment purchases	8,475		8,475
Accounts payable and other liabilities	159,752		159,752
<b>Total liabilities</b>	<b>16,677,734</b>		<b>16,677,734</b>
<b>STOCKHOLDERS EQUITY</b>			
Preferred stock	930,830	(495,090) <sup>(1)</sup>	435,740
Common stock	102,440	230,761 <sup>(2)</sup>	333,201
Less: Treasury stock (at cost)	(9,898)		(9,898)
Common stock outstanding	92,542	230,761	323,303
Additional paid-in capital	134,270	46,375 <sup>(3)</sup>	180,645
Legal surplus	299,006		299,006
(Accumulated deficit) retained earnings	(81,670)	211,078 <sup>(4)</sup>	129,408
Accumulated other comprehensive income	63,311		63,311
Total stockholders equity	1,438,289	(6,876)	1,431,413
<b>Total liabilities and stockholders equity</b>	<b>\$ 18,116,023</b>	<b>\$ (6,876)</b>	<b>\$ 18,109,147</b>
Book Value per common share	\$ 5.48	\$ (2.40)	\$ 3.08
Tangible book value per common share	\$ 5.01	\$ (2.06)	\$ 2.95

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**Unaudited Pro Forma Financial Information**

1. *Assumes exchange offer participation at 90% with a ratio of Exchange Value to liquidation preference equal to 55%.*
2. *Represents the issuance of Common Stock at par value of \$1.00.*
3. *Represents the additional paid in capital with respect to newly issued common stock, net of exchange costs and adjusted for the issuance costs of preferred shares exchanged.*
4. *Represents the excess of the preferred stock carrying value, reduced by the issuance costs of preferred shares exchanged, over the value of the common stock to be issued on the Exchange Offer considering the assumptions described in note (1) above.*
5. *Represents the costs associated with this Exchange offer calculated on a pro-rata basis according to the number of shares exchanged. The amount was reduced from additional paid in capital.*

**Table of Contents****Unaudited Pro Forma Financial Information****LOW PARTICIPATION SCENARIO**

	<b>Actual June 30, 2010</b>	<b>Adjustments Exchange of Preferred Stock</b>	<b>Pro forma June 30, 2010</b>
<b>(in thousands, except per share amounts)</b>			
<b>ASSETS</b>			
Cash and due from banks	\$ 523,047	\$ (4,126) <sup>(5)</sup>	\$ 518,921
Money market investments:			
Federal funds sold and securities purchased under agreements to resell	5,066		5,066
Time deposits with other financial institutions	1,588		1,588
Other short-term investments	15,390		15,390
Total money market investments	22,044		22,044
Investment securities available for sale, at fair value	3,954,910		3,954,910
Investment securities held to maturity, at amortized cost	533,302		533,302
Other equity securities	69,843		69,843
Total investment securities	4,558,055		4,558,055
Loans receivable, net	11,898,808		11,898,808
Loans held for sale, at lower of cost or market	100,626		100,626
Total loans, net	11,999,434		11,999,434
Premises and equipment, net	207,440		207,440
Other real estate owned	72,358		72,358
Accrued interest receivable on loans and investments	66,390		66,390
Due from customers on acceptances	1,036		1,036
Accounts receivable from investment sales	319,459		319,459
Other assets	346,760		346,760
<b>Total assets</b>	<b>\$ 18,116,023</b>	<b>\$ (4,126)</b>	<b>\$ 18,111,897</b>

**LIABILITIES**

Deposits:



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Non-interest-bearing deposits	\$ 715,166	\$ 715,166
Interest bearing deposits	12,012,409	12,012,409
Total deposits	12,727,575	12,727,575
Advances from the Federal Reserve		
Securities sold under agreements to repurchase	2,584,438	2,584,438
Advances from the Federal Home Loan Bank (FHLB)	940,440	940,440
Notes payable	24,059	24,059
Other borrowings	231,959	