

FIRST BANCORP /PR/
Form 10-Q
August 20, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-17224

FIRST BANCORP.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

00908
(Zip Code)

(787) 729-8200

(Registrant's telephone number, including area code)

Not applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act).

Yes No

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

Common stock: 83,254,056 outstanding as of June 30, 2007.

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EXPLANATORY NOTE

First BanCorp (the Corporation or First BanCorp) was unable to timely file with the Securities and Exchange Commission (SEC) this Quarterly Report on Form 10-Q for the interim period ended June 30, 2006 and the Quarterly Reports on Form 10-Q for the interim periods ended March 31, 2006, September 30, 2005 and June 30, 2005 as a result of the delay in completing the restatement of the Corporation s audited financial statements for the years ended December 31, 2004, 2003 and 2002, and the unaudited selected quarterly financial information for each of the four quarters of 2004, 2003 and 2002, which resulted in delays in the filing of an amendment of First BanCorp s Annual Report on Form 10-K for the year ended December 31, 2004 and consequent delays in the filing of the Corporation s subsequent reports. For information regarding the restatement of First BanCorp s previously issued financial statements, see the Corporation s Amendment No. 1 to Annual Report on Form 10-K/A for the year ended December 31, 2004, which was filed with the SEC on September 26, 2006, and Note 1 Restatement of Previously Issued Financial Statements to the accompanying unaudited Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2006.

FORWARD LOOKING STATEMENTS

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

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

risks associated with the Corporation s inability to prepare and timely submit SEC and other regulatory filings;

a reduction in the Corporation s ability to attract new clients and retain existing ones;

general economic conditions, including prevailing interest rates and the performance of the financial markets, which may affect demand for the Corporation s products and services and the value of the Corporation s assets, including the value of the interest rate swaps that hedge the interest rate risk mainly relating to brokered certificates of deposit and medium-term notes;

risks arising from worsening economic conditions in Puerto Rico;

risks arising from credit and other risks of the Corporation s lending and investment activities, including the condo conversion loans in its Miami Agency;

increases in the Corporation s expenses associated with acquisitions and dispositions;

developments in technology;

risks associated with changes to the Corporation s business strategy to no longer acquire mortgage loans in bulk;

risks associated with the failure to obtain a final order from the District Court of Puerto Rico approving the settlement of the class-action lawsuit brought against the Corporation;

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the impact of Doral Financial Corporation's financial condition on its repayment of its outstanding secured loan to the Corporation;

risks associated with being subject to the cease and desist order;

potential further downgrades in the credit ratings of the Corporation's securities;

general competitive factors and industry consolidation; and

risks associated with regulatory and legislative changes for financial services companies in Puerto Rico, the United States, and the U.S. and British Virgin Islands.

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

Investors should carefully consider these factors and the risk factors outlined under Item 1A, Risk Factors, in First BanCorp's 2005 Annual Report on Form 10-K and under Item 1A, Risk Factors, in this Quarterly Report on Form 10-Q.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	June 30, 2006	December 31, 2005	June 30, 2005	June 30, 2004 (As Restated)
Assets				
Cash and due from banks	\$ 154,078,088	\$ 155,848,810	\$ 120,388,982	\$ 83,322,262
Money market instruments, including \$116,475,352 pledged that can be repledged (December 31, 2005 - \$381,848,364; June 30, 2005 - \$26,935,605; June 30, 2004 - \$79,896,053)	491,216,635	666,856,432	298,575,528	373,647,963
Federal funds sold and securities purchased under agreements to resell	2,854,968,993	508,967,369	76,828,074	71,000,000
Time deposits with other financial institutions	15,700,581	48,967,475	48,600,000	600,000
Total money market investments	3,361,886,209	1,224,791,276	424,003,602	445,247,963
Investment securities available for sale, at fair value:				
Securities pledged that can be repledged	1,491,948,417	1,744,846,054	1,926,356,118	1,057,627,627
Other investment securities	477,337,762	203,331,449	290,759,261	461,231,520
Total investment securities available for sale	1,969,286,179	1,948,177,503	2,217,115,379	1,518,859,147
Investment securities held to maturity, at amortized cost:				
Securities pledged that can be repledged	2,860,091,466	3,115,260,660	3,382,457,892	3,652,401,464
Other investment securities	427,028,096	323,327,297	395,171,791	518,998,384
Total investment securities held to maturity	3,287,119,562	3,438,587,957	3,777,629,683	4,171,399,848
Other equity securities	23,689,185	42,367,500	74,480,500	61,525,000
Loans, net of allowance for loan and lease losses of \$146,527,295 (December 31, 2005 -	10,678,089,256	12,436,257,993	11,677,782,192	7,833,278,755

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\$147,998,733; June 30, 2005 -
 \$146,154,217; June 30, 2004 -
 \$133,677,676)

Loans held for sale, at lower of cost or market	80,642,512	101,672,531	49,032,689	19,053,120
Total loans, net	10,758,731,768	12,537,930,524	11,726,814,881	7,852,331,875
Premises and equipment, net	124,559,046	116,947,772	109,609,464	85,905,256
Other real estate owned	3,435,018	5,019,106	8,462,735	5,598,892
Accrued interest receivable on loans and investments	98,829,053	103,692,478	90,915,598	51,857,846
Due from customers on acceptances	29,594	353,864	208,180	328,003
Other assets	399,234,133	343,933,937	264,648,604	212,773,470
Total assets	\$ 20,180,877,835	\$ 19,917,650,727	\$ 18,814,277,608	\$ 14,489,149,562

Liabilities & Stockholders

Equity

Liabilities:

Non-interest-bearing deposits	\$ 711,284,391	\$ 811,006,126	\$ 791,509,595	\$ 601,853,783
Interest-bearing deposits	12,801,778,910	11,652,746,080	10,329,950,256	6,404,758,089
Federal funds purchased and securities sold under agreements to repurchase	4,022,685,500	4,833,882,000	5,017,096,000	4,358,019,937
Advances from the Federal Home Loan Bank (FHLB)	194,000,000	506,000,000	638,000,000	1,223,000,000
Notes payable	176,851,393	178,693,249	177,925,832	152,614,465
Other borrowings	231,670,313	231,622,020	231,572,927	147,777,158
Subordinated notes			82,554,150	82,017,643
Bank acceptance outstanding	29,594	353,864	208,180	328,003
Payable for unsettled investment trade	204,716,709			198,574,653
Accounts payable and other liabilities	678,438,050	505,506,453	256,478,764	240,436,594
Total liabilities	19,021,454,860	18,719,809,792	17,525,295,704	13,409,380,325

Commitments and contingencies
 (Note 17)

Stockholders equity:

Preferred stock, authorized 50,000,000 shares: issued and outstanding 22,004,000 shares at \$25 liquidation value per share	550,100,000	550,100,000	550,100,000	550,100,000
	93,151,856	90,772,856	90,772,856	45,137,055

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Common stock, \$1 par value, authorized 250,000,000 shares; issued 93,151,856 shares (December 31, 2005 - 90,772,856 shares ; June 30, 2005 - 90,772,856 shares; June 30, 2004 - 45,137,055 shares)				
Less: Treasury Stock (at par value)	(9,897,800)	(9,897,800)	(9,897,800)	(4,920,900)
Common stock outstanding	83,254,056	80,875,056	80,875,056	40,216,155
Additional paid-in capital	22,269,844			2,322,541
Capital reserve			82,825,000	80,000,000
Legal surplus	265,844,192	265,844,192	183,019,192	165,709,122
Retained earnings	320,590,147	316,696,971	356,174,402	219,360,864
Accumulated other comprehensive (loss) income, net of tax benefit (expense) of \$1,096,149 (December 31, 2005 - \$16,259; June 30, 2005 - (\$1,131,814); June 30, 2004 (\$1,083,277))	(82,635,264)	(15,675,284)	35,988,254	22,060,555
Total stockholders equity	1,159,422,975	1,197,840,935	1,288,981,904	1,079,769,237
Total liabilities and stockholders equity	\$ 20,180,877,835	\$ 19,917,650,727	\$ 18,814,277,608	\$ 14,489,149,562

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	Quarter Ended		
	June 30,	June 30,	June 30,
	2006	2005	2004
			(As Restated)
Interest income:			
Loans	\$ 247,603,929	\$ 173,727,352	\$ 106,648,154
Investment securities	72,040,513	73,279,552	53,407,925
Money market investments	24,799,009	2,149,850	546,271
Total interest income	344,443,451	249,156,754	160,602,350
Interest expense:			
Deposits (Note 11)	157,153,731	(2,293,618)	115,946,948
Federal funds purchased and repurchase agreements	51,133,513	43,683,484	31,859,683
Advances from FHLB	2,867,071	10,864,801	5,816,720
Notes payable and other borrowings	7,051,194	3,831,914	1,995,260
Total interest expense	218,205,509	56,086,581	155,618,611
Net interest income	126,237,942	193,070,173	4,983,739
Provision for loan and lease losses	9,354,590	11,074,364	13,200,150
Net interest income (loss) after provision for loan and lease losses	116,883,352	181,995,809	(8,216,411)
Non-interest income:			
Other service charges on loans	1,467,127	1,537,338	950,278
Service charges on deposit accounts	3,278,109	3,022,163	2,742,265
Mortgage banking activities	427,171	3,060,375	216,512
Loss on partial extinguishment of a secured commercial loan to a local financial institution	(11,640,344)		
Net gain (loss) on investments and impairments	134,224	(1,181,245)	551,249
Rental income	837,380	842,926	702,269
Gain on sale of credit card portfolio			297,141
Other operating income	7,279,281	6,137,747	6,687,174
Total non-interest income	1,782,948	13,419,304	12,146,888
Non-interest expenses:			

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Employees compensation and benefits	29,869,779	26,273,340	21,238,355
Occupancy and equipment	13,623,498	11,765,517	9,441,913
Business promotion	4,324,181	5,085,493	4,587,629
Professional fees	10,143,207	1,512,345	1,206,648
Taxes, other than income taxes	2,558,071	2,285,305	1,950,640
Insurance and supervisory fees	1,909,550	1,126,818	1,010,108
Other operating expenses	8,611,833	8,024,006	6,149,355
Total non-interest expenses	71,040,119	56,072,824	45,584,648
Income (Loss) before income taxes	47,626,181	139,342,289	(41,654,171)
Income tax (provision) benefit	(15,823,679)	(41,936,222)	23,462,553
Net income (loss)	\$ 31,802,502	\$ 97,406,067	\$ (18,191,618)
Net income (loss) attributable to common stockholders	\$ 21,733,503	\$ 87,337,068	\$ (28,260,617)
Net income (loss) per common share:			
Basic	\$ 0.26	\$ 1.08	\$ (0.35)
Diluted	\$ 0.26	\$ 1.05	\$ (0.35)
Dividends declared per common share	\$ 0.07	\$ 0.07	\$ 0.06

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Six Month Period Ended		
	June 30,	June 30,	June 30,
	2006	2005	2004
			(As Restated)
Interest income:			
Loans	\$ 493,693,236	\$ 327,452,238	\$ 210,643,533
Investment securities	143,681,230	130,064,347	99,512,167
Money market investments	34,773,873	4,016,966	1,263,416
Total interest income	672,148,339	461,533,551	311,419,116
Interest expense:			
Deposits (Note 11)	343,991,804	91,688,341	102,566,520
Federal funds purchased and repurchase agreements	104,699,042	78,057,783	60,191,371
Advances from FHLB	7,044,803	22,289,803	11,116,741
Notes payable and other borrowings	17,356,139	11,151,098	3,774,473
Total interest expense	473,091,788	203,187,025	177,649,105
Net interest income	199,056,551	258,346,526	133,770,011
Provision for loan and lease losses	28,730,477	22,028,773	26,400,150
Net interest income after provision for loan and lease losses	170,326,074	236,317,753	107,369,861
Non-interest income:			
Other service charges on loans	2,953,397	2,658,565	2,105,577
Service charges on deposit accounts	6,555,138	5,711,715	5,525,679
Mortgage banking activities (loss) gain	(147,676)	3,570,081	1,761,966
Loss on partial extinguishment of a secured commercial loan to a local financial institution	(11,640,344)		
Net (loss) gain on investments and impairments	(574,544)	8,332,319	4,515,895
Rental income	1,610,670	1,708,824	1,318,943
Gain on sale of credit card portfolio			5,532,684
Other operating income	13,614,497	11,689,059	12,349,685
Total non-interest income	12,371,138	33,670,563	33,110,429
Non-interest expenses:			

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Employees compensation and benefits	63,994,700	49,588,472	40,973,904
Occupancy and equipment	26,329,588	22,404,990	18,819,711
Business promotion	8,098,241	9,633,016	8,056,683
Professional fees	17,536,173	3,407,896	1,940,694
Taxes, other than income taxes	5,113,340	4,554,322	3,898,663
Insurance and supervisory fees	3,610,562	2,190,359	2,086,206
Other operating expenses	18,095,170	17,300,901	12,538,934
Total non-interest expenses	142,777,774	109,079,956	88,314,795
Income before income taxes	39,919,438	160,908,360	52,165,495
Income tax provision	(4,253,694)	(38,287,352)	(4,927,461)
Net income	\$ 35,665,744	\$ 122,621,008	\$ 47,238,034
Net income attributable to common stockholders	\$ 15,527,746	\$ 102,483,010	\$ 27,100,036
Net income per common share:			
Basic	\$ 0.19	\$ 1.27	\$ 0.34
Diluted	\$ 0.19	\$ 1.23	\$ 0.33
Dividends declared per common share	\$ 0.14	\$ 0.14	\$ 0.12

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Month Period Ended		
	June 30, 2006	June 30, 2005	June 30, 2004 (As Restated)
Cash flows from operating activities:			
Net income	\$ 35,665,744	\$ 122,621,008	\$ 47,238,034
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	8,355,081	7,207,113	6,820,263
Amortization of core deposit intangible	1,778,206	1,531,195	1,198,310
Provision for loan and lease losses	28,730,477	22,028,773	26,400,150
Deferred income tax (benefit) provision	(26,536,609)	6,836,248	(23,016,105)
Stock-based compensation recognized	4,892,361		
Gain on sale of investments, net	(2,375,344)	(9,831,385)	(4,571,895)
Other-than-temporary impairments on available-for-sale securities	2,949,888	1,499,066	56,000
Unrealized loss (gain) on derivative instruments	66,808,911	(21,208,082)	39,099,604
Net loss (gain) on sale of loans and impairments	412,663	(3,632,444)	(1,630,338)
Net loss on partial extinguishment of a secured commercial loan to a local financial institution	11,640,344		
Net amortization of premiums and discounts and deferred loan fees and costs	(921,749)	(52,556)	497,921
Amortization of broker placement fees	8,718,909	6,458,804	6,489,595
Amortization of basis adjustments on fair value hedges	1,303,698		
Net (accretion) of discount and premiums on investment securities	(17,820,409)	(13,578,601)	(2,063,011)
Amortization of discount on subordinated notes		273,732	252,255
Gain on sale of credit card portfolio			(5,532,684)
(Decrease) increase in accrued income tax payable	(8,693,921)	10,779,823	(6,990,817)
Decrease (increase) in accrued interest receivable	5,259,986	(31,219,146)	(10,321,401)
Increase (decrease) in accrued interest payable	36,556,819	14,802,998	(591,982)
Increase in other assets	(17,486,355)	(22,369,649)	(13,491,051)
Increase in other liabilities	17,472,725	33,796,853	12,233,579
Total adjustments	121,045,681	3,322,742	24,838,393
Net cash provided by operating activities	156,711,425	125,943,750	72,076,427
Cash flows from investing activities:			
Principal collected on loans	4,338,010,938	1,663,180,818	1,128,004,727
Loans originated	(2,553,227,124)	(3,321,376,774)	(2,136,304,633)
Purchase of loans	(106,750,392)	(198,647,852)	(85,473,896)

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Proceeds from sale of loans	36,900,103	120,682,234	66,854,112
Proceeds from sale of repossessed assets	20,920,391	15,738,479	17,001,718
Purchase of servicing assets	(378,823)		
Proceeds from sale of available for sale securities	22,846,966	214,679,492	19,270,030
Purchase of securities held to maturity	(208,568,307)	(1,346,491,031)	(1,518,661,039)
Purchase of securities available for sale	(21,401,938)	(1,220,389,587)	(287,973,621)
Principal repayments and maturities of securities held to maturity	378,026,709	961,239,896	489,374,732
Principal repayments of securities available for sale	113,168,384	143,229,805	204,490,303
Additions to premises and equipment	(15,966,355)	(13,377,504)	(7,456,117)
Decrease (increase) in other equity securities	18,678,315	9,577,600	(15,500,000)
Cash paid for net assets acquired in acquisition of business		(78,404,804)	
Net cash provided by (used in) investing activities	2,022,258,867	(3,050,359,228)	(2,126,373,684)
Cash flows from financing activities:			
Net increase in deposits	1,091,566,504	2,765,590,448	229,206,892
Net (decrease) increase in federal funds purchased and securities sold under repurchase agreements	(811,196,500)	851,735,087	718,547,594
Net FHLB advances (paid) taken	(312,000,000)	(1,000,000,000)	310,000,000
Net proceeds from issuance of notes payable and other borrowings			300,543,766
Repayments of notes payable and other borrowings		(45,167,616)	
Dividends paid	(31,772,568)	(31,454,295)	(29,781,163)
Exercise of stock options	19,756,483	2,094,354	2,242,556
Treasury stock acquired		(965,079)	
Net cash (used in) provided by financing activities	(43,646,081)	2,541,832,899	1,530,759,645
Net increase (decrease) in cash and cash equivalents	2,135,324,211	(382,582,579)	(523,537,612)
Cash and cash equivalents at beginning of period	1,380,640,086	926,975,163	1,052,107,837
Cash and cash equivalents at end of period	\$ 3,515,964,297	\$ 544,392,584	\$ 528,570,225
Cash and cash equivalents include:			
Cash and due from banks	\$ 154,078,088	\$ 120,388,982	\$ 83,322,262
Money market instruments	3,361,886,209	424,003,602	445,247,963
	\$ 3,515,964,297	\$ 544,392,584	\$ 528,570,225
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest on borrowings	\$ 353,284,025	\$ 257,982,428	\$ 191,191,736
Income Taxes	37,680,255	20,688,295	30,573,369
Non-cash investing and financing activities:			
Additions to other real estate owned	\$ 1,569,586	\$ 2,298,085	\$ 2,879,412
Additions to auto repossessions	52,739,918	27,613,054	20,557,521

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Capitalization of servicing assets	235,191	1,477,600	903,400
Mortgage loans securitized and transferred to securities available-for-sale			51,107,154

The accompanying notes are an integral part of these statements.

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

	Six Month Period Ended		
	June 30, 2006	June 30, 2005	June 30, 2004 (As Restated)
Preferred Stock	\$ 550,100,000	\$ 550,100,000	\$ 550,100,000
Common Stock outstanding:			
Balance at beginning of period	80,875,056	40,389,155	40,027,285
Common stock issued under stock option plan	2,379,000	76,373	188,870
Treasury stock acquired before stock split		(28,000)	
Shares issued as a result of stock split		40,437,528	
Balance at end of period	83,254,056	80,875,056	40,216,155
Additional Paid-In-Capital:			
Balance at beginning of period		4,863,299	268,855
Shares issued under stock option plan	17,377,483	2,017,981	2,053,686
Stock-based compensation recognized	4,892,361		
Treasury stock acquired		(937,079)	
Adjustment for stock split		(5,944,201)	
Balance at end of period	22,269,844		2,322,541
Capital Reserve		82,825,000	80,000,000
Legal Surplus	265,844,192	183,019,192	165,709,122
Retained Earnings:			
Balance at beginning of period	316,696,971	299,501,016	201,903,993
Net income	35,665,744	122,621,008	47,238,034
Cash dividends declared on common stock	(11,634,570)	(11,316,297)	(9,643,165)
Cash dividends declared on preferred stock	(20,137,998)	(20,137,998)	(20,137,998)
Adjustment for stock split		(34,493,327)	
Balance at end of period	320,590,147	356,174,402	219,360,864
Accumulated Other Comprehensive (Loss) Income, net of tax:			
Balance at beginning of period	(15,675,284)	43,635,624	35,812,500

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Other comprehensive loss, net of tax	(66,959,980)	(7,647,370)	(13,751,945)
Balance at end of period	(82,635,264)	35,988,254	22,060,555
Total stockholders' equity	\$ 1,159,422,975	\$ 1,288,981,904	\$ 1,079,769,237

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)

	Quarter Ended		
	June 30,	June 30,	June 30,
	2006	2005	2004
			(As Restated)
Net income (loss)	\$ 31,802,502	\$ 97,406,067	\$ (18,191,618)
Other comprehensive (loss) income:			
Unrealized (loss) gain on securities:			
Unrealized holding (loss) gain arising during the period	(36,633,176)	22,377,837	(19,739,660)
Less: Reclassification adjustments for net (gain) loss and other than temporary impairments included in net income	(134,224)	1,181,245	(551,249)
Income tax benefit (expense) related to items of other comprehensive income	623,433	(578,742)	297,219
Other comprehensive (loss) income for the period, net of tax	(36,143,967)	22,980,340	(19,993,690)
Total comprehensive (loss) income	\$ (4,341,465)	\$ 120,386,407	\$ (38,185,308)

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)

	Six Month Period Ended		
	June 30, 2006	June 30, 2005	June 30, 2004 (As Restated)
Net income	\$ 35,665,744	\$ 122,621,008	\$ 47,238,034
Other comprehensive (loss) income:			
Unrealized (loss) gain on securities:			
Unrealized holding (loss) gain arising during the period	(68,428,461)	922,367	(8,765,854)
Less: Reclassification adjustments for net loss (gain) and other than temporary impairments included in net income	574,544	(8,332,319)	(4,515,895)
Income tax benefit (expense) related to items of other comprehensive income	893,937	(237,418)	(470,196)
Other comprehensive loss for the period, net of tax	(66,959,980)	(7,647,370)	(13,751,945)
Total comprehensive (loss) income	\$ (31,294,236)	\$ 114,973,638	\$ 33,486,089

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

1 RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

As previously reported, on December 13, 2005 the Corporation concluded that its financial statements for the interim and annual periods from January 1, 2000 through March 31, 2005 should no longer be relied upon and that its consolidated financial statements for some or all of the periods included therein should be restated (the 2004 restatement). On September 26, 2006, the Corporation filed with the SEC an Amended Annual Report on Form 10-K/A restating its audited financial statements for the years ended December 31, 2004, 2003 and 2002. The following provides a brief description of the principal accounting adjustments included in the 2004 restatement of the Corporation s consolidated financial statements and the effect of the adjustments on the Corporation s Consolidated Statement of Financial Condition as of June 30, 2004, its Consolidated Statements of Income for the quarter and six month period ended June 30, 2004 and its Consolidated Statement of Cash Flows for the six month period ended June 30, 2004. In addition, with the filing of its 2006 Annual Report on Form 10-K, First BanCorp restated its 2005 and 2004 Statements of Cash Flows due to some incorrect classifications. The classification errors related to three main items: 1) the treatment of discounts and the related accretion activity on certain investment securities (mostly zero coupon securities), 2) the classification of cash flows from the disposition of repossessed assets, and 3) purchases of zero coupon bonds and agency discount notes amounts presented as part of investing activities (the 2006 restatement). All financial information for the quarter and six month period ended June 30, 2004 included in any subsequent notes is presented on a restated basis. A more detailed description of the accounting adjustments made in connection with the 2004 restatement, as well as a background discussion of the 2004 restatement, is included in Note 1 Restatement of Previously Issued Financial Statements to First Bancorp audited Consolidated Financial Statements, included in the Corporation s amended 2004 Annual Report on Form 10-K. A more detailed description of the accounting adjustments made in connection with the 2006 restatement, is included in Note 1 Restatement of 2005 and 2004 Consolidated Statements of Cash Flows to First BanCorp audited Consolidated Financial Statements, included in the Corporation s 2006 Annual Report on Form 10-K.

As discussed in more detail below, First BanCorp has separately quantified the impact of various accounting adjustments on its interim unaudited Consolidated Financial Statements.

Table of Contents**RECONCILIATION OF PREVIOUSLY REPORTED TO RESTATED FIGURES
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**

<i>(In thousands)</i>	As of June 30, 2004
Cash and due from banks (no adjustment required)	\$ 83,322
Money market investments, as previously reported	\$ 442,929
Impact of accounting errors and corrections:	
Reclassifications	2,319
Money market investments, as restated	\$ 445,248
Investment securities including FHLB Stock, as previously reported	\$ 5,854,954
Impact of accounting errors and corrections:	
Accounting for investment securities	(4,025)
Recharacterization of pass-through certificates as secured loans	(96,826)
Reclassifications	(2,319)
Investment securities including FHLB stock, as restated	\$ 5,751,784
Total loans, net of allowance for loan and lease losses, as previously reported	\$ 7,758,586
Impact of accounting errors and corrections:	
Accounting for derivative instruments and broker placement fees	232
Accounting for origination fees and costs and premiums and discounts on loans	(2,067)
Recharacterization of pass-through certificates as secured loans	96,826
Reclassifications	539
Other accounting adjustments	(1,784)
Total loans, net of allowance for loan and lease losses, as restated	\$ 7,852,332
Total other assets, as previously reported	\$ 325,029
Impact of accounting errors and corrections:	
Accounting for derivative instruments and broker placement fees	708
Tax impact of accounting adjustments	30,413
Reclassifications	(1,318)
Valuation of financial instruments	1,200
Other accounting adjustments	431
Total other assets, as restated	\$ 356,463

Total assets, as restated	\$ 14,489,149
Total liabilities, as previously reported	\$ 13,335,970
Impact of accounting errors and corrections:	
Accounting for derivative instruments and broker placement fees	73,858
Tax impact of accounting adjustments	1,456
Reclassifications	(779)
Other accounting adjustments	(1,125)
Total liabilities, as restated	\$ 13,409,380
Stockholders' equity, as previously reported	\$ 1,128,850
Impact of accounting errors and corrections:	
Accounting for derivative instruments and broker placement fees	(73,372)
Accounting for investment securities	(2,922)
Accounting for origination fees and costs and premiums and discounts on loans	(2,067)
Valuation of financial instruments	1,200
Tax impact of accounting adjustments	28,957
Impact of accounting adjustments in other comprehensive income	(649)
Other accounting adjustments	(228)
Stockholders' equity, as restated	\$ 1,079,769

Table of Contents**RECONCILIATION OF PREVIOUSLY REPORTED TO RESTATED FIGURES
CONSOLIDATED STATEMENT OF INCOME**

	Quarter Ended June 30, 2004	Six Month Period Ended June 30, 2004
<i>(In thousands, except per share amounts)</i>		
Net interest income, as previously reported	\$ 94,278	\$ 178,481
Impact of accounting errors and corrections:		
Accounting for derivative instruments and broker placement fees	(86,898)	(47,163)
Accounting for investment securities	(4,885)	(4,312)
Accounting for origination fees and costs and premiums and discounts on loans	155	294
Reclassification of late charges, penalty fees on loans and other	2,226	6,242
Other accounting adjustments	108	228
Net interest income, as restated	\$ 4,984	\$ 133,770
Provision for loan and lease losses (no adjustment required)	\$ 13,200	\$ 26,400
Non-interest income, as previously reported	\$ 13,650	\$ 37,648
Impact of accounting errors and corrections:		
Accounting for derivative instruments and broker placement fees	962	1,386
Accounting for origination fees and costs and premiums and discounts on loans	(671)	(1,299)
Reclassification of late charges, penalty fees on loans and other	(2,226)	(6,242)
Valuation of financial instruments		1,200
Other accounting adjustments	431	417
Non-interest income, as restated	\$ 12,146	\$ 33,110
Non-interest expenses, as previously reported	\$ 45,510	\$ 88,668
Impact of accounting errors and corrections:		
Accounting for origination fees and costs and premiums and discounts on loans	(274)	(525)
Other accounting adjustments	349	172
Non-interest expenses, as restated	\$ 45,585	\$ 88,315
Income tax expense, as previously reported	\$ (9,283)	\$ (20,922)
Impact of accounting errors and corrections	32,746	15,995

Income tax benefit (expense), as restated	\$	23,463	\$	(4,927)
Net (loss) income, as restated	\$	(18,192)	\$	47,238
Basic earnings per common share, as previously reported	\$	0.37	\$	0.75
Effect of adjustments		(0.72)		(0.41)
Basic (loss) earnings per common share, as restated	\$	(0.35)	\$	0.34
Diluted earnings per common share, as previously reported	\$	0.36	\$	0.73
Effect of adjustments		(0.71)		(0.40)
Diluted (loss) earnings per common share, as restated	\$	(0.35)	\$	0.33

The Corporation classified the accounting practices and related adjustments that were affected by the restatement into the categories described below.

Accounting for Derivative Instruments and Broker Placement Fees. As part of the restatement, the Corporation reviewed its accounting for derivative instruments and concluded that its use of the short-cut method of hedge accounting under Statement of Financial Accounting Standard No. (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities*, for interest rate swaps that economically hedge mainly brokered certificates of deposit (CDs) was not consistent with generally accepted accounting principles in the United States of America (GAAP) because the fee received from the swap counterparty at the inception of the relationship caused the swap not to have a fair value of zero at inception (which is required under SFAS 133 to qualify for the short-cut method). In connection with the evaluation of hedge accounting transactions, the Corporation concluded that the short-cut method was also incorrectly used for certain interest rate swaps hedging medium-term notes, certain corporate bonds and certain commercial loan receivables.

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Prior to the restatement, the Corporation recorded, under the short-cut method, the effective portion of the change in fair value of the hedged item as an adjustment to income that offsets the fair value adjustment on the related interest rate swap. Furthermore, prior to the restatement, the broker placement fees were offset with the upfront fees received from the swap counterparties at inception with no separate accounting recognition.

The adjustments related to the correction of the accounting for derivative instruments and broker placement fees primarily consisted of: (1) eliminating the fair value adjustments previously made to the brokered CDs, medium-term notes and other hedged items; (2) recognizing the fair value of the interest rate swaps at inception, which is the equivalent of the upfront fees received from swap counterparties; (3) recognizing the placement fees paid to the brokers that placed the brokered CDs and medium-term notes as deferred costs required to be amortized over the expected maturities of the related economically hedged items; and (4) correcting the fair value of the interest rate swaps as of the end of each reporting period.

The net cumulative pre-tax effect through June 30, 2004 related to the correction of the accounting for derivative instruments and broker placement fees was a decrease of \$73.4 million. The following table details the components of the pre-tax income effect from the correction in the accounting for interest rate swaps and broker placement fees for the quarter and six month period ended June 30, 2004:

	Quarter Ended June 30, 2004	Six Month Period Ended June 30, 2004
Elimination of fair value adjustments previously made to hedged items	\$ (88,770)	\$ (49,154)
Recognition of interest rate swap up-front fees	7,521	12,741
Broker placement fees amortization	(1,240)	(5,535)
Corrections to interest rate swap valuations	(3,447)	(3,829)
Total	\$ (85,936)	\$ (45,777)

Recharacterization of purchases of mortgage loans and pass-through trust certificates as commercial loans secured by mortgage loans. Prior to the restatement, the Corporation had inaccurately recorded as purchases of residential mortgages, commercial mortgage loans and pass-through trust certificates certain mortgage-related transactions with local financial institutions. Certain of these transactions included or likely included recourse provisions, which had not been analyzed as part of the Corporation's financial reporting process. The Corporation determined that such transactions did not satisfy the reasonable assurance standard of SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, regarding the isolation of assets in bankruptcy, with the result that they did not qualify as a true sale for accounting purposes. The restatement reflects these mortgage-related transactions as commercial loans secured by mortgage loans and pass-through trust certificates. This conclusion resulted in the revised classification of approximately \$2.7 billion in mortgage-related loans to secured loans to local financial institutions as of June 30, 2004 and \$96.8 million pass-through trust certificates to secured loans to local financial institutions as of June 30, 2004. The recharacterization of the mortgage-related transactions did not impact the Corporation's retained earnings as of June 30, 2004.

Accounting for Investment Securities. The Corporation historically amortized premiums and discounts related to most of its investment securities into interest income over the life of the related securities using a straight-line method adjusted for prepayment of securities. As part of the restatement, the Corporation concluded that it needed to correct its methodology and adjust its financial statements to reflect the amortization of premiums and discounts into interest income over the terms of the securities using the effective interest method instead of the straight-line method. The cumulative effect of this correction on the Corporation's pre-tax income through June 30, 2004 was a decrease of \$2.9 million. For the quarter and six month period ended June 30, 2004 the effect for the correction of the accounting for investment securities was a decrease on the Corporation's pre-tax income of \$4.9 million and \$4.3 million, respectively.

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In addition, the Corporation identified other types of investment instruments that had not been recognized in the Consolidated Statement of Financial Condition in accordance with the provisions of SFAS 115 Accounting for Certain Investments in Debt and Equity Securities.

Accounting for deferral and recognition of origination fees and costs on loans. As part of the restatement process, the Corporation reviewed the methodology used to measure origination fees and costs associated with its loans origination, in accordance with SFAS 91, Accounting for Nonrefundable Fees and Costs Associated with Origination or Acquiring Loans and Initial Direct Costs of Leases, which establishes the accounting treatment for nonrefundable fees and costs associated with lending, committing to lend or purchasing loans. The Corporation concluded that throughout the restatement period, it did not apply SFAS 91 requirements to one of its consumer loans portfolios. Accordingly, the Corporation concluded that, in order to comply with SFAS 91, it needed to defer and amortize loan origination fees and costs on this portfolio using the interest method. The cumulative effect of this correction on the Corporation's pre-tax income through June 30, 2004 was a decrease of approximately \$2.1 million, of which \$0.2 million and \$0.5 million was recorded as a reduction in pre-tax income for the quarter and six month period ended June 30, 2004, respectively.

Valuation of financial instruments. In connection with a loan restructuring, First BanCorp became the holder of warrants. The warrant certificate gives the Corporation the right to purchase common stock from a privately held company at a fixed price. This transaction was not formally evaluated or documented as part of the Corporation's financial reporting process. As part of the restatement process, the Corporation concluded that this transaction meets the definition of a derivative instrument as stated in SFAS 133. Accordingly, the warrant was marked to market and the valuation recognized in earnings as part of Other operating income. The cumulative effect of this correction on the Corporation's pre-tax income through June 30, 2004 was an increase of \$1.2 million, all of which related to the quarter ended March 31, 2004.

Other Accounting Adjustments and Reclassifications. As part of the restatement, the Corporation also made corrections to various other aspects of its Consolidated Financial Statements, including adjustments to the gain on sale of credit card portfolios, accrual of rental expense on lease contracts and income from a loan origination subsidiary. The cumulative effect of all these other adjustments on the Corporation's pre-tax income through June 30, 2004 was a decrease of \$0.2 million, of which approximately \$0.2 million was recorded as an increase to pre-tax income for the quarter ended June 30, 2004 and \$0.5 million was recorded as an increase to pre-tax income for the six month period ended June 30, 2004.

The reclassifications made to conform to GAAP included, among other things, reclassifying late charges and prepayment fees on loans from non-interest income to interest income on loans, and reclassifying dividends on equity securities from non-interest income to interest income on investments. Other reclassifications included reclassifying loans receivable balances within loan categories, reclassifying certain amounts previously reported as repurchase agreements to other borrowings, and reclassifying certain short-term investments previously reported as part of the available for sale and held to maturity investment portfolio to money market investments.

Income Taxes. As a result of the corrections reflected in the restatement, the Corporation's cumulative income tax expense through June 30, 2004 was reduced by approximately \$29.0 million, of which \$32.7 million was recorded as a reduction to income tax expense for the quarter ended June 30, 2004 and \$16.0 million was recorded as a decrease to income tax expense for the six month period ended June 30, 2004. The cumulative reduction through June 30, 2004 resulted principally from changes in deferred taxes. See Note 15 for additional details regarding the Corporation's income taxes.

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The following table shows the impact of all restatement adjustments on the previously reported unaudited Consolidated Statement of Financial Condition as of June 30, 2004.

FIRST BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

<i>(Dollars in thousands)</i>	June 30, 2004 (As Previously		June 30,
	Reported)	Adjustments	2004 (As
			Restated)
Assets			
Cash and due from banks	\$ 83,322	\$	\$ 83,322
Money market instruments	371,329	2,319	373,648
Federal funds sold and securities purchased under agreements to resell	71,000		71,000
Time deposits with other financial institutions	600		600
Total money market investments	442,929	2,319	445,248
Investment securities available for sale, at fair value:			
Securities pledged that can be repledged	1,154,453	(96,825)	1,057,628
Other investment securities	461,382	(151)	461,231
Total investment securities available for sale	1,615,835	(96,976)	1,518,859
Investment securities held to maturity, at amortized cost:			
Securities pledged that can be repledged	3,656,370	(3,968)	3,652,402
Other investment securities	521,599	(2,601)	518,998
Total investment securities held to maturity	4,177,969	(6,569)	4,171,400
Other equity securities	61,150	375	61,525
Loans, net of allowance for loan and lease losses	7,736,191	97,088	7,833,279
Loans held for sale, at lower of cost or market	22,395	(3,342)	19,053
Total loans, net	7,758,586	93,746	7,852,332
Premises and equipment, net	85,905		85,905
Other real estate owned	5,599		5,599
Accrued interest receivable	52,149	(291)	51,858
Due from customers on acceptances	328		328
Other assets	181,048	31,725	212,773
Total assets	\$ 14,464,820	\$ 24,329	\$ 14,489,149

Liabilities & Stockholders Equity

Liabilities:

Non-interest-bearing deposits	\$	600,217	\$	1,637	\$	601,854
Interest-bearing deposits		6,352,120		52,638		6,404,758
Federal funds purchased and securities sold under agreements to repurchase		4,413,070		(55,050)		4,358,020
Advances from the Federal Home Loan Bank (FHLB)		1,223,000				1,223,000
Notes payable		153,701		(1,087)		152,614
Other borrowings		102,610		45,167		147,777
Subordinated notes		82,820		(802)		82,018
Bank acceptance outstanding		328				328
Payable for unsettled investment trade		198,575				198,575
Accounts payable and other liabilities		209,529		30,907		240,436
Total liabilities		13,335,970		73,410		13,409,380

Stockholders equity:

Preferred stock, authorized 50,000,000 shares: issued and outstanding 22,004,000 shares at \$25 liquidation value per share		550,100				550,100
Common stock, \$1 par value, authorized 250,000,000 shares; issued 45,137,055 shares		45,137				45,137
Less: Treasury Stock (at par value)		(4,921)				(4,921)
Common stock outstanding		40,216				40,216
Additional paid-in capital		2,323				2,323
Capital reserve		80,000				80,000
Legal surplus		163,106		2,603		165,709
Retained earnings		270,396		(51,035)		219,361
Accumulated other comprehensive income, net of tax		22,709		(649)		22,060
Total stockholders equity		1,128,850		(49,081)		1,079,769
Total liabilities and stockholders equity	\$	14,464,820	\$	24,329	\$	14,489,149

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The following tables show the impact of all restatement adjustments on the previously reported unaudited Consolidated Statements of Income and basic and diluted earnings per share for the quarter and six month period ended June 30, 2004.

FIRST BANCORP
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

	June 30, 2004	Quarter Ended	June 30, 2004
<i>(In thousands, except per share data)</i>	(As Previously Reported)	Adjustments	(As Restated)
Interest income:			
Loans	\$ 103,074	\$ 3,574	\$ 106,648
Investment securities	57,588	(4,180)	53,408
Money market investments	546		546
Total interest income	161,208	(606)	160,602
Interest expense:			
Deposits	26,610	89,337	115,947
Federal funds purchased and repurchase agreements	32,013	(154)	31,859
Advances from FHLB	5,817		5,817
Notes payable and other borrowings	2,490	(495)	1,995
Total interest expense	66,930	88,688	155,618
Net interest income	94,278	(89,294)	4,984
Provision for loan and lease losses	13,200		13,200
Net interest income (loss) after provision for loan and lease losses	81,078	(89,294)	(8,216)
Non-interest income:			
Other service charges on loans	4,218	(3,268)	950
Service charges on deposit accounts	2,743		2,743
Mortgage banking activities	217		217
Net gain on investments and impairments	551		551
Rental income	702		702
Gain on sale of credit card portfolio	297		297
Other operating income	4,922	1,764	6,686
Total other income	13,650	(1,504)	12,146

Non-interest expenses:			
Employees compensation and benefits	21,513	(275)	21,238
Occupancy and equipment	9,447	(5)	9,442
Business promotion	4,588		4,588
Professional fees	1,206		1,206
Taxes, other than income taxes	1,951		1,951
Insurance and supervisory fees	1,010		1,010
Other operating expenses	5,795	355	6,150
Total other operating expenses	45,510	75	45,585
Income before income tax	49,218	(90,873)	(41,655)
Income tax (provision) benefit	(9,283)	32,746	23,463
Net income (loss)	\$ 39,935	\$ (58,127)	\$ (18,192)
Net income (loss) attributable to common stockholders	\$ 29,866	\$ (58,127)	\$ (28,261)
Net income (loss) per common share:			
Basic	\$ 0.37	\$ (0.72)	\$ (0.35)
Diluted	\$ 0.36	\$ (0.71)	\$ (0.35)

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	June 30, 2004 (As Previously Reported)	Six Months Ended Adjustments	June 30, 2004 (As Restated)
<i>(In thousands, except per share data)</i>			
Interest income:			
Loans	\$ 203,122	\$ 7,522	\$ 210,644
Investment securities	103,370	(3,858)	99,512
Money market investments	1,263		1,263
Total interest income	307,755	3,664	311,419
Interest expense:			
Deposits	53,657	48,910	102,567
Federal funds purchased and repurchase agreements	60,346	(155)	60,191
Advances from FHLB	11,117		11,117
Notes payable and other borrowings	4,154	(380)	3,774
Total interest expense	129,274	48,375	177,649
Net interest income	178,481	(44,711)	133,770
Provision for loan and lease losses	26,400		26,400
Net interest income (loss) after provision for loan and lease losses	152,081	(44,711)	107,370
Non-interest income:			
Other service charges on loans	10,163	(8,058)	2,105
Service charges on deposit accounts	5,526		5,526
Mortgage banking activities	1,762		1,762
Net gain on investments and impairments	4,516		4,516
Rental income	1,319		1,319
Gain on sale of credit card portfolio	5,533		5,533
Other operating income	8,829	3,520	12,349
Total non-interest income	37,648	(4,538)	33,110
Non-interest expenses:			

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Employees compensation and benefits	41,499	(525)	40,974
Occupancy and equipment	18,831	(11)	18,820
Business promotion	8,057		8,057
Professional fees	1,940		1,940
Taxes, other than income taxes	3,899		3,899
Insurance and supervisory fees	2,086		2,086
Other operating expenses	12,356	183	12,539
Total non-interest expenses	88,668	(353)	88,315
Income before income tax	101,061	(48,896)	52,165
Income tax provision	(20,922)	15,995	(4,927)
Net income	\$ 80,139	\$ (32,901)	\$ 47,238
Net income attributable to common stockholders	\$ 60,001	\$ (32,901)	\$ 27,100
Net income per common share:			
Basic	\$ 0.75	\$ (0.41)	\$ 0.34
Diluted	\$ 0.73	\$ (0.40)	\$ 0.33

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Restatement of 2004 Consolidated Statement of Cash Flows

During the preparation of the 2006 consolidated financial statements, management became aware of some incorrect classifications in the Consolidated Statements of Cash Flows for the years ended December 31, 2005 and 2004. The classification errors related to three main items: 1) the treatment of discounts and the related accretion activity on certain investment securities (mostly zero coupon securities) purchased by the Corporation which were incorrectly presented as cash flows related to investing activities (principal repayments and maturities of securities held-to-maturity), instead of operating activities (net amortization or accretion of discounts and premiums on investment securities), 2) the classification of cash flows from the disposition of repossessed assets which was included as part of operating activities (decrease or increase in other assets), instead of investing activities (proceeds from sale of repossessed assets), and 3) purchases of zero coupon bonds and agency discount notes amounts presented as part of investing activities (purchases of securities held-to-maturity) were reported at par amount rather than the actual cash paid for the securities and the discounts on such securities were being presented as investing activities (principal repayments and maturities of securities held-to-maturity) rather than being excluded from the Cash Flow Statements.

The cash flows related to the accretion of discount on certain investment securities have been properly classified as cash flows from operating activities and the cash flows from the disposition of repossessed assets have been properly classified as cash flows from investing activities in the restated Consolidated Statement of Cash Flows for the six month period ended June 30, 2004. The amounts presented as purchases, principal repayments and maturities of securities under cash flows from investing activities have also been corrected to reflect actual cash outflows and inflows related to zero coupon bonds and discounts notes. In addition, the Corporation has corrected the classification of other items, including items related to the 2004 restatement (see footnotes in table below), and the classification of short-term held-to-maturity investments (less than 90 days) from investments to cash and cash equivalents.

Also, the Corporation has corrected the classification of cash receipts from sales and repayments as well as cash disbursements in originations of loans classified as held-for-sale on the consolidated statements of cash flows. The Corporation previously reported the cash receipts from sales and repayments as well as cash disbursements in originations of loans classified as held-for-sale that were originally acquired for investment as cash flows of operating activities in the consolidated statements of cash flows. Since these loans were originally acquired by the Corporation for investment purposes, cash receipts from sales and repayments as well as cash disbursements in originations of these loans should be classified as cash flows of investing activities in the consolidated statements of cash flows.

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The following comparative table presents the effects of the aforementioned classification corrections as well as the impact of all restatement adjustments related with the 2004 restatement on the Consolidated Statement of Cash Flows for the six month period ended June 30, 2004:

Six Month Period Ended June 30, (in thousands)	2004		
	As Previously Reported	Adjustments	(As Restated)
Cash flows from operating activities:			
Net income	\$ 80,139	\$ (32,901)	\$ 47,238
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income tax benefit (1)	(5,148)	(17,868)	(23,016)
Unrealized derivatives loss (2)	58	39,042	39,100
Amortization of brokers' placement fees (2)		6,490	6,490
(Accretion) amortization of premiums and discounts on investment securities (3)		(2,063)	(2,063)
Decrease (increase) in other assets (3)	3,440	(16,931)	(13,491)
Other adjustments to cash flows from operating activities (4) (5)	(17,896)	35,714	17,818
Total adjustments to reconcile net income to net cash provided by operating activities	(19,546)	44,384	24,838
Net cash provided by operating activities	60,593	11,483	72,076
Cash flows from investing activities:			
Proceeds from sale of repossessed assets (3)		17,002	17,002
Purchase of securities held to maturity (3)	(4,305,050)	2,786,389	(1,518,661)
Principal repayments and maturities of securities held to maturity (3)	3,257,559	(2,768,184)	489,375
Other adjustments to cash flows from investing activities (4) (5)	(1,087,107)	(26,983)	(1,114,090)
Net cash used in investing activities	(2,134,598)	8,224	(2,126,374)
Cash flows from financing activities:			
Net increase in deposits (2)	237,533	(8,326)	229,207
Other adjustments to cash flows from financing activities (5)	1,302,479	(926)	1,301,553
Net cash provided by financing activities	1,540,012	(9,252)	1,530,760
Net decrease in cash and cash equivalents	(533,993)	10,455	(523,538)
Cash and cash equivalents at beginning of period	1,060,244	(8,136)	1,052,108
Cash and cash equivalents at end of period (6)	\$ 526,251	\$ 2,319	\$ 528,570

- (1) Deferred tax effect of items related to the 2004 restatement; refer to explanation of change in Note 1 Restatement of previously issued financial statements Income Taxes above.
- (2) Refer to explanation of change in Note 1 Restatement of previously issued financial statements Accounting for Derivative Instruments and Broker Placement Fees above.
- (3) Refer to explanation of change in the first paragraph of Restatement of 2004 Consolidated Statements of Cash Flows above.
- (4) Refer to explanation of change in the third paragraph of Restatement of 2004 Consolidated Statements of Cash Flows above.

- (5) Change resulting from certain not significant 2004 restatement adjustments (refer to Note 1 Restatement of previously issued financial statements) and the correction of immaterial classification errors.
- (6) Correction of classification of short-term held-to-maturity investments (less than 90 days) from investments to cash and cash equivalents.

Table of Contents**2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The Consolidated Financial Statements (unaudited) have been prepared in conformity with the accounting policies stated in the Corporation's Annual Audited Financial Statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005. Certain information and note disclosure normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted from these statements pursuant to the rules and regulations of the SEC and, accordingly, these financial statements should be read in conjunction with the audited Consolidated Financial Statements of the Corporation for the year ended December 31, 2005, included in the Corporation's 2005 Annual Report on Form 10-K. All adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the statement of financial position, results of operations and cash flows for the interim periods have been reflected. All significant intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the quarter and six month period ended on June 30, 2006, are not necessarily indicative of the results to be expected for the entire year.

On May 24, 2005, the Corporation's Board of Directors declared a two-for-one split in the Corporation's common stock. The record date of the stock split was June 15, 2005, and the distribution date was June 30, 2005. The per share data contained in the Consolidated Financial Statements prior to the quarter ended June 30, 2005 has been adjusted to reflect the two-for-one stock split.

Recently issued accounting pronouncements

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115". This Statement allows entities to choose to measure certain financial assets and liabilities at fair value with changes in fair value reflected in earnings. The fair value option may be applied on an instrument-by-instrument basis. This Statement is effective for periods after November 15, 2007, however, early adoption is permitted provided that the entity also elects to apply the provisions of SFAS 157, "Fair Value Measurements". The Corporation adopted SFAS 159 effective January 1, 2007. The Corporation decided to early adopt SFAS 159 for the callable brokered CDs and a portion of the callable fixed medium-term notes that were economically hedged with interest rate swaps. First BanCorp had been following the long-haul method of accounting, which was adopted on April 3, 2006, under SFAS 133 for the portfolio of callable interest rate swaps, callable brokered CDs and callable notes. One of the main considerations in determining to early adopt SFAS 159 for these instruments was to eliminate the operational procedures required by the long-haul method of accounting in terms of documentation, effectiveness assessment, and manual procedures followed by the Corporation to fulfill the requirements specified by SFAS 133.

Upon adoption of SFAS 159, the Corporation selected the fair value measurement for approximately 63% of the brokered CDs portfolio and certain of the medium-term notes portfolio (designated liabilities). Interest rate risk on the brokered CDs and medium term notes chosen for the fair value measurement option will continue to be economically hedged through callable interest rate swaps with the same terms and conditions. The cumulative after-tax effect on the opening balance of retained earnings from adopting these standards is an approximate increase of \$92.2 million. Under SFAS 159, this one-time credit was not recognized in current earnings. Regulatory capital increased by the positive adjustment to retained earnings, exceeding by higher margins the capital levels required to be classified as well-capitalized and strengthened the Corporation's regulatory capital ratios.

With the Corporation's elimination of the use of the long-haul method in connection with the adoption of SFAS 159 as of January 1, 2007, the Corporation will no longer amortize the basis adjustment. The basis adjustment amortization is the reversal of the change in value of the brokered CDs and medium term notes recognized since the implementation of the long-haul method. Since the time the Corporation implemented the

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long-haul method, it has recognized the basis adjustment and the changes in the value of the brokered CDs and medium term notes based on the expected call date of the instruments. The adoption of SFAS 159 also requires the recognition, as part of the adoption adjustment to retained earnings, of all of the unamortized placement fees that were paid to broker counterparties upon the issuance of the brokered CDs and medium term notes. The Corporation previously amortized those fees through earnings based on the expected call date of the instruments. The impact of the de-recognition of the basis adjustment and the unamortized placement fees as of January 1, 2007 results in a cumulative after-tax reduction to retained earnings of approximately \$23.8 million. This negative charge is included in the total cumulative after-tax increase to retained earnings of \$92.2 million that results with the adoption of SFAS 157 and SFAS 159.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). This interpretation expresses the SEC staff's views regarding the process of quantifying financial statement misstatements that could result in improper amounts of assets or liabilities. While a misstatement may not be considered material for the period in which it occurred, it may be considered material in a subsequent year if the corporation were to correct the misstatement through current period earnings. SAB 108 requires a materiality evaluation based on all relevant quantitative and qualitative factors and the quantification of the misstatement using both a balance sheet and income statement approach to determine materiality. SAB 108 is effective for periods ending after November 15, 2006. The adoption of this Statement did not have a material effect on the Corporation's financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*—an amendment of FASB Statements No. 87, 88, 106 and 132(R). This Statement requires corporations to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement is effective for periods ending after December 15, 2006. This Statement is not applicable to the Corporation and therefore has no impact to the Corporation's financial condition or results of operations.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. This Statement is effective for periods beginning after November 15, 2007. Effective January 1, 2007, the Corporation elected to early adopt this Statement. For further details and for the effect on the Corporation's financial condition and results of operations upon adoption of SFAS 157 and SFAS 159, refer to the discussion on SFAS 159 above.

In June 2006, the FASB issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*—an interpretation of FASB Statement No. 109. This interpretation clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109. This interpretation provides a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This interpretation is effective for periods beginning after December 15, 2006. The Corporation adopted FIN 48 effective January 1, 2007. The cumulative effect of adoption of FIN 48 resulted in an increase of \$2.6 million to tax reserves with offsetting adjustments to retained earnings. Additionally, in connection with the adoption of FIN 48, the Corporation elected to classify interest and penalties related to unrecognized tax portions as components of income tax expense.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*, an amendment of SFAS No. 140. This Statement requires that servicing assets and servicing liabilities be initially measured at fair value along with any derivative instruments used to mitigate inherent risks. This Statement is

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effective for periods beginning after September 15, 2006. The adoption of this Statement in 2007 did not have a material effect on the Corporation's financial condition and results of operations.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140. This Statement allows fair value measurement for any hybrid financial instrument that contains an embedded derivative requiring bifurcation. It also establishes a requirement to evaluate interests in securitized financial assets to establish whether the interests are freestanding derivatives or hybrid financial instruments that contain an embedded derivative requiring bifurcation. This Statement is effective for all financial instruments acquired or issued after September 15, 2006. The adoption of this Statement did not have a material effect on the Corporation's financial condition and results of operations.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement changes the requirements for the accounting for and reporting of a voluntary change in accounting principle. This Statement requires retrospective application to prior periods' financial statements of a change in accounting principle unless it is impracticable to do so; in which case the earliest period for which retrospective application is practicable should be applied. If it is impracticable to calculate the cumulative effect of a change in accounting principle, the Statement requires prospective application as of the earliest date practicable. This Statement does not change the guidance in APB Opinion No. 20 with regard to the reporting of the correction of an error, or a change in accounting estimate. The Statement's purpose is to improve the comparability of financial information among periods. SFAS No. 154 is effective for fiscal years beginning after December 15, 2005. The adoption of this statement did not have a material effect on the Corporation's financial condition and results of operations.

In December 2004, the Financial Accounting Standard Board (FASB) issued SFAS 123R, Share-Based Payment. This statement is a revision of SFAS 123, Accounting for Stock-Based Compensation and it also supersedes APB No. 25, Accounting for Stock Issued to Employees, (APB 25), and its related implementation guidance.

This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). The cost will be recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service.

SFAS 123R eliminates the alternative to use APB 25's intrinsic value method of accounting that was provided in SFAS 123 as originally issued. Under APB 25, issuing stock options to employees generally resulted in recognition of no compensation cost.

The Corporation prospectively applied SFAS123R to its financial statements as of January 1, 2006. Refer to Note 4 to these consolidated financial statements for required disclosures and further information on the impact of the adoption of this accounting pronouncement.

Table of Contents**3 EARNINGS PER COMMON SHARE**

The calculations of earnings (loss) per common share for the quarters and six month periods ended on June 30, 2006, 2005 and 2004 are as follows:

	Quarter Ended June 30,		
	2006	2005	2004 (As Restated)
	(In thousands, except per share data)		
Net Income (Loss):			
Net Income (loss)	\$ 31,803	\$ 97,406	\$ (18,192)
Less: Preferred stock dividend	(10,069)	(10,069)	(10,069)
Net income (loss) available to common stockholders	\$ 21,734	\$ 87,337	\$ (28,261)
Weighted-Average Shares:			
Basic weighted average common shares outstanding	83,254	80,852	80,430
Average potential common shares	158	2,020	
Diluted weighted-average number of common shares outstanding	83,412	82,872	80,430
Earnings (loss) per common share:			
Basic	\$ 0.26	\$ 1.08	\$ (0.35)
Diluted	\$ 0.26	\$ 1.05	\$ (0.35)

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	Six Month Period Ended June 30,		
	2006	2005	2004 (As Restated)
	(In thousands, except per share data)		
Net Income:			
Net Income	\$ 35,666	\$ 122,621	\$ 47,238
Less: Preferred stock dividend	(20,138)	(20,138)	(20,138)
Net income available to common stockholders	\$ 15,528	\$ 102,483	\$ 27,100
Weighted-Average Shares:			
Basic weighted average common shares outstanding	82,410	80,818	80,280
Average potential common shares	498	2,323	2,472
Diluted weighted-average number of common shares outstanding	82,908	83,141	82,752
Earnings per common share:			
Basic	\$ 0.19	\$ 1.27	\$ 0.34
Diluted	\$ 0.19	\$ 1.23	\$ 0.33

Potential common shares consist of common stock issuable under the assumed exercise of stock options using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from exercise are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Stock options that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect in earnings per share. For the quarter and six month period ended June 30, 2006, there were 2,172,600 and 2,568,289 weighted-average outstanding stock options, respectively, that were excluded from the computation of outstanding shares because they were antidilutive. For the quarter and six month period ended June 30, 2005, there were 1,769,248 and 650,942 weighted-average outstanding stock options, respectively, that were excluded from the computation of outstanding shares because they were antidilutive. All options outstanding were excluded from the computation of outstanding shares for the quarter ended June 30, 2004 because the Corporation reported a net loss for such period. For the six month period ended June 30, 2004 a total of 931,800 stock options were not included in the computation of outstanding shares because they were antidilutive.

4 STOCK OPTION PLAN

Since 1997 the Corporation has had a stock option plan covering certain employees. This plan allowed for the granting of up to 8,696,112 purchase options on shares of the Corporation's common stock to officers and other employees. According to the plan, the options granted cannot exceed 20% of the number of common shares outstanding. Each option provides for the purchase of one share of common stock at a price not less than the fair market value of the stock on the date the option is granted. Stock options are fully vested upon issuance. The maximum term to exercise the options is ten years. The stock option plan provides for a proportionate adjustment in the exercise price and the number of shares that can be purchased in the event of a stock dividend, stock split,

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reclassification of stock, merger or reorganization and certain other issuances and distributions such as stock appreciation rights.

Under the Corporation's stock option plan, the Compensation Committee may grant stock appreciation rights at any time subsequent to the grant of an option. Pursuant to the stock appreciation rights, the Optionee surrenders the right to exercise an option granted under the plan in consideration for payment by the Corporation of an amount equal to the excess of the fair market value of the shares of common stock subject to such option surrendered over the total option price of such shares. Any option surrendered shall be cancelled by the Corporation and the shares subject to the option shall not be eligible for further grants under the option plan.

During the second quarter of 2005, the Corporation issued 76,373 (152,746 as adjusted for the June 2005 stock split) shares of common stock as a result of the exercise of 36,479 stock options and 39,894 shares granted pursuant to stock appreciation rights before the June 2005 stock split, both under the Corporation's stock-based compensation plan.

Prior to the adoption of SFAS 123R on January 1, 2006, the Corporation accounted for stock options under the recognition and measurement principles of APB 25 and related Interpretations. No stock-based employee compensation cost was reflected in net income for the quarters and six month periods ended June 30, 2005 and 2004, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. The table below illustrates the effect on net income and earnings per common share if the Corporation had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation granted during the second quarter and first six months of 2005 and 2004.

Table of Contents**Pro-forma information:**

	Quarter ended June 30, 2004 (As Restated)		Six month period ended June 30, 2004 (As Restated)	
	2005		2005	
	(In thousands, except per share data)			
Net income (loss)				
As reported	\$ 97,406	\$ (18,192)	\$ 122,621	\$ 47,238
Deduct: Stock-based employee compensation expense determined under fair value method			6,118	4,963
Pro forma	\$ 97,406	\$ (18,192)	\$ 116,503	\$ 42,275
Earnings (loss) per common share-basic:				
As reported	\$ 1.08	\$ (0.35)	\$ 1.27	\$ 0.34
Pro forma	\$ 1.08	\$ (0.35)	\$ 1.19	\$ 0.28
Earnings (loss) per common share-diluted:				
As reported	\$ 1.05	\$ (0.35)	\$ 1.23	\$ 0.33
Pro forma	\$ 1.05	\$ (0.35)	\$ 1.16	\$ 0.27

On January 1, 2006, the Corporation adopted SFAS 123R using the modified prospective method. Under this method, and since all previously issued stock options were fully vested at the time of the adoption, the Corporation expenses the fair value of all employee stock options granted after January 1, 2006 (same as the prospective method). The compensation expense associated with expensing stock options for the six month period ended June 30, 2006 was approximately \$4.9 million. All employee stock options granted during 2006 were fully vested at the time of grant.

The activity of stock options during the first six months of 2006 is set forth below:

	Six Month Period Ended June 30, 2006			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Beginning of period	5,316,410	\$ 13.28		
Options granted	1,070,000	12.68		
Options exercised	(2,379,000)	8.30		
Options expired unexercised	(964,000)	21.95		
End of period outstanding and exercisable	3,043,410	\$ 14.21	7.3	\$ 682

The fair value of options granted in 2006, 2005 and 2004 that was estimated using the Black-Scholes option pricing, and the assumptions used follow:

	2006		2005		2004
	\$ 12.68		\$ 23.92		\$ 21.45

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Weighted Average Stock Price at grant date and exercise price

Stock option estimated fair value	\$4.56 - \$4.60	\$6.40 - \$6.41	\$5.30 - \$5.45
Weighted-average estimated fair value	\$ 4.57	\$ 6.40	\$ 5.33
Expected stock option term (years)	4.22 - 4.31	4.25 - 4.27	4.08 - 4.33
Expected volatility	46%	28%	28%
Expected dividend yield	2.2%	1.0%	1.0%
Risk-free interest rate	4.7% - 5.0%	4.2%	3.1%

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The Corporation uses empirical research data to estimate options exercises and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. For 2006, the expected volatility is based on the historical implied volatility of the Corporation's common stock at each grant date. For periods prior to 2006, the expected volatility is based on the historical volatility of the Corporation's common stock over a 260 working days period. The dividend yield is based on the historical 12-month dividend yield observable at each grant date. The risk-free rate for periods is based on historical zero coupon curves obtained from Bloomberg at the time of grant based on the option expected term.

No options were exercised during the second quarter of 2006. The total intrinsic value of options exercised during the second quarter of 2005 and 2004 was approximately \$0.5 million, and \$0.1 million, respectively. The total intrinsic value of options exercised during the first half of 2006, 2005 and 2004 was approximately \$10.0 million, \$0.8 million and \$6.5 million, respectively. Cash proceeds from options exercised during the second quarter of 2005 and 2004 amounted to approximately \$0.4 million and \$0.1 million, respectively. Cash proceeds from options exercised during the first half of 2006, 2005 and 2004 amounted to approximately \$19.8 million, \$0.6 million and \$2.7 million, respectively.

Table of Contents**5 INVESTMENT SECURITIES****Investment Securities Available for Sale**

The amortized cost, gross unrealized gains and losses, approximate fair value, weighted-average yield and contractual maturities of investment securities available for sale at June 30, 2006, December 31, 2005, June 30, 2005 and June 30, 2004 were as follows:

	June 30, 2006					December 31, 2005				
	Amortized cost	Gross Unrealized gains losses		Fair value	Weighted average yield%	Amortized cost	Gross Unrealized gains losses		Fair value	Weighted average yield%
(Dollars in thousands)										
Obligations of U.S. Government Sponsored Agencies:										
Within 1 year	\$	\$	\$	\$		\$ 1,000	\$	\$	\$ 1,000	6.00
After 5 to 10 years	402,215		24,131	378,084	4.30	392,939		4,289	388,650	4.27
After 10 years	12,984		351	12,633	6.16					
Puerto Rico Government Obligations:										
After 1 to 5 years	4,614	140		4,754	6.17	4,594	223		4,817	6.17
After 5 to 10 years	15,400	136	1,060	14,476	4.85	15,271	196	678	14,789	4.84
After 10 years	5,343	48	228	5,163	5.88	5,311	131	42	5,400	5.88
United States and Puerto Rico Government Obligations	440,556	324	25,770	415,110	4.41	419,115	550	5,009	414,656	4.34
Mortgage-backed Securities:										
FHLMC certificates:										
Within 1 year	3			3	5.70	2			2	4.26
After 1 to 5 years	2,397	48	1	2,444	7.05	1,762	30		1,792	6.43
After 5 to 10 years						1,336	82		1,418	7.98
After 10 years	6,193	38	258	5,973	5.59	6,839	77	166	6,750	5.55
	8,593	86	259	8,420	6.00	9,939	189	166	9,962	6.03
GNMA certificates:										
After 1 to 5 years	750	4	1	753	6.39	939	14		953	6.39
After 5 to 10 years	1,130	6	5	1,131	5.66	291	10		301	6.64

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After 10 years	409,479	306	17,343	392,442	5.23	438,565	1,021	1,959	437,627	5.19
	411,359	316	17,349	394,326	5.24	439,795	1,045	1,959	438,881	5.20
FNMA										
certificates:										
After 1 to 5 years	134	1		135	7.47	187	3		190	7.55
After 5 to										
10 years	9,699	10	343	9,366	5.00	124	11		135	11.40
After 10 years	1,148,860	407	33,503	1,115,764	5.35	1,038,126	1,054	10,031	1,029,149	5.14
	1,158,693	418	33,846	1,125,265	5.34	1,038,437	1,068	10,031	1,029,474	5.14
Mortgage										
pass-through										
certificates:										
After 10 years	383	3		386	7.29	400	3		403	7.29
Mortgage-backed										
Securities										
	1,579,028	823	51,454	1,528,397	5.32	1,488,571	2,305	12,156	1,478,720	5.16
Corporate										
Bonds:										
After 1 to 5 years						2,483	84	1	2,566	7.75
After 5 to										
10 years	1,311		283	1,028	7.46	1,912	12	42	1,882	8.09
After 10 years	4,495		1,137	3,358	7.72	21,857	909	1,833	20,933	7.44
Corporate bonds	5,806		1,420	4,386	7.66	26,252	1,005	1,876	25,381	7.52
Equity securities										
(without										
contractual										
maturity)										
	27,441	1,991	8,039	21,393	1.18	29,931	1,131	1,641	29,421	3.70
Total Investment										
Securities										
Available for										
Sale										
	\$ 2,052,831	\$ 3,138	\$ 86,683	\$ 1,969,286	5.08	\$ 1,963,869	\$ 4,991	\$ 20,682	\$ 1,948,178	5.00

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	June 30, 2005				June 30, 2004 (As Restated)					
	Amortized cost	Gross Unrealized gains	losses	Fair value	Weighted average yield %	Amortized cost	Gross Unrealized gains	losses	Fair value	Weighted average yield %
(Dollars in thousands)										
Obligations of U.S. Government Sponsored Agencies: After 5 to 10 years	\$ 392,625	\$ 4,920	\$ 61	\$ 397,484	4.27	\$ 284,333	\$ 2,508	\$ 929	\$ 285,912	4.68
Puerto Rico Government Obligations: After 1 to 5 years	4,539	258		4,797	6.17	298	33		331	6.62
After 5 to 10 years	12,742	187	574	12,355	4.59	7,020	317	75	7,262	5.79
After 10 years	7,720	301	20	8,001	5.94	8,186	381	34	8,533	5.99
United States and Puerto Rico Government Obligations	417,626	5,666	655	422,637	4.33	299,837	3,239	1,038	302,038	4.74
Mortgage-backed Securities: FHLMC certificates: Within 1 year						1			1	5.68
After 1 to 5 years	2,132	52		2,184	6.42	2,929	146		3,075	6.37
After 5 to 10 years	1,724	88		1,812	8.08	2,775	170		2,945	8.14
After 10 years	7,274	240		7,514	5.59	3,296	170		3,466	6.86
	11,130	380		11,510	6.14	9,001	486		9,487	7.09
GNMA certificates: After 1 to 5 years	1,102	23		1,125	6.37	999	47		1,046	5.91
After 5 to 10 years	340	13		353	6.64	1,082	60		1,142	6.90
After 10 years	477,953	5,427	13	483,367	5.14	124,174	1,854	2	126,026	4.08
	479,395	5,463	13	484,845	5.14	126,255	1,961	2	128,214	4.11
FNMA certificates:										

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After 1 to 5 years	118	3		121	7.53	53	3		56	8.27
After 5 to 10 years	184	10		194	8.98	394	37		431	8.35
After 10 years	1,160,794	12,020	110	1,172,704	5.13	974,084	6,887	185	980,786	4.68
	1,161,096	12,033	110	1,173,019	5.13	974,531	6,927	185	981,273	4.68
Mortgage pass-through certificates:										
After 10 years	428	4		432	7.29	624	6		630	7.28
Mortgage-backed Securities										
	1,652,049	17,880	123	1,669,806	5.14	1,110,411	9,380	187	1,119,604	4.64
Corporate Bonds:										
Within 1 year	20,000			20,000	4.44	20,000	600		20,600	6.37
After 1 to 5 years	3,360	2,122		5,482	7.63	20,875	1,752		22,627	2.74
After 5 to 10 years	3,396	986		4,382	7.81	375	688		1,063	7.74
After 10 years	22,858	1,024	1,221	22,661	7.44					
Corporate bonds	49,614	4,132	1,221	52,525	6.27	41,250	3,040		44,290	4.54
Equity securities (without contractual maturity)										
	60,705	14,837	3,395	72,147	1.49	44,216	11,573	2,862	52,927	0.98
Total Investment Securities Available for Sale										
	\$ 2,179,994	\$ 42,515	\$ 5,394	\$ 2,217,115	4.91	\$ 1,495,714	\$ 27,232	\$ 4,087	\$ 1,518,859	4.55

Maturities of mortgage-backed securities are based on contractual terms assuming no prepayments. Expected maturities of investments might differ from contractual maturities because they may be subject to prepayments and/or call options. The weighted average yield on investment securities held for sale is based on amortized cost and, therefore, does not give effect to changes in fair value. The net unrealized gains or losses on available for sale securities are presented as part of accumulated other comprehensive income.

The following tables show the Corporation's available-for-sale investments' fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2006, December 31, 2005, June 30, 2005 and June 30, 2004:

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	Less than 12 months Unrealized		As of June 30, 2006 12 months or more Unrealized		Total Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Debt Securities						
Obligations of U.S. Government Sponsored Agencies	\$ 390,717	\$ 24,482	\$	\$	\$ 390,717	\$ 24,482
Puerto Rico Government Obligations	1,321	7	\$ 12,878	\$ 1,281	14,199	1,288
Mortgage-Backed Securities						
FHLMC	834	1	4,049	258	4,883	259
GNMA	372,717	17,349			372,717	17,349
FNMA	855,980	31,999	43,222	1,847	899,202	33,846
Corporate Bonds			4,386	1,420	4,386	1,420
Equity Securities	14,898	8,039			14,898	8,039
	\$ 1,636,467	\$ 81,877	\$ 64,535	\$ 4,806	\$ 1,701,002	\$ 86,683

	Less than 12 months Unrealized		As of December 31, 2005 12 months or more Unrealized		Total Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Debt Securities						
Obligations of U.S. Government Sponsored Agencies	\$ 388,650	\$ 4,289	\$	\$	\$ 388,650	\$ 4,289
Puerto Rico Government Obligations			13,440	720	13,440	720
Mortgage-Backed Securities						
FHLMC	4,440	166			4,440	166
GNMA	369,231	1,959			369,231	1,959
FNMA	939,197	10,031			939,197	10,031
Corporate Bonds	8,711	1,876			8,711	1,876
Equity Securities	16,229	1,641			16,229	1,641
	\$ 1,726,458	\$ 19,962	\$ 13,440	\$ 720	\$ 1,739,898	\$ 20,682

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	Less than 12 months		As of June 30, 2005 12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities						
Obligations of U.S. Government Sponsored Agencies	\$ 100,109	\$ 61	\$	\$	\$ 100,109	\$ 61
Puerto Rico Government Obligations	8,644	515	4,921	79	13,565	594
Mortgage-Backed Securities						
GNMA	1,628	13			1,628	13
FNMA	55,081	110			55,081	110
Corporate Bonds	8,190	1,221			8,190	1,221
Equity Securities	12,128	3,395			12,128	3,395
	\$ 185,780	\$ 5,315	\$ 4,921	\$ 79	\$ 190,701	\$ 5,394

	Less than 12 months		As of June 30, 2004 (As Restated) 12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities						
Obligations of U.S. Government Sponsored Agencies	\$ 95,304	\$ 929	\$	\$	\$ 95,304	\$ 929
Puerto Rico Government Obligations	4,891	109			4,891	109
Mortgage-Backed Securities						
GNMA	275	2			275	2
FNMA	89,962	185			89,962	185
Equity Securities	17,647	2,862			17,647	2,862
	\$ 208,079	\$ 4,087	\$	\$	\$ 208,079	\$ 4,087

The Corporation's investment securities portfolio is comprised principally of (i) mortgage-backed securities issued or guaranteed by FNMA, GNMA or FHLMC and (ii) U.S. Treasury and agencies securities. Thus, payment of a substantial portion of these instruments is either guaranteed or secured by mortgages together with a U.S. government sponsored entity or is backed by the full faith and credit of the U.S. government. Principal and interest on these securities are therefore deemed recoverable. The Corporation's policy is to review its investment portfolio for possible

other-than temporary impairment, at least quarterly. At June 30, 2006, management has the intent and ability to hold these investments for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments; as a result, the impairments are considered temporary. The increase in the net unrealized loss position during 2006 was principally due to increases in interest rates and the corresponding decrease in prices.

During the first six months of 2006, 2005 and 2004, the Corporation recorded other-than-temporary impairments of \$2.9 million, \$1.5 million and approximately \$56,000, respectively, on certain equity securities held in its investment portfolio. Management concluded that the declines in value of the securities were other-than-temporary; as such, the cost basis of these securities was written down to the market value at the date of the analyses.

Total proceeds from the sale of securities available for sale during the six-month period ended June 30, 2006 amounted to approximately \$22.8 million (2005 \$214.7 million ; 2004-\$19.3 million). The Corporation realized gross gains of approximately \$2.6 million and approximately \$0.2 million in gross realized losses for the first six months of 2006 (2005 \$9.8 million in gross realized gains ; 2004-\$4.6 million in gross realized gains and approximately \$71,000 in gross realized losses).

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

The amortized cost, gross unrealized gains and losses, approximate fair value, weighted-average yield and contractual maturities of investment securities held-to-maturity at June 30, 2006, December 31, 2005, June 30, 2005 and June 30, 2004 were as follows:

	June 30, 2006					December 31, 2005				
	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield %	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield %
(Dollars in thousands)										
U.S. Treasury Securities: Due within 1 year	\$ 74,673	\$ 27	\$	\$ 74,700	4.86	\$ 149,156	\$ 48	\$	\$ 149,204	3.97
Obligations of other U.S. Government Sponsored Agencies: After 10 years	2,058,015		137,000	1,921,015	5.83	2,041,558		65,799	1,975,759	5.83
Puerto Rico Government Obligations: After 1 to 5 years	5,000		1	4,999	5.00	5,000	20		5,020	5.00
After 5 to 10 years	9,436	282	275	9,443	5.94					
After 10 years	15,000		171	14,829	5.50	9,163	502	143	9,522	5.94
United States and Puerto Rico Government obligations	2,162,124	309	137,447	2,024,986	5.79	2,204,877	570	65,942	2,139,505	5.70
Mortgage-backed securities: FHLMC certificates: After 5 to 10 years	18,089		931	17,158	3.67	20,211		778	19,433	3.63
FNMA certificates: After 5 to 10 years	16,188		807	15,381	3.79	18,418		602	17,816	3.79
After 10 years	1,090,719		59,971	1,030,748	4.36	1,195,082		35,277	1,159,805	4.32
	1,124,996		61,709	1,063,287	4.34	1,233,711		36,657	1,197,054	4.30

Mortgage-backed
securities

Total Investment
Securities Held

to Maturity	\$ 3,287,120	\$ 309	\$ 199,156	\$ 3,088,273	5.30	\$ 3,438,588	\$ 570	\$ 102,599	\$ 3,336,559	5.20
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	June 30, 2005					June 30, 2004 (As Restated)				
	Amortized cost	Gross Unrealized gains	Unrealized losses	Fair value	Weighted average yield %	Amortized cost	Gross Unrealized gains	Unrealized losses	Fair value	Weighted average yield %
(Dollars in thousands)										
U.S. Treasury Securities: Due within 1 year	\$	\$	\$	\$		\$ 69,987	\$	\$ 8	\$ 69,979	0.98
Obligations of other U.S. Government Sponsored Agencies: Due within 1 year	14,889		15	14,874	3.25	14,975		4	14,971	1.11
After 10 years	2,362,419	2,497	7,508	2,357,408	5.86	2,344,592	89,394		2,255,198	5.31
Puerto Rico Government Obligations: After 1 to 5 years	5,000	41		5,041	5.00	5,000	148		5,148	5.00
After 10 years	8,899	512	145	9,266	5.94	8,394	571	124	8,841	5.93
United States and Puerto Rico Government obligations	2,391,207	3,050	7,668	2,386,589	5.84	2,442,948	719	89,530	2,354,137	5.16
Mortgage-backed securities: FHLMC certificates: After 5 to 10 years	22,956		599	22,357	3.63	30,659		977	29,682	3.51
FNMA certificates: After 5 to 10 years	21,011		321	20,690	3.81	26,339		425	25,914	3.79
After 10 years	1,342,456		17,562	1,324,894	4.32	1,651,471		23,837	1,627,634	3.87
Mortgage-backed securities	1,386,423		18,482	1,367,941	4.30	1,708,469		25,239	1,683,230	3.86

Corporate Bonds:										
Within 1 year					19,983	12			19,995	2.67

Total Investment Securities Held to Maturity	\$ 3,777,630	\$ 3,050	\$ 26,150	\$ 3,754,530	5.28	\$ 4,171,400	\$ 731	\$ 114,769	\$ 4,057,362	4.62
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Maturities of mortgage-backed securities are based on contractual terms assuming no prepayments. Expected maturities of investments might differ from contractual maturities because they may be subject to prepayments and/or call options.

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The following tables show the Corporation's held-to-maturity investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2006, December 31, 2005, June 30, 2005 and June 30, 2004.

	Less than 12 months		As of June 30, 2006 12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(Dollars in thousands)			
Debt Securities						
Other U.S. Government Sponsored Agencies	\$ 610,934	\$ 36,688	\$ 1,310,081	\$ 100,312	\$ 1,921,015	\$ 137,000
Puerto Rico Government Obligations	19,828	172	3,715	275	23,543	447
Mortgage-Backed Securities						
FHLMC	2,247	114	14,911	817	17,158	931
FNMA			1,046,129	60,778	1,046,129	60,778
	\$ 633,009	\$ 36,974	\$ 2,374,836	\$ 162,182	\$ 3,007,845	\$ 199,156

	Less than 12 months		As of December 31, 2005 12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(Dollars in thousands)			
Debt Securities						
Other U.S. Government Sponsored Agencies	\$ 1,585,810	\$ 40,379	\$ 389,949	\$ 25,420	\$ 1,975,759	\$ 65,799
Puerto Rico Government Obligations	3,746	143			3,746	143
Mortgage-Backed Securities						
FHLMC			19,433	778	19,433	778
FNMA	11,771	339	1,165,849	35,540	1,177,620	35,879
	\$ 1,601,327	\$ 40,861	\$ 1,575,231	\$ 61,738	\$ 3,176,558	\$ 102,599

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	Less than 12 months Unrealized		As of June 30, 2005 12 months or more Unrealized		Total Unrealized	
	Fair Value	Losses	Fair Value Losses (Dollars in thousands)	Fair Value Losses (Dollars in thousands)	Fair Value	Losses
Debt Securities						
Other U.S. Government Sponsored Agencies	\$ 944,732	\$ 4,348	\$ 400,586	\$ 3,175	\$ 1,345,318	\$ 7,523
Puerto Rico Government Obligations	3,645	145			3,645	145
Mortgage-Backed Securities						
FHLMC	535	16	21,822	583	22,357	599
FNMA	788,052	9,836	557,532	8,047	1,345,584	17,883
	\$ 1,736,964	\$ 14,345	\$ 979,940	\$ 11,805	\$ 2,716,904	\$ 26,150

	Less than 12 months Unrealized		As of June 30, 2004 (As restated) 12 months or more Unrealized		Total Unrealized	
	Fair Value	Losses	Fair Value Losses (Dollars in thousands)	Fair Value Losses (Dollars in thousands)	Fair Value	Losses
Debt Securities						
US Treasury Securities	\$ 69,979	\$ 8	\$	\$	\$ 69,979	\$ 8
Other U.S. Government Sponsored Agencies	1,624,447	64,969	645,722	24,429	2,270,169	89,398
Puerto Rico Government Obligations	3,478	124			3,478	124
Mortgage-Backed Securities						
FHLMC	29,682	977			29,682	977
FNMA	1,653,548	24,262			1,653,548	24,262
	\$ 3,381,134	\$ 90,340	\$ 645,722	\$ 24,429	\$ 4,026,856	\$ 114,769

Held-to-maturity securities in an unrealized loss position at June 30, 2006 are primarily mortgage-backed securities and U.S. agency securities. The vast majority of them are rated the equivalent of AAA by the major rating agencies. Management believes that the unrealized losses in the held-to-maturity portfolio at June 30, 2006 are substantially related to market interest rate fluctuations and not deterioration in the creditworthiness of the issuers; as a result, the impairment is considered temporary.

Table of Contents**6 OTHER EQUITY SECURITIES**

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

At June 30, 2006, December 31, 2005, June 30, 2005 and June 30, 2004, there were investments in FHLB stock with book value of \$22.0 million, \$40.9 million, \$73.1 million and \$61.1 million respectively. The estimated market value of such investments is its redemption value determined by the ultimate recoverability of its par value.

The Corporation has other equity securities that do not have a readily available fair value. The carrying value of such securities at June 30, 2006, December 31, 2005, June 30, 2005 and June 30, 2004 was \$1.7 million, \$1.4 million, \$1.4 million and \$0.4 million, respectively.

7 LOAN PORTFOLIO

The following is a detail of the loan portfolio:

	June 30,	December	June 30,	June 30,
	2006	31,	2005	2004
		2005	2005	(As
		(Dollars in thousands)		Restated)
Residential real estate loans, mainly secured by first mortgages	\$ 2,567,556	\$ 2,245,272	\$ 1,777,044	\$ 1,105,614
Commercial loans:				
Construction loans	1,560,580	1,137,118	715,971	374,845
Commercial mortgage loans	1,152,796	1,090,193	1,000,752	648,690
Commercial loans	2,441,329	2,421,219	2,295,216	1,708,971
Loans to local financial institutions collateralized by real estate mortgages and pass-through trust certificates	992,586	3,676,314	4,211,687	2,708,896
Commercial loans	6,147,291	8,324,844	8,223,626	5,441,402
Finance leases	325,867	280,571	242,765	184,866
Consumer loans	1,783,902	1,733,569	1,580,501	1,235,075
Loans receivable	10,824,616	12,584,256	11,823,936	7,966,957
Allowance for loan and lease losses	(146,527)	(147,999)	(146,154)	(133,678)
Loans receivable, net	10,678,089	12,436,257	11,677,782	7,833,279
Loans held for sale	80,643	101,673	49,033	19,053
Total loans	\$ 10,758,732	\$ 12,537,930	\$ 11,726,815	\$ 7,852,332

The Corporation's primary lending area is Puerto Rico. The Corporation's Bank subsidiary also lends in the U.S. and British Virgin Islands markets and in the state of Florida (USA). The Corporation has a significant lending concentration of \$546.9 million in one mortgage originator in Puerto Rico at June 30, 2006. The Corporation has outstanding \$445.7 million with another mortgage originator in Puerto Rico for total loans granted to mortgage originators amounting to \$992.6 million at June 30, 2006. These commercial loans were secured by individual residential and commercial mortgage loans. The mortgage originators have always paid the loans in accordance with their terms and conditions of the loan agreements.

Of the total net loans portfolio of \$10.8 billion as of June 30, 2006, approximately 77% have credit risk concentration in Puerto Rico, 15% in the state of Florida and 8% in the Virgin Islands.

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On May 25, 2006, the Corporation entered into a series of credit agreements with Doral Financial Corporation (Doral) to formally document as secured borrowings the loan transfers between the parties that previously had been accounted for as sales. The terms of the credit agreements specified: (1) a floating interest payment based on a spread over 90-day LIBOR subject to a cap; (2) an amortization schedule tied to the scheduled amortization of the underlying mortgage loans subject to a maximum maturity of 10 years; (3) mandatory prepayments as a result of actual prepayments from the underlying mortgages; and (4) an option to Doral to prepay the loan without penalty at any time.

On May 31, 2006, First BanCorp received a cash payment from Doral, substantially reducing the balance of approximately \$2.9 billion in secured commercial loans to approximately \$450 million as of that date. In connection with the repayment, the Corporation and Doral entered into a sharing agreement on May 25, 2006 with respect to certain profits or losses that Doral incurs as part of the sales of the mortgages that collateralized the commercial loans. First BanCorp agreed to reimburse Doral for 40% of the net losses incurred by Doral as a result of sales or securitization of the mortgages, subject to certain conditions and subject to a maximum reimbursement of \$9.5 million, which will be reduced proportionately to the extent that Doral does not sell the mortgages. As a result of the loss sharing agreement and the partial extinguishment of the commercial loans by Doral, the Corporation recorded a net loss of \$11.6 million during the second quarter of 2006.

8 ALLOWANCE FOR LOAN AND LEASE LOSSES

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

	Quarter Ended		
	June 30,		
	2006	2005	2004
	(Dollars in thousands)		
Balance at beginning of period	\$ 152,596	\$ 144,201	\$ 130,357
Provision for loan and lease losses	9,354	11,075	13,200
Charge-offs	(16,812)	(10,998)	(11,281)
Recoveries	1,389	1,876	1,402
Balance at end of year	\$ 146,527	\$ 146,154	\$ 133,678

	Six Month Period Ended		
	June 30,		
	2006	2005	2004
	(Dollars in thousands)		
Balance at beginning of period	\$ 147,999	\$ 141,036	\$ 126,378
Provision for loan and lease losses	28,730	22,029	26,400
Charge-offs	(33,261)	(21,597)	(21,977)
Recoveries	3,059	3,323	2,877
Other adjustments (1)		1,363	
Balance at end of year	\$ 146,527	\$ 146,154	\$ 133,678

(1) Represents allowance for loan losses from the acquisition of Ponce

General
Corporation.

The allowance for impaired loans is part of the allowance for loan and lease losses. These loans represent loans for which management has determined that it is probable that the debtor will be unable to pay all the amounts due, according to the contractual terms of the loan agreement, and do not necessarily represent loans for which the Corporation will incur a substantial loss. At June 30, 2006, December 31, 2005, June 30, 2005 and June 30, 2004, impaired loans had a related allowance as follows:

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	As of June 30, 2006	As of December 31, 2005 (Dollars in thousands)	As of June 30, 2005	As of June 30, 2004 (As Restated)
Impaired loans	\$43,567	\$59,801	\$51,603	\$66,767
Allowance for impaired loans	\$ 6,329	\$ 9,219	\$14,185	\$14,982

Interest income in the amount of approximately \$0.8 million, \$1.9 million and \$0.6 million was recognized on impaired loans for the quarters ended June 30, 2006, 2005 and 2004, respectively. Interest income in the amount of approximately \$2.0 million, \$2.6 million and \$1.2 million was recognized on impaired loans for the six month period ended June 30, 2006, 2005 and 2004, respectively.

9 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

The Corporation uses various financial instruments, including derivatives, to manage the interest rate risk related primarily to the values of its brokered CDs and medium-term notes.

Interest rate swap contracts that qualify for hedge accounting

As part of the interest rate risk management, the Corporation has entered into a series of interest rate swap agreements. Under the interest rate swaps, the Corporation agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional principal amount. Net interest settlements on interest rate swaps that qualify for hedge accounting and unrealized gains and losses arising from changes in fair value of derivative instruments and hedged items are recorded as an adjustment to interest income or interest expense depending on whether an asset or liability is being hedged.

Effective April 3, 2006, the Corporation adopted the long-haul method of effectiveness testing under SFAS 133, for substantially all of the interest rate swaps that hedge its brokered CDs and medium-term notes. The long-haul method requires periodic assessment of hedge effectiveness and measurement of ineffectiveness. The ineffectiveness results to the extent that changes in the fair value of a derivative do not offset changes in the fair values of the hedged item due to changes in the hedged risk in the Consolidated Statements of Income.

For interest rate swaps accounted for as a fair value hedges using the long-haul method, ineffectiveness is the difference between the changes in the fair value of the interest rate swap and changes in the fair value of the debt attributable to the risk being hedged.

First BanCorp's implementation of the long-haul method resulted from its previously reported determination that it should not have used the short-cut method to account for interest rate swaps related to brokered CDs and medium-term notes because of technical issues involving the interpretation of the use of the method (refer to First BanCorp audited Consolidated Financial Statements, included in the Corporation's amended 2004 Annual Report on Form 10-K for additional information). Accordingly, prior to the implementation of the long-haul method, First BanCorp had reflected changes in the fair value of those swaps as well as swaps related

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to certain loans as non-hedging instruments through operations. Prior to the implementation of fair value hedge, the Corporation recorded unrealized losses in the valuation of derivative instruments of approximately \$68.0 million for 2006. With respect to the brokered CDs and medium term notes (hedge liabilities) the basis differential between the market value and the book value of the hedged liabilities at the inception of fair value hedge accounting in the amount of approximately \$200.0 million amortizes or accretes as a yield adjustment over the expected remaining term of the hedged liabilities as the changes in value since the inception of the long-haul method are recorded to the hedged liabilities. For the second quarter of 2006, the Corporation recorded an amortization of \$1.3 million as a basis adjustment on the hedged liabilities.

The Corporation recognized, as a reduction to interest expense, approximately \$2.0 million for the quarter and six-months ended June 30, 2006, representing ineffectiveness on the hedges of its brokered CDs and medium-term notes that qualified as fair value hedges under SFAS 133.

Interest rate swap contracts not qualifying for hedge accounting

Prior to April 3, 2006, the Corporation used interest rate swaps as economic hedges. These swaps either did not qualify for hedge accounting treatment or were not qualified by the Corporation for hedge accounting treatment. Changes in the fair value of these derivatives and the interest exchanged were recognized in earnings in the interest income or interest expense caption of the Consolidated Statements of Income depending upon whether an asset or liability was being economically hedged. At December 31, 2005, June 30, 2005 and June 30, 2004, all derivative instruments held by the Corporation were considered economic hedges as these did not qualify for hedge accounting under SFAS 133.

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The following table summarizes the notional amounts of all derivative instruments as of June 30, 2006, December 31, 2005, June 30, 2005 and June 30, 2004:

	Notional amounts			As of June 30, 2004 (As Restated)
	As of June 30, 2006	As of December 31, 2005 (Dollars in thousands)	As of June 30, 2005	
Interest rate swap agreements:				
Pay fixed versus receive floating	\$ 89,320	\$ 109,320	\$ 109,320	\$ 113,165
Received fixed versus pay floating	5,457,923	5,751,128	4,850,107	3,579,521
Embedded written options	13,515	13,515	13,515	13,515
Purchased options	13,515	13,515	13,515	13,515
Written interest rate cap agreements	125,200	150,200	48,000	25,000
Purchased interest rate caps	348,897	386,750	475,299	25,000
	\$ 6,048,370	\$ 6,424,428	\$ 5,509,756	\$ 3,769,716

The following table summarizes the notional amounts of all derivatives by the Corporation's designation as of June 30, 2006, December 31, 2005, June 30, 2005 and June 30, 2004:

	Notional amounts			As of June 30, 2004 (As Restated)
	As of June 30, 2006	As of December 31, 2005 (Dollars in thousands)	As of June 30, 2005	
Designated hedges:				
Fair value hedge:				
Interest rate swaps used to hedge fixed rate certificates of deposit	\$ 4,874,960	\$	\$	\$
Interest rate swaps used to hedge fixed and step rate notes payable	165,442			
Total fair value hedges	\$ 5,040,402	\$	\$	\$
Economic undesignated hedges:				
Interest rate swaps used to hedge fixed rate certificates of deposit and loans	\$ 506,841	\$ 5,860,448	\$ 4,959,427	\$ 3,692,686
Embedded options on stock index deposits	13,515	13,515	13,515	13,515
Purchased options used to manage exposure to the stock market on embedded stock index options	13,515	13,515	13,515	13,515

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Written interest rate cap agreements	125,200	150,200	48,000	25,000
Purchased interest rate cap agreements	348,897	386,750	475,299	25,000
Total derivatives not designated as hedge	\$ 1,007,968	\$ 6,424,428	\$ 5,509,756	\$ 3,769,716
Total	\$ 6,048,370	\$ 6,424,428	\$ 5,509,756	\$ 3,769,716

As of June 30, 2006, derivatives qualifying for fair value hedge accounting with a negative fair value of \$254.2 million were recorded as part of Accounts payable and other liabilities in the Consolidated Statements of Financial Condition. Changes in the fair value of hedged liabilities since the inception of hedge accounting were recorded to the hedged liabilities.

As of June 30, 2006, derivatives not designated or not qualifying as a hedge with a positive fair value of \$25.4 million (December 31, 2005 \$15.8 million; June 30, 2005 \$10.5 million; June 30, 2004 \$5.4 million) and with a negative fair value of \$31.3 million (December 31, 2005 \$158.1 million; June 30, 2005 \$52.5 million; June 30, 2004 \$117.4 million) were recorded as part of Other Assets and Accounts payable and other liabilities, respectively, in the Consolidated Statements of Financial Condition.

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The majority of the Corporation's derivative instruments represent interest rate swaps and mainly convert long-term fixed-rate brokered CDs to a floating rate. A summary of the types of swaps used at June 30, 2006, December 31, 2005, June 30, 2005 and June 30, 2004 follows:

	As of June 30, 2006	As of December 31, 2005 (Dollars in thousands)	As of June 30, 2005	As of June 30, 2004 (As Restated)
Pay fixed/receive floating:				
Notional amount	\$ 89,320	\$ 109,320	\$ 109,320	\$ 113,165
Weighted average receive rate at period end	7.24%	6.41%	4.98%	3.39%
Weighted average pay rate at period end	6.51%	6.60%	6.60%	6.97%
Floating rates range from 187 to 251.5 basis points over 3-month LIBOR				
Receive fixed/pay floating:				
Notional amount	\$5,457,923	\$5,751,128	\$4,850,107	\$3,579,521
Weighted average receive rate at period end	4.99%	4.90%	4.98%	5.26%
Weighted average pay rate at period end	5.25%	4.37%	3.32%	1.35%
Floating rates range from 5 basis points under to 19.5 basis points over 3-month LIBOR				

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

Interest rate caps are option-like contracts that require the writer, i.e. the seller, to pay the purchaser at specified future dates the amount, if any, by which a specified market interest rate exceeds the fixed cap rate, applied to a notional principal amount.

To satisfy the needs of its customers, the Corporation may enter into non-hedging transactions. These transactions are structured with the same terms and conditions and the Corporation participates as a buyer in one of the agreements and as the seller in the other agreements.

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

10 GOODWILL AND OTHER INTANGIBLES

Goodwill at June 30, 2006 amounted to \$28.7 million (December 31, 2005 \$28.7 million, June 30, 2005 \$27.3 million and June 30, 2004 \$0) and resulted primarily from the acquisition of Ponce General Corporation in 2005. No goodwill was written down during 2006, 2005 and 2004.

At June 30, 2006, the gross carrying amount and accumulated amortization of core deposit intangibles was \$41.2 million and \$13.3 million, respectively, recognized as part of Other Assets in the Consolidated Statements of Financial Condition (December 31, 2005 \$41.2 million and \$11.6 million, respectively ; June 30, 2005 \$41.2 million and \$9.4 million, respectively ; June 30, 2004 \$23.9 million and \$6.7 million,

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respectively). During the quarters ended June 30, 2006, 2005 and 2004, the amortization expense of core deposits amounted to \$0.8 million, \$0.9 million, and \$0.6 million, respectively. For the six month periods ended June 30, 2006, 2005 and 2004, the amortization expense of core deposits amounted to \$1.8 million, \$1.5 million, and \$1.2 million, respectively.

11 DEPOSITS

The following table summarizes deposit balances:

	As of June 30, 2006	As of December 31, 2005 (Dollars in thousands)	As of June 30, 2005	As of June 30, 2004 (As Restated)
Non-interest bearing checking account deposits	\$ 711,284	\$ 811,006	\$ 791,510	\$ 601,854
Saving accounts	1,035,601	1,034,047	1,163,166	921,507
Interest-bearing checking accounts	389,086	375,305	399,512	316,579
Certificates of deposit	1,676,791	1,664,379	1,674,902	1,225,565
Brokered certificates of deposit	9,700,301	8,579,015	7,092,370	3,941,107
	\$ 13,513,063	\$ 12,463,752	\$ 11,121,460	\$ 7,006,612

The interest expense on deposits includes the valuation to market of interest rate swaps that hedge brokered certificates of deposit, the related interest exchanged, the amortization of broker placement fees and the basis adjustment amortization on the brokered CDs designated under fair value hedges.

The following are the components of interest expense on deposits:

	Quarter ended			Six month period ended		
	June 30, 2006	June 30, 2005	June 30, 2004 (As Restated) (Dollars in thousands)	June 30, 2006	June 30, 2005	June 30, 2004 (As Restated)
Interest expense on deposits	\$ 143,801	\$ 67,736	\$ 26,154	\$ 261,053	\$ 114,337	\$ 52,703
Amortization of broker placement fees	4,756	2,796	1,696	8,705	6,447	6,490
Interest expense on deposits excluding unrealized loss (gain) on derivatives (designated and undesignated hedges) and amortization of basis adjustment on fair value hedges	148,557	70,532	27,850	269,758	120,784	59,193
Unrealized loss (gain) on derivatives (designated	7,318	(72,826)	88,097	72,955	(29,096)	43,374

and undesignated hedges)
 Amortization of basis
 adjustment on fair value
 hedges

1,279

1,279

Total interest expense on
 deposits

\$ 157,154

\$ (2,294)

\$ 115,947

\$ 343,992

\$ 91,688

\$ 102,567

Total interest expense on deposits includes interest exchanged on interest rate swaps that hedge designated and undesignated brokered certificates of deposit that for the quarter and six month period ended June 30, 2006 amounted to net interest incurred of \$1.8 million and net interest realized of \$1.7 million, respectively (2005 net interest realized for the quarter and six month period of \$20.5 million and \$45.1 million, respectively ; 2004 net interest realized for the quarter and six month period of \$31.7 million and \$62.0 million, respectively).

Table of Contents**12 NOTES PAYABLE**

Notes payable consist of:

	June 30,	December	June 30,	June 30,
	2006	31,	2005	2004
		2005	2005	(As
		(Dollars in Thousands)		Restated)
Callable fixed rate notes, bearing interest at 6.00%, maturing on October 1, 2024	\$ 147,169	\$ 149,456	\$ 149,448	\$
Callable step-rate notes, bearing step increasing interest from 5.00% to 7.00% maturing on October 18, 2019	15,206	15,245	15,238	
Dow Jones Industrial Average (DJIA) linked principal protected notes:				
Series A maturing on February 28, 2012	6,966	6,752	6,378	6,535
Series B maturing on May 27, 2011	7,510	7,240	6,862	6,821
Callable fixed rate notes, bearing interest at 6.40%, maturing on June 1, 2019				29,883
Callable fixed rate notes, bearing interest at 6.40%, maturing on July 1, 2019				99,500
Callable step-up fixed rate notes, bearing interest at 4.90%, maturing on July 1, 2014				9,875
	\$ 176,851	\$ 178,693	\$ 177,926	\$ 152,614

Table of Contents**13 OTHER BORROWINGS**

Other borrowings consist of:

	June 30,	December	June 30,	June 30,
	2006	31,	2005	2004
		2005	2005	(As
		(Dollars in Thousands)		Restated)
Junior subordinated debentures due in 2034, interest bearing at a floating rate of 2.75% over 3-month LIBOR (8.15% at June 30, 2006 7.25% at December 31, 2005, 6.17% at June 30, 2005 and 3.93% at June 30, 2004)	\$ 102,804	\$ 102,756	\$ 102,707	\$ 102,610
Junior subordinated debentures due in 2034, interest bearing at a floating rate of 2.50% over 3-month LIBOR (7.91% at June 30, 2006 7.00% at December 31, 2005 and 5.94% at June 30, 2005)	128,866	128,866	128,866	
Loan payable to a local financial institution due in July 2004, interest bearing at 1.375%				45,167
	\$ 231,670	\$ 231,622	\$ 231,573	\$ 147,777

14 SUBORDINATED NOTES

On December 20, 1995, the Corporation issued 7.63% subordinated capital notes in the amount of \$100 million maturing on December 20, 2005. The notes were issued at a discount. At June 30, 2006, there was no outstanding balance as the notes payable were paid at their maturity date of December 20, 2005 (carrying value of \$82.6 million as of June 30, 2005 and \$82.0 million as of June 30, 2004). Interest on the notes was paid semiannually and at maturity. The notes represented unsecured obligations of the Corporation ranking subordinate in right of payment to all existing and future senior debt including the claims of depositors and other general creditors. The notes could not be redeemed prior to their maturity.

15 INCOME TAXES

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

Under the Puerto Rico Internal Revenue Code of 1994, as amended (PR Code), First BanCorp is subject to a maximum statutory tax rate of 39%, except that in years 2005 and 2006, an additional transitory tax rate of 2.5% was signed into law by the Governor of Puerto Rico. In August 2005, the Government of Puerto Rico approved a transitory tax rate of 2.5% that increased the maximum statutory tax rate from 39.0% to 41.5% for a two-year period. The additional tax related to the income earned from January 1 to the date of enactment of the law was fully recorded in the third quarter of 2005. On May 13, 2006, with an effective date of January 1, 2006, the Governor of Puerto Rico approved an additional transitory tax rate of 2.0% applicable only to companies covered by the Puerto Rico Banking

Act as amended, such as First Bank Puerto Rico (First Bank or the Bank), which raised the maximum statutory tax rate to 43.5% for taxable years that commenced during calendar year 2006. For taxable years beginning after December

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31, 2006, the maximum statutory tax rate will be 39%. The PR Code also includes an alternative minimum tax of 22% that applies if the Corporation's regular income tax liability is less than the alternative minimum tax requirements.

The Corporation has maintained an effective tax rate lower than the maximum statutory rate mainly by investing in government obligations and mortgage-backed securities exempt from U.S. and Puerto Rico income taxes and doing business through international banking units (IBEs) of the Corporation and the Bank and by the Bank's subsidiary, FirstBank Overseas Corporation. The IBEs and FirstBank Overseas Corporation were created under the International Banking Entity Act of Puerto Rico, which provides for total Puerto Rico tax exemption on net income derived by IBEs operating in Puerto Rico. Since 2004, IBEs that operate as a unit of a bank pay income taxes at normal rates to the extent that the IBEs' net income exceeds predetermined percentages of the bank's total net taxable income; such limitations were 30% of total net taxable income for a taxable year commencing between July 1, 2004 and July 1, 2005, and 20% of total net taxable income for taxable years commencing thereafter.

For the six month period ended June 30, 2006, the Corporation's provision for income tax was \$4.3 million compared to \$38.3 million and \$4.9 million for the same period in 2005 and 2004, respectively. The decrease in income tax expense for the first half of 2006 as compared to the first six months of 2005 was mainly due to an increase in deferred tax benefits resulting principally from higher unrealized losses on derivative instruments. For the first six months of 2006, the Corporation recognized a deferred tax benefit of \$26.5 million compared to a deferred tax provision of \$6.8 million for the same period in 2005. The increase in income tax expense for the first half of 2005 as compared to the same period in 2004 was mainly due to a decrease in deferred tax benefits resulting principally from unrealized gains on derivative instruments coupled with an increase in the current tax provision. For the first six months of 2005, the Corporation recognized a deferred tax provision of \$6.8 million compared to a deferred tax benefit of \$23.0 million recognized for the same period in 2004.

The Corporation evaluated its ability to realize its deferred tax assets and concluded, based on the evidence available, that it is more likely than not that some of the deferred tax assets will not be realized and, thus, established a valuation allowance of \$4.7 million as of June 30, 2006. At June 30, 2006, the deferred tax asset, net of the valuation allowance, amounted to approximately \$162.5 million compared to \$68.5 million at June 30, 2005 and \$91.4 million at June 30, 2004. At June 30, 2005 and 2004, based on the Corporation's analysis and available evidence, the Corporation did not establish a valuation allowance.

16 SEGMENT INFORMATION

Based upon the Corporation's organizational structure and the information provided to the Chief Operating Decision Maker and to a lesser extent to the Board of Directors, the operating segments are driven primarily by the Corporation's legal entities. At June 30, 2006, the Corporation had four reportable segments: Commercial and Corporate Banking; Mortgage Banking; Consumer (Retail) Banking; and Treasury and Investments, as well as an Other category reflecting other legal entities reported separately on an aggregate basis. Management determined the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Corporation's organizational chart, nature of the products, distribution channels and the economic characteristics of the products were also considered in the determination of the reportable segments.

The Commercial and Corporate Banking segment consists of the Corporation's lending and other services for large customers represented by the public sector and specialized and middle-market clients. The Commercial and Corporate Banking segment offers commercial loans, including commercial real estate and construction loans, and other products such as cash management and business management services. The Mortgage Banking segment's operations consist of the origination, sale and servicing of a variety of residential mortgage loans. The Mortgage Banking segment also acquires and sells mortgages in the secondary markets. Certain mortgage loans are purchased

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from other local banks or mortgage brokers. The Consumer (Retail) segment consists of the Corporation's consumer lending and deposit-taking activities conducted mainly through its branch network and loan centers. The Treasury and Investment segment is responsible for the Corporation's investment portfolio and treasury functions executed to manage and enhance liquidity. This segment loans funds to the Commercial and Corporate Banking; Mortgage Banking; and Consumer segments to finance their lending activities and borrows from those segments. The Consumer segment also loans funds to other segments. The interest rates charged or credited by Treasury and Investments and the Consumer segment are allocated based on market rates. The difference between the allocated interest income or expense and the Corporation's actual net interest income from centralized management of funding costs is reported in the Treasury and Investments segment. The Other category is mainly composed of insurance, finance leases and other products.

The accounting policies of the business segments are the same as those described in Note 1 of the Corporation's financial statements for the year ended December 31, 2005 contained in the annual report of the Corporation on Form 10-K.

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

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

	Mortgage Banking	Consumer	Commercial and Corporate	Treasury and Investments	Other	Total
For the quarter ended June 30, 2006:						
Interest income	\$ 36,528	\$ 50,539	\$ 132,974	\$ 96,218	\$ 28,184	\$ 344,443
Net (charge) credit for transfer of funds	(26,269)	28,134	(87,038)	90,114	(4,941)	
Interest expense		(17,902)		(194,388)	(5,915)	(218,205)
Net interest income (loss)	10,259	60,771	45,936	(8,056)	17,328	126,238
(Provision) recovery for loan and lease losses	(3,261)	368	865		(7,326)	(9,354)
Other income (loss)	450	5,909	(9,513)	64	4,873	1,783
Direct operating expenses	(3,790)	(21,259)	(3,323)	(1,425)	(11,170)	(40,967)
Segment income (loss)	\$ 3,658	\$ 45,789	\$ 33,965	\$ (9,417)	\$ 3,705	\$ 77,700
Average earnings assets	\$2,270,072	\$1,934,608	\$6,922,171	\$7,563,499	\$1,127,120	\$19,817,470
For the quarter ended June 30, 2005:						
Interest income	\$ 25,932	\$ 42,765	\$ 83,128	\$ 74,744	\$ 22,588	\$ 249,157
Net (charge) credit for transfer of funds	(15,875)	18,501	(57,594)	58,815	(3,847)	
Interest expense		(12,614)		(39,992)	(3,480)	(56,086)
Net interest income	10,057	48,652	25,534	93,567	15,261	193,071
(Provision) recovery for loan and lease losses	(1,033)	(8,703)	1,788		(3,127)	(11,075)
Other income (loss)	3,076	5,504	1,430	(1,012)	4,421	13,419
Direct operating expenses	(3,818)	(18,590)	(1,923)	(1,144)	(8,495)	(33,970)
Segment income	\$ 8,282	\$ 26,863	\$ 26,829	\$ 91,411	\$ 8,060	\$ 161,445
Average earnings assets	\$1,545,849	\$1,658,446	\$7,266,154	\$6,095,977	\$ 874,534	\$17,440,960
For the quarter ended June 30, 2004 (As Restated):						
Interest income	\$ 18,188	\$ 33,508	\$ 43,580	\$ 53,954	\$ 11,372	\$ 160,602
Net (charge) credit for transfer of funds	(11,750)	14,008	(18,184)	17,901	(1,975)	
Interest expense		(9,926)		(145,692)		(155,618)
Net interest income (loss)	6,438	37,590	25,396	(73,837)	9,397	4,984
(Provision) recovery for loan and lease losses	(175)	(9,939)	413		(3,499)	(13,200)

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Other income	223	5,312	2,600	731	3,280	12,146
Direct operating expenses	(2,456)	(16,076)				