

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

**Table of Contents**

**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, 2009**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**COMMISSION FILE NUMBER 001-14793**

**FIRST BANCORP.**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

00908  
(Zip Code)

(787) 729-8200

(Registrant's telephone number, including area code)

Not applicable

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

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

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

Common stock: 92,542,722 outstanding as of July 31, 2009.

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**FIRST BANCORP.  
INDEX PAGE**

	<b>PAGE</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements:	
<u>Consolidated Statements of Financial Condition (Unaudited) as of June 30, 2009 and December 31, 2008</u>	4
<u>Consolidated Statements of (Loss) Income (Unaudited) Quarters ended June 30, 2009 and June 30, 2008 and Six-months ended June 30, 2009 and June 30, 2008</u>	5
<u>Consolidated Statements of Cash Flows (Unaudited) Six-months ended June 30, 2009 and June 30, 2008</u>	6
<u>Consolidated Statements of Changes in Stockholders Equity (Unaudited) Six-months ended June 30, 2009 and June 30, 2008</u>	7
<u>Consolidated Statements of Comprehensive (Loss) Income (Unaudited) Quarters ended June 30, 2009 and June 30, 2008 and Six-months ended June 30, 2009 and June 30, 2008</u>	8
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	55
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	120
<u>Item 4. Controls and Procedures</u>	120
<b>PART II. OTHER INFORMATION</b>	
<u>Item 1. Legal Proceedings</u>	121
<u>Item 1A. Risk Factors</u>	121
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	124
<u>Item 3. Defaults Upon Senior Securities</u>	124
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	125
<u>Item 5. Other Information</u>	125
<u>Item 6. Exhibits</u>	125
<b>SIGNATURES</b>	
<u>EX-10.1</u>	126
<u>EX-12.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

**Table of Contents**

**Forward Looking Statements**

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

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

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

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

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

adverse changes in general economic conditions in the state of Florida and Puerto Rico, including the interest rate scenario, market liquidity, rates and prices, and disruptions in the U.S. capital markets, which may reduce interest margins, impact funding sources and affect demand for the Corporation's products and services and the value of the Corporation's assets, including the value of derivative instruments used for protection from interest rate fluctuations;

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

uncertainty about the effectiveness and impact of the U.S. government's rescue plan, including the bailout of U.S. government-sponsored housing agencies, on the financial markets in general and on the Corporation's business, financial condition and results of operations;

changes in the fiscal and monetary policies and regulations of the federal government, including those determined by the Federal Reserve System (FED), the Federal Deposit Insurance Corporation (FDIC), government-sponsored housing agencies and local regulators in Puerto Rico and the U.S. and British Virgin Islands;

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

risks associated with the soundness of other financial institutions;

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

developments in technology;

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

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

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

general competitive factors and industry consolidation; and

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

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

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

**Table of Contents**

**FIRST BANCORP**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
(Unaudited)

(In thousands, except for share information)	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 177,963	\$ 329,730
Money market investments:		
Federal funds sold	50,773	54,469
Time deposits with other financial institutions	1,540	600
Other short-term investments	17,512	20,934
Total money market investments	69,825	76,003
Investment securities available for sale, at fair value:		
Securities pledge that can be repledged	4,188,442	2,913,721
Other investment securities	1,339,539	948,621
Total investment securities available for sale	5,527,981	3,862,342
Investment securities held to maturity, at amortized cost:		
Securities pledge that can be repledged	452,690	968,389
Other investment securities	234,241	738,275
Total investment securities held to maturity, fair value of \$703,430 (2008 - \$1,720,412)	686,931	1,706,664
Other equity securities	83,430	64,145
Loans, net of allowance for loan and lease losses of \$407,746 (2008 - \$281,526)	12,695,025	12,796,363
Loans held for sale, at lower of cost or market	32,939	10,403
Total loans, net	12,727,964	12,806,766
Premises and equipment, net	192,817	178,468
Other real estate owned	58,064	37,246
Accrued interest receivable on loans and investments	79,415	98,565
Due from customers on acceptances	789	504
Other assets	407,708	330,835

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Total assets	\$ 20,012,887	\$ 19,491,268
<b>LIABILITIES</b>		
Deposits:		
Non-interest-bearing deposits	\$ 718,370	\$ 625,928
Interest bearing deposits (including \$0 and \$1,150,959 measured at fair value as of June 30, 2009 and December 31, 2008, respectively)	11,317,057	12,431,502
Total deposits	12,035,427	13,057,430
Loans payable	135,000	
Securities sold under agreements to repurchase	4,130,092	3,421,042
Advances from the Federal Home Loan Bank (FHLB)	1,325,440	1,060,440
Notes payable (including \$11,565 and \$10,141 measured at fair value as of June 30, 2009 and December 31, 2008, respectively)	24,388	23,274
Other borrowings	231,959	231,914
Bank acceptances outstanding	789	504
Accounts payable from investment purchases	142,859	
Accounts payable and other liabilities	146,247	148,547
Total liabilities	18,172,201	17,943,151
Commitments and Contingencies (Note 21)		
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, authorized 50,000,000 shares: issued and outstanding 22,404,000 shares (2008 -22,004,000) at an aggregate liquidation value of \$950,100 (2008 - \$550,100)	926,259	550,100
Common stock, \$1 par value, authorized 250,000,000 shares; issued 102,444,549	102,444	102,444
Less: Treasury stock (at cost)	(9,898)	(9,898)
Common stock outstanding, 92,546,749 shares outstanding	92,546	92,546
Additional paid-in capital	134,179	108,299
Legal surplus	299,006	299,006
Retained earnings	342,314	440,777
Accumulated other comprehensive income, net of deferred tax expense of \$3,419 (2008 - \$717)	46,382	57,389
Total stockholders equity	1,840,686	1,548,117
Total liabilities and stockholders equity	\$ 20,012,887	\$ 19,491,268

The accompanying notes are an integral part of these statements.





**Table of Contents**

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

	Quarter Ended		Six-Month Period Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
(In thousands, except per share information)				
<b>Interest income:</b>				
Loans	\$ 185,318	\$ 204,794	\$ 373,263	\$ 418,605
Investment securities	67,345	70,001	137,632	132,018
Money market investments	117	1,813	208	5,072
Total interest income	252,780	276,608	511,103	555,695
<b>Interest expense:</b>				
Deposits	79,458	99,767	174,768	205,964
Loans payable	614		960	
Federal funds purchased and securities sold under agreements to repurchase	29,015	28,969	59,160	62,908
Advances from FHLB	8,317	9,572	16,609	20,720
Notes payable and other borrowings	4,362	3,694	6,994	7,039
Total interest expense	121,766	142,002	258,491	296,631
Net interest income	131,014	134,606	252,612	259,064
<b>Provision for loan and lease losses</b>	235,152	41,323	294,581	87,116
Net interest (loss) income after provision for loan and lease losses	(104,138)	93,283	(41,969)	171,948
<b>Non-interest income:</b>				
Other service charges on loans	1,523	1,418	3,052	2,731
Service charges on deposit accounts	3,327	3,191	6,492	6,555
Mortgage banking activities	2,373	804	3,179	1,123
Net gain (loss) on sale of investments	10,305	(190)	28,143	16,003
Other-than-temporary impairment losses on investment securities:				
Total other-than-temporary impairment losses	(32,541)	(489)	(32,929)	(489)
Noncredit-related impairment losses on debt securities not expected to be sold (recognized in other comprehensive income)	31,480		31,480	
Net impairment losses on investment securities	(1,061)	(489)	(1,449)	(489)
Rental income	407	579	856	1,122
Other non-interest income	6,541	6,689	13,195	14,337

Total non-interest income	23,415	12,002	53,468	41,382
<b>Non-interest expenses:</b>				
Employees compensation and benefits	34,472	34,994	68,714	71,320
Occupancy and equipment	14,824	15,541	29,598	30,520
Business promotion	3,836	4,802	6,952	9,067
Professional fees	3,342	4,919	6,528	9,978
Taxes, other than income taxes	6,641	3,988	10,642	8,014
Insurance and supervisory fees	16,622	3,945	23,294	7,929
Net loss on real estate owned (REO) operations	6,626	3,172	12,001	6,428
Other non-interest expenses	9,625	10,402	22,787	20,694
Total non-interest expenses	95,988	81,763	180,516	163,950
<b>(Loss) income before income taxes</b>	<b>(176,711)</b>	<b>23,522</b>	<b>(169,017)</b>	<b>49,380</b>
<b>Income tax benefit</b>	<b>98,053</b>	<b>9,472</b>	<b>112,250</b>	<b>17,203</b>
<b>Net (loss) income</b>	<b>\$ (78,658)</b>	<b>\$ 32,994</b>	<b>\$ (56,767)</b>	<b>\$ 66,583</b>
<b>Net (loss) income attributable to common stockholders</b>	<b>\$ (94,825)</b>	<b>\$ 22,925</b>	<b>\$ (88,052)</b>	<b>\$ 46,445</b>
<b>Net (loss) income per common share:</b>				
Basic	\$ (1.03)	\$ 0.25	\$ (0.95)	\$ 0.50
Diluted	\$ (1.03)	\$ 0.25	\$ (0.95)	\$ 0.50
<b>Dividends declared per common share</b>	<b>\$ 0.07</b>	<b>\$ 0.07</b>	<b>\$ 0.14</b>	<b>\$ 0.14</b>

The accompanying notes are an integral part of these statements.

**Table of Contents**

**FIRST BANCORP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	<b>Six-Month Period Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2009</b>	<b>2008</b>
(In thousands)		
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (56,767)	\$ 66,583
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	10,460	9,165
Amortization and impairment of core deposit intangible	5,856	1,695
Provision for loan and lease losses	294,581	87,116
Deferred income tax benefit	(94,057)	(15,068)
Stock-based compensation recognized	52	
Gain on sale of investments, net	(28,143)	(16,003)
Other-than-temporary impairments on available-for-sale securities	1,449	489
Derivatives instruments and hedging activities gain	(16,302)	(27,599)
Net gain on sale of loans and impairments	(3,807)	(617)
Net amortization of premiums and discounts an deferred loan fees and costs	549	(539)
Net increase in mortgage loans held for sale	(27,691)	
Amortization of broker placement fees	12,146	7,079
Net amortization (accretion) of premium and discounts on investment securities	5,341	(7,900)
Decrease in accrued income tax payable	(16,509)	(4,715)
Decrease in accrued interest receivable	19,390	10,205
Decrease in accrued interet payable	(19,193)	(31,588)
Decrease in other assets	17,283	12,365
Increase (decrease) in other liabilities	22,521	(23,244)
Total adjustments	183,925	841
Net cash provided by operating activities	127,158	67,424
<b>Cash flows from investing activities:</b>		
Principal collected on loans	1,661,329	1,446,537
Loans originated	(1,984,001)	(1,948,093)
Purchases of loans	(100,697)	(116,864)
Proceeds from sale of loans	4,866	70,601
Proceeds form sale of repossessed assets	31,510	37,190
Purchase of servicing assets		(621)
Proceeds from sale of available-for-sale securities	791,313	389,784
Purchases of securities held to maturity		(99)
Purchases of securities available for sale	(2,627,666)	(3,351,675)
Principal repayments and maturities of securities held to maturity	1,017,001	1,489,215

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Principal repayments of securities available for sale	511,713	165,658
Additions to premises and equipment	(24,809)	(15,088)
Proceeds from redemption of other investment securities		9,342
Increase in other equity securities	(19,285)	(17,106)
Net cash inflow on acquisition of business		5,154
Net cash used in investing activities	(738,726)	(1,836,065)
<b>Cash flows from financing activities</b>		
Net (decrease) increase in deposits	(1,015,725)	432,637
Net increase in loans payable	135,000	
Net increase in federal funds purchased and securities sold under agreements to repurchase	709,050	904,944
Net FHLB advances taken	265,000	357,000
Dividends paid	(39,710)	(33,088)
Issuance of preferred stock and associated warrant	400,000	
Exercise of stock options		53
Other financing activities	8	
Net cash provided by financing activities	453,623	1,661,546
Net decrease in cash and cash equivalents	(157,945)	(107,095)
Cash and cash equivalents at beginning of period	405,733	378,945
Cash and cash equivalents at end of period	\$ 247,788	\$ 271,850
Cash and cash equivalents include:		
Cash and due from banks	\$ 177,963	\$ 122,979
Money market instruments	69,825	148,871
	\$ 247,788	\$ 271,850

The accompanying notes are an integral part of these statements.

Table of Contents

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

	<b>Six-Month Period Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2009</b>	<b>2008</b>
<b>Preferred Stock:</b>		
Balance at beginning of period	\$ 550,100	\$