FIRST BANCORP /PR/
Form 10-Q
August 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

¨ **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	**66-0561882**
(State or other jurisdiction of	**(I.R.S. employer**
incorporation or organization)	**identification number)**
1519 Ponce de León Avenue, Stop 23	
Santurce, Puerto Rico	**00908**
(Address of principal executive offices)	**(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 x 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	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 x

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

Common stock: 206,134,458 outstanding as of July 31, 2012.

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Forward Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this Form 10-Q or future filings by First BanCorp. (the Corporation) with the Securities and Exchange Commission (SEC), in the Corporation s press releases or in other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the word or phrases would be, will allow, intends to, will likely result, are expected to, should, anticipate and similar expressions are n 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 to advise readers that various factors, including, but not limited to, the following could cause actual results to differ materially from those expressed in, or implied by such forward-looking statements. :

- uncertainty about whether the Corporation and FirstBank Puerto Rico (FirstBank or the Bank) will be able to fully comply with the written agreement dated June 3, 2010 (the Written Agreement) that the Corporation entered into with the Federal Reserve Bank of New York (the FED or Federal Reserve) and the order dated June 2, 2010 (the FDIC Order) and together with the Written Agreement, (the Agreements) that the Corporation s banking subsidiary, FirstBank entered into with the Federal Deposit Insurance Corporation (FDIC) and the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico (OCIF) that, among other things, require the Bank to maintain certain capital levels and reduce its special mention, classified, delinquent and non-performing assets;

- the risk of being subject to possible additional regulatory actions;

- uncertainty as to the availability of certain funding sources, such as retail brokered certificates of deposit (CDs);

- the Corporation s reliance on brokered CDs and its ability to obtain, on a periodic basis, approval from the FDIC to issue brokered CDs to fund operations and provide liquidity in accordance with the terms of the FDIC Order;

- the risk of not being able to fulfill the Corporation s cash obligations or resume paying dividends to the Corporation s stockholders in the future due to the Corporation s inability to receive approval from the FED to receive dividends from FirstBank or FirstBank s failure to generate sufficient cash flow to make a dividend payment to the Corporation;

- the strength or weakness of the real estate markets and of the consumer and commercial credit sectors and their potential impact on the credit quality of the Corporation s loans and other assets, including the Corporation s construction and commercial real estate loan portfolios, which have contributed and may continue to contribute to, among other things, the high levels of non-performing assets, charge-offs and the provision expense and may subject the Corporation to further risk from loan defaults and foreclosures;

- adverse changes in general economic conditions in the United States (U.S.) and in Puerto Rico, including the interest rate environment, market liquidity, housing absorption rates, real estate prices and disruptions in the U.S. capital markets, which may reduce interest margins, impact funding sources, affect demand for all of the Corporation s products and services and reduce the Corporation s revenues, earnings and the value of the Corporation s assets;

- 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 continued recession in Puerto Rico and the current fiscal problems and budget deficit of the Puerto Rico government;

uncertainty about regulatory and legislative changes for financial services companies in Puerto Rico, the U.S. and the U.S. Virgin Islands (USVI) and British Virgin Islands (BVI), which could affect the Corporation s financial condition or performance and could cause the Corporation s actual results for future periods to differ materially from prior results and anticipated or projected results;

uncertainty about the effectiveness of the various actions undertaken to stimulate the U.S. economy and stabilize the U.S. financial markets, and the impact such actions may have on 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, the FDIC, government-sponsored housing agencies and local regulators in Puerto Rico and the U.S. and BVI;

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- the risk of possible failure or circumvention of controls and procedures and the risk that the Corporation s risk management policies may not be adequate;

- the risk that the FDIC may further increase the deposit insurance premium and/or require special assessments to replenish its insurance fund, causing an additional increase in the Corporation s non-interest expenses;

- the risk of not being able to recover the assets pledged to Lehman Brothers Special Financing, Inc.;

- the impact on the Corporation s results of operations and financial condition associated with acquisitions and dispositions;

- a need to recognize additional impairments on financial instruments, goodwill, or other intangible assets relating to acquisitions;

- risks that downgrades in the credit ratings of the Corporation s long-term senior debt will adversely affect the Corporation s ability to access necessary external funds;

- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) on the Corporation s businesses, business practices and cost of operations; and

- general competitive factors and industry consolidation.

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 refer to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2011, as well as, Part II, Item 1A, Risk Factors in this quarterly report on Form 10-Q for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

(In thousands, except for share information)	June 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 518,725	$ 206,897
Money market investments:		
Federal funds sold		2,603
Time deposits with other financial institutions	1,055	955
Other short-term investments	239,123	236,111
Total money market investments	240,178	239,669
Investment securities available for sale, at fair value:		
Securities pledged that can be repledged	1,066,871	1,167,265
Other investment securities	474,654	756,003
Total investment securities available for sale	1,541,525	1,923,268
Other equity securities	32,141	37,951
Investment in unconsolidated entities	34,499	43,401
Loans, net of allowance for loan and lease losses of $457,153 (2011 - $493,917)	9,838,962	10,065,475
Loans held for sale, at lower of cost or market	60,393	15,822
Total loans, net	9,899,355	10,081,297
Premises and equipment, net	185,721	194,942
Other real estate owned	167,341	114,292
Accrued interest receivable on loans and investments	51,958	49,957
Other assets	242,207	235,601
Total assets	$ 12,913,650	$ 13,127,275
LIABILITIES		
Non-interest-bearing deposits	$ 776,947	$ 705,789
Interest-bearing deposits	9,123,226	9,201,965
Total deposits	9,900,173	9,907,754
Securities sold under agreements to repurchase	900,000	1,000,000
Advances from the Federal Home Loan Bank (FHLB)	333,440	367,440

Notes payable (including $15,968 measured at fair value as of December 31, 2011)		23,342
Other borrowings	231,959	231,959
Accounts payable and other liabilities	99,119	152,636
Total liabilities	11,464,691	11,683,131
Commitments and Contingencies (Note 22)		
STOCKHOLDERS EQUITY		
Preferred stock, authorized 50,000,000 shares:		
Non-cumulative Perpetual Monthly Income Preferred Stock: issued - 22,004,000 shares, outstanding - 2,521,872 shares, aggregate liquidation value of $63,047	63,047	63,047
Common stock, $0.10 par value, authorized 2,000,000,000 shares; issued 206,629,311 shares (2011 - 205,794,024 shares issued)	20,663	20,579
Less: Treasury stock (at par value)	(49)	(66)
Common stock outstanding, 206,134,458 shares outstanding (2011 - 205,134,171 shares outstanding)	20,614	20,513
Additional paid-in capital	885,130	884,002
Retained earnings	453,558	457,384
Accumulated other comprehensive income, net of tax expense of $7,401 (2011 - $7,751)	26,610	19,198
Total stockholders equity	1,448,959	1,444,144
Total liabilities and stockholders equity	$ 12,913,650	$ 13,127,275

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

(In thousands, except per share information)	Quarter Ended June 30, 2012	Quarter Ended June 30, 2011	Six-Month Period Ended June 30, 2012	Six-Month Period Ended June 30, 2011
Interest income:				
Loans	$ 142,239	$ 146,314	$ 282,765	$ 304,285
Investment securities	10,957	16,687	22,169	39,310
Money market investments	456	417	825	726
Total interest income	153,652	163,418	305,759	344,321
Interest expense:				
Deposits	33,489	49,525	70,223	103,584
Securities sold under agreements to repurchase	7,028	13,022	15,118	26,158
Advances from FHLB	3,028	4,219	6,269	8,964
Notes payable and other borrowings	1,402	2,217	3,578	4,901
Total interest expense	44,947	68,983	95,188	143,607
Net interest income	108,705	94,435	210,571	200,714
Provision for loan and lease losses	24,884	59,184	61,081	147,916
Net interest income after provision for loan and lease losses	83,821	35,251	149,490	52,798
Non-interest income:				
Service charges on deposit accounts	3,240	3,054	6,487	6,386
Other service charges	1,226	1,456	2,745	3,174
Mortgage banking activities	4,057	9,336	8,532	15,927
Net gain on sale of investments		21,949	26	41,290
Other-than-temporary impairment losses on investment securities:				
Total other-than-temporary impairment losses				
Portion of loss previously recognized in other comprehensive income	(143)	(607)	(1,376)	(607)
Net impairment losses on investment securities	(143)	(607)	(1,376)	(607)
Loss on early extinguishment of borrowings		(1,823)		(1,823)
Equity in losses of unconsolidated entities	(2,491)	(1,536)	(8,727)	(1,536)
Other non-interest income	8,133	7,033	14,810	16,536
Total non-interest income	14,022	38,862	22,497	79,347
Non-interest expenses:				
Employees compensation and benefits	31,101	29,407	62,712	59,846
Occupancy and equipment	15,181	15,603	30,857	30,853
Business promotion	3,475	3,628	6,022	6,292
Professional fees	5,322	6,072	10,501	11,209
Taxes, other than income taxes	3,435	3,278	6,851	6,533

Insurance and supervisory fees	13,302	14,404	26,310	29,581
Net loss on real estate owned (REO) operations	6,786	5,971	10,229	11,471
Other non-interest expenses	8,340	8,068	18,653	13,512
Total non-interest expenses	86,942	86,431	172,135	169,297
Income (loss) before income taxes	10,901	(12,318)	(148)	(37,152)
Income tax expense	(1,545)	(2,606)	(3,678)	(6,192)
Net income (loss)	$ 9,356	$ (14,924)	$ (3,826)	$ (43,344)
Net income (loss) attributable to common stockholders	$ 9,356	$ (22,205)	$ (3,826)	$ (57,642)
Net income (loss) per common share:				
Basic	$ 0.05	$ (1.04)	$ (0.02)	$ (2.71)
Diluted	$ 0.05	$ (1.04)	$ (0.02)	$ (2.71)
Dividends declared per common share	$	$	$	$

The accompanying notes are an integral part of these statements.

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FIRST BANCORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)	Quarter Ended June 30, 2012	Quarter Ended June 30, 2011	Six-Month Period Ended June 30, 2012	Six-Month Period Ended June 30, 2011
Net income (loss)	$ 9,356	$ (14,924)	$ (3,826)	$ (43,344)
Available-for-sale debt securities on which an other-than-temporary impairment has been recognized:				
Subsequent unrealized gain on debt securities on which an other-than-temporary impairment has been recognized	2,900	1,907	6,297	2,658
Reclassification adjustment for other-than-temporary impairment on debt securities included in net income	(143)	(607)	(1,376)	(607)
All other unrealized gains and losses on available-for-sale securities:				
All other unrealized holding gains arising during the period	3,498	17,225	2,141	11,293
Reclassification adjustments for net gain included in net income		(21,901)		(21,949)
Net unrealized gains on securities reclassified from held to maturity to available for sale				2,789
Income tax benefit related to items of other comprehensive income	133	587	350	733
Other comprehensive income (loss) for the period, net of tax	6,388	(2,789)	7,412	(5,083)
Total comprehensive income (loss)	$ 15,744	$ (17,713)	$ 3,586	$ (48,427)

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Six-Month Period Ended June 30, 2012	June 30, 2011
Cash flows from operating activities:		
Net loss	$ (3,826)	$ (43,344)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	12,435	12,082
Amortization of core deposit intangible	1,177	1,177
Amortization of purchased credit card relationship intangible	106	
Provision for loan and lease losses	61,081	147,916
Deferred income tax expense	1,128	3,565
Stock-based compensation recognized	192	46
Gain on sale of investments, net		(40,611)
Loss on early extinguishment of borrowings		1,823
Other-than-temporary impairments on investment securities	1,376	607
Equity in losses of unconsolidated entities	8,727	1,536
Derivatives instruments and financial (gain) loss	(834)	1,448
Loss (gain) on sale of premises and equipment and other assets	254	(2,845)
Net gain on sale of loans held for investment and impairments	(243)	(12,955)
Net amortization of premiums, discounts and deferred loan fees and costs	(947)	(873)
Originations and purchases of loans held for sale	(181,181)	(47,237)
Proceeds from sales and repayments of loans held for sale	194,342	49,618
Amortization of broker placement fees	5,307	9,542
Net amortization of premium and discounts on investment securities	7,511	2,038
(Decrease) increase in accrued income tax payable	(1,088)	1,816
Decrease in accrued interest receivable	349	7,342
Increase in accrued interest payable	241	1,948
Decrease (increase) in other assets	15,413	(14,503)
Decrease in other liabilities	(1,808)	(5,382)
Total adjustments	122,959	118,098
Net cash provided by operating activities	119,712	74,754
Cash flows from investing activities:		
Principal collected on loans	1,549,244	1,186,329
Loans originated	(1,165,202)	(985,980)
Purchases of loans	(467,980)	(70,459)
Proceeds from sale of loans held for investment	15,001	670,230
Proceeds from sale of repossessed assets	46,535	49,363
Proceeds from sale of available-for-sale securities		487,054
Proceeds from sale of held-to-maturity securities		348,750
Purchases of securities available for sale	(317,506)	(532,727)
Proceeds from principal repayments and maturities of securities available for sale	698,625	150,049
Proceeds from principal repayments and maturities of securities held to maturity		33,726

Additions to premises and equipment	(4,494)	(6,359)
Proceeds from sale of premises and equipment and other assets	1,026	2,940
Proceeds from securities litigation settlement and other proceeds	26	679
Decrease in other equity securities	5,810	13,680
Net cash provided by investing activities	361,085	1,347,275
Cash flows from financing activities:		
Net decrease in deposits	(13,540)	(996,792)
Net repayments and cancellation costs of securities sold under agreements to repurchase	(100,000)	(201,575)
Net FHLB advances paid and cancellation costs	(34,000)	(233,248)
Repayments of medium-term notes	(21,957)	(7,000)
Proceeds from common stock sold	1,037	
Net cash used in financing activities	(168,460)	(1,438,615)
Net increase (decrease) in cash and cash equivalents	312,337	(16,586)
Cash and cash equivalents at beginning of period	446,566	370,283
Cash and cash equivalents at end of period	$ 758,903	$ 353,697
Cash and cash equivalents include:		
Cash and due from banks	$ 518,725	$ 239,488
Money market instruments	240,178	114,209
	$ 758,903	$ 353,697

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited)

	Six-Month Period Ended	
(In thousands)	June 30, 2012	June 30, 2011
Preferred Stock:		
Balance at beginning of period	$ 63,047	$ 425,009
Accretion of preferred stock discount		3,694
Balance at end of period	63,047	428,703
Common Stock outstanding:		
Balance at beginning of period	20,513	2,130
Common stock sold	29	
Restricted stock grants	72	
Balance at end of period	20,614	2,130
Additional Paid-In-Capital:		
Balance at beginning of period	884,002	319,459
Restricted stock grants	(72)	
Common stock sold	1,008	
Stock-based compensation recognized	192	46
Balance at end of period	885,130	319,505
Retained Earnings:		
Balance at beginning of period	457,384	293,643
Net loss	(3,826)	(43,344)
Accretion of preferred stock discount		(3,694)
Balance at end of period	453,558	246,605
Accumulated Other Comprehensive Income (Loss), net of tax:		
Balance at beginning of period	19,198	17,718
Other comprehensive income (loss), net of tax	7,412	(5,083)
Balance at end of period	26,610	12,635
Total stockholders equity	$ 1,448,959	$ 1,009,578

The accompanying notes are an integral part of these statements.

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PART I NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements (unaudited) of First BanCorp. (the Corporation) have been prepared in conformity with the accounting policies stated in the Corporation s Audited Consolidated Financial Statements included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2011. Certain information and note disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) have been condensed or omitted from these statements pursuant to the rules and regulations of the SEC and, accordingly, these financial statements should be read in conjunction with the Audited Consolidated Financial Statements of the Corporation for the year ended December 31, 2011, included in the Corporation s 2011 Annual Report on Form 10-K. All adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the statement of financial position, results of operations and cash flows for the interim periods have been reflected. All significant intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the quarter and six-month period ended June 30, 2012 are not necessarily indicative of the results to be expected for the entire year.

Adoption of new accounting requirements and recently issued but not yet effective accounting requirements

The Financial Accounting Standards Board (FASB) has issued the following accounting pronouncements and guidance relevant to the Corporation s operations:

In April 2011, the FASB updated the Accounting Standards Codification (Codification) to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update remove from the assessment of effective control the criterion relating to the transferor s ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The Board concluded that this criterion is not a determining factor of effective control. Consequently, the amendments in this Update also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. Eliminating the transferor s ability criterion and related implementation guidance from an entity s assessment of effective control should improve the accounting for repurchase agreements and other similar transactions. The amendments in this Update are effective for the first interim or annual period beginning on or after December 15, 2011, and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Corporation adopted this guidance with no impact on the financial statements.

In May 2011, the FASB updated the Codification to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards (IFRSs). The amendments in this Update apply to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity s shareholders equity in the financial statements and result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. The amendments in this Update are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The Corporation adopted this guidance in 2012, refer to note 19 for applicable disclosures. The adoption of this guidance did not have a material impact in the Corporation s consolidated financial position or results of operations.

In June 2011, the FASB updated the Codification to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. Under the amendments, an entity has the option to present the total comprehensive income either in a single continuous statement or in two separate but consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. Additionally, this update requires consecutive presentation of the statement of net income and other comprehensive income and requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. The amendments in this Update should be applied retrospectively and are effective for fiscal years beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. Beginning with the financial statements for the quarter and six-month period ended June 30, 2011, the Corporation is following the guidance of separate but consecutive presentation of the statement of net income and the statement of other comprehensive income.

In September 2011, the FASB updated the Codification to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this Update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed

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directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amendments in this Update are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity s financial statements for the most recent annual or interim period have not yet been issued. The Corporation will incorporate this guidance into the annual goodwill impairment evaluation process.

In December 2011, the FASB updated the Codification to clarify the guidance on the derecognition of in substance real estate in order to resolve the diversity in practice when a parent ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt. Under the amendments in this Update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. That is, even if the reporting entity ceases to have a controlling financial interest, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary s operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. The Corporation is currently evaluating the impact, if any, of the adoption of this guidance on its consolidated financial statements.

In December 2011, the FASB updated the Codification to enhance and provided converged disclosures about financial and derivative instruments that are either offset on the balance sheet, or are subject to an enforceable master netting arrangement (or other similar arrangement). Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The amendments in this Update are effective for interim and annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of the adoption of this guidance, if any, on its consolidated financial statements.

In July 2012, the FASB updated the Codification to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The amendments permit an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments in this Update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if an entity s financial statements for the most recent annual or interim period have not yet been issued. The Corporation is currently evaluating the impact of the adoption of this guidance, if any, on its consolidated financial statements.

2 EARNINGS PER COMMON SHARE

The calculations of earnings per common share for the quarters and six-month periods ended on June 30, 2012 and 2011 are as follows:

	Quarter Ended		Six-Month Period Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands, except per share information)			
Net Income (Loss):				
Net Income (Loss):	$ 9,356	$ (14,924)	$ (3,826)	$ (43,344)
Cumulative convertible preferred stock dividends (Series G)		(5,302)		(10,604)
Preferred stock discount accretion (Series G)		(1,979)		(3,694)
Net income (loss) attributable to common stockholders	$ 9,356	$ (22,205)	$ (3,826)	$ (57,642)
Weighted-Average Shares:				
Basic weighted-average common shares outstanding	205,415	21,303	205,316	21,303

Average potential common shares	537			
Diluted weighted-average number of common shares outstanding	205,952	21,303	205,316	21,303
Income (loss) per common share:				
Basic	$ 0.05	$ (1.04)	$ (0.02)	$ (2.71)
Diluted	$ 0.05	$ (1.04)	$ (0.02)	$ (2.71)

Earning (loss) per common share is computed by dividing net income (loss) attributable to common stockholders by the weighted average common shares issued and outstanding. Net income (loss) attributable to common stockholders represents net income (loss) adjusted for preferred stock dividends including dividends declared, and cumulative dividends related to the current dividend period that have not been declared as of the end of the period, and the accretion of discount on preferred stock issuances. Basic weighted average common shares outstanding exclude unvested shares of restricted stock.

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Potential common shares consist of common stock issuable under the assumed exercise of stock options, unvested shares of restricted stock, and outstanding warrants using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from the exercise, in addition to the amount of compensation cost attributable to future services, are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Stock options, unvested shares of restricted stock, and outstanding warrants that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect on earnings per share. Stock options not included in the computation of outstanding shares because they were antidilutive amounted to 120,221 and 129,934 for the quarters and six-month periods ended June 30, 2012 and 2011, respectively. Warrants outstanding to purchase 1,285,899 shares of common stock for the six-month period ended June 30, 2012 and 389,483 shares of common stock for the quarter and six-month period ended June 30, 2011, and 719,500 unvested shares of restricted stock for the six-month period ended June 30, 2012 and 716 unvested shares of restricted stock for the quarter and six-month period ended June 30, 2011, were excluded from the computation of diluted earnings per common share because the Corporation reported a net loss attributable to common stockholders and their inclusion would have an antidilutive effect.

3 STOCK-BASED COMPENSATION

Between 1997 and January 2007, the Corporation had a stock option plan (the 1997 stock option plan) that authorized the granting of up to 579,740 options on shares of the Corporation s common stock to eligible employees. The options granted under the plan could not exceed 20% of the number of common shares outstanding. Each option provides for the purchase of one share of common stock at a price not less than the fair market value of the stock on the date the option was granted. Stock options were fully vested upon grant. The maximum term to exercise the options is ten years. The stock option plan provides for a proportionate adjustment in the exercise price and the number of shares that can be purchased in the event of a stock dividend, stock split, reclassification of stock, merger or reorganization and certain other issuances and distributions such as stock appreciation rights.

Under the 1997 stock option plan, the Compensation and Benefits Committee (the Compensation Committee) had the authority to grant stock appreciation rights at any time subsequent to the grant of an option. Pursuant to 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 is cancelled by the Corporation and the shares subject to the option are not eligible for further grants under the option plan. On January 21, 2007, the 1997 stock option plan expired; all outstanding awards granted under this plan continue in full force and effect, subject to their original terms. No awards for shares could be granted under the 1997 stock option plan as of its expiration.

The activity of stock options for the six-month period ended June 30, 2012 is set forth below:

	Six-month Period Ended June 30, 2012			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Beginning of period	129,934	$ 202.99		
Options expired	(9,713)	140.25		
End of period outstanding and exercisable	120,221	$ 208.08	3.3	$

On April 29, 2008, the Corporation s stockholders approved the First BanCorp. 2008 Omnibus Incentive Plan (the Omnibus Plan). The Omnibus Plan provides for equity-based compensation incentives (the awards) through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, and other stock-based awards. This plan allows the issuance of up to 8,169,807 shares of common stock, subject to adjustments for stock splits, reorganizations and other similar events. The Corporation s Board of Directors, upon receiving the relevant recommendation of the Compensation Committee, has the power and authority to determine those eligible to receive awards and to establish the terms and conditions of any awards subject to various limits and vesting restrictions that apply to individual and aggregate awards.

Under the Omnibus Plan, late in the first quarter of 2012, the Corporation issued 719,500 shares of restricted stock which will vest based on the employees continued service with the Corporation. Fifty percent (50%) of the shares vest in two years from the grant date and the remaining 50% vest in three years from the grant date. Included in the 719,500 shares of restricted stock are 557,000 shares granted to certain senior executive officers consistent with the requirements of the Troubled Asset Relief Program (TARP) Interim Final Rule. Notwithstanding the vesting period mentioned above, the employees covered by TARP are restricted from transferring the shares.

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Specifically, the stock that has otherwise vested may not become transferable at any time earlier than as permitted under the schedule set forth by TARP, which is based on the repayment in 25% increments of the aggregate financial assistance received from the U.S. Department of Treasury (the Treasury).

The following table summarizes the restricted stock activity in 2012 under the Omnibus Plan for both executive officers covered by the TARP requirements and other employees:

	Six-month Period Ended June 30, 2012	
	Number of shares of restricted stock	Weighted-Average Grant Date Fair Value
Non-vested shares at beginning of period		$
Granted	719,500	2.45
Non-vested shares at June 30, 2012	719,500	$ 2.45

For the quarter and six-month period ended June 30, 2012, the Corporation recognized $0.2 million of stock-based compensation expense related to the aforementioned restricted stock awards. For the quarter and six-month period ended June 30, 2011, the Corporation recognized $23,333 and $46,666 of stock based compensation related to 720 shares of restricted stock granted in 2008 to members of the Board of Directors that vested in the fourth quarter of 2011. As of June 30, 2012, there was $1.5 million of total unrecognized compensation cost related to nonvested shares of restricted stock. That cost is expected to be recognized for 50% of the awards over the next 1.75 years and the other 50% over the next 2.75 years, as if they were multiple awards. No shares of restricted stock were granted or vested during the first half of 2011.

The fair value of the shares of restricted stock granted in 2012 was based on the market price of the Corporation s outstanding common stock on the date of the grant, $4.00. For the 557,000 shares of restricted stock granted under the TARP requirements, the market price was discounted due to post-vesting restrictions. For purposes of computing the discount, the Corporation assumes a common stock appreciation of 25% and a holding period by the Treasury of its outstanding common stock of the Corporation of 3 years, resulting in a fair value of $2.00 for restricted shares granted under the TARP requirements. Also, the Corporation uses empirical data to estimate employee termination, separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes.

Stock-based compensation accounting guidance requires the Corporation to develop an estimate of the number of share-based awards that will be forfeited due to employee or director turnover. Quarterly changes in the estimated forfeiture rate may have a significant effect on share-based compensation, as the effect of adjusting the rate for all expense amortization is recognized in the period in which the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. When unvested options or shares of restricted stock are forfeited, any compensation expense previously recognized on the forfeited awards is reversed in the period of the forfeiture.

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4 INVESTMENT SECURITIES

Investment Securities Available for Sale

The amortized cost, non-credit loss component of other-than-temporary impairment (OTTI) on securities with changes in fair value recorded in other comprehensive income (OCI), gross unrealized gains and losses recorded in OCI, approximate fair value, weighted-average yield and contractual maturities of investment securities available for sale as of June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012						December 31, 2011					
		Non-Credit Loss Component of OTTI						Non-Credit Loss Component of OTTI				
	Amortized cost	Recorded in OCI	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%	Amortized cost	Recorded in OCI	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%
	(Dollars in thousands)											
U.S. Treasury securities:												
Due within one year	$ 373,599	$	$ 8	$ 3	$ 373,604	0.16	$ 476,665	$	$ 327	$	$ 476,992	0.34
Obligations of U.S. Government sponsored agencies:												
Due within one year							300,381		1,204		301,585	1.15
Puerto Rico Government obligations:												
Due within one year	8,310				8,310	4.19	8,560		110		8,670	4.20
After 1 to 5 years	1,600		16		1,616	4.50	70,590		171	1	70,760	2.63
After 5 to 10 years	39,736		960		40,696	4.49	118,186		76	13	118,249	5.07
After 10 years	18,960		865		19,825	5.83	24,154		781	1	24,934	5.74
United States and Puerto Rico Government obligations	442,205		1,849	3	444,051	0.88	998,536		2,669	15	1,001,190	1.47
Mortgage-backed securities:												
FHLMC certificates:												
Due within one year	408		2		410	3.64						
After 1 to 5 years							928		8		936	3.67
After 10 years	139,398		2,099		141,497	2.35	24,974		238		25,212	2.59
	139,806		2,101		141,907	2.36	25,902		246		26,148	2.62
GNMA certificates:												
After 1 to 5 years	176		9		185	3.65	179		9		188	3.88
After 5 to 10 years	528		39		567	3.88	596		47		643	4.09
After 10 years	638,741		43,250		681,991	4.00	717,237		43,938		761,175	3.98
	639,445		43,298		682,743	4.00	718,012		43,994		762,006	3.98
FNMA certificates:												
Due within one year	486		19		505	3.81						
After 1 to 5 years							1,019		42		1,061	3.82
After 5 to 10 years	15,803		1,103		16,906	4.01	18,826		1,007		19,833	3.97
After 10 years	192,012		4,979		196,991	3.15	47,485		3,285		50,770	5.46
	208,301		6,101		214,402	3.21	67,330		4,334		71,664	5.02

Other mortgage pass-through trust certificates:												
After 10 years	76,230	31,951	13,287		57,566	2.34	85,014	31,951	8,143		61,206	2.19
Total mortgage-backed securities	1,063,782	31,951	64,787		1,096,618	3.51	896,258	31,951	56,717		921,024	3.85
Corporate bonds:												
After 10 years	1,449	434		223	792	6.71	1,447	434			1,013	5.80
Equity securities (without contractual maturity) (1)	77			13	64		77			36	41	
Total investment securities available for sale	$ 1,507,513	$ 32,385	$ 66,636	$ 239	$ 1,541,525	2.74	$ 1,896,318	$ 32,385	$ 59,386	$ 51	$ 1,923,268	2.60

(1) Represents common shares of another financial institution in Puerto Rico.

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 as was the case with approximately $192.9 million of Puerto Rico Government Obligations called during the first half of 2012. The weighted-average yield on investment securities available-for-sale is based on amortized cost and, therefore, does not give effect to changes in fair value. The net unrealized gain or loss on securities available-for-sale and the non-credit loss component of OTTI are presented as part of OCI.

The following tables show the Corporation s available-for-sale investments fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2012 and December 31, 2011. It also includes debt securities for which an OTTI was recognized and only the amount related to a credit loss was recognized in earnings. Unrealized losses for which OTTI had been recognized have been reduced by any subsequent recoveries in fair value:

	As of June 30, 2012					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
U.S. Government agencies obligations	$ 148,244	$ 3	$	$	$ 148,244	$ 3
Mortgage-backed securities:						
Other mortgage pass-through trust certificates			57,402	18,664	57,402	18,664
Corporate bonds			792	657	792	657
Equity securities	64	13			64	13
	$ 148,308	$ 16	$ 58,194	$ 19,321	$ 206,502	$ 19,337

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	As of December 31, 2011					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Debt securities:						
Puerto Rico Government obligations	$ 15,982	$ 15	$	$	$ 15,982	$ 15
Mortgage-backed securities:						
Other mortgage pass-through trust certificates			61,017	23,809	61,017	23,809
Corporate bonds			1,013	434	1,013	434
Equity securities	41	36			41	36
	$ 16,023	$ 51	$ 62,030	$ 24,243	$ 78,053	$ 24,294

Total proceeds from the sale of securities available for sale during the first half of 2011 amounted to approximately $487.1 million, none in the first half of 2012.

Assessment for OTTI

On a quarterly basis, the Corporation performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered an OTTI. A debt security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. The accounting literature requires the Corporation to assess whether the unrealized loss is other-than-temporary.

OTTI losses must be recognized in earnings if an investor has the intent to sell the debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, even if an investor does not expect to sell a debt security, it must evaluate expected cash flows to be received and determine if a credit loss has occurred.

An unrealized loss is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. The credit loss component of an OTTI, if any, is recorded as a component of net impairment losses on investment securities in the accompanying consolidated statements of income (loss), while the remaining portion of the impairment loss is recognized in OCI, provided the Corporation does not intend to sell the underlying debt security and it is more likely than not that the Corporation will not have to sell the debt security prior to recovery.

Debt securities issued by U.S. government agencies, government-sponsored entities and the U.S. Treasury accounted for more than 91% of the total available-for-sale portfolio as of March 31, 2012 and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government. The Corporation s assessment was concentrated mainly on private label mortgage-backed securities with an amortized cost of $76 million and in the Corporation s $1.4 million investment in a collateralized debt obligation transaction for which credit losses are evaluated on a quarterly basis. The Corporation considered the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

The length of time and the extent to which the fair value has been less than the amortized cost basis.

Changes in the near term prospects of the underlying collateral of a security such as changes in default rates, loss severity given default and significant changes in prepayment assumptions;

The level of cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

Any adverse change to the credit conditions and liquidity of the issuer, taking into consideration the latest information available about the overall financial condition of the issuer, credit ratings, recent legislation and government actions affecting the issuer s industry and actions taken by the issuer to deal with the present economic climate.

For the quarter and six-month period ended June 30, 2012 and 2011, the Corporation recorded OTTI losses on available-for-sale debt securities as follows:

	Private label MBS Quarter ended June 30,		Private label MBS Six-month period ended June 30,	
	2012	2011	2012	2011
(In thousands)				
Total other-than-temporary impairment losses	$	$	$	$
Portion of loss previously recognized in other comprehensive income	(143)	(607)	(1,376)	(607)
Net impairment losses recognized in earnings	$ (143)	$ (607)	$ (1,376)	$ (607)

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The following table summarizes the roll-forward of credit losses on debt securities held by the Corporation for which a portion of an OTTI is recognized in OCI:

	Quarter ended June 30,		Six-month period ended June 30,	
(In thousands)	2012	2011	2012	2011
Credit losses at the beginning of the period	$ 5,056	$ 1,852	$ 3,823	$ 1,852
Additions:				
Credit losses on debt securities for which an OTTI was previously recognized (1)	143	607	1,376	607
Ending balance of credit losses on debt securities held for which a portion of an OTTI was recognized in OCI	$ 5,199	$ 2,459	$ 5,199	$ 2,459

(1) Related to private label MBS.

During the first half of 2012, a $1.4 million credit related impairment loss is related to Private label MBS, which are collateralized by fixed-rate mortgages on single family residential properties in the United States. The interest rate on these private-label MBS is variable, tied to 3-month LIBOR and limited to the weighted-average coupon of the underlying collateral. The underlying mortgages are fixed-rate single family loans with original high FICO scores (over 700) and moderate original loan-to-value ratios (under 80%), as well as moderate delinquency levels.

Based on the expected cash flows derived from the model, and since the Corporation does not have the intention to sell the securities and has sufficient capital and liquidity to hold these securities until a recovery of the fair value occurs, only the credit loss component was reflected in earnings. Significant assumptions in the valuation of the private label MBS as of June 30, 2012 and December 31, 2011 were as follow:

	June 30, 2012		December 31, 2011	
	Weighted Average	Range	Weighted Average	Range
Discount rate	14.5%	14.5%	14.5%	14.5%
Prepayment rate	32%	23.71% - 42.27%	27%	21.33% - 37.97%
Projected Cumulative Loss Rate	7%	1.14% - 15.70%	6%	1.94% - 11.89%

No OTTI losses on equity securities held in the available-for-sale investment portfolio were recognized for the first half of 2012 or 2011.

5 OTHER EQUITY SECURITIES

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

As of June 30, 2012 and December 31, 2011, the Corporation had investments in FHLB stock with a book value of $30.8 million and $36.7 million, respectively. The net realizable value is a reasonable proxy for the fair value of these instruments. Dividend income from FHLB stock for the quarter and six-month period ended June 30, 2012 amounted to $0.4 million and $0.8 million, respectively, compared to $0.5 million and $1.2 million for the comparable periods in 2011.

The FHLB stocks owned by the Corporation are issued by the FHLB of New York and by the FHLB of Atlanta. Both Banks are part of the Federal Home Loan Bank System, a national wholesale banking network of 12 regional, stockholder-owned congressionally chartered banks. The Federal Home Loan Banks are all privately capitalized and operated by their member stockholders. The system is supervised by the Federal Housing Finance Agency, which ensures that the Home Loan Banks operate in a financially safe and sound manner, remain adequately capitalized and able to raise funds in the capital markets, and carry out their housing finance mission.

The Corporation has other equity securities that do not have a readily available fair value. The carrying value of such securities as of June 30, 2012 and December 31, 2011 was $1.3 million.

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6 LOANS HELD FOR INVESTMENT

The following is a detail of the loan portfolio held for investment:

	June 30, 2012	December 31, 2011
	(In thousands)	
Residential mortgage loans, mainly secured by first mortgages	$ 2,764,066	$ 2,873,785
Commercial loans:		
Construction loans	364,934	427,863
Commercial mortgage loans	1,479,068	1,565,411
Commercial and Industrial loans	3,475,356	3,856,695
Loans to local financial institutions collateralized by real estate mortgages	262,563	273,821
Commercial loans	5,581,921	6,123,790
Finance leases	240,589	247,003
Consumer loans	1,709,539	1,314,814
Loans held for investment	10,296,115	10,559,392
Allowance for loan and lease losses	(457,153)	(493,917)
Loans held for investment, net	$ 9,838,962	$ 10,065,475

Loans held for investment classified as non-performing as of June 30, 2012 and December 31, 2011 were as follows:

(Dollars in thousands)	June 30, 2012	December 31, 2011
Non-performing loans:		
Residential mortgage	$ 333,043	$ 338,208
Commercial mortgage	239,881	240,414
Commercial and Industrial	255,253	270,171
Construction	202,133	250,022
Consumer:		
Auto loans	17,652	19,641
Finance leases	2,829	3,485
Other consumer loans	14,897	16,421
Total non-performing loans held for investment [1]	$ 1,065,688	$ 1,138,362

(1)

Amounts exclude purchased credit impaired loans with a fair value of approximately $15.0 million acquired as part of a credit card portfolio purchased in the second quarter of 2012 as further discussed below.

The Corporation s aging of the loans held for investment portfolio as of June 30, 2012 and December 31, 2011, follows:

As of June 30, 2012 (Dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 days or more Past Due (1)**	**Total Past Due (4)**	**Purchased Credit-Impaired Loans (4)**	**Current**	**Total loans held for investment**	**90 days past due and still accruing (5)**
Residential mortgage:								
FHA/VA and other government guaranteed loans (2) (3) (5)	$	$ 12,403	$ 83,511	$ 95,914	$	$ 107,779	$ 203,693	$ 83,511
Other residential mortgage loans (3)		102,224	346,163	448,387		2,111,986	2,560,373	13,120
Commercial:								
Commercial & Industrial loans	12,714	17,523	273,156	303,393		3,434,526	3,737,919	17,903
Commercial mortgage loans (3)		16,450	245,894	262,344		1,216,724	1,479,068	6,013
Construction loans (3)		4,691	202,171	206,862		158,072	364,934	38
Consumer:								
Auto loans	60,888	17,943	17,652	96,483		867,096	963,579	
Finance leases	10,459	3,200	2,829	16,488		224,101	240,589	
Other consumer loans	13,918	5,220	14,897	34,035	15,001	696,924	745,960	
Total loans held for investment	$ 97,979	$ 179,654	$ 1,186,273	$ 1,463,906	$ 15,001	$ 8,817,208	$ 10,296,115	$ 120,585

(1) Includes non-performing loans and accruing loans which are contractually delinquent 90 days or more (i.e. FHA/VA guaranteed loans and credit cards). Credit card loans continue to accrue finance charges and fees until charged-off at 180 days.

(2) As of June 30, 2012, includes $5.6 million of defaulted loans collateralizing Ginnie Mae (GNMA) securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.

(3) According to the Corporation s delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve, residential mortgage, commercial mortgage and construction loans are considered past due when the borrower is in arrears 2 or more monthly payments.

(4) Purchased credit-impaired loans are excluded from delinquency and non-performing statistics as further discussed below.

(5) It is the Corporation s policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as past due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $32.5 million of residential mortgage loans insured by FHA or guaranteed by the VA, which are over 18 months delinquent, that are no longer accruing interest as of June 30, 2012.

As of December 31, 2011 (Dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 days or more Past Due (1)**	**Total Past Due**	**Current**	**Total loans held for investment**	**90 days past due and still accruing**
Residential mortgage:							
FHA/VA and other government guaranteed loans (2) (3)	$	$ 17,548	$ 85,188	$ 102,736	$ 165,417	$ 268,153	$ 85,188
Other residential mortgage loans (3)		90,274	350,495	440,769	2,164,863	2,605,632	12,287
Commercial:							
Commercial & Industrial loans	27,674	10,714	294,723	333,111	3,797,405	4,130,516	24,552
Commercial mortgage loans (3)		8,891	240,414	249,305	1,316,106	1,565,411	
Construction loans (3)		8,211	258,811	267,022	160,841	427,863	8,789
Consumer:							
Auto loans	61,265	18,963	19,641	99,869	837,697	937,566	
Finance leases	11,110	4,172	3,485	18,767	228,236	247,003	
Other consumer loans	10,170	4,699	16,421	31,290	345,958	377,248	

Total loans held for investment	$ 110,219	$ 163,472	$ 1,269,178	$ 1,542,869	$ 9,016,523	$ 10,559,392	$ 130,816

(1) Includes non-performing loans and accruing loans which are contractually delinquent 90 days or more (i.e. FHA/VA and other guaranteed loans).
(2) As of December 31, 2011, includes $66.4 million of defaulted loans collateralizing GNMA securities for which the Corporation has an unconditional option (but not an obligation) to repurchase the defaulted loans.
(3) According to the Corporation s delinquency policy and consistent with the instructions for the preparation of the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C) required by the Federal Reserve, residential mortgage, commercial mortgage and construction loans are considered past due when the borrower is in arrears 2 or more monthly payments.

The Corporation s credit quality indicators by loan type as of June 30, 2012 and December 31, 2011 are summarized below:

	Commercial Credit Exposure-Credit risk Profile based on Creditworthiness category:				
June 30, 2012	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified**	**Total Portfolio**
			(In thousands)		
Commercial Mortgage	$ 406,205	$ 7,964	$	$ 414,169	$ 1,479,068
Construction	197,541	26,969	605	225,115	364,934
Commercial and Industrial	412,921	42,935	1,061	456,917	3,737,919

	Commercial Credit Exposure-Credit risk Profile based on Creditworthiness category:				
December 31, 2011	**Substandard**	**Doubtful**	**Loss**	**Total Adversely Classified**	**Total Portfolio**
			(In thousands)		
Commercial Mortgage	$ 414,355	$ 8,462	$	$ 422,817	$ 1,565,411
Construction	247,560	32,059	2,916	282,535	427,863
Commercial and Industrial	457,927	31,100	1,373	490,400	4,130,516

The Corporation considered a loan as adversely classified if its risk rating is Substandard, Doubtful or Loss. These categories are defined as follows:

Substandard - A Substandard Asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Doubtful classifications have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. A Doubtful classification may be appropriate in cases where significant risk exposures are perceived, but Loss cannot be determined because of specific reasonable pending factors which may strengthen the credit in the near term.

Loss - Assets classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. There is little or no prospect for near term improvement and no realistic strengthening action of significance pending.

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June 30, 2012	Consumer Credit Exposure-Credit risk Profile based on payment activity				
	Residential Real-Estate			Consumer	
	FHA/VA/ Guaranteed (1)	Other residential loans	Auto	Finance Leases	Other Consumer
			(In thousands)		
Performing	$ 203,693	$ 2,227,330	$ 945,927	$ 237,760	$ 716,062
Purchased Credit-Impaired					15,001
Non-performing		333,043	17,652	2,829	14,897
Total	$ 203,693	$ 2,560,373	$ 963,579	$ 240,589	$ 745,960

(1) It is the Corporation s policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as past due loans 90 days and still accruing as opposed to non-performing loans since the principal repayment is insured. These balances include $32.5 million of residential mortgage loans insured by FHA or guaranteed by the VA, which are over 18 months delinquent, that are no longer accruing interest as of June 30, 2012.

December 31, 2011	Consumer Credit Exposure-Credit risk Profile based on payment activity				
	Residential Real-Estate			Consumer	
	FHA/VA/ Guaranteed	Other residential loans	Auto	Finance Leases	Other Consumer
			(In thousands)		
Performing	$ 268,153	$ 2,267,424	$ 917,925	$ 243,518	$ 360,827
Non-performing		338,208	19,641	3,485	16,421
Total	$ 268,153	$ 2,605,632	$ 937,566	$ 247,003	$ 377,248

The following tables present information about impaired loans as of June 30, 2012 and December 31, 2011, excluding purchased credit-impaired loans, which are reported separately and discussed below:

Impaired Loans (Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized Quarter to date	Interest Income Recognized Year to date
As of June 30, 2012						
With no related allowance recorded:						
FHA/VA Guaranteed loans	$	$	$	$	$	$
Other residential mortgage loans	184,198	195,354		183,917	1,740	3,244
Commercial:						
Commercial mortgage loans	37,042	41,613		39,637	187	361
Commercial & Industrial Loans	14,279	35,469		18,861	67	91
Construction Loans	37,735	49,592		36,821	41	92
Consumer:						
Auto loans						
Finance leases						
Other consumer loans	2,804	4,130		2,981	25	45
	$ 276,058	$ 326,158	$	$ 282,217	$ 2,060	$ 3,833

With an allowance recorded:						
FHA/VA Guaranteed loans	$	$	$	$	$	$
Other residential mortgage loans	415,179	456,811	49,111	417,359	2,928	5,251
Commercial:						
Commercial mortgage loans	324,259	371,586	52,591	326,643	2,358	4,812
Commercial & Industrial Loans	244,086	331,411	70,936	242,456	620	1,227
Construction Loans	152,338	252,831	34,938	183,783	70	137
Consumer:						
Auto loans	10,792	10,792	1,349	9,824	185	361
Finance leases	1,836	1,836	58	1,981	44	122
Other consumer loans	7,946	8,312	877	9,222	385	636
	$ 1,156,436	$ 1,433,579	$ 209,860	$ 1,191,268	$ 6,590	$ 12,546
Total:						
FHA/VA Guaranteed loans	$	$	$	$	$	$
Other residential mortgage loans	599,377	652,165	49,111	601,276	4,668	8,495
Commercial:						
Commercial mortgage loans	361,301	413,199	52,591	366,280	2,545	5,173
Commercial & Industrial Loans	258,365	366,880	70,936	261,317	687	1,318
Construction Loans	190,073	302,423	34,938	220,604	111	229
Consumer:						
Auto loans	10,792	10,792	1,349	9,824	185	361
Finance leases	1,836	1,836	58	1,981	44	122
Other consumer loans	10,750	12,442	877	12,203	410	681
	$ 1,432,494	$ 1,759,737	$ 209,860	$ 1,473,485	$ 8,650	$ 16,379

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(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
As of December 31, 2011			
With no related allowance recorded:			
FHA/VA Guaranteed loans	$	$	$
Other residential mortgage loans	181,081	192,757	
Commercial:			
Commercial mortgage loans	13,797	15,283	
Commercial & Industrial Loans	40,453	45,948	
Construction Loans	33,759	45,931	
Consumer:			
Auto loans			
Finance leases			
Other consumer loans	2,840	3,846	
	$ 271,930	$ 303,765	$
With an allowance recorded:			
FHA/VA Guaranteed loans	$	$	$
Other residential mortgage loans	423,340	465,495	48,566
Commercial:			
Commercial mortgage loans	354,954	383,890	59,167
Commercial & Industrial Loans	223,572	316,641	58,652
Construction Loans	213,388	344,035	44,768
Consumer:			
Auto loans	8,710	8,710	1,039
Finance leases	1,804	1,804	41
Other consumer loans	9,678	9,678	2,669
	$ 1,235,446	$ 1,530,253	$ 214,902
Total:			
FHA/VA Guaranteed loans	$	$	$
Other residential mortgage loans	604,421	658,252	48,566
Commercial:			
Commercial mortgage loans	368,751	399,173	59,167
Commercial & Industrial Loans	264,025	362,589	58,652
Construction Loans	247,147	389,966	44,768
Consumer:			
Auto loans	8,710	8,710	1,039
Finance leases	1,804	1,804	41
Other consumer loans	12,518	13,524	2,669
	$ 1,507,376	$ 1,834,018	$ 214,902

Interest income of approximately $9.9 million and $20.2 million was recognized on impaired loans for the second quarter and first half of 2011, respectively.

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The following tables show the activity for impaired loans and the related specific reserve for the quarter and six-month period ended June 30, 2012:

Impaired Loans:	Quarter ended	Six-month period ended
	June 30, 2012 (In thousands)	
Balance at beginning of period	$ 1,477,032	$ 1,507,376
Loans determined impaired during the period	69,274	167,549
Net charge-offs	(38,348)	(76,847)
Increases to impaired loans (disbursements)	14,203	19,121
Foreclosures	(46,366)	(87,384)
Loans no longer considered impaired	(11,005)	(36,918)
Paid in full or partial payments	(32,296)	(60,763)
Balance at end of period	$ 1,432,469	$ 1,432,469

Specific Reserve:	June 30, 2012 (In thousands)	
Balance at beginning of period	$ 224,576	$ 214,902
Provision for loan losses	23,632	71,445
Net charge-offs	(38,348)	(76,487)
Balance at end of period	$ 209,860	$ 209,860

Acquired loans including Purchased Credit-Impaired Loans

On May 30, 2012, the Corporation re-entered the credit card business with the acquisition of an approximate $406 million portfolio of FirstBank-branded credit card portfolio from FIA Card Services (FIA). These loans were recorded on the Consolidated Statement of Financial Condition at estimated fair value on acquisition date of $368.9 million. The Corporation concluded that a portion of these loans acquired were purchased credit-impaired (PCI) loans. PCI loans are acquired loans with evidence of credit quality deterioration since origination for which it is probable at the date of purchase that the Corporation will be unable to collect all contractually required payments. The loans for which the Corporation concluded were credit impaired had a contractual outstanding unpaid principal and interest balance of $34.6 million and an estimated fair value of $15.7 million. Given the initial fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans, the Corporation s subsequent accounting for PCI loans differs from the accounting for non-PCI loans, therefore, the Corporation separately tracks and report PCI loans and exclude these loans from delinquency and nonperforming loan statistics.

Initial Fair value and Accretable Yield of PCI loans

At acquisition, the Corporation estimated the cash flows the Corporation expected to collect on credit card loans acquired with a deteriorated credit quality. Under the accounting guidance for PCI loans, the difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. This difference is neither accreted into income nor recorded on the Corporation s consolidated Statement of Financial Condition. The excess of cash flows expected to be collected over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loans, using the effective yield method. The table below displays the contractually required principal and interest, cash flows expected to be collected and fair value at acquisition related to the loans the Corporation acquired. The table also displays the nonaccretable difference and the accretable yield at acquisition.

(dollars in thousands)	At acquisition

		Purchased Credit-Impaired loans
Contractually outstanding principal and interest at acquisition	$	34,577
Less: Nonaccretable difference		(15,408)
Cash flows expected to be collected at acquisition		19,169
Less: Accretable yield		(3,451)
Fair value of loans acquired	$	15,718

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Outstanding balance and Carrying value of PCI loans

The table below presents the outstanding contractual principal balance and the carrying value of the PCI loans as of June 30, 2012:

(Dollars in thousands)	Purchased Credit-Impaired
Contractual balance	$ 33,883
Carrying value	15,001

Changes in accretable yield of acquired loans

Subsequent to acquisition, the Corporation is required to periodically evaluate its estimate of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications from nonaccretable yield to accretable. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized in the Corporation s provision for loan and lease losses, resulting in an increase to the allowance for loan losses. During the second quarter of 2012, the Corporation recorded interest income of $0.2 million related to the discount accretion recorded as an adjustment to the yield of the PCI portfolio.

In addition to the credit card portfolio acquired from FIA, the Corporation purchased during the first half of 2012 approximately $95.1 million of residential mortgage loans consistent with a strategic program established by the Corporation in 2005 to purchase ongoing residential mortgage loan production from mortgage bankers in Puerto Rico. Generally, the loans purchased from mortgage bankers were conforming residential mortgage loans. Purchases of conforming residential mortgage loans provide the Corporation the flexibility to retain or sell the loans, including through securitization transactions depending upon whether the Corporation wants to retain high yielding loans and improve net interest margins or generate profits by selling loans. When the Corporation sells such loans, it generally keeps the servicing of the loans. The Corporation sold approximately $100.1 million of performing residential mortgage loans in the secondary market to FNMA and FHLMC during the first half of 2012. Also, the Corporation securitized approximately $108.8 million of FHA/VA mortgage loans into GNMA mortgage-backed securities during the first half of 2012.

The Corporation s primary lending area is Puerto Rico. The Corporation s Puerto Rico banking subsidiary, FirstBank, also lends in the U.S. and British Virgin Islands markets and in the United States (principally in the state of Florida). Of the total gross loans held for investment portfolio of $10.3 billion as of June 30, 2012, approximately 85% have credit risk concentration in Puerto Rico, 7% in the United States and 8% in the Virgin Islands.

As of June 30, 2012, the Corporation had $148.6 million outstanding of credit facilities granted to the Puerto Rico Government and/or its political subdivisions, down from $360.1 million as of December 31, 2011, and $120.0 million granted to the Virgin Islands government, down from $139.4 million as of December 31, 2011. A substantial portion of these credit facilities consist of loans to various municipalities in Puerto Rico for which the good faith, credit and unlimited taxing power of the applicable municipality have been pledged to their repayment. Another portion of these obligations consists of loans to public corporations that obtain revenues from rates charged for services or products, such as electric power and water utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it.

In addition to loans extended to government entities, the largest loan to one borrower as of June 30, 2012 in the amount of $262.6 million is with one mortgage originator in Puerto Rico, Doral Financial Corporation. This commercial loan is secured by individual real-estate loans, mostly 1-4 residential mortgage loans.

Troubled Debt Restructurings

The Corporation provides homeownership preservation assistance to its customers through a loss mitigation program in Puerto Rico and in accordance with the government s Home Affordable Modification Program guidelines. Depending upon the nature of borrowers financial condition, restructurings or loan modifications through this program as well as other restructurings of individual commercial, commercial mortgage, construction and residential mortgage loans in the U.S. mainland fit the definition of Troubled debt restructurings (TDR). A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor s financial difficulties grants a concession to the debtor that it would not otherwise consider. Modifications involve changes in one or more of the loan terms that bring a defaulted loan current and provide sustainable affordability. Changes may include the refinancing of any past-due amounts, including interest and escrow, the extension of the maturity of the loan and modifications of the loan rate. As of June 30, 2012, the Corporation s total TDR loans of $861.9 million consisted of $394.4 million of residential mortgage loans, $112.1 million of commercial and industrial loans, $244.4 million of commercial mortgage loans, $90.6 million of construction loans and $20.3 million of consumer loans. Outstanding unfunded commitments on TDR loans amounted to $2.7 million as of June 30, 2012.

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The Corporation s loss mitigation programs for residential mortgage and consumer loans can provide for one or a combination of the following: movement of interest past due to the end of the loan, extension of the loan term, deferral of principal payments for a significant period of time, and reduction of interest rates either permanently (up to 2010) or for a period of up to two years (step-up rates). Additionally, in remote cases, the restructuring may provide for the forgiveness of contractually due principal or interest. Uncollected interest is added to the end of the loan term at the time of the restructuring and not recognized as income until collected or when the loan is paid off. These programs are available to only those borrowers who have defaulted, or are likely to default, permanently on their loan and would lose their homes in foreclosure action absent some lender concession. Notwithstanding, if the Corporation is not reasonably assured that the borrower will comply with its contractual commitment, properties are foreclosed.

In addition to residential loans modified in TDRs described above, the Corporation also enters into trial modifications with certain borrowers. Trial modifications generally represent a three month period whereby the borrower makes monthly payments under the anticipated modified payment terms prior to a formal modification. Trial modifications lasting more than three months are considered TDRs. Upon successful completion of a trial modification, the Corporation and the borrower enter into a permanent modification where the terms of the loan are formally modified. Approximately 82% of all loans that entered into a trial modification during the last twelve months became permanent modifications as of June 30, 2012. Substantially all permanent modifications are considered TDRs and are included in the TDR disclosures herein. As of June 30, 2012, the Corporation had 82 loans that were in trial modifications and were not considered TDRs, with an unpaid principal balance of $13.1 million and a carrying value of $12.3 million.

For the commercial real estate, commercial and industrial, and the construction portfolios, at the time of the restructuring, the Corporation determines, on a loan by loan basis, whether a concession was granted for economic or legal reasons related to the borrower s financial difficulty. Concessions granted for commercial loans could include: reductions in interest rates to rates that are considered below market; extension of repayment schedules and maturity dates beyond original contractual terms; waiving of borrower covenants; forgiveness of principal or interest; or other contract changes that would be considered a concession. The Corporation mitigates loan defaults for its commercial loan portfolios through its collections function. The function s objective is to minimize both early stage delinquencies and losses upon default of commercial loans. In the case of C&I, commercial mortgage and construction loan portfolios, the Special Asset Group (SAG) focuses on strategies for the accelerated reduction of non-performing assets through note sales, short sales, loss mitigation programs, and sales of REO. In addition to the management of the resolution process for problem loans, the SAG oversees collection efforts for all loans to prevent migration to the non-performing and/or adversely classified status. The SAG utilizes relationship officers, collection specialists and attorneys. In the case of residential construction projects, the workout function monitors project specifics, such as project management and marketing, as deemed necessary. The SAG utilizes its collections infrastructure of workout collection officers, credit work-out specialists, in-house legal counsel, and third party consultants. In the case of residential construction projects and large commercial loans, the function also utilizes third-party specialized consultants to monitor the residential and commercial construction projects in terms of construction, marketing and sales, and restructuring of large commercial loans. In addition, the Corporation extends, renews and restructures loans with satisfactory credit profiles. Many commercial loan facilities are structured as lines of credit, which are mainly one year in term and therefore are required to be renewed annually. Other facilities may be restructured or extended from time to time based upon changes in the borrower s business needs, use of funds, timing of completion of projects and other factors. If the borrower is not deemed to have financial difficulties, extensions, renewals and restructurings are done in the normal course of business and not considered concessions, and the loans continue to be recorded as performing.

Selected information on TDRs that includes the recorded investment by loan class and modification type is summarized in the following table. This information reflects all TDRs at June 30, 2012:

(In Thousands)	June 30, 2012						
	Interest rate below market	Maturity or term extension	Combination of reduction in interest rate and extension of maturity	Forgiveness of Principal and/or interest	Forbearance Agreement (1)	Other (2)	Total
Troubled Debt Restructurings:							
Non- FHA/VA Residential Mortgage loans	$ 12,617	$ 3,966	$ 335,605	$	$	$ 42,181	$ 394,369
Commercial Mortgage Loans	97,173	17,530	117,004	820		11,919	244,446
Commercial & Industrial Loans	21,469	12,511	20,897	7,421	9,550	40,273	112,121
Construction Loans	6,349	1,801	4,997		71,490	5,984	90,621
Consumer Loans - Auto		1,149	7,517			2,125	10,791
Finance Leases		1,836					1,836

Consumer Loans - Other	417	533	5,111	27		1,660	7,748
Total Troubled Debt Restructurings	$ 138,025	$ 39,326	$ 491,131	$ 8,268	$ 81,040	$ 104,142	$ 861,932

(1) Mainly related to one construction relationship amounting to $60.6 million.

(2) Other concessions granted by the Corporation include deferral of principal and/or interest payments for a period longer than what would be considered insignificant, payment plans under judicial stipulation or a combination of the concessions listed in the table.

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The following table presents the Corporation s TDR activity for the quarter and six-month period ended June 30, 2012:

(In Thousands)	Quarter ended	Six-month period ended
	June 30, 2012	
Beginning Balance of TDRs	$ 853,624	$ 820,499
New TDRs	57,260	125,528
Increases to existing TDRs (disbursements)	6,460	16,135
Charge-offs post modification	(17,862)	(25,562)
Foreclosures	(19,248)	(28,255)
Removed from TDR classification	(1,992)	(7,051)
Paid-off and partial payments	(16,310)	(39,362)
Ending balance of TDRs	$ 861,932	$ 861,932

TDRs are classified as either accrual or nonaccrual loans. A loan on nonaccrual and restructured as a TDR will remain on nonaccrual status until the borrower has proven the ability to perform under the modified structure for a minimum of six months and there is evidence that such payments can and are likely to continue as agreed. Performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loans being returned to accrual at the time of the restructuring or after a shorter performance period. If the borrower s ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan. Loan modifications increase Corporation s interest income by returning a non-performing loan to performing status, if applicable, and increase cash flows by providing for payments to be made by the borrower, and avoid increases in foreclosure and real estate owned (REO) costs. The Corporation continues to consider a modified loan as an impaired loan for purposes of estimating the allowance for loan and lease losses. A TDR loan that specifies an interest rate that at the time of the restructuring greater than or equal to the rate the Corporation is willing to accept for a new loan with comparable risk may not be reported as a TDR or an impaired loan in the calendar years subsequent to the restructuring if it is in compliance with its modified terms. During the six-month period ended June 30, 2012, $7.1 million were removed from the TDR classification, as reflected in the table above.

The following table provides a breakdown between accrual and nonaccrual status of TDRs as of June 30, 2012:

(In Thousands)		June 30, 2012	
	Accrual	Nonaccrual (1)	Total TDRs
Non- FHA/VA Residential Mortgage loans	$ 284,063	$ 110,306	$ 394,369
Commercial Mortgage Loans	146,145	98,301	244,446
Commercial & Industrial Loans	20,620	91,501	112,121
Construction Loans	2,220	88,401	90,621
Consumer Loans - Auto	6,866	3,925	10,791
Finance Leases	1,791	45	1,836
Consumer Loans - Other	6,461	1,287	7,748
Total Troubled Debt Restructurings	$ 468,166	$ 393,766	$ 861,932

(1) Included in non-accrual loans are $165.3 million in loans that are performing under the terms of the restructuring agreement but are reported in non-accrual until the restructured loans meet the criteria of sustained payment performance under the revised terms for reinstatement to accrual status and there is no doubt about full collectibility.

TDRs exclude restructured mortgage loans that are government guaranteed (i.e. FHA/VA loans) totaling $91.8 million. The Corporation excludes government guaranteed loans from TDRs given that in the event that the borrower defaults on the loan, the principal and interest are guaranteed by the U.S. Government, therefore, the risk of loss on these types of loans is very low. The Corporation does not consider loans with government guarantees to be impaired loans for the purpose of calculating the allowance for loan and lease losses.

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Loan modifications that are considered TDRs completed during the quarter and six-month period ended June 30, 2012 and 2011 were as follows:

(Dollars in Thousands)	Quarter ended June 30, 2012		
	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Non- FHA/VA Residential Mortgage loans	101	$ 16,199	$ 16,247
Commercial Mortgage Loans	6	29,646	29,646
Commercial & Industrial Loans	5	3,737	3,432
Construction Loans	4	4,567	4,557
Consumer Loans - Auto	135	1,633	1,590
Finance Leases	20	303	303
Consumer Loans - Other	226	1,485	1,485
Total Troubled Debt Restructurings	497	$ 57,570	$ 57,260

(Dollars in Thousands)	Six-month period ended June 30, 2012		
	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Non- FHA/VA Residential Mortgage loans	256	$ 40,991	$ 41,342
Commercial Mortgage Loans	21	42,936	42,972
Commercial & Industrial Loans	36	31,884	28,322
Construction Loans	5	5,291	5,281
Consumer Loans - Auto	289	3,429	3,386
Finance Leases	52	922	922
Consumer Loans - Other	523	3,303	3,303
Total Troubled Debt Restructurings	1,182	$ 128,756	$ 125,528

(Dollars in Thousands)	Quarter ended June 30, 2011		
	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Non- FHA/VA Residential Mortgage loans	198	$ 28,451	$ 29,076
Commercial Mortgage Loans	14	13,662	15,823
Commercial & Industrial Loans	18	20,453	17,463
Construction Loans	15	99,513	99,523
Consumer Loans - Auto	190	2,269	2,282
Finance Leases	33	678	678
Consumer Loans - Other	355	3,105	3,141
Total Troubled Debt Restructurings	823	$ 168,131	$ 167,986

(Dollars in Thousands)	Six-month period ended June 30, 2011		
	Number of contracts	Pre-modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Non- FHA/VA Residential Mortgage loans	465	$ 73,295	$ 75,901
Commercial Mortgage Loans	42	108,464	82,723
Commercial & Industrial Loans	45	82,255	37,735
Construction Loans	16	99,689	99,745
Consumer Loans - Auto	414	5,054	5,096
Finance Leases	56	1,092	1,105
Consumer Loans - Other	711	6,034	6,100
Total Troubled Debt Restructurings	1,749	$ 375,883	$ 308,405

Recidivism, or the borrower defaulting on its obligation pursuant to a modified loan, results in the loan once again becoming a non-performing loan. Recidivism occurs at a notably higher rate than do defaults on new origination loans, so modified loans present a higher risk of loss than do new origination loans. The Corporation considers a loan to have defaulted if the borrower has failed to make payments of either principal, interest, or both for a period of 90 days or more.

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Loan modifications considered troubled debt restructurings that defaulted during the quarters and six-month periods ended June 30, 2012 and 2011 and had been modified in a TDR during the 12-months preceding the default date were as follows:

(Dollars in Thousands)	Quarter ended June 30, 2012		2011	
	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
Non- FHA/VA Residential Mortgage loans	35	$ 5,454	50	$ 19,927
Commercial Mortgage Loans	4	3,164	12	2,878
Commercial & Industrial Loans	1	385	1	1,439
Construction Loans	2	8,382	1	70
Consumer Loans - Auto	36	393		
Consumer Loans - Other	4	53		
Finance Leases	1	27		
Total	83	$ 17,852	64	$ 24,314

(Dollars in Thousands)	Six-month period ended June 30, 2012		2011	
	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
Non- FHA/VA Residential Mortgage loans	88	$ 12,810	90	$ 27,269
Commercial Mortgage Loans	8	5,211	16	3,420
Commercial & Industrial Loans	4	6,279	1	1,439
Construction Loans	2	8,382	1	70
Consumer Loans - Auto	36	393		
Consumer Loans - Other	6	118		
Finance Leases	1	27		
Total	145	$ 34,615	108	$ 32,198

For certain TDRs, the Corporation splits the loans into two new notes, A and B notes. The A note is restructured to comply with the Corporation s lending standards at current market rates, and is tailored to suit the customer s ability to make timely interest and principal payments. The B note includes the granting of the concession to the borrower and varies by situation. The B note is charged-off but the obligation is not forgiven to the borrower, and any payments collected are accounted for as recoveries. At the time of restructuring, the A note is identified and classified as a TDR. If the loan performs for at least six months according to the modified terms, the A note may be returned to accrual status. The borrower s payment performance prior to the restructuring are included in assessing whether the borrower can meet the new terms and may result in that the loans be returned to accrual status at the time of restructuring. In the periods following the calendar year in which a loan was restructured, the A Note may no longer be reported as a TDR if it is on accrual, is in compliance with its modified terms, and yields a market rate (as determined and documented at the time of the restructure)

The recorded investment in loans restructured using the A/B note restructure workout strategy was approximately $125.9 million at June 30, 2012. The following table provides additional information about the volume of this type of loan restructuring and the effect on the allowance for loan and lease losses in the first half of 2012:

	(In thousands)
Principal balance deemed collectible at end of period	$ 125,893

Amount charged-off	$	1,949
Charges to the provision for loan losses	$	3,259
Allowance for loan losses as of June 30, 2012	$	7,179

Of the loans comprising the $125.9 million that have been deemed collectible, approximately $105.3 million were placed in accruing status as the borrowers have exhibited a period of sustained performance. These loans continue to be individually evaluated for impairment purposes.

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7 ALLOWANCE FOR LOAN AND LEASE LOSSES

The changes in the allowance for loan and lease losses for the quarter and six-month period ended June 30, 2012 and 2011 were as follows:

(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Quarter ended June 30, 2012						
Allowance for loan and lease losses:						
Beginning balance	$ 65,283	$ 106,975	$ 171,979	$ 83,710	$ 55,996	$ 483,943
Charge-offs	(14,532)	(6,283)	(9,208)	(16,353)	(9,396)	(55,772)
Recoveries	321	12	823	1,167	1,775	4,098
Provision (release)	16,368	142	2,427	(666)	6,613	24,884
Ending balance	$ 67,440	$ 100,846	$ 166,021	$ 67,858	$ 54,988	$ 457,153
Ending balance: specific reserve for impaired loans	$ 49,111	$ 52,591	$ 70,936	$ 34,938	$ 2,284	$ 209,860
Ending balance: purchased credit-impaired loans	$	$	$	$	$	$
Ending balance: general allowance	$ 18,329	$ 48,255	$ 95,085	$ 32,920	$ 52,704	$ 247,293
Loans held for investment:						
Ending balance	$ 2,764,066	$ 1,479,068	$ 3,737,919	$ 364,934	$ 1,950,128	$ 10,296,115
Ending balance: impaired loans	$ 599,377	$ 361,301	$ 258,365	$ 190,073	$ 23,378	$ 1,432,494
Ending balance: purchased credit-impaired loans	$	$	$	$	$ 15,001	$ 15,001
Ending balance: loans with general allowance	$ 2,164,689	$ 1,117,767	$ 3,479,554	$ 174,861	$ 1,911,749	$ 8,848,620

(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Six-month period ended June 30, 2012						
Allowance for loan and lease losses:						
Beginning balance	$ 68,678	$ 108,991	$ 164,490	$ 91,386	$ 60,372	$ 493,917
Charge-offs	(20,390)	(9,907)	(22,699)	(33,896)	(19,883)	(106,775)
Recoveries	448	42	1,645	3,318	3,477	8,930
Provision	18,704	1,720	22,585	7,050	11,022	61,081
Ending balance	$ 67,440	$ 100,846	$ 166,021	$ 67,858	$ 54,988	$ 457,153
Ending balance: specific reserve for impaired loans	$ 49,111	$ 52,591	$ 70,936	$ 34,938	$ 2,284	$ 209,860
Ending balance: purchased credit-impaired loans	$	$	$	$	$	$

Ending balance: general allowance	$ 18,329	$ 48,255	$ 95,085	$ 32,920	$ 52,704	$ 247,293
Loans held for investment:						
Ending balance	$ 2,764,066	$ 1,479,068	$ 3,737,919	$ 364,934	$ 1,950,128	$ 10,296,115
Ending balance: impaired loans	$ 599,377	$ 361,301	$ 258,365	$ 190,073	$ 23,378	$ 1,432,494
Ending balance: purchased credit-impaired loans	$	$	$	$	$ 15,001	$ 15,001
Ending balance: loans with general allowance	$ 2,164,689	$ 1,117,767	$ 3,479,554	$ 174,861	$ 1,911,749	$ 8,848,620

(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Quarter ended June 30, 2011						
Allowance for loan and lease losses:						
Beginning balance	$ 63,496	$ 87,873	$ 177,839	$ 157,197	$ 75,290	$ 561,695
Charge-offs	(9,091)	(3,160)	(11,811)	(47,310)	(12,113)	(83,485)
Recoveries	154	10	1,048	103	2,169	3,484
Provision (release)	12,845	6,062	21,486	21,354	(2,563)	59,184
Ending balance	$ 67,404	$ 90,785	$ 188,562	$ 131,344	$ 62,783	$ 540,878
Ending balance: specific reserve for impaired loans	$ 52,073	$ 30,402	$ 92,162	$ 71,149	$ 678	$ 246,464
Ending balance: general allowance	$ 15,331	$ 60,383	$ 96,400	$ 60,195	$ 62,105	$ 294,414
Loans held for investment:						
Ending balance	$ 2,880,989	$ 1,590,633	$ 4,165,648	$ 515,934	$ 1,612,321	$ 10,765,525
Ending balance: impaired loans	$ 567,926	$ 242,294	$ 370,544	$ 290,859	$ 11,607	$ 1,483,230
Ending balance: loans with general allowance	$ 2,313,063	$ 1,348,339	$ 3,795,104	$ 225,075	$ 1,600,714	$ 9,282,295

(Dollars in thousands)	Residential Mortgage Loans	Commercial Mortgage Loans	Commercial & Industrial Loans	Construction Loans	Consumer Loans	Total
Six-month period ended June 30, 2011						
Allowance for loan and lease losses:						
Beginning balance	$ 62,330	$ 105,596	$ 152,641	$ 151,972	$ 80,486	$ 553,025
Charge-offs	(14,495)	(34,331)	(28,155)	(66,475)	(24,082)	(167,538)
Recoveries	397	77	1,104	2,030	3,867	7,475
Provision	19,172	19,443	62,972	43,817	2,512	147,916
Ending balance	$ 67,404	$ 90,785	$ 188,562	$ 131,344	$ 62,783	$ 540,878
Ending balance: specific reserve for impaired loans	$ 52,073	$ 30,402	$ 92,162	$ 71,149	$ 678	$ 246,464
Ending balance: general allowance	$ 15,331	$ 60,383	$ 96,400	$ 60,195	$ 62,105	$ 294,414
Loans held for investment:						
Ending balance	$ 2,880,989	$ 1,590,633	$ 4,165,648	$ 515,934	$ 1,612,321	$ 10,765,525

Ending balance: impaired loans	$ 567,926	$ 242,294	$ 370,544	$ 290,859	$ 11,607	$ 1,483,230
Ending balance: loans with general allowance	$ 2,313,063	$ 1,348,339	$ 3,795,104	$ 225,075	$ 1,600,714	$ 9,282,295

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As of June 30, 2012, the Corporation maintains a $2.9 million reserve for unfunded loan commitments mainly related to outstanding construction loans commitments. The reserve for unfunded loan commitments is an estimate of the losses inherent in off-balance sheet loan commitments at the balance sheet date. It is calculated by multiplying an estimated loss factor by an estimated probability of funding, and then by the period-end amounts for unfunded commitments. The reserve for unfunded loan commitments is included as part of accounts payable and other liabilities in the consolidated statement of financial condition.

8 LOANS HELD FOR SALE

As of June 30, 2012 and December 31, 2011, the Corporation s loans held for sale portfolio was composed of:

	June 30, 2012	December 31, 2011
	(In thousands)	
Residential mortgage loans	$ 60,393	$ 11,058
Construction loans		4,764
Total	$ 60,393	$ 15,822

9 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

The Corporation designates a derivative as a fair value hedge, cash flow hedge or as an economic undesignated hedge when it enters into the derivative contract. As of June 30, 2012 and December 31, 2011, all derivatives held by the Corporation were considered economic undesignated hedges. These undesignated hedges are recorded at fair value with the resulting gain or loss recognized in current earnings.

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

Interest rate cap agreements - Interest rate cap agreements provide the right to receive cash if a reference interest rate rises above a contractual rate. The value increases as the reference interest rate rises. The Corporation enters into interest rate cap agreements for protection from rising interest rates. Specifically, the interest rate on certain of the Corporation s commercial loans to other financial institutions is generally a variable rate limited to the weighted-average coupon of the referenced residential mortgage collateral, less a contractual servicing fee.

Interest rate swaps - Interest rate swap agreements generally involve the exchange of fixed and floating-rate interest payment obligations without the exchange of the underlying notional principal amount. As of June 30, 2012 and December 31, 2011, most of the interest rate swaps outstanding are used for protection against rising interest rates. Similar to unrealized gains and losses arising from changes in fair value, net interest settlements on interest rate swaps are recorded as an adjustment to interest income or interest expense depending on whether an asset or liability is being economically hedged.

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

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

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

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

The following table summarizes the notional amounts of all derivative instruments as of June 30, 2012 and December 31, 2011:

	Notional Amounts As of June 30, 2012	Notional Amounts As of December 31, 2011
	(In thousands)	
Economic undesignated hedges:		
Interest rate contracts:		
Interest rate swap agreements used to hedge loans	$ 38,995	$ 39,786
Written interest rate cap agreements	67,407	67,894
Purchased interest rate cap agreements	67,407	67,894
Equity contracts:		
Embedded written options on stock index deposits and notes payable		46,515
Purchased options used to manage exposure to the stock market on embedded stock index options		46,515
Forward Contracts:		
Sale of TBA GNMA MBS pools	14,000	19,000
	$ 187,809	$ 287,604

The following table summarizes the fair value of derivative instruments and the location in the Statement of Financial Condition as of June 30, 2012 and December 31, 2011:

	Asset Derivatives Statement of Financial Condition Location	Asset Derivatives June 30, 2012 Fair Value	Asset Derivatives December 31, 2011 Fair Value	Liability Derivatives Statement of Financial Condition Location	Liability Derivatives June 30, 2012 Fair Value	Liability Derivatives December 31, 2011 Fair Value
			(In thousands)			
Economic undesignated hedges:						
Interest rate contracts:						
Interest rate swap agreements used to hedge loans	Other assets	$ 335	$ 378	Accounts payable and other liabilities	$ 6,425	$ 6,767
Equity contracts:						
Embedded written options on stock index notes payable	Other assets			Notes payable		899
Purchased options used to manage exposure to the stock market on embedded stock index options	Other assets		899	Accounts payable and other liabilities		
Forward Contracts:						
Sales of TBA GNMA MBS pools	Other assets			Accounts payable and other liabilities	125	168
		$ 335	$ 1,277		$ 6,550	$ 7,834

The following table summarizes the effect of derivative instruments on the Statement of Income (loss) for the quarter and six-month period ended June 30, 2012 and 2011:

	Location of Gain or (loss) Recognized in Income on Derivatives	Unrealized (Loss) or Gain Quarter Ended June 30,		Unrealized Gain or (Loss) Six-Month Period Ended June 30,	
		2012	2011	2012	2011
		(In thousands)			
ECONOMIC UNDESIGNATED HEDGES:					
Interest rate contracts:					
Interest rate swap agreements used to hedge fixed-rate:					
Loans	Interest income - Loans	$ (33)	$ (1,185)	$ 299	$ (840)
Equity contracts:					
Embedded written and purchased options on stock index notes payable	Interest expense - Notes payable and other borrowings		(42)		(47)
Forward contracts:					
Sales of TBA GNMA MBS pools	Mortgage Banking Activities	(130)	231	43	(33)
Total (loss) gain on derivatives		$ (163)	$ (996)	$ 342	$ (920)

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

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A summary of interest rate swaps as of June 30, 2012 and December 31, 2011 follows:

	As of June 30, 2012	As of December 31, 2011
	(Dollars in thousands)	
Pay fixed/receive floating:		
Notional amount	$ 38,995	$ 39,786
Weighted-average receive rate at period end	2.09%	2.13%
Weighted-average pay rate at period end	6.81%	6.82%
Floating rates range from 167 to 252 basis points over 3-month LIBOR		

As of June 30, 2012, the Corporation has not entered into any derivative instrument containing credit-risk-related contingent features.

10 GOODWILL AND OTHER INTANGIBLES

Goodwill as of June 30, 2012 and December 31, 2011 amounted to $28.1 million, recognized as part of Other Assets in the Consolidated Statement of Financial Condition. The Corporation conducted its annual evaluation of goodwill and intangibles during the fourth quarter of 2011. The evaluation was a two step process. The Step 1 evaluation of goodwill allocated to the Florida reporting unit indicated potential impairment of goodwill. The Step 1 fair value for the unit was below the carrying amount of its equity book value as of the October 1, 2011 valuation date, requiring the completion of Step 2. The Step 2 required a valuation of all assets and liabilities of the Florida unit, including any recognized and unrecognized intangible assets, to determine the fair value of net assets. To complete Step 2, the Corporation subtracted from the unit s Step 1 fair value the determined fair value of the net assets to arrive at the implied fair value of goodwill. The results of the Step 2 analysis indicated that the implied fair value of goodwill exceeded the goodwill carrying value by $13.7 million, resulting in no goodwill impairment. Goodwill was not impaired as of December 31, 2011, nor was any goodwill written-off due to impairment during 2011. There have been no events related to the Florida reporting unit that could indicate potential goodwill impairment since the date of the last evaluation; therefore, no goodwill impairment evaluation was performed during the first quarter of 2012. Goodwill and other indefinite life intangibles are reviewed at least annually for impairment.

In connection with the acquisition of the FirstBank-branded credit card loan portfolio, the Corporation recognized a purchased credit card relationship intangible of $24.4 million which will be amortized over the next 9.6 years on an accelerated basis proportionate to the projected run-off of the acquired credit card accounts, which is based on the historical performance of the portfolio.

The following tables shows the gross amount and accumulated amortization of the Corporation s other intangible assets recognized as part of Other Assets in the consolidated statement of financial condition for the periods ended June 30, 2012 and December 31, 2011:

(In Thousands)	As of June 30, 2012	As of December 31, 2011
Core deposit intangible:		
Gross amount	$ 45,844	$ 45,844
Accumulated amortization	(35,332)	(34,155)
Net carrying amount	$ 10,512	$ 11,689
Remaining amortization period	11 years	11.5 years
Purchased credit card relationship intangible:		
Gross amount	$ 24,448	$
Accumulated amortization	(106)	
Net carrying amount	$ 24,342	$

Remaining amortization period	9.6 years

For the quarter and six month period ended June 30, 2012, the amortization expense of core deposit intangibles amounted to $0.6 million and $1.2 million (2011 - $0.6 million and $1.2 million). For the quarter and six month period ended June 30, 2012, the amortization expense of the purchased credit card relationship intangible amounted to $0.1 million.

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11 NON-CONSOLIDATED VARIABLE INTEREST ENTITIES AND SERVICING ASSETS

The Corporation transfers residential mortgage loans in sale or securitization transactions in which it has continuing involvement, including servicing responsibilities and guarantee arrangements. All such transfers have been accounted for as sales as required by applicable accounting guidance.

When evaluating transfers and other transactions with Variable Interest Entities (VIEs) for consolidation, the Corporation first determines if the counterparty is an entity for which a variable interest exists. If no scope exception is applicable and a variable interest exists, the Corporation then evaluates if it is the primary beneficiary of the VIE and whether the entity should be consolidated or not.

Below is a summary of transfers of financial assets to VIEs for which the Corporation has retained some level of continuing involvement:

Ginnie Mae

The Corporation typically transfers first lien residential mortgage loans in conjunction with Ginnie Mae securitization transactions whereby the loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights. The securities issued through these transactions are guaranteed by the issuer and, as such, under seller/servicer agreements the Corporation is required to service the loans in accordance with the issuers servicing guidelines and standards. As of June 30, 2012, the Corporation serviced loans securitized through GNMA with principal balance of $682.8 million.

Trust Preferred Securities

In 2004, FBP Statutory Trust I, a financing subsidiary of the Corporation, sold to institutional investors $100 million of its variable rate trust preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.1 million of FBP Statutory Trust I variable rate common securities, were used by FBP Statutory Trust I to purchase $103.1 million aggregate principal amount of the Corporation s Junior Subordinated Deferrable Debentures. Also in 2004, FBP Statutory Trust II, a statutory trust that is wholly-owned by the Corporation, sold to institutional investors $125 million of its variable rate trust preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.9 million of FBP Statutory Trust II variable rate common securities, were used by FBP Statutory Trust II to purchase $128.9 million aggregate principal amount of the Corporation s Junior Subordinated Deferrable Debentures. The trust preferred debentures are presented in the Corporation s Consolidated Statement of Financial Condition as Other Borrowings, net of related issuance costs. The variable rate trust preferred securities are fully and unconditionally guaranteed by the Corporation. The $100 million Junior Subordinated Deferrable Debentures issued by the Corporation in April 2004 and the $125 million issued in September 2004 mature on September 17, 2034 and September 20, 2034, respectively; however, under certain circumstances, the maturity of Junior Subordinated Debentures may be shortened (such shortening would result in a mandatory redemption of the variable rate trust preferred securities). The trust preferred securities, subject to certain limitations, qualify as Tier I regulatory capital under current Federal Reserve rules and regulations. The Collins Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act eliminates certain trust preferred securities from Tier 1 Capital. These regulatory capital deductions for trust preferred securities are to be phased in incrementally over a period of 3 years beginning on January 1, 2013.

Grantor Trusts

During 2004 and 2005, a third party to the Corporation, from now on identified as the seller, established a series of statutory trusts to effect the securitization of mortgage loans and the sale of trust certificates. The seller initially provided the servicing for a fee, which is senior to the obligations to pay trust certificate holders. The seller then entered into a sales agreement through which it sold and issued the trust certificates in favor of the Corporation s banking subsidiary. Currently, the Bank is the sole owner of the trust certificates; the servicing of the underlying residential mortgages that generate the principal and interest cash flows, is performed by another third party, which receives a fee compensation for services provided, the servicing fee. The securities are variable rate securities indexed to 90 day LIBOR plus a spread. The principal payments from the underlying loans are remitted to a paying agent (servicer) who then remits interest to the Bank; interest income is shared to a certain extent with the FDIC, that has an interest only strip (IO) tied to the cash flows of the underlying loans, whereas it is entitled to received the excess of the interest income less a servicing fee over the variable rate income that the Bank earns on the securities. This IO is limited to the weighted average coupon of the securities. The FDIC became the owner of the IO upon the intervention of the seller, a failed financial institution. No recourse agreement exists and the risk from losses on non accruing loans and repossessed collateral are absorbed by the Bank as the sole holder of the certificates. As of June 30, 2012, the amortized balance and carrying value of Grantor Trusts amounted to approximately $76 million and $57 million, respectively, with a weighted average yield of 2.34%.

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Investment in unconsolidated entities

On February 16, 2011, FirstBank sold an asset portfolio consisting of performing and non-performing construction, commercial mortgage and C&I loans with an aggregate book value of $269.3 million to CPG/GS PR NPL, LLC (CPG/GS or the Joint Venture) organized under the Laws of the Commonwealth of Puerto Rico and majority owned by PRLP Ventures LLC (PRLP), a company created by Goldman, Sachs & Co. and Caribbean Property Group. In connection with the sale, the Corporation received $88.5 million in cash and a 35% interest in CPG/GS, and made a loan in the amount of $136.1 million representing seller financing provided by FirstBank. The loan has a 7-year maturity and bears variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity s assets as well as the PRLP s 65% ownership interest in CPG/GS. As of June 30, 2012, the carrying amount of the loan is $99.2 million and is included in the Corporation s C&I loan receivable portfolio; the carrying value of FirstBank s equity interest in CPG/GS is $34.5 million as of June 30, 2012, accounted under the equity method and included as part of Investment in unconsolidated entities in the Consolidated Statements of Financial Condition. When applying the equity method, the Bank follows the Hypothetical Liquidation Book Value method (HLBV) to determine its share in CPG/GS earnings or losses. Under HLBV, the Bank determines its share in CPG/GS earnings or losses by determining the difference between its claim on CPG/GS s book value at the end of the period as compared to the beginning of the period. This claim is calculated as the amount the Bank would receive if CPG/GS were to liquidate all of its assets at recorded amounts determined in accordance with GAAP and distribute the resulting cash to the investors, PRLP and FirstBank, according to their respective priorities as provided in the contractual agreement. The Bank reports its share of CPG/GS operating results on a one-quarter lag basis. In addition, as a result of using HLBV, the difference between the Bank s investment in CPG/GS and its claim in the book value of CPG/GS at the date of the investment, known as the basis difference, is amortized over the estimated life of the investment, or five years as of June 30, 2012. CPG/GS records its loans receivable under the fair value option. Equity in losses of unconsolidated entities for the quarter and six-month period ended June 30, 2012 of $2.5 million and $8.7 million, includes $1.1 million and $3.1 million, respectively, related to the amortization of the basis differential.

FirstBank also provided an $80 million advance facility to CPG/GS to fund unfunded commitments and costs to complete projects under construction which was fully disbursed in 2011, and a $20 million working capital line of credit to fund certain expenses of CPG/GS. During the second quarter of 2012, CPG repaid the outstanding balance of the advance facility to fund unfunded commitments and the funds became available to re-draw under a one-time revolving agreement. These loans bear variable interest at 30-day LIBOR plus 300 basis points. As of June 30, 2012, the carrying value of the advance facility and working capital line were $5.6 million and $0, respectively, and are included in the Corporation s C&I loan receivable portfolio.

Cash proceeds received by CPG/GS are first used to cover operating expenses and debt service payments, including the note receivable, the advanced facility and the working capital line, described above, which must be fully repaid before proceeds can be used for other purposes, including the return of capital to both PRLP and FirstBank. FirstBank will not receive any return on its equity interest until PRLP receives an aggregate amount equivalent to its initial investment and a priority return of at least 12%, resulting in FirstBank s interest in CPG/GS being subordinate to PRLP s interest. CPG/GS will then begin to make payments pro rata to PRLP and FirstBank, 35% and 65%, respectively, until FirstBank has achieved a 12% return on its invested capital and the aggregate amount of distributions is equal to FirstBank s capital contributions to CPG/GS. FirstBank may experience further losses associated with this transaction due to this subordination in an amount equal to up to the value of its interest in CPG/GS. Factors that could impact FirstBank s recoverability of its equity interest include lower than expected sale prices of units underlying CPG/GS assets and/or lower than projected liquidation value of the underlying collateral and changes in the expected timing of cash flows, among others.

The Bank has determined that CPG/GS is a VIE in which the Bank is not the primary beneficiary. In determining the primary beneficiary of CPG/GS, the Bank considered applicable guidance that requires the Bank to qualitatively assess the determination of the primary beneficiary (or consolidator) of CPG/GS based on whether it has both the power to direct the activities of CPG/GS that most significantly impact the entity s economic performance and the obligation to absorb losses of CPG/GS that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. The Bank determined that it does not have the power to direct the activities that most significantly impact the economic performance of CPG/GS as it does not have the right to manage the loan portfolio, impact foreclosure proceedings, or manage the construction and sale of the property; therefore, the Bank concluded that it is not the primary beneficiary of CPG/GS. As a creditor to CPG/GS, the Bank has certain rights related to CPG/GS, however, these are intended to be protective in nature and do not provide the Bank with the ability to manage the operations of CPG/GS. Since CPG/GS is not a consolidated subsidiary of the Bank and given that the transaction met the criteria for sale accounting under authoritative guidance, the Bank accounted for this transaction as a true sale, recognizing the cash received, the notes receivable and the interest in CPG/GS and derecognizing the loan portfolio sold.

The initial fair value of the investment in CPG/GS was determined using techniques with significant unobservable (Level 3) inputs. The valuation inputs included an estimate of future cash flows, expectations about possible variations in the amount and timing of cash flows, and a discount factor based on a rate of return. The Corporation researched available market data and internal information (i.e. proposals received for the servicing of distressed assets and public disclosures and information of similar structures and/or of distressed asset sales) and determined reasonable ranges of expected returns for FirstBank s equity interest.

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The rate of return of 17.57% was used as the discount factor used to estimate the value of the FirstBank s equity interest and represents the Bank s estimate of the yield a market participant would require. A reasonable range of equity returns was assessed considering the range of company specific risk premiums. The valuation of this type of equity interest is highly subjective and somewhat dependent on non-observable market assumptions, which may result in variations from market participant to market participant.

Servicing Assets

The Corporation is actively involved in the securitization of pools of FHA-insured and VA-guaranteed mortgages for issuance of GNMA mortgage-backed securities. Also, certain conventional conforming-loans are sold to FNMA or FHLMC with servicing retained. The Corporation recognizes as separate assets the rights to service loans for others, whether those servicing assets are originated or purchased.

The changes in servicing assets are shown below:

	Quarter ended		Six-month period ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands)			
Balance at beginning of period	$ 16,154	$ 15,006	$ 15,226	$ 15,163
Capitalization of servicing assets	1,691	1,291	3,097	2,522
Amortization	(725)	(573)	(1,386)	(1,097)
Adjustment to servicing assets for loans repurchased (1)	(438)	(84)	(505)	(145)
Adjustment to fair value	(90)	(1,002)	160	(1,805)
Balance at end of period	$ 16,592	$ 14,638	$ 16,592	$ 14,638

(1) Amount represents the adjustment to fair value related to the repurchase of $38.1 million and $44.6 million for the quarter and six-month period ended June 30, 2012, respectively, and, $8.8 million and $20.8 million for the quarter and six-month period ended June 30, 2011, respectively, in principal balance of loans serviced for others.

Impairment charges are recognized through a valuation allowance for each individual stratum of servicing assets. The valuation allowance is adjusted to reflect the amount, if any, by which the cost basis of the servicing asset for a given stratum of loans being serviced exceeds its fair value. Any fair value in excess of the cost basis of the servicing asset for a given stratum is not recognized.

Changes in the impairment allowance were as follows:

	Quarter ended		Six-month period ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands)			
Balance at beginning of period	$ 28	$ 1,237	$ 2,725	$ 434
Temporary impairment charges	118	1,149	187	2,123
OTTI of servicing assets			(2,447)	
Recoveries	(28)	(147)	(347)	(318)
Balance at end of period	$ 118	$ 2,239	$ 118	$ 2,239

The components of net servicing income are shown below:

	Quarter ended		Six-month period ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands)			
Servicing fees	$ 1,419	$ 1,411	$ 2,762	$ 2,662
Late charges and prepayment penalties	292	123	462	367
Adjustment for loans repurchased	(438)	(84)	(505)	(145)
Servicing income, gross	1,273	1,450	2,719	2,884
Amortization and impairment of servicing assets	(815)	(1,575)	(1,226)	(2,902)
Servicing income (loss), net	$ 458	$ (125)	$ 1,493	$ (18)

The Corporation s servicing assets are subject to prepayment and interest rate risks. Key economic assumptions used in determining the fair value at the time of sale ranged as follows:

	Maximum	Minimum
Six-month period ended June 30, 2012:		
Constant prepayment rate:		
Government guaranteed mortgage loans	12.4%	11.6%
Conventional conforming mortgage loans	12.7%	12.6%
Conventional non-conforming mortgage loans	13.8%	13.3%
Discount rate:		
Government guaranteed mortgage loans	12.0%	12.0%
Conventional conforming mortgage loans	10.0%	10.0%
Conventional non-conforming mortgage loans	14.3%	14.3%
Six-month period ended June 30, 2011:		
Constant prepayment rate:		
Government guaranteed mortgage loans	12.3%	10.6%
Conventional conforming mortgage loans	12.9%	12.7%
Conventional non-conforming mortgage loans	13.9%	11.7%
Discount rate:		
Government guaranteed mortgage loans	11.5%	11.3%
Conventional conforming mortgage loans	9.5%	9.3%
Conventional non-conforming mortgage loans	15.0%	13.8%

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At June 30, 2012, fair values of the Corporation s servicing assets were based on a valuation model that incorporates market driven assumptions, adjusted by the particular characteristics of the Corporation s servicing portfolio, regarding discount rates and mortgage prepayment rates. The weighted-averages of the key economic assumptions used by the Corporation in its valuation model and the sensitivity of the current fair value to immediate 10 percent and 20 percent adverse changes in those assumptions for mortgage loans at June 30, 2012, were as follows:

	(Dollars in thousands)
Carrying amount of servicing assets	$ 16,592
Fair value	$ 17,820
Weighted-average expected life (in years)	7.5
Constant prepayment rate (weighted-average annual rate)	12.58%
Decrease in fair value due to 10% adverse change	$ 843
Decrease in fair value due to 20% adverse change	$ 1,625
Discount rate (weighted-average annual rate)	11.10%
Decrease in fair value due to 10% adverse change	$ 663
Decrease in fair value due to 20% adverse change	$ 1,281

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the servicing asset is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which may magnify or counteract the sensitivities.

12 DEPOSITS

The following table summarizes deposit balances:

	June 30, 2012	December 31, 2011
	(In thousands)	
Type of account and interest rate:		
Non-interest bearing checking accounts	$ 776,947	$ 705,789
Savings accounts	2,280,193	2,145,625
Interest-bearing checking accounts	1,134,674	1,066,753
Certificates of deposit	2,241,950	2,258,216
Brokered certificates of deposit	3,466,409	3,731,371
	$ 9,900,173	$ 9,907,754

Brokered CDs mature as follows:

	June 30, 2012 (In thousands)
One to ninety days	$ 649,926
Over ninety days to one year	1,675,342
One to three years	1,087,200
Three to five years	49,684
Over five years	4,257

Total	$	3,466,409

The following are the components of interest expense on deposits:

	Quarter Ended		Six-Month Period Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thosands)		(In thosands)	
Interest expense on deposits	$ 30,956	$ 45,342	$ 64,916	$ 94,042
Amortization of broker placement fees	2,533	4,183	5,307	9,542
Interest expense on deposits	$ 33,489	$ 49,525	$ 70,223	$ 103,584

13 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

	June 30, 2012	December 31, 2011
	(In thousands)	
Repurchase agreements, interest ranging from 2.45% to 3.55% (December 31, 2011 - 2.50% to 4.40%)	$ 900,000	$ 1,000,000

Repurchase agreements mature as follows:

	June 30, 2012 (In thousands)
Three to five years	$ 600,000
Over five years	300,000
Total	$ 900,000

As of June 30, 2012 and December 31, 2011, the securities underlying such agreements were delivered to the dealers with whom the repurchase agreements were transacted.

Repurchase agreements as of June 30, 2012, grouped by counterparty, were as follows:

(Dollars in thousands)

Counterparty	Amount	Weighted-Average Maturity (In Months)
Citigroup Global Markets	$ 300,000	52
JP Morgan Chase	200,000	55
Dean Witter / Morgan Stanley	100,000	64

Credit Suisse First Boston	300,000	65
	$ 900,000	

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14 ADVANCES FROM THE FEDERAL HOME LOAN BANK (FHLB)

Following is a summary of the advances from the FHLB: