

FIRST BANCORP /PR/
Form S-1
August 24, 2011

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As filed with the Securities and Exchange Commission on August 24, 2011
Registration No. 333-

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

Form S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

FIRST BANCORP.

(Exact name of registrant as specified in its charter)

Puerto Rico

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

6022

*(Primary Standard Industrial
Classification Code Number)*

66-0561882

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

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

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

Lawrence Odell
Executive Vice President and General Counsel
First BanCorp.

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

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

With a Copy to:

**Linda L. Griggs
Sean M. Donahue
Morgan, Lewis & Bockius LLP
1111 Pennsylvania Avenue, NW
Washington, DC 20004**

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

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered(1) | Amount to be Registered | Proposed Maximum Offering Price per Unit | Proposed Maximum Aggregate Offering Price(2) | Amount of Registration Fee |
|--|--------------------------------|---|---|-----------------------------------|
| Common Stock, \$0.10 par value per share | 10,651,835 | \$3.50 | \$37,281,422.50 | \$4,328.38(3) |
| Transferable subscription rights to purchase common stock | 21,303,669 | | | (4) |

(1) This registration statement relates to (a) the transferable subscription rights to purchase shares of our common stock, \$0.10 par value per share, and (b) the shares of our common stock deliverable upon the exercise of the transferable subscription rights.

(2) Represents the gross proceeds from the sale of shares of our common stock assuming the exercise of all transferable subscription rights to be distributed.

(3) Pursuant to Rule 457(p), the filing fee of \$40,997.50 previously paid in connection with the registrant's Registration Statement No. 333-169399 initially filed on September 16, 2010, which was subsequently

withdrawn on June 28, 2011, has been offset against the currently due filing fee.

- (4) The transferable subscription rights are being issued without consideration. Pursuant to Rule 457(g) under the Securities Act of 1933, as amended, no separate registration fee is payable with respect to the rights being registered since such rights are being registered in the same registration statement as the common stock issuable upon exercise of the transferable subscription rights.

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

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SUBJECT TO COMPLETION: DATED , 2011

PRELIMINARY PROSPECTUS

**Up to 10,651,835 Shares of Common Stock Issuable upon the Exercise
of Transferable Subscription Rights at \$3.50 Per Share**

First BanCorp. (the Corporation) is the holding company for FirstBank Puerto Rico (FirstBank), a Puerto Rico-chartered commercial bank headquartered in San Juan, Puerto Rico.

We will distribute, at no charge, to holders of our common stock, \$0.10 par value per share (our Common Stock), transferable subscription rights (Rights) to purchase up to 10,651,835 shares of Common Stock at a price of \$3.50 per share (the Rights Offering) if our stockholders approve, and we are able to complete, the issuance of shares of Common Stock to institutional investors in a capital raise for between 142,857,143 and 150,000,000 shares (the capital raise). In the Rights Offering, you will receive one Right for each share of Common Stock held by you of record as of 5:00 p.m., Eastern time, on September 6, 2011 (the Record Date). The exercise of two Rights will entitle you to purchase one share of Common Stock at a subscription price of \$3.50 per share (the Basic Subscription Right).

If you timely and fully exercise your Basic Subscription Right with respect to all the Rights you hold and other holders of rights (Rights Holders) do not exercise their Basic Subscription Right in full, you may also subscribe for additional shares of Common Stock, subject to availability and allocation (the Over-subscription Privilege), provided that the aggregate number of shares of Common Stock purchased in the Rights Offering may not exceed 10,651,835. If the number of shares issuable upon the exercise of over-subscription requests exceeds the number of shares available, we will allocate the available shares pro rata among the Rights Holders exercising the Over-subscription Privilege in proportion to the number of shares such a Rights Holder elected to purchase pursuant to the Over-subscription Privilege, relative to the aggregate number of shares requested in all of the over-subscription requests received from Rights Holders. For additional details regarding the pro rata allocation process, see Questions and Answers Relating to the Rights Offering What is the Over-subscription Privilege? If you properly exercise your Over-subscription Privilege for a number of shares that exceeds the number of shares allocated to you, any excess subscription payments received by the subscription agent will be returned to you as soon as practicable, without interest or penalty, following the expiration of the Rights Offering. We may reject any over-subscription and we reserve discretion to reject an over-subscription to the extent the Rights Holder would own 5% or more of our Common Stock after the over subscription is exercised. If you exercise your Over-subscription Privilege and your over-subscription is rejected, for any reason, the excess subscription payment will be returned to you, without interest or penalty, as soon as practicable.

There is no minimum number of shares that must be sold or minimum subscription amount required for consummation of the Rights Offering and, as a result, if you exercise your Rights to purchase shares of Common Stock, you could be the only purchaser in the Rights Offering.

The Rights Offering will commence shortly after the completion of the capital raise and will expire at 5:00 p.m., Eastern Time, on , 2011 (the Expiration Date). Any Right not exercised at or before that time will expire void and worthless without any payment to the holder thereof of cash or shares. We do not intend to extend the Expiration Date. You should carefully consider whether to exercise or transfer your Rights prior to the Expiration Date. All exercises of Rights are irrevocable. Our Board of Directors will not make a recommendation regarding any exercise or transfer of your Rights.

The Rights Offering will be made directly by us. We will not use an underwriter or selling agent. The Bank of New York Mellon is our subscription agent and Mellon Investor Services LLC (operating with the service name BNY Mellon Shareowner Services) is our Information Agent for the Rights Offering. Our Common Stock is traded on the New York Stock Exchange (the NYSE) under the symbol FBP. On , 2011, the closing price for a share of our Common Stock on the NYSE was \$ per share. The Rights will be transferable, and they will trade on the NYSE under the symbol FBP-RT until 4:00 p.m., Eastern time, on , 2011, which is the last trading day prior to the Expiration Date. However, we cannot give you any assurance that a market for the Rights will develop or, if a market develops, whether it will be sustainable throughout the period when the Rights are transferable or at what prices the Rights will trade.

Investing in our Common Stock involves risks. See Risk Factors beginning on page 6 to read about factors you should consider before you make your investment decision.

Stockholders who do not fully exercise their Rights will own, upon completion of the Rights Offering, a smaller proportional interest in the Corporation than otherwise would be the case had they fully exercised their Rights. See Risk Factors If you do not exercise your Rights, your percentage ownership will be further diluted for more information.

Neither the Securities and Exchange Commission nor any securities commission of any state or other jurisdiction has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

These securities are not savings accounts, deposits, or other obligations of any bank and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

| | Per Share | Total ⁽¹⁾ |
|--|-----------|----------------------|
| Subscription Price | \$ 3.50 | \$ 37,281,422.50 |
| Proceeds, before expenses, to First BanCorp. | \$ 3.50 | \$ 37,281,422.50 |

⁽¹⁾ Assumes the exercise of Rights to purchase 10,651,835 shares of Common Stock in the Rights Offering.

It is anticipated that delivery of the shares of Common Stock purchased in the Rights Offering will be made on or about , 2011.

The date of this prospectus is , 2011.

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We have not authorized anyone to provide any information other than that contained or incorporated by reference in this prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you.

This prospectus and any applicable prospectus supplement are not offers to sell nor are they seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus and any applicable prospectus supplement is complete and correct only as of the date on the front cover of such documents, regardless of the time of the delivery of such documents or any sale of these securities. In this prospectus, First BanCorp, we, us, and our refer to the consolidated operations of First BanCorp., and references to a company name refer solely to such company.

For investors outside the United States: We have not taken any action to permit a public offering of the shares of our Common Stock or the possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

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About This Prospectus

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the SEC). When required, we will amend the registration statement or file prospectus supplements to update or change information contained in this prospectus. You should read both this prospectus or any amended prospectus and any prospectus supplement together with additional information described under the headings Additional Information and Incorporation By Reference.

Additional Information

As permitted by SEC rules, this prospectus omits certain information that is included in the registration statement and its exhibits. Since the prospectus may not contain all of the information that you may find important, you should review the full text of these documents. If we have filed a contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement in this prospectus, including statements incorporated by reference as discussed below, regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

We file annual, quarterly and special reports and other information with the SEC. You may read and copy any document we file with the SEC at the SEC s public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings are also available to the public from the SEC s web site at <http://www.sec.gov>.

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Incorporation by Reference

The SEC allows us to incorporate by reference the information we file with the SEC, which means we can disclose important information to you by referring to these documents. The information included in the following documents is incorporated by reference and is considered a part of this prospectus. The most recent information that we filed with the SEC automatically updated and superseded previously filed information.

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

Our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on April 15, 2011;

Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011 filed with the SEC on May 16, 2011 and August 15, 2011, respectively;

Our Current Reports on Form 8-K filed with the SEC on January 10, 2011, January 31, 2011, February 15, 2011 with respect to Item 8.01 only, April 4, 2011, April 15, 2011, June 2, 2011, as amended on July 19, 2011 and July 21, 2011, June 23, 2011, June 29, 2011, as amended on July 19, 2011 and July 21, 2011 (except with respect to Item 7.01), July 19, 2011, August 12, 2011 (except with respect to Item 2.02 and Exhibit 99.1), and August 24, 2011; and

Our Definitive Proxy Statement on Schedule 14A filed with the SEC on July 21, 2011 and our Additional Definitive Proxy Materials on Schedule 14A filed with the SEC on August 16, 2011 and August 24, 2011.

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

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QUESTIONS AND ANSWERS RELATED TO THE RIGHTS OFFERING

The following questions and answers do not contain all of the information that may be important to you and may not address all of the questions that you may have about the Rights Offering. This prospectus and the documents incorporated by reference into this prospectus contain more detailed descriptions of the terms and conditions of the Rights Offering and provide additional information about us and our business, including potential risks related to the Rights Offering, our Common Stock offered hereby and our business.

What is the Rights Offering?

If we complete the issuance of shares to institutional investors in the capital raise, we will distribute, at no charge, to holders of our Common Stock, transferable Rights to purchase shares of Common Stock at a subscription price of \$3.50 per share. You will receive such Rights if you owned Common Stock as of 5:00 p.m., Eastern Time, on the Record Date. Each Right will consist of a Basic Subscription Right and an Over-subscription Privilege, as described below. You will receive one Right for each share of Common Stock that you owned on the Record Date. We will issue up to a total of 10,651,835 shares of Common Stock in the Rights Offering.

Why are we conducting the Rights Offering?

The Rights Offering will be undertaken if we complete the capital raise so that existing stockholders have the opportunity to purchase Common Stock at the same price at which the stock was sold to the institutional investors in the capital raise. We intend to use the net proceeds we receive from this offering for general corporate purposes, including improving the Corporation's and FirstBank's capital positions.

The Corporation's issuance of shares of Common Stock in the capital raise will enable the Corporation to convert into Common Stock the outstanding shares of the Fixed Rate Cumulative Mandatory Convertible Preferred Stock, Series G (the Series G Preferred Stock), and will enable the Corporation's banking subsidiary, FirstBank, to accelerate the achievement of the capital levels required by the order dated June 2, 2010 (the FDIC Order) that FirstBank entered into with the Federal Deposit Insurance Corporation (the FDIC) and the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico (OCIF). These transactions will improve the Corporation's capital position, consistent with the written agreement dated June 3, 2010 (the Written Agreement) and collectively with the FDIC Order, the Agreements) that it entered into with the Federal Reserve Bank of New York (the FED or Federal Reserve).

Why is the Rights Offering limited to 10,651,835 shares?

Pursuant to the amended investment agreements entered into with the institutional investors as part of the capital raise, we agreed to conduct the Rights Offering in an amount not to exceed \$37.3 million. Therefore, this offering cannot exceed 10,651,835 shares.

What is the Basic Subscription Right?

Pursuant to the Rights Offering, Rights Holders will be entitled to purchase one share of Common Stock upon their exercise of two Rights at a subscription price of \$3.50 per share. You will be able to exercise some, all or none of your Rights. You may also transfer your Rights. The Rights will be a new issue of securities, however, and do not have an established trading market. We cannot give you any assurance that a market for the Rights will develop or, if a market does develop, whether it will be sustainable throughout the period when the Rights are transferable or at what prices

the Rights will trade. Therefore, we cannot assure you that you will be able to sell any of your Rights, and we cannot estimate the price at which you may be able to sell your Rights.

If you hold Common Stock in your name, the number of shares you may purchase pursuant to your Basic Subscription Right is indicated on the enclosed rights certificate. If you hold your shares in the name of a

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broker, dealer, custodian bank or other nominee, you will not receive a rights certificate; your nominee will receive a rights certificate pertaining to your shares. If you are not contacted by your nominee, you should contact your nominee as soon as possible.

What is the Over-subscription Privilege?

If you timely and fully exercise your Basic Subscription Right with respect to all the Rights you hold, you may also choose to exercise your Over-subscription Privilege by purchasing a portion of any whole shares that other Rights Holders do not purchase through their Basic Subscription Rights. You should indicate on your rights certificate, or the form provided by your nominee if your shares are held in the name of a nominee, how many additional shares you would like to purchase pursuant to your Over-subscription Privilege.

We will seek to honor the over-subscription requests in full, subject to a maximum of 10,651,835 shares of Common Stock being offered in the Rights Offering and the limitations described below. If the number of shares issuable upon the exercise of over-subscription requests exceeds the number of shares available, we will allocate the available shares pro rata among the Rights Holders exercising the Over-subscription Privilege in proportion to the number of shares each Rights Holder elected to purchase pursuant to the Over-subscription Privilege, relative to the aggregate number of shares requested in all of the over-subscription requests received from Rights Holders.

For example, if (i) there are 100 excess shares available for purchase by five Rights Holders who have timely and fully exercised their Basic Subscription Right with respect to all the Rights they hold and (ii) Rights Holder A requests an additional 100 shares pursuant to Rights Holder A's Over-subscription Privilege, Rights Holder B requests an additional 50 shares pursuant to Rights Holder B's Over-subscription Privilege, Rights Holder C requests an additional 20 shares pursuant to Rights Holder C's Over-subscription Privilege, Rights Holder D requests an additional 20 shares pursuant to Rights Holder D's Over-subscription Privilege, and Rights Holder E requests an additional 10 shares pursuant to Rights Holder E's Over-subscription Privilege, then, assuming the valid exercise of each of these Rights Holder's Basic Subscription Rights and receipt of sufficient payment for the shares requested pursuant to the over-subscription request, and that the beneficial ownership limitation described below is not applicable, the pro rata allocation would be as follows: Rights Holder A would receive 50 shares pursuant to the Over-subscription Privilege, Rights Holder B would receive 25 shares pursuant to the Over-subscription Privilege, Rights Holder C would receive 10 shares pursuant to the Over-subscription Privilege, Rights Holder D would receive 10 shares pursuant to the Over-subscription Privilege and Rights Holder E would receive 5 shares pursuant to the Over-subscription Privilege.

Because we will not know the total number of available shares and how available shares will be allocated before the Expiration Date, in order for the exercise of your entire Over-subscription Privilege to be valid, you must deliver to the subscription agent payment in an amount equal to the aggregate subscription price of the entire number of shares that you have requested the right to purchase pursuant to your Over-subscription Privilege, along with payment for the exercise of your Basic Subscription Right and all rights certificates and any other subscription documents that the subscription agent may require, such as the Beneficial Owner Election Form, Nominee Holder Certification and Notice of Guaranteed Delivery, all of which are filed as exhibits to this registration statement (the Other Subscription Documents), prior to the Expiration Date, even though you ultimately may not be allocated the full amount of shares indicated in your over-subscription request. To the extent the aggregate subscription price of the actual number of shares allocated to you pursuant to the Over-subscription Privilege is less than the amount you actually paid, the excess subscription payments will be returned to you as soon as practicable, without interest or penalty, following the Expiration Date.

We may reject any over-subscription and we reserve discretion to reject an over-subscription to the extent the Rights Holder would own 5% or more of our Common Stock after the over subscription is exercised. If you exercise your Over-subscription Privilege and your over-subscription is rejected, for any reason, the excess subscription payment

will be returned to you, without interest or penalty, as soon as practicable.

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Are there any limits on the number of shares I may purchase in the Rights Offering?

As previously noted, we may reject any over-subscription and we reserve discretion to reject an over-subscription to the extent the Rights Holder would own 5% or more of our Common Stock after the over-subscription is exercised. The total number of shares issued in the Rights Offering may not exceed 10,651,835.

How was the subscription price determined?

The subscription price per share upon the exercise of Rights is the same price offered to institutional investors in the capital raise. You should not consider the subscription price as an indication of the value of our Common Stock. You should not assume or expect that, after the Rights Offering, our Common Stock will trade at or above the subscription price in any given time period. The market price of our Common Stock may decline during or after the Rights Offering, and you may not be able to sell your Common Stock at a price equal to or greater than the subscription price. Before exercising your Rights, you should obtain a current quote for a share of our Common Stock and make an assessment of our business and financial condition, our prospects for the future, the terms of the Rights Offering, and the other information contained in, or incorporated by reference into, this prospectus.

Am I required to exercise the Rights I receive in the Rights Offering?

No. You will be able to exercise some, all, or none of your Rights. If you do not exercise your Rights, the number of shares of Common Stock you own will not change as a result of the Rights Offering; however, your ownership interest in the Corporation will be diluted to the extent other Rights Holders exercise their Rights, and your voting and other rights in the Corporation will likewise be diluted. You may also transfer your Rights. See [May I transfer my Rights?](#) below.

How soon must I act to exercise my Rights?

If you receive a rights certificate and elect to exercise any or all of your Rights, the subscription agent must receive your properly completed and duly executed rights certificate, any Other Subscription Documents that the subscription agent may require, and full subscription payment, including final clearance of any uncertified check, before the Expiration Date. If you hold your shares in the name of a broker, dealer, custodian bank or other nominee, please contact your nominee and follow the instructions provided to you. Your nominee may establish an earlier deadline before the Expiration Date by which time you must provide it with your instructions to exercise your Rights. We do not intend to extend the Expiration Date.

May I transfer my Rights?

Yes. Rights will be transferable from the commencement of the Rights Offering until 4:00 p.m., Eastern Time, on the last trading day before the Expiration Date. See [The Rights Offering Method of Transferring Rights](#).

How may I sell, transfer or assign my Rights?

If you hold your Rights in your own name, you may seek to sell or transfer your Rights through the subscription agent or otherwise. See [The Rights Offering Selling Rights through the Subscription Agent](#). We anticipate that the Rights will be eligible to trade on the NYSE under the symbol `FBP-RT` from the commencement of the Rights Offering until 4:00 p.m., Eastern Time, on the last trading day before the Expiration Date. The Rights will be a new issue of securities, however, and do not have an established trading market. We cannot give you any assurance that a market for the Rights will develop or, if a market does develop, whether it will be sustainable throughout the period when the Rights are transferable or at what prices the Rights will trade. Therefore, we cannot assure you that you will be able to

sell any of your Rights, and we cannot estimate the price at which you may be able to sell your Rights. See The Rights Offering Transferability of Rights and The Rights Offering Method of Transferring Rights.

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Are we requiring a minimum subscription from Rights Holders to complete the Rights Offering?

No. We are not requiring an overall minimum subscription to complete the Rights Offering.

Has the Board of Directors made a recommendation to stockholders regarding the Rights Offering?

No. Our Board of Directors will not make a recommendation regarding any exercise or transfer of Rights. You should make your investment decision based on your assessment of our business and financial condition, our prospects for the future, the terms of the Rights Offering and the other information contained in, or incorporated by reference into, this prospectus. See **Risk Factors** for a discussion of some of the risks involved in investing in our Common Stock.

Are there risks in exercising my Rights?

Yes. Exercising your Rights involves the purchase of additional shares of Common Stock and you should consider this investment as carefully as you would consider any other investment. The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility over the past few years. As a result, the market price for our Common Stock may be volatile. In addition, the trading volume in our Common Stock could fluctuate more than usual and cause significant price variations to occur. Accordingly, our Common Stock may trade at a price lower than the subscription price. The trading price of our Common Stock will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity related securities, and other factors. Volatility in the market price of our Common Stock may prevent you from being able to sell your shares of Common Stock when you want or at prices you find attractive. Among other things, you should carefully consider the risks described under the heading **Risk Factors** beginning on page 6 of this prospectus and in the documents incorporated by reference into this prospectus.

Will our directors and executive officers participate in the Rights Offering?

To the extent they hold Common Stock as of the Record Date, our directors and executive officers will be entitled to participate in the Rights Offering on the same terms and conditions applicable to other Rights Holders. None of our directors or officers have entered into any commitments to exercise the Rights received in the Rights Offering.

How do I exercise my Rights if I own shares in my name?

If you hold Common Stock in your name and you wish to exercise your rights, you must deliver a properly completed and duly executed rights certificate and any Other Subscription Documents that the subscription agent may require, together with payment of the full subscription price, to the subscription agent before 5:00 p.m., Eastern Time, on the Expiration Date.

Please follow the delivery instructions on the rights certificate. Do not send documents to us. You are solely responsible for completing delivery to the subscription agent of your rights certificate, any Other Subscription Documents that the subscription agent may require, and subscription payment. You should allow sufficient time for delivery of your subscription materials to the subscription agent so that the subscription agent receives them by 5:00 p.m., Eastern Time, on the Expiration Date.

If you send a payment that is insufficient to purchase the number of shares you requested, or if the number of shares you requested is not specified in the forms, the payment received will be applied to exercise your Rights to the fullest extent possible based on the amount of the payment received, subject to the availability of shares and allocation procedure under the Over-subscription Privilege.

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What should I do if I want to exercise my Rights but my shares are held in the name of a broker, dealer, custodian bank or other nominee?

If you hold your Common Stock through a broker, dealer, custodian bank or other nominee, then your nominee is the record holder of the shares you own and the associated Rights. The record holder must exercise the Rights on your behalf. If you wish to exercise your Rights, you should contact your broker, dealer, custodian bank or nominee as soon as possible. Please follow the instructions of your nominee. Your nominee may establish an earlier deadline before the Expiration Date.

To whom should I send my forms and payment?

If you are the record holder, then you should send your rights certificate, any Other Subscription Documents that the subscription agent may require, and subscription payment by mail, hand delivery or overnight courier to:

The Bank of New York Mellon
c/o BNY Mellon Shareowner Services
480 Washington Boulevard
Jersey City, NJ 07310
Attn: Relationship Manager

With a copy to:

The Bank of New York Mellon
c/o BNY Mellon Shareowner Services
480 Washington Boulevard
Jersey City, NJ 07310
Attn: Legal Department

If your shares are held in the name of a broker, dealer, custodian bank or other nominee, then you should send your rights certificate, any Other Subscription Documents that the subscription agent may require, and subscription payment to that record holder.

You and, if applicable, your nominee are solely responsible for completing delivery to the subscription agent of your rights certificate, any Other Subscription Documents, and subscription payment. You should allow sufficient time for delivery of your subscription materials to the subscription agent and clearance of payment before the Expiration Date. If you hold your Common Stock through a broker, dealer, custodian bank or other nominee, your nominee may establish an earlier deadline before the expiration date of the Rights Offering.

What form of payment should I submit to the subscription agent?

As described in the instructions accompanying the rights certificate, payments submitted to the subscription agent must be made in U.S. currency, by one of the following two methods:

by a cashier's check drawn upon a U.S. bank payable to _____; or

by an uncertified check drawn upon a U.S. bank payable to _____.

Payments will be deemed to have been received upon clearance of any cashier's check or uncertified check. If paying by uncertified check, please note that the funds paid thereby may take five or more business days to clear.

Accordingly, Rights Holders who wish to pay the subscription price by means of uncertified check are urged to make payment sufficiently in advance of the Expiration Date to ensure that such payment is received and clears by such time. In certain cases, you may be required to provide signature guarantees.

If you hold your shares in the name of a broker, dealer, custodian bank or other nominee, separate payment instructions may apply. Please contact your nominee, if applicable, for further payment instructions.

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When will I receive my new shares?

If you exercise your Rights and purchase shares of Common Stock in the Rights Offering, you will receive your new shares as soon as practicable following the Expiration Date.

After I submit my payment and rights certificate to the subscription agent, may I cancel my exercise of Rights?

No. All exercises of Rights are irrevocable unless the Rights Offering is cancelled by the Corporation, even if you later learn information that you consider to be unfavorable to the exercise of your Rights. You should not exercise your Rights unless you are certain that you wish to purchase shares of Common Stock at the subscription price of \$3.50 per share.

What effects will the Rights Offering have on our outstanding Common Stock?

As a result of the Rights Offering, up to an additional 10,651,835 shares of Common Stock may be issued and outstanding after the closing of the Rights Offering, and the ownership and voting interests of the existing stockholders that do not fully exercise their Basic Subscription Rights will be diluted. As of the Record Date, we expect to have 21,303,669 shares of Common Stock outstanding. Upon completion of the capital raise and the conversion of the Series G Preferred Stock into Common Stock, we expect to have between 197,102,609 and 204,245,466 shares of Common Stock outstanding. The percentage of shares owned by our stockholders as of August 23, 2011 will decrease from 100% to between 10.43% and 10.81% as a result of the capital raise, the conversion into Common Stock of the Series G Preferred Stock, and the exercise of anti-dilution rights by certain institutional investors.

How much will the Corporation receive from the Rights Offering and how will such proceeds be used?

We estimate that the net proceeds of the Rights Offering, after deducting related expenses, will be approximately \$ million assuming the exercise of Rights to purchase all 10,651,835 shares of Common Stock in the Rights Offering. Because there is no minimum number of shares that must be sold in the Rights Offering, we can provide no assurance regarding the amount of capital we will actually raise in the Rights Offering. We intend to use the net proceeds we receive from this offering for general corporate purposes, including improving the Corporation's and FirstBank's capital positions.

If my exercise of Rights is not valid, which could occur if I submit incomplete or incorrect subscription documents, will my subscription payment be refunded to me?

Yes. The subscription agent will hold all funds it receives in a segregated bank account until completion of the Rights Offering. If your exercise of Rights is deemed not to be valid, your subscription payment received by the subscription agent will be returned as soon as practicable following the Expiration Date, without interest or penalty. If you own shares through a nominee, it may take longer for you to receive your subscription payment because the subscription agent will return payments through the record holder of your shares.

What fees or charges apply if I purchase shares in the Rights Offering?

If you are a record holder, we are not charging any fee or sales commission to issue Rights to you or to issue shares to you if you exercise your Rights. If you are a beneficial owner and you exercise your Rights through a broker, dealer, custodian bank or other nominee, you are responsible for paying any fees your record holder may charge you.

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What are the U.S. federal and Puerto Rico income tax consequences of the receipt and exercise of my Rights?

For U.S. federal and Puerto Rico income tax purposes, you should not recognize income or loss in connection with the receipt or exercise of Rights in the Rights Offering. You should consult your tax advisor as to your particular tax consequences resulting from the Rights Offering. For detailed discussion, see U.S. Federal Income Tax Consequences and Certain Puerto Rico Tax Considerations.

Whom should I contact if I have other questions?

If you have any questions regarding the Rights Offering, completion of the rights certificate or any Other Subscription Documents or submitting payment in the Rights Offering, please contact the subscription agent or the information agent at 866-415-9687.

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SUMMARY

This summary does not contain all of the information you should consider before investing in our Common Stock. This prospectus includes or incorporates by reference information about the shares we are offering as well as information regarding our business and detailed financial data. Before you decide to invest in our Common Stock, you should read the entire prospectus carefully, including the Risk Factors section and any information incorporated by reference herein.

First BanCorp

OUR COMPANY

Founded in 1948, First BanCorp is a diversified financial holding company headquartered in San Juan, Puerto Rico offering a full range of financial products to consumers and commercial customers through various subsidiaries. We are subject to regulation, supervision and examination by the FED and the Board of Governors of the Federal Reserve System. First BanCorp was incorporated under the laws of the Commonwealth of Puerto Rico to serve as the bank holding company for FirstBank. We are a full-service provider of financial services and products with operations in Puerto Rico, the mainland United States (the U.S.), the United States Virgin Islands (the USVI) and the British Virgin Islands (the BVI and together with the USVI, the Virgin Islands). As of June 30, 2011, we had total assets of \$14.1 billion, total deposits of \$11.1 billion and total stockholders equity of \$1 billion.

We provide a wide range of financial services for retail, commercial and institutional clients. We control two wholly owned subsidiaries: FirstBank, a Puerto Rico-chartered commercial bank, and FirstBank Insurance Agency, Inc., a Puerto Rico-chartered insurance agency (FirstBank Insurance Agency).

FirstBank is subject to the supervision, examination and regulation of both OCIF and the FDIC. Deposits are insured through the FDIC Deposit Insurance Fund. In addition, within FirstBank, the operations in the USVI are subject to regulation and examination by the United States Virgin Islands Banking Board and, in the BVI, operations are subject to regulation by the British Virgin Islands Financial Services Commission. FirstBank Insurance Agency is subject to the supervision, examination and regulation of the Office of the Insurance Commissioner of the Commonwealth of Puerto Rico and operates six offices in Puerto Rico.

FirstBank conducts its business through its main office located in San Juan, Puerto Rico, forty-eight full service banking branches in Puerto Rico, fourteen full service banking branches in the Virgin Islands and ten branches in the State of Florida.

In addition to the banking operations of FirstBank, we provide, through directly or indirectly owned subsidiaries, small loan origination services, residential mortgage loan origination services, local municipal bond underwriting services and insurance services in Puerto Rico and the USVI.

RIGHTS OFFERING AND CAPITAL RAISE

Purpose of the Rights Offering

If we complete the issuance of shares to institutional investors in the capital raise, we will conduct the Rights Offering to provide stockholders as of the Record Date with the opportunity to purchase our Common Stock at the same price per share at which the stock will be sold to institutional investors in our capital raise.

The Capital Raise

We will conduct the Rights Offering upon our successful sale of at least 142,857,143 shares of Common Stock to institutional investors at \$3.50 per share. The Corporation's issuance of shares of Common Stock in the capital raise will enable the Corporation to convert the Series G Preferred Stock into Common Stock and will enable FirstBank to accelerate the achievement of the capital levels that FirstBank is required to achieve pursuant to the Agreements.

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THE RIGHTS OFFERING

| | |
|-----------------------------|---|
| Securities Offered | We will distribute at no charge to holders of our Common Stock one transferable Right for each share of Common Stock held of record as of 5:00 p.m., Eastern time, on the Record Date. |
| Subscription Price | \$3.50 per share of Common Stock. See Questions and Answers Relating to the Rights Offering How was the subscription price determined? |
| Right | Each Right will consist of a Basic Subscription Right and an Over-subscription Privilege. You will be able to exercise some, all, or none of your Rights. |
| Basic Subscription Right | Pursuant to this Rights Offering, you will be entitled to purchase one share of Common Stock upon the exercise of two Basic Subscription Rights at the subscription price. |
| Over-subscription Privilege | If you timely and fully exercise your Basic Subscription Right with respect to all the Rights you hold and other Rights Holders do not exercise their Basic Subscription Right in full, you may also subscribe for additional shares of Common Stock, subject to availability and allocation, provided that the aggregate number of shares of Common Stock purchased by Rights Holders in the Rights Offering may not exceed 10,651,835 shares. If the number of shares issuable upon the exercise of over-subscription requests exceeds the number of shares available, we will allocate the available shares pro rata among the Rights Holders exercising the Over-subscription Privilege in proportion to the number of shares such a Rights Holder elected to purchase pursuant to the Over-subscription Privilege relative to the aggregate number of shares requested in all of the over-subscription requests received from Rights Holders. For additional details regarding the pro rata allocation process, see Questions and Answers Relating to the Rights Offering What is the Over-subscription Privilege? If you properly exercise your Over-subscription Privilege for a number of shares that exceeds the number of shares allocated to you, any excess subscription payments received by the subscription agent will be returned to you as soon as practicable, without interest or penalty, following the Expiration Date. We may reject any over-subscription and we reserve discretion to reject an over-subscription to the extent the Rights Holder would own 5% or more of our Common Stock after the over subscription is exercised. If you exercise your Over-subscription Privilege and your over-subscription is rejected, for any reason, the excess subscription payment will be returned to you, without interest or penalty, as soon as practicable. |
| Record Date | September 6, 2011. |
| Expiration Date | The Rights Offering will expire at 5:00 p.m., Eastern time, on , 2011. We do not intend to extend the expiration of the Rights Offering. |

Shares Outstanding

As of the Record Date, we expect to have 21,303,669 shares of Common Stock outstanding.

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| | |
|---------------------------------|---|
| Use of Proceeds | We estimate that the net proceeds of the Rights Offering, after deducting related expenses, will be approximately \$ million assuming the exercise of Rights to purchase all 10,651,835 shares of Common Stock in the Rights Offering. Because there is no minimum number of shares that must be sold in the Rights Offering, we can provide no assurance regarding the amount of capital we will actually raise in the Rights Offering. We intend to use the net proceeds we receive from this offering for general corporate purposes, including improving the Corporation's and FirstBank's capital positions. See Use of Proceeds. |
| Procedure for Exercising Rights | If you are a registered holder of shares of Common Stock, you may deliver payment and a properly completed and duly executed rights certificate and any Other Subscription Documents that the subscription agent may require at or before 5:00 p.m., Eastern time, on the Expiration Date. If you are a beneficial owner of shares that are registered in the name of a broker, dealer, custodian bank or other nominee, your broker, dealer, custodian bank or other nominee must exercise your Rights on your behalf and deliver all documents and payments to the subscription agent at or before 5:00 p.m., Eastern time, on the Expiration Date. |
| No Revocation | All exercises of Rights are irrevocable, even if you later learn information that you consider to be unfavorable to the exercise of your Rights. You should not exercise your Rights unless you are certain that you wish to purchase additional shares of Common Stock at a subscription price of \$3.50 per share. |
| No Board Recommendation | Our Board of Directors will not make any recommendation regarding exercise of your Rights. You should make your decision based on your assessment of our business and financial condition, our prospects for the future, the terms of the Rights Offering, and the other information contained in, or incorporated by reference into, this prospectus. See Risk Factors for a discussion of risks involved in investing in our Common Stock. |
| Subscription Agent | The Bank of New York Mellon |
| Information Agent | Mellon Investor Services LLC (operating with the service name BNY Mellon Shareowner Services) |
| Dividends | All dividends on shares of our Common Stock have been suspended since August 2009. See Market Price, Dividend and Distribution Information. |
| Market for Common Stock | Our Common Stock is currently traded on the NYSE under the symbol FBP. See Market Price, Dividend and Distribution Information. |
| Transfer and Sale of Rights | The Rights are transferable from the commencement of the Rights Offering until 4:00 p.m., Eastern time, on the last trading day prior to the Expiration Date. See The Rights Offering Method of Transferring Rights. |

In addition, if you hold your Rights in your own name, you may seek to sell or transfer your Rights through the subscription agent. See The Rights Offering Selling Rights through Subscription Agent. We anticipate that the Rights will be eligible to trade on the NYSE under the symbol FBP-RT during

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the period the Rights will be transferable as described above. The Rights will be a new issue of securities, however, and do not have an established trading market. We cannot give you any assurance that a market for the Rights will develop or, if a market does develop, whether it will be sustainable throughout the period when the Rights are transferable or at what prices the Rights will trade. Therefore, we cannot assure you that you will be able to sell any of your Rights, and we cannot estimate the price at which you may be able to sell your Rights. Commissions and applicable taxes or broker fees may apply if you sell your Rights. See The Rights Offering Transferability of Rights and The Rights Offering Method of Transferring Rights.

Table of Contents**SUMMARY SELECTED CONSOLIDATED FINANCIAL DATA**

The following summary selected consolidated financial data summarizes our consolidated financial information as of and for each of the five years ended December 31, 2010 and for the interim periods ended June 30, 2011 and 2010. You should read the following financial data in conjunction with the information set forth under Selected Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the related notes thereto included in our Annual Reports on Form 10-K for the years ended December 31, 2010, 2009 and 2008 and our reports on Form 10-Q for the quarters ended June 30, 2011 and June 30, 2010 from which this data is derived. For more information, see Incorporation by Reference. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

| | Six Months Ended | | Year Ended December 31, | | | | |
|-------------------------|------------------|------------|--|------------|--------------|--------------|--------------|
| | 2011 | 2010 | 2010 | 2009 | 2008 | 2007 | 2006 |
| | | | (in thousands, except per share and ratio results) | | | | |
| Income | \$ 344,321 | \$ 435,852 | \$ 832,686 | \$ 996,574 | \$ 1,126,897 | \$ 1,189,247 | \$ 1,234,812 |
| Expense | 143,607 | 199,927 | 371,011 | 477,532 | 599,016 | 738,231 | 812,812 |
| Net income | 200,714 | 235,925 | 461,675 | 519,042 | 527,881 | 451,016 | 422,000 |
| for loan and | | | | | | | |
| assets | 147,916 | 317,758 | 634,587 | 579,858 | 190,948 | 120,610 | 120,610 |
| Net income | | | | | | | |
| after provision | | | | | | | |
| and lease | | | | | | | |
| | 52,798 | (81,833) | (172,912) | (60,816) | 336,933 | 330,406 | 330,406 |
| Net income | 79,347 | 84,851 | 117,903 | 142,264 | 74,643 | 67,156 | 67,156 |
| expenses | 169,297 | 189,973 | 366,158 | 352,101 | 333,371 | 307,843 | 307,843 |
| Income tax (expense) | (6,192) | (10,684) | (103,141) | (4,534) | 31,732 | (21,583) | (21,583) |
| Net income | (43,344) | (197,639) | (524,308) | (275,187) | 109,937 | 68,136 | 68,136 |
| Net income | | | | | | | |
| available to | | | | | | | |
| common stockholders | (57,642) | (209,961) | (122,045) | (322,075) | 69,661 | 27,860 | 27,860 |
| Financial | | | | | | | |
| Period-End | | | | | | | |
| Assets | 14,113,973 | 18,116,023 | 15,593,077 | 19,628,448 | 19,491,268 | 17,186,931 | 17,342,812 |
| Liabilities | 10,786,306 | 12,603,738 | 11,956,202 | 13,949,226 | 13,088,292 | 11,799,746 | 11,242,812 |
| Equity | 11,072,728 | 12,727,575 | 12,059,110 | 12,669,047 | 13,057,430 | 11,034,521 | 11,034,521 |
| Common equity | 1,009,578 | 1,438,289 | 1,057,959 | 1,599,063 | 1,548,117 | 1,421,646 | 1,421,646 |
| Financial Ratios | | | | | | | |
| Return on average | (0.58)% | (2.10)% | (2.93)% | (1.39)% | 0.59% | 0.40% | 0.40% |
| Return on average | | | | | | | |
| equity | (19.11) | (69.13) | (80.07) | (34.07) | 7.89 | 3.59 | 3.59 |
| Net margin | 2.79 | 2.70 | 2.77 | 2.93 | 3.20 | 2.83 | 2.83 |
| Equivalent | | | | | | | |

| | | | | | | | | | |
|---------------------|----------|----------|----------|-----------|-----------|-----------|----|--|--|
| ratios | | | | | | | | | |
| -based | 11.08% | 12.05% | 10.73% | 12.16% | 11.55% | 12.61% | | | |
| -based | 12.40 | 13.35 | 12.02 | 13.44 | 12.80 | 13.86 | | | |
| verage ratio | 8.04 | 8.14 | 7.57 | 8.91 | 8.30 | 9.29 | | | |
| Quality Data | | | | | | | | | |
| arming loans | | | | | | | | | |
| ns | 11.23% | 12.40% | 10.63% | 11.23% | 4.49% | 3.50% | | | |
| e offs to | | | | | | | | | |
| ans | | | | | | | | | |
| rtfolio | 2.82 | 3.63 | 4.76 | 2.48 | 0.87 | 0.79 | | | |
| e for loan | | | | | | | | | |
| arming loans | | | | | | | | | |
| e for loan | 44.76 | 38.97 | 44.64 | 33.77 | 47.95 | 46.04 | | | |
| ear end | | | | | | | | | |
| ivable | 5.02 | 4.83 | 4.74 | 3.79 | 2.15 | 1.61 | | | |
| e per | | | | | | | | | |
| | \$ 27.27 | \$ 82.25 | \$ 29.71 | \$ 108.70 | \$ 161.76 | \$ 141.32 | \$ | | |

⁽¹⁾ Per share data for the years ended December 31, 2010, 2009, 2008 2007 and 2006 and for the interim period ended June 30, 2010 has been adjusted to retroactively reflect the 1-for-15 reverse stock split effected January 7, 2011.

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RISK FACTORS

Investing in our Common Stock involves a high degree of risk. Before you decide to invest in our common stock, you should consider carefully the risks described below, together with the other information contained in or incorporated by reference into this prospectus, including our financial statements and the related notes thereto. We believe the risks described below are the risks that are material to us as of the date of this prospectus. If any of the following risks actually occur, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our Common Stock could decline, and you could lose all or part of your investment.

Risk Relating to the Corporation's Business

FirstBank is operating under the FDIC Order with the FDIC and OCIF and we are operating under the Written Agreement with the Federal Reserve.

On June 4, 2010, we announced that FirstBank agreed to the FDIC Order, dated as of June 2, 2010, issued by the FDIC and OCIF, and we entered into the Agreement, dated as of June 3, 2010, with the Federal Reserve. The Agreements stem from the FDIC's examination as of the period ended June 30, 2009 conducted during the second half of 2009. Although our regulatory capital ratios exceeded the required established minimum capital ratios for a well-capitalized institution as of June 30, 2011, because of the Order, FirstBank cannot be regarded as well-capitalized as of June 30, 2011.

Under the FDIC Order, FirstBank has agreed to address specific areas of concern to the FDIC and OCIF through the adoption and implementation of procedures, plans and policies designed to improve the safety and soundness of FirstBank. These actions include, among others, (1) having and retaining qualified management; (2) increased participation in the affairs of FirstBank by its board of directors; (3) development and implementation by FirstBank of a capital plan to attain a leverage ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 10% and a total risk-based capital ratio of at least 12%; (4) adoption and implementation of strategic, liquidity and fund management and profit and budget plans and related projects within certain timetables set forth in the Order and on an ongoing basis; (5) adoption and implementation of plans for reducing FirstBank's positions in certain classified assets and delinquent and non-accrual loans; (6) refraining from lending to delinquent or classified borrowers already obligated to FirstBank on any extensions of credit so long as such credit remains uncollected, except where FirstBank's failure to extend further credit to a particular borrower would be detrimental to the best interests of FirstBank, and any such additional credit is approved by FirstBank's board of directors; (7) refraining from accepting, increasing, renewing or rolling over brokered certificates of deposit (CDs) without the prior written approval of the FDIC; (8) establishment of a comprehensive policy and methodology for determining the allowance for loan and lease losses and the review and revision of FirstBank's loan policies, including the non-accrual policy; and (9) adoption and implementation of adequate and effective programs of independent loan review, appraisal compliance and an effective policy for managing FirstBank's sensitivity to interest rate risk.

The Written Agreement, which is designed to enhance our ability to act as a source of strength to FirstBank, requires that we obtain prior Federal Reserve approval before declaring or paying dividends, receiving dividends from FirstBank, making payments on subordinated debt or trust preferred securities, incurring, increasing or guaranteeing debt (whether such debt is incurred, increased or guaranteed, directly or indirectly, by us or any of our non-banking subsidiaries) or purchasing or redeeming any capital stock. The Written Agreement also requires us to submit to the Federal Reserve a capital plan and progress reports, comply with certain notice provisions prior to appointing new directors or senior executive officers and comply with certain payment restrictions on severance payments and

indemnification restrictions.

We anticipate that we will need to continue to dedicate significant resources to our efforts to comply with the Agreements, which may increase operational costs or adversely affect the amount of time our management has to conduct our operations. If we need to continue to recognize significant reserves, cannot raise additional capital, or cannot accomplish other contemplated alternative capital preservation strategies, including among

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others, an accelerated deleverage strategy, we and FirstBank may not be able to comply with the minimum capital requirements included in the capital plans required by the Agreements.

If, at the end of any quarter, we do not comply with any specified minimum capital ratios, we must notify our regulators. We must notify the Federal Reserve within 30 days of the end of any quarter of our inability to comply with a capital ratio requirement and submit an acceptable written plan that details the steps we will take to comply with the requirement. FirstBank must immediately notify the FDIC of its inability to comply with a capital ratio requirement and, within 45 days, it must either increase its capital to comply with the capital ratio requirements or submit a contingency plan to the FDIC for its sale, merger or liquidation. In the event of a liquidation of FirstBank, the holders of our outstanding preferred stock would rank senior to the holders of our common stock with respect to rights upon any liquidation of First BanCorp. If we fail to comply with the Agreements, we may become subject to additional regulatory enforcement action up to and including the appointment of a conservator or receiver for FirstBank. In many cases when a conservator or receiver is appointed for a wholly owned bank, the bank holding company files for bankruptcy protection.

Additional capital resources may not be available when needed or at all.

Due to our financial results over the past two years, we need to access the capital markets in order to raise additional capital to absorb future credit losses due to the distressed economic environment and potential further deterioration in our loan portfolio, to maintain adequate liquidity and capital resources, to finance future growth, investments or strategic acquisitions and to implement the capital plans required by the Agreements. We have been taking steps to obtain additional capital, including the steps described as part of our recapitalization plan.

During the second quarter of 2011, the Corporation entered into separate agreements with Thomas H. Lee Partners, L.P. (THL) and with two funds managed by Oaktree Capital Management, L.P. (Oaktree) under which THL and Oaktree would purchase an aggregate of approximately \$348.2 million (approximately \$174.1 million by each investor) of Common Stock at a per share price of \$3.50. Each of these investors' investment will represent approximately 24.36% of the outstanding shares of Common Stock upon completion of the capital raise and the conversion into Common Stock of the \$424.2 million of the Series G Preferred Stock, held by the U.S. Treasury. The Corporation also entered into investment agreements with institutional investors and other private equity firms for the issuance of shares of Common Stock for an aggregate price of approximately \$176.8 million, which, together with the THL and Oaktree investments, result in \$525 million in commitments. The completion of this transaction is subject to the approval of the Corporation's stockholders and regulators and customary closing conditions as well as certain other conditions set forth in the investment agreements. There is no assurance that stockholders will approve the transaction or that the closing conditions will be met.

If the stockholders and regulators approve the \$525 million capital raise, the Corporation will issue 150 million shares of Common Stock at \$3.50 per share. Promptly after the issuance of Common Stock, the Corporation will exercise its right to compel the conversion of all of the outstanding Series G Preferred Stock, which is held by the U.S. Treasury, into approximately 32.9 million shares of Common Stock. Also, the Corporation plans to raise up to \$37.3 million through the Rights Offering, which will enable current stockholders to purchase up to approximately 10.7 million shares of Common Stock at the same \$3.50 price per share. The Corporation is expected to have approximately 230 million shares outstanding following the issuance of Common Stock to institutional investors and private equity firms, the conversion of the Series G Preferred Stock into Common Stock and the successful completion of the Rights Offering, including as a result of the exercise of anti-dilution rights by certain of the institutional investors.

No assurance can be given that the Corporation's stockholders will approve, or that the Corporation will be able to complete, the sale of the \$525 million of common stock. If this transaction and the conversion of the Series G Preferred Stock are not completed, no assurance can be given that the Corporation will be able to sell common stock

in other transactions or that any such transactions will be at a price as high as \$3.50. Moreover, if the capital raise is not completed, there is no assurance that the Corporation will be able to

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satisfy the U.S. Treasury's requirement that the Corporation sell a minimum of \$350 million of common stock in order for the Corporation to compel the conversion of the Series G Preferred Stock into common stock. Finally, if the capital raise is not completed, no assurance can be given that the Corporation will be able to comply with the conditions of the Order that FirstBank entered into with the FDIC or the Agreement that the Corporation entered into with the FED.

Certain funding sources may not be available to us and our funding sources may prove insufficient and/or costlier to replace deposits and support future growth.

FirstBank relies primarily on its issuance of brokered CDs, as well as customer deposits and advances from the Federal Home Loan Bank, to maintain its lending activities and to replace certain maturing liabilities. As of June 30, 2011, we had \$5.2 billion in brokered CDs outstanding, representing approximately 47% of our total deposits, and a reduction from \$6.3 billion at year end 2010. Approximately \$1.7 billion brokered CDs mature in the second half of 2011, and the average term to maturity of the retail brokered CDs outstanding as of June 30, 2011 was approximately 1 year. Approximately .5% of the principal value of these CDs is callable at our option.

Although FirstBank has historically been able to replace maturing deposits and advances, we may not be able to replace these funds in the future if our financial condition or general market conditions were to change or the FDIC did not approve our request to issue brokered CDs as required by the Order. The Order requires FirstBank to obtain FDIC approval prior to issuing, increasing, renewing or rolling over brokered CDs and to develop a plan to reduce its reliance on brokered CDs. Although the FDIC has issued temporary approvals permitting FirstBank to renew and/or roll over certain amounts of brokered CDs maturing through September 30, 2011, the FDIC may not continue to issue such approvals, even if the requests are consistent with our plans to reduce the reliance on brokered CDs, and, even if issued, such approvals may not be for amounts of brokered CDs sufficient for FirstBank to meet its funding needs. The use of brokered CDs has been particularly important for the funding of our operations. If we are unable to issue brokered CDs, or are unable to maintain access to our other funding sources, our results of operations and liquidity would be adversely affected.

Alternate sources of funding may carry higher costs than sources currently utilized. If we are required to rely more heavily on more expensive funding sources, profitability would be adversely affected. Although we consider currently available funding sources to be adequate for our liquidity needs, we may seek additional debt financing in the future to achieve our long-term business objectives. Any additional debt financing requires the prior approval from the Federal Reserve, and the Federal Reserve may not approve such additional debt. Additional borrowings, if sought, may not be available to us or on acceptable terms. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, our credit ratings and our credit capacity. If additional financing sources are unavailable or are not available on acceptable terms, our profitability and future prospects could be adversely affected.

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

As a holding company, dividends from FirstBank have provided a substantial portion of our cash flow used to service the interest payments on our trust preferred securities and other obligations. As outlined in the Written Agreement, we cannot receive any cash dividends from FirstBank without prior written approval of the Federal Reserve. Our inability to receive approval from the Federal Reserve to receive needed dividends from FirstBank would adversely affect our ability to fulfill our obligations at that time.

We cannot pay interest, principal or other sums on subordinated debentures or trust preferred securities without prior Federal Reserve approval, which could result in a default.

The Written Agreement provides that we cannot declare or pay any dividends (including on the Series G

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Preferred Stock) or make any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities without prior written approval of the Federal Reserve. With respect to our \$231.9 million of outstanding subordinated debentures, we have provided, within the time frame prescribed by the indentures governing the subordinated debentures, notices to the trustees of the subordinated debentures of our election of interest extension periods.

Under the indentures, we have the right, from time to time, and without causing an event of default, to defer payments of interest on the subordinated debentures by extending the interest payment period at any time and from time to time during the term of the subordinated debentures for up to twenty consecutive quarterly periods. We have elected to defer the interest payments that were due in September and December 2010 and in March and June 2011 because the Federal Reserve advised us that it would not approve the payment of interest on these subordinated debentures. We may elect additional extension periods for future quarterly interest payments.

Our inability to receive approval from the Federal Reserve to make distributions of interest, principal or other sums on our trust preferred securities and subordinated debentures could result in a default under those obligations if we need to defer such payments for longer than twenty consecutive quarterly periods.

Credit quality may result in additional losses.

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

We have a significant construction loan portfolio held for investment, in the amount of \$515.9 million as of June 30, 2011, mostly secured by commercial and residential real estate properties. Due to their nature, these loans entail a higher credit risk than consumer and residential mortgage loans, since they are larger in size, concentrate more risk in a single borrower and are generally more sensitive to economic downturns. Although we ceased new originations of construction loans, decreasing collateral values, difficult economic conditions and numerous other factors continue to create volatility in the housing markets and have increased the possibility that additional losses may have to be recognized with respect to our current nonperforming assets. Furthermore, given the current slowdown in the real estate market, the properties securing these loans may be difficult to dispose of if they are foreclosed. Although we have taken a number of steps to reduce our credit exposure, at June 30, 2011, we still had \$280.3 million in nonperforming construction loans held for investment and it is possible that we will continue to incur credit losses over the near term, which would adversely impact our overall financial performance and results of operations.

Our allowance for loan losses may not be adequate to cover actual losses, and we may be required to materially increase our allowance, which may adversely affect our capital, financial condition and results of operations.

We are subject to the risk of loss from loan defaults and foreclosures with respect to the loans we originate. We establish a provision for loan losses, which leads to reductions in our income from operations, in order to maintain our allowance for inherent loan losses at a level which our management deems to be appropriate based upon an assessment of the quality of the loan portfolio. Although our management strives to utilize its best judgment in providing for loan losses, our management may fail to accurately estimate the level of inherent loan losses or may have to increase our provision for loan losses in the future as a result of new information regarding existing loans, future increases in non-performing loans, changes in economic and other conditions affecting borrowers or for other

reasons beyond our control. In addition, bank regulatory agencies

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periodically review the adequacy of our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of additional classified loans and loan charge-offs, based on judgments different than those of our management.

While we have substantially increased our allowance for loan and lease losses over the past two and a half years, we may have to recognize additional provisions in 2011 to cover future credit losses in the portfolio. The level of the allowance reflects management's estimates based upon various assumptions and judgments as to specific credit risks, evaluation of industry concentrations, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan and lease losses inherently involves a high degree of subjectivity and requires management to make significant estimates and judgments regarding current credit risks and future trends, all of which may undergo material changes. If our estimates prove to be incorrect, our allowance for credit losses may not be sufficient to cover losses in our loan portfolio and our expense relating to the additional provision for credit losses could increase substantially.

Any such increases in our provision for loan losses or any loan losses in excess of our provision for loan losses would have an adverse effect on our future financial condition and results of operations. Given the difficulties facing some of our largest borrowers, these borrowers may fail to continue to repay their loans on a timely basis or we may not be able to assess accurately any risk of loss from the loans to these borrowers.

Changes in collateral values of properties located in stagnant or distressed economies may require increased reserves.

Substantially all of our loan portfolio is located within the boundaries of the U.S. economy. Whether the collateral is located in Puerto Rico, the USVI, the BVI or the U.S. mainland, the performance of our loan portfolio and the collateral value backing the transactions are dependent upon the performance of and conditions within each specific real estate market. Puerto Rico entered its sixth-straight year of economic recession in March 2011. Sustained weak economic conditions that have affected Puerto Rico and the United States over the last several years have resulted in declines in collateral values. We measure the impairment based on the fair value of the collateral, if collateral dependent, which is generally obtained from appraisals. Updated appraisals are obtained when we determine that loans are impaired and are updated annually thereafter. In addition, appraisals are also obtained for certain residential mortgage loans on a spot basis based on specific characteristics such as delinquency levels, age of the appraisal and loan-to-value ratios. The appraised value of the collateral may decrease or we may not be able to recover collateral at its appraised value. A significant decline in collateral valuations for collateral dependent loans may require increases in our specific provision for loan losses and an increase in the general valuation allowance. Any such increase would have an adverse effect on our future financial condition and results of operations.

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

The financial stability of several counterparties is critical for their continued financial performance on covenants that require the repurchase of loans, posting of collateral to reduce our credit exposure or replacement of delinquent loans. Many of these transactions expose us to credit risk in the event of a default by the counterparty. Any such losses could adversely affect our business, financial condition and results of operations.

Interest rate shifts may reduce net interest income.

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest-earning assets and the interest paid by us on our interest-bearing liabilities. When interest rates rise, the rate of interest we pay on our liabilities rises

more quickly than the rate of interest that we receive on our interest-bearing assets, which may cause our profits to decrease.

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

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

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

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

Accelerated prepayments may adversely affect net interest income.

Net interest income of future periods will be affected by our decision to deleverage our investment securities portfolio to preserve our capital position. Also, net interest income could be affected by prepayments of mortgage-backed securities. Acceleration in the prepayments of mortgage-backed securities would lower yields on these securities, as the amortization of premiums paid upon acquisition of these securities would accelerate. Conversely, acceleration in the prepayments of mortgage-backed securities would increase yields on securities purchased at a discount, as the amortization of the discount would accelerate. These risks are directly linked to future period market interest rate fluctuations. Also, net interest income in future periods might be affected by our investment in callable securities.

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

Basis risk is the risk of adverse consequences resulting from unequal changes in the difference, also referred to as the spread, between two or more rates for different instruments with the same maturity and occurs when market rates for different financial instruments or the indices used to price assets and liabilities change at different times or by different amounts. The interest expense for liability instruments such as brokered CDs may change by the same amount as interest income received from loans or investments. To the extent that the interest rates on loans and borrowings change at different speeds and by different amounts, the margin between our LIBOR-based assets and the higher cost of the brokered CDs may compress and adversely affect net interest income.

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

For the years ended December 31, 2009 and 2010, and for the first six months of 2011, we recognized a total of \$1.7 million, \$1.2 million, and \$0.6 million, respectively, in other-than-temporary impairments. To the extent that any portion of the unrealized losses in our investment securities portfolio is determined to be other-than-temporary and, in the case of debt securities, the loss is related to credit factors, we would recognize a charge to earnings in the quarter during which such determination is made and capital ratios could be adversely affected. Even if we do not determine that the unrealized losses associated with this portfolio require an impairment charge, increases in these unrealized losses adversely affect our tangible common equity ratio, which may adversely affect credit rating agency and investor sentiment towards us. This negative perception also may adversely affect our ability to access the capital markets or might increase our cost of capital. Valuation and other-than-temporary impairment determinations will continue to be affected by external market factors including default rates, severity rates and macro-economic factors.

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

Both the Corporation and the Bank suffered credit rating downgrades in 2010 and 2011. The Corporation's credit as a long-term issuer is currently rated CCC+ on credit watch positive by Standard & Poor's (S&P)

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and CC by Fitch Ratings Limited (Fitch). At the FirstBank subsidiary level, long-term issuer ratings are currently Caa2 on credit watch positive by Moody's Investor Service (Moody's), eight notches below their definition of investment grade; CCC+ on credit watch positive by S&P, seven notches below their definition of investment grade, and CC by Fitch, eight notches below their definition of investment grade.

The Corporation does not have any outstanding debt or derivative agreements that would be affected by the recent credit downgrades. Furthermore, given our non-reliance on corporate debt or other instruments directly linked in terms of pricing or volume to credit ratings, the liquidity of the Corporation so far has not been affected in any material way by the downgrades. The Corporation's ability to access new non-deposit sources of funding, however, could be adversely affected by these credit ratings and any additional downgrades.

The Corporation's liquidity is contingent upon its ability to obtain new external sources of funding to finance its operations. The Corporation's current credit ratings and any further downgrades in credit ratings can hinder the Corporation's access to external funding and/or cause external funding to be more expensive, which could in turn adversely affect results of operations. Also, changes in credit ratings may further affect the fair value of certain liabilities and unsecured derivatives that consider the Corporation's own credit risk as part of the valuation.

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

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

We may fail to identify and manage risks related to a variety of aspects of our business, including, but not limited to, operational risk, interest-rate risk, trading risk, fiduciary risk, legal and compliance risk, liquidity risk and credit risk. We have adopted various controls, procedures, policies and systems to monitor and manage risk. While we currently believe that our risk management policies and procedures are effective, the FDIC Order required us to review and revise our policies relating to risk management, including the policies relating to the assessment of the adequacy of the allowance for loan and lease losses and credit administration. Any improvements to our controls, procedures, policies and systems may not be adequate to identify and manage the risks in our various businesses. If our risk framework is ineffective, either because it fails to keep pace with changes in the financial markets or our businesses or for other reasons, we could incur losses or suffer reputational damage or find ourselves out of compliance with applicable regulatory mandates or expectations.

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

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

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we engage can be intense, and we may not be able to hire people or retain them, particularly in light of uncertainty concerning evolving compensation restrictions applicable to banks but

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

Further increases in the FDIC deposit insurance premium or required reserves may have a significant financial impact on us.

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

The Dodd-Frank Act signed into law on July 21, 2010 requires the FDIC to increase the DIF's reserves against future losses, which will necessitate increased deposit insurance premiums that are to be borne primarily by institutions with assets of greater than \$10 billion. On October 19, 2010, the FDIC addressed plans to bolster the DIF by increasing the required reserve ratio for the industry to 1.35 percent (ratio of reserves to insured deposits) by September 30, 2020, as required by the Dodd-Frank Act. The FDIC also proposed to raise its industry target ratio of reserves to insured deposits to 2 percent, 65 basis points above the statutory minimum, but the FDIC does not project that goal to be met until 2027.

The FDIC has recently approved two rules that amend its deposit insurance assessment regulations. The first rule implements a provision in the Dodd-Frank Act that changes the assessment base for deposit insurance premiums from one based on domestic deposits to one based on average consolidated total assets minus average Tier 1 capital. The rule also changes the assessment rate schedules for insured depository institutions so that approximately the same amount of revenue would be collected under the new assessment base as would be collected under the current rate schedule and the schedules previously proposed by the FDIC. The second rule revises the risk-based assessment system for all large insured depository institutions (generally, institutions with at least \$10 billion in total assets). Under the rule, the FDIC uses a scorecard method to calculate assessment rates for all such institutions.

The FDIC may further increase FirstBank's premiums or impose additional assessments or prepayment requirements in the future. The Dodd-Frank Act has removed the statutory cap for the reserve ratio, leaving the FDIC free to set this cap going forward.

Losses in the value of investments in entities that the Corporation does not control could have an adverse effect on the Corporation's financial condition or results of operations.

The corporation has investments in entities that it does not control, including a 35% ownership interest in, CPG/GS PR NPL, LLC ("CPG/GS") organized under the laws of the Commonwealth of Puerto Rico. CPG/GS is seeking to maximize the recovery of its investment in loans that it acquired from Firstbank. The Corporation's 35% interest in CPG/GS is subordinated to the interest of the majority investor in CPG/GS, which is entitled to recover its investment and receive a priority 12% return on its invested capital. The Corporation's equity interest of \$46.1 million is subordinated to the aggregate amount of its loans to CPG/GS in the amount of \$216.1 million as of June 30, 2011 and to the interest and priority return of CPG/GS's majority investor.

The Corporation's interests in CPG/GS and other entities that it does not control preclude it from exercising control over the business strategy or other operational aspects of these entities. The Corporation

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cannot provide assurance that these entities will operate in a manner that will increase the value of the Corporation's investments, that the Corporation's proportionate share of income or losses from these entities will continue at the current level in the future or that the Corporation will not incur losses from the holding of such investments. Losses in the values of such investments could adversely affect the Corporation's financial condition or results of operations.

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

Lehman Brothers Special Financing, Inc. (Lehman) was the counterparty to First BanCorp on certain interest rate swap agreements. During the third quarter of 2008, Lehman failed to pay the scheduled net cash settlement due to us, which constituted an event of default under those interest rate swap agreements. We terminated all interest rate swaps with Lehman and replaced them with other counterparties under similar terms and conditions. In connection with the unpaid net cash settlement due as of June 30, 2011 under the swap agreements, we have an unsecured counterparty exposure with Lehman, which filed for bankruptcy on October 3, 2008, of approximately \$1.4 million. This exposure was reserved in the third quarter of 2008. We had pledged collateral of \$63.6 million with Lehman to guarantee our performance under the swap agreements in the event payment thereunder was required.

The book value of pledged securities with Lehman as of June 30, 2011 amounted to approximately \$64.5 million. We believe that the securities pledged as collateral should not be part of the Lehman bankruptcy estate given the facts that the posted collateral constituted a performance guarantee under the swap agreements and was not part of a financing agreement, and that ownership of the securities was never transferred to Lehman. Upon termination of the interest rate swap agreements, Lehman's obligation was to return the collateral to us. During the fourth quarter of 2009, we discovered that Lehman Brothers, Inc., acting as agent of Lehman, had deposited the securities in a custodial account at JP Morgan Chase, and that, shortly before the filing of the Lehman bankruptcy proceedings, it had provided instructions to have most of the securities transferred to Barclays Capital (Barclays) in New York. After Barclays's refusal to turn over the securities, during December 2009, we filed a lawsuit against Barclays in federal court in New York demanding the return of the securities. During February 2010, Barclays filed a motion with the court requesting that our claim be dismissed on the grounds that the allegations of the complaint are not sufficient to justify the granting of the remedies therein sought. Shortly thereafter, we filed our opposition motion. A hearing on the motions was held in court on April 28, 2010. The court, on that date, after hearing the arguments by both sides, concluded that our equitable-based causes of action, upon which the return of the investment securities is being demanded, contain allegations that sufficiently plead facts warranting the denial of Barclays' motion to dismiss our claim. Accordingly, the judge ordered the case to proceed to trial.

Subsequent to the court decision, the district court judge transferred the case to the Lehman bankruptcy court for trial. Upon such transfer, the Bankruptcy court began to entertain the pre-trial procedures including discovery of evidence. In this regard, an initial scheduling conference was held before the United States Bankruptcy Court for the Southern District of New York on November 17, 2010, at which time a proposed case management plan was approved. Discovery has commenced pursuant to that case management plan and is currently scheduled for completion by December 15, 2011, but this timing is subject to adjustment. While we believe we have valid reasons to support our claim for the return of the securities, we may not succeed in our litigation against Barclays to recover all or a substantial portion of the securities.

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

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Our businesses may be adversely affected by litigation.

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

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

The resolution of legal actions or regulatory matters, if unfavorable, could have a material adverse effect on our consolidated results of operations for the quarter in which such actions or matters are resolved or a reserve is established.

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

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