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

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

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

For the transition period from __________to __________

COMMISSION FILE NUMBER 0-17224

FIRST BANCORP.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Puerto Rico (State or other jurisdiction of incorporation or organization)	66-0561882 (I.R.S. employer identification number)
1519 Ponce de León Avenue, Stop 23 Santurce, Puerto Rico (Address of principal executive offices)	00908 (Zip Code)

(787) 729-8200
(Registrant s telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Yes o No þ

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Yes o No þ

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

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

FIRST BANCORP.
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EXPLANATORY NOTE

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

FORWARD LOOKING STATEMENTS

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

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

- risks associated with the Corporation s inability to prepare and timely submit SEC and other regulatory filings;
- a reduction in the Corporation s ability to attract new clients and retain existing ones;
- general economic conditions, including prevailing interest rates and the performance of the financial markets, which may affect demand for the Corporation s products and services and the value of the Corporation s assets, including the value of the interest rate swaps that hedge the interest rate risk mainly relating to brokered certificates of deposit and medium-term notes;
- risks arising from worsening economic conditions in Puerto Rico;
- risks arising from credit and other risks of the Corporation s lending and investment activities, including the condo conversion loans in its Miami Agency;
- increases in the Corporation s expenses associated with acquisitions and dispositions;
- developments in technology;
- risks associated with changes to the Corporation s business strategy to no longer acquire mortgage loans in bulk;
- risks associated with the failure to obtain a final order from the District Court of Puerto Rico approving the settlement of the class-action lawsuit brought against the Corporation;

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

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

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

- general competitive factors and industry consolidation; and

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

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

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

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	March 31, 2006	December 31, 2005	March 31, 2005 (As Restated)	March (As R
ue from banks	$ 134,396,167	$ 155,848,810	$ 125,778,620	$ 10
ket instruments, including $422,773,829 t can be repledged (December 31, 2005 - $381,848,364; 2005 - $0; March 31, 2004 - $370,731,426)	806,203,368	666,856,432	354,858,845	60
ds sold and securities purchased under agreements to resell	706,424,916	508,967,369	31,013,328	1
its with other financial institutions	32,818,084	48,967,475	3,300,000	
y market investments	1,545,446,368	1,224,791,276	389,172,173	62
securities available for sale, at fair value:				
ledged that can be repledged	1,663,051,384	1,744,846,054	1,092,221,084	82
tment securities	196,993,611	203,331,449	438,656,355	36
tment securities available for sale	1,860,044,995	1,948,177,503	1,530,877,439	1,18
securities held to maturity, at amortized cost:				
ledged that can be repledged	3,115,116,225	3,115,260,660	3,255,841,156	2,92
tment securities	274,109,119	323,327,297	612,258,022	80
tment securities held to maturity	3,389,225,344	3,438,587,957	3,868,099,178	3,72
y securities	30,271,400	42,367,500	67,808,100	5
of allowance for loan and lease losses of $152,596,040 31, 2005 - $147,998,733; March 31, 2005 - $144,201,333; 2004 - $130,356,997)	12,917,576,250	12,436,257,993	11,046,645,854	7,36
for sale, at lower of cost or market	73,326,531	101,672,531	26,360,027	
net	12,990,902,781	12,537,930,524	11,073,005,881	7,36
d equipment, net	119,783,339	116,947,772	105,152,437	8
state owned	4,825,266	5,019,106	8,257,308	
erest receivable on loans and investments	103,738,717	103,692,478	70,269,595	4
ustomers on acceptances	895,191	353,864	1,177,538	
s	380,215,631	343,933,937	277,135,766	16
	$ 20,559,745,199	$ 19,917,650,727	$ 17,516,734,035	$ 13,33

& Stockholders Equity

t-bearing deposits	$ 806,468,654	$ 811,006,126	$ 744,764,930	$ 62
ring deposits	12,543,307,152	11,652,746,080	8,653,011,527	5,94
ds purchased and securities sold under agreements to repurchase	4,801,665,500	4,833,882,000	4,046,419,313	3,87
rom the Federal Home Loan Bank (FHLB)	228,000,000	506,000,000	1,313,000,000	1,04
ble	179,026,710	178,693,249	178,181,751	
wings	231,646,033	231,622,020	473,765,384	4
ed notes			82,405,446	8
tance outstanding	895,191	353,864	1,177,538	
unsettled investment trade			537,534,792	42
ayable and other liabilities	589,074,731	505,506,453	303,095,159	16
ties	19,380,083,971	18,719,809,792	16,333,355,840	12,20
nts and contingencies (Note 17)				
rs equity:				
ock, authorized 50,000,000 shares: issued and outstanding shares at $25 liquidation value per share	550,100,000	550,100,000	550,100,000	55
ock, $1 par value, authorized 0 shares; issued 93,151,856 shares 31, 2005- 90,772,856 shares ; March 31, 2005 - 45,320,780 shares; 2004 - 45,132,655 shares)	93,151,856	90,772,856	45,320,780	4
ury Stock (at par value)	(9,897,800)	(9,897,800)	(4,920,900)	(
ock outstanding	83,254,056	80,875,056	40,399,880	4
paid-in capital	22,269,844		5,034,294	
rve			82,825,000	8
us	265,844,192	265,844,192	183,019,192	16
rnings	304,684,433	316,696,971	308,991,915	25
ed other comprehensive (loss) income, net of tax pense) of $286,763 (December 31, 2005 - $16,259; 2005 - ($553,072) ; March 31, 2004 ($1,380,496))	(46,491,297)	(15,675,284)	13,007,914	4
holders equity	1,179,661,228	1,197,840,935	1,183,378,195	1,13
ties and stockholders equity	$ 20,559,745,199	$ 19,917,650,727	$ 17,516,734,035	$ 13,33

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Quarter Ended		
	March 31, 2006	March 31, 2005 (As Restated)	March 31, 2004 (As Restated)
Interest income:			
Loans	$ 246,089,307	$ 153,724,886	$ 103,995,379
Investment securities	71,640,717	56,784,795	46,104,242
Money market investments	9,974,864	1,867,116	717,145
Total interest income	327,704,888	212,376,797	150,816,766
Interest expense:			
Deposits (Note 11)	186,838,073	93,981,959	(13,380,428)
Federal funds purchased and repurchase agreements	53,565,529	34,374,299	28,331,688
Advances from FHLB	4,177,732	11,425,002	5,300,021
Notes payable and other borrowings	10,304,945	7,319,184	1,779,213
Total interest expense	254,886,279	147,100,444	22,030,494
Net interest income	72,818,609	65,276,353	128,786,272
Provision for loan and lease losses	19,375,887	10,954,409	13,200,000
Net interest income after provision for loan and lease losses	53,442,722	54,321,944	115,586,272
Non-interest income:			
Other service charges on loans	1,486,270	1,121,227	1,155,299
Service charges on deposit accounts	3,277,029	2,689,552	2,783,414
Mortgage banking activities (loss) gain	(574,847)	509,706	1,545,454
Net (loss) gain on investments and impairments	(708,768)	9,513,564	3,964,646
Rental income	773,290	865,898	616,674
Gain on sale of credit card portfolio			5,235,543
Other operating income	6,335,216	5,551,312	5,662,511
Total non-interest income	10,588,190	20,251,259	20,963,541
Non-interest expenses:			
Employees compensation and benefits	34,124,921	23,315,132	19,735,549
Occupancy and equipment	12,706,090	10,639,473	9,377,798

Business promotion	3,774,060	4,547,523	3,469,054
Professional fees	7,392,966	1,895,551	734,046
Taxes, other than income taxes	2,555,269	2,269,017	1,948,023
Insurance and supervisory fees	1,701,012	1,063,541	1,076,098
Other operating expenses	9,483,337	9,276,895	6,389,579
Total non-interest expenses	71,737,655	53,007,132	42,730,147
(Loss) Income before income tax	(7,706,743)	21,566,071	93,819,666
Income tax benefit (provision)	11,569,985	3,648,870	(28,390,014)
Net income	$ 3,863,242	$ 25,214,941	$ 65,429,652
Net (loss) income attributable to common stockholders	$ (6,205,757)	$ 15,145,942	$ 55,360,653
Net (loss) income per common share:			
Basic	$ (0.08)	$ 0.19	$ 0.69
Diluted	$ (0.08)	$ 0.18	$ 0.67
Dividends declared per common share	$ 0.07	$ 0.07	$ 0.06

The accompanying notes are an integral part of these statements.

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Quarter Ended March 31, 2006	March 31, 2005 (As Restated)	March 31, 2004 (As Restated)
Cash flows from operating activities:			
Net income	$ 3,863,242	$ 25,214,941	$ 65,429,652
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	4,112,001	3,544,846	3,384,168
Amortization of core deposit intangible	932,041	599,155	599,155
Provision for loan and lease losses	19,375,887	10,954,409	13,200,000
Deferred income tax (benefit) provision	(28,644,913)	(17,654,943)	13,023,113
Stock-based compensation recognized	4,892,360		
Gain on sale of investments, net	(1,424,484)	(9,513,564)	(3,964,646)
Other-than-temporary impairments on available-for-sale securities	2,133,252		
Unrealized loss (gain) on derivative instruments	64,737,546	42,236,667	(46,036,174)
Net loss (gain) on sale of loans and impairments	677,005	(528,072)	(1,496,515)
Net amortization of premiums and discounts and deferred loan fees and costs	(1,014,516)	277,270	373,385
Amortization of broker placement fees	3,956,091	3,657,340	4,793,527
Net (accretion) amortization of discount and premiums on investment securities	(9,528,614)	(7,957,812)	946,843
Amortization of discount on subordinated notes		125,028	114,399
Gain on sale of credit card portfolio			(5,235,543)
Increase in accrued income tax payable	14,299,995	42,681,184	11,334,443
(Increase) decrease in accrued interest receivable	(46,239)	(10,573,143)	4,365
Increase (decrease) in accrued interest payable	4,500,098	4,458,981	(2,585,944)
(Increase) decrease in other assets	(5,088,301)	(3,290,737)	8,691,571
(Decrease) increase in other liabilities	(3,331,116)	(17,665,290)	1,266,096
Total adjustments	70,538,093	41,351,319	(1,587,757)
Net cash provided by operating activities	74,401,335	66,566,260	63,841,895
Cash flows from investing activities:			
Principal collected on loans	892,646,456	742,149,279	521,193,844
Loans originated	(1,336,279,411)	(1,694,615,596)	(1,058,516,779)
Purchase of loans	(58,803,859)	(142,582,255)	(35,204,000)
Proceeds from sale of loans	17,502,647	29,006,204	57,142,731
Proceeds from sale of repossessed assets	10,136,316	9,027,134	8,597,035
Purchase of servicing assets	(147,754)		
Proceeds from sale of available for sale securities	12,670,690	213,065,038	14,965,411

Purchase of securities held to maturity	(144,226,030)	(794,757,906)	(483,924,843)
Purchase of securities available for sale	(11,975,700)	(302,908,003)	(1,543,433)
Principal repayments and maturities of securities held to maturity	203,391,488	685,203,825	320,663,891
Principal repayments of securities available for sale	55,367,989	56,603,556	82,657,286
Additions to premises and equipment	(6,947,568)	(5,303,319)	(3,195,727)
Decrease (increase) in other equity securities	12,096,100	16,250,000	(6,500,000)
Cash paid for net assets acquired in acquisition of business		(71,996,013)	
Net cash used in investing activities	(354,568,636)	(1,260,858,056)	(583,664,584)
Cash flows from financing activities:			
Net increase (decrease) in deposits	885,705,546	1,044,702,228	(206,112,778)
Net (decrease) increase in federal funds purchased and securities sold under repurchase agreements	(32,216,500)	(118,941,600)	233,121,351
Net FHLB advances (paid) taken	(278,000,000)	(325,000,000)	130,000,000
Net proceeds from issuance of notes payable and other borrowings		197,049,120	45,000,000
Dividends paid	(15,875,780)	(15,724,042)	(14,886,224)
Exercise of stock options	19,756,484	181,720	2,160,335
Net cash provided by financing activities	579,369,750	782,267,426	189,282,684
Net increase (decrease) in cash and cash equivalents	299,202,449	(412,024,370)	(330,540,005)
Cash and cash equivalents at beginning of period	1,380,640,086	926,975,163	1,052,107,837
Cash and cash equivalents at end of period	$ 1,679,842,535	$ 514,950,793	$ 721,567,832

The accompanying notes are an integral part of these statements.

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

	March 31, 2006	Quarter Ended March 31, 2005 (As Restated)	March 31, 2004 (As Restated)
Preferred Stock	$ 550,100,000	$ 550,100,000	$ 550,100,000
Common Stock outstanding:			
Balance at beginning of period	80,875,056	40,389,155	40,027,285
Common stock issued under stock option plan	2,379,000	10,725	184,470
Balance at end of period	83,254,056	40,399,880	40,211,755
Additional Paid-In-Capital:			
Balance at beginning of period		4,863,299	268,855
Shares issued under stock option plan	17,377,484	170,995	1,975,865
Stock-based compensation recognized	4,892,360		
Balance at end of period	22,269,844	5,034,294	2,244,720
Capital Reserve		82,825,000	80,000,000
Legal Surplus	265,844,192	183,019,192	165,709,122
Retained Earnings:			
Balance at beginning of period	316,696,971	299,501,016	201,903,993
Net income	3,863,242	25,214,941	65,429,652
Cash dividends declared on common stock	(5,806,781)	(5,655,043)	(4,817,225)
Cash dividends declared on preferred stock	(10,068,999)	(10,068,999)	(10,068,999)
Balance at end of period	304,684,433	308,991,915	252,447,421
Accumulated Other Comprehensive (Loss) Income, net of tax:			
Balance at beginning of period	(15,675,284)	43,635,624	35,812,500
Other comprehensive (loss) income, net of tax	(30,816,013)	(30,627,710)	6,241,745
Balance at end of period	(46,491,297)	13,007,914	42,054,245

Total stockholders equity	$ 1,179,661,228	$ 1,183,378,195	$ 1,132,767,263

The accompanying notes are an integral part of these statements.

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

	Quarter Ended		
	March 31, 2006	March 31, 2005 (As Restated)	March 31, 2004 (As Restated)
Net income	$ 3,863,242	$ 25,214,941	$ 65,429,652
Other comprehensive (loss) income:			
Unrealized (loss) gain on securities:			
Unrealized holding (loss) gain arising during the period	(31,795,285)	(21,455,470)	10,973,806
Less: Reclassification adjustments for net loss (gain) and other than temporary impairments included in net income	708,768	(9,513,564)	(3,964,646)
Income tax benefit (expense) related to items of other comprehensive income	270,504	341,324	(767,415)
Other comprehensive (loss) income for the period, net of tax	(30,816,013)	(30,627,710)	6,241,745
Total comprehensive (loss) income	$ (26,952,771)	$ (5,412,769)	$ 71,671,397

The accompanying notes are an integral part of these statements.

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

1 RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

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

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

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**RECONCILIATION OF PREVIOUSLY REPORTED TO RESTATED FIGURES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(In thousands)	As of March 31, 2005	As of March 31, 2004
Cash and due from banks, as previously reported	$ 22,877	$ 100,528
Impact of accounting errors and corrections:		
Reclassifications	102,902	
Cash and due from banks, as restated	$ 125,779	$ 100,528
Money market investments, as previously reported	$ 228,443	$ 595,739
Impact of accounting errors and corrections:		
Reclassifications	160,729	25,300
Money market investments, as restated	$ 389,172	$ 621,039
Investment securities including FHLB Stock, as previously reported	$ 5,892,081	$ 5,038,087
Impact of accounting errors and corrections:		
Accounting for investment securities	2,195	163
Recharacterization of pass-through certificates as secured loans	(266,609)	(50,000)
Reclassifications	(160,882)	(25,300)
Investment securities including FHLB stock, as restated	$ 5,466,785	$ 4,962,950
Total loans, net of allowance for loan and lease losses, as previously reported	$ 10,823,960	$ 7,315,916
Impact of accounting errors and corrections:		
Accounting for derivative instruments and broker placement fees	131	(508)
Accounting for origination fees and costs and premiums and discounts on loans	(2,651)	(1,825)
Recharacterization of pass-through certificates as secured loans	263,269	50,000
Reclassifications	(9,436)	298
Other accounting adjustments	(2,267)	(2,287)
Total loans, net of allowance for loan and lease losses, as restated	$ 11,073,006	$ 7,361,594
Total other assets, as previously reported	$ 416,545	$ 297,192
Impact of accounting errors and corrections:		
Accounting for derivative instruments and broker placement fees	2,929	(1,285)
Tax impact of accounting adjustments	29,081	(3,270)
Reclassifications	11,809	(1,093)

Valuation of financial instruments	1,200	1,200
Other accounting adjustments	428	613
Total other assets, as restated	$ 461,992	$ 293,357
Total assets, as restated	$ 17,516,734	$ 13,339,468
Total liabilities, as previously reported	$ 16,150,021	$ 12,223,690
Impact of accounting errors and corrections:		
Accounting for derivative instruments and broker placement fees	73,363	(15,457)
Tax impact of accounting adjustments	4,863	519
Reclassifications	105,122	(795)
Other accounting adjustments	(13)	(1,256)
Total liabilities, as restated	$ 16,333,356	$ 12,206,701
Stockholders equity, as previously reported	$ 1,233,885	$ 1,123,772
Impact of accounting errors and corrections:		
Accounting for derivative instruments and broker placement fees	(70,694)	12,564
Accounting for investment securities	4,451	1,963
Accounting for origination fees and costs and premiums and discounts on loans	(2,651)	(1,825)
Valuation of financial instruments	1,200	1,200
Tax impact of accounting adjustments	24,218	(3,789)
Impact of accounting adjustments in other comprehensive income	(5,205)	(700)
Other accounting adjustments	(1,826)	(418)
Stockholders equity, as restated	$ 1,183,378	$ 1,132,767

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RECONCILIATION OF PREVIOUSLY REPORTED TO RESTATED FIGURES
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)	Quarter Ended March 31, 2005	Quarter Ended March 31, 2004
Net interest income, as previously reported	$ 109,602	$ 88,183
Impact of accounting errors and corrections:		
Accounting for derivative instruments and broker placement fees	(45,424)	39,735
Accounting for investment securities	968	573
Accounting for origination fees and costs and premiums and discounts on loans	(121)	139
Reclassification of late charges, penalty fees on loans and other	40	36
Other accounting adjustments	211	120
Net interest income, as restated	$ 65,276	$ 128,786
Provision for loan and lease losses (no adjustment required)	$ 10,954	$ 13,200
Non-interest income, as previously reported	$ 19,618	$ 20,018
Impact of accounting errors and corrections:		
Accounting for derivative instruments and broker placement fees	1,063	424
Accounting for origination fees and costs and premiums and discounts on loans	(390)	(628)
Reclassification of late charges, penalty fees on loans and other	(40)	(36)
Valuation of financial instruments		1,200
Other accounting adjustments		(14)
Non-interest income, as restated	$ 20,251	$ 20,964
Non-interest expenses, as previously reported	$ 52,651	$ 43,158
Impact of accounting errors and corrections:		
Accounting for origination fees and costs and premiums and discounts on loans	(290)	(251)
Other accounting adjustments	646	(177)
Non-interest expenses, as restated	$ 53,007	$ 42,730
Income tax expense, as previously reported	$ (12,182)	$ (11,639)
Impact of accounting errors and corrections	15,831	(16,751)

Income tax benefit (expense), as restated	$	3,649	$	(28,390)
Net income, as restated	$	25,215	$	65,430
Basic earnings per common share, as previously reported	$	0.54	$	0.38
Effect of adjustments		(0.35)		0.31
Basic earnings per common share, as restated	$	0.19	$	0.69
Diluted earnings per common share, as previously reported	$	0.52	$	0.36
Effect of adjustments		(0.34)		0.31
Diluted earnings per common share, as restated	$	0.18	$	0.67

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

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

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

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

The net cumulative effect on the Corporation s pre-tax income through March 31, 2005 related to the correction of the accounting for derivative instruments and broker placement fees was a decrease of $70.7 million. The following table details the components of the pre-tax income effect from the correction in the accounting for derivative instruments and broker placement fees for the quarters ended March 31, 2005 and 2004:

	Quarter Ended March 31, 2005	Quarter Ended March 31, 2004
Elimination of fair value adjustments previously made to hedged items	$ (53,096)	$ 39,616
Recognition of interest rate swap up-front fees	5,886	5,220
Broker placement fees amortization	(2,978)	(4,295)
Corrections to derivative instruments valuations	5,827	(382)
Total	$ (44,361)	$ 40,159

Recharacterization of purchases of mortgage loans and pass-through trust certificates as commercial loans secured by mortgage loans. Prior to the restatement, the Corporation had inaccurately recorded as purchases of residential mortgages, commercial mortgage loans and pass-through trust certificates certain mortgage-related transactions with local financial institutions. Certain of these transactions included or likely included recourse provisions, which had not been analyzed as part of the Corporation s financial reporting process. The Corporation determined that such transactions did not satisfy the reasonable assurance standard of SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , regarding the isolation of assets in bankruptcy, with the result that they did not qualify as a true sale for accounting purposes. The restatement reflects these mortgage-related transactions as commercial loans secured by mortgage loans and pass-through trust certificates. This conclusion resulted in the revised classification of approximately $4.4 billion and $2.4 billion in mortgage-related loans to secured loans to local financial institutions as of March 31, 2005 and 2004, respectively, and $263.3 million and $50.0 million pass-through trust certificates to secured loans to local financial institutions as of March 31, 2005 and 2004, respectively. The recharacterization of the mortgage-related transactions did not impact the Corporation s retained earnings as of March 31, 2005.

Accounting for Investment Securities. The Corporation historically amortized premiums and discounts related to most of its investment securities into interest income over the life of the related securities using a straight-line method adjusted for prepayment of securities. As part of the restatement, the Corporation concluded that it needed to correct its methodology and adjust its financial statements to reflect the amortization of premiums and discounts into interest income over the terms of the securities using the effective interest method instead of the straight-line method. The cumulative effect of this correction on the Corporation s pre-tax income through March 31, 2005 was an increase of $4.5 million, of which approximately $1.0 million and $0.6 million relate to the quarters ended March 31, 2005 and 2004, respectively.

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

Accounting for deferral and recognition of origination fees and costs on loans. As part of the restatement process, the Corporation reviewed the methodology used to measure origination fees and costs associated with its loans origination, in accordance with SFAS 91, Accounting for Nonrefundable Fees and Costs Associated with Origination or Acquiring Loans and Initial Direct Costs of Leases, which establishes the accounting treatment for nonrefundable fees and costs associated with lending, committing to lend or purchasing loans. The Corporation concluded that throughout the restatement period, it did not apply SFAS 91 requirements to one of its consumer loans portfolios. Accordingly, the Corporation concluded that, in order to comply with SFAS 91, it needed to defer and amortize loan origination fees and costs on this portfolio using the interest method. The cumulative effect of this correction on the Corporation s pre-tax income through March 31, 2005 was a decrease of approximately $2.7 million, of which $0.2 million was recorded as a reduction in pre-tax income for each of the quarters ended March 31, 2005 and 2004.

Valuation of financial instruments. In connection with a loan restructuring, First BanCorp became the holder of warrants. The warrant certificate gives the Corporation the right to purchase common stock from a privately held company at a fixed price. This transaction was not formally evaluated or documented as part of the Corporation s financial reporting process. As part of the restatement process, the Corporation concluded that this transaction meets the definition of a derivative instrument as stated in SFAS 133. Accordingly, the warrant was marked to market and the valuation recognized in earnings as part of Other operating income. The cumulative effect of this correction on the Corporation s pre-tax income through March 31, 2005 was an increase of $1.2 million, all of which related to the quarter ended March 31, 2004.

Other Accounting Adjustments and Reclassifications. As part of the restatement, the Corporation also made corrections to various other aspects of its Consolidated Financial Statements, including adjustments to the gain on sale of credit card portfolios, accrual of rental expense on lease contracts and income from a loan origination subsidiary. The cumulative effect of all these other adjustments on the Corporation s pre-tax income through March 31, 2005 was a decrease of $1.8 million, of which approximately $0.4 million was recorded as a reduction of pre-tax income for the quarter ended March 31, 2005 and $0.3 million was recorded as an increase to pre-tax income for the quarter ended March 31, 2004.

The reclassifications made to conform to GAAP included, among other things, reclassifying late charges and prepayment fees on loans from non-interest income to interest income on loans, and reclassifying dividends on equity securities from non-interest income to interest income on investments. Other reclassifications included reclassifying loans receivable balances within loan categories, reclassifying certain amounts previously reported as repurchase agreements to other borrowings, adjustments to the estimated fair value of assets and liabilities acquired in a business combination, reclassifying cash balances previously reported as a reduction to non-interest-bearing deposits and reclassifying certain short-term investments previously reported as part of the available for sale and held to maturity investment portfolio to money market investments.

Income Taxes. As a result of the corrections reflected in the restatement, the Corporation s cumulative income tax expense through March 31, 2005 was reduced by approximately $24.2 million, of which $15.8 million was recorded as a reduction to income tax expense for the quarter ended March 31, 2005 and $16.8 million was recorded as an increase to income tax expense for the quarter ended March 31, 2004. The cumulative reduction through March 31, 2005 resulted principally from changes in deferred taxes. See Note 15 for additional details regarding the Corporation s income taxes.

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The following tables show the impact of all restated adjustments on the previously reported unaudited Consolidated Statements of Financial Condition as of March 31, 2005 and 2004.

FIRST BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

(Dollars in thousands)	**March 31, 2005 (As Previously Reported)**	**Adjustments**	**March 31, 2005 (As Restated)**
Assets			
Cash and due from banks	$ 22,877	$ 102,902	$ 125,779
Money market instruments	215,143	139,716	354,859
Federal funds sold and securities purchased under agreements to resell	10,000	21,013	31,013
Time deposits with other financial institutions	3,300		3,300
Total money market investments	228,443	160,729	389,172
Investment securities available for sale, at fair value:			
Securities pledged that can be repledged	1,358,831	(266,610)	1,092,221
Other investment securities	439,774	(1,117)	438,657
Total investment securities available for sale	1,798,605	(267,727)	1,530,878
Investment securities held to maturity, at amortized cost:			
Securities pledged that can be repledged	3,254,133	1,708	3,255,841
Other investment securities	772,910	(160,652)	612,258
Total investment securities held to maturity	4,027,043	(158,944)	3,868,099
Other equity securities	66,433	1,375	67,808
Loans, net of allowance for loan and lease losses	10,797,600	249,046	11,046,646
Loans held for sale, at lower of cost or market	26,360		26,360
Total loans, net	10,823,960	249,046	11,073,006
Premises and equipment, net	105,166	(14)	105,152
Other real estate owned	8,299	(42)	8,257
Accrued interest receivable	70,391	(121)	70,270
Due from customers on acceptances	1,178		1,178
Other assets	231,511	45,624	277,135
Total assets	$ 17,383,906	$ 132,828	$ 17,516,734

Liabilities & Stockholders Equity						
Liabilities:						
Non-interest-bearing deposits	$	641,851	$	102,914	$	744,765
Interest-bearing deposits		8,605,237		47,775		8,653,012
Federal funds purchased and securities sold under agreements to repurchase		4,299,840		(253,421)		4,046,419
Advances from the Federal Home Loan Bank (FHLB)		1,313,000				1,313,000
Notes payable		175,484		2,698		178,182
Other borrowings		231,548		242,217		473,765
Subordinated notes		82,823		(418)		82,405
Bank acceptance outstanding		1,178				1,178
Payable for unsettled investment trade		537,535				537,535
Accounts payable and other liabilities		261,525		41,570		303,095
Total liabilities		16,150,021		183,335		16,333,356
Stockholders equity:						
Preferred stock, authorized 50,000,000 shares: issued and outstanding 22,004,000 shares at $25 liquidation value per share		550,100				550,100
Common stock, $1 par value, authorized 250,000,000 shares; issued 45,320,780 shares		45,321				45,321
Less: Treasury Stock (at par value)		(4,921)				(4,921)
Common stock outstanding		40,400				40,400
Additional paid-in capital		5,034				5,034
Capital reserve		82,825				82,825
Legal surplus		180,572		2,447		183,019
Retained earnings		356,741		(47,749)		308,992
Accumulated other comprehensive income, net of tax		18,213		(5,205)		13,008
Total stockholders equity		1,233,885		(50,507)		1,183,378
Total liabilities and stockholders equity	$	17,383,906	$	132,828	$	17,516,734

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

(Dollars in thousands)	March 31, 2004 (As Previously Reported)	Adjustments	March 31, 2004 (As Restated)
Assets			
Cash and due from banks	$ 100,528	$	$ 100,528
Money market instruments	582,139	25,300	607,439
Federal funds sold and securities purchased under agreements to resell	13,000		13,000
Time deposits with other financial institutions	600		600
Total money market investments	595,739	25,300	621,039
Investment securities available for sale, at fair value:			
Securities pledged that can be repledged	870,877	(50,000)	820,877
Other investment securities	362,634	(23)	362,611
Total investment securities available for sale	1,233,511	(50,023)	1,183,488
Investment securities held to maturity, at amortized cost:			
Securities pledged that can be repledged	2,926,597	(111)	2,926,486
Other investment securities	825,829	(25,378)	800,451
Total investment securities held to maturity	3,752,426	(25,489)	3,726,937
Other equity securities	52,150	375	52,525
Loans, net of allowance for loan and lease losses	7,314,571	45,678	7,360,249
Loans held for sale, at lower of cost or market	1,345		1,345
Total loans, net	7,315,916	45,678	7,361,594
Premises and equipment, net	85,081		85,081
Other real estate owned	5,839		5,839
Accrued interest receivable	41,595	(63)	41,532
Due from customers on acceptances	300		300
Other assets	164,377	(3,772)	160,605
Total assets	$ 13,347,462	$ (7,994)	$ 13,339,468

Liabilities & Stockholders Equity						
Liabilities:						
Non-interest-bearing deposits	$	619,816	$	1,028	$	620,844
Interest-bearing deposits		5,981,530		(32,322)		5,949,208
Federal funds purchased and securities sold under agreements to repurchase		3,926,672		(54,078)		3,872,594
Advances from the Federal Home Loan Bank (FHLB)		1,043,000				1,043,000
Other borrowings				45,000		45,000
Subordinated notes		82,819		(939)		81,880
Bank acceptance outstanding		300				300
Payable for unsettled investment trade		427,801				427,801
Accounts payable and other liabilities		141,752		24,322		166,074
Total liabilities		12,223,690		(16,989)		12,206,701
Stockholders equity:						
Preferred stock, authorized 50,000,000 shares: issued and outstanding 22,004,000 shares at $25 liquidation value per share		550,100				550,100
Common stock, $1 par value, authorized 250,000,000 shares; issued 45,132,655 shares		45,133				45,133
Less: Treasury Stock (at par value)		(4,921)				(4,921)
Common stock outstanding		40,212				40,212
Additional paid-in capital		2,245				2,245
Capital reserve		80,000				80,000
Legal surplus		163,106		2,603		165,709
Retained earnings		245,355		7,092		252,447
Accumulated other comprehensive income, net of tax		42,754		(700)		42,054
Total stockholders equity		1,123,772		8,995		1,132,767
Total liabilities and stockholders equity	$	13,347,462	$	(7,994)	$	13,339,468

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The following tables show the impact of all restatement adjustments on the previously reported unaudited Consolidated Statements of Income and basic and diluted earnings per share for the quarters ended March 31, 2005 and 2004.

FIRST BANCORP
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share data)	Quarter Ended		
	March 31, 2005 (As Previously Reported)	**Adjustments**	**March 31, 2005 (As Restated)**
Interest income:			
Loans	$ 148,910	$ 4,815	$ 153,725
Investment securities	58,070	(1,285)	56,785
Money market investments	1,867		1,867
Total interest income	208,847	3,530	212,377
Interest expense:			
Deposits	47,280	46,702	93,982
Federal funds purchased and repurchase agreements	34,559	(184)	34,375
Advances from FHLB	11,425		11,425
Notes payable and other borrowings	5,981	1,338	7,319
Total interest expense	99,245	47,856	147,101
Net interest income	109,602	(44,326)	65,276
Provision for loan and lease losses	10,954		10,954
Net interest income after provision for loan and lease losses	98,648	(44,326)	54,322
Non-interest income:			
Other service charges on loans	2,033	(912)	1,121
Service charges on deposit accounts	2,690		2,690
Mortgage banking activities	510		510
Net gain on investments and impairments	9,513		9,513
Rental income	866		866
Other operating income	4,006	1,545	5,551
Total non-interest income	19,618	633	20,251

Non-interest expenses:			
Employees compensation and benefits	23,605	(290)	23,315
Occupancy and equipment	10,342	297	10,639
Business promotion	4,548		4,548
Professional fees	1,647	249	1,896
Taxes, other than income taxes	2,269		2,269
Insurance and supervisory fees	1,063		1,063
Other operating expenses	9,177	100	9,277
Total non-interest expenses	52,651	356	53,007
Income before income tax	65,615	(44,049)	21,566
Income tax (provision) benefit	(12,182)	15,831	3,649
Net income	$ 53,433	$ (28,218)	$ 25,215
Net income attributable to common stockholders	$ 43,364	$ (28,218)	$ 15,146
Net income per common share:			
Basic	$ 0.54	$ (0.35)	$ 0.19
Diluted	$ 0.52	$ (0.34)	$ 0.18

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FIRST BANCORP
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share data)	Quarter Ended		
	March 31, 2004 (As Previously Reported)	**Adjustments**	**March 31, 2004 (As Restated)**
Interest income:			
Loans	$ 103,877	$ 119	$ 103,996
Investment securities	45,933	171	46,104
Money market investments	717		717
Total interest income	150,527	290	150,817
Interest expense:			
Deposits	27,047	(40,427)	(13,380)
Federal funds purchased and repurchase agreements	28,333	(1)	28,332
Advances from FHLB	5,300		5,300
Notes payable and other borrowings	1,664	115	1,779
Total interest expense	62,344	(40,313)	22,031
Net interest income	88,183	40,603	128,786
Provision for loan and lease losses	13,200		13,200
Net interest income after provision for loan and lease losses	74,983	40,603	115,586
Non-interest income:			
Other service charges on loans	2,116	(961)	1,155
Service charges on deposit accounts	2,783		2,783
Mortgage banking activities	1,545		1,545
Net gain on investments and impairments	3,965		3,965
Rental income	617		617
Gain on sale of credit card portfolio	5,236		5,236
Other operating income	3,756	1,907	5,663
Total non-interest income	20,018	946	20,964
Non-interest expenses:			

Employees compensation and benefits	19,987	(251)	19,736
Occupancy and equipment	9,383	(5)	9,378
Business promotion	3,469		3,469
Professional fees	733	1	734
Taxes, other than income taxes	1,948		1,948
Insurance and supervisory fees	1,076		1,076
Other operating expenses	6,562	(173)	6,389
Total non-interest expenses	43,158	(428)	42,730
Income before income tax	51,843	41,977	93,820
Income tax provision	(11,639)	(16,751)	(28,390)
Net income	$ 40,204	$ 25,226	$ 65,430
Net income attributable to common stockholders	$ 30,135	$ 25,226	$ 55,361
Net income per common share:			
Basic	$ 0.38	$ 0.31	$ 0.69
Diluted	$ 0.36	$ 0.31	$ 0.67

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Restatement of 2005 and 2004 Consolidated Statements of Cash Flows

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

The cash flows related to the accretion of discount on certain investment securities have been properly classified as cash flows from operating activities and the cash flows from the disposition of repossessed assets have been properly classified as cash flows from investing activities in the restated Consolidated Statements of Cash Flows for the quarters ended March 31, 2005 and 2004. The amounts presented as purchases, principal repayments and maturities of securities under cash flows from investing activities have also been corrected to reflect actual cash outflows and inflows related to zero coupon bonds and discounts notes. In addition, the Corporation has corrected the classification of other items, including items related to the 2004 restatement (see footnotes in table below), and the classification of short-term held-to-maturity investments (less than 90 days) from investments to cash and cash equivalents.

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

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The following comparative table presents the effects of the aforementioned classification corrections as well as the impact of all restatement adjustments related with the 2004 restatement on the Consolidated Statement of Cash Flows for the quarters ended March 31, 2005 and 2004:

Quarter Ended March 31, (in thousands)	2005			2004		
	As Previously Reported	Adjustments	(As Restated)	As Previously Reported	Adjustments	(As Restated)
Cash flows from operating activities:						
Net income	$ 53,433	$ (28,218)	$ 25,215	$ 40,204	$ 25,226	$ 65,430
Adjustments to reconcile net income to net cash provided by operating activities:						
Deferred income tax (benefit) provision (1)	(290)	(17,365)	(17,655)	(2,791)	15,814	13,023
Unrealized derivatives loss (gain)(2)	854	41,383	42,237	(381)	(45,655)	(46,036)
Amortization of brokers placement fees (2)		3,657	3,657		4,794	4,794
(Accretion) amortization of premiums and discounts on investment securities (3)		(7,958)	(7,958)		947	947
Decrease (increase) in other assets (3)	6,284	(9,575)	(3,291)	16,117	(7,425)	8,692
Other adjustments to cash flows from operating activities (4)(5)	(9,540)	33,902	24,362	12,999	3,993	16,992
Total adjustments to reconcile net income to net cash provided by operating activities	(2,692)	44,044	41,352	25,944	(27,532)	(1,588)
Net cash provided by operating activities	**50,741**	**15,826**	**66,567**	**66,148**	**(2,306)**	**63,842**
Cash flows from investing activities:						
Proceeds from sale of repossessed assets (3)		9,027	9,027		8,597	8,597
Purchase of securities held to maturity (3)	(2,393,777)	1,599,019	(794,758)	(1,728,741)	1,244,816	(483,925)
Principal repayments and maturities of securities held to maturity (3)	2,115,712	(1,430,508)	685,204	1,534,593	(1,213,929)	320,664
Other adjustments to cash flows from investing activities (4)(5)	(1,134,695)	(25,636)	(1,160,331)	(427,599)	(1,402)	(429,001)
Net cash used in investing activities	**(1,412,760)**	**151,902**	**(1,260,858)**	**(621,747)**	**38,082**	**(583,665)**
Cash flows from financing activities:						
Net increase (decrease) in deposits (2)(6)	956,995	87,707	1,044,702	(203,773)	(2,340)	(206,113)
Other adjustments to cash flows from financing activities (5)	(262,435)		(262,435)	395,395		395,395
Net cash provided by financing activities	**694,560**	**87,707**	**782,267**	**191,622**	**(2,340)**	**189,282**
Net decrease in cash and cash equivalents	(667,459)	255,435	(412,024)	(363,977)	33,436	(330,541)
Cash and cash equivalents at beginning of period	918,779	8,196	926,975	1,060,244	(8,136)	1,052,108

Cash and cash equivalents at end of period (7)	**$**	**251,320**	**$**	**263,631**	**$**	**514,951**	**$**	**696,267**	**$**	**25,300**	**$**	**721,567**

(1) Deferred tax effect of items related to the 2004 restatement; refer to explanation of change in Note 1 Restatement of previously issued financial statements Income Taxes above.

(2) Refer to explanation of change in Note 1 Restatement of previously issued financial statements Accounting for Derivative Instruments and Broker Placement Fees above.

(3) Refer to explanation of change in the first paragraph of Restatement of 2005 and 2004 Consolidated Statements of Cash Flows above.

(4) Refer to explanation of change in the third paragraph of Restatement of 2005 and 2004 Consolidated Statements of

Cash Flows above.

(5) Change resulting from certain not significant 2004 restatement adjustments (refer to Note 1 Restatement of previously issued financial statements) and the correction of immaterial classification errors.

(6) Refer to explanation of change in Note 1 Restatement of previously issued financial statements Other Accounting Adjustments and Reclassifications above.

(7) Mostly related with the correction of the classification of short-term held-to-maturity investments (less than 90 days) from investments to cash and cash equivalents.

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

The results of operations for the quarter ended on March 31, 2006, are not necessarily indicative of the results to be expected for the entire year.

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

Recently issued accounting pronouncements

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

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

With the Corporation s elimination of the use of the long-haul method in connection with the adoption of SFAS 159 as of January 1, 2007, the Corporation will no longer amortize the basis adjustment. The basis adjustment amortization is the reversal of the change in value of the brokered CDs and medium term notes recognized since the implementation of the long-haul method. Since the time the Corporation implemented the long-haul method, it has recognized the basis adjustment and the changes in the value of the brokered CDs and medium term notes based on the expected call date of the instruments. The adoption of SFAS 159 also requires the recognition, as part of the adoption adjustment to retained earnings, of all of the unamortized placement fees that were paid to broker counterparties upon the issuance of the brokered CDs and medium term notes. The Corporation previously amortized those fees through earnings based on the expected call date of the instruments. The impact of the de-recognition of the basis adjustment and the unamortized placement fees as of January 1, 2007 results in a cumulative after-tax reduction to retained earnings of approximately $23.8 million. This negative charge is included in the total cumulative after-tax increase to retained earnings of $92.2 million that results with the adoption of SFAS 157 and SFAS 159.

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

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

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

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

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

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

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

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

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

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

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

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

3 EARNINGS PER COMMON SHARE

The calculations of (loss) earnings per common share for the quarters ended on March 31, 2006, 2005 and 2004 are as follows:

	Quarter Ended March 31,		
	2006	2005 (As Restated)	2004 (As Restated)
	(In thousands, except per share data)		
Net Income:			
Net income	$ 3,863	$ 25,215	$ 65,430
Less : Preferred stock dividend	(10,069)	(10,069)	(10,069)
Net (loss) income available to common stockholders	$ (6,206)	$ 15,146	$ 55,361
Weighted-Average Shares:			
Basic weighted average common shares outstanding	81,556	80,784	80,128
Average potential common shares		2,742	2,632
Diluted weighted-average number of common shares outstanding	81,556	83,526	82,760
(Loss) Earnings per common share:			
Basic	$ (0.08)	$ 0.19	$ 0.69
Diluted	$ (0.08)	$ 0.18	$ 0.67

Potential common shares consist of common stock issuable under the assumed exercise of stock options using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from exercise are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Stock options that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect in earnings per share. As of March 31, 2006, there were 3,043,410 outstanding stock options that were excluded from the computation of diluted earnings per common share because the Corporation reported a net loss available to common stockholders for such period. All options were included in the computation of outstanding shares for the quarter ended March 31, 2005. For the quarter ended on March 31, 2004, a total of 931,800 stock options were not included in the computation of outstanding shares because they were antidilutive.

4 STOCK OPTION PLAN

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

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

Prior to the adoption of SFAS 123R on January 1, 2006, the Corporation accounted for stock options under the recognition and measurement principles of APB 25 and related Interpretations. No stock-based employee

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compensation cost was reflected in net income for the quarters ended March 31, 2005 and 2004, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. The table below illustrates the effect on net income and earnings per common share if the Corporation had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation granted during the first quarter of 2005 and 2004.

Pro-forma information:

	Quarter ended March 31,	
	2005 (As Restated)	**2004 (As Restated)**
	(In thousands, except per share data)	
Net income		
As reported	$ 25,215	$ 65,430
Deduct: Stock-based employee compensation expense determined under fair value method	6,118	4,963
Pro forma	$ 19,097	$ 60,467
Earnings per common share-basic:		
As reported	$ 0.19	$ 0.69
Pro forma	$ 0.11	$ 0.63
Earnings per common share-diluted:		
As reported	$ 0.18	$ 0.67
Pro forma	$ 0.11	$ 0.61

On January 1, 2006, the Corporation adopted SFAS 123R using the modified prospective method. Under this method, and since all previously issued stock options were fully vested at the time of the adoption, the Corporation expenses the fair value of all employee stock options granted after January 1, 2006 (same as the prospective method). The compensation expense associated with expensing stock options for the quarter ended March 31, 2006 was approximately $4.9 million. All employee stock options granted during 2006 were fully vested at the time of grant.

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

	Quarter Ended March 31, 2006			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Beginning of period	5,316,410	$ 13.28		
Options granted	1,070,000	12.68		
Options exercised	(2,379,000)	8.30		
Options expired unexercised	(964,000)	21.95		
End of period outstanding and exercisable	3,043,410	$ 14.21	7.6	$ 3,329

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

	2006	2005	2004
Weighted Average Stock Price at grant date and exercise price	$ 12.68	$ 23.92	$ 21.45
Stock option estimated fair value	$4.56-$4.60	$ 6.40-$6.41	$5.30-$5.45
Weighted-average estimated fair value	$ 4.57	$ 6.40	$ 5.33
Expected stock option term (years)	4.22-4.31	4.25 - 4.27	4.08-4.33
Expected volatility	46%	28%	28%
Expected dividend yield	2.2%	1.0%	1.0%
Risk-free interest rate	4.7% - 5.0%	4.2%	3.1%

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

The total intrinsic value of options exercised during the first quarter of 2006, 2005 and 2004 was approximately $10.0 million, $0.3 million and $6.4 million, respectively. Cash proceeds from options exercised during the first quarter of 2006, 2005 and 2004 amounted to approximately $19.8 million, $0.2 million and $2.6 million, respectively.

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5 INVESTMENT SECURITIES

Investment Securities Available for Sale

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

	March 31, 2006					December 31, 2005				
	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Fair value	Weighted average yield%
	(Dollars in thousands)									
Obligations of U.S. Government Sponsored Agencies:										
Within 1 year	$	$	$	$		$ 1,000	$	$	$ 1,000	6.00
After 5 to 10 years	398,079		17,530	380,549	4.29	392,939		4,289	388,650	4.27
After 10 years	7,993		131	7,862	6.10					
Puerto Rico Government Obligations:										
After 1 to 5 years	4,604	189		4,793	6.17	4,594	223		4,817	6.17
After 5 to 10 years	15,335	273	778	14,830	4.84	15,271	196	678	14,789	4.84
After 10 years	5,327	113	100	5,340	5.88	5,311	131	42	5,400	5.88
United States and Puerto Rico Government Obligations	431,338	575	18,539	413,374	4.38	419,115	550	5,009	414,656	4.34
Mortgage-backed Securities:										
FHLMC certificates:										
Within 1 year	3			3	5.24	2			2	4.26
After 1 to 5 years	1,568	16		1,584	6.40	1,762	30		1,792	6.43
After 5 to 10 years	1,179	54		1,233	7.82	1,336	82		1,418	7.98
After 10 years	6,422	61	222	6,261	5.49	6,839	77	166	6,750	5.55
	9,172	131	222	9,081	5.95	9,939	189	166	9,962	6.03
GNMA certificates:										
After 1 to 5 years	857	8		865	6.37	939	14		953	6.39
After 5 to 10 years	1,068	11	1	1,078	5.10	291	10		301	6.64
After 10 years	424,511	619	8,800	416,330	5.23	438,565	1,021	1,959	437,627	5.19
	426,436	638	8,801	418,273	5.24	439,795	1,045	1,959	438,881	5.20

FNMA certificates:										
After 1 to 5 years	156	1		157	7.41	187	3		190	7.55
After 5 to 10 years	157	11		168	11.14	124	11		135	11.40
After 10 years	996,375	697	22,514	974,558	5.17	1,038,126	1,054	10,031	1,029,149	5.14
	996,688	709	22,514	974,883	5.17	1,038,437	1,068	10,031	1,029,474	5.14
Mortgage pass-through certificates:										
After 10 years	391	3		394	7.29	400	3		403	7.29
Mortgage-backed Securities	1,432,687	1,481	31,537	1,402,631	5.20	1,488,571	2,305	12,156	1,478,720	5.16
Corporate Bonds:										
After 1 to 5 years	988	25		1,013	7.30	2,483	84	1	2,566	7.75
After 5 to 10 years						1,912	12	42	1,882	8.09
After 10 years	14,012	335	1,460	12,887	7.56	21,857	909	1,833	20,933	7.44
Corporate bonds	15,000	360	1,460	13,900	7.54	26,252	1,005	1,876	25,381	7.52
Equity securities (without contractual maturity)	27,798	2,770	428	30,140	2.31	29,931	1,131	1,641	29,421	3.70
Total Investment Securities Available for Sale	$ 1,906,823	$ 5,186	$ 51,964	$ 1,860,045	4.99	$ 1,963,869	$ 4,991	$ 20,682	$ 1,948,178	5.00