

FIRST BANCORP /PR/  
Form 8-K  
October 26, 2010

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

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**Form 8-K**

**Current Report  
Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934**

**Date of Report (Date of Earliest Event Reported): October 21, 2010**

**FIRST BANCORP  
(Exact Name of Registrant as Specified in its Charter)**

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**001-14793  
(Commission File Number)**

|   |  |
|---|--|
| <b>Puerto Rico<br/>(State or Other Jurisdiction<br/>of Incorporation)</b> | <b>66-0561882<br/>(I.R.S. Employer<br/>Identification No.)</b> |
|---|--|

**1519 Ponce de Leon  
San Juan, Puerto Rico 00908-0146  
(Address of Principal Executive Offices) (Zip Code)**

**(787) 729 8200  
(Registrant's Telephone Number, including Area Code)**

**Not applicable  
(Former name or former address, if changed since last report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

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Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**Item 2.02 Results of Operations and Financial Condition.**

On October 21, 2010, First BanCorp. (the “Corporation”) issued a press release announcing its unaudited results of operations for the third quarter ended September 30, 2010. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

The Corporation has included in this release the following financial measures that are not recognized under generally accepted accounting principles, which are referred to as non-GAAP financial measures: (i) the calculation of net interest income, interest rate spread and net interest margin rate on a tax-equivalent basis and excluding changes in the fair value of derivative instruments and certain financial liabilities; (ii) the calculation of the tangible common equity ratio and the tangible book value per common share; (iii) the Tier 1 common equity to risk-weighted assets ratio; and (iv) the adjusted pre-tax, pre-provision income. Investors should be aware that non-GAAP measures have inherent limitations and should be read only in conjunction with the Corporation’s consolidated financial data prepared in accordance with GAAP.

Net interest income, interest rate spread and net interest margin are reported on a tax-equivalent basis and excluding changes in the fair value of derivative instruments and financial liabilities elected to be measured at fair value (“valuations”). The presentation of net interest income excluding valuations provides additional information about the Corporation’s net interest income and facilitates comparability and analysis. The changes in the fair value of derivative instruments and unrealized gains and losses on liabilities measured at fair value have no effect on interest due or interest earned on interest-bearing liabilities or interest-earning assets, respectively. The tax-equivalent adjustment to net interest income recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a marginal income tax rate, as described in Exhibit A — Tables 2 and 3 of the press release attached hereto as Exhibit 99.1. Income from tax-exempt earning assets is increased by an amount equivalent to the taxes that would have been paid if this income had been taxable at statutory rates. Management believes that it is a standard practice in the banking industry to present net interest income, interest rate spread and net interest margin on a fully tax-equivalent basis. This adjustment puts all earning assets, most notably tax-exempt securities and certain loans, on a common basis that facilitates comparison of the Corporation’s results to results of its peers.

The following table reconciles the non-GAAP financial measure “net interest income on a tax-equivalent basis and excluding fair value changes” with net interest income calculated and presented in accordance with GAAP. The table also reconciles the non-GAAP financial measures “net interest spread and margin on a tax-equivalent basis and excluding fair value changes” with net interest spread and margin calculated and presented in accordance with GAAP.

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**Reconciliation of GAAP Net Interest Margin and Spread to Non-GAAP Net Interest Margin and Spread on a Tax-Equivalent basis including fair value changes on derivative instruments and liabilities measured at fair value ("valuations")**

|   | <b>Quarter Ended</b>          |                      |                       |                              |                               |
|---|-------------------------------|----------------------|-----------------------|------------------------------|-------------------------------|
|   | <b>September 30,<br/>2010</b> | <b>June 30, 2010</b> | <b>March 31, 2010</b> | <b>December 31,<br/>2009</b> | <b>September 30,<br/>2009</b> |
| <b>Net Interest Income (in thousands)</b>   |                               |                      |                       |                              |                               |
| Interest Income - GAAP  | \$ 204,028                    | \$ 214,864           | \$ 220,988            | \$ 243,449                   | \$ 242,022                    |
| Unrealized loss (gain) on derivative instruments  | 938                           | 487                  | 744                   | (2,764)                      | 1,485                         |
| Interest income excluding valuations  | 204,966                       | 215,351              | 221,732               | 240,685                      | 243,507                       |
| Tax-equivalent adjustment   | 6,777                         | 7,222                | 9,912                 | 12,311                       | 12,925                        |
| Interest income on a tax-equivalent basis excluding valuations                          | 211,743                       | 222,573              | 231,644               | 252,996                      | 256,432                       |
| Interest Expense - GAAP   | 90,326                        | 95,802               | 104,125               | 106,152                      | 112,889                       |
| Unrealized gain (loss) on derivative instruments and liabilities measured at fair value | (527)                         | 3,896                | (989)                 | (247)                        | (1,589)                       |
| Interest expense excluding valuations   | 89,799                        | 99,698               | 103,136               | 105,905                      | 111,300                       |
| Net interest income - GAAP  | \$ 113,702                    | \$ 119,062           | \$ 116,863            | \$ 137,297                   | \$ 129,133                    |
| Net interest income excluding   | \$ 115,167                    | \$ 115,653           | \$ 118,596            | \$ 134,780                   | \$ 132,207                    |

valuations

|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| Net interest income on a tax-equivalent basis excluding valuations | \$ 121,944 | \$ 122,875 | \$ 128,508 | \$ 147,091 | \$ 145,132 |
|--|------------|------------|------------|------------|------------|

**Average Balances (in thousands)**

|   |               |               |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|
| Loans and leases                                  | \$ 12,443,055 | \$ 13,025,808 | \$ 13,569,467 | \$ 13,777,928 | \$ 13,321,100 |
| Total securities and other short-term investments | 4,640,055     | 5,485,934     | 5,526,589     | 5,505,527     | 6,220,156     |
| Average Interest-Earning Assets                   | \$ 17,083,110 | \$ 18,511,742 | \$ 19,096,056 | \$ 19,283,455 | \$ 19,541,256 |
| Average Interest-Bearing Liabilities              | \$ 15,002,168 | \$ 16,378,022 | \$ 16,910,781 | \$ 17,112,556 | \$ 17,308,432 |

**Average Yield/Rate**

|   |      |   |      |   |      |   |      |   |      |   |
|---|------|---|------|---|------|---|------|---|------|---|
| Average yield on interest-earning assets - GAAP               | 4.74 | % | 4.66 | % | 4.69 | % | 5.01 | % | 4.91 | % |
| Average rate on interest-bearing liabilities - GAAP           | 2.39 | % | 2.35 | % | 2.50 | % | 2.46 | % | 2.59 | % |
| Net interest spread - GAAP                                    | 2.35 | % | 2.31 | % | 2.19 | % | 2.55 | % | 2.32 | % |
| Net interest margin - GAAP                                    | 2.64 | % | 2.58 | % | 2.48 | % | 2.82 | % | 2.62 | % |
| Average yield on interest-earning assets excluding valuations | 4.76 | % | 4.66 | % | 4.71 | % | 4.95 | % | 4.94 | % |
| Average rate on interest-bearing                              | 2.37 | % | 2.44 | % | 2.47 | % | 2.46 | % | 2.55 | % |

|  |      |   |      |   |      |   |      |   |      |   |
|--|------|---|------|---|------|---|------|---|------|---|
| liabilities<br>excluding<br>valuations   |      |   |      |   |      |   |      |   |      |   |
| Net interest<br>spread excluding<br>valuations   | 2.39 | % | 2.22 | % | 2.24 | % | 2.49 | % | 2.39 | % |
| Net interest<br>margin<br>excluding<br>valuations  | 2.67 | % | 2.51 | % | 2.52 | % | 2.77 | % | 2.68 | % |
| Average yield<br>on<br>interest-earning<br>assets on a<br>tax-equivalent<br>basis and<br>excluding<br>valuations | 4.92 | % | 4.82 | % | 4.92 | % | 5.21 | % | 5.21 | % |
| Average rate on<br>interest-bearing<br>liabilities<br>excluding<br>valuations                                    | 2.37 | % | 2.44 | % | 2.47 | % | 2.46 | % | 2.55 | % |
| Net interest<br>spread on a<br>tax-equivalent<br>basis and<br>excluding<br>valuations                            | 2.55 | % | 2.38 | % | 2.45 | % | 2.75 | % | 2.66 | % |
| Net interest<br>margin on a<br>tax-equivalent<br>basis and<br>excluding<br>valuations                            | 2.83 | % | 2.66 | % | 2.73 | % | 3.03 | % | 2.95 | % |

The tangible common equity ratio and tangible book value per common share are non-GAAP measures generally used by the financial community to evaluate capital adequacy. Tangible common equity is total equity less preferred equity, goodwill and core deposit intangibles. Tangible assets are total assets less goodwill and core deposit intangibles. Management and many stock analysts use the tangible common equity ratio and tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase accounting method of accounting for mergers and acquisitions. Neither tangible common equity nor tangible assets, or related measures should be considered in isolation or as a substitute for stockholders' equity, total assets or any other measure calculated in accordance with GAAP. Moreover, the manner in which the Corporation calculates its tangible common equity, tangible assets and any other related measures may differ from that of other companies reporting measures with similar names. The following table is a reconciliation of the Corporation's tangible common equity and tangible assets:



| (Dollars in thousands)                      | As of                 |                      |                      |                      |                       |
|---|-----------------------|----------------------|----------------------|----------------------|-----------------------|
|   | September 30,<br>2010 | June 30,<br>2010     | March 31,<br>2010    | December 31,<br>2009 | September 30,<br>2009 |
| <b>Tangible Equity:</b>                     |                       |                      |                      |                      |                       |
| Total equity - GAAP                         | \$ 1,321,979          | \$ 1,438,289         | \$ 1,488,543         | \$ 1,599,063         | \$ 1,698,843          |
| Preferred equity                            | (411,876 )            | (930,830 )           | (929,660 )           | (928,508 )           | (927,374 )            |
| Goodwill                                    | (28,098 )             | (28,098 )            | (28,098 )            | (28,098 )            | (28,098 )             |
| Core deposit intangible                     | (14,673 )             | (15,303 )            | (15,934 )            | (16,600 )            | (17,297 )             |
| <b>Tangible common equity</b>               | <b>\$ 867,332</b>     | <b>\$ 464,058</b>    | <b>\$ 514,851</b>    | <b>\$ 625,857</b>    | <b>\$ 726,074</b>     |
| <b>Tangible Assets:</b>                     |                       |                      |                      |                      |                       |
| Total assets - GAAP                         | \$ 16,678,879         | \$ 18,116,023        | \$ 18,850,964        | \$ 19,628,448        | \$ 20,081,185         |
| Goodwill                                    | (28,098 )             | (28,098 )            | (28,098 )            | (28,098 )            | (28,098 )             |
| Core deposit intangible                     | (14,673 )             | (15,303 )            | (15,934 )            | (16,600 )            | (17,297 )             |
| <b>Tangible assets</b>                      | <b>\$ 16,636,108</b>  | <b>\$ 18,072,622</b> | <b>\$ 18,806,932</b> | <b>\$ 19,583,750</b> | <b>\$ 20,035,790</b>  |
| <b>Common shares outstanding</b>            | <b>319,558</b>        | <b>92,542</b>        | <b>92,542</b>        | <b>92,542</b>        | <b>92,542</b>         |
| <b>Tangible common equity ratio</b>         | <b>5.21</b>           | <b>2.57</b>          | <b>2.74</b>          | <b>3.20</b>          | <b>3.62</b>           |
|   | %                     | %                    | %                    | %                    | %                     |
| <b>Tangible book value per common share</b> | <b>\$ 2.71</b>        | <b>\$ 5.01</b>       | <b>\$ 5.56</b>       | <b>\$ 6.76</b>       | <b>\$ 7.85</b>        |

The Tier 1 common equity to risk-weighted assets ratio is calculated by dividing (a) tier 1 capital less non-common elements including qualifying perpetual preferred stock and qualifying trust preferred securities by (b) risk-weighted assets, which assets are calculated in accordance with applicable bank regulatory requirements. The Tier 1 common equity ratio is not required by GAAP or on a recurring basis by applicable bank regulatory requirements. However, this ratio was used by the Federal Reserve in connection with its stress test administered to the 19 largest U.S. bank



holding companies under the Supervisory Capital Assessment Program, the results of which were announced on May 7, 2009. Management is currently monitoring this ratio, along with the other ratios discussed above, in evaluating the Corporation's capital levels and believes that, at this time, the ratio may be of interest to investors.

The following table reconciles stockholders' equity (GAAP) to Tier 1 common equity:

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(Dollars in thousands)

As of

|   | September 30,<br>2010 | June 30,<br>2010     | March 31,<br>2010    | December 31,<br>2009 | September 30,<br>2009 |
|---|-----------------------|----------------------|----------------------|----------------------|-----------------------|
| <b>Tier 1 Common Equity:</b>  |                       |                      |                      |                      |                       |
| Total equity - GAAP   | \$ 1,321,979          | \$ 1,438,289         | \$ 1,488,543         | \$ 1,599,063         | \$ 1,698,843          |
| Qualifying preferred stock  | (411,876 )            | (930,830 )           | (929,660 )           | (928,508 )           | (927,374 )            |
| Unrealized (gain) loss on available-for-sale securities (1)                                 | (30,295 )             | (63,311 )            | (22,948 )            | (26,617 )            | (73,095 )             |
| Disallowed deferred tax asset (2)   | (43,552 )             | (38,078 )            | (40,522 )            | (11,827 )            | (1,721 )              |
| Goodwill  | (28,098 )             | (28,098 )            | (28,098 )            | (28,098 )            | (28,098 )             |
| Core deposit intangible   | (14,673 )             | (15,303 )            | (15,934 )            | (16,600 )            | (17,297 )             |
| Cumulative change gain in fair value of liabilities accounted for under a fair value option | (2,654 )              | (3,170 )             | (951 )               | (1,535 )             | (1,647 )              |
| Other disallowed assets   | (24 )                 | (66 )                | (24 )                | (24 )                | (514 )                |
| <b>Tier 1 common equity</b>   | <b>\$ 790,807</b>     | <b>\$ 359,433</b>    | <b>\$ 450,406</b>    | <b>\$ 585,854</b>    | <b>\$ 649,097</b>     |
| <b>Total risk-weighted assets</b>   | <b>\$ 11,940,412</b>  | <b>\$ 12,570,330</b> | <b>\$ 13,402,979</b> | <b>\$ 14,303,496</b> | <b>\$ 14,394,968</b>  |
| <b>Tier 1 common equity to risk-weighted assets ratio</b>                                   | <b>6.62 %</b>         | <b>2.86 %</b>        | <b>3.36 %</b>        | <b>4.10 %</b>        | <b>4.51 %</b>         |

1- Tier 1 capital excludes net unrealized gains (losses) on available-for-sale debt securities and net unrealized gains on available-for-sale equity securities with readily determinable fair values, in accordance with regulatory risk-based capital guidelines. In arriving at Tier 1 capital, institutions are required to deduct net unrealized losses

on available-for-sale equity securities with readily determinable fair values, net of tax.

- 2- Approximately \$64 million of the Corporation's deferred tax assets at September 30, 2010 (June 30, 2010 - \$71 million; March 31, 2010 - \$69 million December 31, 2009 - \$102 million; September 30, 2009 - \$112 million) were included without limitation in regulatory capital pursuant to the risk-based capital guidelines, while approximately \$44 million of such assets at September 30, 2010 (June 30, 2010 - \$38 million; March 31, 2010 - \$41 million; December 31, 2009 - \$12 million; September 30, 2009 - \$2 million) exceeded the limitation imposed by these guidelines and, as "disallowed deferred tax assets," were deducted in arriving at Tier 1 capital. According to regulatory capital guidelines, the deferred tax assets that are dependent upon future taxable income are limited for inclusion in Tier 1 capital to the lesser of: (i) the amount of such deferred tax asset that the entity expects to realize within one year of the calendar quarter end-date, based on its projected future taxable income for that year, or (ii) 10% of the amount of the entity's Tier 1 capital. Approximately \$7 million of the Corporation's other net deferred tax liability at September 30, 2010 (June 30, 2010 - \$12 million; March 31, 2010 - \$5 million; December 31, 2009 - \$5 million; September 30, 2009 - \$6 million) represented primarily the deferred tax effects of unrealized gains and losses on available-for-sale debt securities, which are permitted to be excluded prior to deriving the amount of net deferred tax assets subject to limitation under the guidelines.

One non-GAAP performance metric that management believes is useful in analyzing underlying performance trends, particularly in times of economic stress, is adjusted pre-tax, pre-provision income. Adjusted pre-tax, pre-provision income, as defined by management, represents net (loss) income excluding income tax expense (benefit), the provision for loan and lease losses, gains on sale and OTTI of investment securities, as well as certain items identified as unusual, non-recurring or non-operating.

From time to time, revenue and expenses are impacted by items judged by management to be outside of ordinary banking activities and/or by items that, while they may be associated with ordinary banking activities, are so unusually large that management believes them to be nonrecurring. These items result from factors originating outside the Corporation such as regulatory actions or assessments, and may result from unusual management decisions, such as the early extinguishment of debt.

The following table reconciles (loss) income before income taxes (GAAP) to adjusted pre-tax, pre-provision income:

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| (Dollars in thousands)  | Quarter Ended      |               |                |                   |                    |
|---|--------------------|---------------|----------------|-------------------|--------------------|
|   | September 30, 2010 | June 30, 2010 | March 31, 2010 | December 31, 2009 | September 30, 2009 |
| (Loss) income before income taxes                               | \$ (76,196 )       | \$ (86,817 )  | \$ (100,138 )  | \$ (49,891 )      | \$ (51,745 )       |
| Add: Provision for loan and lease losses                        | 120,482            | 146,793       | 170,965        | 137,187           | 148,090            |
| Less: Net (gain) loss on sale and OTTI of investment securities | (48,281 )          | (24,237 )     | (30,764 )      | (24,387 )         | (34,065 )          |
| Add: Loss on early extinguishment of repurchase agreements      | 47,405             | -             | -              | -                 | 0                  |
| Adjusted Pre-tax, pre-provision income                          | \$ 43,410          | \$ 35,739     | \$ 40,063      | \$ 62,909         | \$ 62,280          |
| Linked quarter change - amount                                  | \$ 7,671           | \$ (4,324 )   | \$ (22,846 )   | \$ 629            | \$ 13,083          |
| Linked quarter change - percent                                 | 21.5 %             | -10.8 %       | -36.3 %        | 1.0 %             | 26.6 %             |

**Item 9.01 Financial Statements and Exhibits.**

## (d) Exhibits

Exhibit No. Description

99.1 Press Release dated October 21, 2010 - First BanCorp Reports Financial Results for the Quarter Ended September 30, 2010

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 26, 2010 FIRST BANCORP

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By: /s/ Orlando Berges

Name: Orlando Berges

Title: Executive Vice President and  
Chief Financial Officer

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**Exhibit Index**

Exhibit No. Description

99.1 Press Release dated October 21, 2010 - First BanCorp Reports Financial Results for the Quarter Ended September 30, 2010