

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

PLUMBERS AND PIPEFITTERS LOCAL 51	:	Civil Action No.
PENSION FUND, Individually and on Behalf	:	
of All Others Similarly Situated,	:	<u>CLASS ACTION</u>
	:	
Plaintiff,	:	COMPLAINT FOR VIOLATIONS OF
	:	FEDERAL SECURITIES LAWS
vs.	:	
	:	
FIRST BANCORP., ANGEL ALVAREZ-	:	
PEREZ and ANNIE ASTOR-CARBONELL,	:	
	:	
Defendants.	:	

DEMAND FOR JURY TRIAL

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NATURE AND SUMMARY OF THE ACTION

1. This is a federal class action on behalf of purchasers of the publicly traded securities of First BanCorp. (“First BanCorp” or the “Company”) between October 20, 2003 and August 25, 2005, inclusive (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”).

2. Defendant First BanCorp operates as the holding company for First Bank Puerto Rico, which provides various financial services in Puerto Rico, the U.S. Virgin Islands, and British Virgin Islands. First BanCorp attracts various deposits, including checking accounts, savings accounts, certificates of deposit, and interest bearing and non-interest bearing accounts. It originates residential real-estate loans, commercial real-estate loans, and construction loans, as well as consumer loans that comprise personal, auto, boat, credit card, and small loans. First BanCorp, through its subsidiaries, provides finance leases, vehicle rental, insurance products, and foreign sales corporation management services. In addition, the Company offers insurance products and services through its other wholly owned subsidiary, FirstBank Insurance Agency, Inc. Further, First BanCorp invests in Puerto Rico government obligations, U.S. treasury securities, obligations of other U.S. government agencies, mortgage-backed securities, corporate bonds, and equity securities. The Company is headquartered in Puerto Rico.

3. During the Class Period, defendants issued false statements about First BanCorp’s earnings, assets, capital and prospects causing the Company’s stock to trade at artificially inflated levels. While the Company’s stock price dropped somewhat in the late spring of 2005 due to problems announced by First BanCorp’s competitors in Puerto Rico (R&G Financial Corp. (“R&G”) and Doral Financial Corp. (“Doral”)), as well as an adverse interest rate environment, the stock soon

recovered as defendants did not own up to significant accounting issues such as those disclosed by R&G and Doral, and the Company continued to report favorable financial results.¹

4. Ultimately, however, First BanCorp could no longer deny its accounting problems due to an informal SEC inquiry relating to the accounting of mortgage loans purchased from both Doral and R&G during 2000-2004.

5. On August 10, 2005, the Company revealed in its 12b-25 filing that it was reviewing mortgages previously recorded on the Company's financial statements and had retained a law firm to assist in its investigation.

6. On August 25, 2005, the Company issued a press release entitled "First BanCorp Provides Update on Review of Accounting Issues," which stated in part:

First BanCorp announced that on August 23, 2005, the Company received a letter from the United States Securities and Exchange Commission (the "SEC") in which the SEC indicated that it was conducting an informal inquiry into the Company. The inquiry pertains, among other things, to the accounting for mortgage loans purchased by the Company from two other financial institutions during the calendar years 2000 through 2004. The Company intends to fully cooperate with the SEC.

The Company has previously disclosed that the Audit Committee (the "Committee") of the Company had determined that it should undertake a review of purchases of mortgage loans originated by other financial institutions. This disclosure was made by the Company in its Form 12b-25 filed with the SEC on August 10, 2005. In this filing, the Company announced that it would be unable to file its Form 10-Q for the quarter ended June 30, 2005 on a timely basis.

The Committee has retained the law firms Clifford Chance U.S. LLP and Martinez Odell & Calabria to assist the Committee in its review. Forensic accountants FTI Consulting Inc. have also been retained to assist in the review.

The Committee is reviewing the terms of these transactions and the accounting for these transactions. The accounting issues being reviewed include the following:

¹ Both Doral and R&G are under investigation for accounting fraud and the subjects of multiple shareholder class and derivative actions.

- Whether the Company should have recorded any such transactions as loans made by the Company to the sellers of the mortgage loans, rather than as purchases of mortgage loans under SFAS No. 140.
- Whether any of the transactions resulted in derivatives requiring the application of SFAS No. 133.

The Committee is also evaluating the impact of these issues on the Company's internal controls and procedures, including its internal control over financial reporting.

Although the Committee is reviewing the issues described in this Form 8-K, it is possible that the Committee may also determine it is appropriate to review other issues.

The issues being reviewed by the Committee could potentially affect the Company's financial statements for the years 2000 through 2004 and the first two quarters of 2005. The Committee has not yet made any determinations with respect to the potential impact of these issues on the Company's prior financial statements. As indicated above, the Company was the purchaser of mortgage loans in these transactions. The income recorded by the Company in connection with these transactions was interest income on the mortgage loans purchased by the Company. The Company did not record any interest only strips as a result of these transactions.

At the present time, the Company is uncertain when the Committee's review will be completed and when the Company will be able to file its Form 10-Q for the quarter ended June 30, 2005.

7. As a result of these disclosures, First BanCorp's stock dropped from \$24.11 per share on August 3, 2005 to \$18.23 per share on August 26, 2005.²

8. Later, on September 30, 2005, *both* Angel Alvarez-Perez, the Company's CEO and President, and Annie Astor-Carbonell, the Company's CFO, suddenly announced they were resigning from the Company.

9. The true facts, which were concealed by defendants during the Class Period, were as follows:

² Unless otherwise indicated, all share and per-share amounts have been adjusted to reflect the Company's July 2005 2-for-1 stock split.

(a) The Company's financial statements were materially false and misleading in that the Company had manipulated its accounting for mortgage loans purchased between 2000-2004.

(b) The Company's internal controls were grossly weak, thereby allowing the Company's top management to manipulate them at will.

(c) The Company's "record" quarterly income reported during the Class Period was a product of accounting fraud, not synergies produced by effective fiscal and personnel management.

(d) As a result of (a)-(c) above, and as more fully described at ¶¶46-49 below, the Company's published financial statements violated Generally Accepted Accounting Principles ("GAAP").

JURISDICTION AND VENUE

10. The claims asserted herein arise under and pursuant §§10(b) and 20(a) of the Exchange Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the SEC [17 C.F.R. §240.10b-5].

11. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§1331 and 1337, and §27 of the Exchange Act.

12. Venue is proper in this District pursuant to §27 of the Exchange Act and 28 U.S.C. §1391(b). Many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District and First BanCorp conducts business in this District.

13. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

PARTIES

14. Plaintiff Plumbers and Pipefitters Local 51 Pension Fund, as set forth in the accompanying certification and incorporated by reference herein, purchased publicly traded securities of First BanCorp at artificially inflated prices during the Class Period and has been damaged thereby.

15. Defendant First BanCorp is a corporation organized under the laws of Puerto Rico, with its principal executive offices located at 1519 Ponce De Leon Avenue, Stop 23, San Juan, Puerto Rico. First BanCorp operates as the holding company for FirstBank Puerto Rico, which provides various financial services in Puerto Rico, the U.S. Virgin Islands, and British Virgin Islands. First Bank attracts various deposits, including checking accounts, savings accounts, certificates of deposit, and interest bearing and non-interest bearing accounts. It originates residential real-estate loans, commercial real-estate loans, and construction loans, as well as consumer loans that comprise personal, auto, boat, credit card, and small loans. First BanCorp, through its subsidiaries, provides finance leases, vehicle rental, insurance products, and foreign sales corporation management services. In addition, the Company offers insurance products and services through its other wholly owned subsidiary, FirstBank Insurance Agency, Inc. Further, First BanCorp invests in Puerto Rico government obligations, U.S. treasury securities, obligations of other U.S. government agencies, mortgage-backed securities, corporate bonds, and equity securities.

16. (a) Defendant Angel Alvarez-Perez (“Perez”) was, throughout the Class Period, First BanCorp’s Chief Executive Officer, President and Chairman. Perez signed and verified each SEC filing alleged to be false wherein he claimed (albeit falsely) each such filing and the contents therein complied with GAAP. On September 30, 2005, Perez revealed that he would be resigning from the Company.

(b) Defendant Annie Astor-Carbonell (“Carbonell”) was, throughout the Class Period, First BanCorp’s Chief Financial Officer and Vice President. Carbonell signed and verified each SEC filing alleged to be false wherein she claimed (albeit falsely) each such filing and the contents therein complied with GAAP. During the Class Period, defendant Carbonell sold \$639,794 worth of her own First BanCorp stock. On September 30, 2005, Carbonell revealed that she would be resigning from the Company.

17. Defendants Perez and Carbonell are referred to herein as the “Individual Defendants.” During the Class Period, the Individual Defendants, as senior executive officers and/or directors of First BanCorp, were privy to confidential and proprietary information concerning First BanCorp, its operations, finances, financial condition and present and future business prospects. The Individual Defendants also had access to material adverse non-public information concerning First BanCorp, as discussed in detail below. Because of their positions with First BanCorp, the Individual Defendants had access to non-public information about its business, finances, products, markets and present and future business prospects via access to internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and/or board of directors meetings and committees thereof and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants knew or recklessly disregarded that the adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

18. The Individual Defendants are liable as direct participants in the wrongs complained of herein. In addition, the Individual Defendants, by reason of their status as senior executive officers and/or directors, were “controlling persons” within the meaning of §20(a) of the Exchange Act and had the power and influence to cause the Company to engage in the unlawful conduct

complained of herein. Because of their positions of control, the Individual Defendants were able to and did, directly or indirectly, control the conduct of First BanCorp's business.

19. The Individual Defendants, because of their positions with the Company, controlled and/or possessed the authority to control the contents of its reports, press releases and presentations to securities analysts and through them, to the investing public. The Individual Defendants were provided with copies of the Company's reports and press releases alleged herein to be misleading, prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Thus, the Individual Defendants had the opportunity to commit the fraudulent acts alleged herein.

20. As senior executive officers and/or directors and as controlling persons of a publicly traded company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was traded on the NYSE and governed by the federal securities laws, the Individual Defendants had a duty to disseminate promptly accurate and truthful information with respect to First BanCorp's financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings and present and future business prospects, to correct any previously issued statements that had become materially misleading or untrue, so that the market price of First BanCorp's securities would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

21. The Individual Defendants are liable as participants in a fraudulent scheme and course of conduct that operated as a fraud or deceit on purchasers of First BanCorp publicly traded securities by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding First BanCorp's business,

operations and management and the intrinsic value of First BanCorp securities; and (ii) caused plaintiff and members of the Class to purchase First BanCorp publicly traded securities at artificially inflated prices.

22. With respect to the additional factors which played a role in motivating defendants to commit this four-year long perpetual fraud, the 2005 Proxy stated:

COMPENSATION OF CHIEF EXECUTIVE OFFICER

Mr. Angel Alvarez-Perez has served as President and Chief Executive Officer of FirstBank since September 1990 and as Chairman, President and CEO of First Bancorp since November 1998. During fiscal 2004, the annual salary of Mr. Angel Alvarez-Perez was \$1,100,000. On February 20, 2005, the Committee granted the President a cash bonus of \$1,000,000 corresponding to performance in fiscal 2004. During fiscal 2004, the President received 180,000 stock options. The compensation granted was determined in accordance with the Corporation's compensation policy described above. In making such determination, the Committee took into consideration the Corporation's performance during 2004, including the continued significant increase in First BanCorp's earnings, continued control of operating expenses, and the achievement of goals that are geared to ensure the Corporation's continued trend of earnings growth that has produced excellent value for First Bancorp's stockholders.

23. The Proxy also demonstrated how defendant Carbonell was, in part, incentivized to assist defendant Perez with the accounting fraud. In exchange for the "appearance" of reported profits, defendant Carbonell was paid the second largest bonus of the entire Company for FY 2004.³

PLAINTIFF'S CLASS ACTION ALLEGATIONS

24. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all those who purchased the securities of First BanCorp between October 20, 2003 and August 25, 2005, inclusive, and who were damaged thereby (the "Class"). Excluded from the Class are defendants, the officers and directors of the

³ Only co-defendant Perez received a higher bonus for 2004.

Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

25. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, First BanCorp stock was actively traded on the NYSE. While the exact number of Class members is unknown to plaintiff at this time and can only be ascertained through appropriate discovery, plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by First BanCorp or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

26. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law complained of herein.

27. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

28. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by defendants' acts as alleged herein;

(b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business and operations of First BanCorp;

(c) whether the prices of First BanCorp's publicly traded securities were artificially inflated during the Class Period; and

(d) to what extent the members of the Class have sustained damages and the proper measure of damages.

29. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

FALSE AND MISLEADING CLASS PERIOD STATEMENTS

30. On October 20, 2003, the Company issued a press release entitled "First BanCorp Reports Earnings Per Share Increase of 19.6%," which stated in part:

First BanCorp, the second largest Puerto Rico Financial Holding Company with diversified banking operations in Puerto Rico and the US and British Virgin Islands, reported today earnings for the quarter ended September 30, 2003.

Net income was \$31,684,402 or \$[0.31] per common share basic and \$[0.30] per common share diluted, for the third quarter of 2003, as compared to earnings of \$27,356,898 or \$[0.26] per common share basic and \$[0.25] per common share diluted for the third quarter of 2002. These results represent an increase in diluted earnings per share of 19.6% for this quarter. Return on Assets (ROA) and Return on Common Equity (ROCE) were 1.14% and 20.67% respectively, for the quarter as compared to 1.26% and 21.65% respectively, for the same quarter of 2002. Basic and diluted weighted average common shares for First BanCorp reports earnings per share increase of 19.6% the 2003 third quarter were [80,014,766] and [82,032,242], respectively.

For the nine months period ended September 30, 2003, earnings were \$97,383,395 or \$[0.96] per common share (basic) and \$[0.94] per common share (diluted), as compared to \$79,985,470, or \$[0.75] per common share basic and \$[0.74] per common share diluted. Basic and diluted weighted average shares for the 2003 year-to-date period were [79,972,920] and [81,813,104], respectively.

Commenting on this quarter results, Mr. Angel Alvarez-Perez, Chairman, President, and CEO of First BanCorp, said, *'our core lending operations have*

continued to grow, especially commercial, auto, and residential mortgages. During the middle of this quarter, with the increase in interest rates, we were able to replace and grow our investment portfolio. We had stayed on the sidelines for about five months, awaiting this opportunity, due to the low interest rates experienced during the first six months of this year. On the asset quality side, our non-performing loans and write-off ratio decreased slightly since last quarter, which is remarkable when considering an overall weak economy.”

Net interest income, the Corporation’s main source of income, increased by \$11.6 million from \$60.3 million during the third quarter of 2002, to \$71.9 million during the third quarter of 2003. When compared to the immediately preceding quarter, it also increased by \$8 million. The increases reflect partially the additional investments, which were made during the middle of this quarter. Net interest margin on a tax equivalent basis was 2.93% for the quarter ended September 2003, as compared to 3.13% for the quarter ended September 2002 and 3.07% for the previous quarter ended June 2003. Fluctuations are the result of the investment strategies and abnormally high prepayment rates on the mortgage-backed securities during the first part of the quarter.

Other income amounted to \$19.1 million for the third quarter of 2003, as compared to \$19.0 million for the third quarter of 2002. Other income included a net gain on sale of investments of \$4.4 million, and a derivative gain of \$1.2 million. Prior year other income include a net gain on sale of investments of \$7.5 million and a derivative loss of \$1.2 million. Other income, excluding the net gains on sales of investments and derivative valuations for both periods, was \$13.6 million for the September 2003 quarter, up from the \$12.7 million for the September 2002 quarter, due mainly to increases in loan fees.

Net charge offs were \$10.1 million (.63% of average loans) for the third quarter of 2003, as compared to \$10.2 million (.85% of average loans) during the third quarter of 2002, and \$9.9 million (.65% of average loans), during the second quarter of 2003. The charge offs ratio is at the lowest level of the last 10 years, due to the Corporation’s effective credit risk management infrastructure.

The efficiency ratio was 43.8%, 41.2%, and 45.2% for the three months ended September 30, 2003, September 30, 2002, and June 30, 2003 respectively, one of the best in the industry. An increase in expenses of \$7.2 million is mainly attributable to \$6.1 million expense for the quarter of the former Chase Virgin Islands operations acquired during October 2002. Expenses of \$39.9 million for this quarter are up by \$584,000 or 1.5%, when compared to the June 2003 quarter.

Total assets were \$12,089 million as of September 30, 2003, as compared to \$9,188 million as of September 30, 2002, and \$9,644 million as of December 31, 2002. Loans receivable increased by 36% to \$6,707 million, as compared to \$4,947 million as of September 30, 2002. The largest loan volume increases were achieved in the commercial and residential real estate portfolios.

Non-performing loans as of September 30, 2003 were \$85.7 million (1.28% of total loans), as compared to \$83.0 million (1.68% of total loans) and \$89.0 million (1.41% of total loans), as of September 30, 2002 and June 30, 2003, respectively. Non-performing loans decreased, when compared to the immediately preceding quarter, as a result of controlled delinquencies, especially in the Bank's commercial portfolios. The slight increase in dollar amount, when compared to the September 2002 figure, is composed mostly of secured real estate loans and is mainly due to the acquisition of Chase's Virgin Islands operations during October 2002.

The allowance for loan losses to non-performing loans (reserve coverage) was 143.6% as of September 30, 2003, compared to 130.0% as of September 30, 2002 and 135.5%, as of June 30, 2003. The improvement in the coverage ratio is related to the stability during 2003 in the delinquencies and non-performing loans.

The Corporation's total capital surpassed the \$1 billion mark, after the closing of \$189.6 million, the largest preferred stock issue in the local market, on September 30, 2003.

31. On January 21, 2004, the Company issued a press release entitled "First BanCorp Reports Earnings Increase of 96.5% for the Quarter And 41.1% for the Year," which stated in part:

First BanCorp, the second largest Puerto Rico Financial Holding company with diversified banking operations in Puerto Rico and the U.S. and British Virgin Islands, reported today record earnings for the fourth quarter and full year 2003.

Net income was \$54,954,947 or \$[0.56] per share basic and \$[0.54] per share diluted, for the fourth quarter of 2003, as compared to earnings of \$27,970,880 or [27] cents per share basic and [26] cents per share diluted, for the fourth quarter of 2002. These results represent an earnings increase of 96.5% for this quarter. Return on Assets (ROA) and Return on Common Equity (ROCE) were 1.84% and 35.00% respectively, for the quarter, as compared to 1.16% and 21.08% respectively, for the same quarter of 2002. Average common shares used to calculate earnings per share for the fourth quarter were [80,036,352] (basic) and [82,425,570] (diluted).

The year ended December 31, 2003 was another record year for First BanCorp, with earnings of \$152,338,342 or \$[1.52] per share (basic) and \$[1.49] per share (diluted), as compared to \$107,956,351 or \$[1.02] per share (basic) and \$[1.00] per share (diluted), an earnings increase of 41.1% for the year 2003. ROA and ROCE for the full year 2003 were 1.46% and 25.20% respectively, as compared to 1.23% and 21.90% respectively, for 2002. Average common shares outstanding for the year were [79,988,908] (basic) and [81,966,350] (diluted). Earnings for the fourth quarter and full year 2003 include a \$18,840,065 or [23] cents per share diluted (net of tax), gain on the sale of a large part of the subsidiary bank's credit card portfolio, as part of a new marketing strategic alliance with MBNA Corporation, which is further explained in a separate press release issued today. Earnings for the fourth quarter and full year 2003, excluding the after tax effect of such gain, are as follows: net earnings

for the fourth quarter, \$36,114,882 or [33] cents (basic) and [32] cents (diluted), 29.1% increase in earnings for the 2003 fourth quarter; net earnings for the full year 2003, \$133,498,277, or \$[1.28] per share (basic) and \$[1.26] per share (diluted). Main profitability ratios for the same periods, excluding the after tax effect of the gain on the sale of a large part of the credit card portfolio, were: Return on Assets, 1.21% for the fourth quarter of 2003, and 1.28% for the full year 2003; Return on Common Equity for the fourth quarter of 2003, 20.30% and 21.31% for the full year 2003; and the efficiency ratio, 43.86% for the quarter, and 43.15% for the full year 2003.

The earnings increase (excluding the after tax effect of the gain on the sale mentioned above) is attributable mostly to increases in the Corporation's net interest income and other income net of an increase in operating expenses. Commenting on the year 2003 achievements, Mr. Angel Alvarez-Perez, CEO of First BanCorp, said, "2003 was a challenging year, as related to interest rates and the general economic environment. Notwithstanding this, we have earned record profits, through the continuous growth of our loan portfolios, especially commercial and residential loans and maintaining low delinquencies in a difficult economic environment, especially in the consumer portfolios. In addition during this year, we restructured our investment portfolio which enabled us to record substantial profits on the securities sold, while at the same time giving us the opportunity to reinvest in a mortgage backed securities portfolio with more attractive yields and shorter maturities."

Net interest income increased by \$25.4 million for the year, to end the year at \$292.2 million. The increase in net interest income for the year is the result of volume increases of \$1,571 million in the Corporation's average loan and investment portfolios. Net interest income was \$84.0 million for this quarter, as compared to \$68.7 million for the fourth quarter of 2002 and \$71.9 million for the third quarter of 2003. During the fourth quarter the net interest income on investments, increased as a result of the portfolio restructuring completed during the third quarter of the year 2003.

Net interest margin (on a tax equivalent basis) was 3.32% and 3.24% for the fourth quarter and full year 2003, respectively, as compared to 3.10% and 3.56% for the fourth quarter and full year 2002, respectively. The decrease for the year is mainly due to lower net yield on the Corporation's mortgage backed securities portfolios experienced during the period ended September 30, 2003. The increase for the fourth quarter results from the portfolio restructuring and investments in mortgage backed securities mentioned above.

During 2003 the Corporation experienced solid asset growth, ending the year with assets of \$12,668 million, up 31.4% from total assets as of December 31 2002 of \$9,644 million. Deposits were \$6,765 million as of December 31, 2003, as compared to \$5,483 million as of December 31, 2002. Loans increased to \$7,045 million as of December 31, 2003, an increase of 25%, when compared to \$5,638 million as of December 31, 2002, mostly as a result of an increase of \$341 million in

commercial loans and \$1,025 million in residential real estate loans. Consumer loans and finance leases increased by \$40 million.

Another factor contributing to the record financial results was the stable write-offs of our loan portfolio during the year. Loan losses (net write-offs) were \$10.8 million for the fourth quarter, (0.63% of average loans) slightly over the \$10.1 million (.74% of average loans) for the fourth quarter of 2002 and \$10.1 million (0.63% of average loans) for the immediately preceding third quarter of 2003. For the total year net write-offs were \$41.4 million (0.66% of average loans), as compared to \$41.5 million during 2002, (.87% of average loans). Non-performing loans at year end were \$85.5 million or 1.21% of total loans, lower in absolute dollar amount and as a percentage of loans, when compared to \$91.8 million or 1.63% of total loans, as of December 31, 2002, and \$85.7 million or 1.28% of total loans as of September 30, 2003, the previous quarter end. The reserve coverage ratio (allowance for loan losses to non-performing loans) was 147.8% as of December 31, 2003, as compared to 121.9% for December 31, 2002 and 143.6% for September 30, 2003. The allowance for loan losses increased to \$126.4 million as of December 31, 2003, from \$123.0 million as of September 30, 2003 and \$111.9 million as of December 31, 2002. The increase corresponds to a higher commercial loan portfolio and current economic conditions.

Other operating income was \$50.4 million for the fourth quarter of 2003. Excluding the gain on the sale of a large part of the credit card portfolio of \$30.9 million (before tax), other operating income was \$19.5 million, as compared to \$16.0 million for the fourth quarter of 2002 and \$19.1 million for the third quarter of 2003. The increase of \$3.5 million, when compared to fourth quarter 2002 is mostly attributable to \$2.9 million higher net gains on sale of investments and derivative income (loss).

32. On April 22, 2004, the Company issued a press release entitled "First BanCorp Reports Earnings for First Quarter 2004," which stated in part:

First BanCorp, the second largest Puerto Rico Financial Holding Company, with diversified banking operations in Puerto Rico and the U.S. and British Virgin Islands, reported today earnings for the quarter ended March 31, 2004.

Net income was \$40,205,034 or \$[0.37] per share basic and \$[0.36] per share diluted, for the first quarter of 2004, as compared to earnings of \$36,428,296 or \$[0.37] per share basic and \$[0.36] per share diluted for the first quarter of 2003. These results represent an earnings increase of 10.4% for this quarter. Return on Assets (ROA) and Return on Common Equity (ROCE) were 1.25% and 21.74% respectively, for the quarter, as compared to 1.56% and 26.24% respectively, for the same quarter of 2003. Basic and diluted weighted average common shares were [80,128,544] and [82,759,186], respectively, for the quarter ended March 31, 2004.

Commenting on these first quarter 2004 results, Mr. Angel Alvarez-Pérez, Chairman, President and CEO of First BanCorp said, “This has been a very good quarter overall. Our loan portfolios continue to grow, and our non-performing assets and charge offs continue to decline. Earnings this quarter include a \$3.2 million, or [4] cents per diluted share gain (net of tax), on the sale of a credit card portfolio. However, earnings of March 2003 first quarter included a \$13.7 million, or [17] cents per diluted share gain, on the sale of a portfolio of mortgage backed securities done in connection with a restructuring of this portfolio.”

Net interest income, the Corporation’s main source of income, increased by \$11.8 million from \$72.4 million during the first quarter of 2003 to \$84.2 million during the first quarter of 2004. This increase is mostly attributable to an increase in average earning assets of \$2.7 billion since March of 2003. On a linked quarter basis, net interest income increased only \$229,000, since the Company maintained during the quarter a short-term investment strategy for new investments and for the reinvestment of the mortgage-backed securities repayments. Net interest margin on a tax equivalent basis was 3.33% for the quarter ended March 2004, as compared to 3.68% for the quarter ended March 2003 and 3.32% for the quarter ended December 2003.

Other income amounted to \$24.0 million for the first quarter of 2004, as compared to \$26.2 million for the first quarter of 2003. Other income included a net gain on sale of investments and hedging activities of \$3.5 million for this quarter as compared to \$14.2 million for the comparable March 2003 period. In addition, other income included a \$5.2 million (\$3.2 million net of tax) gain on the sale of a small \$17 million credit card portfolio. Other income, excluding the gains on sales of investments and hedging activities and gain on sale of credit cards for both periods was \$15.2 million for the March 2004 quarter, as compared to \$11.9 million for the March 2003 quarter. The increase is partially due to an increase in mortgage banking activity results of \$1.2 million, plus other fees and service income related to the growing real estate, commercial, and consumer portfolios of the Corporation’s main subsidiary, FirstBank Puerto Rico.

The efficiency ratio was 39.89% and 40.03% for the three months ended March 31, 2004 and 2003 respectively, one of the best in the industry. An increase in expenses of \$3.7 million is mainly attributable to normal costs of operating the Corporation, especially those of its first and second tier subsidiaries, including salaries, advertising and promotions, and occupancy expenses. Expenses related to a new subsidiary, First Mortgage, which started operations in September of 2003, account for a portion of the expense increase.

Total assets were \$13,347 million as of March 31, 2004, as compared to \$9,767 million as of March 31, 2003 and \$12,668 million as of December 31, 2003. Loans receivable increased by 25.5% to \$7,446 million, as compared to \$5,933 million as of March 31, 2003. The largest loan volume increases were achieved in the commercial and real estate portfolios.

Non-performing loans as of March 31, 2004 were \$85.7 million (1.15% of total loans), as compared to \$87.7 million (1.48% of total loans) and \$85.5 million (1.21% of total loans) as of March 31, 2003 and December 31, 2003, respectively. Non-performing loans, when compared to the March 2003 and December 2003 quarters, decreased as a percentage of the portfolio. These results reflect a continuation of the decreasing trend in non-performers, which has been experienced since early 2003.

The allowance for loan losses to non-performing loans (reserve coverage) was 152.2% as of March 31, 2004, compared to 134.4% as of March 31, 2003 and 147.8%, as of December 31, 2003. The improvement is due to the stability experienced in our non-performing loans, coupled with a reduction in the charge offs. The allowance increase is related to the \$402 million increase in the Corporation's loan portfolio during this quarter. Net charge offs were \$9.2 million (0.51% of average loans), as compared to \$10.6 million (0.74% of average loans) during the first quarter of 2003, and \$10.8 million (0.63% of average loans) during the last quarter of 2003. Charge offs have remained stable due to the Corporation's prudent underwriting policies, implemented since 1998.

33. On July 22, 2004, the Company issued a press release entitled "First BanCorp Reports Earnings Per Share Increase of 30.9%," which stated in part:

First BanCorp, the second largest Puerto Rico Financial Holding Company with diversified banking operations in Puerto Rico and the U.S. and British Virgin Islands, reported today earnings for the quarter ended June 30, 2004.

Net income was \$39,934,596, or \$[0.37] per share basic and \$[0.36] per share diluted for the second quarter of 2004, as compared to earnings of \$29,270,698, or \$[0.28] per share basic and \$[0.27] per share diluted, for the second quarter of 2003. These results represent an increase in diluted earnings per share of 30.91% for this quarter. Return on Assets (ROA) and Return on Common Equity (ROCE) were 1.19% and 20.98%, respectively, for the quarter, as compared to 1.26% and 18.47%, respectively, for the same quarter of 2003. Basic and diluted weighted average common shares for the 2004 second quarter were [80,430,956] and [82,743,504], respectively.

For the six-month period ended June 30, 2004, earnings were \$80,139,629, or \$[0.74] per share (basic) and \$[0.72] per share (diluted), as compared to \$65,698,994, or \$[0.65] per share (basic) and \$[0.64] per share (diluted). Basic and diluted weighted average shares for the 2004 year-to-date period were [80,279,750] and [82,751,346], respectively.

Commenting on the quarter's results, Mr. Angel Alvarez-Perez, Chairman, President, and CEO of First BanCorp, said, "This has been an excellent quarter. Our core lending operations have continued to grow, especially commercial, auto and residential mortgages. With the increase in long-term rates, we have been able to

replenish a portion of our investment portfolio at higher yields, and the prepayments on the existing mortgage-backed securities portfolio have slowed. As a result of the positive outcome in both, lending and investment operations net interest income has rebounded significantly.”

Net interest income, the Corporation’s main source of income, increased by \$30.4 million from \$63.9 million during the second quarter of 2003 to \$94.3 million during the second quarter of 2004, due to an increase in average earning assets of \$4,093 million, and an increase in the yield of the investment portfolio. During the previous quarters, the Corporation’s subsidiary bank’s strategy had been to decrease the level of medium to longer- term investments until the market provided a better opportunity to invest. Net interest margin on a tax equivalent basis was 3.45% for the quarter ended June 2004, as compared to 3.07% for the quarter ended June 2003 and 3.33% for the previous quarter ended March 2004. Fluctuations are the result of the investment strategy explained above.

Other income, which is mostly operational, amounted to \$13.7 million for the second quarter of 2004, as compared to \$23.0 million for the second quarter of 2003. Other income for the previous year’s comparative second quarter included a gain on sale of investments of \$10.1 million, and a derivative loss of \$678,000. Other income, excluding the net gains on sales of investments and derivative losses for both periods, was \$14.1 million for the June 2004 quarter, \$520,000 over the \$13.5 million for the June 2003 quarter, due mainly to commercial loan fees.

Net charge offs were \$9.9 million (.52% of average loans) for the second quarter of 2004, as compared to \$9.9 million (.65% of average loans) during the second quarter of 2003, and \$9.2 million (.51% of average loans) during the first quarter of 2004. The year-to-date charge-off ratio for 2004 is .52%, as compared to .70% for the year-to-date period of 2003. The charge- offs ratio is at the lowest level of the last 10 years due to the Corporation’s effective risk management infrastructure.

The efficiency ratio was 42.17% and 45.20% for the three months ended June 30, 2004 and 2003, respectively, one of the best in the industry. An increase in expenses of \$6.2 million is in part attributable to increases in personnel and occupancy costs, to support the growth of the Corporation, to merit salary increases and to strong advertising and business promotion costs to support new products and services, especially First Mortgage and the “Perfect Account,” a new DDA product. When compared to the immediately preceding quarter of March 2004, operating expenses increased by \$2.4 million, mostly as a result of the increases in promotion expenses, as explained above.

Total assets were \$14,465 million as of June 30, 2004, as compared to \$9,934 million as of June 30, 2003, and \$12,668 million as of December 31, 2003. Loans receivable increased by 25.3% to \$7,892 million, as compared to \$6,299 million as of June 30, 2003. The largest loan volume increases were achieved in the commercial and residential real estate portfolios.

Non-performing loans as of June 30, 2004, were \$91.0 million (1.15% of total loans), as compared to \$89.0 million (1.41% of total loans) and \$85.7 million (1.15% of total loans) as of June 30, 2003 and March 31, 2004, respectively. Non-performing loans remained in line when compared to the previous year as a result of controlled delinquencies, especially in the Bank's consumer portfolios. The increase in dollar amount, when compared to the March 2004 figure, is composed entirely of secured real estate loans, and is mainly due to the general growth of the portfolios.

The allowance for loan losses to non-performing loans (reserve coverage) was 146.9% as of June 30, 2004, compared to 135.5% as of June 30, 2003, and 152.2% as of March 31, 2004. The slight decrease in the reserve coverage, when compared to the March 2004 quarter is directly related to the increase in secured non-performing loans. The improvement since the prior year's comparable quarter is related to the stability in the delinquencies and non-performing loans.

34. On October 21, 2004, the Company issued a press release entitled "First BanCorp Reports Record Earnings Per Share Increase of 54%," which stated in part:

First BanCorp, the second largest Puerto Rico Financial Holding Company, with diversified banking operations in Puerto Rico, the U.S. and British Virgin Islands, and the state of Florida, reported today earnings for the quarter ended September 30, 2004.

Net income was \$49,079,189 or \$[0.48] per common share basic and \$[0.47] per common share diluted, for the third quarter of 2004, as compared to earnings of \$31,684,402 or \$[0.31] per common share basic and \$[0.30] per common share diluted for the third quarter of 2003. These results represent an increase in diluted earnings per share of 54% for this quarter. Return on Assets (ROA) and Return on Common Equity (ROCE) were 1.37% and 25.88%, respectively for the quarter as compared to 1.14% and 20.67%, respectively, for the same quarter of 2003. Basic and diluted weighted average common shares for the 2004 third quarter were [80,483,734] and [83,007,804], respectively.

For the nine months period ended September 30, 2004, earnings were \$129,218,818 or \$[1.23] per common share basic and \$[1.19] per common share diluted, as compared to \$97,383,395 or \$[0.96] per common share basic and \$[0.94] per common share diluted. Basic and diluted weighted average shares for the 2004 year-to-date period were [80,348,240] and [82,828,716], respectively.

Commenting on this quarter's results, Mr. Angel Alvarez-Perez, Chairman, President, and CEO of First BanCorp, said, "Our earnings have grown significantly as a result of a strong increase of \$31.4 million in net interest income, when compared to the same period in 2003. Both loans and investments have had healthy growth, but it is particularly important to mention that at the end of the previous quarter we were able to make significant longer-term investments, after

we had stayed on the sidelines for a few months, awaiting the opportunity to make these investments, which have now contributed significantly to our bottom line.”

Net interest income, the Corporation's main source of income, increased by \$31.4 million from \$71.9 million during the third quarter of 2003 to \$103.3 million during the third quarter of 2004. When compared to the immediately preceding quarter, it also increased by \$9.0 million. The increases in net interest income reflects the additional investments that were made during the second quarter of 2004. Net interest margin on a tax equivalent basis was 3.53% for the quarter ended September 2004, as compared to 2.93% for the quarter ended September 2003, and 3.45% for the previous quarter ended June 2004. Such fluctuations are mainly the result of the investment strategies and abnormally high prepayment rates on the mortgage-backed securities during the prior year.

Other income amounted to \$15.7 million for the third quarter of 2004, as compared to \$19.1 million for the third quarter of 2003. The decrease is due to higher net gains on sale of investments and derivative gains during the prior year period. These gains amounted to \$1.1 million during the third quarter of 2004, versus \$5.5 million during the third quarter of 2003.

Net charge-offs were \$9.6 million (0.47% of average loans) for the third quarter of 2004, as compared to \$10.1 million (0.63% of average loans) during the third quarter of 2003, and \$9.9 million (0.52% of average loans) during the second quarter of 2004. The charge-off ratio is at the lowest level of the last 10 years due to the Corporation's effective credit risk management infrastructure.

The efficiency ratio was 38.6%, 43.8%, and 42.2% for the three months ended September 30, 2004, September 30, 2003, and June 30, 2004 respectively, one of the best in the industry. An increase in expenses of \$6.1 million, as compared to same quarter in 2003, is mainly attributable to personnel, occupancy and promotion expenses related to First Mortgage, which started operations late in the third quarter of 2003, and general increases in salaries and promotion expenses related to the Corporation's businesses general growth.

When compared to the previous quarter of June 2004, other operating expenses are in line with an increase of only \$465,000.

Total assets were \$15.2 billion as of September 30, 2004, as compared to \$12.1 billion as of September 30, 2003, and \$12.7 billion as of December 31, 2003. Loans receivable increased by 27% to \$8.5 billion, as compared to \$6.7 billion as of September 30, 2003. The largest loan volume increases were achieved in the commercial and residential real estate portfolios.

Non-performing loans as of September 30, 2004 were \$88.7 million (1.04% of total loans), as compared to \$85.7 million (1.28% of total loans) and \$91.0 million (1.15% of total loans), as of September 30, 2003 and June 30, 2004, respectively.

The slight increase in dollar amount, when compared to the September 2003 figure, consists mostly of secured real estate loans.

The allowance for loan losses to non-performing loans (reserve coverage) was 154.7% as of September 30, 2004, compared to 143.6% as of September 30, 2003, and 146.9%, as of June 30, 2004. The improvement in the coverage ratio is related to the stability during 2004 in the delinquencies and non-performing loans.

35. Between December 23, 2004 and December 28, 2004, defendant Carbonell sold 20,000 shares of First BanCorp stock at prices between \$31.52-\$32.06 per share.

36. On January 27, 2005, the Company issued a press release entitled "First BanCorp Reports Record Results for Year 2004," which stated in part:

First BanCorp, the second largest Puerto Rico Financial Holding company, with diversified banking operations in Puerto Rico and the US and British Virgin Islands, reported today earnings for 2004.

The year ended December 31, 2004 was another record year for First BanCorp, with earnings of \$178,877,788 or \$[1.72] per common share (basic) and \$[1.67] per common share (diluted), as compared to \$152,338,342 or \$[1.52] per common share (basic) and \$[1.49] per common share (diluted) for the year ended December 31, 2003. Average common shares outstanding for the year were [80,418,894] (basic) and [83,010,366] (diluted). Earnings for the full year 2004 include a gain of \$3,374,937, or [4] cents per First BanCorp reports record results for year 2004 common share (basic and diluted), net of tax, recorded on the sale of a small credit card portfolio in early 2004. Excluding this effect, full year 2004 earnings were \$175,502,851 or \$[1.68] per common share (basic) and \$[1.63] per common share (diluted). Earnings for the fourth quarter and full year 2003 included an \$18,840,065 or \$[0.23] and \$[0.23] per common share, basic and diluted, respectively, (net of tax) gain related to the sale of a credit card portfolio. Prior year comparable earnings, excluding the after tax effect of aforementioned gain, were \$133,498,277 or \$[1.28] per common share (basic) and \$[1.26] per common share (diluted).

Net income was \$49,658,970 or \$[0.49] per common share (basic) and \$[0.47] per common share (diluted), for the fourth quarter of 2004, as compared to earnings of \$54,954,947 or \$[0.56] per common share (basic) and \$[0.54] per common share (diluted), for the fourth quarter of 2003. Earnings per share for the fourth quarter of 2003 include an \$18,840,065 or \$[0.23] per common First BanCorp reports record results for year 2004 share (diluted) special gain related to the sale of a credit card portfolio. Earnings for the fourth quarter of 2003, excluding the after tax effect of such gain, was \$36,114,882 or \$[0.32] per common share (basic) and \$[0.31] per common share (diluted). The 2004 fourth quarter results represent an earnings increase of 37.50% for this quarter, when comparing earnings excluding the

previous year special item aforementioned. Return on Assets (ROA) and Return on Common Equity (ROCE), were 1.37% and 24.40%, respectively for the quarter. Comparable ROA and ROCE for the same quarter in 2003, excluding the special credit card gain were 1.21% and 20.30%, respectively. Average common shares used to calculate earnings per share for the fourth quarter of 2004, were [80,629,316] (basic) and [83,639,924] (diluted).

Full year 2004 results represent an earnings increase of \$42,004,574 or 31.46% when comparing earnings for both years, excluding the special gains on the sale of credit card loans. Main profitability ratios for 2004, excluding the after tax effect of First BanCorp reports record results for year 2004 the gain on the sale of a small credit card portfolio was: Return on Assets 1.37% for the fourth quarter of 2004 and 1.29% for the full year 2004; Return on Common Equity for the fourth quarter of 2004, 24.40% and 22.76% for the full year 2004; and the efficiency ratio, 38.51% for the fourth quarter and 40.04% for the full year 2004.

The earnings increase of \$42.0 million (excluding the after tax effect of the gain on the sale mentioned above) is attributable mostly to increases in the Corporation's net interest income net of an increase in operating expenses and a decrease in gains in sale of investments. Commenting on the year 2004 achievements, Mr. Angel Alvarez-Pérez, CEO of First BanCorp said, ***“2004 was a challenging year due to the uncertainty of the interest rates scenario. Notwithstanding this, we have earned record profits, through the continuous growth of our loan portfolios, especially commercial and residential loans and First BanCorp reports record results for year 2004 maintaining low delinquencies and write offs. In addition, during this year we reinvested most of our investment portfolio which had been maintained short-term, waiting for the market to give us a re-entry opportunity.”***

Net interest income increased by \$91.0 million for the year to end at \$383.2 million. The increase in net interest income for the year is the result of volume increases of \$3.2 billion in the Corporation's average loan and investment portfolios. Net interest income was \$101.5 million for this quarter, as compared to \$84.0 million for the fourth quarter of 2003 and \$103.3 million for the third quarter of 2004. The slight decrease from third to fourth quarter of 2004 is due to \$385.6 million in agency securities with an average yield of 5.57%, which were called during the fourth quarter and have been reinvested very short-term.

Net interest margin (on a tax equivalent basis) was 3.30% and 3.40% for the fourth quarter and full year 2004, respectively, First BanCorp reports record results for year 2004 as compared to 3.32% and 3.24% for the fourth quarter and full year 2003, respectively. Increase for the year is mainly due to reinvestment during mid 2004 in substantial amounts of medium to long term callable agency securities.

During 2004 the Corporation experienced solid asset growth, ending the year with assets of \$15.6 billion, up 23.30% from total assets as of December 31, 2003 of \$12.7 billion. Deposits were \$7.9 billion as of December 31, 2004, as compared to

\$6.8 billion as of December 31, 2003. Loans increased to \$9.5 billion as of December 31, 2004, an increase of 34.5%, when compared to \$7.0 billion as of December 31, 2003, mostly as a result of an increase of \$374 million in commercial loans, \$1.8 billion in residential real estate loans, and \$254 million in consumer and leasing loans.

Another factor contributing to the record financial results was the stable write offs of our loan portfolio during the year. Loan losses (net write-offs) were \$9.4 million for the fourth First BanCorp reports record results for year 2004 quarter, (.42% of average loans) under the \$10.8 million (.63% of average loans) for the fourth quarter of 2003 and \$9.6 million (.47% of average loans), for the immediately preceding third quarter of 2004. For the total year net write-offs were \$38.1 million (.48% of average loans), as compared to \$41.4 million during 2003, (.66% of average loans). Non-performing loans at year end were \$91.7 million or .97% of total loans, compared to \$85.5 million or 1.21% of total loans as of December 31, 2003 and \$88.7 million or 1.04% of total loans as of September 30, 2004, the previous quarter end. The reserve coverage ratio (allowance for loan losses to non-performing loans) was 153.86% as of December 31, 2004, as compared to 147.77% for December 31, 2003 and 154.68% for September 30, 2004. The allowance for loan losses increased to \$141.0 million as of December 31, 2004, from \$137.3 million as of September 30, 2004 and \$126.4 million as of December 31, 2003. The increase corresponds to a higher First BanCorp reports record results for year 2004 commercial and consumer loan portfolio, which are the main sources of loan write-offs.

Other income was \$17.5 million for the fourth quarter of 2004. For the fourth quarter of 2003, excluding the gain on the sale of a large part of the credit card portfolio of \$30.9 million (before tax), other operating income was \$19.5 million. The decrease of \$2.0 million, when compared to normalized fourth quarter 2003, is mostly attributable to \$2.3 million lower net gains on sale of investments and derivative income (loss).

37. On April 19, 2005, the Company issued a press release entitled "First BanCorp Reports Earnings for First Quarter 2005," which stated in part:

First BanCorp, the second largest Puerto Rico Financial Holding Company, with diversified banking operations in Puerto Rico, the U.S. and British Virgin Islands, and Florida, reported today earnings for the quarter ended March 31, 2005.

Net income was \$53,431,802, or \$[0.53] per share basic and \$[0.52] per share diluted, for the first quarter of 2005, as compared to earnings of \$40,205,034, or \$[0.37] per share basic and \$[0.36] per share diluted for the first quarter of 2004. These results represent an earnings increase of 32.9% for this quarter. Return on Assets (ROA) and Return on Common Equity (ROCE) were 1.40% and 25.44%, respectively, for the quarter, as compared to 1.32% and 21.74%, respectively, for the same quarter of 2004. Basic and diluted weighted average common shares were [80,782,978] and [83,525,130], respectively, for the quarter ended March 31, 2005.

Commenting on these first quarter 2005 results, Mr. Angel Alvarez-Perez, Chairman, President and CEO of First BanCorp, said, "This has been a very good quarter overall. Our loan portfolios continue to grow, and our non-performing assets and charge offs continue to decline. Earnings this quarter include a gain on sale of investments, net of derivatives net losses, of \$8.4 million. However, comparable earnings of the March 2004 first quarter included \$6.7 million in special items due to an after-tax gain on the sale of a credit card portfolio of \$3.2 million and gains on sale of investments net of derivative losses of \$3.5 million."

Net interest income, the Corporation's main source of income, increased by \$21.4 million from \$88.2 million during the first quarter of 2004 to \$109.6 million during the first quarter of 2005. This increase is mostly attributable to an increase in average earning assets of \$3.1 billion since March of 2004. On a linked quarter basis, net interest income increased \$5.5 million. The Corporation was able to replace investments, which had been called during the previous quarter, with new securities. Starting this quarter, the Corporation has reclassified late charges and prepayment fees on loans, as interest income, to conform with 2005 presentation. Previously, these fees were included as other income. This reclassification varies the net interest margin ratio. Net interest margin was 3.33% for the first quarter of 2005, as compared to 3.45% for the first quarter of 2004 and 3.36% for the fourth quarter of 2004. Utilizing the previous calculation method, where late charges and prepayment fees were included under other income, net interest margin would have been 3.26% for the first quarter 2005, as compared to the previously reported 3.33% for the first quarter of 2004 and 3.30% for the last quarter of 2004.

Other income amounted to \$19.6 million for the first quarter of 2005, as compared to \$20.0 million for the first quarter of 2004. Other income included a net gain on sale of investments net of derivatives losses of \$8.4 million for this quarter, as compared to \$8.8 million in gains on sale (net of derivatives losses) plus credit card gains on sale, for the comparable first quarter of 2004. Other income for the linked December 2004 quarter amounted to \$14.8 million, which included \$3.9 million in gains on sale of investments, net of derivatives losses.

The efficiency ratio was 40.75% and 39.89% for the three months ended March 31, 2005 and 2004, respectively, one of the best in the industry. An increase in expenses of \$9.5 million is mainly attributable to normal costs of operating the Corporation, especially those of its first and second tier subsidiaries, including salaries, advertising and promotions, and occupancy expenses. The Corporation has continued to add personnel in all of its growing business areas. In addition, the Corporation has incurred in higher compliance and audit costs related to Sarbanes-Oxley-Section 404.

Total assets were \$17.4 billion as of March 31, 2005, as compared to \$13.3 billion as of March 31, 2004 and \$15.6 billion as of December 31, 2004. Loans receivable increased by 48.6% to \$11.0 billion, as compared to \$7.4 billion as of March 31, 2004 and \$9.5 billion as of December 31, 2004. The largest loan volume increases were achieved in the commercial and real estate portfolios. In addition,

loans receivable include \$476 million of loans acquired on March 31, 2005, on the acquisition of UniBank.

Non-performing loans as of March 31, 2005 were \$88.9 million (.81% of total loans), as compared to \$85.7 million (1.15% of total loans) and \$91.7 million (.97% of total loans) as of March 31, 2004 and December 31, 2004, respectively. Non-performing loans, when compared to the March 2004 and December 2004 quarters, decreased as a percentage of the portfolio. These results reflect a continuation of the decreasing trend in non-performers, which has been experienced since early 2003.

The allowance for loan losses to non-performing loans (reserve coverage) was 162.2% as of March 31, 2005, compared to 152.2% as of March 31, 2004, and 153.9% as of December 31, 2004. The improvement is due to the stability experienced in our non-performing loans, resulting in a reduction in the charge offs. The allowance increase is related to the \$1.5 billion increase in the Corporation's loan portfolio during this quarter. Net charge offs were \$9.1 million (.37% of average loans), as compared to \$9.2 million (0.51% of average loans) during the first quarter of 2004, and \$9.4 million (.42% of average loans) during the last quarter of 2004. Charge offs have remained stable due to the Corporation's prudent underwriting policies implemented since 1998 and to the gradual shifting of the loan portfolio toward secured loans.

38. On April 28, 2005, the Company filed its 14A Proxy Statement which, with respect to the purported accuracy of the Company's financial statement, stated, in pertinent part, as follows:

Under the terms of its charter, which was last reviewed and approved by the Board on February 22, 2005, the Audit Committee represents and assists the Board in fulfilling its oversight responsibility relating to the integrity of the Corporation's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal audit function, the annual independent audit of the Company's financial statements, the Company's compliance with legal and regulatory requirements and its ethics program, the independent auditors' qualifications and independence, the performance of the Company's internal audit function and the performance of its independent auditors. The Committee also monitors the quality of the Corporation's assets in order to provide for early identification of possible problem assets. . . .

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

As stated above, the Audit Committee reviews the Corporation's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. In this context, the Committee has met and held discussions with management and the Independent Registered Public Accounting Firm. Management represented to the Committee that the Company's consolidated

financial statements were prepared in accordance with generally accepted accounting principles. The Committee has reviewed and discussed the consolidated financial statements with management and with the Independent Registered Public Accounting Firm.

* * *

In reliance with the reviews and discussions referred to above, the Committee has recommended to the Board of Directors that the audited financial statements be included in the Corporation's Annual Report on Form 10-K for fiscal year 2004 to be submitted to the Securities Exchange Commission. The Committee and the Board of Directors have also recommended, subject to stockholder approval, the reappointment of PricewaterhouseCoopers LLP as the Independent Registered Public Accounting Firm for the Corporation for fiscal year 2005.

39. On July 19, 2005, the Company issued a press release entitled "First BanCorp Reports Earnings for Second Quarter 2005," which stated in part:

First BanCorp, the second largest Puerto Rico financial holding company, with diversified banking operations in Puerto Rico, the U.S. and British Virgin Islands, and in the state of Florida (USA), reported today earnings for the quarter ended June 30, 2005.

Net income was \$57,085,530, or \$0.58 per share basic and \$0.57 per share diluted, for the second quarter of 2005, as compared to earnings of \$39,934,596, or \$0.37 per share basic and \$0.36 per share diluted for the second quarter of 2004. These results represent an earnings increase of 42.95% for this quarter, as compared to the same quarter in 2004. Return on Assets (ROA) and Return on Common Equity (ROCE) were 1.27% and 26.28%, respectively, for the quarter, as compared to 1.19% and 20.98%, respectively, for the same quarter of 2004. Basic and diluted weighted average common shares were 80,851,947 and 82,871,531, respectively, for the quarter ended June 30, 2005. All per share numbers are adjusted to reflect a 2 for 1 stock split distributed on June 30, 2005.

For the six month period ended June 30, 2005, earnings were \$110,517,332, or \$1.12 per share (basic) and \$1.09 per share (diluted), as compared to \$80,139,629, or \$0.75 per share (basic) and \$0.73 per share (diluted), for the six months ended June 30, 2004. Basic and diluted weighted average shares for the 2005 year-to-date period were 80,817,734 and 83,140,753, respectively.

Commenting on these second quarter 2005 results, Angel Alvarez-Perez, Chairman, President and CEO of First BanCorp, said, "This has been an excellent quarter. Our loan origination has been outstanding, increasing our loan portfolio by \$659 million, and our non-performing assets and charge offs levels continue very stable. Net interest income increased substantially as a result of the increased volume of loans and investments. In addition, for the first time this quarter, the results of

operations of Ponce General Corporation, the holding company of UniBank, a Florida thrift acquired on March 31, 2005, were included.”

The main reasons for the increase in net earnings for the second quarter of 2005, when compared to the second quarter of 2004, were an increase of \$33.7 million in net interest income, net of an increase of \$10.0 million in other operating expenses and an increase of \$7.7 million in the provision for income taxes.

Net interest income, the Corporation’s main source of income, increased by \$33.7 million from \$96.5 million for the second quarter of 2004 to \$130.2 million for the second quarter of 2005. This increase is mostly attributable to an increase in average earning assets of \$4.5 billion, since June of 2004. On a linked quarter basis, net interest income increased \$20.6 million.

The Corporation’s average loan portfolio increased \$1.4 billion during this quarter and its average investment portfolio increased by \$1.3 billion. Net interest income includes, for the first time, \$5.6 million net interest income of Ponce General, which was acquired on March 31, 2005. Net interest margin on a taxable equivalent basis was 3.36% for the second quarter of 2005, as compared to 3.50% for the second quarter of 2004 and 3.33% for the first quarter of 2005. To conform to the 2005 presentation, the 2004 net interest income, other income and net interest margin numbers have been adjusted to reflect late charges, prepayment fees and dividends on equity securities under interest income.

Other income amounted to \$10.5 million for the second quarter of 2005, as compared to \$11.5 million for the second quarter of 2004. Other income for the second quarter of 2005 includes a gain on mortgage banking activities of \$3.1 million, which was offset by aggregate net losses on the sale of investments and derivatives, losses amounting to \$4.2 million for the quarter. Other income of \$11.5 million for the second quarter of 2004 was mostly operational. Other income for the linked March 2005 quarter amounted to \$19.6 million, which included \$8.5 million in gains on the sale of investments, net of derivatives losses.

The efficiency ratio was 39.49% and 42.17% for the three months ended June 30, 2005 and 2004, respectively, one of the best in the industry. An increase in expenses of \$10.0 million is mainly attributable to normal costs of operating the Corporation, especially those of its first and second tier subsidiaries, including salaries, advertising and promotions, and occupancy expenses. In addition, for the first time, \$3.2 million operating expenses of Ponce General are included. The Corporation has continued to add production and support personnel in all of its areas as it continues growing its business. On a linked quarter basis, expenses increased by \$2.9 million mostly as a result of the operating expense base of Ponce General, the holding company of UniBank, a Florida thrift acquired as of March 31, 2005. Excluding the expenses of Ponce General, the expenses would have decreased, on a linked quarter basis, by approximately \$318,000.

Total assets were \$18.8 billion as of June 30, 2005, as compared to \$14.5 billion as of June 30, 2004, and \$15.6 billion as of December 31, 2004. Loans receivable increased by 47% to \$11.6 billion, as compared to \$7.9 billion as of June 30, 2004, and by 23% as compared to \$9.5 billion as of December 31, 2004. The largest loan volume increases this quarter were achieved in the commercial portfolio. In addition, loans receivable include \$476 million of loans acquired on March 31, 2005, on the acquisition of Ponce General. On a linked quarter basis, when compared to March 2005, loans increased by \$659 million, mostly through internal loan generation, which did not include, for this quarter, bulk purchases of loans. During the second quarter, commercial loans increased by \$587 million, consumer loans and finance leases increased by \$129 million, and residential real estate loans decreased by \$56 million, mostly as a result of mortgage loan sales in the amount of \$90 million, and normal repayment of the existing portfolio.

Non-performing loans as of June 30, 2005, were \$92.8 million (0.80% of total loans), as compared to \$91.0 million (1.15% of total loans) and \$88.9 million (0.81% of total loans) as of June 30, 2004 and March 31, 2005, respectively. Non-performing loans, when compared to the June 2004 and March 2005 quarters, decreased as a percentage of the portfolio.

The allowance for loan losses to non-performing loans (reserve coverage) was 157.47% as of June 30, 2005, compared to 146.9% as of June 30, 2004, and 153.9% as of December 31, 2004. The improvement is due to the stability experienced in our non-performing loans, resulting in a reduction in the charge offs. The allowance increase is related to the \$659 million increase in the Corporation's loan portfolio during this quarter.

Net charge offs were \$9.1 million (0.32% of average loans), as compared to \$9.9 million (0.52% of average loans) during the second quarter of 2004, and \$9.1 million (0.37% of average loans) during the first quarter of 2005. Charge offs have remained stable due to the Corporation's prudent underwriting policies implemented since 1998 and to the gradual shifting of the loan portfolio toward secured loans.

40. On August 10, 2005, First BanCorp's stock closed at \$22.73 per share.

41. On August 11, 2005, the Company issued a press release entitled "First BanCorp

Announces Delay in Filing its Form 10-Q for the Quarter Ended June 30, 2005," which stated in part:

First BanCorp announced today that it has filed a Form 12b-25 with the Securities and Exchange Commission with respect to its Form 10-Q for the quarter ended June 30, 2005.

In its Form 12b-25, the Company indicated that on August 1, 2005, the Audit Committee (the "Committee") of First BanCorp determined that the

Committee should review the background and accounting for certain purchases of mortgage loans made by the Company between 2000 and 2005. The Committee's decision to undertake this review was based on several factors, including discussions with the Company's external auditors. The extension is needed to permit the Committee to complete its review of the mortgage loan purchase contracts and to determine the impact, if any, of the results of the review on the Company's previously issued interim and audited financial statements. The Committee has engaged independent counsel to undertake this review, which is currently in progress.

The transactions to be reviewed involve the Company's purchases of mortgage loans originated by other financial institutions. The Company has accounted for these transactions as regular purchases of mortgage loans with variable contractual rates payable to the Company. At the time of these purchases, the Company recorded the outstanding balance of these loans as mortgage loans receivable. The variable interest collected by the Company on these mortgage loans has been recorded as interest income. The Company did not record any derivatives or interest only strips as a result of these transactions. The issues currently being reviewed by the Committee are related to the terms and conditions of the purchase contracts. The Company does not believe that the review of these issues will result in any changes to the Company's reported cash flows.

At the present time, the Company believes its accounting for these transactions was made in accordance with generally accepted accounting principles. In the event that the Committee concludes that the terms of the transactions are different from those that were considered by the Company to record these transactions, the Company will have to determine the impact, if any, of such terms on the Company's financial statements. At the present time, the Company does not know the impact, if any, that different terms may have on the accounting for these transactions.

At the present time, the Company is uncertain as to when the Audit Committee's review of these transactions will be completed and when the Company will file its Form 10-Q for the quarter ended June 30, 2005.

42. While First BanCorp stock price declined to \$21 per share on this news, it did not drop further given defendants' assurances that "the Company believes its accounting for these transactions was made in accordance with generally accepted accounting principles." Moreover, within a week, the market was reassured by First BanCorp's positive second quarter results.

43. On August 19, 2005, the Company issued a press release entitled "First BanCorp Reports Earnings for Second Quarter 2005," which stated in part:

First BanCorp, the second largest Puerto Rico financial holding company, with diversified banking operations in Puerto Rico, the U.S. and British Virgin Islands, and in the state of Florida (USA), reported today earnings for the quarter ended June 30, 2005.

Net income was \$57,085,530, or \$0.58 per share basic and \$0.57 per share diluted, for the second quarter of 2005, as compared to earnings of \$39,934,596, or \$0.37 per share basic and \$0.36 per share diluted for the second quarter of 2004. These results represent an earnings increase of 42.95% for this quarter, as compared to the same quarter in 2004. Return on Assets (ROA) and Return on Common Equity (ROCE) were 1.27% and 26.28%, respectively, for the quarter, as compared to 1.19% and 20.98%, respectively, for the same quarter of 2004. Basic and diluted weighted average common shares were 80,851,947 and 82,871,531, respectively, for the quarter ended June 30, 2005. All per share numbers are adjusted to reflect a 2 for 1 stock split distributed on June 30, 2005.

For the six month period ended June 30, 2005, earnings were \$110,517,332, or \$1.12 per share (basic) and \$1.09 per share (diluted), as compared to \$80,139,629, or \$0.75 per share (basic) and \$0.73 per share (diluted), for the six months ended June 30, 2004. Basic and diluted weighted average shares for the 2005 year-to-date period were 80,817,734 and 83,140,753, respectively.

Commenting on these second quarter 2005 results, Angel Alvarez-Perez, Chairman, President and CEO of First BanCorp, said, "This has been an excellent quarter. Our loan origination has been outstanding, increasing our loan portfolio by \$659 million, and our non-performing assets and charge offs levels continue very stable. Net interest income increased substantially as a result of the increased volume of loans and investments. In addition, for the first time this quarter, the results of operations of Ponce General Corporation, the holding company of UniBank, a Florida thrift acquired on March 31, 2005, were included."

The main reasons for the increase in net earnings for the second quarter of 2005, when compared to the second quarter of 2004, were an increase of \$33.7 million in net interest income, net of an increase of \$10.0 million in other operating expenses and an increase of \$7.7 million in the provision for income taxes.

Net interest income, the Corporation's main source of income, increased by \$33.7 million from \$96.5 million for the second quarter of 2004 to \$130.2 million for the second quarter of 2005. This increase is mostly attributable to an increase in average earning assets of \$4.5 billion, since June of 2004. On a linked quarter basis, net interest income increased \$20.6 million.

The Corporation's average loan portfolio increased \$1.4 billion during this quarter and its average investment portfolio increased by \$1.3 billion. Net interest income includes, for the first time, \$5.6 million net interest income of Ponce General, which was acquired on March 31, 2005. Net interest margin on a taxable equivalent basis was 3.36% for the second quarter of 2005, as compared to 3.50% for the second

quarter of 2004 and 3.33% for the first quarter of 2005. To conform to the 2005 presentation, the 2004 net interest income, other income and net interest margin numbers have been adjusted to reflect late charges, prepayment fees and dividends on equity securities under interest income.

Other income amounted to \$10.5 million for the second quarter of 2005, as compared to \$11.5 million for the second quarter of 2004. Other income for the second quarter of 2005 includes a gain on mortgage banking activities of \$3.1 million, which was offset by aggregate net losses on the sale of investments and derivatives, losses amounting to \$4.2 million for the quarter. Other income of \$11.5 million for the second quarter of 2004 was mostly operational. Other income for the linked March 2005 quarter amounted to \$19.6 million, which included \$8.5 million in gains on the sale of investments, net of derivatives losses.

The efficiency ratio was 39.49% and 42.17% for the three months ended June 30, 2005 and 2004, respectively, one of the best in the industry. An increase in expenses of \$10.0 million is mainly attributable to normal costs of operating the Corporation, especially those of its first and second tier subsidiaries, including salaries, advertising and promotions, and occupancy expenses. In addition, for the first time, \$3.2 million operating expenses of Ponce General are included. The Corporation has continued to add production and support personnel in all of its areas as it continues growing its business. On a linked quarter basis, expenses increased by \$2.9 million mostly as a result of the operating expense base of Ponce General, the holding company of UniBank, a Florida thrift acquired as of March 31, 2005. Excluding the expenses of Ponce General, the expenses would have decreased, on a linked quarter basis, by approximately \$318,000.

Total assets were \$18.8 billion as of June 30, 2005, as compared to \$14.5 billion as of June 30, 2004, and \$15.6 billion as of December 31, 2004. Loans receivable increased by 47% to \$11.6 billion, as compared to \$7.9 billion as of June 30, 2004, and by 23% as compared to \$9.5 billion as of December 31, 2004. The largest loan volume increases this quarter were achieved in the commercial portfolio. In addition, loans receivable include \$476 million of loans acquired on March 31, 2005, on the acquisition of Ponce General. On a linked quarter basis, when compared to March 2005, loans increased by \$659 million, mostly through internal loan generation, which did not include, for this quarter, bulk purchases of loans. During the second quarter, commercial loans increased by \$587 million, consumer loans and finance leases increased by \$129 million, and residential real estate loans decreased by \$56 million, mostly as a result of mortgage loan sales in the amount of \$90 million, and normal repayment of the existing portfolio.

Non-performing loans as of June 30, 2005, were \$92.8 million (0.80% of total loans), as compared to \$91.0 million (1.15% of total loans) and \$88.9 million (0.81% of total loans) as of June 30, 2004 and March 31, 2005, respectively. Non-performing loans, when compared to the June 2004 and March 2005 quarters, decreased as a percentage of the portfolio.

The allowance for loan losses to non-performing loans (reserve coverage) was 157.47% as of June 30, 2005, compared to 146.9% as of June 30, 2004, and 153.9% as of December 31, 2004. The improvement is due to the stability experienced in our non-performing loans, resulting in a reduction in the charge offs. The allowance increase is related to the \$659 million increase in the Corporation's loan portfolio during this quarter.

Net charge offs were \$9.1 million (0.32% of average loans), as compared to \$9.9 million (0.52% of average loans) during the second quarter of 2004, and \$9.1 million (0.37% of average loans) during the first quarter of 2005. Charge offs have remained stable due to the Corporation's prudent underwriting policies implemented since 1998 and to the gradual shifting of the loan portfolio toward secured loans.

On March 31, 2005, the Corporation closed the acquisition of Ponce General Corporation, the parent company of UniBank, a \$540.6 million asset size federal savings and loan association, which operates in the state of Florida, and of Ponce Realty Corporation, a \$5.0 million realty estate company, which also operates in the state of Florida. Results of operations of Ponce General, Ponce Realty, and UniBank for the quarter ended June 30, 2005, are included in the results of First BanCorp. Total assets for Ponce General were \$573 million as of June 30, 2005, and total net income for the quarter was \$1.7 million.

44. On August 25, 2005, the Company issued a press release entitled "First BanCorp Provides Update on Review of Accounting Issues," which stated in part:

First BanCorp announced that on August 23, 2005, the Company received a letter from the United States Securities and Exchange Commission (the "SEC") in which the SEC indicated that it was conducting an informal inquiry into the Company. The inquiry pertains, among other things, to the accounting for mortgage loans purchased by the Company from two other financial institutions during the calendar years 2000 through 2004. The Company intends to fully cooperate with the SEC.

The Company has previously disclosed that the Audit Committee (the "Committee") of the Company had determined that it should undertake a review of purchases of mortgage loans originated by other financial institutions. This disclosure was made by the Company in its Form 12b-25 filed with the SEC on August 10, 2005. In this filing, the Company announced that it would be unable to file its Form 10-Q for the quarter ended June 30, 2005 on a timely basis.

The Committee has retained the law firms Clifford Chance U.S. LLP and Martinez Odell & Calabria to assist the Committee in its review. Forensic accountants FTI Consulting Inc. have also been retained to assist in the review.

The Committee is reviewing the terms of these transactions and the accounting for these transactions. The accounting issues being reviewed include the following:

- Whether the Company should have recorded any such transactions as loans made by the Company to the sellers of the mortgage loans, rather than as purchases of mortgage loans under SFAS No. 140.
- Whether any of the transactions resulted in derivatives requiring the application of SFAS No. 133.

The Committee is also evaluating the impact of these issues on the Company's internal controls and procedures, including its internal control over financial reporting.

Although the Committee is reviewing the issues described in this Form 8-K, it is possible that the Committee may also determine it is appropriate to review other issues.

The issues being reviewed by the Committee could potentially affect the Company's financial statements for the years 2000 through 2004 and the first two quarters of 2005. The Committee has not yet made any determinations with respect to the potential impact of these issues on the Company's prior financial statements. As indicated above, the Company was the purchaser of mortgage loans in these transactions. The income recorded by the Company in connection with these transactions was interest income on the mortgage loans purchased by the Company. The Company did not record any interest only strips as a result of these transactions.

At the present time, the Company is uncertain when the Committee's review will be completed and when the Company will be able to file its Form 10-Q for the quarter ended June 30, 2005.

45. On August 25, 2005, *Bloomberg* reported that:

First BanCorp, parent of FirstBank Puerto Rico, said the Securities and Exchange Commission is conducting "an informal inquiry" into accounting for mortgage loans purchased from 2000 to 2004.

First BanCorp, the Caribbean island's second-largest bank, disclosed the probe in a filing today with the Securities and Exchange Commission. The San Juan, Puerto Rico-based company said its audit committee determined on Aug. 1 the purchases warranted a review. The issue arose in part because First BanCorp's external auditor raised questions about the loan bookkeeping, the company said.

"Everything is being reviewed," Chief Financial Officer Annie Astor-Carbonell said in an interview.

In an Aug. 10 filing, the company said it would be unable to file its quarterly Form 10-Q for the period ended June 30 on time because of the review. FirstBankCorp said today it doesn't know when it will be able to make the filing.

The audit committee hired Clifford Chance U.S. LLP and Martinez Odell & Calabria to assist in the review. It also retained forensic accountant FTI Consulting Inc.

The bank said it was cooperating with the SEC. John Nester, a spokesman for the SEC, didn't return a phone call seeking comment.

The bank's balance sheet, filed in its annual report for 2004 with the SEC, showed residential real estate loans it made or bought increased to \$2.8 billion as of Dec. 31 from \$416 million at the end of 2000.

UNDISCLOSED ADVERSE INFORMATION

46. In fact, First BanCorp's financials had been false for at least four years due to its improper accounting for its purchase of mortgage loans. As a result, First BanCorp's results were presented in violation of GAAP, including SFAS 140.

47. GAAP are those principles recognized by the accounting profession as the conventions, rules and procedures necessary to define accepted accounting practices at a particular time. Regulation S-X, 17 C.F.R. §210.4-01(a)(1), states that financial statements filed with the SEC which are not prepared in compliance with GAAP are presumed to be misleading and inaccurate. Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosures that would be duplicative of disclosures accompanying annual financial statements.

48. Pursuant to GAAP, as set forth in Accounting Principles Board Opinion ("APB") No. 20, the revisions being investigated by First BanCorp are to correct for material errors in previously issued financial statements. APB No. 20, ¶¶7-13. The restatement of past financial statements is a disfavored method of recognizing an accounting change as it dilutes confidence by investors in the financial statements, it makes it difficult to compare financial statements and it is often difficult, if not impossible, to generate the numbers when restatement occurs. *Id.* ¶14. Thus, GAAP provides that financial statements should only be restated in limited circumstances, *i.e.*, when there is a

change in the reporting entity, a change in the accounting principles used or to correct an error in previously issued financial statements. First BanCorp's potential restatements and revisions will not be due to a change in reporting entity or a change in accounting principle, but rather to errors in previously issued financial statements. Thus, any such restatements and revisions (likely for 2000-2004) are an admission by defendants that First BanCorp's previously issued financial results and its public statements regarding those results were false and misleading.

49. As a result of these materially false and misleading statements and failures to disclose, First BanCorp's publicly traded securities traded at inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired First BanCorp publicly traded securities relying upon the integrity of the market price of First BanCorp publicly traded securities and market information relating to First BanCorp, and have been damaged thereby.

ADDITIONAL SCIENTER ALLEGATIONS

50. As alleged herein, defendants acted with scienter in that defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of information reflecting the true facts regarding First BanCorp, their control over, and/or receipt and/or modification of First BanCorp's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning First BanCorp, participated in the fraudulent scheme alleged herein.

51. Defendants were further motivated to engage in this course of conduct in order to enable defendant Carbonell to sell 20,000 shares of her personally held First BanCorp stock and thereby reap over \$639,000 in gross proceeds.

LOSS CAUSATION/ECONOMIC LOSS

52. During the Class Period, as detailed herein, defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated First BanCorp's stock price and operated as a fraud or deceit on Class Period purchasers of First BanCorp stock by misrepresenting the Company's business success and future business prospects. Defendants achieved this façade of success, growth and strong future business prospects by misrepresenting the Company's financial statements, earnings and prospects. Later, however, when defendants' prior misrepresentations and fraudulent conduct were disclosed and became apparent to the market, First BanCorp stock fell precipitously as the prior artificial inflation came out of First BanCorp's stock price. As a result of their purchases of First BanCorp stock during the Class Period, plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

53. These false claims of current earnings that met expectations and strong future results caused and maintained the artificial inflation in First BanCorp's stock price throughout the Class Period and until the truth was revealed to the market.

54. Defendants' false and misleading statements had the intended effect and caused First BanCorp stock to trade at artificially inflated levels throughout the Class Period, trading as high as \$32.09 per share.

55. On July 20, 2005, the Company's shares reacted to the Company's claims that First BanCorp's second quarter profit climbed 43%, halting the rumors concerning the Company's manipulated accounting. On this news, the Company's shares rose as much as 23% on reports that the Company's second quarter profit exceeded forecasts as the bank made more loans and increased

its investments. The shares rose \$4.86 to \$26.06 in New York Stock Exchange composite trading, and traded as high as \$27.81 on July 20, 2005. The Company said in a statement that second quarter net income climbed 43% to \$57.1 million, or \$0.57 a share, more than the \$0.47 average estimate of analysts in a Thomson Financial survey. Analysts and journalists sought to obtain follow-up statements on July 20 (the day after the second quarter report) seeking an explanation for certain of the Company's accounting decisions while defendant Carbonell spent the morning dodging these calls for fear of serious accounting questions comparing the Company's acts to those of Doral and R&G, neighboring competitors of the Company.

56. On August 10, 2005, the Company revealed in its 12b-25 filing that it was reviewing mortgages previously recorded on the Company's financial statements and had retained a law firm to assist in its investigation.

57. Then, on August 25, 2005, the Company announced an update on its accounting issues, reporting that a special committee was investigating several accounting issues as far back as 2000 and that the Company did not know when it would be able to file its June 30, 2005 Form 10-Q. This news sent the Company's shares plummeting 10%.

58. These public revelations indicated that First BanCorp's fiscal 2005 financial results would be much worse than prior representations and that First BanCorp's ability to achieve the results represented in its past reported earnings hinged on defendants' ability to *manipulate* the Company's results. Also revealed was that the Company's prospects for business success and earnings growth for the remainder of fiscal 2005 and beyond were severely diminished. As investors and the market became aware that First BanCorp's actual business prospects were poorer than represented, which had been obfuscated by defendants, the prior artificial inflation came out of First BanCorp's stock price, damaging investors.

59. As a direct result of defendants' admissions and the public revelations regarding the truth about First BanCorp's previous representations and its actual business prospects going forward, First BanCorp's stock price plummeted 25%, falling from \$24.11 in early August to \$18.23 per share on August 26, 2005, a drop of \$5.88 per share. This drop removed the inflation from First BanCorp's stock price, causing real economic loss to investors who had purchased the stock during the Class Period. In sum, as the truth about defendants' fraud and First BanCorp's business performance was revealed, the Company's stock price plummeted, the artificial inflation came out of the stock and plaintiff and other members of the Class were damaged, suffering economic losses of approximately \$5.88 per share.

60. The aggregate 25% decline in First BanCorp's stock price at the end of the Class Period was a direct result of the nature and extent of defendants' fraud finally being revealed to investors and the market. The timing and magnitude of First BanCorp's stock price declines negate any inference that the loss suffered by plaintiff and other Class members was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to the defendants' fraudulent conduct. During the same period in which First BanCorp's stock price fell 25% as a result of defendants' fraud being revealed, the Standard & Poor's 500 securities index was flat. The economic loss, *i.e.*, damages, suffered by plaintiff and other members of the Class was a direct result of defendants' fraudulent scheme to artificially inflate First BanCorp's stock price and the subsequent significant decline in the value of First BanCorp's stock when defendants' prior misrepresentations and other fraudulent conduct was revealed.

COUNT I

Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants

61. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

62. During the Class Period, First BanCorp and the Individual Defendants, and each of them, carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (a) deceive the investing public, including plaintiff and other Class members, as alleged herein; (b) artificially inflate and maintain the market price of First BanCorp publicly traded securities; and (c) cause plaintiff and other members of the Class to purchase First BanCorp publicly traded securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

63. Defendants: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements made not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain an artificially high market price for First BanCorp's publicly traded securities in violation of §10(b) of the Exchange Act and Rule 10b-5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

64. In addition to the duties of full disclosure imposed on defendants as a result of their making of affirmative statements and reports, or participation in the making of affirmative statements and reports to the investing public, defendants had a duty to promptly disseminate truthful information that would be material to investors in compliance with the integrated disclosure provisions of the SEC as embodied in SEC Regulation S-X (17 C.F.R. §210.01, *et seq.*) and

Regulation S-K (17 C.F.R. §229.10, *et seq.*) and other SEC regulations, including accurate and truthful information with respect to the Company's operations, financial condition and earnings so that the market prices of the Company's securities would be based on truthful, complete and accurate information.

65. First BanCorp and the Individual Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of First BanCorp as specified herein.

66. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of First BanCorp's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about First BanCorp and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of First BanCorp publicly traded securities during the Class Period.

67. The Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (a) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period; (b) the Individual Defendants were privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; and (c) the Individual Defendants were aware of the Company's dissemination of

information to the investing public which they knew or recklessly disregarded was materially false and misleading.

68. The defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing First BanCorp's operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by defendants' overstatements and misstatements of the Company's business, operations and earnings throughout the Class Period, defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

69. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market prices of First BanCorp publicly traded securities were artificially inflated during the Class Period. In ignorance of the fact that the market prices of First BanCorp publicly traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of the market in which the securities trade, and/or on the absence of material adverse information that was known to or recklessly disregarded by defendants but not disclosed in public statements by defendants during the Class Period, plaintiff and the other members of the Class acquired First BanCorp publicly traded securities during the Class Period at artificially high prices and were damaged thereby.

70. At the time of said misrepresentations and omissions, plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had plaintiff and the other members of the Class and the marketplace known of the true financial condition and business prospects of First BanCorp, which were not disclosed by defendants, plaintiff and other members of the Class would not have purchased or otherwise acquired their First BanCorp publicly traded securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

71. By virtue of the foregoing, defendants have violated §10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

72. As a direct and proximate result of defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's publicly traded securities during the Class Period.

COUNT II

Violation of Section 20(a) of the Exchange Act Against All Defendants

73. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

74. The Individual Defendants acted as controlling persons of First BanCorp within the meaning of §20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which plaintiff contends are false

and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

75. In particular, the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same. The Company controlled the Individual Defendants and all of its employees.

76. As set forth above, First BanCorp and the Individual Defendants each violated §10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the defendants are liable pursuant to §20(a) of the Exchange Act. As a direct and proximate result of First BanCorp's and the Individual Defendants' wrongful conduct, plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's publicly traded securities during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for relief and judgment, as follows:

A. Determining that this action is a proper class action, designating plaintiff as lead plaintiff and certifying plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and plaintiff's counsel as lead counsel;

B. Awarding compensatory damages in favor of plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Such equitable/injunctive or other and further relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff hereby demands a trial by jury.

DATED: November 2, 2005

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