

Puerto Rico Banking System's Trends

March 28, 2012

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The financial crisis motivated major changes in the Banking Industry at a global and local level

Economic recession period in US and PR

Asset quality deterioration

Significant regulatory changes

Resulted in Deleverage, Failures, FDIC assisted transactions and Recapitalization of the Banking System over the recent cycle

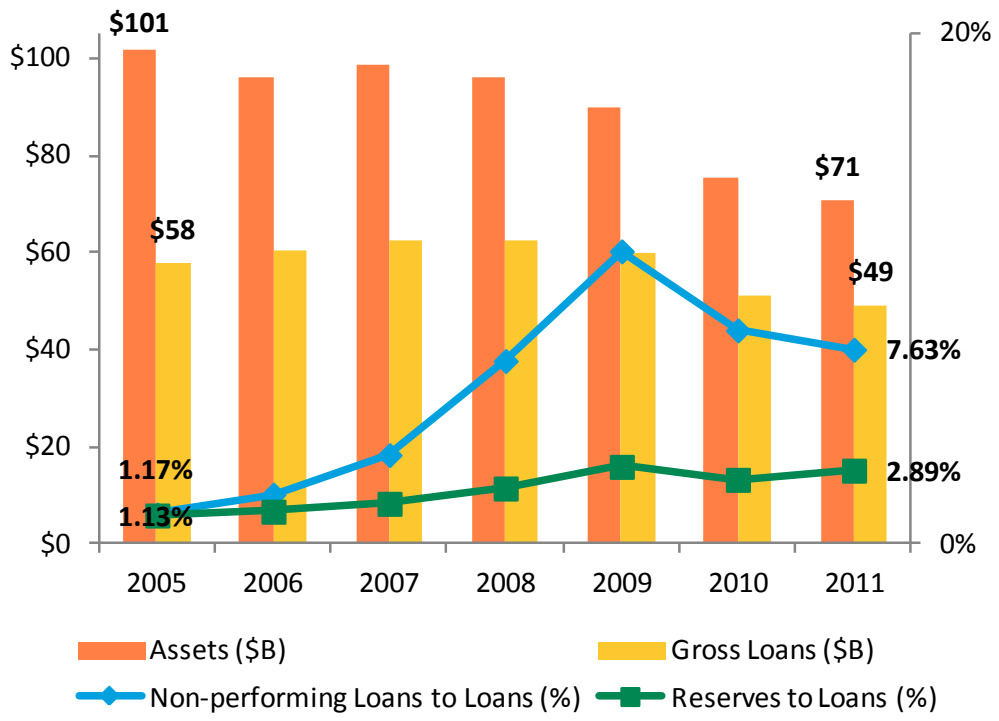
As a result, regulatory requirements have changed

Dodd–Frank Wall Street Reform and Consumer Protection Act

1. Created new agencies such as the *Financial Oversight Council* and the *Consumer Financial Protection Bureau*
2. Amended existing regulations such as the *Consumer Credit Protection Act*, *Federal Deposit Insurance Act*, *Federal Reserve Act*, *Truth in Lending Act*
3. Included the *Durbin Amendment* which is directed at debit cards and payment processing charges
4. Changes to the mortgage industry:
 - FNMA & Freddie Mac & FHA have aligned their lending policies with the market risk
 - New requisites for the management of appraisals and the compensation for loan originators
5. Revised capital requirements for stress testing

Resulting in significant increase in cost of compliance and impacting shareholders' return

Puerto Rico's financial landscape has changed as a result of the prolonged recession



- The Banking System has deleveraged with total assets decreasing by 30% since 2005, while gross loans reduced only 16%
- During 2010, experienced three FDIC assisted transactions in PR
- Asset quality deteriorated through 2009, but has shown improvements since 2010
- Increased reserve levels through recessionary period to manage non-performing assets

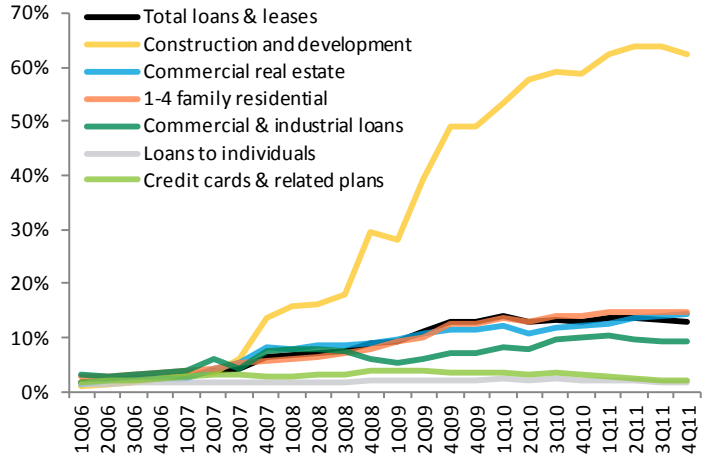
	2009	2011	2009 vs. 2011	
			(#, \$)	%
Total Banks	13	11	(2)	-15%
Branches	493	433	(60)	-12%
Core Deposits	\$ 38,044	\$ 39,019	\$ 975	3%
Brokered Deposits	\$ 21,954	\$ 9,195	\$ (12,759)	-58%
Total Loans	\$ 59,683	\$ 49,183	\$ (10,500)	-18%
Assets	\$ 89,632	\$ 70,789	\$ (18,843)	-21%

- Includes one new player during 2011

Multi-billion dollar losses have been incurred during this period

(\$ in millions)

Non-current Loans for PR Commercial Banks



Net Charge-offs		
2006	\$	262
2007		523
2008		766
2009		1,241
2010		1,558
2011		841
Total	\$	5,192

- Delinquency rates increased during recession, specially residential construction loans, and still remain at higher than normal levels
- Recession, weak economic activity and high unemployment rate created an imbalance between supply and demand of housing units
- Loans related to the construction sector became the worst performing assets in banks' Balance Sheet and thus the least attractive during the period

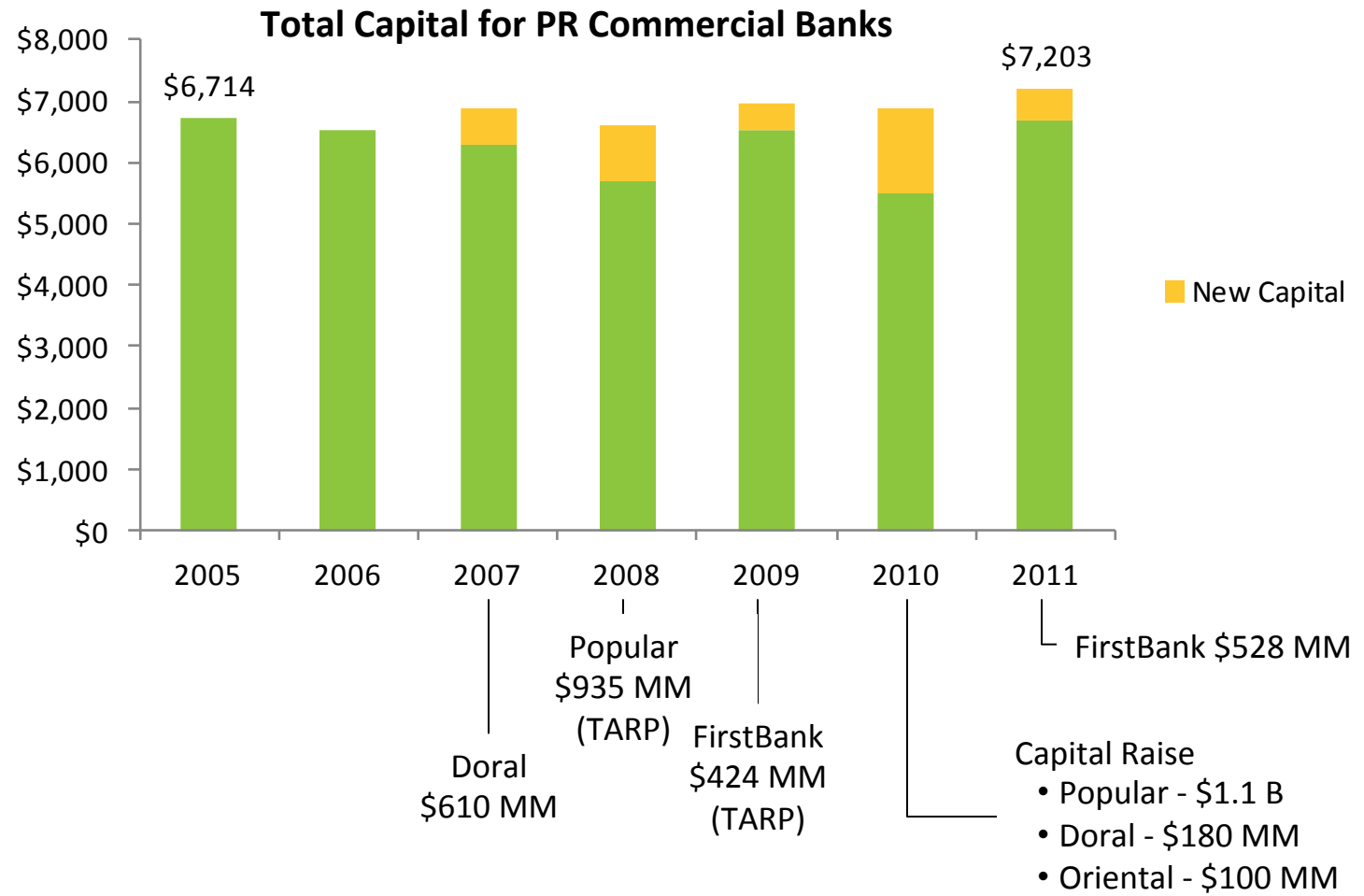
Improved absorption of new housing inventory

- ✓ 8,231 units available for sale and ready for delivery with an expected absorption of approx. 20 months
- ✓ An additional 3,776 units are under construction and extend expected absorption to 30 months
- ✓ On average, new housing property values have been reduced by approx. 21% in the last five years

Recent housing demand study reflects positive outlook for the recovery of segments of housing construction as absorption of new projects' inventory has improved

Significant recapitalization activity took place in the PR financial system

(\$ in millions)



Banks successfully strengthened their capital position to support further growth

Most recent trends of the Financial Industry in Puerto Rico

- Changes and financial losses experienced during the 2008-11 cycle can be considered the “worst part of the cycle”, most significant losses were already recognized
- During 2011-12, the industry has stabilized and has started to balance risks and return to profitability
- The local financial industry is gradually recovering, although there are still economic, demographic, financial and social challenges
- To achieve full recovery, non-performing assets need to be eradicated from the system
- Banks have increased their lending activity in order to replenish assets and grow revenues, resulting in consolidated industry net income of \$198 MM for 2011
- There are clear positive indicators and certain sectors have experienced an increase in loan originations: commercial, consumer, auto and mortgage loans
- The banking system is committed with the economic development by supporting the small and middle market businesses

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