

FIRST BANCORP /PR/

FORM 10-K (Annual Report)

Filed 3/15/2004 For Period Ending 12/31/2003

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|-------------|----------------------------------------------------|
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| Industry | Regional Banks |
| Sector | Financial |
| Fiscal Year | 12/31 |

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2003

Commission File No. 001-14793

First BanCorp.

(Exact name of registrant as specified in its charter)

Puerto Rico

66-0561882

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

**1519 Ponce de León Avenue, Stop 23
Santurce, Puerto Rico**

00908

(Address of principal office)

(Zip Code)

Registrant's telephone number, including area code:

(787) 729-8200

Securities registered under Section 12(b) of the Act:

Common Stock (\$1.00 par value)

**7.125% Noncumulative Perpetual Monthly Income
Preferred Stock, Series A (Liquidation Preference \$25 per share)
8.35% Noncumulative Perpetual Monthly Income
Preferred Stock, Series B (Liquidation Preference \$25 per share)
7.40% Noncumulative Perpetual Monthly Income
Preferred Stock, Series C (Liquidation Preference \$25 per share)
7.25% Noncumulative Perpetual Monthly Income
Preferred Stock, Series D (Liquidation Preference \$25 per share)
7.00% Noncumulative Perpetual Monthly Income
Preferred Stock, Series E (Liquidation Preference \$25 per share)**

Securities registered under Section 12(g) of the Act:

NONE

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filer pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definite proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

The aggregate market value of the voting common stock held by nonaffiliates of the registrant as of June 30, 2003 (the last day of the registrant's most recently completed second quarter) was \$76,789,000 based on the closing price of \$27.45 per share of common stock on the New York Stock Exchange on June 30, 2003. (see Note 1 below)

The number of shares outstanding of the registrant's common stock, as of March 1, 2004 was: Common stock, par value \$1.00 – 40,045,535.

Documents Incorporated by Reference

1. Portions of the registrant's Annual Report to Shareholders for the fiscal year ended December 31, 2003 are incorporated by reference into Items 1 and 3 of Part I, Items 5 through 8 of Part II and Item 15 of Part IV of this Annual Report on Form 10-K.
2. Portions of the registrant's Proxy Statement for the 2004 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year end, are incorporated by reference into Items 10 through 14 of Part III of this Annual Report on Form 10-K.

Note 1-The registrant had no nonvoting common equity outstanding as of June 30, 2003. In calculating the aggregate market value of the common stock held by nonaffiliates of the registrant, registrant has treated as common stock held by affiliates only common stock of the registrant held by its principal executive officer and voting stock hold by the registrant's employee benefit plans. The registrant's response to this item is not intended to be an admission that any person is an affiliate of the registrant for any purposes other than this response.

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Forward Looking Statements

When used in this Form 10-K or future filings by First BanCorp (First BanCorp or the “Corporation”) with the Securities and Exchange Commission, in the Corporation’s press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases “would be”, “will allow”, “intends to”, “will likely result”, “are expected to”, “will continue”, “is anticipated”, “estimated”, “project”, “believe”, “should” or similar expressions are intended to identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995.

The future results of the Corporation could be affected by subsequent events and could differ materially from those expressed in forward-looking statements. If future events and actual performance differ from the Corporation’s assumptions, the actual results could vary significantly from the performance projected in the forward-looking statements.

The Corporation wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made and are based on Management’s current expectations, and to advise readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities, competitive, and regulatory factors, legislative changes and accounting pronouncements, could affect the Corporation’s financial performance and could cause the Corporation’s actual results for future periods to differ materially from those anticipated or projected. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

PART I

Item 1. Business

GENERAL

First BanCorp (“the Corporation”) is a publicly-owned, Puerto Rico-chartered financial holding company that is subject to regulation, supervision and examination by the Federal Reserve Board. First BanCorp operates two direct subsidiaries: FirstBank Puerto Rico (“FirstBank or the Bank”) and FirstBank Insurance Agency, Inc. FirstBank is a Puerto Rico-chartered commercial bank, and FirstBank Insurance Agency is a Puerto Rico-chartered insurance agency. FirstBank is subject to supervision, examination and regulation by the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico (the “Commissioner”) and the Federal Deposit Insurance Corporation (the “FDIC”), which insures its deposits through the Savings Association Insurance Fund (“SAIF”). The Virgin Islands operations of FirstBank are subject to regulation and examination by the United States Virgin Islands Banking Board and by the British Virgin Islands Financial Services Commission. FirstBank Insurance Agency is subject to supervision, examination and regulation by the Office of the Insurance Commissioner of the Commonwealth of Puerto Rico (the “Insurance Commissioner”).

First BanCorp is engaged in the banking business and provides a wide range of financial services for retail and institutional clients. First BanCorp had total assets of approximately \$12.7 billion, total deposits of approximately \$6.8 billion and total stockholder’s equity of approximately \$1.1 billion at December 31, 2003. Based on total assets, First BanCorp is the second largest bank holding company headquartered in the Commonwealth of Puerto Rico and the second largest depository institution in Puerto Rico.

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FirstBank conducts its business through its main offices located in San Juan, Puerto Rico, forty-two full service banking branches in Puerto Rico and twelve branches in the United States Virgin Islands (USVI) and British Virgin Islands (BVI). FirstBank has three subsidiaries with operations in Puerto Rico, First Leasing and Rental Corporation, a vehicle leasing and daily rental company with nine offices in Puerto Rico, First Federal Finance Corp. (d/b/a Money Express La Financiera), a finance company with twenty-eight offices in Puerto Rico and First Mortgage, Inc., a residential mortgage loan origination company with twenty-one offices in FirstBank branches. FirstBank has three subsidiaries with operations outside of Puerto Rico, FirstBank Insurance Agency VI, Inc., an insurance agency with one office that sells insurance products in the USVI, First Trade, Inc., which provides foreign sales corporation management services with an office in the USVI and an office in Barbados, and First Express, a small loans company with three offices in the USVI.

First Mortgage, Inc. started operations specializing in the origination of residential mortgage loans and related services in September 2003. First Express started operations in the USVI in November 2003 and concentrates primarily in the origination of small loans in the USVI.

The information under the caption “President’s Letter” on pages 13 to 16 and the information under Note 28 - Segment Information on pages 85 to 86 of the Corporation’s annual report to security holders for the year ended December 31, 2003 are incorporated herein by reference.

WEBSITE ACCESS TO REPORTS

We made our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 available free of charge on or through our internet website www.firstbankpr.com, (First BanCorp section, Company Filings link), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

We also made available the Corporation’s corporate governance standards, the charters of the audit, compensation and benefits, corporate governance and nominating committees; and the codes mentioned below free of charge on or through our internet website www.firstbankpr.com (First BanCorp section, Corporate Governance link):

- Code of Ethics for Senior Financial Officers (see Exhibit 14.1)
- Code of Ethics applicable to all employees (see Exhibit 14.2)
- Policy Statement and Standards of Conduct for Members of the Board of Directors, Executive Officers and Principal Shareholders (see Exhibit 14.3)

The corporate governance standards, and the aforementioned charters and codes may also be requested free of charge to Mrs. Carmen G. Szendrey Ramos, Senior Vice President, General Counsel and Secretary of the Board, PO Box 9146, San Juan, Puerto Rico 00908.

MARKET AREA AND COMPETITION

Puerto Rico, where the banking market is highly competitive, is the main geographic service area of the Corporation. The Corporation also has a presence, through its subsidiaries, in the United States and British Virgin Islands’ markets. According to the latest industry statistics published by the Commissioner, Puerto Rico has 17 banking institutions with approximately \$87 billion in assets. The Corporation ranked

second based on total assets. Puerto Rico banks are subject to the same federal laws, regulations and supervision that apply to similar institutions in the United States mainland.

Competitors include other banks, insurance companies, mortgage banking companies, small loan companies, automobile financing companies, leasing companies, vehicle rental companies, brokerage firms with retail operations, and credit unions in Puerto Rico and in the Virgin Islands. The Corporation’s businesses compete with these other firms with respect to the range of products and services offered and the types of clients, customers and industries served.

The Corporation’s ability to compete effectively depends on the relative performance of its products, the degree to which the features of its products appeal to customers, and the extent to which the Corporation meets client’s needs and expectations. The Corporation’s ability to compete also depends on its ability to attract and retain professional and other personnel, and on its reputation.

The Corporation encounters intense competition in attracting and retaining deposits and in its consumer and commercial lending activities. The Corporation competes for loans with other financial institutions, some of which are larger and have available resources greater than those of the Corporation. Management believes that the Corporation has been able to compete effectively for deposits and loans by offering a variety of transaction account products and loans with competitive features, by pricing its products at competitive interest rates and by offering convenient branch locations and emphasizing the quality of its service. The Corporation’s ability to originate loans depends primarily on the rates and fees charged and the service it provides to its borrowers in making prompt credit decisions. There can be no assurance that in the future the Corporation will be able to continue to increase its deposit base or originate loans in the manner or on the terms on which it has done so in the past.

SUPERVISION AND REGULATION

Bank Holding Company Activities and Other Limitations

The Corporation is subject to ongoing regulation, supervision, and examination by the Federal Reserve Board, and is required to file with the Federal Reserve Board periodic and annual reports and other information concerning its own business operations and those of its subsidiaries. In addition, under the provisions of the Bank Holding Company Act, a bank holding company must obtain Federal Reserve Board approval before it acquires directly or indirectly ownership or control of more than 5% of the voting shares of a second bank. Furthermore, Federal Reserve Board approval must also be obtained before such a company acquires all or substantially all of the assets of a second bank or merges or consolidates with another bank holding company. The Federal Reserve Board also has authority to issue cease and desist orders against bank holding companies and their non-bank subsidiaries.

A bank holding company is prohibited under the Bank Holding Company Act, with limited exceptions, from engaging, directly or indirectly, in any business unrelated to the business of banking or of managing or controlling banks. One of the exceptions to these prohibitions permits ownership by a bank holding company of the shares of any company if the Federal Reserve Board, after due notice and opportunity for hearing, by regulation or order has determined that the activities of the company in question are so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto.

Under the Federal Reserve Board policy, a bank holding company such as the Corporation is expected to act as a source of financial strength to its banking subsidiaries and to commit support to them. This support may be required at times when, absent such policy, the bank holding company might not otherwise provide such support. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to the federal bank regulatory agency to maintain capital of a subsidiary bank will be assumed by the bankruptcy trustee and be entitled to a priority of payment. In addition, any capital loans by a bank holding company to any of its subsidiary banks must be subordinated in right of payment to deposits and to certain other indebtedness of such subsidiary bank. FirstBank is currently the only depository institution subsidiary of the Corporation.

The Gramm-Leach-Bliley Act revised and expanded the provisions of the Bank Holding Company Act by including a section that permits a bank holding company to elect to become a financial holding company to engage in a full range of financial activities. The Gramm-Leach-Bliley Act requires that in the event that the bank holding company elects to become a financial holding company, the election must be made by filing a written declaration with the appropriate Federal Reserve Bank and comply with the following (and such compliance must continue during while the entity is treated as a financial holding company): (i) state that the bank holding company elects to become a financial holding company; (ii) provide the name and head office address of the bank holding company and each depository institution controlled by the bank holding company; (iii) certify that all depository institutions controlled by the bank holding company are well capitalized as of the date the bank holding company files for the election; (iv) provide the capital ratios for all relevant capital measures as of the close of the previous quarter for each depository institution controlled by the bank holding company; and (v) certify that all depository institutions controlled by the bank holding company are well managed as of the date the bank holding company files the election. The bank holding company must have also achieved at least a rating of satisfactory record of meeting community credit needs under the Community Reinvestment Act during the institution's most recent examination. In April of 2000, the Corporation filed an election with the Federal Reserve Board and became a financial holding company.

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Financial holding companies may engage, directly or indirectly, in any activity that is determined to be (i) financial in nature, (ii) incidental to such financial activity, or (iii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. The Gramm-Leach-Bliley Act specifically provides that the following activities have been determined to be “financial in nature”: (a) Lending, trust and other banking activities; (b) Insurance activities; (c) Financial or economic advice or services; (d) Pooled investments; (e) Securities underwriting and dealing; (f) Existing bank holding company domestic activities; (g) Existing bank holding company foreign activities; and (h) Merchant banking activities. The Corporation offers insurance agency services through its wholly-owned subsidiary, FirstBank Insurance Agency, Inc. and through FirstBank Insurance Agency V. I., Inc., a subsidiary of FirstBank Puerto Rico.

In addition, the Gramm-Leach-Bliley Act specifically gives the Federal Reserve Board the authority, by regulation or order, to expand the list of “financial” or “incidental” activities, but requires consultation with the U.S. Treasury, and gives the Federal Reserve Board authority to allow a financial holding company to engage in any activity that is “complementary” to a financial activity and does not “pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.”

Under the Gramm-Leach-Bliley Act, if the Corporation fails to meet any of the requirements for being a financial holding company and is unable to cure such deficiencies within certain prescribed periods of time, the Federal Reserve Board could require the Corporation to divest control of its depository institution subsidiaries or alternatively cease conducting financial activities that are not permissible for bank holding companies that are not financial holding companies.

Sarbanes-Oxley Act

On July 20, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (“SOA”), which implemented legislative reforms intended to address corporate and accounting fraud. SOA contains reforms of various business practices and numerous aspects of corporate governance. Most of these requirements have been implemented pursuant to regulations issued by the Securities and Exchange Commission (the “SEC”). The following is a summary of certain key provisions of SOA.

In addition to the establishment of a new accounting oversight board that will enforce auditing, quality control and independence standards and will be funded by fees from all publicly traded companies, SOA places restrictions on the scope of services that may be provided by accounting firms to their public company audit clients. Any non-audit services being provided to a public company audit client will require pre-approval by the company’s audit committee. In addition, SOA makes certain changes to the requirements for partner rotation after a period of time. SOA requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the SEC, subject to civil and criminal penalties if they knowingly or willingly violate this certification requirement. In addition, counsel will be required to report evidence of a material violation of the securities laws or a breach of fiduciary duties to its chief executive officer or its chief legal officer, and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

Under this new law, longer prison terms will apply to corporate executives who violate federal securities laws; the period during which certain types of suits can be brought against a company or its officers is extended and bonuses issued to top executives prior to restatement of a company’s financial statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from insider trading during retirement plan “blackout” periods, and loans to company executives (other than loans by financial institutions permitted by federal rules or regulations)

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are restricted. In addition, the legislation accelerates the time frame for disclosures by public companies, as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers required to report changes in ownership in a company's securities must now report within two business days of the change.

SOA also increases responsibilities and codifies certain requirements relating to audit committees of public companies and how they interact with the company's "registered public accounting firm." Audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer. In addition, companies will be required to disclose whether at least one member of the committee is a "financial expert" (as such term will be defined by the SEC) and if not, why not. A company's registered public accounting firm will be prohibited from performing statutorily mandated audit services for a company if the company's chief executive officer, chief financial officer, controller, chief accounting or any person serving in equivalent positions had been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. SOA also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent public or certified accountant engaged in the audit of the company's financial statements for the purpose of rendering the financial statements materially misleading. SOA also has provisions relating to inclusion of certain internal control reports and assessments by management in the annual report to stockholders. The law also requires the company's registered public accounting firm that issues the audit report to attest to and report on management's assessment of the company's internal controls.

USA Patriot Act

Under Title III of the USA Patriot Act, also known as the International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001, all financial institutions, including the Corporation and the Bank, are required in general to identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions. Additional information-sharing among financial institutions, regulators, and law enforcement authorities is encouraged by the presence of an exemption from the privacy provisions of the Gramm-Leach-Bliley Act for financial institutions that comply with this provision and the authorization of the Secretary of the Treasury to adopt rules to further encourage cooperation and information-sharing.

The U.S. Treasury Department ("Treasury") has issued a number of regulations implementing the USA Patriot Act that apply certain of its requirements to financial institutions. The regulations impose new obligations in financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. Treasury is expected to issue a number of additional regulations that will further clarify the USA Patriot Act's requirements.

Failure of a financial institution to comply with the USA Patriot Act's requirements could have serious legal and reputational consequences for the institutions. The Corporation and the Bank have adopted appropriate policies, procedures and controls to address compliance with the USA Patriot Act under existing regulations, and will continue to revise and update their policies, procedures and controls to reflect changes required by the USA Patriot Act and Treasury's regulations.

Privacy Policies

Under the Gramm-Leach-Bliley Act, all financial institutions are required to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request and establish policies and procedures to protect customer data from unauthorized access. The

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Corporation and its subsidiaries have adopted policies and procedures in order to comply with the privacy provisions of the Gramm-Leach-Bliley Act and the regulations issued thereunder.

State Chartered Non-Member Bank; Banking Laws and Regulations in General.

FirstBank is subject to extensive regulation and examination by the Commissioner and the FDIC, and subject to certain requirements established by the Federal Reserve Board. The federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing and availability of deposited funds and the nature and amount of and collateral for certain loans. In addition to the impact of regulations, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to influence the economy. References herein to applicable statutes or regulations are brief summaries of portions thereof which do not purport to be complete and which are qualified in their entirety by reference to those statutes and regulations. Any change in applicable laws or regulations may have a material adverse effect on the business of commercial banks and bank holding companies, including FirstBank and the Corporation. However, management is not aware of any current recommendations by any federal or state regulatory authority that, if implemented, would have or would be reasonably likely to have a material effect on the liquidity, capital resources or operations of FirstBank or the Corporation.

As a creditor and financial institution, FirstBank is subject to certain regulations promulgated by the Federal Reserve Board, including, without limitation, Regulation B (Equal Credit Opportunity Act), Regulation DD (Truth in Savings Act), Regulation E (Electronic Funds Transfer Act), Regulation F (Limits on Exposure to Other Banks), Regulation Z (Truth in Lending Act), Regulation CC (Expedited Funds Availability Act), Regulation X (Real Estate Settlement Procedures Act), Regulation BB (Community Reinvestment Act) and Regulation C (Home Mortgage Disclosure Act).

There are periodic examinations by the Commissioner and the FDIC to test FirstBank's compliance with various statutory and regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. In addition, certain actions are required by statute and implementing regulations. Other actions or inaction may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

Dividend Restriction.

The Corporation is subject to certain restrictions generally imposed on Puerto Rico corporations with respect to its declaration and payment of dividends (i.e., that dividends may be paid out only from the Corporation's net assets in excess of capital or in the absence of such excess, from the Corporation's net earnings for such fiscal year and/or the preceding fiscal year). The Federal Reserve Board has also issued a policy statement that provides that bank holding companies should generally pay dividends only out of current operating earnings.

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At present, the principal source of funds for the Corporation is dividends declared and paid by FirstBank. The ability of FirstBank to declare and pay dividends on its capital stock is restricted by the Banking Law (as defined herein), the Federal Deposit Insurance Act (the “FDIA”) and FDIC regulations. In general terms, the Puerto Rico Banking Law provides that when the expenditures of a bank are greater than receipts, the excess of expenditures over receipts shall be charged against undistributed profits of the bank and the balance, if any, shall be charged against the required reserve fund of the bank. If there is no sufficient reserve fund to cover such balance in whole or in part, the outstanding amount shall be charged against the bank’s capital account. The Puerto Rico Banking Law provides that until said capital has been restored to its original amount and the reserve fund to 20% of the original capital, the bank may not declare any dividends.

In general terms, the FDIA and the FDIC regulations restrict the payment of dividends when a bank is undercapitalized, when a bank has failed to pay insurance assessments, or when there are safety and soundness concerns regarding such bank.

Limitations on Transactions with Affiliates

Transactions between financial institutions such as the Bank and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act and by Regulation W. An affiliate of a financial institution is any company or entity, which controls, is controlled by or is under common control with the financial institution. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the financial institution. Generally, Sections 23A and 23B of the Federal Reserve Act (i) limit the extent to which the financial institution or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of such institution’s capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such institution’s capital stock and surplus and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary, as those provided to a non-affiliate. The term “covered transaction” includes the making of loans, purchase of assets, issuance of a guarantee and other similar transactions. In addition, loans or other extensions of credit by the financial institution to the affiliate are required to be collateralized in accordance with the requirements set forth in Section 23A of the Federal Reserve Act.

The Gramm-Leach-Bliley Act provides that financial subsidiaries of banks be treated as affiliates for purposes of Sections 23A and 23B of the Federal Reserve Act, but provides that (i) the 10% capital limit on transactions between the bank and such financial subsidiary as an affiliate is not applicable, and (ii) the investment by the bank in the financial subsidiary does not include retained earnings in the financial subsidiary. Certain anti-evasion provisions have been included that relate to the relationship between any financial subsidiary of a bank and sister companies of the bank: (1) any purchase of, or investment in, the securities of a financial subsidiary by any affiliate of the parent bank is considered a purchase or investment by the bank; or (2) if the Federal Reserve Board determines that such treatment is necessary, any loan made by an affiliate of the parent bank to the financial subsidiary is to be considered a loan made by the parent bank.

The Federal Reserve Board has adopted a new regulation, Regulation W, effective April 1, 2003, that deals with the provisions of Sections 23A and 23B. The regulation unifies and updates staff interpretations issued over the years, incorporates several new interpretations and provisions (such as to clarify when transactions with an unrelated third party will be attributed to an affiliate), and addresses new issues arising as a result of the expanded scope of nonbanking activities engaged in by banks and bank holding companies in recent years and authorized for financial holding companies under the Gramm-Leach-Bliley Act.

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In addition, Sections 22(h) and (g) of the Federal Reserve Act, implemented through Regulation “O”, place restrictions on loans to executive officers, directors and principal stockholders. Under Section 22(h) of the Federal Reserve Act loans to a director, an executive officer and to a greater than 10% stockholder of a financial institution, and certain affiliated interests of these, may not exceed, together with all other outstanding loans to such person and affiliated interests, the financial institution’s loans to one borrower limit, generally equal to 15% of the institution’s unimpaired capital and surplus. Section 22(h) of the Federal Reserve Act also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons and also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a financial institution to insiders cannot exceed the institution’s unimpaired capital and surplus. Furthermore, Section 22(g) of the Federal Reserve Act places additional restrictions on loans to executive officers.

Federal Reserve Board Capital Requirements

The Federal Reserve Board has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the Bank Holding Company Act. The Federal Reserve Board capital adequacy guidelines generally require bank holding companies to maintain total capital equal to 8% of total risk-adjusted assets, with at least one-half of that amount consisting of Tier I or core capital and up to one-half of that amount consisting of Tier II or supplementary capital. Tier I capital for bank holding companies generally consists of the sum of common stockholders’ equity and perpetual preferred stock, subject in the case of the latter to limitations on the kind and amount of such perpetual preferred stock which may be included as Tier I capital, less goodwill and, with certain exceptions, other intangibles. Tier II capital generally consists of hybrid capital instruments, perpetual preferred stock which is not eligible to be included as Tier I capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, generally allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics, with the categories ranging from 0% (requiring no additional capital) for assets such as cash to 100% for the bulk of assets which are typically held by a bank holding company, including multi-family residential and commercial real estate loans, commercial business loans and commercial loans. Off-balance sheet items also are adjusted to take into account certain risk characteristics.

In addition to the risk-based capital requirements, the Federal Reserve Board requires bank holding companies to maintain a minimum leverage capital ratio of Tier I capital to total assets of 3.0%. Total assets for purposes of this calculation do not include goodwill and any other intangible assets and investments that the Federal Reserve Board determines should be deducted. The Federal Reserve Board has announced that the 3.0% Tier I leverage capital ratio requirement is the minimum for the top-rated bank holding companies without a supervisory, financial or operational weaknesses or deficiencies or those which are not experiencing or anticipating significant growth. Other bank holding companies will be expected to maintain Tier I leverage capital ratios of at least 4.0% or more, depending on their overall condition. As of December 31, 2003, the Corporation exceeded each of its capital requirements and was a well-capitalized institution as defined in the Federal Reserve Board regulations.

FDIC Capital Requirements

The FDIC has promulgated regulations and adopted a statement of policy regarding the capital adequacy of state-chartered non-member banks like the Bank. These requirements are substantially similar to those adopted by the Federal Reserve Board regarding bank holding companies, as described above.

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The FDIC requires that banks meet a risk-based capital standard. The risk-based capital standard for banks requires the maintenance of total capital (which is defined as Tier I capital and supplementary (Tier 2) capital) to risk weighted assets of 8%. In determining the amount of risk-weighted assets, weights used (range from 0% to 100%) are based on the risks the FDIC believes are inherent in the type of asset or item. The components of Tier I capital are equivalent to those discussed below under the 3.0% leverage capital standard. The components of supplementary capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and generally allowances for loan and lease losses. Allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital.

The FDIC's capital regulations establish a minimum 3.0% Tier I capital to total assets requirement for the most highly-rated state-chartered, non-member banks, with an additional cushion of at least 100 to 200 basis points for all other state-chartered, non-member banks, which effectively will increase the minimum Tier I leverage ratio for such other banks to 4.0% to 5.0% or more. Under the FDIC's regulation, the highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, which are considered a strong banking organization and are rated composite I under the Uniform Financial Institutions Rating System. Leverage or core capital is defined as the sum of common stockholders' equity including retained earnings, noncumulative perpetual preferred stock and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill and certain purchased mortgage servicing rights.

In August 1995, the FDIC and other federal banking agencies published a final rule modifying their existing risk-based capital standards to provide for consideration of interest rate risk when assessing the capital adequacy of a bank. Under the final rule, the FDIC must explicitly include a bank's exposure to declines in the economic value of its capital due to changes in interest rates as a factor in evaluating a bank's capital adequacy. In June 1996, the FDIC and other federal banking agencies adopted a joint policy statement on interest rate risk policy. Because market conditions, bank structure, and bank activities vary, the agencies concluded that each bank needs to develop its own interest rate risk management program tailored to its needs and circumstances. The policy statement describes prudent principles and practices that are fundamental to sound interest rate risk management, including appropriate board and senior management oversight and comprehensive risk management process that effectively identifies, measures, monitors and controls such interest rate risk.

Failure to meet capital guidelines could subject an insured bank like the Bank to a variety of prompt corrective actions and enforcement remedies under the FDIC (as amended by FDICIA), including, with respect to an insured bank, the termination of deposit insurance by the FDIC, and to certain restrictions on its business. In general terms, undercapitalized depository institutions are prohibited from making any capital distributions (including dividends), are subject to restrictions on borrowing from the Federal Reserve System, and are subject to growth limitations and are required to submit capital restoration plans.

At December 31, 2003, the Bank was well capitalized. Like any other institution, the Bank's capital category, as determined by applying the prompt corrective action provisions of law, may not constitute an accurate representation of the overall financial condition or prospects of the Bank, and should be considered in conjunction with other available information regarding the Bank's financial condition and results of operations.

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Activities and Investments

The activities as “principal” and equity investments of FDIC-insured, state-chartered banks such as the Bank are generally limited to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investments of a type, or in an amount, that is not permissible for a national bank. An insured state bank is not prohibited from, among other things, (i) acquiring or retaining a majority interest in a subsidiary, (ii) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank’s total assets, (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors’, trustees’ and officers’ liability insurance coverage or bankers’ blanket bond group insurance coverage for insured depository institutions, and (iv) acquiring or retaining the voting shares of a depository institution if certain requirements are met. In addition, an insured state-chartered bank may not, directly, or indirectly through a subsidiary, engage as “principal” in any activity that is not permissible for a national bank unless the FDIC has determined that such activity would pose no risk to the insurance fund of which it is a member and the bank is in compliance with applicable regulatory capital requirements. Any insured state-chartered bank directly or indirectly engaged as “principal” in any activity that is not permitted for a national bank must cease the impermissible activity.

Federal Home Loan Bank System

FirstBank is a member of the Federal Home Loan Bank (FHLB) system. The FHLB system consists of twelve regional Federal Home Loan Banks governed and regulated by the Federal Housing Finance Board (FHFB). The Federal Home Loan Banks serve as reserve or credit facilities for member institutions within their assigned regions. They are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system, and they make loans (advances) to members in accordance with policies and procedures established by the FHLB system and the boards of directors of each regional FHLB.

The Bank is a member of the FHLB of New York and as such is required to acquire and hold shares of capital stock in that FHLB in a certain amount which is calculated in accordance with the requirements set forth in applicable laws and regulations. The Bank is in compliance with the stock ownership requirements of the FHLB-NY. All loans, advances and other extensions of credit made by the FHLB-NY to the Bank are secured by a portion of the Bank’s mortgage loan portfolio, certain other investments and the capital stock of the FHLB-NY held by the Bank.

Ownership and Control

Because of the Bank’s status as a bank, owners of the common stock are subject to certain restrictions and disclosure obligations under various federal laws, including the Bank Holding Company Act and the Change in Bank Control Act (the “CBCA”). Regulations pursuant to the Bank Holding Company Act generally require prior Federal Reserve Board approval for an acquisition of control of an insured institution (as defined) or holding company thereof by any person (or persons acting in concert). Control is deemed to exist if, among other things, a person (or persons acting in concert) acquires more than 25% of any class of voting stock of an insured institution or holding company thereof. Control is presumed to exist subject to rebuttal, if a person (or persons acting in concert) acquires more than 10% of any class of voting stock and either (i) the company has registered securities under Section 12 of the Securities Exchange Act of 1934, or (ii) no person will own, control or hold the power to vote a greater percentage of that class of voting securities immediately after the transaction. The concept of acting in concert is very broad and also is subject to certain rebuttable presumptions, including among others, that

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relatives, business partners, management officials, affiliates and others are presumed to be acting in concert with each other and their businesses. The FDIC's regulations implementing the CBCA are generally similar to those described above.

The Banking Law requires the approval of the Commissioner for changes in control of a Puerto Rico bank. See "Puerto Rico Banking Law."

Gross-Guarantees

Under the FDIA, a depository institution (which term includes both banks and savings associations), the deposits of which are insured by the FDIC, can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to any commonly controlled FDIC-insured depository institution "in danger of default." "Default" is defined generally as the appointment of a conservator or a receiver and "in danger of default" is defined generally as the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance. In some circumstances (depending upon the amount of the loss or anticipated loss suffered by the FDIC), cross-guarantee liability may result in the ultimate failure or insolvency of one or more insured depository institutions to its parent company is subordinated to the subsidiary bank's cross-guarantee liability with respect to commonly controlled insured depository institutions. The Bank is currently the only FDIC insured depository institution controlled by the Corporation.

Standards for Safety and Soundness

The FDIA, as amended by FDICIA and the Riegle Community Development and Regulatory Improvement Act of 1994, requires the FDIC and the other federal bank regulatory agencies to prescribe standards of safety and soundness, by regulations or guidelines, relating generally to operations and management, asset growth, asset quality, earnings, stock valuation, and compensation. The FDIC and the other federal bank regulatory agencies adopted, effective August 9, 1995, a set of guidelines prescribing safety and soundness standards pursuant to FDICIA, as amended. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder.

Brokered Deposits

FDIC regulations adopted under the FDIA govern the receipt of brokered deposits by banks. Well capitalized institutions are not subject to limitations on brokered deposits, while adequately capitalized institutions are able to accept, renew or rollover brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits. The Bank is currently a well-capitalized institution and is therefore nor subject to any limitations on brokered deposits.

Puerto Rico Banking Law

As a commercial bank organized under the laws of Commonwealth, FirstBank is subject to supervision, examination and regulation by the Commissioner pursuant to the Puerto Rico Banking Law of 1933, as amended (the “Banking Law”). The Banking Law contains provisions governing the incorporation and organization, rights and responsibilities of directors, officers and stockholders as well as the corporate powers, lending limitations, capital requirements, investment requirements and other aspects of the Bank and its affairs. In addition, the Commissioner is given extensive rule making power and administrative discretion under the Banking Law.

The Banking Law authorizes Puerto Rico commercial banks to conduct certain financial and related activities directly or through subsidiaries, including finance leasing of personal property and operating a small loan company.

The Banking Law requires every bank to maintain a legal reserve which shall not be less than twenty percent (20%) of its demand liabilities, except government deposits (federal, state and municipal) which are secured by actual collateral. The reserve is required to be composed of any of the following securities or combination thereof: (1) legal tender of the United States; (2) checks on banks or trust companies located in any part of Puerto Rico, to be presented for collection during the day following that on which they are received, (3) money deposited in other banks provided said deposits are authorized by the Commissioner, subject to immediate collection; (4) federal funds sold to any Federal Reserve Bank and securities purchased under agreement to resell executed by the bank with such funds that are subject to be repaid to the bank on or before the close of the next business day; and (5) any other asset that the Commissioner determines from time to time.

The Banking Law permits Puerto Rico commercial banks to make loans to any one person, firm, partnership or corporation, up to an aggregate amount of fifteen percent (15%) of the sum of: (i) the bank’s paid-in capital; (ii) the bank’s reserve fund; (iii) 50% of the bank’s retained earnings; and (iv) any other components that the Commissioner may determine from time to time. If such loans are secured by collateral worth at least twenty five percent (25%) more than the amount of the loan, the aggregate maximum amount may reach one third of the sum of the bank’s paid-in capital, reserve fund, 50% of retained earnings and such other components that the Commissioner may determine from time to time. There are no restrictions under the Banking Law on the amount of loans which are wholly secured by bonds, securities and other evidences of indebtedness of the Government of the United States, of the Commonwealth of Puerto Rico, or by bonds, not in default, of municipalities or instrumentalities of the Commonwealth of Puerto Rico.

The Banking Law prohibits Puerto Rico commercial banks from making loans secured by their own stock, and from purchasing their own stock, unless such purchase is made pursuant to a stock repurchase program approved by the Commissioner or is necessary to prevent losses because of a debt previously contracted in good faith. The stock so purchased by the Puerto Rico commercial bank must be sold by the bank in a public or private sale within one year from the date of purchase.

The Banking Law provides that no officers, directors, agents or employees of a Puerto Rico commercial bank may serve or discharge a position of officer, director, agent or employee of another Puerto Rico commercial bank, financial company, savings and loan association, trust company, company engaged in granting mortgage loans or any other institution engaged in the money lending business in Puerto Rico. This prohibition is not applicable to the affiliates of a Puerto Rico commercial bank.

The Banking Law requires that Puerto Rico commercial banks strike each year a general balance of their operations, and to submit such balance for approval to a regular general meeting of stockholders,

together with an explanatory report thereon. The Banking Law also requires that at least ten percent (10%) of the yearly net income of a Puerto Rico commercial bank be credited annually, to a reserve fund. This apportionment is required to be done every year until such reserve fund shall be equal to the total paid in capital of the bank.

The Banking Law also provides that when the expenditures of a Puerto Rico commercial bank are greater than receipts, the excess of the expenditures over receipts shall be charged against the undistributed profits of the bank, and the balance, if any, shall be charged against the reserve fund, as a reduction thereof. If there is no reserve fund sufficient to cover such balance in whole or in part, the outstanding amount shall be charged against the capital account and no dividend shall be declared until said capital has been restored to its original amount and the reserve fund to twenty percent (20%) of the original capital.

The Banking Law requires the prior approval of the Commissioner with respect to a transfer of capital stock of a bank that results in a change of control of the bank. Under the Banking Law, a change of control is presumed to occur if a person or a group of persons acting in concert, directly or indirectly, acquire more than 5% of the outstanding voting capital stock of the bank. The Commissioner has interpreted the restrictions of the Banking Law as applying to acquisitions of voting securities of entities controlling a bank, such as a bank holding company. Under the Banking Law, the determination of the Commissioner whether to approve a change of control filing is final and non-appealable.

The Finance Board, which is composed of the Commissioner, the Secretary of the Treasury, the Secretary of Commerce, the Secretary of Consumer Affairs, the President of the Economic Development Bank, the President of the Government Development Bank, and the President of the Planning Board, has the authority to regulate the maximum interest rates and finance charges that may be charged on loans to individuals and unincorporated businesses in Puerto Rico. The current regulations of the Finance Board provide that the applicable interest rate on loans to individuals and unincorporated businesses, including real estate development loans but excluding certain other personal and commercial loans secured by mortgages on real estate properties, is to be determined by free competition. Regulations adopted by the Finance Board deregulated the maximum finance charges on retail installment sales contracts, and for credit card purchases. These regulations do not set a maximum rate for charges on retail installment sales contracts and for credit card purchases and set aside previous regulations which regulated these maximum finance charges. Furthermore, there is no maximum rate set for installment sales contracts involving motor vehicles, commercial, agricultural and industrial equipment, commercial electric appliances and insurance premiums.

International Banking Act of Puerto Rico (IBE Act)

The business and operations of the First BanCorp and FirstBank IBEs are subject to supervision and regulation by the Commissioner. Under the IBE Act, certain sales, encumbrances, assignments, mergers, exchange or transfer of shares, interest or participation in the capital of an international banking entity (an “IBE”) may not be initiated without the prior approval of the Commissioner. The IBE Act and the regulations issued thereunder by the Commissioner (the “IBE Regulations”) limit the business activities that may be carried out by an IBE. Such activities are limited in part to persons and assets located outside of Puerto Rico.

Pursuant to the IBE Act and the IBE Regulations, the First BanCorp and FirstBank IBEs must maintain books and records of all its transactions in the ordinary course of business. The First BanCorp and FirstBank IBEs are also required thereunder to submit to the Commissioner quarterly and annual reports of their financial condition and results of operations, including annual audited financial statements.

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The IBE Act empowers the Commissioner to revoke or suspend, after notice and hearing, a license issued thereunder if, among other things, the IBE fails to comply with the IBE Act, the IBE Regulations or the terms of its license, or if the Commissioner finds that the business or affairs of the IBE are conducted in a manner that is not consistent with the public interest. Please refer to recent legislation section for changes in the IBE Act that were recently adopted.

Insurance Operations Regulation

FirstBank Insurance Agency, Inc. is registered as an insurance agency with the Insurance Commissioner and is subject to regulations issued by the Insurance Commissioner and FDIC relating to, among other things, licensing of employees, sales, solicitation and advertising practices, and consumer protections.

Community Reinvestment

Under the Community Reinvestment Act (“CRA”), federally insured banks have a continuing and affirmative obligation to meet the credit needs of their entire community, including low and moderate-income residents, consistent with their safe and sound operation. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit and institution’s discretion to develop the type of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the federal supervisory agencies, as part of the general examination of supervised banks, to assess the bank’s record of meeting the credit needs of its community, assign a performance rating, and to take such record and rating into account in its evaluation of certain applications by such bank. The CRA also requires all institutions to make public disclosure of their CRA ratings. FirstBank received a “satisfactory” CRA rating in its most recent examination by the FDIC.

Mortgage Banking Operations

First Mortgage is subject to the rules and regulations of FHA, VA, FNMA, FHLMC, HUD and GNMA with respect to originating, processing, selling and servicing mortgage loans and the issuance and sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts, and with respect to VA loans, fix maximum interest rates. Moreover, lenders such as First Mortgage are required annually to submit to FHA, VA, FNMA, FHLMC, GNMA and HUD, audited financial statements, and each regulatory entity has its own financial requirements. First Mortgage’s affairs are also subject to supervision and examination by FHA, VA, FNMA, FHLMC, GNMA and HUD at all times to assure compliance with the applicable regulations, policies and procedures. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act, and the Real Estate Settlement Procedures Act and the regulations promulgated thereunder which, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. First Mortgage is licensed by the Commissioner under the Puerto Rico Mortgage Banking Law, and as such is subject to regulation by the Commissioner, with respect to, among other things, licensing requirements and establishment of maximum origination fees on certain types of mortgage loans products.

Section 5 of the Puerto Rico Mortgage Banking Law requires the prior approval of the Commissioner for the acquisition of control of any mortgage banking institution licensed under such law. For purposes of the Puerto Rico Mortgage Banking Law, the term “control” means the power to direct or influence decisively, directly or indirectly, the management or policies of a mortgage banking institution. The Puerto

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Rico Mortgage Banking Law provides that a transaction that results in the holding of less than 10% of the outstanding voting securities of a mortgage banking institution shall not be considered a change in control.

Recent Legislation

Sarbanes Oxley

In June 2003, the Securities and Exchange Commission adopted final rules under Section 404 of the SOA ("Section 404"). Commencing with its 2004 annual report, First BanCorp will be required to include an internal control report containing management's assertions regarding the effectiveness of the Corporation's internal control structure and procedures over financial reporting. The internal control report must include a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the Corporation; of management's assessment as to the effectiveness of the Corporation's internal control over financial reporting based on management's evaluation of it, as of year-end and of the framework used by management as criteria for evaluating the effectiveness of the Corporation's internal control over financial reporting. As well, Section 404 requires the Corporation's independent accounting firm to attest to, and report on, management's assessment of the Corporation's internal control over financial reporting in accordance with standards established by Public Company Accounting Oversight Board (PCAOB), which is required to be filed as part of the Annual Report.

IBE Act

IBEs are currently exempt from taxation under Puerto Rico law. Recently, the Puerto Rico Legislature and the Governor of Puerto Rico approved an amendment to the IBE Act. This amendment imposes income tax at normal on IBE that operates as a unit of a bank, to the extent that the IBE's net income that exceeds 20% of the bank's total net taxable income (including the net income generated by the IBE unit). The amendment, which applies only to IBEs that operate as a unit of a bank, is effective for fiscal years beginning after June 30, 2003. The amendment provides for a transitional period during which the limitation for 2004 will be 40%, 30% in 2005 and finally 20% in 2006 and thereafter. Management estimates that the financial impact of the amendment is not likely to be material to the Corporation.

FINANCIAL CONDITION

The Corporation's total assets at December 31, 2003 amounted to \$12.7 billion, \$3.1 billion over the \$9.6 billion at December 31, 2002.

The following table sets forth the maturity distribution of earning assets at December 31, 2003:

| | As of December 31, 2003 Maturities | | | | | |
|------------------------------------------|---------------------------------------|-----------------------------------|----------------------------|-------------------------|----------------------------|--------------|
| | | After one year through five years | | After five years | | |
| | One year or less | Fixed interest rates | Variable interest rates | Fixed interest rates | Variable interest rates | Total |
| | (In thousands) | | | | | |
| Money market securities | \$ 970,940 | | | | | \$ 970,940 |
| Investment securities (1) | 712,479 | \$ 25,000 | | \$3,643,518 | \$ 14,268 | 4,395,265 |
| Loans (2): | | | | | | |
| Residential real estate | 61,060 | 95,962 | \$143,015 | 946,707 | 1,632,267 | 2,879,011 |
| Construction | 198,380 | 2,811 | 99,753 | 7,062 | 20,169 | 328,175 |
| Commercial and commercial real estate | 420,364 | 64,772 | 231,021 | 212,577 | 1,575,726 | 2,504,460 |
| Lease financing | 8,693 | 121,914 | | 30,676 | | 161,283 |
| Consumer | 254,752 | 751,413 | 2,940 | 142,408 | 20,076 | 1,171,589 |
| Total Loans | 943,249 | 1,036,872 | 476,729 | 1,339,430 | 3,248,238 | 7,044,518 |
| Total | \$2,626,668 | \$1,061,872 | \$476,729 | \$4,982,948 | \$3,262,506 | \$12,410,723 |

(1) Equity securities and FHLB stock were included under the "one year or less category".

(2) Non-accruing loans were included under the "one year or less category".

LENDING ACTIVITIES

At December 31, 2003 First BanCorp's lending activities include total commercial loans of \$2,833 million (40% of total loans), total consumer loans of \$1,172 million (17% of total loans), and total residential mortgage loans of \$2,879 million (41% of total loans). The Corporation's portfolio of commercial loans is composed in its majority of asset based financing and commercial real estate loans. Total commercial loans include \$889 million in commercial real estate loans and \$328 million in construction loans. The consumer loan portfolio consists principally of auto loans and personal loans and to a lesser extent boat and credit card loans. The portfolio of finance leases of \$161 million (2% of total loans), is mostly composed of loans to individuals to finance the acquisition of an automobile.

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The following table sets forth the composition of First BanCorp's total loans at the dates indicated.

| | December 31, | | | | |
|-------------------------------------------------------------------|----------------|-------------|-------------|-------------|-------------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | (In thousands) | | | | |
| Residential real estate loans, mainly secured by first mortgages: | \$2,871,222 | \$1,846,561 | \$1,012,385 | \$ 752,349 | \$ 441,062 |
| Deferred net loan fees | (4,062) | (3,247) | (5,107) | (5,557) | (5,293) |
| Residential real estate loans | 2,867,160 | 1,843,314 | 1,007,278 | 746,792 | 435,769 |
| Commercial loans: | | | | | |
| Construction, land acquisition and land improvement | 493,314 | 467,978 | 413,218 | 484,986 | 288,302 |
| Undisbursed portion of loans in process | (165,139) | (208,925) | (193,822) | (281,031) | (156,234) |
| Construction loans | 328,175 | 259,053 | 219,396 | 203,955 | 132,068 |
| Commercial loans | 1,615,304 | 1,418,792 | 1,238,173 | 947,709 | 655,417 |
| Commercial mortgage | 889,156 | 813,513 | 688,922 | 438,321 | 371,643 |
| Commercial loans | 2,832,635 | 2,491,358 | 2,146,491 | 1,589,985 | 1,159,128 |
| Finance leases | 161,283 | 143,412 | 127,935 | 122,883 | 85,692 |
| Consumer and other loans: | | | | | |
| Personal | 422,478 | 424,332 | 373,706 | 401,548 | 435,858 |
| Auto | 665,484 | 565,478 | 502,902 | 530,534 | 532,242 |
| Boat | 59,385 | 53,017 | 39,570 | 33,954 | 37,018 |
| Credit card | 58,568 | 164,172 | 176,226 | 174,797 | 168,045 |
| Home equity reserve | 4,552 | 4,566 | 1,851 | 2,134 | 2,657 |
| Unearned finance interest | (38,878) | (62,553) | (71,810) | (104,429) | (148,836) |
| Consumer and other loans | 1,171,589 | 1,149,012 | 1,022,445 | 1,038,538 | 1,026,985 |
| Loans receivable | 7,032,667 | 5,627,096 | 4,304,149 | 3,498,198 | 2,707,574 |
| Loans held for sale | 11,851 | 10,754 | 4,630 | | 37,794 |
| Total loans | 7,044,518 | 5,637,850 | 4,308,779 | 3,498,198 | 2,745,368 |
| Allowance for loan losses | (126,378) | (111,911) | (91,060) | (76,919) | (71,784) |
| Total loans-net | \$6,918,140 | \$5,525,939 | \$4,217,719 | \$3,421,279 | \$2,673,584 |

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The following table sets forth the composition of First BanCorp's total loan portfolio before the allowance for loan losses and the estimated weighted average taxable equivalent interest rates of loans in each category at December 31, 2003.

| | December 31, 2003 | |
|---------------------------------------------|-------------------|-----------------------|
| | (In thousands) | Weighted average rate |
| Residential real estate loans | \$2,879,011 | 4.23% |
| Construction loans | 328,175 | 4.89% |
| Commercial and commercial real estate loans | 2,504,460 | 4.17% |
| Finance leases | 161,283 | 9.50% |
| Consumer loans: | | |
| Auto | 660,378 | 10.38% |
| Personal | 389,147 | 15.96% |
| Credit card | 58,568 | 14.18% |
| Boat | 58,944 | 7.20% |
| Home equity reserve loans | 4,552 | 7.50% |
| Total consumer and other loans | 1,171,589 | 12.27% |
| Total | \$7,044,518 | 5.70% |

Loan Activity

The following table sets forth certain additional data related to the Corporation's loan portfolio net of the allowance for loan losses for the dates indicated:

| | For the year ended December 31, | | | | |
|--------------------------------------------------------|---------------------------------|-------------|-------------|-------------|-------------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | (Dollars in thousands) | | | | |
| Beginning balance | \$ 5,525,939 | \$4,217,719 | \$3,421,279 | \$2,673,584 | \$2,052,200 |
| Residential real estate loans originated and purchased | 1,865,709 | 1,045,268 | 613,698 | 416,077 | 216,713 |
| Commercial loans originated and purchased | 926,654 | 581,654 | 798,038 | 555,530 | 623,590 |
| Finance leases originated | 67,332 | 54,750 | 45,094 | 65,646 | 51,618 |
| Consumer loans originated and purchased | 603,024 | 431,588 | 363,582 | 423,411 | 515,348 |
| Total loans originated and purchased ⁽¹⁾ | 3,462,719 | 2,113,260 | 1,820,412 | 1,460,664 | 1,407,269 |
| Sales and securitizations of loans | (230,324) | (80,446) | (41,060) | | (1,267) |
| Repayments and prepayments | (1,758,335) | (635,765) | (897,832) | (646,581) | (719,964) |
| Other decreases ⁽²⁾ | (81,859) | (88,829) | (85,080) | (66,388) | (64,654) |
| Net increase | 1,392,201 | 1,308,220 | 796,440 | 747,695 | 621,384 |
| Ending balance | \$ 6,918,140 | \$5,525,939 | \$4,217,719 | \$3,421,279 | \$2,673,584 |
| Percentage increase | 25.19% | 31.02% | 23.28% | 27.97% | 30.28% |

(1) Loan origination for 2002 includes \$435 million acquired from JP Morgan Chase VI operations together with the assumption of \$557 million in deposits.

(2) Includes the change in the allowance for loan losses and cancellation of loans due to the repossession of the collateral.

INVESTMENT ACTIVITIES

The Corporation’s investments are managed by the Treasury and Investment Division, under the supervision of the Senior Vice President, Treasury and Investments, who reports to the Corporation’s Senior Executive Vice President and Chief Financial Officer. Investment policy for the Corporation is set by the Corporation’s Investment Committee, which includes the President and Chief Executive Officer, the Senior Executive Vice President and Chief Financial Officer, the Senior Executive Vice President and Chief Lending Officer, the Executive Vice President for Retail and Mortgage Banking, the Senior Vice President for Treasury and Investments, and the Economist. Significant investment transactions are reported to the Investment Committee.

Investment policy for FirstBank, the principal subsidiary of First BanCorp, is set by the Bank’s Asset Liability Management and Investment Committee (ALCO), which has the same members of the Corporation’s Investment Committee. The ALCO sets investment policies, monitors liquidity trends, and conducts quarterly reviews of the Bank’s interest rate risk exposure. Significant investment transactions are reported to the ALCO.

The Corporation’s investment policies are designed primarily to provide a portfolio of high credit quality while seeking high levels of net interest income within acceptable limits of interest rate risk, credit risk, capital and liquidity. Under the Corporation’s current policy, the Treasury and Investments Division is authorized to purchase and sell federal funds, certificates of deposit in other banks, bankers’ acceptances of commercial banks that are members of the FDIC, mortgage backed securities, United States and Puerto Rico obligations, corporate debt and stocks and other investments. In addition, the Treasury and Investments Division is authorized to invest in securities purchased under agreements to resell. As part of the Corporation’s asset and liability management, the Treasury and Investments Division also engages in hedging activities as approved by the Board of Directors and as set forth in the Corporation’s hedging policy monitored by the Investment Committee.

SOURCES OF FUNDS

First BanCorp’s principal funding sources are branch-based deposits, retail brokered deposits, institutional deposits, federal funds purchased and securities sold under agreements to repurchase, and FHLB advances. Through its subsidiary Bank branch banking system, First BanCorp offers individual non-interest bearing checking accounts, savings accounts, personal interest-bearing checking accounts, certificates of deposit, IRA accounts and commercial non-interest bearing checking accounts.

Deposit Accounts

Deposits represent First BanCorp’s largest source of funding. The Corporation’s deposit accounts are insured up to applicable limits by the SAIF. Management makes retail deposit pricing decisions periodically through the ALCO, which adjusts the rates paid on retail deposits in response to general market conditions and local competition. Pricing decisions take into account the rates being offered by other local banks, LIBOR and mainland United States interest rates. The following table presents the amount and weighted average interest rates of deposit accounts as of each date indicated in the categories set forth below, including the percentage of total assets represented by those deposits.

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| | Weighted average rates at December 31, 2003 | December 31, | | |
|----------------------------------------------------|------------------------------------------------|--------------|-------------|-------------|
| | | 2003 | 2002 | 2001 |
| (Dollars in thousands) | | | | |
| Non-interest bearing checking accounts | | \$ 548,921 | \$ 447,076 | \$ 239,851 |
| Saving accounts | 1.20% | 985,062 | 921,103 | 469,452 |
| Interest bearing checking accounts | 1.04% | 286,607 | 230,743 | 205,760 |
| Certificate accounts | 1.99% | 4,944,517 | 3,883,996 | 3,183,491 |
| | | | | |
| Total | | \$6,765,107 | \$5,482,918 | \$4,098,554 |
| | | | | |
| Weighted average rate on interest bearing deposits | 1.82% | | | |
| Total deposits as a percentage of total assets | | 53.40% | 56.85% | 50.00% |

Certificate accounts include institutional deposit which consist mainly of brokered certificates of deposit, and certificates issued to agencies of the Government of Puerto Rico and to Governments in the Virgin Islands. Under FDIC regulations, a bank cannot accept, roll over or renew brokered deposits, which term is defined also to include any deposit with an interest rate more than 75 basis points above prevailing rates, unless (i) it is well capitalized or (ii) it is adequately capitalized and receives a waiver from the FDIC. The Bank has no such restrictions since it is a well capitalized institution.

The following table presents a maturity summary of certificates of deposit with balances of \$100,000 or more at December 31, 2003.

| | (In thousands) |
|---------------------------------|----------------|
| Three months or less | \$ 788,052 |
| Over three months to six months | 274,989 |
| Over six months to one year | 104,684 |
| Over one year | 3,341,141 |
| Total | \$4,508,866 |

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Borrowings

The following table presents the amount and weighted average interest rates of borrowings as of each date indicated in the categories set forth below.

| | Weighted average rates at December 31, 2003 | December 31, | | |
|----------------------------------------------------------------------------|---------------------------------------------------|--------------|-------------|-------------|
| | | 2003 | 2002 | 2001 |
| (Dollars in thousands) | | | | |
| Borrowings: | | | | |
| Federal funds purchased and securities sold under agreements to repurchase | 3.13% | \$3,650,297 | \$2,793,540 | \$2,997,174 |
| FHLB advances | 1.72% | 913,000 | 373,000 | 343,700 |
| Subordinated notes | 8.04% | 82,818 | 82,815 | 84,362 |
| Total | 2.94% | \$4,646,115 | \$3,249,355 | \$3,425,236 |
| Total borrowed funds as a percentage of total assets | | 36.38% | 33.69% | 41.65% |
| Weighted average interest rate during the period: | | | | |
| Securities sold under agreements to repurchase | | 3.66% | 4.21% | 4.90% |

CAPITAL

At December 31, 2003, total stockholders' equity for the Corporation amounted to approximately \$1,090 million, an increase of approximately \$292 million as compared to \$798 million at December 31, 2002. During 2003 First BanCorp issued \$189.6 million of its Series E preferred stock.

Employees

At December 31, 2003, the Corporation employed 1,983 persons. None of its employees are represented by a collective bargaining group. The Corporation considers its employees' relations to be good.

Item 2. Properties

At December 31, 2003, First BanCorp owned the following three main offices located in Puerto Rico:

Main offices:

1. Headquarters Offices – Located at First Federal Building, 1519 Ponce de León Avenue, Santurce, Puerto Rico, a 16 story office building. Approximately 60% of the building and an underground three level parking lot are owned by the Corporation.
2. EDP & Operations Center – A five story structure located at 1506 Ponce de León Avenue, Santurce, Puerto Rico. These facilities are fully occupied by the Corporation.
3. Consumer Lending Center – A three story building with a three-levels parking lot located at 876 Muñoz Rivera Avenue, corner Jesús T. Piñero Avenue, Hato Rey, Puerto Rico. These facilities are fully occupied by the Corporation.

In addition, the Corporation owned 15 branch and office premises and an auto lot. The Corporation leased 39 branch premises, 28 loan and office centers and six other facilities. All of these

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premises are located in Puerto Rico and in the U.S. and British Virgin Islands. Management believes that the Corporation's properties are well maintained and are suitable for the Corporation's business as presently conducted.

Item 3. Legal Proceedings

The information required herein is incorporated by reference from page 87 of the annual report to security holders for the year ended December 31, 2003 (see Exhibit 13 to this Form 10-K).

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of 2003.

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

(a) Market Information

The information required herein is incorporated by reference from page 48 of the annual report to security holders for the year ended December 31, 2003.

(b) Holders

The information required herein is incorporated by reference from page 48 of the annual report to security holders for the year ended December 31, 2003.

(c) Dividends

The Corporation has a policy providing for the payment of quarterly cash dividends on its outstanding shares of common stock. Accordingly, the Corporation declared a cash dividend of \$0.11 per share for each quarter of 2003, \$0.10 per share for each quarter of 2002 and \$0.09 per share for each quarter of 2001.

The Puerto Rico Internal Revenue Code requires the withholding of income tax from dividends income derived by resident U.S. citizens, special partnerships, trusts and estates and by non-resident U.S. citizens, custodians, partnerships, and corporations from sources within Puerto Rico.

Resident U.S. Citizens

A special tax of 10% is imposed on eligible dividends paid to individuals, special partnerships, trusts and estates to be applied to all distributions unless the taxpayer specifically elects otherwise. Once this election is made it is irrevocable. However, the taxpayer can elect to include in gross income the eligible distributions received and take a credit for the amount of tax withheld. If he does not make this election in his tax return, then he can exclude from his gross income the distributions received and reported without claiming the credit for the tax withheld.

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Nonresident U.S. Citizens

Nonresident U.S. citizens have the right to certain exemptions when a Withholding Tax Exemption Certificate (Form 2732) is properly completed and filed with the Corporation. The Corporation as withholding agent is authorized to withhold a tax of 10% only from the excess of the income paid over the applicable tax-exempt amount.

U.S. Corporations and Partnerships

Corporations or partnerships not organized under Puerto Rico laws that have not engaged in business or trade in Puerto Rico during the taxable year in which the dividend is paid are subject to the 10% dividend tax withholding.

Corporations or partnerships not organized under the laws of Puerto Rico that have engaged in trade or business in Puerto Rico corporations or partnerships are not subject to the 10% withholding, but they must declare the dividend as gross income in their Puerto Rico income tax return.

(d) Equity Compensation Plan Disclosure

The following summarizes equity compensation plans approved by security holders and equity compensation plans that were not approved by security holders as of December 31, 2003:

| | (A) | (B) | (C) |
|-----------------------------------------------------------|---------------------------------------------------------------------------------|--------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Plan category | Number of Securities to be Issued Upon Exercise of Outstanding Options | Weighted-Average Exercise Price of Outstanding Options | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A)) |
| Equity compensation plans approved by stockholders: | | | |
| Stock Option Plans | 2,291,500 | \$17.08 | 1,865,774 |
| Sub-total | 2,291,500 | \$17.08 | 1,865,774 |
| Equity compensation plans not approved by stockholders | N/A | N/A | N/A |
| Total | 2,291,500 | \$17.08 | 1,865,774 |

(e) Sales of Unregistered Securities

Shares of common stock of the registrant acquired through the exercise of stock options under the Corporation's Stock Option Plan covering certain employees of the Corporation have not been registered with the Securities and Exchange Commission under the Securities Act of 1933 on the basis of the exemption provided in section 3(a)(11) thereof. The registrant understands that this exemption is applicable because: (i) it is a corporation organized under the laws of the Commonwealth of Puerto Rico whose principal office and place of business are located in the Commonwealth of Puerto Rico; and (ii) all employees that have exercised options to acquire shares are residents of the Commonwealth of Puerto Rico. Shares of common stock acquired under the Corporation's stock option plan were 72,750 (2002-96,750) at a weighted average exercise price per option of \$15.43 and \$13.86 for 2003 and 2002, respectively.

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Item 6. Selected Financial Data

Information required herein is incorporated by reference from pages 4 through 7 of the annual report to security holders for the year ended December 31, 2003.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required herein is incorporated by reference from pages 26 through 48 of the annual report to security holders for the year ended December 31, 2003.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required herein is incorporated by reference from pages 45 through 47 of the annual report to security holders for the year ended December 31, 2003.

Item 8. Financial Statements and Supplementary Data

The information required herein is incorporated by reference from pages 50 through 89 of the annual report to security holders for the year ended December 31, 2003.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures. The Corporation's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Corporation's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-14(e)), have concluded that, as of December 31, 2003, the Corporation's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Corporation and its consolidated subsidiaries would be made known to them by others within those entities.
- (b) Changes in internal controls. There were no significant changes in the Corporation's internal controls or in other factors that could significantly affect the Corporation's disclosure controls and procedures subsequent to the date of their evaluation, nor were there any significant deficiencies or material weaknesses in the Corporation's internal controls. As a result, no corrective actions were required or undertaken.

PART III

Item 10. Directors, Executive Officers and Control Persons of the Registrant

See Item 13 on page 29.

Item 11. Executive Compensation

See Item 13 on page 29.

Item 12. Security Ownership of Certain Beneficial Owners and Management

See Item 13 on this page.

Item 13. Certain Relationships and Related Transactions

Pursuant to Instruction G (3) to Form 10-K, the remainder of the information to be provided in Items 10, 11, 12, 13 and 14 of Form 10-K is incorporated by reference to First BanCorp's definitive proxy statement for the 2004 annual meeting of stockholders, which proxy statement will be filed with the Securities and Exchange Commission pursuant to regulation 14A within to 120 days of the close of First BanCorp's 2003 fiscal year.

Item 14. Principal Account and Fees and Services

See Item 13 on this page.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) The following financial statements are included in Item 8 thereof:

- Report of Independent Auditors
- Consolidated Statements of Financial Condition at December 31, 2003 and 2002.
- Consolidated Statements of Income for Each of the Three Years in the Period Ended December 31, 2003.
- Consolidated Statements of Changes in Stockholders' Equity for Each of the Three Years in the Period Ended December 31, 2003.
- Consolidated Statements of Comprehensive Income for each of the Three Years in the Period Ended December 31, 2003.
- Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 2003.
- Notes to the Consolidated Financial Statements.

(2) Financial statement schedules.

None.

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(3) Exhibits

The exhibits listed on the Exhibits Index on section (c) below are filed herewith or are incorporated herein by reference.

(b) Reports on Form 8-K.

On October 22, 2003, the Corporation furnished a current report on Form 8-K reporting its unaudited results of operations for the quarter and nine-months ended September 30, 2003.

On January 26, 2004, the Corporation furnished a current report on Form 8-K reporting its unaudited results of operations for the quarter and year-ended December 31, 2003.

(c) See Index to Exhibits on page 31 for the exhibits filed as a part of this Form 10-K.

(d) Financial data schedules

Schedules are omitted because they are not applicable.

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Index to Exhibits

| No. | Exhibit | |
|------|----------------------------------------------------------------------------------------------------------------------------|-----|
| 3.1 | Certificate of Incorporation | (1) |
| 3.2 | By-Laws | (1) |
| 4.0 | Form of Common Stock Certificate | (1) |
| 10.1 | FirstBank's 1987 Stock Option Plan | (2) |
| 10.2 | FirstBank's 1997 Stock Option Plan | (2) |
| 10.3 | Employment Agreements | (2) |
| 11.0 | Statement Report to Shareholders for fiscal year ended December 31, 2003. | (3) |
| 13.0 | Annual Report to shareholders for fiscal year ended December 31, 2003. | — |
| 14.1 | Code of Ethics for Senior Financial Officers | — |
| 14.2 | Code of Ethics applicable to all employees | — |
| 14.3 | Policy Statement and Standards of Conduct for Members of Board of Directors, Executive Officers and Principal Shareholders | — |
| 21.0 | List of subsidiaries (direct and indirect) | — |
| 23.0 | Consent of Independent Accountants | |
| 31.1 | Sarbanes Oxley Act Section 302 Certification | — |
| 31.2 | Sarbanes Oxley Act Section 302 Certification | — |
| 32.1 | Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002. | — |
| 32.2 | Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002. | — |

(1) Incorporated by reference from Registration statement on Form-S-4 filed by the Corporation on April 15, 1998.

(2) Incorporated by reference from the Form 10-K for the year ended December 31, 1998 filed by the Corporation on March 26, 1999.

(3) Information is included on page 65 of the Corporation's annual report to security holders and is incorporated by reference herein (See Exhibit 13.0).

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST BANCORP

By: /s/ Angel Alvarez-Pérez

Date: 03/15/04

Angel Alvarez-Pérez, Esq.
Chairman
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Angel Alvarez-Pérez

Date: 03/15/04

Angel Alvarez-Pérez, Esq.
Chairman
President and Chief Executive Officer

/s/ Annie Astor-Carbonell

Date: 03/15/04

Annie Astor-Carbonell, Director
Senior Executive Vice President and
Chief Financial Officer

/s/ José Julián Alvarez-Bracero

Date: 03/15/04

José Julián Alvarez-Bracero, Director

/s/ Richard Reiss-Huyke

Date: 03/15/04

Richard Reiss-Huyke, Director

/s/ Jorge L. Díaz

Date: 03/15/04

Jorge L. Díaz, Director

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| | |
|----------------------------------------|----------------|
| /s/ Sharee Ann Umpierre-Catinchi | Date: 03/15/04 |
| <hr/> | |
| Sharee Ann Umpierre-Catinchi, Director | |
| /s/ José Teixidor | Date: 03/15/04 |
| <hr/> | |
| José Teixidor, Director | |
| /s/ José L. Ferrer-Canals | Date: 03/15/04 |
| <hr/> | |
| José L. Ferrer-Canals, Director | |
| /s/ Laura Villarino-Tur | Date: 03/15/04 |
| <hr/> | |
| Laura Villarino-Tur | |
| Senior Vice President and | |
| Controller | |

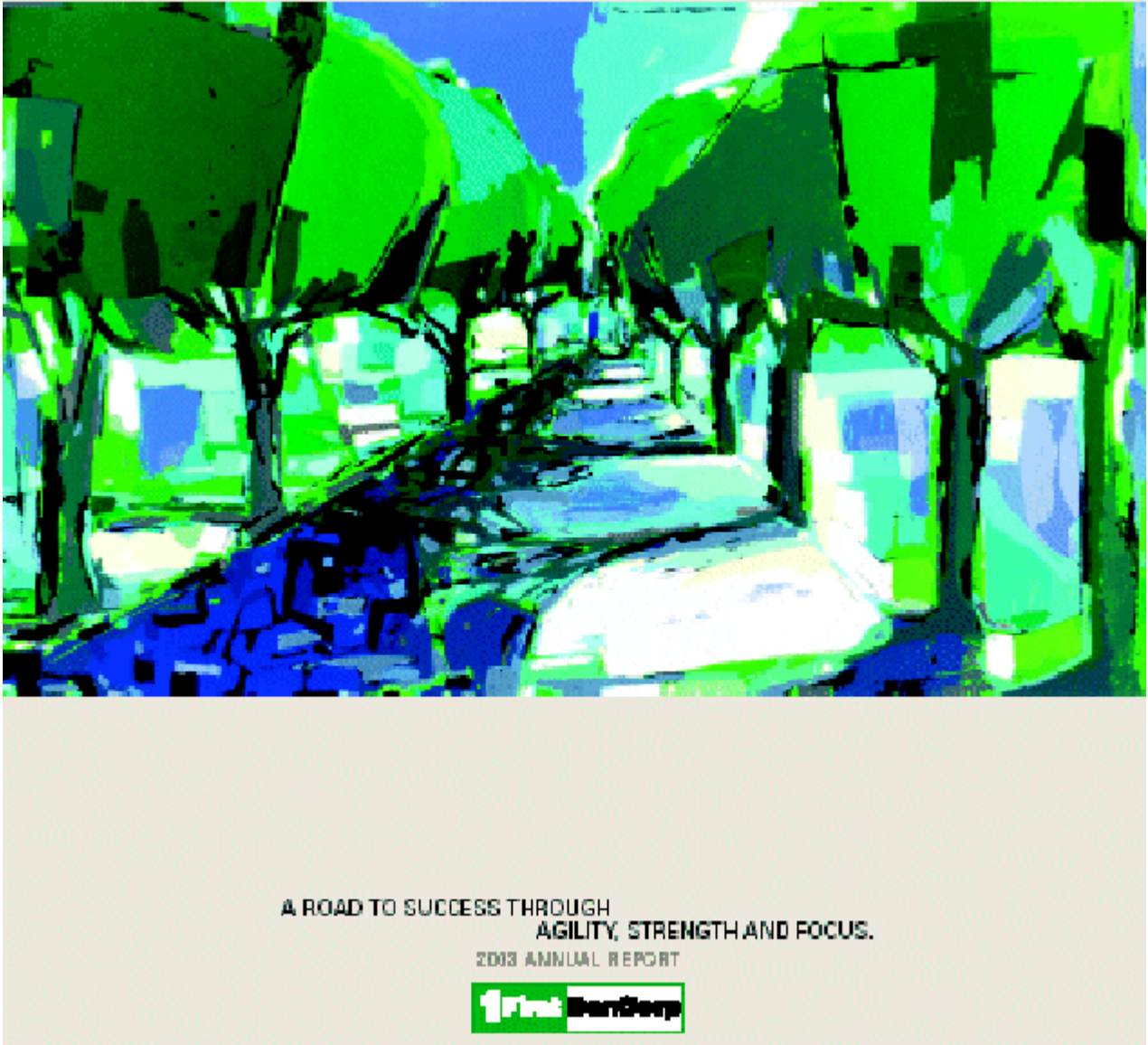


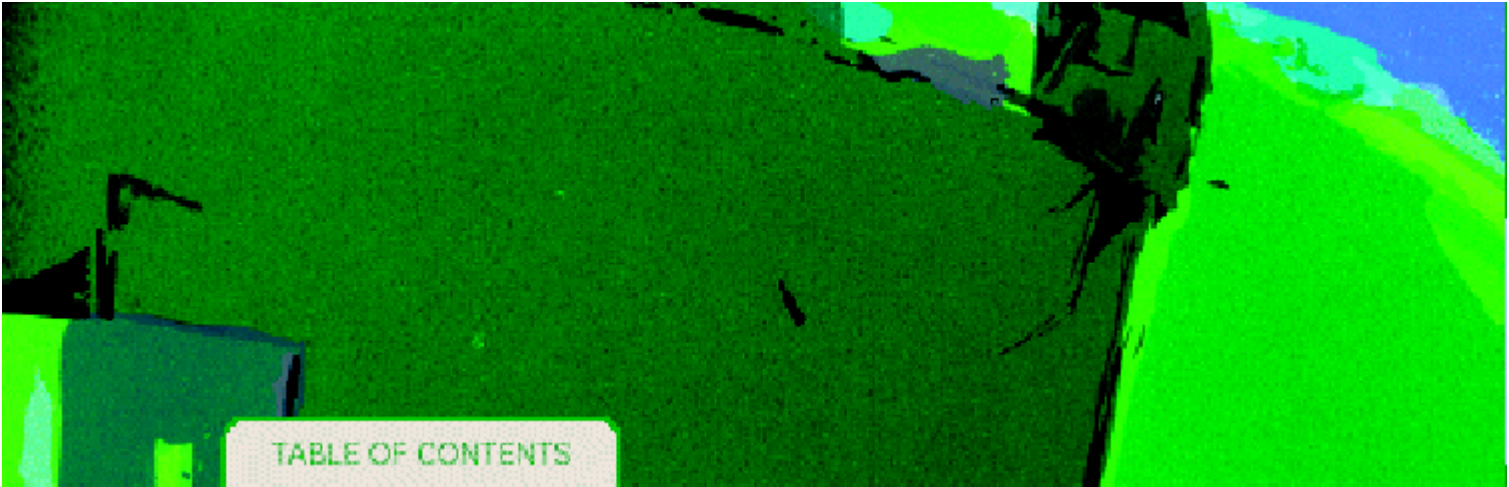
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We dedicate this Annual Report to agility, strength and focus, elements that take us through the road of success and lead to excellent performance. This masterpiece, created by renowned Puerto Rican artist Carlos Dávila Rinaldi, portrays the essence of our vision, the path which we travel day by day, with the focus and commitment necessary to help us excel in the financial field.

Agility, strength and focus, combined, make First BanCorp a leader in the financial industry. They are the most important elements in the leadership role we perform. They convey our ability to adapt, change and lead, and to satisfy customers in this constantly changing market.

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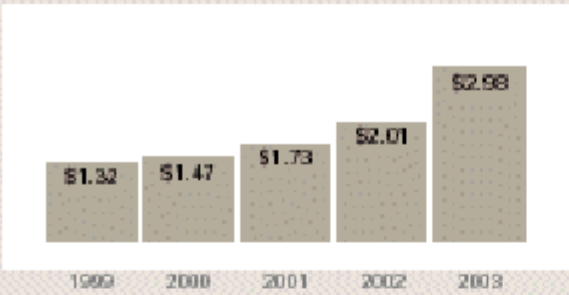


FINANCIAL HIGHLIGHTS

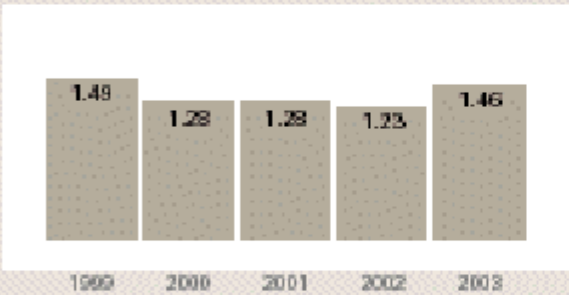
In thousands (except for per share results)

| | 2003 | 2002 |
|----------------------------------------|--------------|-------------|
| OPERATING RESULTS: | | |
| Net interest income | \$ 292,210 | \$ 266,850 |
| Provision for loan losses | 55,916 | 62,302 |
| Other income | 118,710 | 58,492 |
| Other operating expenses | 163,994 | 132,756 |
| Income tax provision | 38,672 | 22,327 |
| Net income | 152,338 | 107,956 |
| Per common share: | | |
| Net income - basic | \$ 3.04 | \$ 2.04 |
| Net income - diluted | 2.98 | 2.01 |
| WEIGHTED AVERAGE COMMON SHARES: | | |
| Basic | 39,994 | 39,901 |
| Diluted | 40,983 | 40,553 |
| AT YEAR END: | | |
| Assets | \$12,667,910 | \$9,643,852 |
| Loans | 7,044,518 | 5,637,851 |
| Allowance for loan losses | 126,378 | 111,911 |
| Investments | 5,366,205 | 3,728,669 |
| Deposits | 6,765,107 | 5,482,918 |
| Borrowings | 4,646,115 | 3,249,355 |
| Capital | 1,089,569 | 798,424 |





DILUTED EARNINGS PER COMMON SHARE



RETURN ON ASSETS
(in percent)



COMMON STOCKHOLDERS' EQUITY
(in millions)

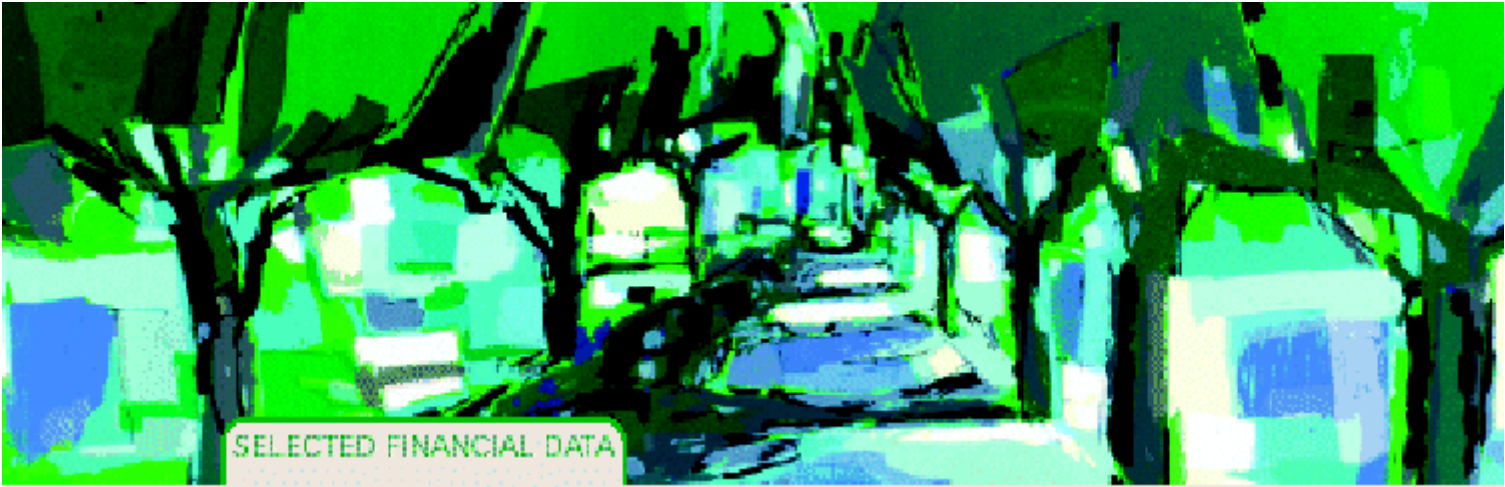


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Since the current management took over in 1991, the Bank has transformed itself from First Federal Savings Bank, a small Savings and Loan institution with \$1.9 billion in assets, into First BanCorp, a \$12.7 billion financial holding company with a wide array of operations.

The table on the following pages shows the long-term growth of this Corporation. From 1991 to 2003 the company reported consistent growth without restating earnings. Over this thirteen year period earnings multiplied as net income grew more than 15 times from \$10 million to \$152 million, and per share earnings multiplied almost 20 times from \$0.15 to \$2.98 (diluted). Book value per common share grew 15 times from \$0.90 to \$13.48. The efficiency ratio improved dramatically from 63.69% to 39.91%.

The growth shown in this table has involved great changes at all levels of the organization. The Corporation has adopted new technologies and entered into new businesses while at the same time growing its traditional operations. All this has created substantial value for the First BanCorp’s shareholders while providing more and better services to its clients.



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SELECTED FINANCIAL DATA

(In thousands except for per share and financial ratios results)

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---------------------------------------------------------------------------------------------------|--------------|-------------|-------------|-------------|-------------|
| Condensed Income Statements: Year ended | | | | | |
| Total interest income | \$ 536,681 | \$ 540,033 | \$ 516,256 | \$ 463,388 | \$ 369,063 |
| Total interest expense | 244,471 | 273,184 | 280,201 | 272,615 | 183,330 |
| Net interest income | 292,210 | 266,850 | 236,055 | 190,773 | 185,733 |
| Provision for loan losses | 55,916 | 62,302 | 61,030 | 45,719 | 47,961 |
| Other income | 118,710 | 58,492 | 52,980 | 50,032 | 32,862 |
| Other operating expenses | 163,994 | 132,756 | 120,855 | 113,049 | 101,271 |
| Unusual item — SAIF assessment | | | | | |
| Income before income tax provision, extraordinary item and cumulative effect of accounting change | 191,010 | 130,283 | 107,150 | 82,037 | 69,363 |
| Provision for income tax | 38,672 | 22,327 | 20,134 | 14,761 | 7,288 |
| Income before extraordinary item and cumulative effect of accounting change | 152,338 | 107,956 | 87,016 | 67,276 | 62,075 |
| Extraordinary item | | | | | |
| Cumulative effect of accounting change | | | (1,015) | | |
| Net income | 152,338 | 107,956 | 86,001 | 67,276 | 62,075 |
| Per Common Share Results (1): Year ended | | | | | |
| Income before extraordinary item and cumulative effect of accounting change diluted | \$ 2.98 | \$ 2.01 | \$ 1.76 | \$ 1.47 | \$ 1.32 |
| Extraordinary item | | | | | |
| Cumulative effect of accounting change | | | (0.03) | | |
| Net income per common share diluted | \$ 2.98 | \$ 2.01 | \$ 1.73 | \$ 1.47 | \$ 1.32 |
| Net income per common share basic | \$ 3.04 | \$ 2.04 | \$ 1.74 | \$ 1.48 | \$ 1.33 |
| Cash dividends declared | \$ 0.44 | \$ 0.40 | \$ 0.35 | \$ 0.29 | \$ 0.24 |
| Average shares outstanding | 39,994 | 39,901 | 39,851 | 40,415 | 43,412 |
| Average shares outstanding diluted | 40,983 | 40,553 | 40,144 | 40,718 | 43,799 |
| Balance Sheet Data: End of year | | | | | |
| Loans and loans held for sale | \$ 7,044,518 | \$5,637,851 | \$4,308,780 | \$3,498,198 | \$2,745,368 |
| Allowance for possible loan losses | 126,378 | 111,911 | 91,060 | 76,919 | 71,784 |
| Investments | 5,366,205 | 3,728,669 | 3,715,999 | 2,233,216 | 1,811,164 |
| Total assets | 12,667,910 | 9,643,852 | 8,197,518 | 5,919,657 | 4,721,568 |
| Deposits | 6,765,107 | 5,482,918 | 4,098,554 | 3,345,984 | 2,565,422 |
| Borrowings | 4,646,115 | 3,249,355 | 3,425,236 | 2,069,484 | 1,803,729 |
| Total common equity | 539,469 | 437,924 | 334,419 | 269,461 | 204,902 |
| Total equity | 1,089,569 | 798,424 | 602,919 | 434,461 | 294,902 |
| Book value per common share (1) | 13.48 | 10.96 | 8.39 | 6.80 | 4.87 |
| Regulatory Capital Ratios (In Percent): End of year | | | | | |
| Total capital to risk weighted assets | 15.22 | 13.75 | 14.50 | 14.43 | 16.16 |
| Tier 1 capital to risk weighted assets | 13.65 | 11.90 | 12.16 | 11.23 | 11.64 |
| Tier 1 capital to average assets | 8.35 | 7.35 | 7.49 | 7.28 | 7.47 |
| Selected Financial Ratios (In Percent): Year ended | | | | | |
| Net income to average total assets | 1.46 | 1.23 | 1.28 | 1.28 | 1.49 |
| Interest rate spread (2) | 2.93 | 3.20 | 3.64 | 3.38 | 4.29 |
| Net interest income to average earning assets (2) | 3.24 | 3.56 | 4.08 | 3.91 | 4.85 |
| Yield on average earning assets (2) | 5.66 | 6.77 | 8.42 | 9.21 | 9.29 |
| Cost on average interest bearing liabilities | 2.73 | 3.57 | 4.78 | 5.83 | 5.00 |
| Net income to average total equity | 17.06 | 14.90 | 16.20 | 21.21 | 21.06 |
| Net income to average common equity | 25.20 | 21.90 | 22.13 | 27.81 | 24.68 |
| Average total equity to average total assets | 8.56 | 8.28 | 7.92 | 6.05 | 7.07 |
| Dividend payout ratio | 14.43 | 19.58 | 19.91 | 19.72 | 17.96 |
| Efficiency ratio (3) | 39.91 | 40.81 | 41.81 | 46.95 | 46.33 |
| Offices: | | | | | |
| Number of full service branches | 54 | 54 | 48 | 48 | 48 |

1-Amounts presented were recalculated, when applicable, to retroactively consider the effect of common stock splits.

2-Ratios for 1993 and thereafter were computed on a taxable equivalent basis.

3-Other operating expenses to the sum of net interest income and other income.

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| 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| \$ 321,298 | \$ 285,160 | \$ 256,523 | \$ 208,488 | \$ 180,309 | \$ 159,433 | \$ 158,993 | \$ 171,789 |
| 155,130 | 130,429 | 113,027 | 96,838 | 76,674 | 72,413 | 85,986 | 109,942 |
| 166,168 | 154,731 | 143,496 | 111,650 | 103,635 | 87,020 | 73,007 | 61,847 |
| 76,000 | 55,676 | 31,582 | 30,894 | 17,674 | 18,669 | 13,596 | 16,444 |
| 58,240 | 39,866 | 29,614 | 48,268 | 18,169 | 17,123 | 13,563 | 18,895 |
| 91,798 | 83,268 | 82,498 | 65,628 | 60,760 | 56,994 | 54,745 | 51,423 |
| | | 9,115 | | | | | |
| 56,610 | 55,653 | 49,915 | 63,396 | 43,370 | 28,480 | 18,229 | 12,875 |
| 4,798 | 8,125 | 12,281 | 14,295 | 12,385 | 6,525 | 2,879 | 1,420 |
| 51,812 | 47,528 | 37,634 | 49,101 | 30,985 | 21,955 | 15,350 | 11,455 |
| | | | | (429) | | (870) | (1,400) |
| | | | | | 6,840 | | |
| 51,812 | 47,528 | 37,634 | 49,101 | 30,556 | 28,795 | 14,480 | 10,055 |
| \$ 1.16 | \$ 1.05 | \$ 0.81 | \$ 1.05 | \$ 0.67 | \$ 0.42 | \$ 0.25 | \$ 0.17 |
| | | | | (0.01) | | (0.02) | (0.03) |
| | | | | | 0.14 | | |
| \$ 1.16 | \$ 1.05 | \$ 0.81 | \$ 1.05 | \$ 0.66 | \$ 0.56 | \$ 0.23 | \$ 0.15 |
| \$ 1.17 | \$ 1.05 | \$ 0.81 | \$ 1.07 | \$ 0.68 | \$ 0.63 | \$ 0.27 | \$ 0.17 |
| \$ 0.20 | \$ 0.16 | \$ 0.13 | \$ 0.05 | N/A | N/A | N/A | N/A |
| 44,379 | 45,054 | 46,191 | 45,888 | 44,966 | 43,983 | 42,876 | 42,876 |
| 44,787 | 45,306 | 46,428 | 46,677 | 46,289 | 49,419 | 51,098 | 49,856 |
| \$2,120,054 | \$1,959,301 | \$1,896,074 | \$1,556,606 | \$1,501,273 | \$1,237,928 | \$1,182,409 | \$1,264,380 |
| 67,854 | 57,712 | 55,254 | 55,009 | 37,413 | 30,453 | 30,474 | 29,001 |
| 1,800,489 | 1,276,900 | 830,980 | 785,747 | 595,555 | 603,373 | 636,781 | 564,431 |
| 4,017,352 | 3,327,436 | 2,822,147 | 2,432,816 | 2,174,692 | 1,913,902 | 1,888,754 | 1,898,399 |
| 1,775,045 | 1,594,635 | 1,703,926 | 1,518,367 | 1,493,445 | 1,398,247 | 1,359,448 | 1,396,066 |
| 1,930,488 | 1,461,581 | 889,668 | 700,609 | 538,080 | 400,977 | 415,257 | 408,414 |
| 270,368 | 236,379 | 191,142 | 171,202 | 120,015 | 92,785 | 50,194 | 38,410 |
| 270,368 | 236,379 | 191,142 | 171,202 | 120,015 | 92,785 | 88,622 | 74,146 |
| 6.11 | 5.29 | 4.21 | 3.67 | 2.66 | 2.09 | 1.17 | 0.90 |
| 17.39 | 17.26 | 15.25 | 16.17 | 9.76 | 9.05 | 9.32 | 7.08 |
| 11.55 | 11.07 | 9.32 | 9.93 | 8.50 | 7.79 | 8.06 | 5.75 |
| 6.59 | 7.44 | 6.65 | 6.82 | 5.74 | 4.70 | 4.60 | 3.74 |
| 1.48 | 1.63 | 1.48 | 2.22 | 1.53 | 1.53 | 0.78 | 0.53 |
| 4.76 | 5.30 | 5.46 | 5.07 | 5.23 | 4.73 | 3.66 | 3.19 |
| 5.27 | 5.83 | 6.03 | 5.59 | 5.65 | 5.10 | 4.04 | 3.39 |
| 9.83 | 10.45 | 10.63 | 10.12 | 9.63 | 9.10 | 8.80 | 9.41 |
| 5.07 | 5.15 | 5.17 | 5.05 | 4.40 | 4.37 | 5.14 | 6.22 |
| 20.54 | 22.30 | 20.49 | 33.19 | 29.07 | 30.36 | 17.70 | 14.38 |
| 20.54 | 22.30 | 20.49 | 33.19 | 29.07 | 39.68 | 26.37 | 20.20 |
| 7.22 | 7.32 | 7.23 | 6.68 | 5.27 | 5.05 | 4.38 | 3.67 |
| 17.12 | 15.14 | 16.32 | 5.06 | N/A | N/A | N/A | N/A |
| 40.91 | 42.79 | 47.66 | 41.04 | 49.88 | 54.73 | 63.24 | 63.69 |
| 40 | 36 | 36 | 36 | 32 | 33 | 33 | 33 |

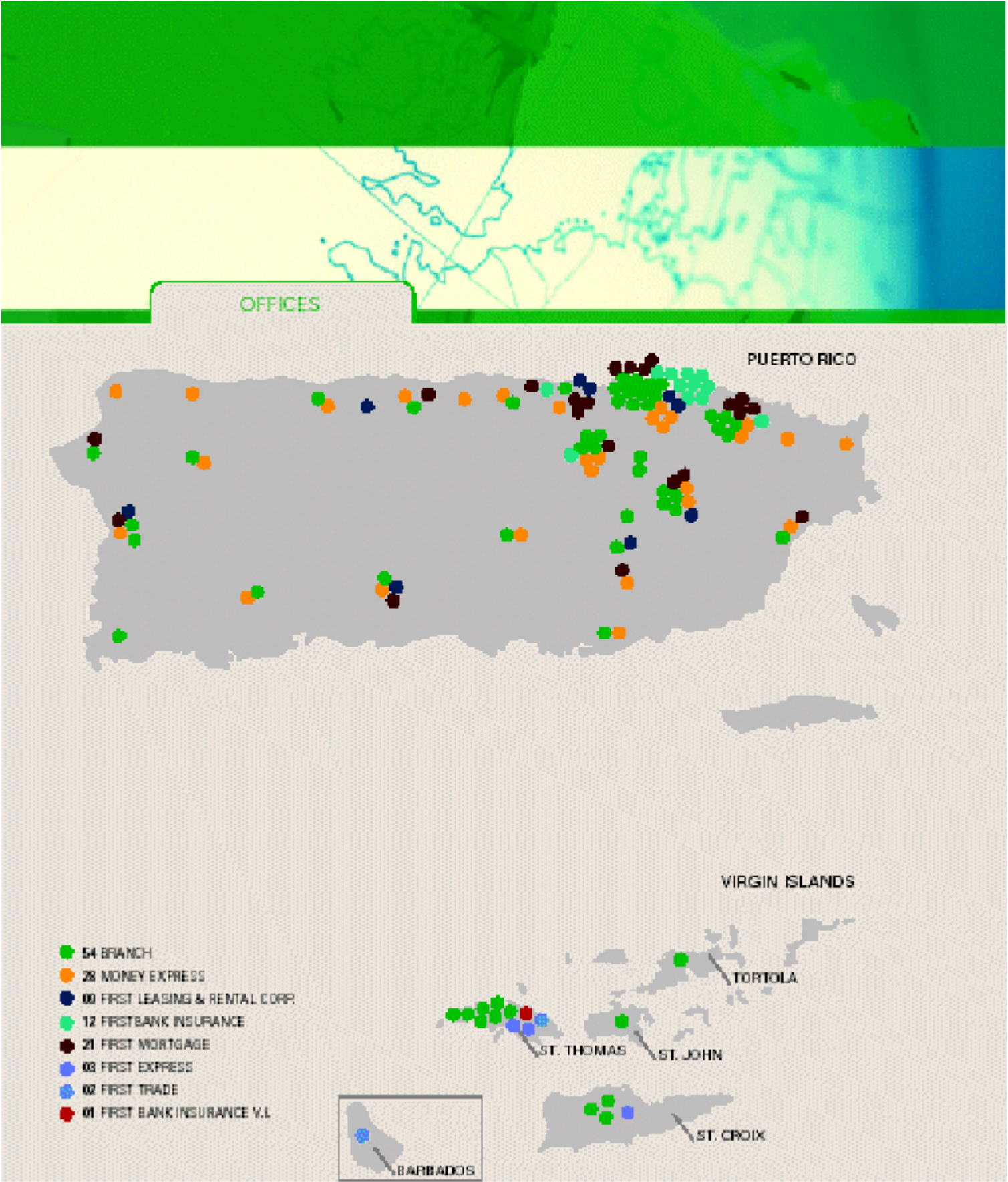


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FIRSTBANK
PUERTO RICO
Puerto Rico Branches

| | |
|----|---------------|
| 1 | Aguada |
| 1 | Aguas Buenas |
| 1 | Arecibo |
| 1 | Barranquitas |
| 4 | Bayamón |
| 1 | Cabo Rojo |
| 4 | Caguas |
| 5 | Carolina |
| 1 | Cayey |
| 1 | Dorado |
| 1 | Guayama |
| 2 | Guaynabo |
| 1 | Humacao |
| 1 | Manatí |
| 2 | Mayagüez |
| 1 | Ponce |
| 11 | San Juan |
| 1 | Toa Baja |
| 1 | San Sebastián |
| 1 | Yauco |

USVI Branches

| | |
|---|------------|
| 7 | St. Thomas |
| 1 | St. John |
| 3 | St. Croix |

BVI Branches

| | |
|---|---------|
| 1 | Tortola |
|---|---------|

54

MONEY EXPRESS
Puerto Rico Branches

| | |
|---|---------------|
| 1 | Aguadilla |
| 1 | Arecibo |
| 1 | Barranquitas |
| 3 | Bayamón |
| 2 | Caguas |
| 2 | Carolina |
| 1 | Cayey |
| 1 | Dorado |
| 1 | Fajardo |
| 1 | Guayama |
| 1 | Humacao |
| 1 | Isabela |
| 1 | Manatí |
| 1 | Mayagüez |
| 1 | Ponce |
| 1 | Rio Grande |
| 1 | San Sebastián |
| 4 | San Juan |
| 1 | Toa Baja |
| 1 | Vega Baja |
| 1 | Yauco |

28

FIRST LEASING &
RENTAL CORP
Puerto Rico Branches

| | |
|---|-------------|
| 1 | Barceloneta |
| 1 | Caguas |
| 1 | Cayey |

1 Mayagüez
1 Ponce
2 San Juan
2 Toa Baja
9

FIRST MORTGAGE

Puerto Rico Branches

1 Aguada
3 Bayamón
2 Caguas
4 Carolina
1 Cayey
1 Dorado
1 Guaynabo
1 Humacao
1 Manatí
1 Mayagüez
1 Ponce
4 San Juan
21

FIRSTBANK

INSURANCE AGENCY

Puerto Rico Branches

1 Bayamón
1 Carolina
1 Dorado
9 San Juan
12

FIRSTBANK

INSURANCE AGENCY

VI

USVI Branches

1 St. Thomas

FIRST EXPRESS

USVI Branches

2 St. Thomas
1 St. Croix
3

FIRST TRADE

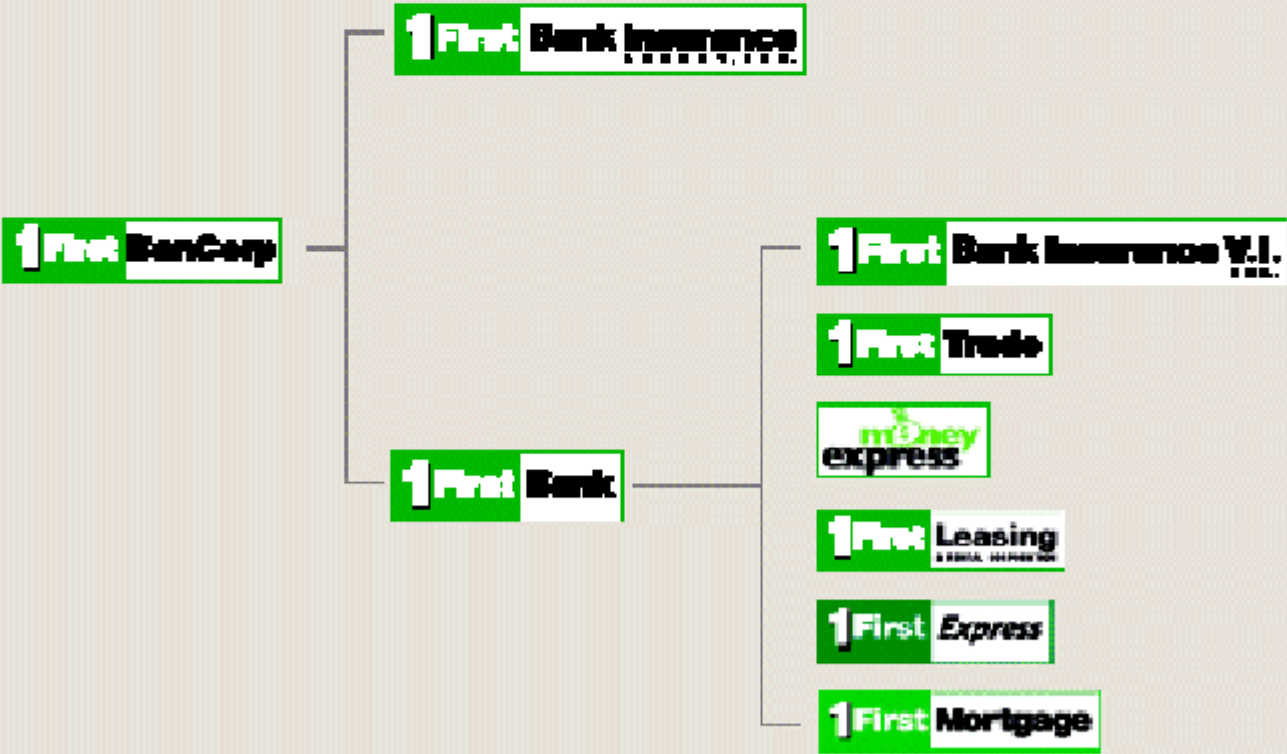
**USVI & Barbados
Branches**

1 St. Thomas
1 Barbados
2

FIRST BANCORP



CORPORATE STRUCTURE





First BanCorp (“the Corporation”) is a publicly owned, Puerto Rico-chartered financial holding company that is subject to regulation, supervision and examination by the Federal Reserve Board. First BanCorp operates two direct subsidiaries: FirstBank Puerto Rico (“FirstBank or the Bank”) and FirstBank Insurance Agency, Inc. FirstBank is a Puerto Rico-chartered commercial bank, and FirstBank Insurance Agency is a Puerto Rico-chartered insurance agency. FirstBank is subject to supervision, examination and regulation by the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico and the Federal Deposit Insurance Corporation, which insures its deposits through the Savings Association Insurance Fund. The Virgin Islands’ operations of FirstBank are subject to regulation and examination by the United States Virgin Islands Banking Board and by the British Virgin Islands Financial Services Commission. FirstBank Insurance Agency is subject to supervision, examination and regulation by the Office of the Insurance Commissioner of the Commonwealth of Puerto Rico.

First BanCorp is engaged in the banking business and provides a wide range of financial services for retail and institutional clients. First BanCorp had total assets of approximately \$12.7 billion, total deposits of approximately \$6.8 billion and total stockholder’s equity of approximately \$1.1 billion at December 31, 2003. Based on total assets, First BanCorp is the second largest, locally-owned bank holding company headquartered in the Commonwealth of Puerto



Rico and the second largest depository institution in Puerto Rico.

FirstBank conducts its business through its main offices located in San Juan, Puerto Rico, forty-two full service banking branches in Puerto Rico and twelve branches in the United States Virgin Islands (USVI) and British Virgin Islands (BVI). FirstBank has three subsidiaries with operations in Puerto Rico, First Leasing and Rental Corporation, a vehicle leasing and daily rental company with nine offices in Puerto Rico, First Federal Finance Corp. (d/b/a Money Express La Financiera), a finance company with twenty-eight offices in Puerto Rico and First Mortgage, Inc., a residential mortgage loan origination company with twenty-one offices in FirstBank branches. FirstBank has three subsidiaries with operations outside of Puerto Rico, FirstBank Insurance Agency VI, Inc., an insurance agency with one office that sells insurance products in the USVI, First Trade, Inc., which provides foreign sales corporation management services with an office in the USVI and an office in Barbados, and First Express, a small loans company with three offices in the USVI.

First Mortgage, Inc. started operations specializing in the origination of residential mortgage loans and related services in September 2003. First Express started operations in the USVI in November 2003 and concentrates primarily in the origination of small loans in the Virgin Islands.



Ángel Álvarez-Pérez
Chairman
President
Chief Executive Officer

TO OUR STOCKHOLDERS:

On behalf of the Board of Directors and Officers of First BanCorp, I am pleased to submit our annual report for 2003, another excellent year. In 2003 First BanCorp earned \$152.3 million, representing \$3.04 per common share basic (or \$2.98 on a diluted basis).

Excluding an after tax gain on the sale of a large part of the credit card portfolio which occurred in 2003, earnings totaled \$133.5 million, which is \$2.57 per common share (basic or \$2.52 per common share diluted). This represents an increase of \$25.5 million as compared to 2002, when the Corporation earned \$108 million.

Growth in 2003

First BanCorp grew substantially in 2003, and net interest income expanded by 9.5% or \$25.4 million to \$292.2 million. This growth was a key factor in our outstanding performance. We achieved these results in spite of the narrow margins, which have accompanied the current environment of low interest rates.

Assets rose 31.4% from \$9.6 billion at year-end 2002 to \$12.7 billion at the end of 2003. Net loans increased 25% to \$7.0 billion, due mostly to increases in commercial and residential mortgage lending. Deposits increased 23% to \$6.8 billion. First BanCorp is the second largest commercial bank in Puerto Rico.

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Along with the growth in loans and deposits, FirstBank, the Corporation's bank subsidiary, continues to broaden and deepen its operations in Puerto Rico. In late 2003, First Mortgage, Inc., a new subsidiary specializing in the origination of mortgage loans started operations from twenty-one offices in FirstBank branches. In addition, we have started an institutional banking section with the goal of working more closely with large private and governmental entities. In 2004, the Bank will open five new branches in Puerto Rico. This wider distribution of services will help the organization reach clients in all areas of the Island.

In the Virgin Islands, FirstBank has opened two new branches and relocated a third to a new, modern facility. A newly formed subsidiary, First Express, is providing consumer finance service to our Virgin Islands clients. In addition, during 2003, FirstBank entered into an agreement with a major international brokerage house to provide financial and investment services in the US Virgin Islands.

Strategic Alliances

In 2003, FirstBank entered into a business alliance with MBNA Corporation, one of the world's largest credit card issuers. FirstBank and MBNA together will be able to offer a wider selection of credit card services to consumers in Puerto Rico.

In 2000, FirstBank entered into an agreement with a major international brokerage house to provide financial and investment services in its branches. At year-end, their FirstBank branch offices had approximately \$300 million in assets under management. Since 2000, First BanCorp has a continuing arrangement with Goldman Sachs under which we provide consulting services for local bond issues.

For our clients, these strategic alliances are bringing more and better services. For FirstBank, the changes permit us to limit growth in operating expenses while earning additional income from fees and commissions for the services we provide.

Other Competitive Advantages

Another key to our success is careful, prudent control of costs. For several years, we have been investing in state of the art technology to improve service to our clients and increase efficiency while adding more personnel and facilities, especially in the Virgin Islands. These investments led operating costs to increase from \$133 million in 2002 to \$164 million in 2003. Still, the Corporation's efficiency ratio was 39.91% (43.15% excluding the sale of a credit card portfolio) in line with the 40.81% in 2002. This ratio is better than the average when compared to other financial institutions in the banking business.

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The quality of our loan portfolio was another factor which contributed to the Corporation's record profits last year. Starting in 1998, we have been improving loan underwriting, introducing tighter approval procedures and improving computer systems. These efforts have resulted in an improvement in asset quality. During 2003, First BanCorp wrote off \$41.4 million of loans on a net basis (0.66% of the portfolio) compared with \$41.5 million (0.87% of the portfolio) in 2002. Loan loss reserves reached \$126.4 million at the end of 2003 compared with \$111.9 million for 2002. By December 31, 2003 the reserve coverage ratio (allowance for loan losses as a percentage of non-performing loans) had risen to 147.8% compared with 121.9% at the end of 2002. Maintaining good asset quality has been one of the most important ingredients of our success.

We also rely heavily on our employees and the quality of service they provide to our clients. All units of First BanCorp are in the midst of a continuing program to improve service quality in all areas of our operations. Marketing surveys have shown the positive results of these efforts.

Strengthening the Corporation's Capital Base

For First BanCorp to be able to continue growing and taking advantage of new opportunities, a sound capital base is necessary. In September 2003, First BanCorp issued \$189.6 million in perpetual preferred stock. Due to strong demand, the offering became the largest single preferred stock issue ever completed in Puerto Rico. This new capital, plus retained earnings for the year, allowed consolidated equity capital to reach \$1,089.6 million at year-end compared with \$798.4 million at the end of 2002.

Funding the Corporation's Growth

During 2003, FirstBank also launched a new deposit product, the Cuenta Perfecta (Perfect Account), which is highly competitive with accounts offered at other banks in Puerto Rico. This account has no monthly service charges for the first two years, pays interest, requires no minimum balance, and includes many free services such as ATM access and internet banking. Management is confident that this account will prove successful.

Community Service and Corporate Image

First BanCorp began operations in 1948 as "First Federal Savings Bank" and for many years was the leading Savings and Loan institution on the Island. Even after converting to a commercial bank in 1994, the Bank specialized in consumer lending for many years and still maintains strong ties with the Puerto Rican community, helping a number of charitable organizations.

First BanCorp is lending \$10 million to help finance a massive urban renewal project in

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Santurce, where our home offices are located. Bank officials have taken a leading role in organizing this project, which involves five local banks and the Puerto Rico Housing Finance Authority.

FirstBank's latest advertising campaign features gymnasts demonstrating the same agility that characterizes our staff. The Bank continues to work on exceeding customer's expectations.

Enhancing Shareholder Value

The efforts of Management and employees have paid off in strong earnings growth. In 2003, the Corporation experienced a return on common equity of 25.20% (21.31% excluding the gain on the sale of a credit card portfolio) compared with 21.90% in the previous year. The return on assets was 1.46% (1.28% excluding the credit card sale) compared with 1.23% in 2002. Our stock price reflected these strong results, increasing from \$22.60 on December 31, 2002 to \$39.55 at the end of 2003. Our shareholders experienced a total return of 77.54% on their investment during that year. Investors who held First BanCorp stock over the ten-year period from year-end 1993 to year-end 2003 received a cumulative total return of 1,133%, equivalent to an annualized return of 28.54%.

The Corporation has traditionally followed a conservative dividend policy, in the belief that we can better serve our shareholders by reinvesting most of our profits in our growing business. In 2003, the dividend payout ratio was 14.43%. Officers and directors of First BanCorp own approximately 10 percent of its shares. This shows their confidence in First BanCorp's future and their commitment to keep its fundamentals sound.

As First BanCorp begins another year of growth and service to Puerto Rico and the Virgin Islands, we are confident that our Corporation is stronger and better positioned than ever. We have a truly outstanding group of employees, officers, and directors. I am confident that we can meet the challenges ahead, and that we will provide better service than ever to our clients, while benefiting employees and stockholders in the years to come.



Ángel Álvarez-Pérez
Chairman
President
Chief Executive
Officer



The island of Puerto Rico is a U.S. commonwealth with a population of 3.8 million, located in the Caribbean approximately 1,600 miles southeast of New York. Puerto Rico grew moderately over most of the 1990’s, but its growth has paused recently due to the U.S. recession. Real GNP fell by 0.2% in the 2002 fiscal year, then grew by 1.9% in fiscal year 2003 according to the Puerto Rico Planning Board. This agency forecasts real growth of 2.9% in fiscal year 2004, led by manufacturing exports and government financed construction projects.

Puerto Rico’s economic performance is a natural result of its increasing integration into the U.S. economy. Puerto Ricans are U.S. citizens and serve in the United States armed forces. The Island uses U.S. currency and forms part of the U.S. financial system. Federal courts enforce U.S. laws here. Since Puerto Rico falls within the U.S. for purposes of customs and migration, there is full mobility of funds, people and goods between Puerto Rico and the U.S. mainland. Puerto Rico’s banks are subject to the same Federal laws, regulations and supervision as other U.S. financial institutions. The Federal Deposit Insurance Corporation insures the deposits of Puerto Rico chartered commercial banks, including FirstBank, the banking subsidiary of First BanCorp.

Manufacturing is the backbone of Puerto Rico’s economy, and many multinational corporations have substantial operations here. The Island’s pharmaceutical industry is especially strong. In recent years, however, a reduction of tax incentives combined with intense wage competition from other areas and the U.S. recession have been reducing island manufacturing employment. Still, Puerto Rico is becoming somewhat less dependent on manufacturing than it was in the early postwar period, as its economy has been diversifying with substantial investments in tourism, retail trade, services, banking and transportation.



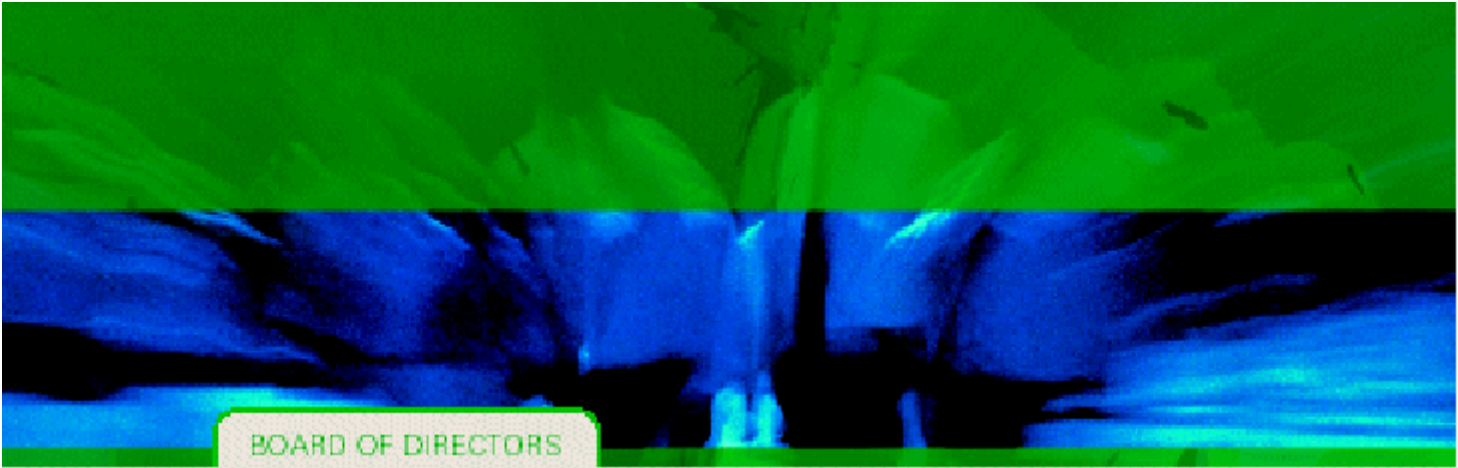


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01 Ángel Álvarez-Pérez
Chairman of the Board of Directors

02 Annie Astor-Carbonell

03 Sharee Ann Umpierre-Catinchi

04 Richard Reiss-Huyke

05 José Teixidor-Méndez

06 José Julián Álvarez-Bracero

07 Jorge L. Díaz Irizarry

08 José L. Ferrer-Canals

09 Juan Acosta-Reboyras



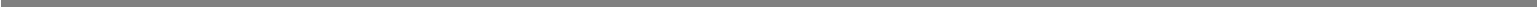
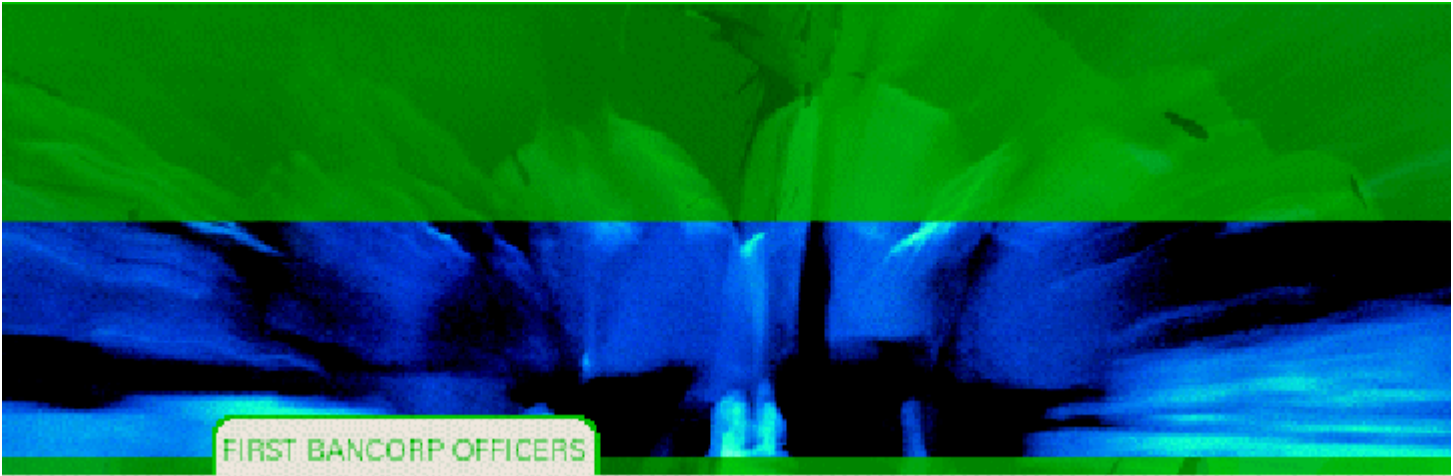


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01 Fernando L.Batlle

02 Luis M. Beauchamp

03 Aurelio Alemán

04 Annie Astor-Carbonell

05 Angel Alvarez-Pérez

06 Randolpho Rivera

07 Josianne M. Rosselló

08 Miguel Mejías

09 Carmen G. Szendrey-Ramos

10 Cassan A. Pancham

11 Aida M. García

12 Luis M. Cabrera

13 Laura Villarino

14 Dacio A. Pasarell



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PRESIDENT

Ángel Álvarez-Pérez
Chief Executive Officer

**SENIOR EXECUTIVE
VICE PRESIDENTS**

Annie Astor-Carbonell
Chief Financial Officer

Luis M. Beauchamp
Wholesale Banking
Executive and
Chief Lending Officer

**EXECUTIVE VICE
PRESIDENTS**

Aurelio Alemán
Consumer Banking
Executive

Fernando L. Batlle
Retail and Mortgage
Banking Executive

Dacio A. Pasarell
Operations and
Technology Executive

Randolfo Rivera
Commercial Banking
Executive

**FIRST SENIOR VICE
PRESIDENT**

Cassan A. Pancham
Eastern Caribbean
Region Executive

**SENIOR VICE
PRESIDENTS**

José H. Aponte
Commercial Mortgage
Lending

Miguel Babilonia
Consumer Risk
Management

Luis M. Cabrera
Treasury and
Investments

Salvador Calaf
Government and
Institutional Banking

James E. Crites
Regional Credit Officer
Eastern Caribbean
Region

Aida M. García
Human Resources

Michael García
Consumer Collection

Fernando Iglesias
Special Loans

Roger Lay
Internal Audit

Emilio Martínó
Credit Risk Management

Miguel Mejías
Information Systems

Carmen Nigaglioni
Middle Market and
Asset Based
Financing

John Ortiz
Consumer Products
and Credit Cards

Jorge Rendón
Facilities Management

Haydeé Rivera
Sales &
Distribution
Operations

Julio Rivera
Construction Lending

Nayda Rivera
General Auditor

Carmen Rocafort
Corporate and
Structured Finance

Josianne M. Rosselló
Marketing and
Public Relations

Demetrio Santiago
Auto Wholesale

Héctor Santiago
Auto Business and
Operations

Ingrid Schmidt
Mortgage Banking

Denise Segarra
Branch Banking

Luis Sueiro
Commercial Wholesale
Operations

**Carmen G.
Szendrey-Ramos**
General Counsel and
Secretary of the Board
of Directors

Laura Villarino
Controller

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VICE PRESIDENTS

Alexis Aguiar
Structured Finance

William Álvarez
Indirect Business and
Merchants

José Alvelo
Information Systems

Vivian Arteaga
Commercial Department

Sylvia Astor
Middle Market
Department

Marga Avilés
Consumer Loans
Operations

Beverly Bachetti
VIP Customer Group

María Benabe
Consumer Collections

Javier Cabrera
Investments Department

Ana Colón
Centralized Accounting

María Conor-Freeman
Lending and Client
Group Eastern
Caribbean Region

Lenitzia Delgado
Corporate Services

Deidre Elías
Compliance Manager
Eastern Caribbean
Region

Laura Escalante
Compliance Officer

Mayra Gascot
Information Systems

José Gómez
Mortgage Servicing and
Operations

David González
Corporate Business
Development

Nelson González
Structured Finance

Paul Gourieux
Consumer Credit
Manager
Eastern Caribbean
Region

Tessa Hugh
Finance and Risk
Manager
Eastern Caribbean
Region

Carol Jackson
Human Resources
Manager Eastern
Caribbean Region

Felipe Lebrón
Structured Finance

Ariane Lewis
Branch Banking Manager
Eastern Caribbean
Region

John E. Lewis
System & Programming
Manager
Eastern Caribbean
Region

Gilberto López
Middle Market

Marcelo López
Regional Manager Sales
& Distribution

Pedro J. López
Systems and Procedures
& Document Retention
Manager

John McDonald
Commercial Department
Eastern Caribbean
Region

José Negrón
Auto Lot

José Nevárez
Information Systems

Luis Orengo
Commercial Wholesale

Eduardo Ortiz
Auto Wholesale

María Cristina Oruña
Customer Relationship
Management
& Service Quality

Osvaldo Padilla
Corporate Services

Reynaldo Padilla
Auto Finance

Francisco Pascual
Commercial Department

Dionisio Ramírez
Construction Lending

Migdalia Rivera
Middle Market

Sandra Rivera
Consumer Collections

Belinda Rodríguez
Remote Sales

José L. Rodríguez
Information Systems

Pedro Romero
Assistant Controller

Katherine Rullán
Consumer Lending

Elizabeth Sánchez
Marine Finance

Roberto Sánchez
Consumer Loans Credit
Risk

José J. Santiago
Commercial Wholesale

Ramón Santiago
Asset Based Unit

Miguel Santín
Structured Finance

Carmen Torres
Branch Manager

Ralph Torres
Regional Manager
Sales & Distribution

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**FIRST FEDERAL
FINANCE CORPORATION
DBA MONEY EXPRESS
“LA FINANCIERA”**

Ángel Álvarez-Pérez
Chief Executive Officer

Aurelio Alemán
President and Chief
Operating Officer

Carlos Power
Senior Vice President
and General Manager

**FIRST LEASING AND
RENTAL CORPORATION**

Ángel Álvarez-Pérez
Chief Executive Officer

Aurelio Alemán
President and Chief
Operating Officer

Agustín Dávila
General Manager

**FIRSTBANK INSURANCE
AGENCY, INC.**

Ángel Álvarez-Pérez
Chief Executive Officer

Aurelio Alemán
President and Chief
Operating Officer

Víctor Santiago
Vice President and
General Manager

**FIRSTBANK INSURANCE
AGENCY V.I., INC.**

Ángel Álvarez-Pérez
Chief Executive Officer

Fernando L. Batlle
President and Chief
Operating Officer

Cassan A. Pancham
First Senior Vice
President

FIRST TRADE INC.

Ángel Álvarez-Pérez
Chief Executive Officer

Fernando L. Batlle
President and Chief
Operating Officer

Cassan A. Pancham
First Senior Vice
President

Pamela Clarke
Manager

FIRST EXPRESS, INC.

Ángel Álvarez-Pérez
Chief Executive Officer

Fernando L. Batlle
President and Chief
Operating Officer

Cassan A. Pancham
First Senior Vice
President

FIRST MORTGAGE, INC.

Ángel Álvarez-Pérez
Chief Executive Officer

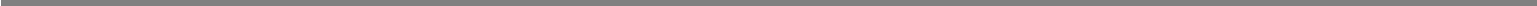
Fernando L. Batlle
President and Chief
Operating Officer

Ingrid Schmidt
Senior Vice President
and General Manager

Carmen Fernández
Vice President

Juanita Marrero
Vice President

Ricardo Negrón
Vice President



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis relates to the accompanying consolidated financial statements of First BanCorp (the Corporation) and should be read in conjunction with the financial statements and the notes thereto. Information in the notes referred to in this discussion and analysis is hereby incorporated by reference herein. The use of terms such as “see”, “refer to”, “included in” or “explained in” shall be deemed to incorporate by reference into this discussion and analysis the information to which reference is made.

Forward Looking Statements

When used in this report and in other filings by First BanCorp with the Securities and Exchange Commission, in the Corporation's press releases or other public or shareholder communication, or in oral statements made with the approval of an authorized executive officer, the words or phrases “will be”, “will determine”, “will allow”, “intends to”, “will likely result”, “are expected to”, “will continue”, “is anticipated”, “estimated”, “project”, “believe”, “should” or similar expressions are intended to identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995.

The future results of the Corporation could be affected by subsequent events and could differ materially from those expressed in forward-looking statements. If future events and actual performance differ from the Corporation's assumptions, the actual results could vary significantly from the performance projected in the forward-looking statements.

The Corporation wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made and are based on management's current expectations, and to advise readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities, competitive, regulatory factors, and legislative changes and accounting pronouncements, could affect the Corporation's financial performance and could cause the Corporation's actual results for future periods to differ materially from those anticipated or projected. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

OVERVIEW

First BanCorp is the financial holding company of FirstBank (“FirstBank or the Bank”), the second largest commercial bank in Puerto Rico. Headquartered in San Juan, Puerto Rico, First BanCorp had \$12.7 billion in assets at December 31, 2003 and operates full-service banking branches in Puerto Rico and in the U.S. Virgin Islands (USVI) and British Virgin Islands (BVI). In addition, the holding company owns an insurance agency and the Bank through its wholly-owned subsidiaries, operates offices in Puerto Rico specializing in residential mortgage loans originations, small personal loans, finance leases and vehicle rental, and subsidiaries in the USVI and Barbados specializing in insurance agency services, small personal loans and foreign sales corporation management.

Financial Highlights

Although the long-awaited economic recovery did not materialize in fiscal year 2003, First BanCorp grew substantially and improved its financial performance. The Corporation recorded earnings of \$152,338,342 or \$3.04 per common share basic and \$2.98 per common share diluted, compared to \$107,956,351 or \$2.04 per common share basic and \$2.01 per common share diluted for 2002, and \$86,001,444 or \$1.74 per common share basic and \$1.73 per common share diluted for 2001. For 2003 as compared to 2002, net income increased by \$44,381,991 or \$0.97 per common share diluted, and for 2002 as compared to 2001, by \$21,954,907 or \$0.28 per common share diluted.

Assets rose 31% from \$9.6 billion at year-end 2002 to \$12.7 billion at the end of 2003. Deposits increased 23% to \$6.8 billion. Net loans increased 25% to \$6.9 billion, mostly due to increases of \$341 million in commercial loans and \$1,024 million in residential real estate loans. Consumer loans and finance leases grew by \$40 million. In spite of increases in the loan portfolio and the economic slowdown, net charge offs as a percentage of average loans were at their lowest in a decade, mainly attributed to prior year's efforts that improved loan underwriting and implemented tighter approval procedures, and to the change in the overall risk profile of the loan portfolio.

The Corporation's earnings increase is mainly the result of a significant growth in average earning assets of approximately \$1,571 million together with lower cost of funding, gains on sales of investments securities and a gain realized on the sale of a large part of the Corporation's credit card portfolio, net of increases in operating expenses resulting mainly from the expansion in the Virgin Islands. As low interest rates have persisted, the key source of revenue generation for the Corporation, the net interest margin, has come under considerable downward pressure. The net interest margin declined over the past two years, from 4.08 percent for the year 2001 and 3.56 percent in 2002 to 3.24 percent for 2003. Since the Corporation's lending

operations have continued to grow, especially commercial and residential mortgages, the interest increases due to volume have exceeded interest spread contractions. The Bank is now a more diversified institution after several years of focusing on the origination of commercial loans and residential mortgage loans. A substantial amount of the Corporation's assets have variable interest rates. The majority of commercial loans and mortgage loans have adjustable rates; as a result the Corporation is asset sensitive. Any increase in current interest rates should result in increases in net interest margin, conversely, any decrease in current interest rates should result in decreases in the net interest margin. During 2003, the Corporation completed its investment securities portfolio restructuring which reduced its sensitivity to rising interest rates. The restructuring resulted in both, a growth in the investment portfolio and increases in interest income from investments during the last half of the year.

The 2003 provision for loan losses of \$55.9 million was down \$6.4 million from 2002. The decrease results from lower charge-offs relative to the size of the loan portfolios and diversification into secured lending areas such as residential and commercial mortgage loans, as well as stable delinquencies, especially in the Bank's consumer loan portfolios.

Gains on the sale of investments securities of \$34.9 million mainly resulted from sales of mortgage-backed securities made when the 10 year Treasury note rate reached a low level during the first quarter of 2003 partially offset by other-than-temporary impairments of \$5.8 million. Also during the fourth quarter, the Corporation reached an agreement with MBNA Corporation, the world's largest independent credit card lender, for the sale of approximately \$114 million of a large portion of credit card loans, which resulted in a gain of approximately \$31 million before tax. This sale was made after a thorough evaluation of credit card loans opportunities in an alliance with MBNA. Under the alliance, which will benefit both companies, the Bank will provide full support to MBNA in the origination of credit card loans in Puerto Rico, and share in the revenues from this new business.

An important factor in the Corporation's strategy is prudent control of costs. For several years the Corporation has been investing in state of the art technology to improve service to its clients and increase efficiency. This approach continues at the Corporation as substantial investments have been made in upgrading the performance, capacity and speed of existing technology and adapting new ones during 2002 and 2003. The Corporation has maintained a better than average efficiency ratio of approximately 40%, when compared to other financial institutions in the banking business.

The increase in operating expenses of \$31 million from \$132.8 million in 2002 to \$164.0 million in 2003 is mainly attributed to the full year cost of JP Morgan Chase Virgin Islands operations acquired in October 2002, which represented \$19.4 million of the increase. The additional costs from the Virgin Islands operations are more than compensated by the increases in income attributable to this operation. Also increases in operating expenses are the result of the Corporation's continuous investment in technology to provide the latest in delivery channels to its commercial and consumer lending business and to the general growth in the subsidiary Bank's operations, which required increases in salaries, occupancy and technology expenses. Operating expenses also increased due to significant expenditures on an advertising campaign to support the introduction of First Mortgage Inc., the new subsidiary specializing in mortgage loans originations; a campaign to introduce a new deposit product, namely the "Cuenta Perfecta", targeted at the retail segment, and a new image campaign for the subsidiary Bank operations.

Return on average assets was 1.46% for 2003, and 1.23% for 2002 and 1.28% for 2001. Return on average equity was 17.06% for 2003, 14.90% for 2002 and 16.20% for 2001. Return on average common equity was 25.20% for 2003, 21.90% for 2002 and 22.13% for 2001.

In September 2003, the Corporation issued \$189.6 million of the Corporation's "Series E Perpetual Preferred Stock". This issuance will support the Corporation's continuous growth and search for new business opportunities. During 2003 First BanCorp expanded its operations through the establishment of First Mortgage Inc., a subsidiary specializing in the origination of residential mortgage loans and related services. Since November 2003, a newly formed subsidiary, First Express Inc., is providing consumer finance service to Virgin Islands clients.

As aforementioned, the Corporation's subsidiary Bank entered into a long-term strategic marketing alliance with MBNA Corporation. As part of the alliance, FirstBank became an MBNA Financial Institution Partner in Puerto Rico and is the only Puerto Rico based financial institution whose credit cards are issued by MBNA.

The following table provides a reconciliation of financial information, as reported under accounting principles generally accepted in the United States of America (GAAP), to information excluding the after tax effect of the gain on sale of the credit card loans to MBNA. Management believes this presentation is useful to investors as it provides information excluding the effect of the gain on this sale.

| | First BanCorp Year ended December 31, 2003 | | | | | Efficiency Ratio |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------------|-----------|-------------|---------|---------|---------------------|
| | Earnings for Year | Basic EPS | Diluted EPS | ROA | ROCE | |
| Under GAAP as reported | \$152,338,342 | \$ 3.04 | \$ 2.98 | 1.46% | 25.20% | 39.91% |
| Effect of the after tax gain on the sale of a large part of the subsidiary bank's credit card loans | (18,840,065) | (0.47) | (0.46) | (0.18%) | (3.89%) | 3.24% |
| Excluding effect stated above | \$133,498,277 | \$ 2.57 | \$ 2.52 | 1.28% | 21.31% | 43.15% |

Critical Accounting Policies and Practices

The accounting and reporting policies of the Corporation and its subsidiaries conform with accounting principles generally accepted in the United States of America. A summary of accounting policies and recently issued accounting pronouncements is included in Note 2 to the Corporation's financial statements. The reported amounts are based on judgments, estimates and assumptions made by Management that affect the recorded assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, if different assumptions or conditions prevail.

Investments Classification and Valuation

The Corporation classifies its investments in debt and equity securities into trading, held to maturity and available for sale securities at the time of purchase. The available for sale securities are carried at fair value, with unrealized holding gains and losses, net of deferred tax effects, reported in other comprehensive income as a separate component of stockholders' equity. The fair values of these securities were calculated based on quoted market prices and dealer quotes. Changes in the assumptions used in calculating the fair values such as interest rates, estimated prepayment rates for such securities subject to prepayment risk and discount rates could affect the reported valuations. Held to maturity, securities are accounted for at amortized cost. Trading securities, if any, are reported at fair value with unrealized gains and losses included in earnings. For 2003 and 2002, the Corporation did not hold investment securities for trading purposes.

Evaluation for Other-than-temporary Impairment on Available for Sale and Held to Maturity Securities

The Corporation evaluates its investment securities for impairment. An impairment charge in the Consolidated Statements of Income is recognized when the decline in the fair value of investments below their cost basis is judged to be other-than-temporary. The Corporation considers various factors in determining whether it should recognize an impairment charge, including, but not limited to the length of time and extent to which the fair value has been less than its cost basis, and the Corporation's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. For debt securities, the Corporation also considers, among other factors, the investees repayment ability on its bond obligations and its cash and capital generation ability. At December 31, 2003, the Corporation did not hold any investment securities with significant unrealized losses sustained for more than one year. The Corporation's accounting policy for other-than-temporary impairment is included in Note 2 of the Corporation's financial statements. See Note 8 of the Corporation's financial statements, which discloses amounts of impairment charges recognized during 2003 and other related quantitative and qualitative information.

Allowance for Loan Losses

The Corporation maintains the allowance for loan losses at a level that Management considers adequate to absorb losses inherent in the loan portfolio. The adequacy of the allowance for loan losses is reviewed on a quarterly basis as part of the continuing evaluation of the quality of the assets. Groups of small balance, homogeneous loans are collectively evaluated for impairment. The portfolios of residential mortgage loans, consumer loans, auto loans and finance leases are considered homogeneous and are evaluated collectively for impairment. In determining probable losses for each category of homogeneous pools of loans, Management uses historical information about loan losses over several periods of time that reflect varying economic conditions and adjusts such historical data based on the current conditions, considering information and trends on charge-offs, non-accrual loans, risk characteristics relevant to the particular loan category and delinquencies. The Corporation measures impairment individually for those commercial and real estate loans with a principal balance exceeding \$1 million. An allowance for impaired loans is established based on the present value of expected future cash flows or the fair value of the collateral, if the loan is collateral dependent. Accordingly, the measurement of impairment for loans evaluated individually involves assumptions by Management as to the amount and timing of cash flows to be recovered and of appropriate discount rates. When the loans are collateral dependent, Management generally obtains an inde-

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pendent appraisal. Those appraisals also involve estimates of future cash flows and appropriate discount rates or adjustments to comparable properties in determining fair values.

The Corporation's primary lending area is Puerto Rico. The Corporation's subsidiary Bank also lends in the U.S. and British Virgin Islands markets. At December 31, 2003, there is no significant concentration of credit risk in any specific industry.

Income Taxes

The Corporation is routinely subject to examinations from governmental taxing authorities. Such examinations may result in challenges to the tax return treatment applied by the Corporation to specific transactions. Management believes that the assumptions and judgment used to record tax-related assets or liabilities have been appropriate. There are currently no open income tax investigations. Should tax laws change or the tax authorities assumptions differ from Management's assumptions, the result and adjustments required could have a material effect on the Corporation's results of operation. Information regarding income taxes is included in Note 23 of the Corporation's financial statements.

Accounting Pronouncements

During 2003, the Financial Accounting Standards Board (FASB) issued several accounting pronouncements, namely FASB Interpretation (FIN) No. 46R, *Consolidation of Variable Interests Entities, an Interpretation of ARB 51*, Statement of Financial Accounting Standard (SFAS) No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, SFAS No. 150, *Accounting for Certain Instruments with Characteristics of both Liabilities and Equity* and the Accounting Standards Executive Committee Statement of Position (SOP) No. 03-3 *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. The adoption of these pronouncements did not have a significant impact on the Corporation's financial statements. Refer to Note 2 of the Corporation's financial statements for a summary of the major provisions of these pronouncements. The Corporation's results of operation could be affected by the effect of new accounting pronouncements issued in the future.

RESULTS OF OPERATIONS

The Corporation's results of operations depend primarily on its net interest income, which is the difference between the interest income earned on interest earning assets, including investment securities and loans, and the interest expense on interest bearing liabilities, including deposits and borrowings. Net interest income is affected by various factors including the interest rate scenario, the volumes, mix and composition of interest earning assets and interest bearing liabilities; and the re-pricing characteristics of these assets and liabilities. The Corporation's results of operations also depend on the provision for loan losses, operating expenses (such as personnel, occupancy and other costs), other income (mainly service charges and fees on loans), gains on sale of investments and loans and income taxes.

Net Interest Income

Net interest income increased to \$292 million for 2003 from \$267 million in 2002 and \$236 million in 2001. The increase in net interest income for the year 2003 was mainly driven by volume increases of \$1,571 million in the Corporation's average earning assets, specially commercial and residential real estate loans.

The following table includes a detailed analysis of net interest income. Part I presents average volumes and rates on a tax equivalent basis and Part II presents the extent to which changes in interest rates and changes in volume of interest-related assets and liabilities have affected the Corporation's net interest income. For each category of earning assets and interest bearing liabilities, information is provided on changes attributable to changes in volume (changes in volume multiplied by old rates), and changes in rate (changes in rate multiplied by old volumes). Rate-volume variances (changes in rate multiplied by changes in volume) have been allocated to the changes in volume and changes in rate based upon their respective percentage of the combined totals.

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| Part I Year ended December 31, | 2003 | Average volume 2002 | 2001 (Dollars in thousands) | Interest income (1) / expense | | |
|------------------------------------|--------------|------------------------|--------------------------------|-------------------------------|-----------|-----------|
| | | | | 2003 | 2002 | 2001 |
| Earning assets: | | | | | | |
| Money market investments | \$ 455,866 | \$ 60,522 | \$ 46,517 | \$ 4,494 | \$ 999 | \$ 1,476 |
| Government obligations | 850,516 | 1,236,281 | 588,932 | 48,912 | 56,130 | 35,955 |
| Mortgage backed securities | 2,257,617 | 2,144,236 | 1,711,980 | 116,778 | 147,779 | 126,098 |
| Corporate bonds | 181,063 | 259,840 | 247,094 | 7,792 | 15,493 | 21,230 |
| FHLB stock | 40,447 | 32,586 | 21,841 | 1,206 | 1,635 | 1,289 |
| Total investments | 3,785,509 | 3,733,465 | 2,616,364 | 179,182 | 222,036 | 186,048 |
| Consumer loans | 1,198,964 | 1,048,283 | 1,036,637 | 152,937 | 142,612 | 140,050 |
| Residential real estate loans | 2,286,809 | 1,283,710 | 869,374 | 107,777 | 74,411 | 65,496 |
| Construction loans | 314,588 | 223,627 | 219,890 | 14,824 | 11,726 | 17,323 |
| Commercial loans | 2,340,744 | 2,080,892 | 1,584,910 | 101,293 | 110,315 | 119,867 |
| Finance leases | 150,832 | 136,851 | 127,872 | 14,670 | 14,659 | 14,661 |
| Total loans (2) | 6,291,937 | 4,773,363 | 3,838,683 | 391,501 | 353,723 | 357,397 |
| Total earning assets | \$10,077,446 | \$8,506,828 | \$6,455,047 | \$570,683 | \$575,759 | \$543,445 |
| Interest bearing liabilities: | | | | | | |
| Interest bearing checking accounts | \$ 259,447 | \$ 215,462 | \$ 186,111 | \$ 3,426 | \$ 5,146 | \$ 5,926 |
| Savings accounts | 922,887 | 609,324 | 436,595 | 11,849 | 14,603 | 12,954 |
| Certificate accounts | 4,158,111 | 3,622,918 | 2,859,181 | 97,266 | 113,486 | 141,878 |
| Interest bearing deposits | 5,340,445 | 4,447,704 | 3,481,887 | 112,541 | 133,235 | 160,758 |
| Other borrowed funds | 2,965,714 | 2,868,212 | 2,125,022 | 112,512 | 123,925 | 106,858 |
| FHLB advances | 633,692 | 339,477 | 256,354 | 19,418 | 16,024 | 12,585 |
| Total interest bearing liabilities | \$ 8,939,851 | \$7,655,393 | \$5,863,263 | \$244,471 | \$273,184 | \$280,201 |
| Net interest income | | | | \$326,212 | \$302,575 | \$263,244 |
| Interest rate spread | | | | | | |
| Net interest margin | | | | | | |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| Part I Year ended December 31, | 2003 | Average rate (1) 2002 (Dollars in thousands) | 2001 |
|------------------------------------|--------|----------------------------------------------------|--------|
| Earning assets: | | | |
| Money market investments | 0.99% | 1.65% | 3.17% |
| Government obligations | 5.75% | 4.54% | 6.11% |
| Mortgage backed securities | 5.17% | 6.89% | 7.37% |
| Corporate bonds | 4.30% | 5.96% | 8.59% |
| FHLB stock | 2.98% | 5.02% | 5.90% |
| Total investments | 4.73% | 5.95% | 7.11% |
| Consumer loans | 12.76% | 13.60% | 13.51% |
| Residential real estate loans | 4.71% | 5.80% | 7.53% |
| Construction loans | 4.71% | 5.24% | 7.88% |
| Commercial loans | 4.33% | 5.30% | 7.56% |
| Finance leases | 9.73% | 10.71% | 11.47% |
| Total loans (2) | 6.22% | 7.41% | 9.31% |
| Total earning assets | 5.66% | 6.77% | 8.42% |
| Interest bearing liabilities: | | | |
| Interest bearing checking accounts | 1.32% | 2.39% | 3.18% |
| Savings accounts | 1.28% | 2.40% | 2.97% |
| Certificate accounts | 2.34% | 3.13% | 4.96% |
| Interest bearing deposits | 2.11% | 3.00% | 4.62% |

| | | | |
|------------------------------------|-------|-------|-------|
| Other borrowed funds | 3.79% | 4.32% | 5.03% |
| FHLB advances | 3.06% | 4.72% | 4.91% |
| Total interest bearing liabilities | 2.73% | 3.57% | 4.78% |
| Interest rate spread | 2.93% | 3.20% | 3.64% |
| Net interest margin | 3.24% | 3.56% | 4.08% |

(1) On a tax equivalent basis. The tax equivalent yield was computed dividing the interest rate spread on exempt assets by (1- Puerto Rico statutory tax rate of 39%) and adding to it the cost of interest bearing liabilities. When adjusted to a tax equivalent basis, yields on taxable and exempt assets are comparative.

(2) Non-accruing loans are included in the average balances.

| Part II | 2003 compared to 2002 Increase (decrease) | | | 2002 compared to 2001 Increase (decrease) | | |
|-------------------------------|----------------------------------------------|-----------------|-------------------------|----------------------------------------------|-----------------|-----------|
| | Volume | Due to: Rate | Total (In thousands) | Volume | Due to: Rate | Total |
| Earning assets: | | | | | | |
| Money market investments | \$ 5,212 | \$ (1,717) | \$ 3,495 | \$ 338 | \$ (815) | \$ (477) |
| Government obligations | (19,856) | 12,638 | (7,218) | 34,457 | (14,282) | 20,175 |
| Mortgage backed securities | 6,839 | (37,840) | (31,001) | 30,815 | (9,134) | 21,681 |
| Corporate bonds | (4,015) | (3,686) | (7,701) | 928 | (6,665) | (5,737) |
| FHLB stock | 314 | (743) | (429) | 587 | (241) | 346 |
| Total investments | (11,506) | (31,348) | (42,854) | 67,125 | (31,137) | 35,988 |
| Consumer loans | 19,860 | (9,535) | 10,325 | 1,580 | 982 | 2,562 |
| Residential real estate loans | 52,710 | (19,345) | 33,365 | 27,616 | (18,701) | 8,915 |
| Construction loans | 4,528 | (1,430) | 3,098 | 245 | (5,842) | (5,597) |
| Commercial loans | 12,511 | (21,533) | (9,022) | 31,903 | (41,455) | (9,552) |
| Finance leases | 1,429 | (1,416) | 13 | 993 | (995) | (2) |
| Total loans | 91,038 | (53,259) | 37,779 | 62,337 | (66,011) | (3,674) |
| Total interest income | 79,532 | (84,607) | (5,075) | 129,462 | (97,148) | 32,314 |
| Interest bearing liabilities: | | | | | | |
| Deposits | 22,778 | (43,472) | (20,694) | 36,762 | (64,285) | (27,523) |
| Other borrowed funds | 3,956 | (15,369) | (11,413) | 34,742 | (17,675) | 17,067 |
| FHLB advances | 11,452 | (8,058) | 3,394 | 4,002 | (563) | 3,439 |
| Total interest expense | 38,186 | (66,899) | (28,713) | 75,506 | (82,523) | (7,017) |
| Change in net interest income | \$ 41,346 | \$(17,708) | \$ 23,638 | \$ 53,956 | \$(14,625) | \$ 39,331 |

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Total interest income includes tax equivalent adjustments of \$34 million, \$36 million and \$27 million for 2003, 2002, and 2001, respectively. On a tax equivalent basis, net interest income increased to \$326 million for 2003 from \$303 million for 2002, and \$263 million for 2001. The interest rate spread and net interest margin amounted to 2.93% and 3.24%, respectively, for 2003, as compared to 3.20% and 3.56%, respectively, for 2002 and to 3.64% and 4.08%, respectively, for 2001.

2003 compared to 2002

On a tax equivalent basis, interest income decreased by \$5.1 million for 2003 as compared to 2002. The tax equivalent yield on earning assets was 5.66% for 2003 as compared to 6.77% for 2002. The decrease in interest income as compared to the same period last year is mainly attributed to the interest rate sensitivity of a substantial part of the Corporation's assets which resulted in further interest yield decreases in 2003, given the low interest rate scenario that has persisted during the last few years. Significant variances due to rate were noted specifically on the Corporation's mortgage-backed securities and commercial loans. The variance due to rate on the mortgage-backed securities is attributed to accelerated prepayments and subsequent replacement with lower yield securities and the variances on commercial loans is mainly attributed to the re-pricing of loans which rates are variable.

The variances due to rate were partially offset by significant volume increases in the Corporation's lending operations. As shown in Part I, the Corporation experienced continuous growth of its loan portfolios. Average loans increased by \$1,519 million compared to 2002. Residential real estate loans and commercial loans, accounted for the largest growth in the portfolio, with average volumes rising \$1,003 million and \$260 million, respectively. The Corporation's Bank subsidiary is now a more commercial base institution after several years of working on a strategy to reduce the loan portfolio risk and achieve a diversified asset base. For the loan portfolio, the growth in average volume represented a positive increase of \$91 million in interest income due to volume. The negative \$53 million decrease in interest income due to rate, mentioned earlier, is mainly attributed to the floating rate characteristics of a substantial portion of the Corporation's portfolio and to the origination of new loans in a lower rate environment. At December 31, 2003, approximately 75% of the commercial, 60% of the residential mortgage and 90% of the construction portfolios have floating rates.

Average investment securities increased by \$52 million. During 2003, the Corporation restructured its investments portfolio. Prepayments on mortgaged backed securities and repayments on callable securities accelerated when compared to recent historical experience, also substantial profits were realized on the sale of investment securities early in 2003. A substantial amount from the proceeds of accelerated prepayments on mortgage-backed securities, prepayments on callable securities and proceeds from sales of securities were maintained in money market instruments for a substantial part of 2003, which explains the increase in the average volume of the money market instruments and the decrease in the average volume of other components, such as government obligations, when compared to 2002. The majority of the proceeds mentioned above were reinvested in the third quarter of 2003 when the Corporation reentered the longer-term investment market and at the same time grew its investments portfolio by purchasing approximately \$2 billion of 15 year FNMA mortgagebacked securities. For such reasons, interest income from investments was affected during a period which extended from the first quarter to the third quarter of 2003, when the restructuring was completed. The Corporation's Bank subsidiary interest income increased after the reinvestment of the prepayments and sales proceeds during the third quarter of 2003. The tax equivalent average yield on investment securities was 4.73% in 2003 and 5.95% in 2002. The decrease in the average yield on investments, as compared to 2002, is primarily a result of a 172 basis point decrease in the yield earned on mortgage-backed securities given the acceleration of prepayments on these securities, which in turn accelerated the amortization of premiums paid upon the acquisition of such investments.

On the liabilities side the Corporation benefited from a low interest rate environment, as the cost of funds decreased when short term liabilities re-priced and new short-term (i.e. deposits and repurchase agreements) and long-term (i.e. long-term repurchase agreements and other advances) liabilities were originated at lower rates. Interest expense decreased by \$29 million for 2003 as compared to 2002. This was the result of the decrease in the average rates of interest bearing liabilities, which generated a positive rate variance of \$67 million, that was partially offset by increases in the average volume of liabilities to support the Corporation's growth.

In summary, on a rate/volume basis the Corporation's net interest income (on tax equivalent basis) increased by approximately \$23.6 million, as a result of a positive volume variance of \$41.3 million, net of a negative rate variance of \$17.7 million. The net interest margin declined from 3.56 percent for the year 2002 to 3.24 percent for 2003. The Corporation's lending operations have continued to grow, especially commercial and residential mortgages, and these volume increases have exceeded interest spreads contractions resulting in an increase of tax equivalent net interest income as compared to 2002.

2002 compared to 2001

On a tax equivalent basis interest income increased by \$32 million for 2002 as compared to 2001. On a tax equivalent basis the yield on earning assets was 6.77% for 2002 as compared to 8.42% for 2001. The increase in interest income resulted from the growth in the average volume of interest earning assets of \$2,052 million in 2002, partially offset by lower yields due to lower market rates. The economic slowdown led the Federal Reserve Bank to cut the federal funds rate several times during 2001 and 2002 to 1.25%, its lowest level since 1962, which resulted in a lower average cost of fund (3.57% for the year ended 2002 versus 4.78% for the year ended 2001). On a rate/volume basis, the increase of \$39 million in net interest income (on a tax equivalent basis) resulted from of a positive volume variance of \$54 million, net of a negative rate variance of \$15 million. The negative rate variance was mainly due to the high level of variable rate assets, and the acceleration of prepayments on the Corporation's mortgage-backed securities.

As shown in Part I, the Corporation continued to experience growth in its loan portfolio during 2002. Total average loans increased by \$935 million as compared to 2001. Residential real estate loans and commercial loans, accounted for the largest growth in the portfolio, with average volumes rising \$414 million and \$496 million, respectively. The growth in the commercial and residential real estate portfolios resulted mainly from the Corporation's ongoing strategy of maintaining a diversified asset base. For the loan portfolio, the growth in average volume represented an increase of \$62 million in interest income due to volume. The \$66 million decrease in interest income due to rate is mainly attributed to the floating rate characteristics of a portion of the Corporation's portfolio and to the origination of new loans in a lower rate environment. At December 31, 2002, approximately 75% of the commercial, 49% of the residential mortgage and 88% of the construction portfolios had floating rates.

Average investment securities increased by \$1,117 million. The average yield on investment securities was 5.95% in 2002 and 7.11% in 2001, on a tax equivalent basis. The portfolio of investment securities contributed \$67 million on the interest income increase due to volume partially offset by a decrease of \$31 million in interest income due to rate. The yield on government obligations had a negative variance of 157 basis points declining from 6.11% in 2001 to 4.54% in 2002. The yield on mortgage-backed securities also had a negative variance as it decreased 48 basis points from 7.37% in 2001 to 6.89% in 2002.

Interest expense decreased by \$7 million for 2002 as compared to 2001. This was the result of the decrease in the average rates of interest bearing liabilities which generated a positive rate variance of \$83 million, that was partially offset by increases in the average volume of liabilities to support the Corporation's growth.

Provision for Loan Losses

During 2003, the Corporation provided \$55.9 million for loan losses, as compared to \$62.3 million in 2002 and \$61 million in 2001. The decrease in the provision is mainly attributed to lower charge offs as a result of diversification into secured lending areas such as residential and commercial mortgage loans. Net charge offs amounted to \$41.4 million for 2003, \$41.5 million for 2002, and of \$47.0 million for 2001. The ratio of net charge offs to average loans outstanding has improved to 0.66% as compared to 0.87% and 1.22% for 2002 and 2001, respectively. The charge offs ratio is at the lowest level in more than ten years, in spite of the economic slowdown. The improvement when compared to recent historical data is attributed to improvements in the Corporation's underwriting standards, credit administration policies and an effective risk management infrastructure.

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The allowance activity for 2003, and previous four years was as follows:

| Year ended December 31, | 2003 | 2002 | 2001 (Dollars in thousands) | 2000 | 1999 |
|---------------------------------------------------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
| Allowance for loan losses, beginning of year | \$111,911 | \$ 91,060 | \$ 76,919 | \$ 71,784 | \$ 67,854 |
| Provision for loan losses | 55,916 | 62,302 | 61,030 | 45,719 | 47,960 |
| Loans charged off: | | | | | |
| Residential real state | (475) | (555) | (192) | | |
| Commercial and Construction | (6,488) | (4,643) | (9,523) | (3,463) | (825) |
| Finance leases | (2,424) | (2,532) | (2,316) | (2,145) | (793) |
| Consumer | (38,745) | (41,261) | (42,349) | (46,223) | (52,047) |
| Recoveries | 6,683 | 7,540 | 7,391 | 9,807 | 9,048 |
| Net charge offs | (41,449) | (41,451) | (46,989) | (42,024) | (44,617) |
| Other adjustments (1) | | | 100 | 1,440 | 587 |
| Allowance for loan losses, end of year | \$126,378 | \$111,911 | \$ 91,060 | \$ 76,919 | \$ 71,784 |
| Allowance for loan losses to year end total loans and loans held for sale | 1.79% | 1.99% | 2.11% | 2.20% | 2.61% |
| Net charge offs to average loans outstanding during the period | 0.66% | 0.87% | 1.22% | 1.36% | 1.90% |

(1) Other adjustments mainly consist of the carrying allowance of the loan portfolios acquired.

The Corporation maintains the allowance for loan losses at a level that Management considers adequate to absorb losses inherent in the loan portfolio. The adequacy of the allowance for loan losses is reviewed on a quarterly basis as part of the continuing evaluation of the quality of the assets. This evaluation is based upon a number of factors, including the following: historical loan loss experience, projected loan losses, loan portfolio composition, current economic conditions, changes in underwriting process, fair value of the underlying collateral, financial condition of the borrowers, and, as such, includes amounts based on judgments and estimates made by Management. The increase in the allowance is mostly attributable to the growth of the commercial loan portfolio in the year 2003, together with the seasoning of this same portfolio, which has been growing significantly since 1998.

The allowance for loan losses on commercial and real estate loans over \$1 million is determined based on the present value of expected future cash flows or the fair value of the collateral, if the loan is collateral dependent.

Other Income

The following table presents the composition of other income.

| Year ended December 31, | 2003 | 2002 (In thousands) | 2001 |
|-------------------------------------------------------------------------------------------------------------------------|-----------|------------------------|----------|
| Other fees on loans | \$ 20,617 | \$ 21,441 | \$19,632 |
| Service charges on deposit accounts | 9,527 | 9,200 | 9,213 |
| Mortgage banking activities | 3,014 | 3,540 | 1,562 |
| Rental income | 2,224 | 2,285 | 2,293 |
| Other commissions and fees | 1,526 | 1,081 | 1,511 |
| Insurance income | 4,258 | 2,269 | 700 |
| Dividends on equity securities | 703 | 705 | 669 |
| Other operating income | 10,481 | 10,032 | 7,794 |
| Other income before net gain on sale of investments, gain on sale of credit cards portfolio and derivatives gain (loss) | 52,350 | 50,553 | 43,374 |
| Gain on sale of investments | 40,617 | 48,873 | 9,606 |
| Impairment on investments | (5,761) | (36,872) | |
| Gain on sale of investments, net | 34,856 | 12,001 | 9,606 |
| Gain on sale of credit cards portfolio | 30,885 | | |
| Derivatives gain (loss) | 619 | (4,062) | |
| Total | \$118,710 | \$ 58,492 | \$52,980 |

Other income primarily consists of fees on loans, service charges on deposit accounts, commissions derived from various banking activities, securities and insurance activities, net gain on sale of investments, and derivatives gain (loss). Other income for 2003 includes a gain on the sale of a large part of the Corporation's credit card portfolio. The portfolio sold approximated \$114 million. This sale is further explained in the overview section of this document.

Other fees on loans consist mainly of credit card fees and late charges collected on loans.

Service charges on deposit accounts includes monthly fees on deposit accounts and fees on returned and paid check services, which represent an important and stable source of other income for the Corporation.

Mortgage banking activities income includes gains on sale of loans and the servicing fees on residential mortgage loans originated by the Corporation and subsequently securitized or sold. Gains on sale of loans amounted to approximately \$2.9 million in 2003 (2002-\$3.4 million, 2001-\$1.2 million).

The Corporation's subsidiary, First Leasing and Rental Corporation, generates income on the rental of various types of motor vehicles. This source of income has averaged approximately \$2.2 million in the past three years.

Insurance income consists of commissions earned by the Corporation's subsidiary FirstBank Insurance Agency, Inc., and the Bank's subsidiary in the U.S.V.I, FirstBank Insurance V.I., Inc.

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Other commissions and fees income is the result of an agreement with Goldman, Sachs & Co. to participate in bond issues by the Government Development Bank for Puerto Rico, and an agreement with a international brokerage house doing business in Puerto Rico to offer brokerage services in selected branches.

The other operating income category is composed of miscellaneous fees such as check fees and rental of safe deposit boxes. Other operating income also includes earned discounts on tax credits purchased and utilized against income tax payments, and other fees generated on the portfolio of commercial loans.

The net gain on the sale of investment securities reflects gains or losses as a result of sales that are consistent with the Corporation's investment policies and strategy as well as other-than-temporary impairment charges on portfolio securities. Refer to Note 8 to the financial statements for further discussion on investment activities and other-than-temporary impairment charges.

As explained in Note 27 of the Corporation's financial statements, the derivatives gain for 2003 consists mainly of an unrealized gain of \$1.1 million due to the valuation to fair value of a portfolio of swaps that does not qualify for hedge accounting under GAAP.

Other Operating Expenses

Other operating expenses amounted to approximately \$164 million for 2003 as compared to \$132.8 million for 2002 and \$120.9 million for 2001. The following table presents the components of other operating expenses.

| Year ended December 31, | 2003 | 2002 (In thousands) | 2001 |
|---------------------------------------------|-----------|------------------------|-----------|
| Salaries and benefits | \$ 75,213 | \$ 59,432 | \$ 54,703 |
| Occupancy and equipment | 36,394 | 29,015 | 24,992 |
| Deposit insurance premium | 806 | 746 | 645 |
| Other taxes, insurance and supervisory fees | 10,329 | 8,915 | 7,804 |
| Professional and service fees | 9,402 | 7,685 | 7,931 |
| Business promotion | 12,415 | 9,304 | 7,506 |
| Communications | 6,959 | 5,854 | 5,395 |
| Expense of daily rental vehicles | 1,642 | 1,588 | 1,578 |
| Other | 10,834 | 10,217 | 10,300 |
| Total | \$163,994 | \$132,756 | \$120,854 |

Management's goal is to limit expenditures to those that directly contribute to increase the efficiency, service quality and profitability of the Corporation. This control over other operating expenses has been an important factor contributing to the increase in earnings in recent years. The Corporation's efficiency ratio, which is the ratio of other operating expenses to the sum of net interest income and other income, remained in line with prior years at 39.91% for 2003 as compared to 40.81% and 41.81% for 2002 and 2001, respectively. The Corporation has maintained a better than average efficiency ratio when compared to other financial institutions in the banking business, while it has provided the latest in delivery channels for its commercial and consumer financial products and services.

The increase in operating expenses for 2003 is mainly attributed to the full year cost of JP Morgan Chase Virgin Islands operations acquired in October 2002, which represented approximately \$19.4 million of the \$31 million increase as compared to 2002. The additional costs from the Virgin Islands operations are more than compensated by the increases in income attributable to this operation. Also increases in operating expenses are the result of the Corporation's continuous investment in technology to provide the latest in delivery channels to its commercial and consumer lending business and to the general growth in the subsidiary Bank's operations, which required increases in salaries, occupancy and technology expenses. Operating expenses also increased due to significant expenditures on an advertising campaign to support the introduction of First Mortgage Inc., the new subsidiary specializing in mortgage loans originations; a campaign to introduce a new deposit product, namely the "Cuenta Perfecta", targeted at the retail segment, and a new image campaign for the subsidiary Bank operations.

Income Tax Expense

The provision for income tax amounted to \$39 million (or 20% of pre-tax earnings) for 2003 as compared to \$22 million (or 17% of pre-tax earnings) in 2002, and \$20 million (or 19% of pre-tax earnings) in 2001. The increase in the effective tax rate, when compared to 2002, is mainly due to an increase in total average taxable assets, specifically commercial and residential mortgage loans, as a percentage of total average assets and the increase in other taxable income including the gain on sale of credit card loans to MBNA. The Corporation has maintained an effective tax rate lower than the statutory rate of 39% mainly by investing in government obligations and mortgage-backed securities exempt from U.S. and Puerto Rico income tax combined with gains on sale of investments held by the international banking divisions (IBE's) of the Corporation and the Bank. These divisions were created under the International Banking Entity Act of Puerto Rico, which provides for total Puerto Rico tax exemption on net income derived by the IBE's operating in Puerto Rico. On January 8, 2004, the Governor of Puerto Rico approved an amendment to the International Banking Center Regulatory Act; which imposes income tax at statutory rates on the IBE's net income that exceeds 20% of the Bank's total net taxable income plus the net income generated by the IBE. The amendment, which applies only to IBE's that operate as a unit of a bank, is effective for fiscal years beginning after June 30, 2003. The amendment provides for a transitional period during which the limitation for 2004 will be 40%, 30% in 2005 and finally 20% in 2006 and thereon. Management estimates that the financial impact of the amendment is not likely to be material to the Corporation. For additional information relating to income taxes, see Note 23 of the Corporation's financial statements.

FINANCIAL CONDITION

The following table presents an average balance sheet of the Corporation for the following years:

| December 31, | 2003 | 2002 (In thousands) | 2001 |
|---------------------------------------------|--------------|------------------------|-------------|
| Assets | | | |
| Interest earning assets: | | | |
| Money market investments | \$ 455,866 | \$ 60,522 | \$ 46,517 |
| Government obligations | 850,516 | 1,236,281 | 588,932 |
| Mortgage backed securities | 2,257,617 | 2,144,236 | 1,711,980 |
| Corporate bonds | 181,063 | 259,840 | 247,094 |
| FHLB stock | 40,447 | 32,586 | 21,841 |
| Total investments | 3,785,509 | 3,733,465 | 2,616,364 |
| Commercial loans | 2,340,744 | 2,080,892 | 1,584,910 |
| Consumer loans | 1,198,964 | 1,048,283 | 1,036,637 |
| Residential real estate loans | 2,286,809 | 1,283,710 | 869,374 |
| Construction loans | 314,588 | 223,627 | 219,890 |
| Finance leases | 150,832 | 136,851 | 127,872 |
| Total loans | 6,291,937 | 4,773,363 | 3,838,683 |
| Total interest earning assets | 10,077,446 | 8,506,828 | 6,455,047 |
| Equity securities | 34,029 | 52,703 | 48,122 |
| Total non-earning assets (1) | 318,787 | 188,691 | 198,233 |
| Total assets | \$10,430,262 | \$8,748,222 | \$6,701,402 |
| Liabilities and stockholders' equity | | | |
| Interest bearing liabilities: | | | |
| Interest bearing checking accounts | \$ 259,447 | \$ 215,462 | \$ 186,111 |
| Savings accounts | 922,887 | 609,324 | 436,595 |
| Certificate accounts | 4,158,111 | 3,622,918 | 2,859,181 |
| Interest bearing deposits | 5,340,445 | 4,447,704 | 3,481,887 |
| Other borrowed funds | 2,965,714 | 2,868,212 | 2,125,022 |
| FHLB advances | 633,692 | 339,477 | 256,354 |
| Total interest bearing liabilities | 8,939,851 | 7,655,393 | 5,863,263 |
| Total non-interest bearing liabilities | 597,651 | 368,315 | 307,237 |
| Total liabilities | 9,537,502 | 8,023,708 | 6,170,500 |
| Stockholders' equity | 892,760 | 724,514 | 530,902 |
| Total liabilities and stockholders' equity | \$10,430,262 | \$8,748,222 | \$6,701,402 |

(1) Includes the allowance for loan losses and the valuation on investments securities available for sale.

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Assets

The Corporation's total assets at December 31, 2003 amounted to \$12.7 billion, \$3.1 billion over the \$9.6 billion at December 31, 2002, mainly due to the growth in the Corporation's loan portfolio during 2003 and growth of the investments portfolio in the last half of 2003.

The following table presents the composition of the loan portfolio including loans held for sale at year-end for each of the last five years.

| December 31, | 2003 | % of Total | 2002 | % of Total | 2001 (Dollars in thousands) | % of Total | 2000 | % of Total | 1999 | % of Total |
|-------------------------------------|-------------|---------------|-------------|---------------|--------------------------------|---------------|-------------|---------------|-------------|---------------|
| Residential real estate loans | \$2,879,011 | 41 | \$1,854,068 | 33 | \$1,011,908 | 23 | \$ 746,792 | 21 | \$ 473,563 | 17 |
| Commercial real estate loans | 889,156 | 13 | 813,513 | 14 | 688,922 | 16 | 438,321 | 13 | 371,643 | 14 |
| Construction loans | 328,175 | 4 | 259,053 | 5 | 219,396 | 5 | 203,955 | 6 | 132,068 | 5 |
| Commercial loans | 1,615,304 | 23 | 1,418,792 | 25 | 1,238,173 | 29 | 947,709 | 27 | 655,417 | 24 |
| Total commercial | 2,832,635 | 40 | 2,491,358 | 44 | 2,146,491 | 50 | 1,589,985 | 46 | 1,159,128 | 43 |
| Finance leases | 161,283 | 2 | 143,412 | 3 | 127,935 | 3 | 122,883 | 3 | 85,692 | 3 |
| Consumer loans | 1,171,589 | 17 | 1,149,012 | 20 | 1,022,445 | 24 | 1,038,538 | 30 | 1,026,985 | 37 |
| Total | \$7,044,518 | 100 | \$5,637,850 | 100 | \$4,308,779 | 100 | \$3,498,198 | 100 | \$2,745,368 | 100 |

Total loans receivable increased by \$1,407 million in 2003 when compared with 2002. The Corporation is a balanced and diversified institution. As shown on the table above the loan portfolio is comprised of commercial (40%), residential real estate (41%), and consumer and finance leases (19%). This diversification has been achieved after several years of management efforts towards this goal. For 2003, the Corporation achieved significant increases of \$341 million in the commercial loan portfolio and of \$1,025 million in residential real estate loans. A significant portion of this increase is related to purchases of residential real estate loans from mortgage bankers in Puerto Rico, which yield a variable rate to the Bank. Finance leases, which are mostly composed of loans to individuals to finance the acquisition of an auto, increased by \$18 million, and consumer loans increased by \$23 million in 2003.

The Corporation's investment portfolio at December 31, 2003 amounted to \$5.4 billion, an increase of \$1.6 billion when compared with the investment portfolio of \$3.7 billion at December 31, 2002. During 2003, the Corporation restructured its investments portfolio, which enabled it to record substantial profits on the securities sold, while at the same time gave it the opportunity to reinvest in 15 year FNMA mortgage backed securities with more attractive yields and shorter maturities. Mortgage-backed securities represent a substantial balance of the Corporation's portfolio and are subject to prepayment risk. The restructuring of the portfolio during 2003 resulted mainly from the fact that during the year prepayments on mort-

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gage-backed securities accelerated when compared to recent historical experience. For a detail of investments available for sale and held to maturity classified by maturity date refer to Note 8 to the Corporation's financial statements.

The composition and estimated tax equivalent weighted average interest and dividend yields of the Corporation's earning assets at December 31, 2003 were as follows:

| | Amount (In thousands) | Tax Equivalent Weighted Average Rate |
|---------------------------------------------|--------------------------|--------------------------------------------|
| Money market investments | \$ 705,940 | 1.12% |
| Federal Funds | 265,000 | 0.72% |
| Government obligations | 1,135,932 | 5.73% |
| Mortgage backed securities | 3,057,746 | 5.62% |
| FHLB of N.Y. stock | 45,650 | 1.45% |
| Corporate bonds | 93,617 | 4.79% |
| Equity securities | 62,319 | 0.73% |
| Total investments | 5,366,204 | 4.70% |
| Consumer loans | 1,171,590 | 12.27% |
| Residential real estate loans | 2,879,010 | 4.23% |
| Construction loans | 328,175 | 4.89% |
| Commercial and commercial real estate loans | 2,504,460 | 4.17% |
| Finance leases | 161,283 | 10.14% |
| Total loans (1) | 7,044,518 | 5.71% |
| Total earning assets | \$12,410,722 | 5.27% |

(1) Excludes the reserve for loan losses.

Non-performing Assets

Total non-performing assets are the sum of non-accruing loans and investments, other real estate owned and other repossessed properties. Non-accruing loans and investments are loans and investments as to which interest is no longer being recognized. When loans and investments fall into non-accruing status, all previously accrued and uncollected interest is charged against interest income.

At December 31, 2003, total non-performing assets amounted to approximately \$101 million (0.80% of total assets) as compared to \$105 million (1.09% of total assets) at December 31, 2002 and \$79 million (0.96% of total assets) at December 31, 2001. The decrease as compared to 2002 results from stable loan delinquencies during 2003 notwithstanding economic conditions. Non-performing loans decreased both in dollar amount and as a percentage of the portfolios when compared to 2002. The increase in dollar amount in 2002 when compared to 2001 is mostly composed of secured real estate loans and is mainly attributed to the Corporation's general growth of these portfolios and to the acquisition of JP Morgan Chase's Virgin Islands operations in October 2002. The Corporation's allowance for loan losses to non-performing loans was 147.77% at December 31, 2003 as compared to 121.95% and 124.74% at December 31, 2002 and 2001, respectively.

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The following table presents non-performing assets at the dates indicated.

| December 31, | 2003 | 2002 | 2001 | 2000 | 1999 |
|-----------------------------------------------------|------------------------|---------------|---------------|---------------|---------------|
| | (Dollars in thousands) | | | | |
| Non-accruing loans: | | | | | |
| Residential real estate | \$ 26,327 | \$ 23,018 | \$18,540 | \$15,977 | \$ 8,633 |
| Commercial, commercial real estate and construction | 38,304 | 47,705 | 29,378 | 31,913 | 17,975 |
| Finance leases | 3,181 | 2,049 | 2,469 | 2,032 | 2,482 |
| Consumer | 17,713 | 18,993 | 22,611 | 17,794 | 24,726 |
| | <u>85,525</u> | <u>91,765</u> | <u>72,998</u> | <u>67,716</u> | <u>53,816</u> |
| Other real estate owned | 4,617 | 2,938 | 1,456 | 2,981 | 517 |
| Other repossessed property | 6,879 | 6,222 | 4,596 | 3,374 | 3,112 |
| Investment securities | 3,750 | 3,750 | | | |
| | <u></u> | <u></u> | <u></u> | <u></u> | <u></u> |
| Total non-performing assets | \$100,771 | \$104,675 | \$79,050 | \$74,071 | \$57,445 |
| | <u></u> | <u></u> | <u></u> | <u></u> | <u></u> |
| Past due loans | \$ 23,493 | \$ 24,435 | \$27,497 | \$16,358 | \$13,781 |
| Non-performing assets to total assets | 0.80% | 1.09% | 0.96% | 1.25% | 1.22% |
| Non-performing loans to total loans | 1.21% | 1.63% | 1.69% | 1.94% | 1.96% |
| Allowance for loan losses | \$126,378 | \$111,911 | \$91,060 | \$76,919 | \$71,784 |
| Allowance to total non-performing loans | 147.77% | 121.95% | 124.74% | 113.59% | 133.39% |

Non-accruing Loans

At December 31, 2003, loans in which the accrual of interest income had been discontinued amounted to \$85,525,000 (2002 - \$91,765,000; 2001 - \$72,998,000). If these loans had been accruing interest, the additional interest income realized would have been approximately \$6,631,000 (2002 - \$5,833,000; 2001 - \$5,735,000). There are no material commitments to lend additional funds to borrowers whose loans were in non-accruing status at these dates.

Residential Real Estate Loans - The Corporation classifies all real estate loans delinquent 90 days or more in non-accruing status. Even though these loans are in non-accruing status, Management considers, based on the value of the underlying collateral, the loan to value ratios and historical experience, that no material losses will be incurred in this portfolio. Non-accruing real estate loans amounted to \$26 million (0.92% of total residential real estate loans) at December 31, 2003, as compared to \$23 million (1.25% of total residential real estate loans) and \$19 million (1.83% of total residential real estate loans) at December 31, 2002 and 2001, respectively. The increase as compared to 2002 is mainly attributed to the general growth of this portfolio.

Commercial Loans - The Corporation places commercial loans (including commercial real estate and construction loans) 90 days delinquent as to principal and interest in non-accruing status. The risk exposure of this portfolio is diversified as to individual borrowers and industries among other factors. In addition, a

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large portion is secured with real estate collateral. Non-accruing commercial loans amounted to \$38 million (1.35% of total commercial loans) at December 31, 2003 as compared to \$48 million (1.91% of total commercial loans) and \$29 million (1.37% of total commercial loans) at December 31, 2002 and 2001, respectively. The decrease as compared to 2002 results mainly from a significant non-accruing construction loan of \$9.1 million at December 31, 2002, which at December 31, 2003 was out of non-accrual status since it was paid-off and to a lesser extent reduced by charge-offs. At December 31, 2003 there were seven non-accruing commercial loans over \$1 million, for a total of \$13.4 million.

Finance Leases - Finance leases are classified as nonaccruing when they are delinquent 90 days or more. Non-accruing finance leases amounted to \$3 million (1.97% of total finance leases) at December 31, 2003 as compared to \$2 million at December 31, 2002 and 2001 (1.43% and 1.93%, respectively, of total finance leases).

Consumer Loans - Consumer loans are classified as non-accruing when they are delinquent 90 days in auto, boat and home equity reserve loans, 120 days in personal loans (including small loans) and 180 days in credit cards and personal lines of credit.

Non-accruing consumer loans amounted to \$18 million (1.51% of the total consumer loan portfolio) at December 31, 2003, \$19 million (1.65% of the total consumer loan portfolio) at December 31, 2002 and \$23 million (2.21% of the total consumer loan portfolio) at December 31, 2001.

Other Real Estate Owned (OREO)

OREO acquired in settlement of loans is carried at the lower of cost (carrying value of the loan) or fair value less estimated cost to sell off the real estate at the date of acquisition (estimated realizable value).

Other Repossessed Property

The other repossessed property category includes repossessed boats and autos acquired in settlement of loans. Repossessed boats are recorded at the lower of cost or estimated fair value. Repossessed autos are recorded at the principal balance of the loans less an estimated loss on the disposition based on historical experience.

Investment securities

This category presents investment securities reclassified to non-accruing status, at their carrying amount.

Past Due Loans

Past due loans are accruing commercial and consumer loans, which are contractually delinquent 90 days or more. Past due commercial loans are current as to interest but delinquent in the payment of principal. Past due consumer loans include personal lines of credit and credit card loans delinquent 90 days up to 179 days and personal loans (including small loans) delinquent 90 days up to 119 days.

Sources of Funds

The Corporation's principal funding sources are branch-based deposits, retail brokered deposits, institutional deposits, federal funds purchased, securities sold under agreements to repurchase, and FHLB advances.

As of December 31, 2003, total liabilities amounted to \$11,578 million, an increase of \$2,733 million as compared to \$8,845 million as of December 31, 2002. The net increase in total liabilities was mainly due to: (1) an increase of \$1,282 million in total deposits, including \$1,167 million in retail brokered certificates of deposit, (2) an increase of \$857 million in federal funds and securities sold under agreements to repurchase, (3) an increase of \$540 million in advances from FHLB, (4) and an increase of approximately \$54 million in accounts payable and other liabilities.

The Corporation maintains unsecured standby lines of credit with other banks. At December 31, 2003 the Corporation's total unused lines of credit with these banks amounted to approximately \$95 million. At December 31, 2003, the Corporation had an available line of credit with the FHLB guaranteed with excess collateral, in the amount of approximately \$83 million.

During the latter part of the fourth quarter of 2003, the Corporation agreed to enter into various repurchase agreements with an aggregate amount of \$400 million and a settlement date in 2004 with the purpose of locking interest rates (range from 3.30% to 3.35%). The term of the agreements is for approximately ten years, however, the counterparty has an option to terminate the agreement after four (4) years. The fair value of these contracts at December 31, 2003 is not significant.

Deposits

Total deposits amounted to \$6,765 million at December 31, 2003, as compared to \$5,483 million and \$4,099 million at December 31, 2002 and 2001, respectively.

The following table presents the composition of total deposits.

| December 31, | 2003 | 2002 (Dollars in thousands) | 2001 |
|----------------------------------------------------------------------|-------------|--------------------------------|-------------|
| Savings accounts | \$ 985,062 | \$ 921,103 | \$ 469,452 |
| Interest bearing checking accounts | 286,607 | 230,743 | 205,760 |
| Certificates of deposit | 4,944,517 | 3,883,996 | 3,183,491 |
| | | | |
| Interest bearing deposits | 6,216,186 | 5,035,842 | 3,858,703 |
| Non-interest bearing deposits | 548,921 | 447,076 | 239,851 |
| | | | |
| Total | \$6,765,107 | \$5,482,918 | \$4,098,554 |
| | | | |
| Weighted average rate during the period on interest bearing deposits | 2.11% | 3.00% | 4.62% |
| Interest bearing deposits: | | | |
| Average balance outstanding | \$5,340,445 | \$4,447,704 | \$3,481,887 |
| Non-interest bearing deposits: | | | |
| Average balance outstanding | \$ 520,902 | \$ 257,454 | \$ 233,254 |

Total deposits are composed of branch-based deposits, brokered deposits and to a lesser extent of institutional deposits. Institutional deposits include among other certificates issued to agencies of the Government of Puerto Rico and to Governments in the Virgin Islands.

Total deposits increased by approximately \$1.3 billion at December 31, 2003 when compared to December 31, 2002 mainly due to an increase of approximately \$1.2 billion in brokered certificates of deposits.

Retail brokered certificates of deposits, which are certificates sold through brokers represent 56% of the Corporation's deposits at December 31, 2003. The total U.S. market for this source of funding approximates \$300 billion. The brokered certificates of deposit market is a very competitive and liquid market in which the Corporation has been able to obtain substantial amounts of funding in short periods of time. Further, this strategy has also enhanced the Corporation's liquidity position, as this type of deposit is unsecured.

At December 31, 2003, approximately 75% of retail brokered certificates of deposit held by the Corporation are callable, but only at Corporation's option. At December 31, 2003, the average remaining maturity of callable and fixed term brokered certificates approximated 14.28 years (2002-12 years) and 1.12 years (2002-2.54 years), respectively.

As more fully explained in Note 27 to the Corporation's financial statements, as part of the asset and liability management, the Corporation enters into

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interest rate swap agreements where it agrees to pay variable-rates of interest as a hedge against changes in the fair value of fixed-rate brokered certificates of deposit. This swap strategy, which converts fixed rate brokered certificates of deposit in to variable instruments, provides an effective way to fund the variable rate commercial loan portfolio and the variable rate purchased residential real estate portfolio. The interest swap agreements are callable, only at the counter party's option.

Borrowings

At December 31, 2003 total borrowings amounted to \$4,646 million as compared to \$3,249 million and \$3,425 million at December 31, 2002 and 2001, respectively.

| December 31, | 2003 | 2002 (Dollars in thousands) | 2001 |
|----------------------------------------------------------------------------|-------------|--------------------------------|-------------|
| Federal funds purchased and securities sold under agreements to repurchase | \$3,650,297 | \$2,793,540 | \$2,997,174 |
| Advances from FHLB | 913,000 | 373,000 | 343,700 |
| Subordinated notes | 82,818 | 82,815 | 84,362 |
| Total | \$4,646,115 | \$3,249,355 | \$3,425,236 |
| Weighted average rate during the period | 3.66% | 4.36% | 5.02% |

The Corporation uses federal funds purchased, repurchase agreements, advances from FHLB, and notes payable as additional funding sources. Federal funds purchased and securities sold under agreements to repurchase (repurchase agreements) at December 31, 2003 amounted to \$3,650 million or 79% of total borrowings. Repurchase agreements had a total weighted average cost of 3.05% at December 31, 2003. For more information on borrowings please refer to Notes 17 through 20 of the Corporation's financial statements.

The composition and estimated weighted average interest rates of interest bearing liabilities at December 31, 2003, were as follows:

| | Amount (In thousands) | Weighted Average Rate |
|---------------------------|--------------------------|--------------------------|
| Interest bearing deposits | \$ 6,216,186 | 1.82% |
| Borrowed funds | 4,646,115 | 2.88% |
| | \$10,862,301 | 2.27% |

Contractual Obligations and Commitments

The following table presents a detail of the maturities of long-term contractual debt obligations, operating leases, certificates of deposits, commitments to purchase mortgage loans and commitments to extend credit:

| | Total | Contractual Obligations and Commitments (In thousands) | | | |
|----------------------------------------------------------------------------|--------------------|-----------------------------------------------------------|------------------|------------------|--------------------|
| | | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| Contractual Obligations: | | | | | |
| Certificates of Deposit | \$4,944,517 | \$1,435,023 | \$507,371 | \$212,196 | \$2,789,927 |
| Federal funds purchased and securities sold under agreements to repurchase | 3,650,297 | 1,731,837 | | 650,000 | 1,268,460 |
| Advances from FHLB | 913,000 | 590,000 | 50,000 | 29,000 | 244,000 |
| Subordinated Notes | 82,818 | | 82,818 | | |
| Operating Leases | 25,035 | 5,506 | 7,104 | 5,153 | 7,272 |
| Other contractual obligations | 5,390 | 2,518 | 2,272 | 600 | |
| Total Contractual Obligations | \$9,621,057 | \$3,764,884 | \$649,565 | \$896,949 | \$4,309,659 |
| Commitments to Purchase Mortgage Loans | \$ 575,000 | \$ 575,000 | | | |
| Other Commitments: | | | | | |
| Lines of Credit | \$ 202,235 | \$ 202,235 | | | |
| Standby Letters of Credit | 29,207 | 29,207 | | | |
| Other Commercial Commitments | 732,182 | 732,182 | | | |
| Total Commercial Commitments | \$ 963,624 | \$ 963,624 | | | |

The Corporation has obligations and commitments to make future payments under contracts, such as debt and lease agreements, and under other commitments to purchase loans and to extend credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Other contractual obligations result mainly from contracts for rent and maintenance of equipment. Since certain commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. In the case of credit cards and personal lines of credit, the Corporation can at any time and without cause, cancel the unused credit facility.

Capital

During 2003, the Corporation increased its total capital from \$798 million at December 31, 2002 to \$1,090 million at December 31, 2003. Total capital increased by \$291 million mainly due to earnings of \$152 million, the issuance of 7,584,000 shares of preferred stock with net proceeds of \$183 million, the issuance of 72,750 shares of common stock through the exercise of stock options with proceeds of \$1.1 million, a positive fluctuation in the valuation of securities available for sale, and valuation of fair value hedges of \$2.6 million, net of cash dividends of approximately \$48 million.

The Corporation's objective is to maintain a solid capital position above the "well capitalized" classification under the federal banking regulations. The

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Corporation continues to exceed the well capitalized guidelines. To be in a “well capitalized” position, an institution should have: (i) a leverage ratio (Tier 1 capital to average assets) of 5% or greater; (ii) a total risk based capital ratio of 10% or greater; and (iii) a Tier 1 risk-based capital ratio of 6% or greater. At December 31, 2003 the Corporation had a leverage ratio of 8.35%; a total risk based capital ratio of 15.22%; and a Tier 1 risk-based capital ratio of 13.65%.

Dividends

In 2003, 2002 and 2001 the Corporation declared four quarterly cash dividends of \$0.11, \$0.10 and \$0.09 per common share outstanding, respectively, for an annual dividend of \$0.44, \$0.40 and \$0.35, respectively. Total cash dividends paid on common shares amounted to \$17.6 million for 2003 (or a 14.43% dividend payout ratio), \$16 million for 2002 (or a 19.58% dividend payout ratio) and \$14 million for 2001 (or a 19.91% dividend payout ratio). Dividends declared on preferred stock amounted to \$30.4 million in 2003, \$26 million in 2002, and \$17 million in 2001. The increase in dividends on preferred stocks resulted from the issuance of preferred stock of \$189.6 million in 2003, \$92 million in 2002 and \$103.5 million in 2001.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

First BanCorp manages its asset/liability position in order to limit the effects of changes in interest rates on net interest income, subject to other goals of Management and within guidelines set forth by the Board of Directors.

The day-to-day management of interest rate risk, as well as liquidity management and other related matters, is assigned to the Asset Liability Management and Investment Committee of FirstBank (ALCO). The ALCO is composed of the following officers: President and CEO, the Senior Executive Vice President and Chief Financial Officer, the Senior Executive Vice President and Chief Lending Officer, the Executive Vice President for Retail and Mortgage Banking, the Senior Vice President of Treasury and Investments and the Economist. The ALCO meets on a weekly basis. The Economist also acts as secretary, keeping minutes of all meetings. An Investment Committee for First BanCorp also monitors the investment portfolio of the Holding Company, including an equity securities portfolio, which amounted to a fair value of \$62.3 million at December 31, 2003. This Committee meets weekly and has the same membership as the ALCO Committee described previously.

Committee meetings focus on, among other things, current and expected conditions in world financial markets, competition and prevailing rates in the local deposit market, reviews of liquidity, unrealized gains and losses in securities, recent or proposed changes to the investment portfolio, alternative funding sources and their costs, hedging and the possible purchase of derivatives, such as swaps and caps, and any tax or regulatory issues which may be pertinent to these areas. The ALCO approves funding decisions in light of the Corporation's overall growth strategies and objectives. On a quarterly basis the ALCO performs a comprehensive asset/liability review, examining the measures of interest rate risk described below together with other matters such as liquidity and capital. The Corporation uses simulations to measure the effects of changing interest rates on net interest income. These measures are carried out over a one year time horizon, assuming gradual upward interest rate movements of 200 basis points and downward movements of 75 basis points. Simulations are carried out in two ways:

- (1) using a balance sheet which is assumed to be at the same levels existing on the simulation date, and
- (2) using a balance sheet which has growth patterns and strategies similar to those which have occurred in the recent past.

The balance sheet is divided into groups of similar assets and liabilities in order to simplify the process of carrying out these projections. As interest rates rise or fall, these simulations incorporate expected future lending rates, current and expected future funding sources and cost, the possible exercise of options, changes in prepayment rates, and other factors which may be important in determining the future growth of net interest income. All computations are done on a tax equivalent basis, including the effects of the changing cost of funds on the tax-exempt spreads of certain investments. The projections are carried out for First BanCorp on a fully consolidated basis.

These simulations are highly complex, and they use many simplifying assumptions that are intended to reflect the general behavior of the Corporation over the period in question, but there can be no assurance that actual events will parallel these assumptions in all cases. For this reason, the results of these simulations are only approximations of the true sensitivity of net interest income to changes in market interest rates.

Assuming a no growth balance sheet as of December 31, 2003, tax equivalent net interest income projected for 2004 would rise by \$15.6 million (3.8%) under a rising rate scenario and would decrease by \$7.4 million (1.8%) under falling rates.

As of December 31, 2003, the same simulations were also carried out assuming that the Corporation would grow. The growing balance sheet simulations indicate that tax equivalent net interest income projected for 2003, would rise by \$16.2 million (3.7%) under a rising rate scenario and would decrease by \$8.3 million (1.9%) with falling rates.

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The simulation for the year 2003 assuming a no growth balance sheet as of December 31, 2002, concluded that under a rising rate scenario net interest income would have risen by \$27.8 million (8.23%) and that under a falling rate scenario would have decreased by \$1.5 million (0.5%).

As of December 31, 2002, the same simulations were also carried assuming that Corporation was going to grow. The growing balance sheet simulation indicated that the tax equivalent net interest income for 2003 would have risen by \$27.0 million (7.70%) under a rising interest rate scenario and decreased by \$0.8 million (0.2%) with falling rates.

The Corporation compared 2003 projections with actual results. In the growth scenario, which is more realistic, the Bank projected taxable equivalent net interest income of \$350.1 million under flat rates for 2003. In reality, taxable equivalent net interest income was \$326.2 million. The most important reason for this difference was that the projections did not include either higher than expected prepayments on mortgage backed securities or changes which Management made in the investment portfolio after the projection was made, both of which were due to the low interest rate environment which prevailed during much of 2003. These changes generally led to smaller spreads than anticipated in the initial projection. Partially offsetting the effect of smaller spreads was a more rapid growth of the investment portfolio than the original projection had anticipated.

Liquidity

Liquidity refers to the level of cash and eligible investments to meet loan and investment commitments, potential deposit outflows and debt repayments. The Asset Liability Management and Investment Committee, using measures of liquidity developed by Management, which involves the use of several assumptions, reviews the Corporation's liquidity position on a weekly basis.

The Corporation utilizes different sources of funding to help ensure that adequate levels of liquidity are available when needed. Diversification of funding sources is of great importance as it protects the Corporation's liquidity from market disruptions. The principal sources of short-term funds are loan repayments, deposits, securities sold under agreements to repurchase, and lines of credit with the FHLB and other unsecured lines established with financial institutions. The Investment Committee reviews credit availability on a regular basis. In the past, the Corporation has securitized and sold auto and mortgage loans as supplementary sources of funding. Commercial paper has also provided additional funding, as well as longterm funding through the issuance of notes and longterm brokered certificates of deposit. The cost of these different alternatives, among other things, is taken into consideration. The Corporation's principal uses of funds are the origination of loans and the repayment of maturing deposit accounts and borrowings.

A large portion of the Corporation's funding represents retail brokered certificates of deposit. In the event that the Corporation falls under the ratios of a well-capitalized institution, it faces the risk of not being able to replace this source of funding. The Corporation currently complies with the minimum requirements of ratios for a "well capitalized" institution and does not foresee falling below required levels to issue brokered deposits. In addition, the average life of the retail brokered certificates of deposit was approximately 11 years at December 31, 2003. Approximately 75% of these certificates are callable, but only at the Corporation's option.

Certificates of deposit with denominations of \$100,000 or higher amounted to approximately \$4.5 billion at December 31, 2003 of which approximately \$3.8 billion were brokered certificates of deposit.

The following table presents a maturity summary of brokered certificates of deposits at December 31, 2003:

| | Total (In thousands) |
|------------------------------|-------------------------|
| Less than one year | \$ 535,886 |
| Over one year to five years | 488,073 |
| Over five years to ten years | 332,225 |
| Over ten years | 2,457,098 |
| Total | \$3,813,282 |

The Corporation's liquidity plan contemplates alternative sources of funding that could provide significant amounts of funding at reasonable cost. The alternative sources of funding include, among others, FHLB advances, lines of credits from other banks, which amounted to \$95 million at December 31, 2003, sale of commercial loans participations, securitization of auto loans and commercial paper.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in conformity with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result,

interest rates have a greater impact on a financial institution’s performance than the effects of general levels of inflation. Interest rate movements are not necessarily correlated with changes in the prices of goods and services.

Concentration Risk

The Corporation conducts its operations in a geographically concentrated area, as its main market is Puerto Rico. However, the Corporation continues diversifying its geographical risk as evidenced by recent acquisitions in the Virgin Islands. Puerto Rico's economy is generally similar to U.S. economy and its economic performance is a natural result of its increasing integration into the U.S. economy. At December 31, 2003, there is no significant concentration of credit risk in any specific industry.

SELECTED QUARTERLY FINANCIAL DATA

Financial data showing results of the 2003 and 2002 quarters is presented below. In the opinion of Management, all adjustments necessary for a fair presentation have been included:

| | March 31 | June 30 | 2003 Sept. 30 | Dec. 31 |
|-----------------------------------|----------------------------------------------|-----------|------------------|-----------|
| | (In thousands, except for per share results) | | | |
| Interest income | \$132,919 | \$122,825 | \$133,618 | \$147,319 |
| Net interest income | 72,437 | 63,903 | 71,896 | 83,974 |
| Provision for loan losses | 16,564 | 12,600 | 12,600 | 14,152 |
| Net income | 36,428 | 29,271 | 31,684 | 54,955 |
| Earnings per common share-basic | \$ 0.74 | \$ 0.56 | \$ 0.62 | \$ 1.12 |
| Earnings per common share-diluted | \$ 0.73 | \$ 0.55 | \$ 0.61 | \$ 1.09 |

| | March 31 | June 30 | 2002 Sept. 30 | Dec. 31 |
|-----------------------------------|----------------------------------------------|-----------|------------------|-----------|
| | (In thousands, except for per share results) | | | |
| Interest income | \$136,716 | \$136,348 | \$129,606 | \$137,364 |
| Net interest income | 69,271 | 68,523 | 60,338 | 68,717 |
| Provision for loan losses | 19,801 | 14,501 | 14,000 | 14,001 |
| Net income | 25,650 | 26,979 | 27,357 | 27,971 |
| Earnings per common share-basic | \$ 0.49 | \$ 0.51 | \$ 0.52 | \$ 0.53 |
| Earnings per common share-diluted | \$ 0.49 | \$ 0.50 | \$ 0.51 | \$ 0.52 |

Market Prices and Stock Data

The Corporation’s common stock is traded in the New York Stock Exchange (NYSE) under the symbol FBP. On December 31, 2003, there were 617 holders of record of the Corporation’s common stock.

The following table sets forth the high and low prices of the Corporation’s common stock for the periods indicated as reported by the NYSE.

| Quarter ended | High | Low | Last |
|---------------|---------|---------|---------|
| 2003: | | | |
| December | \$40.32 | \$31.24 | \$39.55 |
| September | 31.98 | 28.35 | 30.75 |
| June | 31.68 | 27.45 | 27.45 |
| March | 28.00 | 22.71 | 26.98 |
| 2002: | | | |
| December | \$26.38 | \$22.08 | \$22.60 |
| September | 27.61 | 22.82 | 25.41 |
| June | 25.13 | 19.13 | 25.13 |
| March | 19.80 | 18.43 | 19.27 |
| 2001: | | | |
| December | \$20.00 | \$17.07 | \$19.00 |
| September | 20.00 | 16.00 | 17.24 |
| June | 17.99 | 15.32 | 17.99 |
| March | 17.42 | 13.00 | 17.27 |





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Report of Independent Auditors

To the Board of Directors and Stockholders of
First BanCorp

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows present fairly, in all material respects, the financial position of First BanCorp and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 27 to the accompanying consolidated financial statements, in 2001 the Company adopted the Statement of Financial Accounting Standards No. 133, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," as amended, which effect was accounted for as a cumulative effect of a change in accounting principle.

A large, handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is stylized and cursive.

PricewaterhouseCoopers LLP

San Juan, Puerto Rico

March 1, 2004

**CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)**

License No. 216 Expires Dec. 1, 2004

Stamp 1935638 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

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FIRST BANCORP

Consolidated Statements of Financial Condition

| | December 31, 2003 | December 31, 2002 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Assets | | |
| Cash and due from banks | \$ 89,304,520 | \$ 108,305,943 |
| Money market instruments, including \$222,992,538 pledged that can be repledged for 2002 | 705,939,823 | 251,659,553 |
| Federal funds sold and securities purchased under agreements to resell | 265,000,000 | 22,000,000 |
| Total money market investments | 970,939,823 | 273,659,553 |
| Investment securities available for sale, at market: | | |
| Securities pledged that can be repledged | 990,408,046 | 2,379,786,252 |
| Other investment securities | 228,729,507 | 336,987,292 |
| Total investment securities available for sale | 1,219,137,553 | 2,716,773,544 |
| Investment securities held to maturity, at cost: | | |
| Securities pledged that can be repledged | 2,687,039,595 | 541,047,654 |
| Other investment securities | 443,437,738 | 161,558,730 |
| Total investment securities held to maturity | 3,130,477,333 | 702,606,384 |
| Federal Home Loan Bank (FHLB) stock | 45,650,000 | 35,629,500 |
| Loans, net of allowance for loan losses of \$126,378,484 (2002 - \$111,911,470) | 6,906,289,028 | 5,515,185,610 |
| Loans held for sale, at lower of cost or market | 11,850,639 | 10,753,585 |
| Total loans, net | 6,918,139,667 | 5,525,939,195 |
| Other real estate owned | 4,616,888 | 2,938,249 |
| Premises and equipment, net | 85,269,402 | 87,595,569 |
| Accrued interest receivable | 41,508,434 | 39,282,010 |
| Due from customers on acceptances | 286,611 | 304,346 |
| Other assets | 162,580,138 | 150,818,003 |
| Total assets | \$12,667,910,369 | \$9,643,852,296 |
| Liabilities & Stockholders' Equity | | |
| Liabilities: | | |
| Non-interest bearing deposits | \$ 548,920,960 | \$ 447,076,347 |
| Interest bearing deposits | 6,216,186,213 | 5,035,841,381 |
| Federal funds purchased and securities sold under agreements to repurchase | 3,650,297,211 | 2,793,539,832 |
| Advances from FHLB | 913,000,000 | 373,000,000 |
| Bank acceptances outstanding | 286,611 | 304,346 |
| Accounts payable and other liabilities | 166,831,871 | 112,851,285 |
| | 11,495,522,866 | 8,762,613,191 |
| Subordinated notes | 82,818,437 | 82,815,105 |
| | 11,578,341,303 | 8,845,428,296 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred Stock, authorized 50,000,000 shares; issued and outstanding 22,004,000 shares at \$25 liquidation value per share (2002 - 14,420,000 shares) | 550,100,000 | 360,500,000 |
| Common stock, \$1 par value, authorized 250,000,000 shares; issued 44,948,185 shares (2002 - 44,875,435 shares) | 44,948,185 | 44,875,435 |
| Less: Treasury Stock (at par value) | (4,920,900) | (4,920,900) |
| Common stock outstanding | 40,027,285 | 39,954,535 |

| | | |
|---------------------------------------------------------------------------------------|-------------------------|------------------------|
| Additional paid-in capital | 268,855 | |
| Capital reserve | 80,000,000 | 70,000,000 |
| Legal surplus | 163,106,509 | 149,345,178 |
| Retained earnings | 220,038,308 | 145,243,124 |
| Accumulated other comprehensive income, net of tax of \$613,081 (2002 - \$11,127,054) | 36,028,109 | 33,381,163 |
| | <u>1,089,569,066</u> | <u>798,424,000</u> |
| Total liabilities and stockholders' equity | <u>\$12,667,910,369</u> | <u>\$9,643,852,296</u> |

The accompanying notes are an integral part of these statements.

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FIRST BANCORP Consolidated Statements of Income

| | 2003 | Year ended December 31, 2002 | 2001 |
|-------------------------------------------------------------------------------|----------------------|---------------------------------|----------------------|
| Interest income: | | | |
| Loans | \$389,721,772 | \$351,838,718 | \$353,777,585 |
| Investment securities | 140,977,049 | 185,561,056 | 159,713,664 |
| Short-term investments | 4,775,947 | 998,710 | 1,475,521 |
| Dividends on FHLB stock | 1,206,378 | 1,634,899 | 1,289,125 |
| Total interest income | 536,681,146 | 540,033,383 | 516,255,895 |
| Interest expense: | | | |
| Deposits | 112,540,796 | 133,234,567 | 160,758,451 |
| Federal funds purchased and repurchase agreements | 105,856,415 | 117,127,270 | 97,952,979 |
| Notes payable | 6,655,888 | 6,797,889 | 8,904,611 |
| Advances from FHLB | 19,418,432 | 16,023,967 | 12,585,108 |
| Total interest expense | 244,471,531 | 273,183,693 | 280,201,149 |
| Net interest income | 292,209,615 | 266,849,690 | 236,054,746 |
| Provision for loan losses | 55,915,598 | 62,301,996 | 61,030,000 |
| Net interest income after provision for loan losses | 236,294,017 | 204,547,694 | 175,024,746 |
| Other income: | | | |
| Other fees on loans | 20,617,491 | 21,440,852 | 19,631,741 |
| Service charges on deposit accounts | 9,526,946 | 9,200,327 | 9,213,436 |
| Mortgage banking activities | 3,013,840 | 3,540,034 | 1,562,158 |
| Net gain on sale of investments | 34,856,273 | 12,000,487 | 9,606,314 |
| Rental income | 2,223,734 | 2,285,021 | 2,292,541 |
| Derivatives gain (loss) | 619,473 | (4,061,988) | |
| Gain on sale of credit cards portfolio | 30,885,353 | | |
| Other operating income | 16,967,078 | 14,087,218 | 10,673,633 |
| Total other income | 118,710,188 | 58,491,951 | 52,979,823 |
| Other operating expenses: | | | |
| Employees' compensation and benefits | 75,213,081 | 59,432,111 | 54,702,977 |
| Occupancy and equipment | 36,394,322 | 29,015,200 | 24,991,540 |
| Business promotion | 12,414,820 | 9,304,277 | 7,506,040 |
| Taxes, other than income taxes | 7,404,729 | 6,857,010 | 5,973,897 |
| Insurance and supervisory fees | 3,729,860 | 2,803,905 | 2,475,411 |
| Other | 28,836,736 | 25,343,669 | 25,204,513 |
| Total other operating expenses | 163,993,548 | 132,756,172 | 120,854,378 |
| Income before income tax provision and cumulative effect of accounting change | 191,010,657 | 130,283,473 | 107,150,191 |
| Income tax provision | 38,672,315 | 22,327,122 | 20,133,858 |
| Income before cumulative effect of accounting change | 152,338,342 | 107,956,351 | 87,016,333 |
| Cumulative effect of accounting change, net of tax | | | (1,014,889) |
| Net income | \$152,338,342 | \$107,956,351 | \$ 86,001,444 |
| Net income available to common stockholders | \$121,979,479 | \$ 81,550,077 | \$ 69,493,246 |
| Net income per common share basic: | | | |
| Income before cumulative effect of accounting change | \$ 3.04 | \$ 2.04 | \$ 1.77 |
| Cumulative effect of accounting change | | | (0.03) |

| | | | |
|------------------------------------------------------|----------------|----------------|----------------|
| Earnings per common share basic | \$ 3.04 | \$ 2.04 | \$ 1.74 |
| | | | |
| Net income per common share diluted: | | | |
| Income before cumulative effect of accounting change | \$ 2.98 | \$ 2.01 | \$ 1.76 |
| Cumulative effect of accounting change | | | (0.03) |
| | | | |
| Earnings per common share diluted | \$ 2.98 | \$ 2.01 | \$ 1.73 |
| | | | |
| Dividends declared per common share | \$ 0.44 | \$ 0.40 | \$ 0.35 |

The accompanying notes are an integral part of these statements.



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FIRST BANCORP Consolidated Statements of Cash Flows

| | 2003 | Year ended December 31, 2002 | 2001 |
|----------------------------------------------------------------------------------------------------|------------------|---------------------------------|------------------|
| Cash flows from operating activities: | | | |
| Net income | \$ 152,338,342 | \$ 107,956,351 | \$ 86,001,444 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 13,761,331 | 11,710,016 | 9,844,282 |
| Amortization of core deposit intangible | 2,396,620 | 1,165,488 | 919,261 |
| Provision for loan losses | 55,915,598 | 62,301,996 | 61,030,000 |
| Deferred income tax benefit | (6,786,958) | (8,610,812) | (5,402,000) |
| Gain on sale of investments, net | (34,856,273) | (12,000,487) | (9,606,314) |
| Unrealized derivatives (gain) loss | (619,473) | 4,522,925 | |
| Net gain on sale of loans | (2,917,364) | (3,416,222) | (1,282,845) |
| Amortization of deferred net loan (fees) cost | (785,047) | (1,544,375) | 522,685 |
| Net originations of loans held for sale | (36,873,320) | (40,264,215) | (4,629,562) |
| Gain on sale of credit cards portfolio | (30,885,353) | | |
| Increase in accrued income tax payable | 10,393,838 | 3,434,149 | 11,306,695 |
| Increase in accrued interest receivable | (2,226,424) | (141,451) | (9,661,332) |
| Increase (decrease) in accrued interest payable | 12,518,655 | (1,364,672) | 4,841,187 |
| Decrease in other assets | 7,131,161 | 39,671,318 | 22,893,906 |
| (Decrease) increase in other liabilities | (6,570,908) | 27,974,273 | (9,395,151) |
| Total adjustments | (20,403,917) | 83,437,931 | 71,380,812 |
| Net cash provided by operating activities | 131,934,425 | 191,394,282 | 157,382,256 |
| Cash flows from investing activities: | | | |
| Principal collected on loans | 1,758,334,538 | 635,765,469 | 897,831,839 |
| Loans originated | (2,064,719,667) | (903,166,444) | (1,334,581,873) |
| Purchase of loans | (1,361,125,878) | (734,531,121) | (481,200,701) |
| Proceeds from sale of loans | 264,126,724 | 83,862,533 | 42,343,060 |
| Proceeds from sale of investments securities | 1,439,718,183 | 2,242,654,071 | 847,716,293 |
| Purchase of securities held to maturity | (11,840,435,784) | (17,031,372,741) | (254,818,754) |
| Purchase of securities available for sale | (1,464,811,333) | (10,336,516,102) | (12,462,323,482) |
| Principal repayments and maturities of securities held to maturity | 9,412,564,835 | 16,613,061,948 | 74,529,997 |
| Principal repayments of securities available for sale | 1,549,299,968 | 8,816,493,581 | 10,377,705,993 |
| Additions to premises and equipment | (11,435,164) | (14,412,317) | (13,912,556) |
| Cash received for net liabilities assumed on acquisition of business | | 73,357,625 | |
| Purchase of FHLB stock | (10,020,500) | (12,738,900) | (4,354,100) |
| Net cash used in investing activities | (2,328,504,078) | (567,542,398) | (2,311,064,284) |
| Cash flows from financing activities: | | | |
| Net increase in deposits | 1,343,294,310 | 790,122,398 | 764,012,251 |
| Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements | 855,394,412 | (202,096,134) | 1,134,888,478 |
| FHLB advances taken | 540,000,000 | 29,300,000 | 276,700,000 |
| Payments of notes payable | | (1,550,000) | (62,000,000) |
| Dividends | (47,958,718) | (42,372,613) | (30,343,298) |
| Exercise of stock options | 1,119,957 | 1,340,843 | 1,355,211 |
| Issuance of preferred stock | 182,998,539 | 88,906,000 | 100,069,250 |
| Treasury stock acquired | | | (1,929,685) |
| Net cash provided by financing activities | 2,874,848,500 | 663,650,494 | 2,182,752,207 |
| Net increase in cash and cash equivalents | 678,278,847 | 287,502,378 | 29,070,179 |
| Cash and cash equivalents at beginning of period | 381,965,496 | 94,463,118 | 65,392,939 |
| Cash and cash equivalents at end of period | \$ 1,060,244,343 | \$ 381,965,496 | \$ 94,463,118 |

| | | | |
|------------------------------------|-------------------------|-----------------------|----------------------|
| Cash and cash equivalents include: | | | |
| Cash and due from banks | \$ 89,304,520 | \$ 108,305,943 | \$ 59,898,550 |
| Money market investments | 970,939,823 | 273,659,553 | 34,564,568 |
| | <u>\$ 1,060,244,343</u> | <u>\$ 381,965,496</u> | <u>\$ 94,463,118</u> |

The accompanying notes are an integral part of these statements.

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FIRST BANCORP

Consolidated Statements of Changes in Stockholder's Equity

| | Preferred stock | Common stock | Additional paid-in capital | Capital reserve | Legal surplus | Retained earnings | Accumulated other comprehensive income (loss) |
|------------------------------------------|--------------------|-----------------|----------------------------------|--------------------|------------------|----------------------|--------------------------------------------------------|
| December 31, 2000 | \$165,000,000 | \$26,424,152 | \$ 16,567,516 | \$50,000,000 | \$126,792,514 | \$ 69,275,152 | \$(19,598,785) |
| Net income | | | | | | 86,001,444 | |
| Other comprehensive income | | | | | | | 13,305,431 |
| Issuance of preferred stock | 103,500,000 | | (3,430,750) | | | | |
| Addition to legal surplus | | | | | (10,000,000) | (10,000,000) | |
| Addition to capital reserve | | | | 10,000,000 | | (10,000,000) | |
| Treasury stock acquired | | (86,200) | (43,100) | | | (1,800,385) | |
| Stock options exercised | | 234,000 | 1,121,211 | | | | |
| Cash dividends: | | | | | | | |
| Common stock | | | | | | (13,835,100) | |
| Preferred stock | | | | | | (16,508,198) | |
| December 31, 2001 | 268,500,000 | 26,571,952 | 14,214,877 | 60,000,000 | 136,792,514 | 103,132,913 | (6,293,354) |
| Net income | | | | | | 107,956,351 | |
| Other comprehensive income | | | | | | | 39,674,517 |
| Issuance of preferred stock | 92,000,000 | | (3,094,000) | | | | |
| Addition to legal surplus | | | | | 12,552,664 | (12,552,664) | |
| Addition to capital reserve | | | | 10,000,000 | | (10,000,000) | |
| Stock options exercised | | 64,500 | 1,276,343 | | | | |
| Common stock split on September 30, 2002 | | 13,318,083 | (12,397,220) | | | (920,863) | |
| Cash dividends: | | | | | | | |
| Common stock | | | | | | (15,966,339) | |
| Preferred stock | | | | | | (26,406,274) | |
| December 31, 2002 | 360,500,000 | 39,954,535 | — | 70,000,000 | 149,345,178 | 145,243,124 | 33,381,163 |
| Net income | | | | | | 152,338,342 | |
| Other comprehensive income | | | | | | | 2,646,946 |
| Issuance of preferred stock | 189,600,000 | | (778,352) | | | (5,823,109) | |
| Addition to legal surplus | | | | | 13,761,331 | (13,761,331) | |
| Addition to capital reserve | | | | 10,000,000 | | (10,000,000) | |
| Stock options exercised | | 72,750 | 1,047,207 | | | | |
| Cash dividends: | | | | | | | |
| Common stock | | | | | | (17,599,855) | |
| Preferred stock | | | | | | (30,358,863) | |
| December 31, 2003 | \$550,100,000 | \$40,027,285 | \$ 268,855 | \$80,000,000 | \$163,106,509 | \$220,038,308 | \$ 36,028,109 |

The accompanying notes are an integral part of these statements.

FIRST BANCORP

Consolidated Statements of Comprehensive Income

| | 2003 | Year ended December 31, 2002 | 2001 |
|------------------------------------------------------------------------------------------------------------|---------------|---------------------------------|--------------|
| Net income | \$152,338,342 | \$107,956,351 | \$86,001,444 |
| Other comprehensive income: | | | |
| Unrealized gains on securities: | | | |
| Unrealized holding gains arising during the period | 26,570,827 | 65,157,017 | 27,280,982 |
| Less: Reclassification adjustment for gains included in net income | (34,856,273) | (12,000,487) | (9,606,314) |
| Unrealized gain (loss) on fair value hedge of available for sale securities attributable to credit risk | 418,419 | (257,174) | (1,260,094) |
| Cumulative effect of accounting change | | | 1,326,000 |
| Income tax benefit (expense) related to items of other comprehensive income | 10,513,973 | (13,224,839) | (4,435,143) |
| Other comprehensive income for the period, net of tax | 2,646,946 | 39,674,517 | 13,305,431 |
| Total comprehensive income | \$154,985,288 | \$147,630,868 | \$99,306,875 |

The accompanying notes are an integral part of these statements.

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FIRST BANCORP

Notes to Consolidated Financial Statements

NOTE 1 - NATURE OF BUSINESS

First BanCorp (the Corporation) is a financial holding company offering a full range of financial services through its wholly-owned bank subsidiary, FirstBank Puerto Rico (FirstBank or the Bank). First BanCorp also offers insurance services through its wholly-owned insurance subsidiary, FirstBank Insurance Agency. The Corporation is subject to the Federal Bank Holding Company Act and its insurance subsidiary is subject to the supervision, examination and regulation of the Office of the Insurance Commissioner of the Commonwealth of Puerto Rico.

FirstBank is a commercial bank chartered under the laws of the Commonwealth of Puerto Rico. Its main office is located in San Juan, Puerto Rico, and it has 42 full-service banking branches in Puerto Rico and 12 in the U.S. Virgin Islands (USVI) and British Virgin Islands (BVI). The Bank, through wholly-owned subsidiaries, operates 58 offices in Puerto Rico specializing in residential mortgage loan originations, small personal loans, finance leases, and vehicle rental, one office that sells insurance in the U.S. Virgin Islands, and two offices, one in the U.S. Virgin Islands and one in Barbados specializing in foreign sales corporation management and three offices specializing in the origination of small loans in the USVI. The Bank offers brokerage services in selected branches through an alliance with an international brokerage house doing business in Puerto Rico. The Bank is subject to the supervision, examination and regulation of the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico and the Federal Deposit Insurance Corporation (FDIC), which insures the U.S. and USVI. deposits through the Savings Association Insurance Fund (SAIF). The Virgin Islands operations of FirstBank are regulated by the Virgin Islands Banking Board (for the USVI) and by the British Virgin Islands Financial Services Commission (for the BVI).

In September 2003, First Mortgage Inc., a whollyowned subsidiary of FirstBank started operations specializing in the origination of residential mortgage loans and related services. In November 2003, First Express Inc., a wholly-owned subsidiary of FirstBank, started operations in the USVI specializing in the origination of small personal loans.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information available as of the date of the consolidated financial statements. Therefore, actual results could differ from those estimates.

For purposes of comparability, certain prior period amounts have been reclassified to conform with the 2003 presentation. Following is a description of the more significant accounting policies followed by the Corporation:

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Statements of cash flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and short-term money market instruments with original maturities of 90 days or less.

Securities purchased under agreements to resell

The Corporation purchases securities under agreements to resell the same securities. The counterparty retains control over the securities acquired, accordingly, amounts advanced under these agreements represent short-term loans and are reflected as assets in the statements of financial condition. The Corporation monitors the market value of the underlying securities as compared to the related receivable, including accrued interest, and requests additional collateral where deemed appropriate.

Investment securities

The Corporation classifies its investments in debt and equity securities into one of three categories:

Held to maturity - Securities which the entity has the positive intent and ability to hold to maturity. These securities are carried at amortized cost.

Trading - Securities that are bought and held principally for the purpose of selling them in the near term. These securities are carried at fair

value, with unrealized gains and losses reported in earnings. At December 31, 2003 and 2002 the Corporation did not hold investment securities for trading purposes.

Available for sale - Securities not classified as trading or as held to maturity. These securities are carried at fair value, with unrealized holding gains and losses, net of deferred tax, reported in other comprehensive income as a separate component of stockholder's equity.

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Premiums and discounts are amortized as an adjustment to interest income on investments over the life of the related securities using a method that approximates the interest method. Realized gains and losses related to investment securities are determined using the specific identification method and are reported in Other Income as net gains on the sale of investments.

Evaluation of other-than-temporary impairment on available for sale and held to maturity securities

The Corporation evaluates for impairment its debt and equity securities when their market value has remained below cost for six months or more, or earlier if other factors indicative of potential impairment exist. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Corporation employs a systematic methodology that considers all available places evidence in evaluating a potential impairment of its investments.

The impairment analysis of the fixed income investments places special emphasis on the analysis of the cash position of the company, its cash and capital generation capacity, which could increase or diminish the company's ability to repay its bond obligations. The Corporation also considers its intent and ability to hold the fixed income securities. If Management believes, based on the analysis, that the company will not be able to service its debt and pay its obligations on a timely manner, the security is written down to Management's estimate of net realizable value. For securities written down to its estimate net realizable value, any accrued and uncollected interest is also reversed. Interest income is then recognized if collected.

The equity securities impairment analyses are performed and reviewed on an ongoing basis based on the latest financial information and any supporting research report made by a major brokerage house. These analyses are very subjective and based, among other things, on relevant financial data such as capitalization, cash flow, liquidity, systematic risk, and debt outstanding. Management also considers the industry trends, the historical performance of the stock, as well as the Corporation's intent to hold the security for an extended period. If Management believes there is a low probability of recovering book value in a reasonable time frame, then an impairment will be recorded by writing the security down to market value. An impairment charge is generally recognized when an equity security has remained significantly below cost (over twenty percent 20%) for a period of twelve month.

Loans held for sale

Loans held for sale are stated at the lower of cost or market. The amount by which cost exceeds market value in the aggregate portfolio of loans held for sale, if any, is accounted for as a valuation allowance with changes therein included in the determination of net income.

Loans and allowance for loan losses

Loans are stated at their outstanding balance less unearned interest and net deferred loan origination fees and costs. Unearned interest on certain personal and auto loans is recognized as income under a method, which approximates the interest method.

Loans on which the recognition of interest income has been discontinued are designated as non-accruing. When loans are placed on non-accruing status, any accrued but uncollected interest income is reversed and charged against interest income. Consumer loans are classified as non-accruing when they are delinquent: 90 days or more for auto, boat and home equity reserve loans; 120 days or more for personal loans; and 180 days or more for credit cards and personal lines of credit. Commercial and mortgage loans are classified as non-accruing when they are delinquent 90 days or more. This policy is also applied to all impaired loans based upon an evaluation of the risk characteristics of said loans, loss experience, economic conditions and other pertinent factors. Loan losses are charged and recoveries are credited to the allowance for loan losses.

The Corporation has defined impaired loans as loans with interest and/or principal past due 90 days or more and other specific loans for which, based on current information and events, it is probable that the debtor will be unable to pay all amounts due according to the contractual terms of the loan agreement. The Corporation measures impairment individually for those commercial and real estate loans with a principal balance exceeding \$1 million. An allowance for impaired loans is established based on the present value of expected future cash flows or the fair value of the collateral, if the loan is collateral dependent. Groups of small balance, homogeneous loans are collectively evaluated for impairment considering among other factors, historical charge-off experience, existing economic conditions and risk characteristics relevant to the particular loan category. The portfolios of residential mortgage loans, consumer loans, auto loans and finance leases are considered homogeneous and are evaluated collectively for impairment.

Loan fees and costs

Loan fees and costs incurred in the origination of loans are deferred and amortized using the interest method or under a method that approximates the interest method over the life of the loans as an adjustment to interest income. When a loan is paid off or sold, any unamortized net deferred fee (cost) is credited (charged) to income.

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Servicing assets

The Corporation recognizes as separate assets the rights to service loans for others, whether those servicing assets are originated or purchased. The total cost of the loans to be sold with servicing assets retained is allocated to the servicing assets and the loans (without the servicing asset), based on their relative fair values. Servicing assets are amortized in proportion to and over the period of estimated net servicing income. Loan servicing fees, which are based on a percentage of the principal balances of the loans serviced, are credited to income as loan payments are collected.

To estimate the fair value of servicing assets the Corporation considers the present value of expected future cash flows associated with the servicing assets. For purposes of measuring impairment of servicing assets, the Corporation stratifies such assets based on predominant risk characteristics of underlying loans. The amount of impairment recognized, if any, is the amount by which the servicing asset exceeds its estimated fair value. Impairment, if any, is charged against servicing income.

Other real estate owned

Other real estate owned, acquired in settlement of loans, is recorded at the lower of cost (carrying value of the loan) or fair value minus estimated cost to sell the real estate. Gains or losses resulting from the sale of these properties and losses recognized on the periodic reevaluations of these properties are credited or charged to net cost (gain) of operations and disposition of other real estate owned. The cost of maintaining and operating these properties is expensed as incurred.

Premises and equipment

Premises and equipment are carried at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the individual assets. Depreciation of leasehold improvements is computed on the straight-line method over the terms of the leases or estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs, which do not improve or extend the life of the respective assets are expensed as incurred. Costs of renewals and betterments are capitalized. When assets are sold or disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings.

Securities sold under agreements to repurchase

The Corporation sells securities under agreements to repurchase the same or similar securities. Generally, similar securities are securities from the same issuer, with identical form and type, similar maturity, identical contractual interest rates, similar assets as collateral and the same aggregate unpaid principal amount. The Corporation retains control over the securities sold under these agreements, accordingly, these agreements are considered financing transactions and the securities underlying the agreements remain in the asset accounts. The counter party to certain agreements may have the right to repledge the collateral by contract or custom. Such assets are presented separately in the statements of financial condition as securities pledged to creditors that can be repledged.

Accounting for income taxes

Deferred taxes arise because certain transactions affect the determination of income for financial reporting purposes in periods different from the period in which the transactions affect taxable income. Deferred taxes have been recorded based upon the Puerto Rico enacted tax rates. Current tax expense has been provided based upon the estimated tax liability incurred for tax return purposes. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Treasury stock

The Corporation accounts for treasury stock at par value. Under this method, the treasury stock account is increased by the par value of each share of common stock reacquired. Any excess paid per share over the par value is debited to additional paid-in capital for the amount per share that it was originally credited. Any remaining excess is charged to retained earnings.

Stock option plan

The Corporation has a stock-based employee compensation plan, which is described more fully in Note 5. The Corporation accounts for the plan under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock based employee compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. Options granted are not subject to vesting requirements. The table below illustrates the effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement No. 123, *Accounting for Stock Based Compensation*, to stock-based employee compensation granted in year 2003 and 2002 (no options were granted during 2001).



Proforma net income and earnings per common share

| | Year ended December 31, | |
|--------------------------------------------------------------------------------------|---------------------------------------|-----------|
| | 2003 | 2002 |
| | (In thousands, except per share data) | |
| Net income | | |
| As reported | \$152,338 | \$107,956 |
| Deduct: Stock-based employee compensation expense determined under fair value method | 2,897 | 2,215 |
| | | |
| Pro forma | \$149,441 | \$105,741 |
| Earnings per common share-basic: | | |
| As reported | \$ 3.04 | \$ 2.04 |
| Pro forma | \$ 2.98 | \$ 1.99 |
| Earnings per common share-diluted: | | |
| As reported | \$ 2.98 | \$ 2.01 |
| Pro forma | \$ 2.91 | \$ 1.96 |

Management uses the Black-Scholes option pricing model for the computation of the estimated fair value of each option granted to buy shares of the Corporation's common stock. The fair value of each option granted during 2003 and 2002 (no options were granted during 2001) was estimated using the following assumptions: expected weighted dividend yield of 1.72% (2003) and 1.85% (2002); expected life of 3.29 years; weighted expected volatility of 45.94% (2003) and 31.76% (2002); and weighted risk-free interest rate of 2.09% (2003) and 3.66% (2002). The weighted estimated fair value of the options granted was \$7.94 (2003) and \$4.08 (2002) per option.

Comprehensive income

Comprehensive income includes net income and several other items that current accounting standards require to be recognized outside of net income, primarily the unrealized gain (loss) on securities available for sale, net of estimated tax effect, and the change in fair value attributable to credit risk on securities hedged with interest rate swaps.

Derivative instruments

On January 1, 2001, the Corporation adopted the Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivatives Instruments and Hedging Activities", as amended. All derivatives are recognized in the statement of financial position at fair value. Changes in the fair value of derivative instruments are accounted for as current income or other comprehensive income, depending on their intended use and designation. For transactions that qualify for hedge accounting, *SFAS No. 133* provides for a matching of the timing of gain or loss recognition on the hedging instrument with the recognition in earnings of (a) the changes in the fair value of the hedged asset or liability, that are attributable to the hedged risk (fair value hedges) or (b) the effect of the exposure to the variability of cash flows from the hedged asset or liability (cash flows hedges). Note 27 describes in more

detail the hedging transactions entered into by the Corporation.

Earnings per common share

Earnings per share-basic is calculated by dividing income available to common stockholders by the weighted average number of outstanding common shares. The computation of earnings per share-diluted is similar to the computation of earnings per share-basic except that the weighted average common shares are increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Stock options outstanding under the Corporation's stock option plan are considered in the earnings per share-diluted by application of the treasury stock method, which assumes that proceeds for the exercise of options are used to repurchase common stock in the open market. Any stock splits or stock dividends are retroactively recognized in all periods presented in financial statements.

Acquisition of business

Business combinations are accounted using the purchase method of accounting. Assets acquired and liabilities assumed are recorded at estimated fair values at the date of acquisition. After initial recognition, any resulting intangible assets are accounted for as follows:

- Definite life intangibles are amortized over their estimated life, generally on a straight line basis and are reviewed periodically for impairment.
- Goodwill and other indefinite life intangibles are not amortized but are reviewed periodically for impairment.

Recently issued accounting pronouncements

During 2003 the Financial Accounting Standards Board (FASB) issued the following financial accounting pronouncements:

In December 2003, the FASB published a revision to its Interpretation No. 46 (FIN 46) to clarify some of the provisions of FIN 46 and to exempt certain entities from its requirements. FIN 46, as revised, applies to variable interest entities that are commonly referred to as special-purpose entities for periods ending after December 15, 2003 and for all other types of variable interest entities for periods ending after March 15, 2004. It requires the consolidation of a variable interest entity (as defined) by its primary beneficiary. Primary beneficiaries are those companies that are subject to a majority of the risk of loss or entitled to receive a majority of the variable interest entity's residual returns, or both. The adoption of FIN 46 did not have any effect on the Corporation's financial statements.

SFAS 149 - Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133. This Statement is effective for contracts entered into or modified after June 30, 2003, except for contracts which relate to forward purchases or sales of when-issued securities or other securities that do not yet exist, for which in the Statement should be applied to both existing contracts and new contracts entered into after June 30, 2003. The adoption of this standard did not have an impact on the Corporation's financial position or results of operations.

SFAS 150 - Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity - Issued on May 15, 2003, this Statement establishes standards for how an entity classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an entity classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this standard did not have an impact on the Corporation's financial position or results of operations.

In November 2003, the Accounting Standards Executive Committee issued the Statement of Position (SOP) No. 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." This statement addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. This SOP does not apply to loans originated by the entity. This SOP prohibits "carrying over" or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of this SOP. The prohibition of the valuation allowance carry-over applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a purchase business combination. This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004. Management believes that the adoption of this statement will not have a material effect on the Corporation's consolidated financial statements.

NOTE 3 - STOCKHOLDERS' EQUITY

Common stock

The Corporation has 250,000,000 shares of authorized common stock with a par value of \$1 per share. At December 31, 2003, there were 44,948,185 (2002-44,875,435) shares issued and 40,027,285 (2002-39,954,535 shares outstanding).

The Corporation issued 72,750, 96,750 and 351,000 shares of common stock during 2003, 2002 and 2001, respectively, as part of the exercise of stock options under the Corporation's stock option plan. The 2002 and the 2001 number of shares issued was adjusted for the September 30, 2002 stock split.

Stock repurchase plan and treasury stock

The Corporation has a stock repurchase program under which, from time to time, it repurchases shares of common stock in the open market and holds them as treasury stock. No shares of common stock were repurchased during 2003 and 2002 by the Corporation. From the total amount of common stock repurchased, 4,920,900 shares were held as treasury stock at December 31, 2003 and 2002 and were available for general corporate purposes.

Preferred stock

The Corporation has 50,000,000 shares of authorized non-cumulative and non-convertible preferred stock with a par value of \$25, redeemable at the Corporation's option subject to certain terms. This stock may be issued in series and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. During 2003, the Corporation issued 7,584,000 shares of the Corporation's "Series E Preferred Stock", (3,680,000 shares in 2002; 4,140,000 shares in 2001; 3,000,000 shares in 2000 and 3,600,000 shares in 1999). The liquidation value per share is \$25. Annual dividends of \$1.75 per share (issuance of 2003), \$1.8125 per share (issuance of 2002), \$1.85 per share (issuance of 2001), \$2.0875 per share (issuance of 2000) and 1.78125 per share (issuance of 1999), are payable monthly, if declared by the Board of Directors. During the year, dividends declared on preferred stock amounted to \$30,358,863 (2002 - \$26,406,274; 2001 - \$16,508,198).

Capital reserve

The capital reserve account was established to comply with certain regulatory requirements of the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico related to the issuance of subordinated notes by FirstBank in 1995. An amount equal to 10% of the principal of the notes is set aside each year from retained earnings until the reserve equals the total principal amount. At the notes repayment date the balance in capital reserve is to be transferred to the legal surplus account or retained earnings after the approval of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico.

Legal surplus

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of FirstBank's net income for the year be transferred to legal surplus, until such surplus equals the total of paid in capital on common and preferred stock. Amounts transferred to the legal surplus account from the retained earnings account are not available for distribution to the stockholders.

NOTE 4 - REGULATORY CAPITAL REQUIREMENTS

The Corporation is subject to various regulatory capital requirements imposed by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's capital amounts and classification are also subject to qualitative judgment by the regulators about components, risk weightings and other factors.

Capital standards established by regulations require the Corporation to maintain minimum amounts and ratios of Tier 1 capital to total average assets (leverage ratio) and ratios of Tier 1 and total capital to risk-weighted assets, as defined in the regulations. The total amount of risk-weighted assets is computed by applying risk-weighting factors to the Corporation's assets and certain off-balance sheet items, which vary from 0% to 100% depending on the nature of the asset.

At December 31, 2003 and 2002, the most recent notification from FDIC, categorized the Corporation as a well-capitalized institution under the regulatory framework for prompt corrective action. To be categorized as well as capitalized, the Corporation must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. Management believes that there are no conditions or events since that date that have changed that classification.

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The Corporation's and its banking subsidiary's regulatory capital positions were as follows:

| | Actual Amount | Ratio | Regulatory requirement For capital adequacy purposes Amount (Dollars in thousands) | Ratio | To be well capitalized Amount | Ratio |
|------------------------------------------|------------------|--------|------------------------------------------------------------------------------------------------|-------|-------------------------------------|-------|
| At December 31, 2003 | | | | | | |
| Total Capital (to Risk Weighted Assets) | | | | | | |
| First Bancorp | \$1,103,798 | 15.22% | \$580,090 | 8% | \$725,113 | 10% |
| FirstBank | \$ 974,208 | 13.49% | \$577,872 | 8% | \$722,340 | 10% |
| Tier I Capital (to Risk Weighted Assets) | | | | | | |
| First Bancorp | \$ 989,853 | 13.65% | \$290,045 | 4% | \$435,068 | 6% |
| FirstBank | \$ 867,025 | 12.00% | \$288,936 | 4% | \$433,404 | 6% |
| Tier Capital (to Average Assets) | | | | | | |
| First Bancorp | \$ 989,853 | 8.35% | \$355,713 | 3% | \$592,855 | 5% |
| FirstBank | \$ 867,025 | 7.38% | \$352,631 | 3% | \$587,718 | 5% |
| At December 31, 2002 | | | | | | |
| Total Capital (to Risk Weighted Assets) | | | | | | |
| First Bancorp | \$ 816,946 | 13.75% | \$475,155 | 8% | \$593,944 | 10% |
| FirstBank | \$ 739,996 | 12.50% | \$473,617 | 8% | \$592,022 | 10% |
| Tier I Capital (to Risk Weighted Assets) | | | | | | |
| First Bancorp | \$ 707,083 | 11.90% | \$237,578 | 4% | \$356,366 | 6% |
| FirstBank | \$ 632,487 | 10.68% | \$236,809 | 4% | \$355,213 | 6% |
| Tier Capital (to Average Assets) | | | | | | |
| First Bancorp | \$ 707,083 | 7.35% | \$288,628 | 3% | \$481,046 | 5% |
| FirstBank | \$ 632,487 | 6.62% | \$286,801 | 3% | \$478,002 | 5% |

NOTE 5 - STOCK OPTION PLAN

The Corporation has a stock option plan covering certain employees. The options granted under the plan cannot exceed 20% of the number of common shares outstanding. Each option provides for the purchase of one share of common stock at a price not less than the fair market value of the stock on the date the option is granted. Stock options are fully vested upon issuance. The maximum term to exercise the options is ten years. The stock option plan provides for a proportionate adjustment in the exercise price and the number of shares that can be purchased in the event of a stock dividend, stock split, reclassification of stock, merger or reorganization and certain other issuance and distributions.

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Following is a summary of the activity related to stock options:

| | Number of Options | Weighted Average Exercise Price per Option |
|----------------------|----------------------|-----------------------------------------------|
| At December 31, 2000 | 1,907,250 | \$12.24 |
| Exercised | (351,000) | \$ 3.86 |
| Canceled | (3,000) | \$18.92 |
| At December 31, 2001 | 1,553,250 | \$14.12 |
| Granted | 542,750 | \$18.96 |
| Exercised | (96,750) | \$13.86 |
| At December 31, 2002 | 1,999,250 | \$15.44 |
| Granted | 365,000 | \$25.68 |
| Exercised | (72,750) | \$15.43 |
| At December 31, 2003 | 2,291,500 | \$17.08 |

The exercise price of the options outstanding at December 31, 2003, ranges from \$10.42 to \$29.55 and the weighted average remaining contractual life is approximately six years.

Following is additional information concerning the stock options outstanding at December 31, 2003.

| Numbers of Options | Exercise Price per Option | Contractual Maturity |
|-----------------------|------------------------------|-------------------------|
| 300,000 | \$10.42 | November 2007 |
| 65,000 | \$12.79 | February 2008 |
| 60,000 | \$18.06 | May 2008 |
| 18,000 | \$17.71 | June 2008 |
| 259,500 | \$17.33 | November 2008 |
| 3,000 | \$17.29 | February 2009 |
| 261,000 | \$13.08 | November 2009 |
| 428,500 | \$14.88 | December 2010 |
| 514,500 | \$18.69 | February 2012 |
| 20,000 | \$25.99 | October 2012 |
| 357,000 | \$25.63 | February 2013 |
| 5,000 | \$29.55 | May 2013 |
| 2,291,500 | | |

NOTE 6 - EARNINGS PER COMMON SHARE

The calculations of earnings per common share for the years ended December 31, 2003, 2002 and 2001 follow:

| | 2003 | Year ended December 31, 2002 | 2001 |
|-------------------------------------------------------|---------------------------------------|---------------------------------|-----------|
| | (In thousands, except per share data) | | |
| Net income | \$152,338 | \$107,956 | \$ 86,001 |
| Less: Preferred stock dividend | (30,359) | (26,406) | (16,508) |
| Net income-attributable to common stockholders | \$121,979 | \$ 81,550 | \$ 69,493 |
| Earnings per common share-basic: | | | |
| Net income - available to common stockholders | \$121,979 | \$ 81,550 | \$ 69,493 |
| Weighted average common shares outstanding | 39,994 | 39,901 | 39,851 |
| Earnings per common share-basic | \$ 3.04 | \$ 2.04 | \$ 1.74 |
| Earnings per common share-diluted: | | | |
| Net income - available to common stockholders | \$121,979 | \$ 81,550 | \$ 69,493 |
| Weighted average common shares and share equivalents: | | | |
| Average common shares outstanding | 39,994 | 39,901 | 39,851 |
| Common stock equivalents - Options | 989 | 652 | 293 |
| Total | 40,983 | 40,553 | 40,144 |
| Earnings per common share-diluted | \$ 2.98 | \$ 2.01 | \$ 1.73 |

Stock options outstanding, under the Corporation's stock option plan for officers, are common stock equivalents and, therefore, considered in the computation of earnings per common share diluted. Common stock equivalents were computed using the treasury stock method. For the year ended December 31, 2003, all options outstanding were included in the computation of outstanding shares. In 2002, 20,000 stock options (2001-10,500) were not included in the computation of outstanding shares because they were antidilutive.

NOTE 7-CASH AND DUE FROM BANKS

The Corporation is required by law to maintain minimum average reserve balances. The amount of those average reserve balances for the week ended December 31, 2003 was approximately \$104,000,000 at (2002 - \$93,000,000).

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NOTE 8 - INVESTMENT SECURITIES

Investment Securities Available For Sale

The amortized cost, gross unrealized gains and losses, approximate market value, weighted average yield and contractual maturities of investment securities available for sale at December 31, 2003 and 2002 were as follows:

| | Amortized cost | December 31, 2003 Gross Unrealized gains losses (Dollars in thousands) | | Market value | Weighted average yield% |
|------------------------------------------------------|-------------------|-----------------------------------------------------------------------------------------|-------|-----------------|-------------------------------|
| Obligations of U.S Government Agencies: | | | | | |
| After 1 to 5 years | | | | | |
| After 5 to 10 years | | | | | |
| After 10 years | | | | | |
| Puerto Rico Government Obligations: | | | | | |
| After 5 to 10 years | \$ 7,192 | \$ 354 | | \$ 7,546 | 5.81 |
| After 10 years | 8,153 | 459 | | 8,612 | 5.99 |
| | | | | | |
| United States and Puerto Rico Government Obligations | \$ 15,345 | \$ 813 | | \$ 16,158 | 5.90 |
| | | | | | |
| Mortgage-backed Securities: | | | | | |
| FHLMC certificates: | | | | | |
| After 1 to 5 years | \$ 2,217 | \$ 112 | | \$ 2,329 | 6.52 |
| After 5 to 10 years | 4,596 | 312 | | 4,908 | 7.60 |
| After 10 years | 3,863 | 193 | | 4,056 | 6.89 |
| | | | | | |
| | 10,676 | 617 | | 11,293 | 7.12 |
| | | | | | |
| GNMA certificates: | | | | | |
| After 5 to 10 years | 2,536 | 133 | | 2,669 | 6.42 |
| After 10 years | 169,220 | 3,836 | \$152 | 172,904 | 5.19 |
| | | | | | |
| | 171,756 | 3,969 | 152 | 175,573 | 5.21 |
| | | | | | |
| FNMA certificates: | | | | | |
| Within 1 year | | | | | |
| After 1 to 5 years | 2 | | | 2 | 6.96 |
| After 5 to 10 years | 565 | 43 | | 608 | 8.24 |
| After 10 years | 885,521 | 13,155 | | 898,676 | 4.80 |
| | | | | | |
| | 886,088 | 13,198 | | 899,286 | 4.80 |
| | | | | | |
| Mortgage pass through certificates: | | | | | |
| After 10 years | 732 | 7 | | 739 | 7.27 |
| | | | | | |
| Mortgage-backed Securities | \$1,069,252 | \$17,791 | \$152 | \$1,086,891 | 4.89 |
| | | | | | |
| Corporate Bonds: | | | | | |
| Within 1 year | | | | | |
| After 1 to 5 years | \$ 45,000 | \$ 1,395 | | \$ 46,395 | 4.51 |
| After 5 to 10 years | 3,750 | 3,625 | | 7,375 | 7.67 |
| | | | | | |
| Corporate bonds | \$ 48,750 | \$ 5,020 | | \$ 53,770 | 4.75 |
| | | | | | |
| Equity securities (without contractual maturity) | \$ 48,051 | \$14,464 | \$196 | \$ 62,319 | 0.73 |
| | | | | | |
| Total Investment Securities Available for Sale | \$1,181,398 | \$38,088 | \$348 | \$1,219,138 | 4.76 |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| | Amortized cost | December 31, 2002 Gross Unrealized gains losses (Dollars in thousands) | | Market value | Weighted average yield% |
|---------------------------------------------------------|-------------------|-----------------------------------------------------------------------------------------|----------|-----------------|-------------------------------|
| Obligations of U.S Government Agencies: | | | | | |
| After 1 to 5 years | \$ 500 | \$ 3 | | \$ 503 | 3.87 |
| After 5 to 10 years | 750 | 17 | | 767 | 5.60 |
| After 10 years | 15,568 | 480 | | 16,048 | 7.69 |
| Puerto Rico Government Obligations: | | | | | |
| After 5 to 10 years | 4,999 | 375 | | 5,374 | 6.27 |
| After 10 years | 5,679 | 401 | | 6,080 | 6.30 |
| United States and Puerto Rico Government Obligations | | | | | |
| | \$ 27,496 | \$ 1,276 | | \$ 28,772 | 7.02 |
| Mortgage-backed Securities: | | | | | |
| FHLMC certificates: | | | | | |
| After 1 to 5 years | \$ 1,458 | \$ 82 | | \$ 1,540 | 6.47 |
| After 5 to 10 years | 8,211 | 613 | | 8,824 | 7.42 |
| After 10 years | 6,347 | 358 | | 6,705 | 6.86 |
| | 16,016 | 1,053 | | 17,069 | 7.11 |
| GNMA certificates: | | | | | |
| After 5 to 10 years | 3,608 | 170 | | 3,778 | 6.41 |
| After 10 years | 524,278 | 9,439 | | 533,717 | 5.11 |
| | 527,886 | 9,609 | | 537,495 | 5.12 |
| FNMA certificates: | | | | | |
| Within 1 year | 29 | | | 29 | 6.33 |
| After 1 to 5 years | 5 | | | 5 | 7.68 |
| After 5 to 10 years | 764 | 53 | | 817 | 7.66 |
| After 10 years | 1,916,460 | 39,523 | | 1,955,983 | 4.93 |
| | 1,917,258 | 39,576 | | 1,956,834 | 4.93 |
| Mortgage pass through certificates: | | | | | |
| After 10 years | 1,175 | 32 | | 1,207 | 7.23 |
| Mortgage-backed Securities | \$2,462,335 | \$50,270 | | \$2,512,605 | 4.99 |
| Corporate Bonds: | | | | | |
| Within 1 year | \$ 979 | \$ 36 | | \$ 1,015 | 7.87 |
| After 1 to 5 years | 85,711 | 1,244 | \$10,865 | 76,090 | 6.16 |
| After 5 to 10 years | 57,276 | 445 | 1,084 | 56,637 | 6.94 |
| Corporate bonds | \$ 143,966 | \$ 1,725 | \$11,949 | \$ 133,742 | 6.48 |
| Equity securities (without contractual maturity) | \$ 36,951 | \$10,006 | \$ 5,302 | \$ 41,655 | 1.72 |
| Total Investment Securities Available for Sale | \$2,670,748 | \$63,277 | \$17,251 | \$2,716,774 | 5.04 |

Maturities for mortgage-backed securities are based upon contractual terms assuming no repayments. Expected maturities of investments might differ from contractual maturities because they may be subject to prepayments and/or call options. The weighted average yield on investment securities held for sale is based on amortized cost; therefore, it does not give effect to changes in fair value.

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Investments Held to Maturity

The amortized cost, gross unrealized gains and losses, approximate market value, weighted average yield and contractual maturities of investment securities held to maturity at December 31, 2003 and 2002 were as follows:

| | Amortized cost | December 31, 2003 Gross Unrealized gains losses (Dollars in thousands) | | Market value | Weighted average yield% |
|------------------------------------------------------|-------------------|-----------------------------------------------------------------------------------------|----------|-----------------|-------------------------------|
| U.S. Treasury Securities: | | | | | |
| Due within 1 year | \$ 11,318 | | \$ 7 | \$ 11,311 | 0.90 |
| Obligations of other U.S Government Agencies: | | | | | |
| Due within 1 year | 14,979 | | 163 | 14,816 | 1.05 |
| After 1 to 5 years | 500 | | 1 | 499 | 3.02 |
| After 10 years | 1,083,337 | \$ 144 | 17,225 | 1,066,256 | 4.45 |
| Puerto Rico Government Obligations: | | | | | |
| After 1 to 5 years | 5,000 | 175 | | 5,175 | 5.00 |
| After 10 years | 4,641 | 648 | | 5,289 | 6.50 |
| | | | | | |
| United States and Puerto Rico Government obligations | \$1,119,775 | \$ 967 | \$17,396 | \$1,103,346 | 4.38 |
| | | | | | |
| Mortgage-backed securities: | | | | | |
| FHLMC certificates | | | | | |
| After 1 to 5 years | | | | | |
| After 5 to 10 years | \$ 35,005 | | \$ 830 | \$ 34,175 | 3.65 |
| FNMA certificates: | | | | | |
| After 5 to 10 years | 29,491 | | 94 | 29,397 | 3.81 |
| After 10 years | 1,906,359 | \$ 162 | 16,464 | 1,890,057 | 4.04 |
| | | | | | |
| Mortgage-backed securities: | \$1,970,855 | \$ 162 | \$17,388 | \$1,953,629 | 4.03 |
| | | | | | |
| Corporate bonds: | | | | | |
| Due within 1 year | \$ 39,847 | \$ 72 | | \$ 39,919 | 2.69 |
| After 1 to 5 years | | | | | |
| | | | | | |
| Corporate bonds | \$ 39,847 | \$ 72 | | \$ 39,919 | 2.69 |
| | | | | | |
| Total Investment Securities Held to Maturity | \$3,130,477 | \$1,201 | \$34,784 | \$3,096,894 | 4.14 |
| | | | | | |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| | Amortized cost | December 31, 2002 Gross Unrealized gains losses (Dollars in thousands) | | Weighted Market value | average yield% |
|------------------------------------------------------|-------------------|-----------------------------------------------------------------------------------------|-------|-----------------------------|-------------------|
| U.S. Treasury Securities: | | | | | |
| Due within 1 year | | | | | |
| Obligations of other U.S Government Agencies: | | | | | |
| Due within 1 year | | | | | |
| After 1 to 5 years | | | | | |
| After 10 years | \$628,820 | \$3,307 | \$ 59 | \$632,068 | 7.85 |
| Puerto Rico Government Obligations: | | | | | |
| After 1 to 5 years | 5,000 | 113 | | 5,113 | 5.00 |
| After 10 years | 4,354 | 586 | | 4,940 | 6.50 |
| | | | | | |
| United States and Puerto Rico Government obligations | \$638,174 | \$4,006 | \$ 59 | \$642,121 | 7.82 |
| | | | | | |
| Mortgage-backed securities: | | | | | |
| FHLMC certificates | | | | | |
| After 1 to 5 years | | | | | |
| After 5 to 10 years | | | | | |

| | | | | | |
|----------------------------------------------|-----------|---------|-------|-----------|------|
| FNMA certificates: | | | | | |
| After 5 to 10 years | | | | | |
| After 10 years | | | | | |
| Mortgage-backed securities: | | | | | |
| Corporate bonds: | | | | | |
| Due within 1 year | \$ 25,000 | | | \$ 25,000 | 3.05 |
| After 1 to 5 years | 39,432 | | \$609 | 38,823 | 2.95 |
| Corporate bonds | \$ 64,432 | | \$609 | \$ 63,823 | 2.98 |
| Total Investment Securities Held to Maturity | \$702,606 | \$4,006 | \$668 | \$705,944 | 7.38 |

Expected maturities of investments might differ from contractual maturities because they may be subject to prepayments and/or call options. Rates in the corpo- rate bonds classified as held to maturity are floating.

Investment Activities

The net unrealized gains or losses on available for sale securities are presented in accumulated other comprehensive income.

During the first quarter of 2003, the Corporation reduced its deferred tax liability on the unrealized gains on available for sale securities to reflect current Puerto Rico tax statutes, which provide for tax exemption on the gain on sale of investments held by the Corporation's international banking divisions. This tax benefit is reflected in Other Comprehensive Income.

During 2003, the Corporation replaced and grew its investments portfolio. In the first quarter of 2003, the Corporation's bank subsidiary sold \$700 million of its 15-year 5.5% coupon and 30 year 6.5% mortgage-backed securities portfolio, to take advantage of a market opportunity, which arose when the 10-year treasury notes rate reached 3.56%. Also during 2003, prepayments on mortgage-backed securities and repayments on callable securities accelerated when compared to recent historical experience. A substantial amount of the proceeds from both the aforementioned sales and accelerated prepayments of mortgage-backed securities was maintained in money market instruments, awaiting an opportunity to reenter the longer-term investment market. For such reasons, interest income was affected during this waiting period, which included the first half of 2003 and the first part of the third quarter of 2003. During the months of July and August of 2003, with the increase in the 10-year treasury note rates, the Corporation's Bank subsidiary reinvested proceeds from sales and prepayments and grew its portfolio by purchasing \$2.0 billion in 15-year 5% coupon FNMA securities. For this reason, the Corporation's Bank subsidiary investment interest income increased since August 2003 after the mortgage-backed securities purchases. The restructuring of the investment's portfolio, briefly discussed above, enabled the Corporation to record substantial profits on securities sold, while at the same time gave the Corporation the opportunity to reinvest in mortgage-backed securities with more attractive yields and shorter maturities.

During 2003, Management's impairment analyses on its debt and equity securities portfolios concluded that other-than-temporary impairments had occurred in certain investments. As a result the Corporation recognized impairment charges against the net gain on sale of investments category of Other Income of approximately \$5.8 million in corporate bonds and equity securities. Management determined that except for the impairments on these bonds and stocks, there are no other-than-temporary impairments on the rest of the bonds and equity securities portfolio.

As of December 31, 2003, the Corporation did not hold any investments securities with significant unrealized losses sustained for more than one year. The investment securities with unrealized losses as of December 31, 2003 are mainly mortgage-backed securities and obligations of U.S. government agencies for which the Corporation has the intent and ability to hold to maturity and, as such, have been classified as securities held-to-maturity on the Corporation's consolidated financial statements. Specifically, at December 31, 2003, the most significant unrealized losses were reflected in U.S. government agencies obligations held-to-maturity with an amortized cost of approximately \$850 million and unrealized losses of approximately \$17 million, and Federal National Mortgage Association (FNMA) mortgage-backed securities held-to-maturity with an amortized cost of approximately \$1,834 million and unrealized losses of approximately \$16 million. Both, the U.S. government agencies obligations and the FNMA mortgage-backed securities were purchased during 2003. The unrealized losses on these securities result substantially from interest rate fluctuations, and, because of Management's intention to hold them until maturity, are expected to recover in full. Further, Management does not consider that such securities have been impaired, since it is considered that the interest and principal on these securities will be repaid when due based on several factors such as credit quality and the fact that the principal and interest on substantially all of the securities with an unrealized loss position are guaranteed by government sponsored agencies such as FNMA, GNMA, FHLB, and FHLMC, and in the case of the mortgage-backed securities, also by residential real estate collateral.

Total proceeds from the sale of securities during the year period ended December 31, 2003 amounted to \$1,440 million (2002 — \$2,243 million). The Corporation realized gross gains of \$43.8 million (2002 — \$49.7 million, 2001 — \$13.6 million), and gross realized losses and other-than-temporary impairments of \$8.9 million (2002 — \$37.7 million, 2001 — \$4 million).

NOTE 9 - FEDERAL HOME LOAN BANK (FHLB) STOCK

Institutions that are members of the FHLB system are required to maintain a minimum investment in FHLB stock. Such minimum is calculated as a percentage of aggregate outstanding mortgages and an additional investment is required that is calculated as a percentage of total FHLB advances, letters of credit, and the collateralized portion of interest-rate swaps outstanding. The stock is capital stock issued at \$100 par. Both stock and cash dividends may be received on FHLB stock.

At December 31, 2003 and 2002, there were investments in FHLB stock with book value of \$45,650,000 and \$35,629,500, respectively. The estimated market value of such investments is its redemption value determined by the ultimate recoverability of its par value. In September 2003, the FHLB of New York announced the suspension of dividends on its outstanding common stock for the third quarter of 2003. At that time, Management's impairment analyses concluded that no other-than-temporary impairments had occurred on these securities. In January 2004, the FHLB declared dividends on its outstanding common stock for the fourth quarter of 2003.

NOTE 10 - INTEREST AND DIVIDEND ON INVESTMENTS

A detail of interest and FHLB dividend income on investments follows:

| | 2003 | Year ended December 31, 2002 (In thousands) | 2001 |
|------------------------------|-----------------|---------------------------------------------------|------------------|
| Mortgage Backed Securities: | | | |
| Taxable | \$ 1,305 | \$ 3,765 | \$ 2,666 |
| Exempt | 94,358 | 117,338 | 106,571 |
| | <u>\$95,663</u> | <u>\$121,103</u> | <u>\$109,237</u> |
| Other Investment Securities: | | | |
| Taxable | \$ 2,307 | \$ 3,079 | \$ 2,639 |
| Exempt | 48,989 | 64,013 | 50,602 |
| | <u>\$51,296</u> | <u>\$ 67,092</u> | <u>\$ 53,241</u> |

NOTE 11 - LOANS RECEIVABLE

The following is a detail of the loan portfolio:

| | December 31, 2003 | December 31, 2002 |
|------------------------------------------------------------------|----------------------|----------------------|
| | (In thousands) | |
| Residential real estate loans, mainly secured by first mortgages | \$2,871,222 | \$1,846,561 |
| Deferred net loan fees | (4,062) | (3,247) |
| Residential real estate loans | <u>2,867,160</u> | <u>1,843,314</u> |
| Commercial loans: | | |
| Construction loans | 328,175 | 259,053 |
| Commercial loans | 1,615,304 | 1,418,792 |
| Commercial mortgages | 889,156 | 813,513 |
| Commercial loans | <u>2,832,635</u> | <u>2,491,358</u> |
| Finance leases | <u>161,283</u> | <u>143,412</u> |
| Consumer and other loans: | | |
| Personal | 410,572 | 413,931 |
| Personal lines of credit | 11,906 | 10,401 |
| Auto | 665,484 | 565,478 |
| Boat | 59,385 | 53,017 |
| Credit card | 58,568 | 164,172 |
| Home equity reserve loans | 4,552 | 4,566 |
| Unearned interest | (38,878) | (62,553) |
| Consumer and other loans | <u>1,171,589</u> | <u>1,149,012</u> |
| Loans receivable | 7,032,667 | 5,627,096 |
| Allowance for loan losses | <u>(126,378)</u> | <u>(111,911)</u> |
| Loans receivable, net | 6,906,289 | 5,515,185 |
| Loans held for sale | <u>11,851</u> | <u>10,754</u> |
| Total loans | <u>\$6,918,140</u> | <u>\$5,525,939</u> |

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Decrease in credit cards loans portfolio is attributed to the sale of approximately \$114 million to MBNA Corporation in the last quarter of 2003; the sale generated a gain of approximately \$31 million. The sale was made pursuant to a long term strategic marketing alliance with MBNA, whereas FirstBank and MBNA together will be able to offer a wider selection of credit card services to consumers in Puerto Rico.

The Corporation's primary lending area is Puerto Rico. The Corporation's subsidiary Bank also lends in the U.S. and British Virgin Islands markets. At December 31, 2003 and 2002 there is no significant concentration of credit risk in any specific industry on the loan portfolio.

At December 31, 2003, loans in which the accrual of interest income had been discontinued amounted to \$85,525,000 (2002 - \$91,765,000; 2001 - \$72,998,000). If these loans had been accruing interest, the additional interest income realized would have been approximately \$6,631,000 (2002 - \$5,833,000; 2001 - \$5,735,000). There are no material commitments to lend additional funds to borrowers whose loans were in non-accruing status at these dates.

At December 31, 2003, the Corporation was servicing residential mortgage loans owned by others aggregating approximately \$266,155,000 (2002 - \$196,748,000; 2001 - \$160,583,000).

Various loans secured by first mortgages were assigned as collateral for certificates of deposit, individual retirement accounts, advances from the Federal Home Loan Bank, and unused lines of credit. The mortgage loans pledged as collateral amounted to \$1,325,384,220 and \$778,829,294 at December 31, 2003 and 2002, respectively.

NOTE 12 - ALLOWANCE FOR LOAN LOSSES

The changes in the allowance for loan losses were as follows:

| | 2003 | Year ended December 31, 2002 (In thousands) | 2001 |
|--------------------------------------|------------------|---------------------------------------------------|------------------|
| Balance at beginning of year | \$111,911 | \$ 91,060 | \$ 76,919 |
| Provision charged to income | 55,916 | 62,302 | 61,030 |
| Losses charged against the allowance | (48,132) | (48,991) | (54,380) |
| Recoveries credited to the allowance | 6,683 | 7,540 | 7,391 |
| Other adjustments | | | 100 |
| Balance at end of year | <u>\$126,378</u> | <u>\$111,911</u> | <u>\$ 91,060</u> |

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At December 31, 2003, \$75 million (\$27 million at December 31, 2002) in commercial, real estate, and construction loans over \$1,000,000 were considered impaired with an allowance of \$14.8 million (\$5.9 million at December 31, 2002). For 2003, \$12.6 million of the allowance on impaired loans was established based on the fair value of the collateral and \$2.2 million was established based on the present value of expected future cash flows. The total allowance for impaired loans as of December 31, 2002 was established based on the fair value of collateral. The allowance for impaired loans is part of the allowances for loan losses. The increase in loans considered impaired is mainly in loans with real estate collateral. These loans represent loans for which management has determined that is probable that the debtor will be unable to pay all the amounts due, according to the contractual terms of the loan agreement, and do not necessarily represent loans for which the Corporation will incur a substantial loss. The average recorded investment in impaired loans amounted to \$45 million for 2003 (2002 - \$18.9 million). Interest income in the amount of approximately \$2,922,000 was recognized on impaired loans in 2003 (2002 - \$803,000; 2001 - \$377,000).

NOTE 13 - RELATED PARTY TRANSACTIONS

The Corporation granted loans to its directors, executive officers and to certain related individuals or entities in the ordinary course of business. The movement and balance of these loans were as follows:

| | Amount (In thousands) |
|------------------------------|--------------------------|
| Balance at December 31, 2001 | \$ 34,663 |
| New loans | 48,784 |
| Payments | (1,943) |
| | <hr/> |
| Balance at December 31, 2002 | \$ 81,504 |
| | <hr/> |
| New loans | 12,236 |
| Payments | (2,338) |
| Other changes | (37,115) |
| | <hr/> |
| Balance at December 31, 2003 | \$ 54,287 |
| | <hr/> |

These loans do not involve more than normal risk of collectivity and present terms no more favorable than those that would have been obtained if transactions had been with unrelated parties. The amounts reported as other changes include changes in the status of those who are considered related parties.

NOTE 14 - PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation as follows:

| | Useful life in years | 2003 | December 31, (In thousands) | 2002 |
|-----------------------------------|-------------------------|----------------|--------------------------------|----------------|
| Land | | \$ 8,303 | | \$ 8,203 |
| Buildings and improvements | 10-40 | 51,476 | | 41,918 |
| Leasehold improvements | 1-15 | 22,107 | | 20,436 |
| Furniture and equipment | 3-10 | 70,093 | | 94,675 |
| | | <u>151,979</u> | | <u>165,232</u> |
| Accumulated depreciation | | (72,315) | | (87,083) |
| | | <u>79,664</u> | | <u>78,149</u> |
| Projects in progress | | 5,605 | | 9,447 |
| | | <u>85,269</u> | | <u>87,596</u> |
| Total premises and equipment, net | | \$ 85,269 | | \$ 87,596 |

NOTE 15 - INTANGIBLE ASSETS

At December 31, 2003, the Corporation has a core deposit intangible with a carrying amount of \$18,410,919 (2002 - \$20,807,539) included in the Other Assets category. The straight-line amortization expense for the year ended December 31, 2003 amounted to approximately \$2,400,000. The estimated aggregate amortization expense for each of the five succeeding fiscal years will be approximately \$2,400,000. Management has reviewed the core deposits intangible assets concluding that no impairment exists and that the useful life of ten years used to amortize them is the best estimate of the economic benefit period.

NOTE 16 - DEPOSITS AND RELATED INTEREST

Deposits and related interest consist of the following:

| | 2003 | December 31, (In thousands) | 2002 |
|-----------------------------------------------------------------------------|--------------------|--------------------------------|--------------------|
| Type of account and interest rate: | | | |
| Savings accounts – 1.00% to 1.45% (2002 – 1.25% to 2.25%) | \$ 985,062 | | \$ 921,103 |
| Interest bearing checking accounts – 1.00% to 1.35% (2002 – 1.15% to 2.00%) | 286,607 | | 230,743 |
| Non-interest bearing checking accounts | 548,921 | | 447,076 |
| Certificate of deposit – 0.75% to 7.85% (2002 – 1.00% to 7.85%) | 4,944,517 | | 3,883,996 |
| | <u>\$6,765,107</u> | | <u>\$5,482,918</u> |

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The weighted average interest rate on total deposits at December 31, 2003 and 2002 was 1.82% and 2.58%, respectively.

At December 31, 2003, the aggregate amount of over-drafts in demand deposits that were reclassified as loans amounted to \$14,809,498 (2002 - \$7,281,895).

The following table presents a summary of certificates of deposits with a remaining term of more than one year at December 31, 2003:

| | Total (In thousands) |
|--------------------------------|---------------------------------|
| Over one year to two years | \$ 183,730 |
| Over two years to three years | 323,641 |
| Over three years to four years | 98,294 |
| Over four years to five years | 113,902 |
| Over five years | 2,789,928 |
| | <hr/> |
| Total | \$3,509,495 |
| | <hr/> |

At December 31, 2003 certificates of deposit (CD's) in denominations of \$100,000 or higher amounted to \$4,508,865,618 (2002 - \$3,379,748,775) including brokered certificates of deposit of \$3,813,218,000 (2002 - \$2,645,909,222) at a weighted average rate of 1.90%, after hedging (2002 - 2.64%). See Note 27 for a description of the program used to hedge the fair value of the brokered certificates of deposit.

At December 31, 2003, deposit accounts issued to government agencies with a carrying value of \$378,861,589 (2002 - \$220,869,357) were collateralized by securities with a carrying value of \$422,369,034 (2002 - \$259,433,606) and estimated market value of \$423,913,988 (2002 - \$263,467,485), by mortgage loans with a carrying value of \$2,416,677 and estimated market value of \$3,010,938 in 2002, there were no mortgages as collateral as of December 31, 2003, and by municipal obligations with a carrying value and estimated market value of \$32,850,000 (2002 - \$27,810,000).

A table showing interest expense on deposits follows:

| | 2003 | Year ended December 31, 2002 (In thousands) | 2001 |
|------------------------------------|-------------|------------------------------------------------------------|-------------|
| Savings | \$ 11,849 | \$ 15,096 | \$ 12,954 |
| Interest bearing checking accounts | 3,426 | 4,763 | 5,296 |
| Certificates of deposit | 97,266 | 113,376 | 142,508 |
| | <hr/> | <hr/> | <hr/> |
| Total | \$112,541 | \$133,235 | \$160,758 |
| | <hr/> | <hr/> | <hr/> |

NOTE 17 - FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Federal funds purchased and securities sold under agreements to repurchase (repurchase agreements) consist of the following:

| | 2003 | December 31, (In thousands) | 2002 |
|-------------------------------------------------------------------------------------|-------------|--------------------------------|-------------|
| Federal funds purchased, interest rate 1.28% | \$ 155,000 | | |
| Repurchase agreements, interest ranging from 0.88% to 5.39% (2002 - 1.00% to 5.37%) | 3,484,472 | | \$2,784,078 |
| Accrued interest payable | 10,825 | | 9,462 |
| | | | |
| Total | \$3,650,297 | | \$2,793,540 |

The weighted average interest rates of federal funds purchased and repurchase agreements at December 31, 2003 and 2002 was 3.13% and 3.82%, respectively.

Federal funds purchased and repurchase agreements mature as follows:

| | 2003 | December 31, (In thousands) | 2002 |
|------------------------------|-------------|--------------------------------|-------------|
| One to thirty days | \$ 664,573 | | \$ 708,924 |
| Over thirty to ninety days | 899,939 | | 194 |
| Over ninety days to one year | 156,500 | | |
| Over one year | 1,918,460 | | 2,074,960 |
| | | | |
| Total | \$3,639,472 | | \$2,784,078 |

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The following securities were sold under agreements to repurchase:

| Underlying securities | Amortized cost of underlying securities | December 31, 2003 | Approximate market value of underlying securities | Weighted average interest rate |
|-------------------------------------------------------------------------------|--------------------------------------------------|-------------------------|------------------------------------------------------------|-----------------------------------------|
| | | Balance of borrowing | | |
| (In thousands) | | | | |
| U.S. Treasury Securities and obligations of other U.S. Government Agencies | \$ 788,517 | \$ 750,273 | \$ 773,954 | 4.06% |
| Mortgage backed securities | 2,836,204 | 2,698,642 | 2,835,237 | 4.84% |
| Corporate bonds | 37,370 | 35,557 | 37,442 | 2.69% |
| Total | \$3,662,091 | \$3,484,472 | \$3,646,633 | |
| Accrued interest receivable | \$ 13,321 | | | |

| Underlying securities | Amortized cost of underlying securities | December 31, 2002 | Approximate market value of underlying securities | Weighted average interest rate |
|--------------------------------------------------------|--------------------------------------------------|-------------------------|------------------------------------------------------------|-----------------------------------------|
| | | Balance of borrowing | | |
| (In thousands) | | | | |
| U.S. Treasury Securities and obligations of other U.S. | | | | |
| Government Agencies | \$ 718,886 | \$ 646,095 | \$ 721,216 | 5.70% |
| P.R. Government Securities | 290 | 260 | 324 | 6.48% |
| Mortgage backed securities | 2,248,037 | 2,020,414 | 2,293,031 | 5.67% |
| Corporate bonds | 130,525 | 117,309 | 130,523 | 5.20% |
| Total | \$3,097,738 | \$2,784,078 | \$3,145,094 | |
| Accrued interest receivable | \$ 12,257 | | | |

The maximum aggregate balance outstanding at any month-end during 2003 was \$3,985,306,843 (2002 - \$3,342,284,753). The average balance during 2003 was approximately \$2,881,937,413 (2002 - \$2,784,701,323).

At December 31, 2003 and 2002, the securities under-lying such agreements were delivered to, and are being held by the dealers with which the repurchase agreements were transacted, except for transactions where the Corporation has agreed to repurchase similar but not identical securities.

NOTE 18 - ADVANCES FROM THE FEDERAL HOME LOAN BANK (FHLB)

Following is a detail of the advances from the FHLB:

| Maturity | Interest rate | 2003 | December 31, (In thousands) | 2002 |
|-------------------|---------------|------------------|--------------------------------|------------------|
| January 13, 2003 | 1.44% | | | \$ 50,000 |
| January 2, 2004 | 1.08% | \$ 50,000 | | |
| January 5, 2004 | 1.11% | 60,000 | | |
| January 7, 2004 | 1.15% | 80,000 | | |
| January 7, 2004 | 1.05% | 200,000 | | |
| January 23, 2004 | 1.18% | 200,000 | | |
| August 16, 2005 | 6.30% | 50,000 | | 50,000 |
| October 9, 2008 | 5.10% | 14,000 | | 14,000 |
| October 16, 2008 | 5.09% | 15,000 | | 15,000 |
| February 28, 2011 | 4.50% | 79,000 | | 79,000 |
| March 21, 2011 | 4.42% | 165,000 | | 165,000 |
| | | <u>\$913,000</u> | | <u>\$373,000</u> |

Advances are received from the FHLB under an Advances, Collateral Pledge and Security Agreement (the Collateral Agreement). Under the Collateral Agreement, the Corporation is required to maintain a minimum amount of qualifying mortgage collateral with a market value at least 110% of the outstanding advances. At December 31, 2003, specific mortgage loans with an estimated value of \$994,306,442 (2002 - \$553,144,554), as computed by Federal Home Loan Bank for collateral purposes, were pledged to the FHLB as part of the Collateral Agreement. The carrying value of such loans at December 31, 2003 amounted to \$1,304,868,690 (2002 - \$776,412,617). In addition, securities with an approximated market value of \$2,109,236 (2002 - \$26,587,830) and a carrying value of \$2,200,795 (2002 - \$29,149,623) were pledged to the FHLB.

NOTE 19 - SUBORDINATED NOTES

On December 20, 1995, the Corporation issued 7.63% subordinated capital notes in the amount of \$100,000,000 maturing in 2005. The notes were issued at a discount. At December 31, 2003 the outstanding balance net of the unamortized discount and notes repurchased was \$82,818,437 (2002 - \$82,815,105). Interest on the notes is payable semiannually and at maturity. The notes represent unsecured obligations of the Corporation ranking subordinate in right of payment to all existing and future senior debt including the claims of depositors and other general creditors. The notes may not be redeemed prior to their maturity. At December 31, 2003, the Corporation has transferred to capital reserves from the retained earnings account \$80,000,000 as a result of the requirement explained in Note 3 - "Stockholders' Equity."

NOTE 20 - UNUSED LINES OF CREDIT

The Corporation maintains unsecured standby lines of credit with other banks. At December 31, 2003 and 2002, the Corporation's total unused lines of credit with these banks amounted to approximately \$95,000,000 and \$180,000,000, respectively. At December 31, 2003, the Corporation has an available line of credit with the FHLB guaranteed with excess collateral, in the amount of approximately \$83,415,678.

NOTE 21 - EMPLOYEES' BENEFIT PLAN

FirstBank provides contributory retirement plans pursuant to Section 1165(e) of the Puerto Rico Internal Revenue Code for Puerto Rico employees and Section 401(K) of the U.S. Internal Revenue Code for U.S.V.I. employees. All employees are eligible to participate in the Plan after one year of service. Under the provisions of the Plan, the Bank contributes a quarter of the first 4% of each participant's compensation. Participants are permitted to contribute up to 10% of their annual compensation, limited to \$8,000 per year (\$12,000 for U.S.V.I. employees). Additional contributions to the Plan are voluntarily made by the Bank as determined by its Board of Directors. The Bank had a total plan expense of \$1,235,230; \$861,478 and \$845,227 during 2003, 2002 and 2001, respectively.

NOTE 22 - OTHER EXPENSES

A detail of other expenses follows:

| | 2003 | Year ended December 31, 2002 (In thousands) | 2001 |
|-------------------------------|-------------------|---------------------------------------------------|-------------------|
| Professional and service fees | \$ 9,402 | \$ 7,685 | \$ 7,461 |
| Communications | 6,959 | 5,865 | 5,395 |
| Revenue earning equipment | 1,642 | 1,588 | 1,578 |
| Supplies and printing | 2,034 | 1,963 | 1,282 |
| Other | 8,800 | 8,243 | 9,489 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | \$28,837 | \$25,344 | \$25,205 |
| | <u> </u> | <u> </u> | <u> </u> |

NOTE 23 - INCOME TAXES

The Corporation is subject to Puerto Rico income tax on its income from all sources. For United States income tax purposes, the Corporation is treated as a foreign corporation. Accordingly, it is generally subject to United States income tax only on its income from sources within the United States or income effectively connected with the conduct of a trade or business within the United States. Any United States income tax paid by the Corporation is creditable, within certain conditions and limitations, as a foreign tax

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credit against its Puerto Rico tax liability. In addition, certain interest including interest on U.S. Treasury and agency securities is not taxable in the U.S. under portfolio interest exception applicable to certain foreign corporations. The Corporation is also subject to B.V.I. and U.S.V.I taxes on its income from sources within these jurisdictions. However, any tax paid, subject to certain conditions and limitations, is creditable as a foreign tax credit against its P.R. tax liabilities.

The provision for income taxes was as follows:

| | 2003 | Year ended December 31, 2002 (In thousands) | 2001 |
|----------|-----------------|---------------------------------------------------|-----------------|
| Current | \$45,459 | \$30,938 | \$25,536 |
| Deferred | (6,787) | (8,611) | (5,402) |
| Total | <u>\$38,672</u> | <u>\$22,327</u> | <u>\$20,134</u> |

Income tax expense applicable to income before provision for income tax differs from the amount computed by applying the Puerto Rico statutory rate of 39% as follows:

| | 2003 | % of pre-tax Income | Year ended December 31, 2002 (Dollars in thousands) | % of pre-tax Income | 2001 | % of pre-tax Income |
|---------------------------------------|------------------|---------------------------|-----------------------------------------------------------|---------------------------|------------------|---------------------------|
| | Amount | | Amount | | Amount | |
| Computed income tax at statutory rate | \$ 74,494 | 39 | \$ 50,811 | 39 | \$ 41,789 | 39 |
| Benefit of net exempt income | (37,766) | (20) | (31,819) | (24) | (24,442) | (23) |
| Other-net | 1,944 | 1 | 3,335 | 2 | 2,787 | 3 |
| Total income tax provision | <u>\$ 38,672</u> | 20 | <u>\$ 22,327</u> | 17 | <u>\$ 20,134</u> | 19 |

The components of the deferred tax asset and liability were as follows:

| | 2003 | December 31, 2002 (In thousands) |
|------------------------------------------------------------------|-----------------|----------------------------------------|
| Deferred tax asset: | | |
| Allowance for loan losses | \$49,288 | \$ 43,645 |
| Unrealized loss on fair value hedges attributable to credit risk | | 379 |
| Other | 7,647 | 6,584 |
| Deferred tax asset | <u>\$56,935</u> | <u>\$ 50,608</u> |
| Deferred tax liability: | | |
| Unrealized gain on available for sale securities | (613) | (11,506) |
| Other | (16) | (98) |
| Deferred tax liability | <u>\$ (629)</u> | <u>\$(11,604)</u> |

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No valuation allowance was considered necessary for the deferred tax asset. Deferred tax assets and liabilities are presented net in the statement of financial condition under Other Assets.

The tax effect of the unrealized holding gain or loss for securities available for sale, outside the Corporation's international banking entities, was computed based on a 25% capital gain tax rate, and is included in accumulated other comprehensive income as a part of stockholders' equity.

The Puerto Rico Treasury Department conducted an investigation of the Bank's income tax returns for the years 1995, 1997, 1998 and 1999 and certain tax positions for the years 2000, 2001 and 2002. On July 2003, the Bank and the Puerto Rico Tax Department reached an agreement whereby the investigations of the aforementioned tax returns and tax positions were closed. The agreement did not have a material impact on the Corporation's results of operations.

NOTE 24 - COMMITMENTS

At December 31, 2003 certain premises are leased with terms expiring through the year 2021. The Corporation has the option to renew or extend certain leases from two to ten years beyond the original term. Some of these leases require the payment of insurance, increases in property taxes and other incidental costs. At December 31, 2003, the obligation under various leases follows:

| Year | Amount (In thousands) |
|----------------------|--------------------------|
| 2004 | \$ 5,506 |
| 2005 | 3,845 |
| 2006 | 3,259 |
| 2007 | 2,944 |
| 2008 | 2,209 |
| 2009 and later years | 7,272 |
| Total | <u>\$25,035</u> |

Rental expense included in occupancy and equipment expense was \$5,378,802 in 2003 (2002 - \$4,509,798; 2001 - \$4,240,437).

NOTE 25 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The information about the estimated fair values of financial instruments required by accounting principles generally accepted in the United States of America, is presented hereunder. The disclosure requirements exclude certain financial instruments and all non-financial instruments. Accordingly, the aggregate fair value amounts presented do not represent Management's estimate of the underlying value of the Corporation. A summary table of estimated fair values and carrying values of financial instruments at December 31, 2003 and 2002 follows:

| | Estimated fair value | 2003 Carrying value | December 31, Estimated fair value (In thousands) | 2002 Carrying value |
|----------------------------------------------------------------------------|-------------------------|---------------------------|-----------------------------------------------------------|---------------------------|
| Assets: | | | | |
| Cash and due from banks and money market instruments | \$1,060,244 | \$1,060,244 | \$ 381,965 | \$ 381,965 |
| Investment securities | 4,316,032 | 4,349,615 | 3,422,718 | 3,419,380 |
| FHLB stock | 45,650 | 45,650 | 35,630 | 35,630 |
| Loans receivable, including loans held for sale – net | 6,912,047 | 6,918,140 | 5,527,122 | 5,525,939 |
| Interest rate swaps, included in other assets | 864 | 864 | 27,022 | 27,022 |
| Liabilities: | | | | |
| Deposits | 6,769,147 | 6,765,107 | 5,499,998 | 5,482,918 |
| Federal funds purchased and securities sold under agreements to repurchase | 3,806,685 | 3,650,297 | 2,966,580 | 2,793,540 |
| Advances from FHLB | 933,017 | 913,000 | 399,941 | 373,000 |
| Subordinated notes | 88,725 | 82,818 | 89,084 | 82,815 |
| Interest rate swaps, included in other liabilities | 43,243 | 43,243 | 9,739 | 9,739 |

The estimated fair values are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in the underlying assumptions used in calculating the fair values could significantly affect the results. In addition, the fair value estimates are based on outstanding balances without attempting to estimate the value of anticipated future business. Therefore, the estimated fair values may materially differ from the values that could actually be realized on a sale.

The estimated fair values were calculated using certain facts and assumptions, which vary depending on the specific financial instrument, as follows:

Cash and due from banks and money market instruments

The carrying amounts of cash and due from banks and money market instruments are reasonable estimates of their fair values.

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Investment securities

The fair values of investment securities are the market values based on quoted market prices and dealer quotes.

FHLB stock

Investments in FHLB stock are valued at their redemption values.

Loans receivable, including loans held for sale - net

The fair value of all loans was estimated using discounted present values. Loans were classified by type, such as commercial, residential mortgage, credit card and automobile. These asset categories were further segmented into fixed and adjustable rate categories and by accruing and non-accruing groups. Performing floating rate loans were valued at book if they reprice at least once every three months, as were performing credit lines. The fair value of fixed rate performing loans was calculated by discounting expected cash flows through the estimated maturity date. Recent prepayment experience was assumed to continue for mortgage loans, auto loans and personal loans. Other loans assumed little or no prepayment. Prepayment estimates were based on the Corporation's historical data for similar loans. Discount rates were based on the Treasury Yield Curve at the date of the analysis, with an adjustment, which reflects the risk and other costs inherent in the loan category.

Non-accruing loans covered by a specific loan loss allowance were viewed as immediate losses and were valued at zero. Other non-accruing loans were arbitrarily assumed to be repaid after one year. Presumably this would occur either because loan is repaid, collateral has been sold to satisfy the loan or because general reserves are applied to it. The principal of non-accruing loans not covered by specific reserves was discounted for one year at the going rate for similar new loans.

Deposits

The estimated fair values of demand deposits and savings accounts, which are the deposits with no defined maturities, equal the amount payable on demand at the reporting date. For deposits with stated maturities, but that reprice at least quarterly, the fair values are also estimated to be the amount on books at the reporting date.

The fair values of fixed rate deposits with stated maturities, are based on the present value of the future cash flows expected to be paid on deposits. The cash flows are based on contractual maturities; no early repayments are assumed. Discount rates are based on the LIBOR yield curve. The estimated fair values of total deposits exclude the fair value of core deposit intangibles, which represent the value of the customer relationship measured by the values of demand deposits and savings deposits that bear a low or zero rate of interest and do not fluctuate in response to changes in interest rates.

Federal funds and securities sold under agreements to repurchase

Federal funds purchased and some repurchase agreements reprice at least quarterly, and their outstanding balances are estimated to be their fair values. Where longer commitments are involved, fair values are estimated using indications from brokers of the cost of unwinding the transactions as of December 31, 2003.

Advances from FHLB and subordinated notes

The fair values of advances from FHLB with fixed maturities are determined using discounted cash flow analysis over the full term of the borrowings, or using indications from brokers of the fair value of similar transactions. The cash flows assumed no early repayment of the borrowings. Discount rates are based on the LIBOR yield curve. The fair value of subordinated notes is based on indications of market prices.

Interest rate swaps

The fair values of the interest rate swaps were provided by the counter party.

NOTE 26 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information follows:

| | 2003 | Year ended December 31, 2002 (In thousands) | 2001 |
|----------------------------------------------|-----------|---------------------------------------------------|-----------|
| Cash paid for: | | | |
| Interest | \$231,953 | \$274,548 | \$275,360 |
| Income tax | 23,027 | 15,799 | 12,535 |
| Non-cash investing and financing activities: | | | |
| Additions to other real estate owned | 3,473 | 3,338 | 1,797 |

NOTE 27 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK, COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT

The following table presents a detail of commitments to extend credit and standby letters of credit:

| | 2003 | December 31, 2002 (In thousands) | 2002 |
|---------------------------------------------------------------------|-----------|----------------------------------------|-----------|
| Financial instruments whose contract amounts represent credit risk: | | | |
| Commitments to extend credit: | | | |
| To originate loans | \$165,139 | | \$208,925 |
| Unused credit card lines | 181,293 | | 307,492 |
| Unused personal lines of credit | 20,942 | | 14,859 |
| Commercial lines of credit | 472,532 | | 439,996 |
| Commercial letters of credit | 94,511 | | 80,448 |
| Standby letters of credit | 29,207 | | 30,313 |

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. Management uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. These commitments generally expire within one year. Since certain commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. In the case of credit cards and personal lines of credit, the Corporation can at any time and without cause, cancel the unused credit facility. The amount of collateral, obtained if deemed necessary by the Corporation upon extension of credit, is based on Management's credit evaluation of the borrower. Rates charged on

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the loans that are finally disbursed, are the rates being offered at the time the loans are closed, therefore, no fee is charged on these commitments. The fee is the amount which is used as the estimate of the fair value of commitments.

In general, commercial and standby letters of credit are issued to facilitate foreign and domestic trade transactions. Normally, commercial and standby letters of credit are short-term commitments used to finance commercial contracts for the shipment of goods. The collateral for these letters of credit include cash or available commercial lines of credit. The fair value of commercial and standby letters of credit is based on the fees currently charged for such agreements, which at December 31, 2003 is not significant.

Interest rate risk management

The operations of the Corporation are subject to interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in different amounts. As part of the interest rate risk management, the Corporation has entered into a series of interest rate swap agreements. Under the interest rate swaps, the Corporation agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional principal amount. Net interest settlements on interest rate swaps are recorded as an adjustment to interest expense on deposit accounts, interest income on investment accounts or derivatives gain (loss) in the case of interest rate swaps that do not qualify for hedge accounting.

The following table indicates the types of swaps used:

| | Notional amount (In thousands) |
|---------------------------------------|-----------------------------------|
| Pay-fixed and receive-variable swaps: | |
| Balance at December 31, 2001 | \$ 58,165 |
| New Contracts | 20,000 |
| | <hr/> |
| Balance at December 31, 2002 | \$ 78,165 |
| New contracts | 12,000 |
| | <hr/> |
| Balance at December 31, 2003 | \$ 90,165 |
| | <hr/> |
| Receive-fixed and pay variable swaps: | |
| Balance at December 31, 2001 | \$ 1,495,000 |
| Expired contracts | (1,193,681) |
| New contracts | 1,656,590 |
| | <hr/> |
| Balance at December 31, 2002 | \$ 1,957,909 |
| Expired contracts | (1,170,879) |
| New contracts | 2,085,342 |
| | <hr/> |
| Balance at December 31, 2003 | \$ 2,872,372 |
| | <hr/> |

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Interest rate swap agreements under which the Corporation agrees to pay variable rates of interest are considered to be a hedge against changes in the fair value of the Corporation fixed-rate brokered certificates of deposit. The interest rate swap agreements are reflected at fair value in the Corporation's consolidated statement of financial condition and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its carrying value plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. The hedge relationship is estimated to be 100 percent effective; therefore, there is no impact on the statement of income nor on comprehensive income, because the gain or loss on the swap agreements will completely offset the loss or gain on the certificates of deposit. The Corporation, in order to achieve 100% effectiveness, incorporates in the hedge of fixed-rate brokered CD's the right to lower a specific notional amount for a stated period of time which is different from stated maturity, in the case of cancellations prior to maturity. The net effect of this accounting treatment is that the interest expense on the hedged certificates of deposit generally reflects variable interest rates.

Interest rate swap agreements under which the Corporation agrees to pay fixed rates of interest are considered to be a hedge against changes in the fair value attributable to market interest rates of fixed rate available for sale corporate bonds. Accordingly, the interest rate swap agreements and the securities being hedged are reflected at fair value in the Corporation's consolidated statement of financial condition. The adjustment of the hedged item's carrying amount attributable to the hedged risk is recorded in earnings in order to offset the gain or loss on the hedging instrument. The change in the fair value of the security attributable to credit risk is recorded in other comprehensive income. The hedge relationship is estimated to be 100 percent effective; therefore, there is no impact on the statement of income, because the gain or loss on the interest rate swap reflects the full amount of the gain or loss on the hedged item attributable to the hedged risk. The net effect of this accounting treatment is that the interest of the fixed-rate securities being hedged generally reflects variable interest rates. During the year ended on December 31, 2002, the Corporation sold certain corporate bonds to which interest rate swap agreements with an aggregate notional principal balance of \$53.2 million were attributable. Therefore, these swaps no longer qualify for hedge accounting, and an unrealized gain of \$619,473 for 2003 was recorded to reflect changes in the fair value and net interest settlements of these derivatives as part of derivative gain in the Other Income section of the statement of income.

Interest rate swaps with an aggregate notional principal balance of \$25 million had an unrealized loss of \$1,098,849 (2002 - \$1,517,268 unrealized loss), attributable to credit risk, which was recorded in accumulated comprehensive income net of income tax.

Pay-fixed swaps at December 31, 2003 had a fixed weighted average rate payment of 6.53% (2002 - 6.53%) and a floating weighted average rate receiving of 3.15% (2002 - 3.53%). Receive-fixed swaps at December 31, 2003, have a floating weighted average rate payment of 1.21% (2002 - 1.58%) and a fixed weighted average rate receiving of 5.28% (2002 - 5.60%). Floating rates on pay fixed swaps range from 175 to 240 basis points over LIBOR and from minus 3 basis points to 6 basis points over LIBOR rate on receive fixed swaps.

For swap transactions, the amounts potentially subject to credit loss are the net streams of payments under the agreements and not the notional principal amounts used to express the volume of the swaps. At December 31, 2003, the Corporation had total net receivable of \$18,881,644 (2002 - \$12,147,354) related to the swap transactions. The Corporation controls the credit risk of its interest rate swap agreements through approvals, limits, and monitoring procedures. The Corporation does not anticipate non-performance by the counter parties. The Corporation has a policy of diversifying swap counter parties to reduce the risk that any counter party will fail. As part of the swap transactions, the Corporation is required to pledge collateral in the form of deposits in banks or securities. The book value and aggregate market value of securities pledged as collateral for interest rate swaps at December 31, 2003 was approximately \$137 million and \$135 million, respectively (2002 - \$42.1 million and \$42.9 million, respectively). The final maturity of the swaps at December 31, 2003 ranged from one month through twenty five years (2002 - from one year through nineteen years).

Interest rate swaps with an aggregate notional principal balance of \$2,962,536,500 (2002-\$2,036,074,000) had a gross unrealized gain of approximately \$864,391 (2002 - \$27,021,907) and gross unrealized loss of \$43,242,808 (2002 - \$9,738,638), which are included in the Other Assets category and Other Liabilities category, respectively.

Interest rate protection agreements (Caps)

To satisfy the needs of its customers, the Corporation may enter into non-hedging activities. In June 2003, the Corporation entered into two interest rate cap agreements based on a notional amount of \$25 million each. Under the agreements, which are structured with the same terms and conditions, the Corporation participates as a buyer in one of the agreements and as the seller in the other agreement. At December 31, 2003, the Corporation included \$205,066 and \$205,066 in Other Assets and Other Liabilities, respectively, pertaining to the fair value of these contracts.

Also, from time to time, the Corporation uses interest rate protection agreements (Caps) to limit its exposure to rising interest rates on its deposits. Under these agreements, the Corporation pays an up front premium or fee for the right to receive cash flow payments in excess of the predetermined cap rate; thus, effectively capping its interest rate cost for the duration of the agreement. There were no caps agreements of this type outstanding at December 31, 2003.

On January 1, 2001 a loss of approximately \$1.3 million was recognized in the statement of income as a cumulative effect of the adoption of SFAS No. 133, as a result of unamortized premium paid for caps of \$1.5 million less an estimated fair market value of \$200,000. Prior to the implementation of SFAS No. 133, the premium was amortized as an adjustment to interest expense on borrowings.

NOTE 28 - SEGMENT INFORMATION

The Corporation has four reportable segments: Retail Banking, Treasury and Investments, Commercial Corporate Banking and other. Management determined the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors, such as the Corporation's organizational chart, nature of the products, distribution channels and the economic characteristics of the products, were also considered in the determination of the reportable segments.

The Retail Banking segment is composed of the Corporation's branches and loan centers together with the retail products of deposits and consumer loans. Consumer loans include loans such as personal, residential real estate, auto, credit card and small loans. Finance leases are also included in Retail banking. The Commercial Corporate segment is composed of commercial loans including commercial real estate and construction loans. The Treasury and Investment segment is responsible for the Corporation investment portfolio and treasury functions. The Other Income segment is mainly composed of insurance and other products.

The accounting policies of the segments are the same as those described in Note 2 - "Summary of Significant Accounting Policies."

The Corporation evaluates the performance of the segments based on net interest income after the estimated provision for loan losses, other income and direct operating expenses. The segments are also evaluated based on the average volume of its earning assets less the allowance for loan losses.

The only intersegment transaction is the net transfer of funds by the Treasury and Investment segment and other segments. The Treasury and Investment segment sells funds to the Retail and Commercial Corporate segments to finance their lending activities and purchases funds gathered by those segments. The interest rates charged or credited by Investment and Treasury is based on market rates.

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The following table presents information about the reportable segments:

| | Retail Business | Treasury and Investments | Commercial Corporate (In thousands) | Other | Total |
|---------------------------------------------|--------------------|-----------------------------|-------------------------------------------|----------|-------------|
| For the Year Ended December 31, 2003 | | | | | |
| Interest Income | \$ 273,678 | \$ 146,959 | \$ 116,044 | | \$ 536,681 |
| Net (charge) credit for transfer of funds | (39,972) | 66,064 | (26,092) | | |
| Interest Expenses | (46,178) | (198,294) | | | (244,472) |
| Net interest income | 187,528 | 14,729 | 89,952 | | 292,209 |
| Provision for Loan Losses | (32,523) | | (23,393) | | (55,916) |
| Other Income | 69,224 | 36,179 | 6,232 | \$ 7,076 | 118,711 |
| Direct Operating Expenses | (88,733) | (2,452) | (7,388) | (1,622) | (100,195) |
| Segment Income | \$ 135,496 | \$ 48,456 | \$ 65,403 | \$ 5,454 | \$ 254,809 |
| Average Earnings Assets | \$3,573,736 | \$3,817,982 | \$2,594,551 | | \$9,986,269 |
| For the Year Ended December 31, 2002 | | | | | |
| Interest Income | \$ 230,141 | \$ 188,194 | \$ 121,698 | | \$ 540,033 |
| Net (charge) credit for transfer of funds | (46,552) | 97,360 | (50,808) | | |
| Interest Expenses | (58,835) | (214,349) | | | (273,184) |
| Net interest income | 124,754 | 71,205 | 70,890 | | 266,849 |
| Provision for Loan Losses | (43,090) | | (19,212) | | (62,302) |
| Other Income | 39,352 | 8,643 | 5,080 | \$ 5,417 | 58,492 |
| Direct Operating Expenses | (74,357) | (2,227) | (6,439) | (697) | (83,720) |
| Segment Income | \$ 46,659 | \$ 77,621 | \$ 50,319 | \$ 4,720 | \$ 179,319 |
| Average Earnings Assets | \$2,410,548 | \$3,746,245 | \$2,258,025 | | \$8,414,818 |
| For the Year Ended December 31, 2001 | | | | | |
| Interest Income | \$ 217,021 | \$ 162,478 | \$ 136,757 | | \$ 516,256 |
| Net (charge) credit for transfer of funds | (21,043) | 102,123 | (81,081) | | |
| Interest Expenses | (71,410) | (208,791) | | | (280,201) |
| Net interest income | 124,568 | 55,810 | 55,676 | | 236,055 |
| Provision for Loan Losses | (44,541) | | (16,489) | | (61,030) |
| Other Income | 35,384 | 10,211 | 4,440 | \$ 2,945 | 52,980 |
| Direct Operating Expenses | (69,198) | (1,844) | (5,664) | (362) | (77,069) |
| Segment Income | \$ 46,213 | \$ 64,177 | \$ 37,963 | \$ 2,583 | \$ 150,936 |
| Average Earnings Assets | \$1,970,768 | \$2,627,205 | \$1,781,314 | | \$6,379,287 |

The following table presents a reconciliation of the reportable segment financial information to the consolidated totals:

| | 2003 | Year ended December 31, 2002 (In thousands) | 2001 |
|------------------------------------------------------|------------|---------------------------------------------------|------------|
| Net Income: | | | |
| Total income for segments | \$ 254,809 | \$ 179,319 | \$ 150,936 |
| Other Operating Expenses | (63,799) | (49,036) | (43,786) |
| Income Taxes | (38,672) | (22,327) | (20,134) |
| Income before cumulative effect of accounting change | \$ 152,338 | \$ 107,956 | \$ 87,016 |
| Cumulative effect of accounting change | | | (1,015) |
| Total consolidated net income | \$ 152,338 | \$ 107,956 | \$ 86,001 |

| | | | |
|-------------------------------------------|--------------|-------------|-------------|
| Average assets: | | | |
| Total average earning assets for segments | \$ 9,986,269 | \$8,414,818 | \$6,379,287 |
| Average non earning assets | 443,993 | 333,404 | 322,115 |
| Total consolidated average assets | \$10,430,262 | \$8,748,222 | \$6,701,402 |

NOTE 29 - LITIGATION

The Corporation is a defendant in a number of legal proceedings arising in the normal course of business. Management believes, based on the opinion of legal counsel, that the final disposition of these matters will not have a material adverse effect on the Corporation's financial position or results of operations.

NOTE 30 - FIRST BANCORP (HOLDING COMPANY ONLY) FINANCIAL INFORMATION

The following condensed financial information presents the financial position of the Holding Company only at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years ended on December 31, 2003, 2002 and 2001.

Statements of Financial Condition

| | December 31, 2003 (In thousands) | 2002 |
|------------------------------------------------------------|----------------------------------------|-------------------|
| Assets: | | |
| Cash and due from banks | \$ 17,808 | \$ 26,276 |
| Money market instruments | 51,371 | 300 |
| | <u> </u> | <u> </u> |
| Investment securities available for sale, at market value: | | |
| Other investments | 62,319 | 42,674 |
| | <u> </u> | <u> </u> |
| Total investment securities available for sale | 62,319 | 42,674 |
| | <u> </u> | <u> </u> |
| Investment securities held to maturity, at cost: | | |
| United States Government obligations | — | 5,700 |
| | <u> </u> | <u> </u> |
| Total investment securities held to maturity | — | 5,700 |
| | <u> </u> | <u> </u> |
| Loans receivable | 5,542 | 6,000 |
| Investment in FirstBank Puerto Rico, at equity | 948,644 | 718,480 |
| Investment in FirstBank Insurance Agency, at equity | 3,175 | 1,445 |
| Other assets | 829 | 726 |
| | <u> </u> | <u> </u> |
| Total assets | \$1,089,688 | \$801,601 |
| | <u> </u> | <u> </u> |
| Liabilities and Stockholders' Equity: | | |
| Accounts payable and other liabilities | \$ 119 | \$ 3,177 |
| Stockholders' equity | 1,089,569 | 798,424 |
| | <u> </u> | <u> </u> |
| Contingencies and commitments | | |
| Total liabilities and stockholders' equity | \$1,089,688 | \$801,601 |
| | <u> </u> | <u> </u> |

Statements of Income

| | 2003 | Year ended December 31, 2002 (In thousands) | 2001 |
|---------------------------------------------------------------------------------|------------------|---------------------------------------------------|-----------------|
| Income: | | | |
| Interest income on investment securities | \$ 221 | \$ 351 | \$ 658 |
| Interest income on other investments | 114 | 248 | 250 |
| Interest income on loans | 273 | 5,269 | 306 |
| Dividend from FirstBank | 48,640 | 38,855 | 30,316 |
| Other income | 676 | 705 | 668 |
| | <u>49,924</u> | <u>45,428</u> | <u>32,198</u> |
| Expenses: | | | |
| Interest expense | 17 | 2 | |
| Other operating expenses | 640 | 709 | 559 |
| | <u>657</u> | <u>711</u> | <u>559</u> |
| Gain (loss) on sale of investments, net | <u>12,406</u> | <u>(22,321)</u> | <u>1,093</u> |
| Income before income taxes and equity in undistributed earnings of subsidiaries | 61,673 | 22,396 | 32,732 |
| Income taxes | 472 | 2,250 | 170 |
| Equity in undistributed earnings of subsidiaries | <u>91,137</u> | <u>87,810</u> | <u>53,439</u> |
| Net income | 152,338 | 107,956 | 86,001 |
| Other comprehensive income, net of tax | <u>2,647</u> | <u>39,675</u> | <u>13,306</u> |
| Comprehensive income | <u>\$154,985</u> | <u>\$147,631</u> | <u>\$99,307</u> |

The principal source of income for the Holding Company consists of the earnings of FirstBank

Statement of Cash Flows

| | 2003 | Year ended December 31, 2002 (In thousands) | 2001 |
|-----------------------------------------------------------------------------------|------------|---------------------------------------------------|-----------|
| Cash flows from operating activities: | | | |
| Net income | \$ 152,338 | \$ 107,956 | \$ 86,001 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in undistributed earnings of subsidiaries | (91,137) | (87,810) | (53,439) |
| Net loss (gain) on sale of investments securities | (12,406) | 22,321 | (1,093) |
| Net (increase) decrease in other assets | 333 | (175) | (75) |
| Net increase (decrease) in other liabilities | (2,121) | 2,069 | (186) |
| Total adjustments | (105,331) | (63,595) | (54,793) |
| Net cash provided by operating activities | 47,007 | 44,361 | 31,208 |
| Cash flows from investing activities: | | | |
| Capital contribution to subsidiaries | (150,000) | (88,000) | (80,305) |
| Loans originated | | (88,000) | (5,682) |
| Purchases of securities available for sale | (62,569) | (1,235,145) | (24,203) |
| Sales and maturity of securities held to maturity and available for sale | 71,549 | 1,240,079 | 10,227 |
| Other investing activities | 456 | 87,685 | |
| Net cash used in investing activities | (140,564) | (83,381) | (99,963) |
| Cash flows from financing activities: | | | |
| Net decrease in other borrowings | | | |
| Proceeds from issuance on preferred stock | 182,999 | 88,906 | 100,069 |
| Exercise of stock options | 1,120 | 1,341 | 1,355 |
| Cash dividends paid | (47,959) | (42,373) | (30,343) |
| Treasury stock acquired | | | (1,930) |
| Net cash provided by financing activities | 136,160 | 47,874 | 69,151 |
| Net increase in cash | 42,603 | 8,854 | 396 |
| Cash and cash equivalents at the beginning of the year | 26,576 | 17,722 | 17,326 |
| Cash and cash equivalents at the end of the year | \$ 69,179 | \$ 26,576 | \$ 17,722 |
| Cash and cash equivalents include: | | | |
| Cash and due from banks | \$ 17,808 | \$ 26,276 | \$ 17,422 |
| Money market instruments | 51,371 | 300 | 300 |
| | \$ 69,179 | \$ 26,576 | \$ 17,722 |

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STOCKHOLDERS' INFORMATION

Independent Certified Public Accountants

PriceWaterhouseCoopers LLP

Annual Meeting:

The annual meeting of stockholders will be held on April 29, 2004, at 2:00 p.m., at the main office of the Corporation, located at 1519 Ponce de León Avenue, Santurce, Puerto Rico.

Telephone

(787) 729-8200

Internet:

<http://www.firstbankpr.com>

Additional Information and Form 10-K:

Additional financial information about First BanCorp may be requested to Mrs. Laura Villarino, Senior Vice President and Controller, PO Box 9146, Santurce, Puerto Rico 00908. First BanCorp's filings with the Securities and Exchange Commission (SEC) may be accessed in the website maintained by the SEC at <http://www.sec.gov>. and at our web site <http://www.firstbankpr.com>, First BanCorp section, Company Filings link.

Transfer Agent and Registrar:

The Bank of New York
1-800-524-4458

Address Shareholder Inquiries To:

Shareholder Relations Department
PO Box 11258
Church Street Station
New York, NY 10286

E-mail Address:

shareowners@bankofny.com

The Bank of New York's Stock Transfer Website:

<http://www.stockbny.com>

Send Certificates for Transfer and Address Changes To:

Receive and Deliver Department
PO Box 11002
Church Street Station
New York, NY 10286

CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS

The Board of Directors of First BanCorp (together with its affiliates, the "Corporation") hereby adopts the following Code of Ethics, which applies to the Corporation's Chief Executive Officer, Chief Financial Officer, Comptroller, Executive Vice Presidents and to all professional employees in the areas of finance, internal audit and treasury, members of the corporation's risk management council (together the "Senior Financial Officers").

First Bancorp's Policy Statement and Standard of Conduct for Members of the Board of Directors, Executive Officers and Principal Shareholders, Regulation "O" Policy, Insider Trading Policy and Employee Code of Conduct and Code of Ethics (the "Policies") include the principles that govern the conduct of the Corporation's directors, executive officers and employees. Senior Financial Officers are bound by the ethical and professional standards set forth in such Policies, as well as the ones included in this Code.

Responsibilities of Senior Financial Officers:

1. Senior Financial Officers must at all times act and handle actual or apparent conflicts of interest between personal and professional relationships in an honest and ethical manner.
2. Senior Financial Officers must comply with all laws, rules and regulations applicable to the Corporation.
3. Senior Financial Officers are responsible for full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the Corporation with the SEC. Accordingly, it is the responsibility of each Senior Financial Officer promptly to bring to the attention of management's Disclosure Committee and the Audit Committee of the Board of Directors any material information of which he or she may become aware that affects the disclosures made by the Corporation in its public filings or otherwise assist the Disclosure Committee in fulfilling its responsibilities.
4. Each Senior Financial Officer must promptly bring to the attention of management's Disclosure Committee and the Audit Committee any information he or she may have concerning (a) significant deficiencies in the design or operation of internal controls which could adversely affect the Corporation's ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's financial reporting, disclosures or internal controls.

5. Each Senior Financial Officer shall promptly bring to the attention of management's Disclosure Committee and to the Audit Committee any information he or she may have concerning any violation of the Code of Ethics or the Policies, including any actual or apparent conflict of interest between personal and professional relationships, involving any management or other employees who have a significant role in the Corporation's financial reporting, disclosures or internal controls.
6. Senior Financial Officers shall promptly bring to the attention of the General Counsel, the Disclosure Committee and the Audit Committee any information he or she may have concerning evidence of a material violation of the securities or other laws, rules or regulations applicable to the Corporation and the operation of its business, by the Corporation or any agent thereof.
7. The Board of Directors will determine, or designate appropriate persons to determine (which may include members of management or committees of the Board of Directors), appropriate actions to be taken in the event of violations of the Standards of Conduct or of the Policies by the Corporation's Senior Financial Officers. Such actions will be reasonably designed to deter wrongdoing and to promote accountability for adherence to the Code of Conduct and to the Policies, and may include written notices to the individual involved that the Board has determined that there has been a violation, censure by the Board, demotion or re-assignment of the individual involved, suspension with or without pay or benefits (as determined by the Board), and termination of the individual's employment. In determining what action is appropriate in a particular case, the Board of Directors or its designee will take into account all relevant information, including the nature and severity of the violation, whether the violation was a single occurrence or repeated occurrences, whether the violation appears to have been intentional or inadvertent, whether the individual in question had been advised prior to the violation as to the proper course of action and whether or not the individual in question had committed other violations in the past.
8. Any waiver of any part of the Code of Ethics for the Senior Financial Officers may be made only by the Audit Committee and will be promptly disclosed to shareholders as required by the rules of the SEC and the NYSE.

EXHIBIT 14.2

FIRST BANCORP

CODE OF ETHICS APPLICABLE TO ALL EMPLOYEES

OUR ENDEAVOR IS THAT THE TRUST CUSTOMERS HAVE DEPOSITED IN US, SERVES AS THE MOTIVATION NECESSARY TO ENSURE THAT ALL OUR ACTIVITIES ARE GUIDED BY A SUPERIOR INTEGRITY AND HONESTY, AND TO DEMONSTRATE OUR GENUINE DESIRE AND COMMITMENT TO PROVIDE AN EXCELLENT SERVICE TO ALL. TO ATTAIN THAT GOAL WE WILL FIRMLY ABIDE BY THE DISPOSITIONS OF THIS CODE OF ETHICS.

DECLARATION OF PURPOSE

Our business is built from the trust that customers have deposited in our institution and its employees. Throughout the years FirstBank has maintained an exceptional reputation in its relationship to customers, suppliers, shareholders, and the community.

It is imperative that all our actions be aimed at strengthening that trust. This will be attained if we perform our duties with elaborate effort and dedication, defending our institution's best interests, and ensuring that its resources are used in accordance with the strict norms that guide a sound banking business, always maintaining a firm dedication to providing excellent service, within a frame of personal and professional behavior which guarantees an environment and working conditions based on fairness, equity, consideration, and respect to our principles and values. To facilitate the understanding of, and compliance with, our obligations, and to encourage uniformity, we adopt this Code of Ethics which complements the Behavior Code of our institution.

The Human Resources Division will be responsible for ensuring that each of FirstBank's employees receives, understands and complies with this Code of Ethics, and for investigating all infractions. In the same way, all officers, managers and supervisors are responsible for the compliance with the terms of this Code within their area of supervision.

FIRST

DEFINITIONS

SHAREHOLDER:

Person or entity that owns one, or more shares of a corporation.

AGENT:

Person authorized to act in the name of, and in representation of another.

BANKING:

Economic sector which includes all institutions whose primary function is to accept deposits in cash or other values; grant credit and open checking and/or savings accounts; grant loans; issue money orders, notes or other negotiable instruments; and conduct any other business transaction authorized by law.

CONFLICTIVE PERSONAL BENEFIT:

Any benefit offered, requested or received by a director, officer, employee or agent of an institution from a third party, or in representation of a third party, which is offered, requested or received in exchange for, or in relation to, any business, commercial transaction, service or confidential information of such institution, its subsidiaries or affiliates, or for reasons related to the person's position within the institution.

CLIENT:

Person or entity that maintains a relationship with the institution, whether it be through deposits, loans, credit cards, or any other service offered by the institution.

DIRECTOR:

Any member of the Board of Directors. It includes members of FirstBank's Board of Directors and members of the Board of Directors of any of its subsidiaries.

ENTITY:

Corporation, society or any other form of business.

FAMILY:

For the purpose of this Code of Ethics, the word family shall include the following:

1. Husband/wife, father/mother, son/daughter, brothers/sisters, grandparents, uncles/aunts, and grandchildren of a person.
2. Father/mother and brothers/sisters of the person's husband/wife.
3. Husband/wife of a daughter/son or brother/sister.

FIRSTBANK PUERTO RICO:

Commercial Bank organized and doing business under the laws of the Commonwealth of Puerto Rico and under the applicable laws and regulations of the United States of America. Any reference herein included to "FirstBank", the "Bank" or "the institution", shall mean FirstBank Puerto Rico.

FUNCTIONARY:

Any and all of FirstBank's employees, whether on a regular, part time or temporary basis.

COMMON ECONOMIC INTEREST:

A common economic interest exists in any situation where a Bank's functionary or a member of his/her family participates in an economic activity with any person or entity. Such term will apply to any entity in which the functionary or any member of his/her family has a common economic interest.

PROSPECT:

Includes any person or entity which has requested, or is in the process of requesting, to establish a relationship with FirstBank, whether as a client or as a supplier.

SUPPLIER:

Person or entity which sells, or provides, any kind of good or service to FirstBank and/or its subsidiaries.

SUPERVISOR:

A FirstBank employee who has the responsibility of supervising the work of other FirstBank employees.

COMMERCIAL TRANSACTION:

Any effort or business of which FirstBank, or any of its subsidiaries, is a part or has some direct or indirect interest in.

SECOND

PRIVILEGED INFORMATION

CLIENTS AND SUPPLIERS

CONFIDENTIALITY

Confidentiality is one of the fundamental principles upon which the relationship between the Bank and its clients and suppliers is based. All of FirstBank's employees must maintain all information including, but not limited to, information related to clients, suppliers, the Bank's functionaries, in strict confidentiality.

All information related to account balances, credit history, savings and investments reports, finances, businesses, or any other information which clients or consumers bring to our attention, as well as all matters discussed in the work units related to clients, customers or suppliers will be held in strict confidentiality. Such information will only be provided or discussed with the institution's functionaries that are duly authorized to deal with the information for FirstBank's genuine purposes.

Any functionary who receives a citation or any other legal or administrative request, which specifically asks for the disclosure of information, will refer such requirement to his/her immediate supervisor and to the Legal Counsel's Office.

INFORMATION RELATED TO FIRSTBANK AND ITS SUBSIDIARIES

The publication or use of privileged or confidential information related to the Bank's operations and other internal matters for personal benefit, or for that of third parties, before said information has been disclosed by the institution, constitutes an unlawful appropriation.

None of the Bank's functionaries will disclose or discuss with non-authorized personnel, information related to internal matters previously discussed, approved or under the consideration of the Board of Directors, top management, or any of the institution's departments or subsidiaries, including, but not limited, to:

- Reports or information submitted to regulatory agencies.
- Information about the Bank or its clients related to potential mergers, acquisitions, investments, treaties, assets, cash flow, projections, client's identity, business plans, strategies, and commercial opportunities.
- Computer data, codes, passwords.
- Documents, information and/or printed material, which could influence an investment decision.
- Any other information of a privileged or confidential nature. According to the Bank's rules, only functionaries duly authorized by the Board of Directors can reveal information related to the Bank's activities.

The violation of these norms, will constitute a breach of the obligations and responsibilities of an employee toward the Bank, and may also constitute a crime under state and/or federal laws.

THIRD

CONFLICT OF INTERESTS

A conflict of interest exists when a functionary has a personal interest in any contract, agreement, loan, or transaction in which the Bank or its subsidiaries has some kind of direct or indirect interest. All of the Bank's functionaries have the obligation to avoid any kind of conflict of interest or the vestige of such a conflict. All of the Bank's functionaries have the responsibility to inform their immediate supervisor about those situations where a conflict or the vestige of a conflict may exist.

CREDIT EXTENSION

All functionaries must identify any transaction with the Bank involving a family member or any other person or entity with whom the functionary or a member of his/her immediate family has some kind of common economic interest, as this term is defined.

No Bank functionary may participate in the consideration or approval of transactions where a person or organization with which the functionary has some personal or common economic interest, is involved. It is the responsibility of the functionary to refer any such transaction to his/her immediate supervisor, along with a disclosure of the existing relationship.

BUSINESSES WITH CLIENTS OR SUPPLIERS

Functionaries will avoid participating in any kind of business relationship with the Bank's clients or suppliers. Functionaries will notify their supervisors or the Human Resources Division of any common economic interest that may exist between them and any client or supplier of the Bank.

USE OF PRIVILEGED INFORMATION

The disclosure or use of confidential or privileged information about the Bank, for personal benefit or for that of third parties, will constitute a conflict of interest. Any information that has not been disclosed by the Bank and that is related to the Bank's matters or to its internal operations will be considered confidential or privileged information.

Disclosure or use of such information for personal benefit or for that of third parties may constitute a crime under state and/or federal laws.

FAVORITISM, CONCESSIONS, GIFTS

All functionaries representing the Bank in any and all commercial transactions will be well aware of their responsibilities and obligations. Said functionaries will look after the Bank's best interests, and will not be partial to the needs of the client, supplier, prospective client, person, or organization participating in the transaction in detriment of the institution or its norms.

Whenever a functionary has any personal or common economic interest with a vendor, supplier, or other person providing a service to the Bank, he/she will abstain from participating in any discussion or determination regarding said service and will refer the case to his/her immediate supervisor. The functionary will make sure that his/her abstention from participating is documented in writing.

Requesting or accepting special concessions or loans from clients, suppliers, prospects, and others is strictly prohibited. To accept, request or offer presents, personal favors,

commissions, perquisites, any other form of remuneration or any other object of significant value for personal benefit or for that of third parties in relation to or in exchange for some kind of transaction or business with the Bank, is a violation to these norms and to the applicable state and federal laws.

Our relationships with clients, suppliers, vendors, advisors, auditors, service providers, and public officials will always be guided by principles of honesty and integrity, will not be tainted by favoritism of any sort, and will never affect the Bank's image and reputation.

EXCEPTIONS

The institutional norms state that no functionary of the Bank may directly or indirectly request or accept gifts or concessions from any client, prospective client or supplier in order to avoid conflicts of interest. However, occasionally, and without creating a conflict of interest, a functionary may receive some kind of concession or present of nominal value, such as: business lunches, dinners, golf games, etc., as long as they are not accepted on a continuous basis; presents which are not given in cash, and other similar values, as long as they do not exceed a reasonable amount and they are given due to special festivities, such as Christmas; presents and receptions in special circumstances, like weddings, years of service anniversaries and/or farewell parties; presents and receptions for any other reason not related in any way to the Bank; and fees, stipends, and other forms of compensation, which the functionary receives from other organizations for performing a job, as long as the Bank, through its Human Resources Division, has officially approved such participation because it does not intervene with the Bank's interests.

SPECIAL RELATIONS WITH CLIENTS

No functionary of the Bank may accept a designation as custodian, testamentary executor, fiduciary, co-fiduciary, legal representative or in any other capacity, from a person who is not a member of his/her family, including clients, prospective clients or suppliers of the Bank, without the previous authorization of the Human Resources Division.

Under no circumstances may the functionary act in representation of the Bank in his/her personal capacity.

A functionary may not become part of the Board of Directors or of the administration of another company or organization if any such participation would be in conflict with the Bank's interests. Any appointment of this nature must be informed to the Human Resources Division.

OTHER EMPLOYMENT'S

Functionaries of the Bank will not hold jobs outside the Bank without previously consulting with the Human Resources Division. Prior to accepting any such employment offer, the functionary must consult with the Human Resources Director to ensure such employment is not in conflict with the functionary's work and responsibilities at the Bank.

When a functionary wants to join or accept a position in any civic organization, sports or religious group, as well as other non-lucrative entities, he/she must ensure that the objectives of such organization are not in conflict with the Bank's interests.

Any participation of a Bank functionary in a civic, sports, religious, other non-lucrative organization, or as a member of an organization's Board of Directors, which does not represent a conflict of interest, will be in

his/her personal capacity. Said functionary will represent the Bank in those instances, only when the Bank expressly requests or authorizes said representation.

FOURTH

THE BANK AND YOU

OPERATIONAL NORMS

All functionaries will ensure that the Bank's records reflect, with reasonable detail and precision, the transactions and asset dispositions of the Bank.

Altering invoices, petty cash vouchers, accounting records and expense accounts, among others, with the intention of deceiving, hiding and/or for personal benefit or for that of third parties, will constitute an act of fraud toward the Bank.

All functionaries are responsible to safeguard the sound administration of the Bank. As part of their duty to be loyal toward the Bank, all functionaries are required to reveal any action or omission which could adversely affect the Bank's interests. Any functionary who knows or suspects that another functionary is behaving in an unethical way, that the Bank's policies or norms are being violated, or that any state or federal laws applicable to the Bank or its subsidiaries are being violated, must inform his/her immediate supervisor, the Human Resources Division and/or the internal auditor, as may be applicable, for the proper corrective action. It is the Bank's policy that no employee that complies with the aforementioned requisite will be retaliated against. Functionaries will not make any explicit or implicit commitments on behalf of, or related to the Bank, either formally or informally, without the proper authorization, in accordance with the Bank's existing procedures. Any such commitment must be clearly described, documented and confirmed in writing with the client.

CIVIC ORGANIZATIONS AND DONATIONS

Under no circumstances may a functionary solicit contributions or donations from clients, vendors, suppliers, organizations or other persons related to the Bank, on behalf of a particular cause, without the express authorization of the Human Resources Division.

UTILIZATION OF THE BANK'S RESOURCES

The Bank's functionaries will not use or allow the use of the Bank's property for non-official purposes. Functionaries have a duty to protect and preserve the Bank's property. Any violation of this norm must be reported.

COOPERATION WITH THE AUDIT DEPARTMENT

Every functionary of the Bank has the obligation to cooperate with the Bank's auditors, the external auditors and the government investigators, among others, in the investigations, inspections, and other studies conducted at the Bank. When the unit receives the visit of an auditor, said auditor will be assisted by the unit's Manager, who will refer him/her to the functionary appointed to serve as facilitator during the investigation and/or audit process. Any functionary that has not been so appointed may not assist or offer information to an auditor or investigator.

REGISTER AND MAINTENANCE OF INFORMATION AND INTERNAL CONTROLS OF THE AUDIT AND CONTROLLER DEPARTMENTS

All functionaries will comply with the policies, procedures and accounting controls, as well as with the security requirements

established by the Bank. All of Bank's records will reflect all the transactions performed and any error must be corrected following the established procedures. All daily transactions will be duly authorized and registered to allow the timely preparation of financial statements and other reports which reflect the Bank's assets.

Employees working with accounting entries should be very careful when registering information. Incorrectly registered transactions will not be admitted.

The forgery of information registered in the Bank's documents or journals, as well as altering or destroying such information, is illegal.

PERSONAL FINANCES

The Bank's functionaries will be extremely careful when handling their personal finances and investments.

All functionaries holding checking accounts at the Bank must verify the statement of account on a regular basis and use the account according to the available balance. Drawing checks against non-available funds is strictly prohibited. The inadequate use of, or exceeding the, credit limits established in credit cards issued by FirstBank, is also prohibited.

GAMBLING

Functionaries must be aware of the responsibilities and compromises that participating in any sort of gambling entails. Any and all participation or relation to gambling activities is strictly prohibited. The nature of the Bank's operations requires an exemplary image from all its personnel, and such an image would be tarnished by a functionary's participation in any sort of gambling activity.

ALCOHOLIC BEVERAGES AND CONTROLLED SUBSTANCES

Ingesting, possessing, or selling alcoholic beverages during working hours and within the Bank's premises is prohibited. If for any reason a functionary, while representing the Bank, is in a situation where alcoholic beverages are consumed (business lunches and cocktail activities among others), he/she must exercise maximum control keeping in mind that as a representative of the Bank the best of judgment in his/her actions will always be expected.

Using, possessing, selling or transporting controlled substances, as defined by law, is strictly prohibited.

If a medical prescription exists for the use of a controlled substance, the employee will inform his/her supervisor of this fact, and will provide adequate evidence to that effect.

The Bank reserves the right to request that a functionary submit to medical tests to detect the use or abuse of controlled substances, when a reasonable doubt exists as to whether functionary may be using controlled substances as the term is defined by the law.

FIFTH

YOU AND YOUR FELLOW WORKERS

RELATIONS AMONG FUNCTIONARIES

The relationships among functionaries must be characterized by a high level of good fellowship and union of purpose, and must be maintained in an atmosphere of respect and professional consideration. The following acts are prohibited:

any kind of jokes or comments which are, or could be, offensive to other people;

arguments of all kinds;

excessive familiarity or forwardness in the treatment of others;

practical jokes; and

offensive or disrespectful language.

A functionary will not use his/her title, position or authority in an undue manner in the treatment of and in their relationship with others.

DISCRIMINATION AND SEXUAL HARASSMENT

According to the Bank's policy, acts which may constitute discrimination or sexual harassment will not be permitted.

Acts which may be considered sexual innuendoes, or sexual harassment, violate the Bank's policies. Using ones position or title within the institution to obtain sexual favors of other functionaries, is strictly prohibited.

The Bank will never allow any type of sexual harassment behavior from its clients or vendors towards any functionary.

Any functionary that witnesses an act of sexual harassment, or that has knowledge of the occurrence of such an act, has the responsibility to inform the Human Resources Division.

The Bank does not discriminate for reasons of age, sex, national origin, social status, political ideology, religion and physical and/or mental impairment, in its policies of employment, promotions, transfers, performance evaluations, salary increases, demotions and terminations, among others.

In our operations and transactions as a Bank and as institution that provides services, we will maintain a solid commitment to equality of treatment and of opportunities.

SIXTH

FIRSTBANK AND THE COMMUNITY

FirstBank has the express purpose of responsibly complying with all its obligations as a good corporate citizen, and of conducting its functions in ways that maximize the benefits received by the community it serves and by the institution and its stockholders, while complying with all applicable laws and regulations.

POLITICS

The Bank will not affiliate with any political party or candidate. FirstBank's mission is one devoted to serve the community in general.

FirstBank will not contribute to a political party or its candidates, whether financially, with goods, services, any other value or with the assistance of its human resources.

A functionary, in his/her personal capacity, may participate in political activities in their free time and with their own resources. Such participation is completely voluntary.

THE COMPETITION

No preferential treatment will exist in our relationship with the functionaries of other commercial banks and financial and/or savings institutions.

No one may persuade a client or a family member to alter the information on a credit application, for the purpose of obtaining credit.

SEVENTH

SANCTIONS

Any alteration or omission of, or exception to, the norms, laws and policies herein established, will bear sanctions that will vary according to the nature of the violation and may include, from destitution, to permanent separation of employment. A functionary may bear additional responsibilities do to laws and/or regulations that may have been infringed by any such alteration, omission or exception.

Situations not included in this Code of Ethics, do not lack importance. Any questions regarding whether an action or situation is appropriate, must be referred to an area's supervisor or the Human Resources Division.

The Bank's Code of Ethics will be audited and modified periodically and will be in effect at all times. Each functionary will: (1) attest on an annual basis, by signing a document to that effect, that he/she knows and understands the content of the Code of Ethics; (2) ratify his/her commitment to comply with said Code; and (3) declare that he/she lacks knowledge of any violation to said Code.

EXHIBIT 14.3

FIRST BANCORP

**POLICY STATEMENT AND STANDARDS OF CONDUCT
FOR MEMBERS OF THE BOARD OF DIRECTORS,
EXECUTIVE OFFICERS AND PRINCIPAL SHAREHOLDERS**

WHEREAS, the Board of Directors of FirstBank recognizes that every director and executive officer has a responsibility to ensure that the Institution is operated in a fashion that safeguards the funds deposited with the institution; and

WHEREAS, the Board further recognize that each and every director of FirstBank has been elected by the shareholders of the Bank to safeguard their investments by exercising the director's duty of oversight of the general management of the Institution and to assure that the Institution is operated in a safe and sound manner; and

WHEREAS, the Board expects that every director, executive officer and principal shareholder will at all times act in good faith with prudence and loyalty to the Institution and in its best interest.

WHEREAS, it is a fundamental duty of every director and executive officer to avoid placing him or herself in a position which creates, or which leads to or could lead to a conflict of interest or to an appearance of a conflict of interest.

THEREFORE, this Board of Directors sets forth the following Standards of Conduct Policy to assure that all matters involving the Bank are resolved solely in the best interest of the Institution, to prevent any actual, apparent or potential conflict of interest on the part of any insider, and to ensure that all directors, executive officers and principal shareholders are aware of their legal obligations to comply with applicable insider regulations.

STANDARDS OF CONDUCT

ARTICLE I

DEFINITION OF TERMS

1. AGREEMENT

The term "Agreement" means any contract, lease, or other agreement, arrangement or understanding other than an extension of credit or deposit, pursuant to which the Bank or any of its subsidiaries is to receive or provide any tangible or intangible goods, property or service including trust services.

2. COMPANY

A "Company" means any corporation, partnership, trust (business or otherwise), an association, joint venture, pool, syndicate, sole proprietorship, unincorporated organization or any other form of business entity not listed herein.

3. DIRECTOR

Any member of the Board of Directors of the Bank and any member of the Board of Directors of any of the Bank's subsidiaries or affiliates.

4. ECONOMIC BENEFIT

Shall mean any remuneration or compensation in cash or otherwise, whether direct or indirect, which may be received by any person for any reason including services rendered or work performed by such person or by any related interest thereof to a third party that is not an insider.

5. EXECUTIVE OFFICER

The term "Executive Officer" shall mean the President, the Executive Vice Presidents, the Senior Vice Presidents of the Bank, and any other Vice President or other officers of the Bank which the Board of Directors by resolution determines should be included as such for Regulation "O" compliance purposes. The term shall also include the President of any of the Bank's subsidiaries or affiliates.

6. EXTENSION OF CREDIT

The term "Extension of Credit" means granting of a loan or extending credit in any manner or form by the Bank or any of its subsidiaries, including but not limited to, a loan; an advance by means of an overdraft, cash item or other (except an advance for reimbursable expenses in connection with the business of the Bank or any of its subsidiaries); the acquisition by discount, purchase, exchange or otherwise of a note, draft, bill of exchange or other evidence of indebtedness, an acceptance, a letter of credit, a purchase of securities, accounts receivable or other options under a repurchase agreement.

7. IMMEDIATE FAMILY

The term "Immediate Family" means any individual's spouse, minor children and any of the individual's children (including adults) residing in such individual's home.

8. INSIDER

The term "Insider" shall include any director, executive officer, principal shareholder and any related interest, or member of the immediate family of any such person.

9. INSIDER TRANSACTION

The term "Insider Transaction" means any business dealing with an insider, other than an insignificant transaction, in which the insider may receive any direct or indirect economic benefit.

10. INTEREST IN A BUSINESS ENTERPRISE

The term "Interest in a Business Enterprise" means ownership, whether legal, equitable or otherwise of stock or any other form of legal or equitable participation in the enterprise by any insider which when aggregated equals or exceeds ten percent (10%) of such enterprise's outstanding shares of any kind of stock in the case of a stock form of enterprise, or any other evidence of ownership for other forms of organization.

11. INSIGNIFICANT TRANSACTION

The term "Insignificant Transaction" shall mean any business dealing that is of so little value as to be inconsequential. For purposes hereof, an insignificant transaction is one which, when aggregated with the value of any other transaction involving the same person during the current fiscal year does not exceed \$1,000.

12. INTERESTED PARTY

With respect to insider transactions, the term means an insider who is expected to receive any direct or indirect economic benefit from the transaction.

13. REAL ESTATE INVESTMENTS

The term "Real Estate Investments" shall mean any form of direct or indirect ownership of any interest in real property whether in the form of an equity interest, partnership, joint venture of other form, which is accounted for as an investment in real estate or a real estate joint venture under generally accepted accounting principles. Includes real estate acquisitions, development or

construction arrangements accounted for as direct investments in real estate, as a real estate joint venture, and any other loans secured by real estate or advanced for real estate acquisition, development or investment purposes if the Bank in substance has virtually the same risk and potential rewards as an investor in the borrowers real estate.

The phrase shall not include an interest in real property that is primarily used or intended to be used by the Bank or any of its subsidiaries as an office or related facility to conduct the Bank's or the subsidiaries business, or an interest in real estate acquired in satisfaction of an antecedent debt which was contracted in good faith or acquired under judgement, decree or a mortgage held by the Bank, or in lieu of foreclosure and provided that such property is not intended to be held for investment purposes and is to be disposed in a timely fashion.

14. PERSON

The term "Person" shall mean an individual or a company.

15. PRINCIPAL SHAREHOLDER

The term "Principal Shareholder" shall mean any person that directly or indirectly, or acting through or in concert with one or more persons, owns, controls or has the power to vote more than ten percent (10%) of the voting stock of the Bank.

16. RELATED INTEREST

The term "Related Interest" means a company controlled by a person or by a member of such person's immediate family.

17. SUBSIDIARY

The term "Subsidiary" shall mean any company or financial institution directly or indirectly controlled by the Bank.

18. VALUE

The term "Value" shall mean the total dollar amount to be paid or received by the Bank under a contract or other agreement, the sale price of an asset, good or service purchased or sold, total payments to be made over the term of a lease, or the fair market value which an insider would normally have to pay to some other entity for the use of similar facilities, real or personal property, services, equipment, personnel, or the dollar amount of commissions and fees paid.

ARTICLE II

CONFIDENTIAL AND INSIDE INFORMATION

1. INFORMATION DEALING WITH CLIENTS AND SUPPLIERS

Confidential information concerning a client or supplier of the Institution or of any of its subsidiaries that is acquired by a director or executive officer in connection with his or her duties as such, or by a principal shareholder by reason of being such principal shareholder, may be used only for the purposes and benefit of the Bank and may not, under any circumstances, be used for the personal gain or benefit of any insider. Such information may not be communicated in any manner to persons outside of the Institution or to any other director, officer or employee of the Bank who does not need to know such information to discharge his or her duties.

2. INFORMATION RELATIVE TO FIRSTBANK AND ITS SUBSIDIARIES

Confidential financial information regarding FirstBank or any of its subsidiaries may not be communicated in any manner to any person unless or until such time as such information has been made public, or unless such information has been properly cleared and is necessary to allow such persons to exercise their duties to the Bank or to the Board of Directors.

Directors and executive officers have a duty of confidentiality to the Bank and may not divulge to any person any confidential information regarding matters discussed or under consideration by the Board of Directors, the management, personnel, operations, strategy or plans of the Bank or its subsidiaries until and unless such information is made public.

Directors and executive officers will refrain from using confidential inside information for their direct or indirect personal benefit and will not directly or indirectly purchase or sell any stock of the Bank or of any entity with whom the Bank may be negotiating or is contemplating negotiations, either in the open market or in private transactions, until such information has been made publicly available. Directors of FirstBank are expected to comply at all times with all restrictions, limitations and reporting requirements set forth by applicable securities laws and regulations.

ARTICLE III

CONFLICTS OF INTEREST

A conflict of interest may arise whenever any "Insider" as the term is defined herein, has a direct or indirect interest in any agreement, business dealing or transaction with the Bank or in any extension of credit by the Bank.

1. EXTENSIONS OF CREDIT

GENERAL RULE

There shall not be any extension of credit to any insider unless such extensions of credit meets the underwriting standards established by the institution and is made under substantially the same terms, including collateral, as those prevailing at the time for comparable transactions with

persons who are not employees of the Bank and which does not involve more than the normal risk of repayment or present other unfavorable features.

PRIOR BOARD APPROVAL

All extensions of credit to an insider must be approved in advance by a majority of the entire Board of Directors. Any insider having a direct or indirect interest in any extension of credit has the obligation of advising the Board of Directors and management of the nature of such interest. Any director or executive officer having any direct or indirect interest in any extension of credit must abstain from participating directly or indirectly in any deliberation or voting on the extension of credit, and will refrain from participating in any discussions regarding such extension of credit or from influencing or attempting to influence the Board of Directors or management in regards to such matter.

MAXIMUM LIMITS - DIRECTORS

Under no circumstance may a director or principal shareholder, a member of the immediate family or related interest thereof, become indebted to the Institution except in the amounts and for the purposes and upon conditions specified by applicable regulations. In specific such regulations promulgated by the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico and by the Federal Reserve Board's (FRB) Regulation "O" (12 CFR Part 215) as adopted by the Federal Deposit Insurance Corporation (the "FDIC") in it's regulations. The maximum aggregate amount of credit which at any time may be extended to any director or principal shareholder and members of their immediate family or any related interest of such director or principal shareholder, for any purpose, must fully comply with the Bank's applicable limitations regarding loans to one borrower as set forth in applicable regulations, and may not exceed such limits.

MAXIMUM LIMITS - EXECUTIVE OFFICERS

Under no circumstance may an executive officer, any member of their immediate family or a related interest of such executive officer become indebted to the Institution except in the amounts and for the purposes set forth by regulation. The maximum amount of credit which at any time may be extended to such person for purposes other than those listed below may not exceed the aggregate amount of \$100,000. This limitation is not applicable to extensions of credit to finance the education of the executive officer's children, to finance the acquisition, construction, maintenance, or improvement of a residence. However, such extension of credit must be guaranteed by a first lien on the property which must be owned or will be owned by the executive officer. The above notwithstanding the total amount of all indebtedness which an executive officer, his immediate family or related interests may have with the Institution, may not exceed the aggregate of 1.5% of the Bank's capital and unimpaired surplus.

Any extension of credit to an executive officer of the Institution will be subject to the condition, which must be included in all loan agreements with executive officers, that the extension of credit will, at the option of the Bank, become due and payable at any time that the officer becomes indebted to any other bank or banks in an aggregate amount greater than those specified by Section 215.5 (c) of FRB Regulation "O" (12 USC 215.5 (c)). Such condition must be included in writing in any agreement for the extension of credit with any executive officer.

The above notwithstanding no loans may be extended to any executive officer or employee of the Bank unless the same meets the requirements and limitations on loans to employees under the regulations of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico.

OVERDRAFTS - DIRECTORS AND EXECUTIVE OFFICERS

The Bank may not pay an overdraft of a director or an executive officer unless payment of the funds is made under a written pre-authorized, interest bearing line of credit (overdraft protection) or unless there exists a written pre-authorization for the transfer of funds from another account of the director or executive officer.

The above restriction will not apply in the case of an inadvertent overdraft in an aggregate amount of \$1,000 or less, provided that no such account may be overdrawn for more than five days and the account is charged the same fees as are charged to any other customer.

UNAUTHORIZED EXTENSIONS OF CREDIT

No director, executive officer or principal shareholder shall knowingly receive or knowingly permit that any member of his or her immediate family or a related interest, directly or indirectly, receive an extension of credit which has not been previously approved by the Board of Directors and does not comply with all requirements for such extensions of credit.

RELATIONSHIP WITH CORRESPONDENT BANK'S

Pursuant to applicable Law 12 USC 1972 (2) (G), a bank may not extend preferential loans to executive officers and/or principal shareholders of another bank if a correspondent account relationship exists between the two banks. The law further prohibits the opening of a correspondent relationship with a bank where there exist a preferential extension of credit by one of the banks to a director, executive officer or principal shareholder of the other bank.

Executive officers, directors and principal shareholders of FirstBank may not request or accept a preferential loan from any bank which maintains a correspondent bank relationship with FirstBank, nor will they approve or extend such loan to an officer, director or principal shareholder of any bank with which FirstBank maintains a correspondent bank relationship.

2. BUSINESS DEALINGS

GENERAL RULE

There shall not be any agreement, business dealing, transaction with any insider, as the term is defined herein, unless a majority of the entire Board of Directors approves the transaction, business dealing or agreement or extension of credit in advance. Any interested party to any such transaction or agreement will excuse himself or herself from any meeting at the time such transaction or agreement is to be considered and must abstain from voting or from participating directly or indirectly in any deliberation regarding such approval. The minutes of the Board of Directors will contain a record of such transaction including: (i) the names of all parties to the agreement or transaction other than the Bank; (ii) the relationships with the Bank or the relationship of the parties to any of the Bank's insiders; and (iii) a brief description of the transaction including dollar amounts and terms. Any director casting a dissenting vote shall require that the minutes include such dissenting vote along with the basis for the dissent.

There shall not be any agreement, transaction or business dealing with any insider unless the same is intended for the benefit of the Bank. The Bank may not, under any circumstances, enter into an agreement, transaction, business dealing or extension of credit merely as an accommodation for the benefit of an insider.

Any agreement, transaction or business dealing with an insider of the Bank must be made on terms and under circumstances substantially the same, or at least as favorable, as those prevailing at the time for comparable business dealings with persons who are not insiders or employees of the Bank.

Any insider that is an interested party with respect to any anticipated business dealing with

the Bank, must fully disclose to the Board of Directors and to management of the Bank such insider's interest in the business dealing, agreement, transaction or extension of credit. Such disclosure must include all relevant, material, non-privileged information regarding the anticipated business dealing, agreement, transaction or extension of credit. All information required must be received and reviewed by the Board prior to its deliberation, approval or authorization of any transaction. Any insider that has engaged in any significant transaction which has not been reviewed and approved by the Board must promptly disclose such transaction to the Board of Directors.

Any insider having any direct or indirect interest in any business dealing, agreement, transaction or extension of credit will also abstain from direct or indirect participation in deliberations or discussions, including those deliberations preliminary to formal consideration by the Board of Directors. An insider having direct or indirect interest in any business dealing, agreement, transaction or extension of credit will refrain from interfering or attempting to influence in any manner the decision making process of the Board of Directors or of management in regards to such matters.

INSIGNIFICANT TRANSACTIONS

Notwithstanding the above, prior approval by the Board of Directors will not be required in the case of an insignificant transaction as the term is defined herein. Any such insignificant transaction shall be promptly reported to the entire Board of Directors.

INVESTMENT IN REAL ESTATE

The Bank may not directly or through any subsidiary make any investment in real estate, as such term is defined herein, in which any insider has an equity interest.

ARTICLE IV

BUSINESS OPPORTUNITIES

Directors, executive officers and principal shareholders of FirstBank stand in a fiduciary relationship to the Institution and its shareholders. Among other things, this relationship imposes a duty of undivided and unqualified loyalty to the Bank. It is a breach of this duty for a director to take advantage of a business opportunity for his or her own or another person's or entity's profit or benefit when such business opportunity is within the corporate powers of the Bank or any of its subsidiaries.

ARTICLE V

USE OF PERSONNEL, EQUIPMENT, SUPPLIES OR FACILITIES

Directors and executive officers shall not allow any significant use of personnel, equipment, supplies or facilities of the Bank or of any of its subsidiaries for personal purposes, nor will they permit their use for any purpose not related to the legitimate interests of the Bank or its subsidiaries. Under no circumstances will the Bank make available any personnel, equipment, supplies or facilities of the Bank or of any subsidiary to an insider unless such arrangement is intended for the benefit of the Bank or of the subsidiary, reasonable value is received for any service rendered and the arrangement, agreement or transaction has been previously approved by the entire Board of Directors in accordance with the procedures and under the conditions set forth herein.

ARTICLE VI

OTHER ACTIVITIES AFFECTING THE INSTITUTION

Directors or executive officers may not imply the sponsorship or support of the Bank for any personal enterprise, activity, interest or organization.

Directors and executive officers of FirstBank will at all times endeavor to conduct themselves and their affairs with proper decorum and will refrain from engaging, directly or indirectly, in any activity likely to adversely effect the good name of the Bank or of its subsidiaries.

Directors or executive officers of FirstBank may not serve as a director or officer of any financial institution or with any business entity rendering services similar to those rendered by the Bank or its subsidiaries.

ARTICLE VII

ACCEPTANCE OF GIFTS, GRATUITIES AND OTHER THINGS OF VALUE

Under no circumstances may a director, executive officer, officers or employees, accept, offer to accept, request, offer to give or obtain or give to any person, directly, indirectly or otherwise, any gifts, gratuities, favors or anything of value in connection with or as a condition for presenting to the consideration of the Board of Directors or of any committee, sponsoring, or approving any transaction or business of the Bank or of any of its subsidiaries. All directors, executive officers and employees of the Bank shall at all times comply with all provisions of the Federal Bank Bribery Act of 1984 (12 USCA 215).

As a general rule, directors and executive officers should avoid acceptance of gifts or other considerations from clients or any other party doing business with the Bank. The Board of Directors, however, recognizes that there are situations in the normal course of the business of the Bank and its subsidiaries where there is a total absence of wrongful intentions by all parties and exceptions to the general rule set forth above are required. Therefore, the Board has adopted the following guidelines:

EXCEPTIONS

1. Acceptance of an invitation, gift, gratuity, amenity or favor based on an obvious family relationship.
2. Acceptance of meals, refreshment, entertainment, accommodations, or travel arrangements, all of reasonable value, in the course of a meeting or another occasion, the purpose of which is to hold bona fide business discussions or to foster better business relationships, provided that the expense would be paid by the bank if not paid by the other party.
3. Acceptance of advertising and promotional material of reasonable value.
4. Acceptance of discounts or rebates on merchandise or services that do not exceed those available to other customers in like position.
5. Acceptance of gifts of reasonable value that are related to commonly recognized events or occasions such as promotions, weddings, retirement, holidays or birthdays.
6. Acceptance of civic, charitable, educational or religious organizations awards for recognition of services and accomplishments.

The above situations are not intended to be all inclusive and the Board of Directors recognizes that there may be other legitimate situations in which the acceptance of some benefit by a director or executive officer is not intended as and will not amount to a corrupting influence but may serve a legitimate, necessary or desirable business interest of the institution. In such cases, a full written disclosure shall be prepared by the person receiving the thing of value, documenting the reasons thereof, or the purpose and the expected benefits to the institution. Directors and executive officers shall submit such report to the entire Board of Directors. Such report will be evaluated in the light of these guidelines and the Bank Bribery Act of 1984. All such records will be kept by the Office

of the Secretary.

Nothing in these guidelines or procedures for possible exceptions shall be interpreted as permitting or allowing any violation of the law or of any regulation.

ARTICLE VIII

REPORTS BY DIRECTORS, EXECUTIVE OFFICERS AND PRINCIPAL SHAREHOLDERS

All Executive Officers will at all times comply fully with all reporting requirements in accordance with Regulation "O".

SECTION 215.9 REPORTS

All executive officers are under the obligation to inform the Board of Directors, within ten days of its occurrence, any extension of credit obtained from any other institution or institutions which in the aggregate exceeds the amounts specified in Section 215.5(c), \$100,000 for other purpose loans. This requirement is not applicable in the case of loans to finance the education of such executive officers' children or loans to finance the purchase, construction or improvement of such officers principal residence as long as such extension of credit is secured by a first lien over the residence and the property is owned or will be owned by the executive officer.

REPORTS OF INDEBTEDNESS TO CORRESPONDENT BANKS (215.22)

All Executive Officer and Principal Shareholder shall submit a report regarding any outstanding indebtedness of theirs and of any of their related interests during the previous calendar year with any Correspondent Bank of FirstBank. Such report will be submitted to the Board of Directors not later than January 31 of each calendar year and will specify the maximum amount of the

indebtedness during the previous calendar year, the amount of such indebtedness 10 days prior to the date the report is submitted, a description of the terms and conditions of the indebtedness including original amount, interest rates, maturity, security given and any other unusual term or condition.

REPORT ON "RELATED INTERESTS"

Each Director, Executive Officer or Principal Shareholder will submit a report to the Secretary of the Bank, containing the name, social security number and address of each related interest of theirs. A report shall be submitted not less than once a year or whenever any change occurs which would require the inclusion of a new person or entity.

EXHIBIT 21.0

LIST OF SUBSIDIARIES (Direct and Indirect)

Direct

1. FirstBank Puerto Rico
2. FirstBank Insurance Agency, Inc.

Indirect

1. First Leasing and Rental Corporation
2. First Federal Finance Corp. D/B/A Money Express "La Financiera"
3. First Trade Inc.
4. FirstBank Insurance Agency VI, Inc.
5. First Express, Inc.
6. First Mortgage, Inc.

EXHIBIT 23

PricewaterhouseCoopers LLP
254 Munoz Rivera Ave.
BBV Tower, 9th Floor
Hato Rey, PR 00918
Telephone: (787) 754 9090
Facsimile: (787) 766 1094

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (No. 333-106661 and No. 333-106656) of First BanCorp of our report dated March 1, 2004 relating to the financial statements of First BanCorp, which appears in the 2003 Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

San Juan, Puerto Rico

March 1, 2004

CERTIFICATIONS

I, Angel Alvarez-Perez, certify that:

1. I have reviewed this annual report on Form 10-K of First BanCorp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 03/15/04

By: /s/ ANGEL ALVAREZ-PEREZ

Angel Alvarez-Perez, Esq.
Chairman, President and
Chief Executive Office

CERTIFICATIONS

I, Annie Astor-Carbonell, certify that:

1. I have reviewed this annual report on Form 10-K of First BanCorp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 03/15/04

By: /s/ ANNIE ASTOR-CARBONELL

Annie Astor-Carbonell
Chief Financial Officer and
Senior Executive Vice President

EXHIBIT 32.1

CERTIFICATION

Pursuant to 18 U.S.C.sec.1350, the undersigned officer of First BanCorp. (the "Company") hereby certifies, to such officer's knowledge, that the Annual Report on Form 10-K for the year ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 15, 2004

/s/ Angel Alvarez-Perez

*Angel Alvarez-Perez, Esq.
Chairman, President and
Chief Executive Officer*

EXHIBIT 32.2

CERTIFICATION

Pursuant to 18 U.S.C.sec.1350, the undersigned officer of First BanCorp. (the "Company") hereby certifies, to such officer's knowledge, that the Annual Report on Form 10-K for the year ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 15, 2004

/s/ Annie Astor-Carbonell

*Annie Astor-Carbonell
Senior Executive Vice President and
Chief Financial Officer*

End of Filing

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