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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, 2004

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

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, 2004 (the last day of the registrant's most recently completed second quarter) was $1,524,147,000 based on the closing price of $40.75 per share of common stock on the New York Stock Exchange on June 30, 2004. (see Note 1 below)

The number of shares outstanding of the registrant's common stock, as of March 1, 2005 was:

Common stock, par value $1.00 – 40,390,655.

Documents Incorporated by Reference

1. Portions of the registrant's Annual Report to Shareholders for the fiscal year ended December 31, 2004 are incorporated by reference into Items 1 and 3 of Part I, Items 5 through 9A 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 2005 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, 2004. 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.

FIRST BANCORP

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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 wholly-owned subsidiaries: FirstBank Puerto Rico (“FirstBank or the Bank”) and FirstBank Insurance Agency, Inc. In addition, First BanCorp owns sixty percent of “Grupo Empresas de Servicios Financieros” (d/b/a PR Finance Group), an auto loan finance company with focus on the used car market. FirstBank is a Puerto Rico-chartered commercial bank and FirstBank Insurance Agency is a Puerto Rico-chartered insurance agency. FirstBank is subject to the supervision, examination and regulation of both the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico and the Federal Deposit Insurance Corporation. Deposits are insured 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, Inc. 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, commercial and institutional clients. First BanCorp had total assets of $15.6 billion, total deposits of $7.9 billion and total stockholder’s equity of $1.2 billion as of December 31, 2004. Based on total assets, First BanCorp is the second largest locally-owned financial 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-five full service banking branches in Puerto Rico, twelve branches in the United States Virgin Islands (USVI) and British Virgin Islands (BVI) and a loan agency in Coral Gables, Florida (USA). FirstBank has four wholly-owned 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 thirty-one offices in Puerto Rico; FirstMortgage, Inc., a residential mortgage loan origination company with twenty-three offices in FirstBank branches and at stand alone sites and FirstBank Overseas Corporation, an international banking entity under the International Banking Entity Act of Puerto Rico. FirstBank has three subsidiaries with operations outside of Puerto Rico; First Insurance Agency, Inc., an insurance agency with three offices that sell 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, Inc., a small loans company with three offices in the USVI.

The information under the caption "President's Letter" on pages 15 to 19 and the information under Note 30 — Segment Information on pages 89 to 90 of the Corporation's annual report to security holders for the year ended December 31, 2004 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 and in the United States through its loan agency in Coral Gables, Florida. According to the latest industry statistics published by the Commissioner, Puerto Rico has 16 banking institutions with more than $100 billion in 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.

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 First 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 accounting oversight board that enforces auditing, quality control and independence standards and is 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 requires 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 is 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 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) 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 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 and on the effectiveness of internal control over financial reporting. Commencing with the annual report incorporated by reference on this Form 10-K (see Items 6, 7, 8 and 9A), the Corporation is required to include an internal control report containing management's assessment regarding the effectiveness of the Corporation's internal control structure and procedures over financial reporting. The internal control report includes 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. In addition, Section 404 of SOA requires the Corporation's independent registered public accounting firm to attest to, and report on, management's assessment of the Corporation's internal control over financial reporting and on the effectiveness of internal control over financial reporting in accordance with standards established and adopted by the Public Company Accounting Oversight Board ("PCAOB"). Both reports by Management and of the Independent Registered Public Accounting Firm are being filed as part of the Annual Report.

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 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.

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 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.

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, 2004, 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.

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 from 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, 2004, 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.

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 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 IBE, FirstBank IBE and FirstBank Overseas Corporation 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 and FirstBank Overseas Corporation must maintain books and records of all its transactions in the ordinary course of business. The First BanCorp and FirstBank IBEs and FirstBank Overseas Corporation 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.

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 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

IBE Act

IBEs are currently exempt from taxation under Puerto Rico law. On January 8, 2004, the IBE Act was amended to impose income tax at normal rates on IBE's that operate as units of a bank, to the extent that the IBE's net income exceeds 40% of the bank's total net taxable income (including net income generated by the IBE unit) for a taxable year commencing between July 1, 2003 and July 1, 2004, 30% of such total net taxable income for a taxable year commencing between July 1, 2004 and July 1, 2005, and 20% of such total net taxable income for taxable years commencing thereafter. These amendments apply only to IBE's that operate as units of a bank. Management estimates that the financial impact of the amendments is not likely to be material.

FINANCIAL CONDITION

The Corporation's total assets at December 31, 2004 amounted to $15.6 billion, $2.9 billion over the $12.7 billion at December 31, 2003.

The following table sets forth the maturity distribution of earning assets at December 31, 2004:

	As of December 31, 2004 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	$ 820,164					$ 820,164
Investment securities (1)	469,035	$ 668,055		$ 3,564,009	$ 300,000	5,001,099
Loans (2):						
Residential real estate	164,115	135,534	$ 330,475	1,146,310	2,908,141	4,684,575
Construction	123,908	6,505	180,960	12,875	77,125	401,373
Commercial and commercial real estate	538,753	143,044	941,945	109,069	1,072,926	2,805,737
Lease financing	49,311	165,352				214,663
Consumer	401,110	956,378		14,181		1,371,669
Total Loans	1,277,197	1,406,813	1,453,380	1,282,435	4,058,192	9,478,017
Total	$ 2,566,396	$ 2,074,868	$ 1,453,380	$ 4,846,444	$ 4,358,192	$ 15,299,280

(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".

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,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Beginning balance	$ 6,918,140	$ 5,525,939	$4,217,719	$3,421,279	$2,673,584
Residential real estate loans originated and purchased	2,795,824	1,865,709	1,045,268	613,698	416,077
Commercial loans originated and purchased	1,012,291	926,654	581,654	798,038	555,530
Finance leases originated	116,200	67,332	54,750	45,094	65,646
Consumer loans originated and purchased	743,701	603,024	431,588	363,582	423,411
Total loans originated and purchased (1)	4,668,016	3,462,719	2,113,260	1,820,412	1,460,664
Sales and securitizations of loans	(180,818)	(230,324)	(80,446)	(41,060)	
Repayments and prepayments	(1,963,756)	(1,758,335)	(635,765)	(897,832)	(646,581)
Other decreases (2)	(104,602)	(81,859)	(88,829)	(85,080)	(66,388)
Net increase	2,418,840	1,392,201	1,308,220	796,440	747,695
Ending balance	$ 9,336,980	$ 6,918,140	$5,525,939	$4,217,719	$3,421,279
Percentage increase	34.96%	25.19%	31.02%	23.28%	27.97%

(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.

CAPITAL

At December 31, 2004, total stockholders' equity for the Corporation amounted to approximately $1.2 billion, an increase of approximately $133.3 million as compared to $1.1 billion at December 31, 2003.

Employees

At December 31, 2004, the Corporation employed 2,237 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, 2004, 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 16 branch and office premises and an auto lot. The Corporation leased 43 branch premises, 33 loan and office centers and six other facilities. All of these premises are located in Puerto Rico and in the U.S. and British Virgin Islands and in Coral Gables, Florida. 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 91 of the annual report to security holders for the year ended December 31, 2004 (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 2004.

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The information required herein is incorporated by reference from page 52 of the annual report to security holders for the year ended December 31, 2004.

Holders

The information required herein is incorporated by reference from page 52 of the annual report to security holders for the year ended December 31, 2004.

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 $0.12 per share for each quarter of 2004, $0.11 per share for each quarter of 2003 and $0.10 per share for each quarter of 2002.

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.

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.

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, 2004:

Plan category	(A) Number of Securities to be Issued Upon Exercise of Outstanding Options	(B) Weighted-Average Exercise Price of Outstanding Options	(C) 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	2,394,030	$ 22.60	1,401,374
Sub-total	2,394,030	$ 22.60	1,401,374
Equity compensation plans not approved by stockholders	N/A	N/A	N/A
Total	2,394,030	$ 22.60	1,401,374

Sales of Unregistered Securities

Prior to its filing on September 8, 2004 of a Registration Statement on Form S-8 (SEC File 333-118853) (the “Registration Statement”) registering under the Securities Act of 1933 (the “1933 Act”) the shares of the Corporation acquired through the exercise of stock options under the Corporation’s Stock Option Plan, which covers certain employees of the Corporation and its subsidiaries, the shares previously acquired by such employees had not been registered with the Securities and Exchange Commission under the 1933 Act on the basis of the exemption provided in section 3(a)(11) thereof. The Corporation understands that this exemption was applicable for the period prior to the filing of the Registration Statement 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 had exercised options to acquire shares were residents of the Commonwealth of Puerto Rico. Shares of common stock acquired under the Corporation’s Stock Option Plan for the period from January 1, 2004 to September 7, 2004 were 225,370 (72,750 for the year ended December 31, 2003) at a weighted average exercise price per option of $12.05 ($15.43 for the year December 31, 2003). In accordance with applicable rules of the Securities and Exchange Commission, the Registration Statement became effective upon its filing on September 8, 2004, and therefore all shares acquired pursuant to the Corporation’s Stock Option Plan after such date are registered shares under the 1933 Act.

During the quarter and year ended December 31, 2004 the Corporation did not repurchase any of its securities.

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Item 6. Selected Financial Data

Information required herein is incorporated by reference from pages 5 through 7 of the annual report to security holders for the year ended December 31, 2004.

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

The information required herein is incorporated by reference from pages 31 through 52 of the annual report to security holders for the year ended December 31, 2004.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required herein is incorporated by reference from pages 49 through 51 of the annual report to security holders for the year ended December 31, 2004.

Item 8. Financial Statements and Supplementary Data

The information required herein is incorporated by reference from pages 55 through 94 of the annual report to security holders for the year ended December 31, 2004.

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

None.

Item 9A. Controls and Procedures

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 and controls and procedures (as defined in Exchange Act Rules 13a015(e) and 15d-14(e)), have concluded that, as of December 31, 2004, 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 other within those entities. Under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, the Corporation concluded an evaluation of the Corporation's disclosure controls and procedures (as defined in Exchange Act Rules 13a015(e) and 15d-14(e)). Based on this evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2004, the Corporation's disclosure controls and procedures were effective and designed to provide reasonable assurance that material information relating to the Corporation and its consolidated subsidiaries required to be included in the Corporation's periodic filings under the Exchange Act would be made known to them by other within those entities.

Internal Controls over Financial Reporting - During the quarter ended December 31, 2004, there were no changes in the Corporation's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

"Management's Report on Internal Control Over Financial Reporting" on page 55 of the 2004 Annual Report to Stockholders in incorporated herein by reference. "Report of Independent Registered Public Accounting Firm" (relating to Management's Report on Internal Control Over Financial Reporting) on page 57 of the 2004 Annual Report to Stockholders is incorporated herein by reference.

Item 9B. Other Information

None.

PART III

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

See Item 12 on this page.

Item 11. Executive Compensation

See Item 12 on this page.

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 2005 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 2004 fiscal year.

Item 14. Principal Account and Fees and Services

See Item 13 on this page.

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

- Report of Independent Registered Public Accounting Firm
- Consolidated Statements of Financial Condition at December 31, 2004 and 2003.
- Consolidated Statements of Income for Each of the Three Years in the Period Ended December 31, 2004.

- Consolidated Statements of Changes in Stockholders’ Equity for Each of the Three Years in the Period Ended December 31, 2004.
- Consolidated Statements of Comprehensive Income for each of the Three Years in the Period Ended December 31, 2004.
- Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 2004.
- Notes to the Consolidated Financial Statements.

(2) Financial statement schedules.

None.

(3) Exhibits

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

(a) Reports on Form 8-K.

On March 15, 2005, as required by Section 306 of the Sarbanes Oxley Act and Section 245.104 of the Securities and Exchange Commission’s Regulation BTR, the Corporation filed a Form 8-K with the Securities and Exchange Commission to inform of a temporary suspension of trading under the FirstBank 401(k) Retirement Plan (“blackout trading restriction period”).

On January 31, 2005, the Corporation furnished a current report on Form 8-K reporting its unaudited results of operations for the quarter and year ended December 31, 2004.

On November 23, 2004, the Corporation filed a current report on Form 8-K announcing the signing of a definite merger agreement pursuant to which the Corporation will acquired Ponce General Corporation, a Delaware Corporation, and its subsidiaries, UniBank, a federal savings and loan association, and Ponce Realty Corporation, a Delaware Corporation with real estate holdings in Florida.

(b) See Index to Exhibits on page 28 for the exhibits filed as a part of this Form 10-K.

(c) Financial data schedules

Schedules are omitted because they are not applicable.

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, 2004.	(3)
13.0	Annual Report to shareholders for fiscal year ended December 31, 2004.	—
14.1	Code of Ethics for Senior Financial Officers	(4)
14.2	Code of Ethics applicable to all employees	(4)
14.3	Policy Statement and Standards of Conduct for Members of Board of Directors, Executive Officers and Principal Shareholders	(4)
21.0	List of subsidiaries (direct and indirect)	—
23.0	Consent of Independent Registered Public Accounting Firm	—
31.1	Sarbanes Oxley Act Certification	—
31.2	Sarbanes Oxley Act 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).

(4) Incorporated by reference from the Form 10-K for the year ended December 31, 2003 filed by the Corporation on March 15, 2004.

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: 03/16/05
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: 03/16/05
Angel Alvarez-Pérez, Esq.
Chairman
President and Chief Executive Officer

/s/ Annie Astor-Carbonell Date: 03/16/05
Annie Astor-Carbonell, Director
Senior Executive Vice President and
Chief Financial Officer

/s/ José Julián Alvarez-Bracero Date: 03/16/05
José Julián Alvarez-Bracero, Director

/s/ Richard Reiss-Huyke Date: 03/16/05
Richard Reiss-Huyke, Director

/s/ Jorge L. Díaz Date: 03/16/05
Jorge L. Díaz, Director

/s/ Sharee Ann Umpierre-Catinchi Sharee Ann Umpierre-Catinchi, Director	Date: 03/16/05
/s/ José Teixidor José Teixidor, Director	Date: 03/16/05
/s/ José L. Ferrer-Canals José L. Ferrer-Canals, Director	Date: 03/16/05
/s/ José Menéndez-Cortada José Menéndez-Cortada, Director	Date: 03/16/05
/s/ Laura Villarino-Tur Laura Villarino-Tur Senior Vice President and Controller	Date: 03/16/05

Reaching Higher

2004 Annual Report

First BanCorp

This annual report stands to the strength of our institution. To our ability to grow and reach higher to achieve our goals. With this important element of nature we provide a symbol of our solid foundation. One that has provided us with steady and consistent growth.

That has proven our stability and verticality. And provides us with an impressive perspective of our financial performance.

Today, as a mature financial institution, we are attuned to market needs, we have the ability to branch out and we maintain a fresh perspective on banking.

First BanCorp has a forceful presence in the financial landscape of the Island and beyond. As we continue to extend our scope in services, products and geographical locations, we keep reaching higher.

All these elements, and our commitment to reaching higher everyday, has taken us to stand out in the financial landscape.

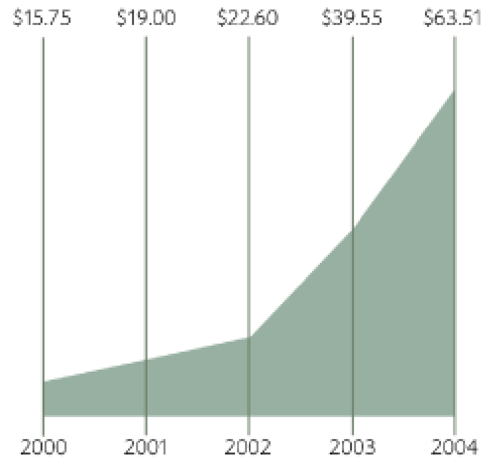
Table of contents


Santurce, P.R.
Coral Gables, FL.
St. Thomas, USVI
San Patricio, P.R.
Mayagüez, P.R.

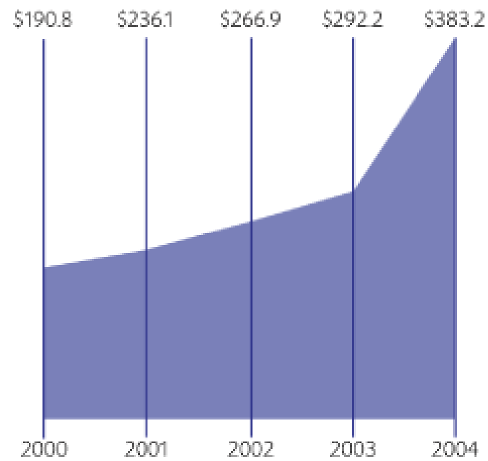
Financial Highlights

In thousands (except for per share results)	2004	2003
Operating results:		
Net interest income	$ 383,206	$ 292,210
Provision for loan losses	52,799	55,916
Gain on sale of credit card portfolio	5,533	30,885
Gain on sale of investments, net	9,457	34,856
Other income	55,843	52,969
Other operating expenses	180,436	163,994
Income tax provision	41,926	38,672
Net income	178,878	152,338
Per common share:		
Net income — basic	$ 3.44	$ 3.04
Net income — diluted	3.34	2.98
Weighted average common shares:		
Basic	40,209	39,994
Diluted	41,505	40,983
At year end:		
Assets	$15,619,817	$12,667,910
Loans	9,478,017	7,044,518
Allowance for loan losses	141,036	126,378
Investments	5,821,262	5,366,205
Deposits	7,902,982	6,765,107
Borrowings	6,310,624	4,646,115
Capital	1,222,911	1,089,569

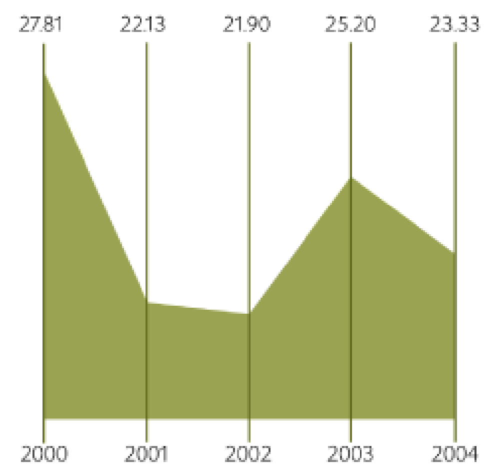
Market Price
per Common Share
(end of year)



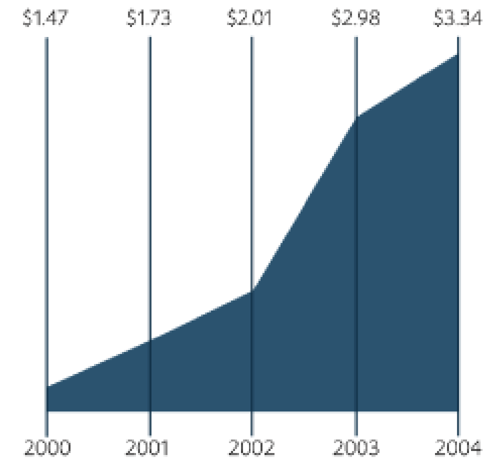
Net Interest Income
(in millions)



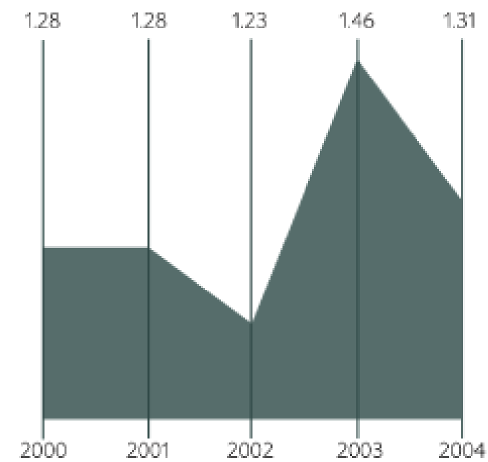
Return on
Common Equity
(in percent)



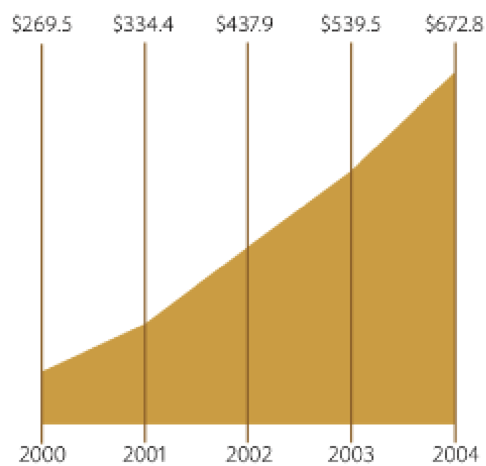
Diluted Earnings per
Common Share



Return on Assets
(in percent)



Common
Stockholders' Equity
(in millions)



Santurce, P.R.

Since 1991 when current management took over, 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 $15.6 billion financial holding company with a wide array of operations and expanded geography.

The table on the following pages shows the long-term growth of this Corporation. From 1991 to 2004 the Company has reported consistent growth. Over this fourteen year period net income grew eighteen fold from $10 million to $179 million, and per share earnings multiplied 22 times from $0.15 to $3.34 (diluted). Book value per common share increased 1,800% from $0.90 to $16.66. The efficiency ratio improved dramatically from 63.69% to 39.74%.

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 expanding its traditional operations. All this has created substantial value for the First BanCorp's shareholders while providing greater services to its clients.

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

	2004	2003	2002	2001	2000
Condensed Income Statements: Year ended					
Total interest income	$ 676,390	$ 536,681	$ 540,033	$ 516,256	$ 463,388
Total interest expense	293,184	244,471	273,184	280,201	272,615
Net interest income	383,206	292,210	266,850	236,055	190,773
Provision for loan losses	52,799	55,916	62,302	61,030	45,719
Other income	70,833	118,710	58,492	52,980	50,032
Other operating expenses	180,436	163,994	132,756	120,855	113,049
Unusual item — SAIF assessment					
Income before income tax provision, extraordinary item and cumulative effect of accounting change	220,804	191,010	130,283	107,150	82,037
Provision for income tax	41,926	38,672	22,327	20,134	14,761
Income before extraordinary item and cumulative effect of accounting change	178,878	152,338	107,956	87,016	67,276
Extraordinary item					
Cumulative effect of accounting change				(1,015)	
Net income	178,878	152,338	107,956	86,001	67,276
Per Common Share Results (1): Year ended					
Income before extraordinary item and cumulative effect of accounting change diluted	$ 3.34	$ 2.98	$ 2.01	$ 1.76	$ 1.47
Extraordinary item					
Cumulative effect of accounting change				(0.03)	
Net income per common share diluted	$ 3.34	$ 2.98	$ 2.01	$ 1.73	$ 1.47
Net income per common share basic	$ 3.44	$ 3.04	$ 2.04	$ 1.74	$ 1.48
Cash dividends declared	$ 0.48	$ 0.44	$ 0.40	$ 0.35	$ 0.29
Average shares outstanding	40,209	39,994	39,901	39,851	40,415
Average shares outstanding diluted	41,505	40,983	40,553	40,144	40,718
Balance Sheet Data: End of year					
Loans and loans held for sale	$ 9,478,017	$ 7,044,518	$5,637,851	$4,308,780	$3,498,198
Allowance for possible loan losses	141,036	126,378	111,911	91,060	76,919
Investments	5,821,262	5,366,205	3,728,669	3,715,999	2,233,216
Total assets	15,619,817	12,667,910	9,643,852	8,197,518	5,919,657
Deposits	7,902,982	6,765,107	5,482,918	4,098,554	3,345,984
Borrowings	6,310,624	4,646,115	3,249,355	3,425,236	2,069,484
Total common equity	672,811	539,469	437,924	334,419	269,461
Total equity	1,222,911	1,089,569	798,424	602,919	434,461
Book value per common share (1)	16.66	13.48	10.96	8.39	6.80
Regulatory Capital Ratios (In Percent): End of year					
Total capital to risk weighted assets	14.89	15.22	13.75	14.50	14.43
Tier 1 capital to risk weighted assets	13.57	13.65	11.90	12.16	11.23
Tier 1 capital to average assets	9.25	8.35	7.35	7.49	7.28
Selected Financial Ratios (In Percent): Year ended					
Net income to average total assets	1.31	1.46	1.23	1.28	1.28
Interest rate spread (2)	3.12	2.93	3.20	3.64	3.38
Net interest income to average earning assets (2)	3.40	3.24	3.56	4.08	3.91
Yield on average earning assets (2)	5.62	5.66	6.77	8.42	9.21
Cost on average interest bearing liabilities	2.50	2.73	3.57	4.78	5.83
Net income to average total equity	15.63	17.06	14.90	16.20	21.21
Net income to average common equity	23.33	25.20	21.90	22.13	27.81
Average total equity to average total assets	8.41	8.56	8.28	7.92	6.05
Dividend payout ratio	13.94	14.43	19.58	19.91	19.72
Efficiency ratio (3)	39.74	39.91	40.81	41.81	46.95
Common Stock Price: End of year	$ 63.51	$ 39.55	$ 22.60	$ 19.00	$ 15.75
Offices:					
Number of full service branches	57	54	54	48	48

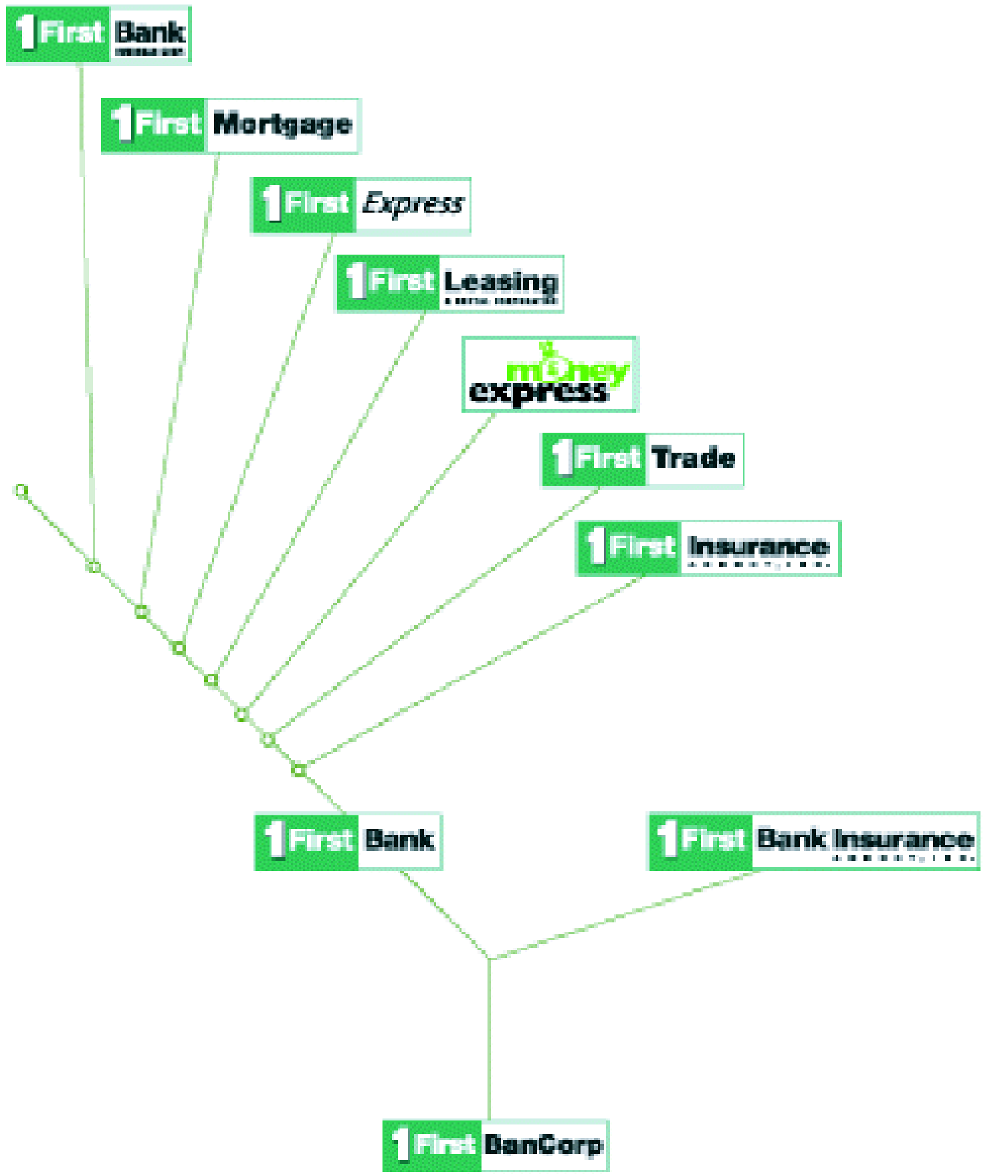
1. Amounts presented were recalculated, when applicable, to retroactively consider the effect of common stock splits.
2. Ratios for 1993 and thereafter were computed on a taxable equivalent basis.
3. Other operating expenses to the sum of net interest income and other income.

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Condensed Income Statements:									
Year ended									
Total interest income	$ 369,063	$ 321,298	$ 285,160	$ 256,523	$ 208,488	$ 180,309	$ 159,433	$ 158,993	$ 171,789
Total interest expense	183,330	155,130	130,429	113,027	96,838	76,674	72,413	85,986	109,942
Net interest income	185,733	166,168	154,731	143,496	111,650	103,635	87,020	73,007	61,847
Provision for loan losses	47,961	76,000	55,676	31,582	30,894	17,674	18,669	13,596	16,444
Other income	32,862	58,240	39,866	29,614	48,268	18,169	17,123	13,563	18,895
Other operating expenses	101,271	91,798	83,268	82,498	65,628	60,760	56,994	54,745	51,423
Unusual item — SAIF assessment				9,115					
Income before income tax provision, extraordinary item and cumulative effect of accounting change	69,363	56,610	55,653	49,915	63,396	43,370	28,480	18,229	12,875
Provision for income tax	7,288	4,798	8,125	12,281	14,295	12,385	6,525	2,879	1,420
Income before extraordinary item and cumulative effect of accounting change	62,075	51,812	47,528	37,634	49,101	30,985	21,955	15,350	11,455
Extraordinary item						(429)		(870)	(1,400)
Cumulative effect of accounting change							6,840		
Net income	62,075	51,812	47,528	37,634	49,101	30,556	28,795	14,480	10,055
Per Common Share Results (1):									
Year ended									
Income before extraordinary item and cumulative effect of accounting change diluted	$ 1.32	$ 1.16	$ 1.05	$ 0.81	$ 1.05	$ 0.67	$ 0.42	$ 0.25	$ 0.17
Extraordinary item						(0.01)		(0.02)	(0.03)
Cumulative effect of accounting change							0.14		
Net income per common share diluted	$ 1.32	$ 1.16	$ 1.05	$ 0.81	$ 1.05	$ 0.66	$ 0.56	$ 0.23	$ 0.15
Net income per common share basic	$ 1.33	$ 1.17	$ 1.05	$ 0.81	$ 1.07	$ 0.68	$ 0.63	$ 0.27	$ 0.17
Cash dividends declared	$ 0.24	$ 0.20	$ 0.16	$ 0.13	$ 0.05	N/A	N/A	N/A	N/A
Average shares outstanding	43,412	44,379	45,054	46,191	45,888	44,966	43,983	42,876	42,876
Average shares outstanding diluted	43,799	44,787	45,306	46,428	46,677	46,289	49,419	51,098	49,856
Balance Sheet Data: End of year									
Loans and loans held for sale	$2,745,368	$2,120,054	$1,959,301	$1,896,074	$1,556,606	$1,501,273	$1,237,928	$1,182,409	$1,264,380
Allowance for possible loan losses	71,784	67,854	57,712	55,254	55,009	37,413	30,453	30,474	29,001
Investments	1,811,164	1,800,489	1,276,900	830,980	785,747	595,555	603,373	636,781	564,431
Total assets	4,721,568	4,017,352	3,327,436	2,822,147	2,432,816	2,174,692	1,913,902	1,888,754	1,898,399
Deposits	2,565,422	1,775,045	1,594,635	1,703,926	1,518,367	1,493,445	1,398,247	1,359,448	1,396,066
Borrowings	1,803,729	1,930,488	1,461,581	889,668	700,609	538,080	400,977	415,257	408,414
Total common equity	204,902	270,368	236,379	191,142	171,202	120,015	92,785	50,194	38,410
Total equity	294,902	270,368	236,379	191,142	171,202	120,015	92,785	88,622	74,146
Book value per common share (1)	4.87	6.11	5.29	4.21	3.67	2.66	2.09	1.17	0.90
Regulatory Capital Ratios (In Percent): End of year									
Total capital to risk weighted assets	16.16	17.39	17.26	15.25	16.17	9.76	9.05	9.32	7.08
Tier 1 capital to risk weighted assets	11.64	11.55	11.07	9.32	9.93	8.50	7.79	8.06	5.75
Tier 1 capital to average assets	7.47	6.59	7.44	6.65	6.82	5.74	4.70	4.60	3.74

Selected Financial Ratios (In Percent): Year ended									
Net income to average total assets	1.49	1.48	1.63	1.48	2.22	1.53	1.53	0.78	0.53
Interest rate spread (2)	4.29	4.76	5.30	5.46	5.07	5.23	4.73	3.66	3.19
Net interest income to average earning assets (2)	4.85	5.27	5.83	6.03	5.59	5.65	5.10	4.04	3.39
Yield on average earning assets (2)	9.29	9.83	10.45	10.63	10.12	9.63	9.10	8.80	9.41
Cost on average interest bearing liabilities	5.00	5.07	5.15	5.17	5.05	4.40	4.37	5.14	6.22
Net income to average total equity	21.06	20.54	22.30	20.49	33.19	29.07	30.36	17.70	14.38
Net income to average common equity	24.68	20.54	22.30	20.49	33.19	29.07	39.68	26.37	20.20
Average total equity to average total assets	7.07	7.22	7.32	7.23	6.68	5.27	5.05	4.38	3.67
Dividend payout ratio	17.96	17.12	15.14	16.32	5.06	N/A	N/A	N/A	N/A
Efficiency ratio (3)	46.33	40.91	42.79	47.66	41.04	49.88	54.73	63.24	63.69
Common Stock Price: End of year	$ 13.83	$ 20.13	$ 11.35	$ 8.67	$ 7.46	$ 3.89	$ 3.69	$ 1.56	$ 0.61
Offices:									
Number of full service branches	48	40	36	36	36	32	33	33	33

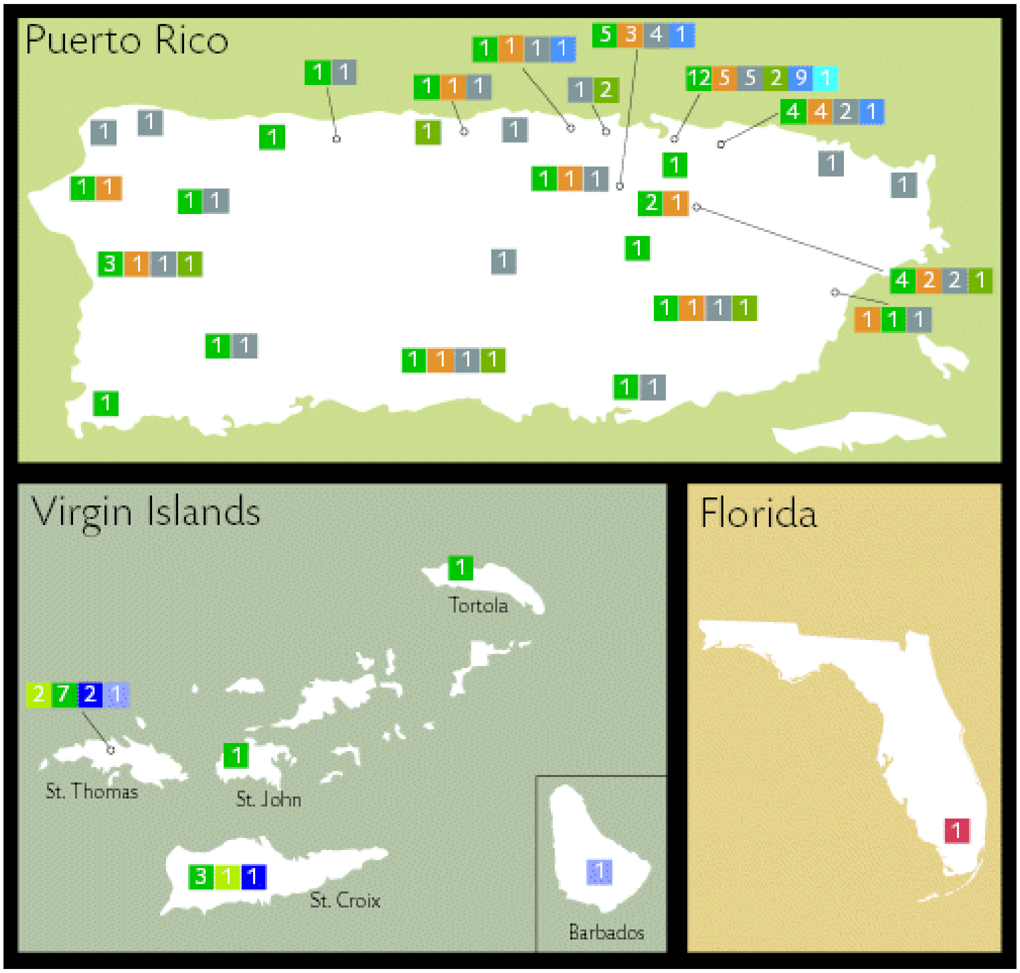
Coral Gables, FL

Corporate Structure



Offices

45	FirstBank Puerto Rico Branches
11	FirstBank USVI Branches
01	FirstBank BVI Branch
01	FirstBank-Florida Agency
31	Money Express
23	FirstMortgage, Inc
12	FirstBank Insurance Agency,Inc.
09	First Leasing and Rental Corporation
03	First Express,Inc.
03	First Insurance Agency, Inc.
02	First Trade, Inc.
01	FirstBank Overseas Corp.


Puerto Rico
Virgin Islands
Tortola
St. Thomas
St. John
St. Croix
Barbados
Florida

St. Thomas, USVI

Business Profile

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 wholly-owned subsidiaries: FirstBank Puerto Rico (“FirstBank or the Bank”) and FirstBank Insurance Agency, Inc. In addition, First BanCorp owns sixty percent of “Grupo Empresas de Servicios Financieros” (d/b/a PR Finance Group), an auto loan finance company with focus on the used car market. FirstBank is a Puerto Rico-chartered commercial bank and FirstBank Insurance Agency is a Puerto Rico-chartered insurance agency. FirstBank is subject to the supervision, examination and regulation of both the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico and the Federal Deposit Insurance Corporation. Deposits are insured 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, Inc. 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, commercial and institutional clients. First BanCorp had total assets of $15.6 billion, total deposits of $7.9 billion and total stockholder’s equity of $1.2 billion as of December 31, 2004. Based on total assets, First BanCorp is the second largest locally-owned financial 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-five full service banking branches in Puerto Rico, twelve branches in the United States Virgin Islands (USVI) and British Virgin Islands (BVI) and a loan agency in Coral Gables, Florida (USA). FirstBank has four wholly-owned 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 thirty-one offices in Puerto Rico; FirstMortgage, Inc., a residential mortgage loan origination company with twenty-three offices in FirstBank branches and at stand alone sites and FirstBank Overseas Corporation, an international banking entity under the International Banking Entity Act of Puerto Rico. FirstBank has three subsidiaries with operations outside of Puerto Rico; First Insurance Agency, Inc., an insurance agency with three offices that sell 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, Inc., a small loans company with three offices in the USVI.

San Patricio, P.R.

President’s Letter

Dear Stockholders:

On behalf of the Board of Directors, Officers and staff of First BanCorp, I am extremely proud to report that 2004 was another record year for the Corporation. In 2004 First BanCorp earned $178.9 million representing $3.44 per common share (basic) or $3.34 per common share (diluted). Earnings increased $26.6 million or 17% as compared with 2003, when the Corporation earned $152.3 million, equivalent to $3.04 per common share (basic) or $2.98 per common share (diluted).

Earnings for 2004 and 2003 include after tax special gains of approximately $3.4 million and $18.8 million, respectively, from the sale of credit card portfolios pursuant to a long-term strategic alliance commenced with MBNA in 2003. Earnings excluding the after tax effect of such gains totaled $175.5 million for 2004 or $3.36 (basic) and $3.26 (diluted) and $133.5 million for 2003 or $2.57 (basic) and $2.52 (diluted). This represents an increase of $42 million or 31% for 2004.

The continued improvement in financial results has been possible due to our commitment to keep *Reaching Higher* in everything we do. In order to achieve this, we have to constantly excel and differentiate ourselves from competitors. This commitment is represented by the positive outcomes of our decision making strategies, operating principles, and excellent service culture.

Angel Alvarez-Pérez, *President* , *Chief Executive Officer* and *Chairman*

Financial Performance and Shareholder Value

We are committed to continue *Reaching Higher* for the benefit of our stockholders, who have entrusted us with their capital. First BanCorp grew significantly in 2004. This growth contributed notably to the Corporation's net interest income which expanded by 31% or $91 million, to $383.2 million.

During 2004, the Corporation's balance sheet surpassed $15 billion, ending at $15.6 billion as of December 31, 2004, solidifying the Corporation's position as the second largest financial holding company headquartered in Puerto Rico. Net loans increased 35% to $9.3 billion. Commercial and residential mortgage loans portfolios contributed significantly to the Corporation's interest income. The leveraged growth of our securities portfolio was another factor that contributed to the increase in earnings as compared to 2003. Capitalizing on favorable conditions at mid-year 2004, we re-entered the longer term investment market by purchasing a substantial portion of higher yielding investment securities. First BanCorp has an increasingly flexible balance sheet which has provided the opportunity to facilitate decisions when faced with changes in market conditions and interest rates.

The sustained efforts of Management and staff of First BanCorp have paid off in strong earnings growth. Main profitability ratios, excluding the after tax effect of the before mentioned special gains, were: Return on Assets 1.29% for 2004 compared to 1.28% for 2003, and Return on Common Equity 22.76% for 2004 compared to 21.31% for 2003. Our stock price has reflected our growth and strong results. Investors who held First BanCorp stock over the fourteen-year period from 1991 to year-end 2004 experienced a cumulative total return of 11,900% equivalent to 44.49% annualized return.

Strong Asset Quality

Another factor contributing to strong financial results was the stability of write offs of our loan portfolio, as a normal result of the Corporation's prudent underwriting. During 2004, the Corporation wrote off $38.1 million of loans on a net basis (0.48% of the average portfolio) compared with $41.4 million of loans on a net basis (0.66 % of the average portfolio) in 2003.

Sources of Funds

The Corporation's deposit base increased to $7.9 billion at December 31, 2004 or 17%. As discussed further below, this increase includes deposits gathered through the launching of new deposit products that better meet customer needs.

As of December 31, 2004 the Corporation had medium term notes outstanding approximating $177 million and Trust Preferred Securities amounting to $225 million that were issued during the year. The Trust Preferred Securities qualify for Tier I capital under regulatory guidelines, therefore contributing to the Corporation's sound capital base much necessary for the Corporation's continuous growth.

Highly Efficient Operation

The Corporation continues to be highly efficient despite the expansion of our operations. At 39.74% for 2004 (40.04% excluding the 2004 gain on sale of credit card portfolio) our efficiency ratio continues to be better than average when compared to other financial institutions in the banking business. Our ability to minimize operational costs is supported by the strategies we follow. These strategies include, among others, strategic alliances that permit the Corporation to limit operating expenses while earning additional income from fees and commissions for the services provided. The agreements include, an alliance with MBNA, the world's largest credit card issuer, to offer a wide selection of credit card services to customers in Puerto Rico, an alliance with an international brokerage firm to provide financial and investment services in FirstBank branches and an agreement with a major investment banking firm to participate in bond issues by the Government Development Bank for Puerto Rico.

Strengthening Market Presence, New Products and Services

We are committed to continue *Reaching Higher* for the benefit of our customers, who use our products and services to facilitate the management of their financial lives.

First Bank's branch network grew in 2004 with the opening of 4 new branches; all located in strategic shopping mall locations throughout Puerto Rico. In October 2004, FirstBank opened a loan agency in Coral Gables, Florida. Also, during 2004 the Bank's mortgage banking and small loans subsidiaries expanded their operation with new locations. Plans are presently underway for several new locations and upgrades to existing facilities in 2005, which will improve availability and convenience of First BanCorp customers and strengthen the Corporation's presence in Puerto Rico and in the Virgin Islands.

FirstMortgage, the Corporation's mortgage banking operation, successfully completed its first full year of operations. This subsidiary offers a wide array of mortgage banking services and has emerged a leading company providing innovative products in the highly competitive residential mortgage loans market.

Since the Corporation is a multi-product financial institution we are diversifying our sources of revenue through different strategies to maximize our profits. As an example, our insurance subsidiary, FirstBank Insurance Agency, has increased its business through the offering of a wide array of insurance related products.

We are constantly developing products to better serve our clients and reach new markets. During 2004, we launched new products and emphasized sales of previously introduced products that better meet customer's needs, including: the "Cuenta Perfecta", a highly competitive demand deposit product, the "Business Plus Account" a business product for multiple bank account management, "Rapid Cash", a mortgage loan product offered through our mortgage banking operation and "Easy Cash" a convenient ATM and debit card product. Money Express, our small loan subsidiary operating in Puerto Rico, started offering mortgage loans through its multiple locations.

We have been emphasizing a strategy aimed to cater customer needs in the commercial loans middle market segment. This commercial lending segment is operated by well trained and highly competitive officials with vast experience in commercial lending and should result in added profits to the Corporation.

Corporate Citizenship

We are committed to continue *Reaching Higher* for the benefit of our communities, who have been part of our growth to date and upon which the future prosperity of our Corporation rests.

Since its founding in 1948, First BanCorp has been deeply committed to the well being of the communities it serves. The Corporation has supported and contributed to numerous charitable organizations in Puerto Rico and in the Virgin Islands including humanitarian organizations, educational institutions, and other not-for-profit organizations focused on arts and community services.

Disciplined Risk Management

During 2004, we embraced the U.S. Congress Sarbanes Oxley Act Section 404 which required significant efforts from our Officers, staff and Board of Director members to fully comply with Act requirements. This and other internal risk management initiatives and policies have enhanced our oversight of financial transactions through the integration of our staff in internal control related activities.

Building a Great Culture

We are committed to *Reaching Higher* for the benefit of our staff, who have chosen to use their talent here and who deserve the opportunity to achieve their full potential.

We continue to develop customer satisfaction strategies as we believe this is a key factor to our continued success. Through the continuous development of different employee recognition programs such as First Bank's "Tu eres calidad" program, along with ongoing training, education, sale awards, and motivational workshops we can build a stronger sales and service culture.

The Future

First BanCorp is a multi-product financial services institution. The strength of First BanCorp has never been more significant to our future as it is today. Our growth strategy relies on penetrating the markets where we operate by diversifying our product offerings while providing agility in service. We are certain our present strength will lead to future growth.

In November 2004, the Corporation announced the signing of a definitive merger agreement for the acquisition of the parent company of Unibank, a federal savings and loan association with approximately $500 million in assets which operates 9 full service branches in the southern region of the state of Florida. The acquisition, which is expected to be accretive to the Corporation's earnings in 2005, is pending regulatory approvals. The acquisition will allow the Corporation to build a platform in Florida from which to consider future expansion in the United States. We will continue to monitor such opportunities as ways to enhance our shareholder value.

We are ready to *Reach Higher* and look forward to our future endeavors in Puerto Rico, the Virgin Islands and the US markets. I am confident that we will be able to meet challenges ahead and maintain superb client service, while benefiting our shareholders and our staff.

Angel Alvarez-Pérez
Chairman, President, Chief Executive Officer

Mayagüez, P.R.

Economy

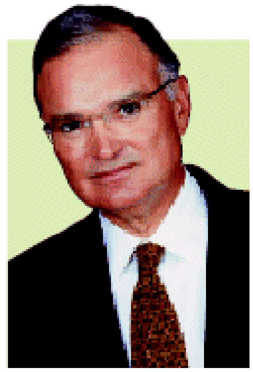
Puerto Rico (the "Island"), a Commonwealth of the United States of America (the "U.S."), is the easternmost Caribbean Island of the Greater Antilles. Puerto Rico is surrounded by the Atlantic Ocean to the north and the Caribbean Sea to the south. It is 1,600 miles or 3 hours and 30 minutes from New York and 1,000 miles or 2 hours from Miami via air. Puerto Ricans are U.S. citizens. As in U.S., the Island has a dual judicial system, local and federal. The Island constitutes a District under the Federal Judiciary and has its own U.S. district court. Most U.S. federal government agencies have representation offices on the Island. However, the Island has its own Internal Revenue system and is not subject to U.S. Taxes.

Puerto Rico's economic performance is a natural result of its increasing integration into the U.S. economy. The Island uses U.S. currency and forms part of the U.S. financial system. 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 banks are subject to the same Federal laws, regulations and supervision as other financial institutions in the rest of the U.S. The Federal Deposit Insurance Corporation insures the deposits of Puerto Rico chartered commercial banks, including FirstBank, the banking subsidiary of First BanCorp.

As the Caribbean's most industrially developed island, Puerto Rico's economy has a strong manufacturing base. The Island is a major producer and exporter of manufactured goods, pharmaceuticals and high technology equipment. The Government of Puerto Rico has specifically targeted biotechnology as a key development area; biotech giants have found great operational and financial benefits on the Island and have announced substantial investments in this sector. The service sector, including tourism, also plays a key role in the economy. The Island's economy has been diversifying with significant investments in retail trade, finance and insurance, and transportation. The Banking sector has been the main driver of such diversification, serving as the financial support of the Island's commercial and industrial growth.

Real GNP grew 2.8% in fiscal year 2004 according to the Puerto Rico Planning Board. The Puerto Rico economy continues to reflect signs of growth, the Puerto Rico Planning Board forecasts real GNP growth of 2.3% for 2005. As per the Puerto Rico's Department of Labor, the unemployment rate declined in December 2004 to 9.8% to end the year with the lowest unemployment rate since 2000. Recent reports on retail activity are encouraging with percentage increase in retail sales and record vehicle sales during the latter part of 2004. Investment in construction also increased during the latter part of 2004, however on a total year basis, a slowdown occurred when compared to 2003. Gasoline prices moderated late in 2004, but are at historical highs. In 2004, the Island's tourism industry benefited from the U.S. and global economic rebound, which boosted demand for business and leisure travel and helped increase the hotel occupancy rates.

Board of Directors



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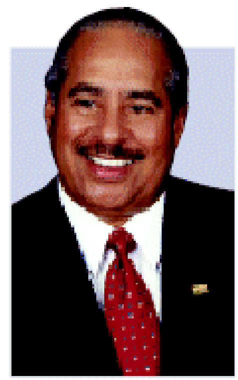

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Ángel Álvarez-Pérez
Chairman of the Board of Directors
1

José L. Ferrer-Canals
2

Annie Astor-Carbonell
3

José Teixidor-Méndez
4

José Julián Álvarez-Bracero
5


6


7


8


9

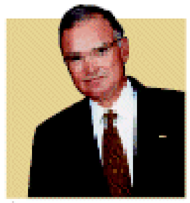
Richard Reiss-Huyke
6

Sharee Ann Umpierre-Catinchi
7

Jorge L. Díaz Irizarry
8

José Menéndez Cortada
9

Officers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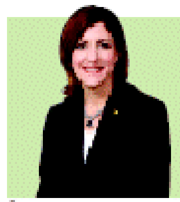
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Angel Alvarez-Pérez
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Annie Astor-Carbonell
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Luis M. Beauchamp
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Aurelio Alemán
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Fernando L. Batlle
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Randolfo Rivera
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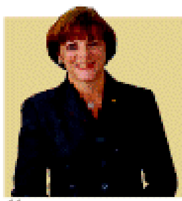
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Dacio A. Pasarell
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Cassan A. Pancham
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Luis M. Cabrera
9

Alan Cohen
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Aida M. García
11

Miguel Mejías
12

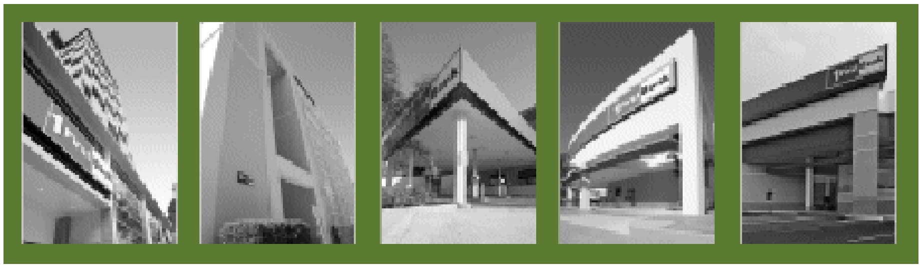
Carmen G. Szendrey-Ramos
13

Laura Villarino
14

President	Angel Alvarez-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	*Commercial Banking*
	Alan Cohen	*Marketing and Public Relations*
	Aida M. García	*Human Resources*
	Michael García	*Consumer Collection*
	Roger Lay	*Internal Audit*
	Emilio Martinó	*Credit Risk Management*
	Miguel Mejías	*Information Systems*
	Carmen Nigaglioni	*Commercial Department*
	John Ortiz	*Consumer Products and Credit Cards*
	James Partridge	*Florida Agency*
	Jorge Rendón	*Facilities Management*
	Haydeé Rivera	*Branch Banking Operations*
	Julio Rivera	*Construction Lending*
	Nayda Rivera	*General Auditor*
	Carmen Rocafort	*Corporate and Structured Finance*
	Demetrio Santiago	*Auto Wholesale*
	Héctor Santiago	*Auto Business and Operations*
	Ingrid Schmidt	*Mortgage Banking*
	Denise Segarra	*Sales and Distribution*
	Luis Sueiro	*Commercial Wholesale Operations*
	Carmen G. Szendrey-Ramos	*General Counsel and Secretary of the Board of Directors*
	Laura Villarino	*Controller*

First Federal Finance CorporationDBA Money Express "La Financiera"	Angel Alvarez-Pérez Aurelio Alemán Carlos Power	*Chief Executive Officer* *President and Chief Operating Officer* *Senior Vice President and General Manager*
First Leasing and Rental Corporation	Angel Alvarez-Pérez Aurelio Alemán Agustín Dávila	*Chief Executive Officer* *President and Chief Operating Officer* *General Manager*
FirstBank Insurance Agency, Inc.	Angel Alvarez-Pérez Aurelio Alemán Víctor Santiago	*Chief Executive Officer* *President and Chief Operating Officer* *Vice President and General Manager*
First Insurance Agency, Inc.	Angel Alvarez-Pérez Fernando L. Batlle Cassan A. Pancham Marian Mathes	*Chief Executive Officer* *President and Chief Operating Office* r *First Senior Vice President* *General Manager*
First Trade Inc.	Angel Alvarez-Pérez Fernando L. Batlle Cassan A. Pancham David Wright	*Chief Executive Officer* *Chief Operating Officer* *First Senior Vice President* *General Manager*
First Express, Inc.	Angel Alvarez-Pérez Fernando L. Batlle Cassan A. Pancham Dina Perry	*Chief Executive Officer* *President and Chief Operating Office* r *First Senior Vice President* *Manager*
First Mortgage	Angel Alvarez-Pérez Fernando L. Batlle Ingrid Schmidt Ricardo Negrón Juanita Marrero Carmen Fernández	*Chief Executive Officer* *Chief Operating Office* r *President* *Vice President* *Vice President* *Vice President*
FirstBank Overseas, Corp.	Angel Alvarez-Pérez	*Chief Executive Officer*

Financial Review



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"); a commercial bank headquartered in San Juan, Puerto Rico. First BanCorp, the second largest financial holding company headquartered in San Juan, Puerto Rico, had $15.6 billion in assets at December 31, 2004 and operates full-service banking branches in Puerto Rico and in the U.S. Virgin Islands (USVI) and British Virgin Islands (BVI). Since October 2004, the Bank also operates a loan agency in Coral Gables, Florida (USA). In addition, the holding company owns an insurance agency. 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.

The Corporation's results of operations are sensitive to fluctuations in interest rates. Changes in interest rates can materially affect key earnings drivers such as the volume of loan originations, net interest income earned, and gains/losses on investment security holdings. Interest rate risk is constantly managed through asset/liability management strategies which include the use of various derivative instruments. Another important risk which the Corporation manages on a daily basis is credit risk in the loan portfolio. This risk is mainly managed through strong underwriting, loan review and collection functions. The Corporation's business activities and credit exposures are mainly concentrated in Puerto Rico. Consequently, its financial condition and results of operations are dependent on the economic conditions as well as changes in legislation on the Island.

Financial Highlights

First BanCorp recorded earnings of $178.9 million or $3.44 per common share (basic) and $3.34 per common share (diluted), compared to $152.3 million or $3.04 per common share (basic) and $2.98 per common share (diluted) for 2003, and $108 million or $2.04 per common share (basic) and $2.01 per common share (diluted) for 2002. For 2004 as compared to 2003, net income increased by $26.6 million or $0.36 per common share (diluted), and for 2003 as compared to 2002, by $44.3 million or $0.97 per common share (diluted).

Assets rose 23% from $12.7 billion at year-end 2003 to $15.6 billion at the end of 2004. Deposits increased 17% to $7.9 billion. Net loans increased 35% to $9.3 billion, due to an increase of $1.8 billion in residential mortgage loans, $374.5 million in commercial loans and $253.5 million in consumer loans and finance leases.

The Corporation's earnings increase is mainly the result of a significant growth of $3.2 billion in the average balance of earning assets and from increases in the average yield on investment securities, together with lower cost of funding. The increase in interest income, when compared to 2003, is mainly attributed to the growth in the Corporation's loan and investment portfolios; the average balance of these portfolios increased by $1.7 billion and $1.5 billion, respectively. The increase in the loan portfolio was mainly driven by the origination and purchase of residential mortgage loans and to a lesser extent by the origination of commercial and consumer loans, while the increase in the investment's portfolio is mainly attributed to substantial purchases of long-term agency securities. While the yield on the investment's portfolio increased as compared to 2003 due to the re-investment of proceeds from prepayments on mortgage backed securities and to new investments in higher yielding long-term securities, the yields on loans decreased, given the re-pricing of variable rate loans and to the purchase and origination of loans at lower rates. Total yield on earning assets on a taxable equivalent basis was 5.62% for 2004 as compared to 5.66% for 2003. Increase in interest expense as compared to 2003 is the result of volume increases in interest bearing liabilities to support the Corporation's investment and loan portfolios growth. The increase in interest expense due to volume growth, was partially offset by decreases in rate, given the re-pricing of variable rate liabilities and the origination of new debt at lower rates. Average cost of funds rate for 2004 was 2.50% compared to 2.73% for 2003.

Positive variances resulting from an increase in average earnings assets, higher yields on the investment's portfolio and lower cost of funds were partially offset by a decrease in the loan portfolio interest yields. The net impact on net interest income and earnings was positive, net interest income increased by $91 million as compared to 2003 reported amount, or $124.2 million on a taxable equivalent basis.

The provision for loan losses decreased by $3.1 million to $52.8 million in 2004, as a normal result of the Corporation's prudent underwriting and stability in loan delinquencies during 2004, in spite of significant volume increases in the loan portfolios. The net charge offs as a percentage of average loans decreased to 0.48%.

Other income for 2004 decreased by $47.9 million as compared to 2003, the decrease is mainly attributed to gains realized in the year 2003 from the sale of investments and from the sale of a significant portion of the Corporation's credit cards portfolio. These gains amounted to $34.9 million and $30.9 million, respectively, for 2003 as compared to $9.5 million and $5.5 million, respectively, for 2004. Other income excluding net gains on sale of investments, gains on sale of credit card portfolios and derivatives valuations increased by $4.8 million as compared with the 2003 reported amount. The increase is in part attributed to increases in commission income from the Corporation's insurance businesses and increases in service charges on deposit accounts as a result of a larger volume of accounts and transactions during 2004, partially offset by decreases in other fees on loans, due to fees previously earned on the credit card portfolios sold in 2003 and early in 2004.

The Corporation continues to be highly efficient despite the expansion of its operations. At 39.74% for 2004, the efficiency ratio, which is the ratio of other operating expenses to the sum of net interest income and other income, continues to be better than average when compared to other financial institutions in the banking business. Operating expenses increased by $16.4 million from $164.0 million in 2003 to $180.4 million in 2004. Increase as compared to 2003 is mainly attributable to personnel and occupancy costs to support the Corporation's growth, and to strong advertising and business promotion costs to support new products and services, especially FirstMortgage, the Corporation's mortgage banking subsidiary which started operations late in 2003.

Return on average assets was 1.31% for 2004, 1.46% for 2003 and 1.23% for 2002. Return on average equity was 15.63% for 2004, 17.06% for 2003 and 14.90% for 2002. Return on average common equity was 23.33% for 2004, 25.20% for 2003 and 21.90% for 2002. Refer to table below for main profitability ratios excluding special gains on the sale of credit card portfolios realized in 2003 and 2004.

During the first quarter of 2004, FirstBank Overseas Corporation, a wholly-owned subsidiary of FirstBank and an international banking entity under the International Banking Entity Act of Puerto Rico, commenced operations. Also on October 2004, the