FIRST BANCORP /PR/

FORM 10-K
(Annual Report)

Filed 3/31/2003 For Period Ending 12/31/2002

Address	1519 PONCE DE LEON AVE SANTUREE
	SAN JUAN, 00908
Telephone	787-729-8200
CIK	0001057706
Industry	Regional Banks
Sector	Financial
Fiscal Year	12/31

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2002

OR

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

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)

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

Not applicable

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 [X] 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. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

State the aggregate market value of the voting common stock held by nonaffiliates of the Corporation: Approximately $895,105,000 (based on the closing sales price of $25.133 at June 28, 2002 for such shares). Number of shares of Common Stock outstanding as of March 18, 2003:

39,955,285

Documents Incorporated by Reference

(1) Portions of the Annual Report to security holders for the fiscal year ended December 31, 2002 are incorporated by reference in Part I, II and IV; and (2) Portions of the definite proxy statement filed on/or about March 28, 2003 are incorporated by reference in Part III.

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 communication, 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", 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 to advise readers that various factors, including regional and national conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities, competitive and regulatory factors and legislative changes, 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.

TABLE OF CONTENTS

FIRST BANCORP

CONTENTS

PART I

Item 1. Business

GENERAL

First BanCorp is a publicly owned financial holding company offering a full range of financial services through its wholly owned subsidiaries, FirstBank Puerto Rico (FirstBank) and FirstBank Insurance Agency. First BanCorp is subject to the Federal Bank Holding Company Act and to the regulations, supervision, and examination of the Federal Reserve Board. Its insurance subsidiary, FirstBank Insurance Agency, is subject to the supervision, examination and regulation of the Commissioner of Insurance of Puerto Rico.

Based on total assets, the Corporation is the second largest bank holding company headquartered in the Commonwealth of Puerto Rico and the second depository institution in Puerto Rico. The Corporation had total assets of $9.644 billion, total deposits of $5.483 billion and total stockholders’ equity of $798.4 million at December 31, 2002.

The Corporation’s wholly owned bank subsidiary, FirstBank, chartered in 1948, was the first savings and loan association established in Puerto Rico. It has been a stockholder-owned institution since January 1987. Effective at the close of business on October 31, 1994, FirstBank converted to a Puerto Rico chartered commercial bank. The Bank is subject to supervision, examination and regulation by the Office of the Commissioner of Financial Institutions of Puerto Rico (the Commissioner) and the Federal Deposit Insurance Corporation (FDIC), which insures its deposits through the Savings Association Insurance Fund (SAIF). FirstBank conducts its business through its main office located in San Juan, Puerto Rico, 43 full-service branches in Puerto Rico and 11 full-service branches in the U.S. and British Virgin Islands. The Bank also has nine loan origination offices focusing on mortgage loans, and two loan origination offices focusing on auto loans. The Bank offers brokerage services in selected branches through an alliance with a national brokerage house in Puerto Rico. FirstBank has four subsidiaries, First Leasing and Rental Corporation, a vehicle and daily rental company with six offices, First Federal Finance Corp. D/B/A Money Express “La Financiera”, a small loan company with 27 offices, FirstBank Insurance Agency V.I., Inc., with one office selling insurance in the U.S. Virgin Islands and First Trade Inc., a trade financing subsidiary with one office in the Virgin Islands and one office in Barbados. The Virgin Islands operations of FirstBank are regulated by the Virgin Islands Banking Board (for the USVI) and by the British Virgin Islands Financial Services Commission (for the BVI).

In October 2002, the Corporation acquired JPMorgan Chase’s Eastern Caribbean Region business in the U.S. Virgin Islands, British Virgin Islands and Barbados. In addition to branches acquired, this transaction included the acquisition of the assets of the former Chase Trade, Inc., now the aforementioned First Trade, Inc., and of all outstanding shares of the former Chase Agency Services, Inc., now the aforementioned FirstBank Insurance Agency V.I., Inc.

First BanCorp has distinguished itself by providing innovative marketing strategies and novel products to attract clients. Besides its branches and specialized lending offices, the Corporation has offered a telephone information service called “Telebanco” since 1983. This was the first telebanking service offered in Puerto Rico. First BanCorp clients have access to an extensive ATM network with access all over the world. The Corporation was also the first in Puerto Rico to open on weekends and the first to offer in-store branches to its clients. First BanCorp was also the first banking institution in

Puerto Rico with a presence on the internet. The Corporation now offers a wide menu of internet banking services to its clients.

First BanCorp is committed to providing the most efficient and cost effective banking services possible. Management's goal is to make the Corporation the premier financial institution in Puerto Rico and the Virgin Islands, recognized for consistently exceeding the expectations of its clients, employees and stockholders.

The information under the caption "President's Letter" on pages 15 to 17 and the information under Note 30 — Segment Information on pages 78 to 80 of the Corporation's annual report to security holders for the year ended December 31, 2002 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.

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 holding companies and their non-bank subsidiaries.

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 main banking subsidiaries and to also 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. In 2000, the Corporation elected this option and is currently a financial holding company. The qualification requirements and the process for a bank holding company that elects to be treated as a financial holding company requires that all the subsidiary banks controlled by the bank holding company at the time of election to become a financial holding company must be and remain at all times well capitalized and well managed.

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

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

State Chartered Non-Member Bank. 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.

Dividend Restrictions. The Corporation is subject to certain restrictions generally imposed on Puerto Rico corporations (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 earnings from FirstBank. The ability of FirsBank to pay dividends on its common stock is restricted by the Banking Law (as defined herein), the Federal Deposit Insurance Act 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 Federal Deposit Insurance Act and the FDIC regulations restrict the payment of dividend 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, which becomes effective on April 1, 2003. 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 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.

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.

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.

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 stocks 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 this purpose does not include goodwill and any other intangible assets and investments that the Federal Reserve Board determines should be deducted from Tier I capital. 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.

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 also 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 of 0% to 100%, weights used 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 above under the 3% leverage capital standard. The components of supplementary capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and generally allowances for loan and lease losses. Allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital.

The FDIC's capital regulations establish a minimum 3.0% Tier I capital to total assets requirement for the most highly-rated state-chartered, non-member banks, with an additional cushion of at least 100 to 200 basis points for all other state-chartered, non-member banks, which effectively will increase the minimum Tier I leverage ratio for such other banks to 4.0% to 5.0% or more. Under the FDIC's regulation, the highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, which are considered a strong banking organization and are rated composite I under the Uniform Financial Institutions Rating System. Leverage or core capital is defined as the sum of common stockholders' equity including retained earnings, noncumulative perpetual preferred stock and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill and certain purchased mortgage servicing rights. At December 31, 2002, the most recent notification from FDIC, categorized the Bank as a well-capitalized institution under the regulatory framework for prompt corrective action.

Activities and Investments. The activities 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 in any activity that is not permitted for a national bank must cease the impermissible activity.

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, and (3) money deposited in other banks provided said deposits are authorized by the Commissioner, subject to immediate collection.

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

International Banking Act of Puerto Rico (IBE Act) . The business and operations of the First BanCorp and FirstBank IBE’s 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 IBE’s must maintain books and records of all its transactions in the ordinary course of business. The First BanCorp and FirstBank are also required thereunder to submit to the Commissioner quarterly and annual reports of its 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.

Insurance Operations Regulation. FirstBank Insurance Agency, Inc. is registered as an insurance agency with the Commissioner of Insurance of Puerto Rico. FirstBank Insurance Agency, Inc. is subject to regulations issued by the Commissioner of Insurance of Puerto Rico 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 its 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.

Recent Legislation. The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), which became law on July 30, 2002, added new legal requirements for public companies affecting corporate governance, accounting and corporate reporting.

The Sarbanes-Oxley Act provides for, among other things:

- a prohibition on personal loans made or arranged by the issuer to its directors and executive officers (except for loans made by a bank subject to Regulation O);
- independence requirements for audit committee members;
- independence requirements for company auditors;
- certification of financial statements on Forms 10-K and 10-Q reports by the chief executive officer and the chief financial officer;
- the forfeiture by the chief executive officer and the chief financial officer of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by such officers in the twelve month period following initial publication of any financial statements that later require restatement due to corporate misconduct;
- disclosure of off-balance sheet transactions;
- two-business day filing requirements for insiders filing Form 4s;
- disclosure of a code of ethics for financial officers and filing a Form 8-K for a change in or waiver of such code;
- the reporting of securities violations "up the ladder" by both in-house and outside attorneys;
- restrictions on the use of non-GAAP financial measures in press releases and SEC filings;
- the formation of a public accounting oversight board; and
- various increased criminal penalties for violations of securities laws.

The Sarbanes-Oxley Act contains provisions which became effective upon enactment on July 30, 2002 and provisions which will become effective from within 30 days to one year from enactment.

The SEC has been delegated the task of enacting rules to implement various provisions. In addition, each of the national stock exchanges has proposed new corporate governance rules, including rules strengthening director independence requirements for boards, the adoption of corporate governance codes and charters for the nominating, corporate governance and audit committees.

As part of the USA Patriot Act, signed into law on October 26, 2001, Congress adopted the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the “Act”). The Act authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to financial institutions such as banks, bank holding companies, broker-dealers and insurance companies. Among its other provisions, the Act requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls that are reasonably designed to detect and report instances of money laundering in United States private banking accounts and correspondent accounts maintained for non-United States persons or their representatives; and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign shell bank that does not have a physical presence in any country. In addition, the Act expands the circumstances under which funds in a bank account may be forfeited and requires covered financial institutions to respond under certain circumstances to requests for information from federal banking agencies within 120 hours.

MARKET AREA AND COMPETITION

Puerto Rico, where the banking market is highly competitive, is the main geographic service area of the Corporation. According to the latest industry statistics published by the Commissioner, Puerto Rico has 17 banking institutions with approximately $67 billion in assets. The Corporation ranked second based on total assets. The largest bank in order of size was Banco Popular de Puerto Rico. Puerto Rico banks are subject to the same federal laws, regulations and supervision that apply to similar institutions on the United States mainland.

In addition, the Corporation competes with brokerage firms with retail operations, credit unions, cooperatives, small loan companies and mortgage banks in Puerto Rico.

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.

FINANCIAL CONDITION

The Corporation's total assets at December 31, 2002 amounted to $9,644 million, $1,446 million over the $8,198 million at December 31, 2001.

The following table sets forth the maturity distribution of earning assets at December 31, 2002:

	As of December 31, 2002 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	$ 273,660					$ 273,660
Investment securities(1)	103,328	$ 63,138	$ 59,432	$3,218,492	$ 10,619	3,455,009
Loans(2):						
Residential real estate	61,627	87,219	99,472	817,825	787,925	1,854,068
Construction	27,268	2,126		2,803	226,856	259,053
Commercial and commercial real estate	423,580	58,368	267,497	163,349	1,319,511	2,232,305
Lease financing	3,717	108,539		31,156		143,412
Consumer	429,289	649,459	3,081	52,941	14,242	1,149,012
Total Loans	945,481	905,711	370,050	1,068,074	2,348,534	5,637,850
Total	$1,322,469	$968,849	$429,482	$4,286,566	$2,359,153	$9,366,519

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

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

LENDING ACTIVITIES

At December 31, 2002 First BanCorp's lending activities include total commercial loans of $2,491 million (44% of total loans), total consumer loans of $1,149 million (20% of total loans), and total residential mortgage loans of $1,854 million (33% of total loans). The Corporation's portfolio of commercial loans is composed in its majority of asset based financing and commercial real estate loans. Total commercial loans include $814 million in commercial real estate loans and $259 million in construction loans. The consumer loan portfolio consists principally of auto loans, personal loans and credit cards. The portfolio of finance leases of $143 million (3% of total loans), is mostly composed of loans to individuals to finance the acquisition of an auto.

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

	Year ended December 31,				
	2002	2001	2000	1999	1998
	(In thousands)				
Residential real estate loans:					
Secured by first mortgages:					
Conventional	$1,778,046	$ 955,573	$ 695,344	$ 395,885	$ 237,561
Insured by government agencies:					
Federal Housing Administration and Veterans Administration	41,805	25,211	20,004	6,543	8,185
Puerto Rico Housing Corporation and Finance Agency	19,060	23,513	28,037	32,928	38,516
Secured by second mortgages	7,650	8,088	8,964	5,706	4,956
	1,846,561	1,012,385	752,349	441,062	289,218
Deferred net loan fees	(3,247)	(5,107)	(5,557)	(5,293)	(6,848)
Residential real estate loans	1,843,314	1,007,278	746,792	435,769	282,370
Commercial loans:					
Construction, land acquisition and land improvements	467,978	413,218	484,986	288,302	161,498
Undisbursed portion of loans in process	(208,925)	(193,822)	(281,031)	(156,234)	(98,535)
Construction loans	259,053	219,396	203,955	132,068	62,963
Commercial loans	1,418,792	1,238,173	947,709	655,417	368,549
Commercial mortgage	813,513	688,922	438,321	371,643	332,219
Commercial loans	2,491,358	2,146,491	1,589,985	1,159,128	763,731
Finance leases	143,412	127,935	122,883	85,692	52,214
Consumer loans:					
Personal	424,332	373,706	401,548	435,858	472,716
Auto	565,478	502,902	530,534	532,242	512,116
Boat	53,017	39,570	33,954	37,018	32,209
Credit card	164,172	176,226	174,797	168,045	125,956
Home equity reserve	4,566	1,851	2,134	2,657	3,385
Unearned finance interest	(62,553)	(71,810)	(104,429)	(148,836)	(145,284)
Consumer and other loans	1,149,012	1,022,445	1,038,538	1,026,985	1,001,098
Loans receivable	5,627,096	4,304,149	3,498,198	2,707,574	2,099,413
Loans held for sale	10,754	4,630		37,794	20,642
Total loans	5,637,850	4,308,779	3,498,198	2,745,368	2,120,054
Allowance for loan losses	(111,911)	(91,060)	(76,919)	(71,784)	(67,854)
Total loans-net	$5,525,939	$4,217,719	$3,421,279	$2,673,584	$2,052,200

The following table sets forth the composition of First BanCorp's total loan portfolio before the allowance for loan losses and the estimated weighted average taxable equivalent interest rates of loans in each category at December 31, 2002.

	December 31, 2002	
	(In thousands)	Weighted average rate
Residential real estate loans	$1,854,068	5.43%
Construction loans	259,053	5.13%
Commercial and commercial real estate loans	2,232,305	5.03%
Finance leases	143,412	10.14%
Consumer loans:		
Auto	550,697	10.69%
Personal	377,303	16.47%
Credit card	164,172	14.98%
Boat	52,274	8.53%
Home equity reserve loans	4,566	7.45%
Total consumer and other loans	1,149,012	13.13%
Total	$5,637,850	6.95%

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,				
	2002	2001	2000	1999	1998
			(Dollars in thousands)		
Beginning balance	$4,217,719	$3,421,279	$2,673,584	$2,052,200	$1,901,590
Residential real estate loans originated and purchased	1,045,268	613,698	416,077	216,713	93,552
Commercial loans originated and purchased	581,654	798,038	555,530	623,590	307,009
Finance leases originated	54,750	45,094	65,646	51,618	34,427
Consumer loans originated	431,588	363,582	423,411	515,348	371,333
Total loans originated (1)	2,113,260	1,820,412	1,460,664	1,407,269	806,321
Sales and securitizations of loans	(80,446)	(41,060)		(1,267)	
Repayments and prepayments	(635,765)	(897,832)	(646,581)	(719,964)	(559,727)
Other decreases (2)	(88,829)	(85,080)	(66,388)	(64,654)	(95,984)
Net increase	1,308,220	796,440	747,695	621,384	150,610
Ending balance	$5,525,939	$4,217,719	$3,421,279	$2,673,584	$2,052,200
Percentage increase	31.02%	23.28%	27.97%	30.28%	7.92%

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

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

INVESTMENT ACTIVITIES

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

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

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

SOURCES OF FUNDS

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

Deposit Accounts

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

	Weighted average rates at December31,	December 31,		
	2002	2002	2001	2000
		(Dollars in thousands)		
Non-interest bearing checking accounts		$ 447,076	$ 239,851	$ 232,164
Saving accounts	1.82%	921,103	469,452	430,298
Interest bearing checking accounts	1.70%	230,743	205,760	170,631
Certificate accounts	2.83%	3,883,996	3,183,491	2,512,891
Total		$5,482,918	$4,098,554	$3,345,984
Weighted average rate on interest bearing deposits	2.58%			
Total deposits as a percentage of total assets		56.85%	50.00%	56.52%

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

The following table presents a maturity summary of certificates of deposits with balances of $100,000 or more at December 31, 2002.

	(In thousands)
Three months or less	$ 514,811
Over three months to six months	169,814
Over six months to one year	70,902
Over one year	2,624,222
Total	$3,379,749

Borrowings

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

	Weighted average rates at December 31,	December 31,		
	2002	2002	2001	2000
		(Dollars in thousands)		
Borrowings:				
Federal funds purchased and securities sold under agreements to repurchase	3.82%	$2,793,540	$2,997,174	$1,856,436
FHLB advances	4.34%	373,000	343,700	67,000
Subordinated notes	8.04%	82,815	84,362	90,548
Notes payable				55,500
Total	3.98%	$3,249,355	$3,425,236	$2,069,484
Total borrowed funds as a percentage of total assets		33.69%	41.65%	34.87%
Weighted average interest rate during the period:				
Securities sold under agreements to repurchase		4.21%	4.90%	6.23%

CAPITAL

At December 31, 2002, total stockholders' equity for the Corporation amounted to $798 million, an increase of $195 million as compared to $603 million at December 31, 2001. During 2002 First BanCorp issued $92 million of preferred stock.

Employees

At December 31, 2002, the Corporation employed 1,973 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, 2002, 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 61% of the building and an underground three levels 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 14 branch and office premises and an auto lot. The Corporation leased 40 branch premises, 28 loan and office centers and six other facilities. All these premises are located in Puerto Rico and in the Eastern Caribbean Region. 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 80 of the annual report to security holders for the year ended December 31, 2002 (see Exhibit 13 to this Form 10-K).

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

No matters were voted upon during the fourth quarter of 2002.

Table of Contents

PART II

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

a) Market Information

The information required herein is incorporated by reference from page 47 of the annual report to security holders for the year ended December 31, 2002.

b) Holders

The information required herein is incorporated by reference from page 47 of the annual report to security holders for the year ended December 31, 2002.

c) Dividends

The Corporation has a policy providing for the payment of quarterly cash dividends on its outstanding shares of common stock. Accordingly, the Corporation declared a cash dividend of $0.10 per share for each quarter of 2002, $0.09 per share for each quarter of 2001 and $0.07 per share for each quarter of 2000.

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

Have the right to certain exemptions when a Withholding Tax Exemption Certificate (Form 2732) is properly filled-in 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.

Item 6. Selected Financial Data

The information required herein is incorporated by reference from page 8 through 9 of the annual report to security holders for the year ended December 31, 2002.

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

The information required herein is incorporated by reference from page 28 through 47 of the annual report to security holders for the year ended December 31, 2002.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required herein is incorporated by reference from page 44 through 45 of the annual report to security holders for the year ended December 31, 2002.

Item 8. Financial Statements and Supplementary Data

The information required herein is incorporated by reference from page 49 through 82 of the annual report to security holders for the year ended December 31, 2002.

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

None

PART III

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

The information required herein is incorporated by reference to the information under the captions “Information with respect to nominees for directors of the Company, directors whose terms continue and executive officers of the Company” and “Section 16(a) Compliance” in the Corporation’s definite proxy statement filed on/or about March 28, 2003.

Item 11. Executive Compensation

The information required herein is incorporated by reference to the information under the captions “Compensation of Directors”, “Compensation of Executive Officers”, “Stock Options Plans”, “Options/Grants in Last Fiscal Year”, “Aggregate Options/SAR Exercises in Last Fiscal Year and Fiscal Year-End Options Values”, “Employment Agreements”, “Defined Contributions Retirement Plan”, “Report of the Compensation Committee”, “Compensation Committee Interlocks and Insider Participation”, “Other Employment Benefits”, “Deferred Compensation Plan” and “Performance of Common Stock” in the definite proxy statement filed on/or about March 28, 2003.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required herein is incorporated by reference to the information under the caption “Beneficial Ownership of Securities” in the Corporation’s definite proxy statement filed on/or about March 28, 2003.

Item 13. Certain Relationships and Related Transactions

The information required herein is incorporated by reference to the information under the caption “Business Transactions Between the Company and its Subsidiaries and Executive Officers and Directors” in the Corporation’s definite proxy statement filed on or about March 28, 2003.

Item 14. Controls and Procedures

Within the 90-day period prior to the filing of this Annual Report on Form 10-K, an evaluation was carried out under the supervision and with the participation of First BanCorp Management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14 (c) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART IV

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

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

- Report of Independent Accountants

- Consolidated Statements of Financial Condition at December 31, 2002 and 2001.

- Consolidated Statements of Income for Each of the Three Years in the Period Ended December 31, 2002.

- Consolidated Statements of Changes in Stockholders' Equity for Each of the Three Years in the Period Ended December 31, 2002.

- Consolidated Statements of Comprehensive Income for each of the Three Years in the Period Ended December 31, 2002.

- Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 2002.

- Notes to Consolidated Financial Statements.

(2) Financial statement schedules.

None.

(3) Exhibits

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

(b) Reports on Form 8-K.

On January 17, 2003, the Corporation filed a Form 8-K.

(c) See Index to Exhibits on page 24 for the exhibits filed as a part of this Form 10-K.

(d) 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, 2002.	(3)
13.0	Annual Report to shareholders for fiscal year ended December 31, 2002.	—
21.0	List of subsidiaries (direct and indirect)	—
99.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	—
99.2	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 63 of the Corporation's annual report to security holders and is incorporated by reference herein (See Exhibit 13.0).

SIGNATURES

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

FIRST BANCORP

By: /s/ Angel Alvarez-Pérez — Date: 03/25/03

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: 03/25/03
Angel Alvarez-Pérez, Esq. Chairman President and Chief Executive Officer	
/s/ Annie Astor-Carbonell	Date: 03/25/03
Annie Astor-Carbonell, Director Senior Executive Vice President and Chief Financial Officer	
/s/ José Julián Alvarez-Bracero	Date: 03/25/03
José Julián Alvarez-Bracero, Director	
/s/ Rafael Bouet-Souffront	Date: 03/25/03
Rafael Bouet-Souffront, Director	
/s/ Jorge L. Díaz	Date: 03/25/03
Jorge L. Díaz, Director	

/s/ Héctor M. Nevares	Date: 03/25/03
Héctor M. Nevares, Director	
/s/ Juan Acosta-Reboyras	Date: 03/25/03
Juan Acosta-Reboyras, Director	
/s/ José Teixidor	Date: 03/25/03
José Teixidor, Director	
/s/ José L. Ferrer-Canals	Date: 03/25/03
José L. Ferrer-Canals, Director	
/s/ Laura Villarino-Tur	Date: 03/25/03
Laura Villarino-Tur Senior Vice President and Controller	

CERTIFICATIONS

I, Angel Alvarez-Pérez, certify that:

1. I have reviewed this Annual Report on Form 10-K of First BanCorp;

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report (the "Evaluation Date"); and

    c) Presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this Annual Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 03/25/03	By:	/s/ Angel Alvarez-Pérez
		Angel Alvarez-Pérez, Esq. Chairman, President and Chief Executive Officer

CERTIFICATIONS

I, Annie Astor-Carbonell, certify that:

1. I have reviewed this Annual Report on Form 10-K of First BanCorp;

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report (the "Evaluation Date"); and

    c) Presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this Annual Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 03/25/03

By: /s/ Annie Astor-Carbonell

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

EXHIBIT 13.0

[PHOTO]

[First BanCorp LOGO]

2002 ANNUAL REPORT

[PHOTO]

LEADERSHIP

Leadership is Power. Vision.
And setting standards. It provides us
with the opportunity to open
new markets, develop new
products and set the groundwork
toward the future.

Experience is knowledge.
Skill. And Wisdom. It gives us
the ability to influence,
achieve our goals
and face new challenges.

At First BanCorp we are, and have
been, a leading institution
in the banking industry for over
54 years. Experience is what has
taken us, and continues to guide us,
to higher levels of quality, growth
and value.

EXPERIENCE

TABLE OF CONTENTS

	1998	1999	2000	2001	2002
Market Price Per Common Share (end of year)	$20.13	$13.83	$15.75	$19.00	$22.60
Return on Assets (percentage)	1.48	1.49	1.28	1.28	1.23
Diluted Earnings Per Common Share	$ 1.16	$ 1.32	$ 1.47	$ 1.73	$ 2.01

FINANCIAL HIGHLIGHTS

In thousands (except for per share results)	2002	2001
Operating results:		
Net interest income	$ 266,850	$ 236,055
Provision for loan losses	62,302	61,030
Other income	58,492	52,980
Other operating expenses	132,756	120,855
Income tax provision	22,327	20,134
Cumulative effect of accounting change		(1,015)
Net income	107,956	86,001
Per common share:		
Net income - basic	$ 2.04	$ 1.74
Net income - diluted	2.01	1.73
Weighted average common shares:		
Basic	39,901	39,851
Diluted	40,553	40,144
At year end:		
Assets	$ 9,643,852	$8,197,518
Loans	5,637,851	4,308,780
Allowance for loan losses	111,911	91,060
Investments	3,728,669	3,715,999
Deposits	5,482,918	4,098,554
Borrowings	3,249,355	3,425,235
Capital	798,424	602,919

	1998	1999	2000	2001	2002
Return on common equity (percentage)	20.54	24.68	27.81	22.13	21.90
Net interest income (In millions)	$166.2	$185.7	$190.8	$236.1	$266.9
Common stockholders' equity (In millions)	$270.4	$204.9	$269.5	$334.4	$437.9

[PHOTO]

HIGHLIGHTS OF GROWTH

This history begins in 1991, shortly after a new Management team headed by Angel Alvarez Perez took over the operations of the oldest Savings and Loan institution in Puerto Rico. At that time the Bank had less than $2 billion in total assets and approximately 900 employees, compared with $9.6 billion in assets and 2,000 employees today.

In the 1991 Annual Report, Mr. Alvarez stated:

"Net income for {1991} was $10.1 million or $1.77 per share {the equivalent of $0.15 per share today after allowing for subsequent stock splits}. This . . . is the most clear and tangible indication that First Federal {the Bank's name at that time} is on the road to a healthy recovery."

The accompanying table shows the course of this "healthy recovery" over the following eleven years. Over that period the Corporation has reported consistent growth in assets and earnings without earnings restatements. Asset size increased more than five times from $1.9 billion to $9.6 billion. Net income grew more than ten times from $10.1 million to $108 million and earnings per common share diluted increased more than 13 times from $0.15 to $2.01.

A milestone along this road came in 1994, with the conversion to a Commercial Bank charter. In that year's Annual Report, Mr. Alvarez said:

"Our previous thrift charter contained significant limitations on lending which could have sidelined management's strategy of emphasizing growth in non-mortgage areas. With a commercial charter we are free to pursue our preferred business strategy."

During the next few years Management laid the groundwork for later growth of the consumer side of the Bank's business. Mr. Alvarez described two important advances in the 1995 Annual Report:

"In May we opened our small loan subsidiary, Money Express. Small loans are an important source of consumer credit in Puerto Rico, where many creditworthy families do not have the financial resources or the credit history required to obtain loans through regular banking channels . . .Starting in January {of 1996} we will be combining our auto leasing area with the car and truck rental operations of our existing subsidiary . . . under the name of First Leasing and Rental Corp."

The accompanying table shows that FirstBank increased its branch network from 32 to 48 in the five years between 1994 and 1999. The new facilities included a modern "Superbranch" in Hato Rey with ample parking and drive through facilities. The consumer banking operations were centralized in this facility in 1996. In 1999 FirstBank acquired the Puerto Rico operations of the Royal Bank of Canada together with four Citibank branches in Puerto Rico and the U.S. Virgin Islands. Mr. Alvarez summarized the guiding philosophy of this consumer banking expansion as follows in the 1996 Annual Report:

"FirstBank's Management has long recognized the importance of new data processing technologies that are revolutionizing the Banking industry. We strongly believe that face-to-face communication is at the heart of our customer relationships. Our goal is to find the appropriate balance between these two approaches to meet the needs of our clients in a cost-effective manner. Locally based management gives FirstBank a strong competitive advantage in doing this."

Although the Bank grew rapidly, Management never lost sight of the need to maintain strict cost controls. The accompanying table shows the efficiency ratio improved dramatically from 63.69% to 40.81% over the period covered in the accompanying table. In the 1998 Annual Report Mr. Alvarez reiterated Management's commitment to cost control as follows:

"In 1998 Management began a comprehensive re-design plan to streamline all corporate operations. The Corporation named the project `The Next Fifty' because Management launched it in the Corporation's fiftieth anniversary year as a way to initiate the second fifty years of growth. Management has invested most of the savings from this project in new technology."

In the late 1990's the Bank began moving to diversify operations and strengthen its management team as it expanded more into commercial and mortgage lending. In 1998 the Corporation converted to a bank holding company structure. In that year's Annual Report Mr. Alvarez reported:

". . .we have enhanced our management team by bringing in senior executives with extensive experience in consumer, mortgage and commercial lending. We have also initiated active lending programs in construction lending and auto leasing, led by talented and experienced executives whom we have recently recruited. Over the next few years we expect our strengthened management team to improve efficiency and contribute new ideas that will help us to increase our market share."

The Bank also began introducing more sophisticated products to grow in a highly competitive market with increasingly sophisticated clients. Besides adding state of the art business services such as cash management accounts, the Bank also added sophisticated deposit products. In 1999 it introduced the "Bonus Account", which rewards clients who have additional relationships with FirstBank. Deposits in this account have since grown to $173.7 million.

The Bank was also expanding in other areas. In the Annual Report for

2000 Mr. Alvarez summarized recent developments as follows:

"Management has been taking steps to diversify the Corporation's revenues by moving toward fee based activities in some areas. In 2000 FirstBank began offering brokerage services in selected branches through a new alliance {with a major international brokerage firm}. . . . Early in 2000 Management entered an agreement {with another large firm} to participate in bond issues by the Government Development Bank of Puerto Rico. Finally, First BanCorp reorganized as a financial holding company in 2000, opening the way for the Corporation to enter new lines of business permitted by the Gramm Leach Bliley Act."

In 2001 First BanCorp followed up on this change by organizing an insurance subsidiary, the FirstBank Insurance Agency, which sells insurance in FirstBank branches. Also in 2001 Management embarked on a three-year project to improve service quality and efficiency in all of the Corporation's operations.

To summarize our story, the table shows the broad outlines of how our institution has transformed itself from First Federal Savings Bank, a small Savings and Loan Institution, into First BanCorp, a diversified financial services organization. This transformation has increased net income tenfold over the 1991-2002 period, and has benefited shareholders, employees and clients of the Corporation.

[PHOTO]

SELECTED FINANCIAL DATA

(In thousands except for per share results)	2002	2001	2000	1999	1998
CONDENSED INCOME STATEMENTS: YEAR ENDED					
Total interest income	$ 540,033	$ 516,256	$ 463,388	$ 369,063	$ 321,298
Total interest expense	273,184	280,201	272,615	183,330	155,130
Net interest income	266,850	236,055	190,773	185,733	166,168
Provision for loan losses	62,302	61,030	45,719	47,961	76,000
Other income	58,492	52,980	50,032	32,862	58,240
Other operating expenses	132,756	120,855	113,049	101,271	91,798
Unusual item - SAIF assessment					
Income before income tax provision, extraordinary item and cumulative effect of accounting change	130,283	107,150	82,037	69,363	56,610
Provision for income tax	22,327	20,134	14,761	7,288	4,798
Income before extraordinary item and cumulative effect of accounting change	107,956	87,016	67,276	62,075	51,812
Extraordinary item					
Cumulative effect of accounting change		(1,015)			
Net income	107,956	86,001	67,276	62,075	51,812
PER COMMON SHARE RESULTS (1): YEAR ENDED					
Income before extraordinary item and cumulative effect of accounting change diluted	$ 2.01	$ 1.76	$ 1.47	$ 1.32	$ 1.16
Extraordinary item					
Cumulative effect of accounting change		(0.03)			
Net income per common share diluted	$ 2.01	$ 1.73	$ 1.47	$ 1.32	$ 1.16
Net income per common share basic	$ 2.04	$ 1.74	$ 1.48	$ 1.33	$ 1.17
Cash dividends declared	$ 0.40	$ 0.35	$ 0.29	$ 0.24	$ 0.20
Average shares outstanding	39,901	39,851	40,415	43,412	44,379
Average shares outstanding diluted	40,553	40,144	40,718	43,799	44,787
BALANCE SHEET DATA: END OF YEAR					
Loans and loans held for sale	$5,637,851	$4,308,780	$3,498,198	$2,745,368	$2,120,054
Allowance for possible loan losses	111,911	91,060	76,919	71,784	67,854
Investments	3,728,669	3,715,999	2,233,216	1,811,164	1,800,489
Total assets	9,643,852	8,197,518	5,919,657	4,721,568	4,017,352
Deposits	5,482,918	4,098,554	3,345,984	2,565,422	1,775,045
Borrowings	3,249,355	3,425,236	2,069,484	1,803,729	1,930,488
Total common equity	437,924	334,419	269,461	204,902	270,368
Total equity	798,424	602,919	434,461	294,902	270,368
Book value per common share (1)	10.96	8.39	6.80	4.87	6.11
REGULATORY CAPITAL RATIOS (IN PERCENT): END OF YEAR					
Total capital to risk weighted assets	13.75	14.50	14.43	16.16	17.39
Tier 1 capital to risk weighted assets	11.90	12.16	11.23	11.64	11.55
Tier 1 capital to average assets	7.35	7.49	7.28	7.47	6.59
SELECTED FINANCIAL RATIOS (IN PERCENT): YEAR ENDED					
Net income to average total assets	1.23	1.28	1.28	1.49	1.48
Interest rate spread (2)	3.20	3.64	3.38	4.29	4.76
Net interest income to average earning assets (2)	3.56	4.08	3.91	4.85	5.27
Yield on average earning assets(2)	6.77	8.42	9.21	9.29	9.83
Cost on average interest bearing liabilities	3.57	4.78	5.83	5.00	5.07
Net income to average total equity	14.90	16.20	21.21	21.06	20.54
Net income to average common equity	21.90	22.13	27.81	24.68	20.54
Average total equity to average total assets	8.28	7.92	6.05	7.07	7.22
Dividend payout ratio	19.58	19.91	19.72	17.96	17.12
Efficiency ratio (3)	40.81	41.81	46.95	46.33	40.91
OFFICES:					
Number of full service branches	54	48	48	48	40
Loan origination offices	44	43	38	41	45

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.

1997	1996	1995	1994	1993	1992	1991
$ 285,160	$ 256,523	$ 208,488	$ 180,309	$ 159,433	$ 158,993	$ 171,789
130,429	113,027	96,838	76,674	72,413	85,986	109,942
154,731	143,496	111,650	103,635	87,020	73,007	61,847
55,676	31,582	30,894	17,674	18,669	13,596	16,444
39,866	29,614	48,268	18,169	17,123	13,563	18,895
83,268	82,498	65,628	60,760	56,994	54,745	51,423
	9,115					
55,653	49,915	63,396	43,370	28,480	18,229	12,875
8,125	12,281	14,295	12,385	6,525	2,879	1,420
47,528	37,634	49,101	30,985	21,955	15,350	11,455
			(429)	6,840	(870)	(1,400)
47,528	37,634	49,101	30,556	28,795	14,480	10,055
$ 1.05	$ 0.81	$ 1.05	$ 0.67	$ 0.42	$ 0.25	$ 0.17
			(0.01)		(0.02)	(0.03)
				0.14		
$ 1.05	$ 0.81	$ 1.05	$ 0.66	$ 0.56	$ 0.23	$ 0.15
$ 1.05	$ 0.81	$ 1.07	$ 0.68	$ 0.63	$ 0.27	$ 0.17
$ 0.16	$ 0.13	$ 0.05	N/A	N/A	N/A	N/A
45,054	46,191	45,888	44,966	43,983	42,876	42,876
45,306	46,428	46,677	46,289	49,419	51,098	49,856
$ 1,959,301	$ 1,896,074	$ 1,556,606	$1,501,273	$1,237,928	$1,182,409	$1,264,380
57,712	55,254	55,009	37,413	30,453	30,474	29,001
1,276,900	830,980	785,747	595,555	603,373	636,781	564,431
3,327,436	2,822,147	2,432,816	2,174,692	1,913,902	1,888,754	1,898,399
1,594,635	1,703,926	1,518,367	1,493,445	1,398,247	1,359,448	1,396,066
1,461,581	889,668	700,609	538,080	400,977	415,257	408,414
236,379	191,142	171,202	120,015	92,785	50,194	38,410
236,379	191,142	171,202	120,015	92,785	88,622	74,146
5.29	4.21	3.67	2.66	2.09	1.17	0.90
17.26	15.25	16.17	9.76	9.05	9.32	7.08
11.07	9.32	9.93	8.50	7.79	8.06	5.75
7.44	6.65	6.82	5.74	4.70	4.60	3.74
1.63	1.48	2.22	1.53	1.53	0.78	0.53
5.30	5.46	5.07	5.23	4.73	3.66	3.19
5.83	6.03	5.59	5.65	5.10	4.04	3.39
10.45	10.63	10.12	9.63	9.10	8.80	9.41
5.15	5.17	5.05	4.40	4.37	5.14	6.22
22.30	20.49	33.19	29.07	30.36	17.70	14.38
22.30	20.49	33.19	29.07	39.68	26.37	20.20
7.32	7.23	6.68	5.27	5.05	4.38	3.67
15.14	16.32	5.06	N/A	N/A	N/A	N/A
42.79	47.66	41.04	49.88	54.73	63.24	63.69
36	36	36	32	33	33	33
44	47	43	23	9	4	1

Offices

PUERTO RICO

1. Aguada
2. Aguadilla
3. Isabela
4. San Sebastian
5. Arecibo
6. Manati
7. Vega Baja
8. Dorado
9. Toa Baja
10. Bayamon
11. Guaynabo
12. San Juan
13. Carolina
14. Rio Grande
15. Fajardo
16. Humacao
17. Caguas
18. Aguas Buenas
19. Cidra
20. Guayama
21. Cayey
22. Barranquitas
23. Ponce
24. Yauco
25. Cabo Rojo
26. Mayaguez

Offices

U.S., BRITISH VIRGIN ISLANDS & BARBADOS

St Croix
St Thomas
St John
Tortola
Barbados

[PHOTO]

Business Profile

First BanCorp ("the Corporation"), incorporated in Puerto Rico, is the financial holding company for FirstBank ("the Bank"), the second largest commercial bank in Puerto Rico. First BanCorp also owns an insurance subsidiary, FirstBank Insurance Agency. First BanCorp had total assets of $9.6 billion as of December 31, 2002. The Corporation operates in the Puerto Rico and Virgin Islands banking markets, offering a wide selection of financial services to a growing number of consumer and commercial customers. Commercial, consumer and mortgage loans and investment securities are the most important areas of its business.

The Corporation has a $2.5 billion portfolio of commercial loans, commercial mortgages, construction loans and other related commercial products. Its commercial clients include businesses of all sizes covering a wide range of economic activities. First BanCorp has a $1.8 billion portfolio of residential mortgages. The institution also has $1.3 billion in consumer loans concentrated in auto loans and leases, personal loans and credit cards. Its $3.7 billion investment portfolio consists mostly of U.S. Treasury and agency securities and mortgage-backed securities. A strategic alliance with a major international firm allows FirstBank to offer brokerage services in its largest branches. Approximately 2,000 professionals and a sophisticated computer system support the business activities of the Corporation.

First chartered in 1948, First BanCorp was the first savings bank established in Puerto Rico, under the name of "First Federal Savings and Loan Association". It has been a stockholder owned institution since 1987. In October, 1994 it became a Puerto Rico chartered commercial bank and assumed the name of "FirstBank Puerto Rico". Effective October 1, 1998 the Bank reorganized, making FirstBank Puerto Rico a subsidiary of the holding company First BanCorp.

FirstBank, which is a well-capitalized institution under federal standards, operates 54 full-service branches including 11 offices in the U.S. and British Virgin Islands. In addition, the FirstBank Insurance Agency operates six sales offices within FirstBank branches. A subsidiary of FirstBank, Money Express, operates 27 small loan offices throughout Puerto Rico. FirstBank also operates First Leasing and Rental Corp., a subsidiary which rents and leases motor vehicles from six offices in Puerto Rico. Another FirstBank subsidiary, FirstBank Insurance Agency V.I., Inc., operates one office which sells insurance in the US Virgin Islands. Finally, FirstBank owns a trade financing subsidiary, First Trade Inc., which operates two offices: one in the U.S. Virgin Islands and one in Barbados.

First BanCorp has distinguished itself by providing innovative marketing strategies and novel products to attract clients. Besides its branches and specialized lending offices, the Corporation has offered a telephone information service called "Telebanco" since 1983. This was the first telebanking service offered in Puerto Rico. First BanCorp clients have access to an extensive ATM network with access all over the world. The Corporation was also the first in Puerto Rico to open on weekends and the first to offer in-store branches to its clients. First BanCorp was also the first banking institution in Puerto Rico with a presence on the internet. The Corporation now offers a wide menu of internet banking services to its clients.

First BanCorp and its subsidiaries are subject to supervision, examination and regulation by the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Commissioner of Financial Institutions of Puerto Rico. The FirstBank Insurance Agency is regulated by the Puerto Rico Insurance Commissioner. The Virgin Islands operations of FirstBank are regulated by the Virgin Islands Banking Board (for the USVI) and by the British Virgin Islands Financial Services Commission (for the BVI).

First BanCorp is committed to providing the most efficient and cost effective banking services possible. Management's goal is to make the Corporation the premier financial institution in Puerto Rico and the Virgin Islands, recognized for consistently exceeding the expectations of its clients, employees and stockholders.

[PHOTO]

President's Letter

TO OUR STOCKHOLDERS:

On behalf of the Board of Directors and Officers of First BanCorp I am pleased to submit our annual report for 2002, another excellent year. In 2002 First BanCorp earned $108 million, representing $2.04 per common share (basic) or $2.01 per common share (diluted). Earnings increased 25.5% compared with 2001, when the Corporation earned $86 million, equivalent to $1.74 per common share (basic) or $1.73 per common share (diluted). Net interest income was a key factor in this outstanding performance, expanding by 13% or $30.8 million to $266.8 million during 2002. These results are outstanding when we consider the difficult economic and financial environment which prevailed last year.

GROWTH IN 2002

First BanCorp grew substantially in spite of last year's economic slowdown, which affected Puerto Rico as well as the rest of the U.S. Assets rose 17% from $8.2 billion at year-end 2001 to $9.6 billion at the end of 2002. Net loans increased 31% to $5.5 billion, mostly due to increases of $345 million in commercial loans and $842 million in residential real estate loans. Consumer loans and finance leases grew by $142 million. Deposits increased 34% to $5.5 billion. During 2002 First BanCorp consolidated its position as the second largest commercial bank in Puerto Rico.

FirstBank also expanded outside Puerto Rico. In October 2002, the Bank completed the acquisition of the operations of JP Morgan Chase Eastern Caribbean Region business in the Virgin Islands with $590 million in total assets. The purchase included several branch offices, a trade finance operation and an insurance agency. FirstBank is now one of the largest commercial banks in the U.S. and British Virgin Islands. Cassan Pancham, a seasoned executive with over 22 years of experience in Chase's Caribbean operations, heads up these operations. Our expanded presence in the Virgin Islands will increase geographic diversification and allow us to better serve our clients in that part of the Caribbean.

KEY COMPETITIVE ADVANTAGES

Our branch network has been one important factor in our successful growth. FirstBank has 43 branch offices in Puerto Rico, including 20 with drive up services, 16 in shopping centers and 7 in supermarkets. We are working to diversify our larger branches to give our clients superior service. A major international brokerage firm maintains offices in 13 FirstBank branches, while nine branches have specialized mortgage offices and six have offices of the FirstBank Insurance Agency.

We are constantly improving the banking facilities. During 2002 we relocated the branch in Rexville Plaza, Bayamon and upgraded facilities in three other branches. Our purchase of the Chase operation in the Virgin Islands also strengthened our branch network in that region. FirstBank now has 11 branches on four islands in the U.S. and British Virgin Islands.

Another key to our success is careful, prudent control of costs. For several years we have been investing in state of the art technology to improve service to our clients and increase efficiency. Operating expenses rose relatively little, from $120.9 million in 2001 to $132.8 million in 2002, in spite of the expansion we experienced. During 2002 the Corporation's efficiency ratio improved by one percent to 40.81%.

The quality of our loan portfolio was another factor which contributed importantly to the Corporation's record profits last year. Starting in 1998 we have been improving loan underwriting, introducing tighter approval procedures and improving computer systems. These efforts have brought hard-won gains in asset quality.

The year 2002 provided a severe test for these enhanced processes, and they have been performing well. In spite of large increases in the loan portfolio and a deteriorating economy, charge offs did not increase. During 2002 First BanCorp's loans net charge offs amounted to $41.5 million of loans on a net basis, compared with $46.9 million in 2001, $42.0 million in 2000, and $44.6 million in 1999.

We have also increased reserves in line with the loan portfolio, which more than doubled from $2.7 billion at the end of 1999 to $5.6 billion at year-end 2002. The Bank provided $62 million for losses in 2002, $61 million in 2001, $46 million in 2000, and $48 million in 1999. This has allowed loan loss reserves to reach $111.9 million at the end of 2002 compared with $91.1 million for 2001, $76.9 million for 2000, and $71.8 million for 1999.

As a result, asset quality has remained constant or improved. The reserve coverage ratio (allowance for loan losses as a percentage of non-performing loans) has remained above 100% for the last five years. At the end of 2002 the ratio of non-performing loans to total loans had fallen to 1.63%, compared with 1.69% at the end of 2001, 1.94% at the end of 2000, 1.96% at the end of 1999 and 2.69% at year-end 1998. Maintaining good asset quality has been one of the most important ingredients of our success during the recent economic slowdown.

Finally, we rely heavily on our employees and the quality of service they provide to our clients. We are in the middle of a three-year effort to improve service quality in all areas of our operations. Quality teams composed of bank officers and employees are evaluating, redesigning and improving procedures throughout the organization. The goal of this project is to satisfy fully the banking needs of our consumer and corporate clients.

COMMUNITY SERVICE AND CORPORATE IMAGE

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

In response to the recent economic slowdown on the Island, we have been running a publicity campaign with the slogan "Puerto Rico stays ahead." The campaign encourages Puerto Ricans to think positively and improve their quality of life. Management is also encouraging employees to get involved in community activities. In addition, FirstBank has begun providing special benefits for senior citizens, including coupons in participating businesses and discounts on some of our services.

FirstBank also made a $70 million loan for the construction of a medical office building in the southern city of Ponce. This project will include 93 medical offices, a 32,472 square foot shopping area and parking space for 600 cars. Finally, we are participating in a massive urban renewal project in Santurce, where our home offices are located. Bank officials have taken a leading role in organizing this project, which involves five local banks supported by a $50 million credit line from the Puerto Rico Housing Finance Authority.

ENHANCING SHAREHOLDER VALUE

The efforts of Management and employees have paid off in strong earnings growth in 2002. The Corporation experienced a return on common equity of 21.90% compared with 22.13% in the previous year. The return on assets was 1.23%, not very different from the 1.28% of 2001. Our stock price has reflected these strong results, and our shareholders experienced a return of 21.05% on their investment during 2002. Investors who held First BanCorp stock over the ten year period from year-end 1992 to year-end 2002 received a cumulative total return of 1,549%, equivalent to an annualized return of 32.33%. On September 30, 2002 the Bank also distributed a three for two stock split.

The Corporation has traditionally followed a conservative dividend policy, in the belief that we can better serve our shareholders by reinvesting most of our profits in our growing business. In 2002 the dividend payout ratio was 19.58%. Officers and directors of First BanCorp own approximately eleven percent of its shares. This shows their confidence in First BanCorp's future and their commitment to keep its fundamentals sound.

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

/s/ Angel Alvarez-Perez
Chairman
President
Chief Executive Officer

[PHOTO]

ECONOMY

The island of Puerto Rico is a U.S. Commonwealth with a population of 3.8 million, located in the Caribbean approximately 1,600 miles southwest of New York. Puerto Rico grew moderately over most of the 1990's but its growth has paused recently due to the U.S. recission. Real BNP fell by 0.2% in the 2002 fiscal year according to the Puerto Rico Planning Board.

Puerto Rico's economic performance is a natural result of its increasing integration into the U.S. economy. Puerto Ricans are U.S. citizens and serve in the United States armed forces, and the island has several large U.S. military bases. The island uses U.S. currency and forms part of the U.S. financial system. Federal courts enforce U.S. laws here. Since Puerto Rico falls within the U.S. for purposes of customs and migration, there is full mobility of funds people and goods between Puerto Rico and the U.S. mainland. Puerto Rico 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.

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

During the recent slowdown construction, manufacturing and consumption have weakened somewhat. Tourism has been affected along with the rest of the Caribbean region, though new hotels and some economic recovery have mitigated this effect, island economists project real GNP growth in the 1% to 2% range during fiscal 2003, which is currently in progress.

BOARD OF DIRECTORS

```
Angel Alvarez-Perez          Annie Astor-Carbonell            Jose Teixidor
Chairman

    [PHOTO]                         [PHOTO]                         [PHOTO]


Jose Julian Alvarez-Bracero
```

[PHOTO]

*Juan Acosta-Reboyras
[PHOTO]

Jorge L. Diaz
[PHOTO]

Rafael Bouet-Souffront
[PHOTO]

Jose L. Ferrer-Canals
[PHOTO]

Hector M. Nevares
[PHOTO]

[PHOTO]

First BanCorp Officers
Fernando L. Batlle, Luis M. Beauchamp, Aurelio Aleman, Annie Astor-Carbonell, Angel Alvarez-Perez

[PHOTO]

Randolfo Rivera, Josianne M. Rossello, Miquel Mejias, Carmen G. Szendrey-Ramos, Cassan Pancham

[PHOTO]

Aida M. Garcia, Luis M. Cabrera, Laura Villarino, Dacio A. Pasarell

PRESIDENT

ANGEL ALVAREZ-PEREZ
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 ALEMAN
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 PANCHAM
Eastern Caribbean Region Executive

SENIOR VICE PRESIDENTS

JOSE H. APONTE
Commercial Mortgage Lending

MIGUEL BABILONIA
Consumer Risk Management

LUIS M. CABRERA
Treasury and Investments

SALVADOR CALAF
Government and Institutional

JAMES E. CRITES
Regional Credit Officer Eastern
Caribbean Region

AIDA M. GARCIA
Human Resources

MICHAEL GARCIA
Consumer Collection

FERNANDO IGLESIAS
Special Loans

ROGER LAY
Internal Audit

EMILIO MARTINO
Credit Risk Management

MIGUEL MEJIAS
Information Systems

CARMEN NIGAGLIONI
Middle Market and Asset Based Financing

JOHN ORTIZ
Consumer Products and Credit Cards

JORGE RENDON
Facilities Management

HAYDEE RIVERA
Sales & Distribution Operations

JULIO RIVERA
Construction Lending

NAYDA RIVERA
General Auditor

CARMEN ROCAFORT
Corporate and Structured Finance

JOSIANNE M. ROSSELLO
Marketing and Public Relations

DEMETRIO SANTIAGO
Auto Wholesale

HECTOR SANTIAGO
Auto Business and Operations

DENISE SEGARRA
Branch Banking

LUIS SUEIRO
Commercial Wholesale Operations

CARMEN GABRIELA SZENDREY-RAMOS
General Counsel and Secretary
of the Board of Directors

LAURA VILLARINO
Controller

VICE PRESIDENTS

ALEXIS AGUIAR
Structured Finance

WILLIAM ALVAREZ
Indirect Business and Merchants

JOSE ALVELO
Information Systems

VIVIAN ARTEAGA
Commercial Department

MARGA AVILES
Consumer Loans Operations

BEVERLY BACHETTI
VIP Customer Group

MARIA BENABE
Consumer Collections

ANA COLON
Centralized Accounting

MARIA CONOR-FREEMAN
Lending and Client Group Eastern Caribbean Region

WANDA COOPER
FirstLine Customer Center

LENITZIA DELGADO
Corporate Services

DEIDRE ELIAS
Compliance Manager Eastern Caribbean Region

LAURA ESCALANTE
Compliance Officer

MAYRA GASCOT
Information Systems

JOSE GOMEZ
Mortgage Servicing and Operations

DAVID GONZALEZ
Corporate Business Development

NELSON GONZALEZ
Structured Finance

PAUL GOURIEUX
Consumer Credit Manager Eastern Caribbean Region

RAHAMET HOSEIN
Territory Manager British Virgin Islands

TESSA HUGH
Finance and Risk Manager Eastern Caribbean Region

CAROL JACKSON
Human Resources Manager Eastern Caribbean Region

ARIANE LEWIS
Branch Banking Manager Eastern Caribbean Region

JOHN E. LEWIS
System & Programming Manager Eastern Caribbean

GILBERTO LOPEZ
Middle Market

MARCELO LOPEZ
Regional Manager Sales & Distribution

JUANITA MARRERO
Mortgage Banking

JOHN MCDONALD
Commercial Department Eastern Caribbean Region

JOSE NEGRON
Auto Lot

RICARDO NEGRON
Mortgage Banking

JOSE NEVAREZ
Information Systems

LUIS ORENGO
Commercial Wholesale

EDUARDO ORTIZ
AUTO Wholesale

MARIA CRISTINA ORUNA
Customer Relationship Management & Service Quality

OSVALDO PADILLA
Corporate Services

REYNALDO PADILLA
Auto Finance

DIONISIO RAMIREZ
Construction Lending

MIGDALIA RIVERA
Middle Market

SANDRA RIVERA
Consumer Collections

BELINDA RODRIGUEZ
Remote Sales

JOSE L. RODRIGUEZ
Information Systems

PEDRO ROMERO
Assistant Controller

ELIZABETH SANCHEZ
Marine Finance

ROBERTO SANCHEZ
Consumer Loans Credit Risk

JOSE J. SANTIAGO
Commercial Wholesale

RAMON SANTIAGO
Asset Based Unit

MIGUEL SANTIN
Structured Finance

CARMEN TORRES
Branch Manager

RALPH TORRES
Regional Manager Sales & Distribution

FIRST FEDERAL FINANCE CORPORATION
DBA MONEY EXPRESS "LA FINANCIERA"

ANGEL ALVAREZ-PEREZ
Chief Executive Officer

AURELIO ALEMAN
President and Chief Operating Officer

CARLOS POWER
Senior Vice President and General Manager

FIRST LEASING AND RENTAL CORPORATION

ANGEL ALVAREZ-PEREZ
Chief Executive Officer

AURELIO ALEMAN
President and Chief Operating Officer

AGUSTIN DAVILA
General Manager

FIRSTBANK INSURANCE AGENCY, INC.

ANGEL ALVAREZ-PEREZ
Chief Executive Officer

AURELIO ALEMAN
President and Chief Operating Officer

VICTOR SANTIAGO
Vice President and General Manager

FIRSTBANK INSURANCE AGENCY V.I., INC.

ANGEL ALVAREZ-PEREZ
Chief Executive Officer

FERNANDO L. BATLLE
President and Chief Operating Officer

WALTER HAUCK
Vice President and General Manager

CASSAN A. PANCHAM
First Senior Vice President

FIRST TRADE INC.

ANGEL ALVAREZ-PEREZ
Chief Executive Officer

FERNANDO L. BATLLE
President and Chief Operating Officer

PAMELA CLARKE
Manager

CASSAN A. PANCHAM
First Senior Vice President

[PHOTO]

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

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

FORWARD LOOKING STATEMENTS

When used in this report and in other filings by First BanCorp with the Securities and Exchange Commission, in the Corporation's press releases or other public or shareholder communication, or in oral statements made with the approval of an authorized executive officer, the words or phrases "would be", "will be", "will determine", "will allow", "intends to", "will likely result", "are expected to", "will continue", "is anticipated", "estimated", "project", "believe", 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 to advise readers that various factors, including regional and national conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities, competitive and regulatory factors and legislative changes, 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

The year 2002 was a challenging year for all business sectors. It followed a year, 2001, where the Federal Reserve Bank cut interest rates by a total of 475 basis points in an effort to stimulate the economy. The Fed monetary policy resulted in an additional cut of 50 basis points during 2002 to 1.25%, the lowest level in more than 40 years. During the economic slowdown, construction, manufacturing and consumption have weakened somewhat.

First BanCorp grew substantially and improved its financial performance last year in spite of the economic slowdown. For the year 2002, First BanCorp recorded earnings of $107,956,351 or $2.04 per common share basic and $2.01 per common share diluted, compared to $86,001,444 or $1.74 per common share basic and $1.73 per common share diluted for 2001, and $67,275,609 or $1.48 per common share basic and $1.47 per common share diluted for 2000. For 2002 as compared to 2001, net income increased by $21,954,907 or $0.28 per common share diluted, and for 2001 as compared to 2000, by $18,725,835 or $0.26 per common share diluted.

The increase in the Corporation's earnings is mainly attributed to the net interest income earned on the growing portfolio of average earning assets and other income, net of increases in operating expenses. Assets rose 17% from $8.2 billion at year-end 2001 to $9.6 billion at the end of 2002. Deposits increased 34% to $5.5 billion. Net loans increased 31 % to $5.5 billion, mostly due to increases of $345 million in commercial loans and $842 million in residential real estate loans. Consumer loans and finance leases grew by $142 million. In spite of increases in the loan portfolio and a deteriorating economy, charge offs have not been increasing, mainly attributed to prior years efforts that improved loan underwriting and implemented tighter approval procedures. During 2002, the Corporation restructured its portfolio of mortgage backed securities in order to shorten its duration and reduce its prepayment risk under current economic environment; this restructuring resulted in gains of approximately $40.1 million. Total gains on sales of $48.9 million were partially offset by impairment losses of $36.9 million recognized during the year.

Another important factor in the Corporation's strategy is prudent control of costs. For several years the Corporation has been investing in state of the art technology to improve service to its clients and increase efficiency. Operating expenses rose relatively little, from $120.9 million in 2001 to $132.8 million in 2002. During 2002 the Corporation's efficiency ratio improved by one percent to 40.81%.

Return on average assets was 1.23% for 2002, and 1.28% for 2001 and 2000. Return on average equity was 14.90% for 2002, 16.20% for 2001 and 21.22% for 2000. Return on average common equity was 21.90% for 2002, 22.13% for 2001 and 27.81 % for 2000.

First BanCorp has also been expanding outside Puerto Rico. In October 2002 the Corporation completed a $590 million acquisition of the operations of JP Morgan Chase in the Virgin Islands. The expanded presence in the Virgin Islands will give the Corporation the opportunity to better serve its clients in that part of the 2002 Caribbean and provides with certain geographic diversification.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

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

INVESTMENTS

The Corporation classifies its investments in debt and equity securities into trading, held to maturity and available for sale securities. The available for sale securities are carried at fair value, with unrealized holding gains and losses, net of deferred tax effects, reported in other comprehensive income as a separate component of stockholders' equity. The fair values of these securities were calculated based on quoted market prices and dealer quotes. Changes in the assumptions used in calculating the fair values, could affect the reported valuations.

EVALUATION FOR OTHER-THAN-TEMPORARY IMPAIRMENTS ON AVAILABLE FOR SALE AND HELD TO MATURITY SECURITIES

The Corporation evaluates its investment's securities for impairment. An impairment charge in the Consolidated Statements of Income is recognized when the decline in the fair value of investments below their cost basis is judged to be other-than-temporary. The Corporation considers various factors in determining whether it should recognize an impairment charge, including, but no limited to the length of time and extent to which the fair value has been less than its cost basis, and the Corporation's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. For debt securities, the Corporation also considers, among other factors, the investees repayment ability on its bond obligations and its cash and capital generation's ability. At December 31, 2002 the Corporation did not hold any investment securities with significant unrealized losses sustained for more than one year. The Corporation's accounting policy for other-than-temporary impairments is included in Note 2 of the Corporation's financial statements. During 2002, the Corporation experienced significant volatility in the market prices of its publicly traded equity investments and in addition two bonds in the Corporation's portfolio were downgraded to non investment grade quality by two credit rating agencies. See Note 10 of the Corporation's financial statements, which gives details as to impairments charges recognized during 2002.

ALLOWANCE FOR LOAN LOSSES

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

The Corporation's primary lending area is Puerto Rico. At December 31, 2002, there is no significant concentration of credit risk in any specific industry.

INCOME TAXES

The Corporation is routinely subject to examinations from governmental taxing authorities. Such examinations may result in challenges to the tax return treatment applied by the Corporation to specific transactions. Management believes that the assumptions and judgment used to record tax-related assets or liabilities have been appropriate. Should tax laws change or the tax authorities determine that Management's assumptions were inappropriate, the result and adjustments required could have a material effect on the Corporation's results of operation. Information regarding income taxes is included in Note 25 of the Corporation's financial statements.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

During 2002, the Financial Accounting Standards Board (FASB) issued several accounting pronouncements, namely SFAS (Statement of Financial Accounting Standard) No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections, SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, SFAS No. 147, Acquisitions of Certain Financial Institutions, SFAS No. 148, Accounting for Stock-Based Compensation, and FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees. Management estimated that the adoption of these pronouncements did not have or will not have, as applicable depending on adoption date, a significant impact on the Corporation's financial statements. Refer to Note 2 of the Corporation's financial statements for a summary of the major provisions of these pronouncements.

RESULTS OF OPERATIONS

The Corporation's results of operations depend primarily on its net interest income, which is the difference between the interest income earned on interest earning assets, including investment securities and loans, and the interest expense on interest bearing liabilities, including deposits and borrowings. Also, the results of operations depend on the provision for loan losses, operating expenses (such as personnel, occupancy and other costs), other income (mainly service charges and fees on loans), gains on sale of investments and income taxes.

NET INTEREST INCOME

Net interest income increased to $267 million for 2002 from $236 million in 2001 and $191 million in 2000. The increase in net interest income for the year 2002 is the result of volume increases of $2,052 million in the Corporation's average loan and investment portfolios.

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

Part I	Average volume			Interest income (1) /expense			Average rate (1)		
Year ended December 31,	2002	2001	2000	2002	2001	2000	2002	2001	2000
	(Dollars in thousands)								
Earning assets:									
Money market instruments	$ 60,522	$ 46,517	$ 9,293	$ 999	$ 1,476	$ 527	1.65%	3.17%	5.67%
Government obligations	1,236,281	588,932	528,903	56,130	35,955	36,043	4.54%	6.11%	6.81%
Mortgage backed securities	2,144,236	1,711,980	1,457,044	147,779	126,098	100,415	6.89%	7.37%	6.89%
Corporate bonds	259,840	247,094	51,508	15,493	21,230	4,366	5.96%	8.59%	8.48%
FHLB stock	32,586	21,841	18,008	1,635	1,289	1,249	5.02%	5.90%	6.94%
Total investments	3,733,465	2,616,364	2,064,756	222,036	186,048	142,600	5.95%	7.11%	6.91%
Consumer loans	1,048,283	1,036,637	1,026,044	142,612	140,050	140,635	13.60%	13.51%	13.71%
Residential real estate loans	1,283,710	869,374	573,866	74,411	65,496	49,115	5.80%	7.53%	8.56%
Construction loans	223,627	219,890	169,257	11,726	17,323	18,251	5.24%	7.88%	10.78%
Commercial loans	2,080,892	1,584,910	1,210,783	110,315	119,867	110,808	5.30%	7.56%	9.15%
Finance leases	136,851	127,872	103,114	14,659	14,661	12,499	10.71%	11.47%	12.12%
Total loans (2)	4,773,363	3,838,683	3,083,064	353,723	357,397	331,308	7.41%	9.31%	10.75%
Total earning assets	$8,506,828	$6,455,047	$5,147,820	$575,759	$543,445	$473,908	6.77%	8.42%	9.21%
Interest bearing liabilities:									
Interest bearing checking accounts	$ 215,462	$ 186,111	$ 162,456	$ 5,146	$ 5,926	$ 5,546	2.39%	3.18%	3.41%
Savings accounts	609,324	436,595	433,937	14,603	12,954	12,792	2.40%	2.97%	2.94%
Certificate accounts	3,622,918	2,859,181	2,173,244	113,486	141,878	134,945	3.13%	4.96%	6.20%
Interest bearing deposits	4,447,704	3,481,887	2,769,637	133,235	160,758	153,283	3.00%	4.62%	5.53%
Other borrowed funds	2,868,212	2,125,022	1,851,524	123,925	106,858	116,130	4.32%	5.03%	6.27%
FHLB advances	339,477	256,354	51,053	16,024	12,585	3,201	4.72%	4.91%	6.27%
Total interest bearing liabilities	$7,655,393	$5,863,263	$4,672,214	$273,184	$280,201	$272,614	3.57%	4.78%	5.83%
Net interest income				$302,575	$263,244	$201,294			
Interest rate spread							3.20%	3.64%	3.38%
Net interest margin							3.56%	4.08%	3.91%

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

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

	2002 compared to 2001 Increase (decrease) Due to: Volume	Rate	Total	2001 compared to 2000 Increase (decrease) Due to: Volume	Rate	Total
	(In thousands)					
Earning assets:						
Money market instruments	$ 338	$ (815)	$ (477)	$ 1,646	$ (697)	$ 949
Government obligations	34,457	(14,282)	20,175	3,878	(3,966)	(88)
Mortgage backed securities	30,815	(9,134)	21,681	18,437	7,246	25,683
Corporate bonds	928	(6,665)	(5,737)	16,803	61	16,864
FHLB stock	587	(241)	346	246	(206)	40
Total investments	67,125	(31,137)	35,988	41,010	2,438	43,448
Consumer loans	1,580	982	2,562	1,505	(2,090)	(585)
Residential real estate loans	27,616	(18,701)	8,915	23,778	(7,397)	16,381
Construction loans	245	(5,842)	(5,597)	4,729	(5,657)	(928)
Commercial loans	31,903	(41,455)	(9,552)	30,796	(21,737)	9,059
Finance leases	993	(995)	(2)	2,920	(758)	2,162
Total loans	62,337	(66,011)	(3,674)	63,728	(37,639)	26,089
Total interest income	129,462	(97,148)	32,314	104,738	(35,201)	69,537
Interest bearing liabilities:						
Deposits	36,762	(64,285)	(27,523)	36,152	(28,677)	7,475
Other borrowed funds	34,742	(17,675)	17,067	15,454	(24,726)	(9,272)
FHLB advances	4,002	(563)	3,439	11,476	(2,092)	9,384
Total interest expense	75,506	(82,523)	(7,017)	63,082	(55,495)	7,587
Change in net interest income	$ 53,956	$(14,625)	$ 39,331	$ 41,656	$ 20,294	$ 61,950

Total interest income includes tax equivalent adjustments of $36 million, $27 million and $11 million for 2002, 2001, and 2000, respectively. On a tax equivalent basis, net interest income increased to $303 million for 2002 from $263 million for 2001, and $201 million for 2000. The interest rate spread and net interest margin amounted to 3.20% and 3.56%, respectively, for 2002, as compared to 3.64% and 4.08%, respectively, for 2001 and to 3.38% and 3.91 %, respectively, for 2000.

2002 COMPARED TO 2001

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

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

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

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

2001 COMPARED TO 2000

On a tax equivalent basis interest income increased by $70 million for 2001 as compared to 2000. On a tax equivalent basis the yield on earning assets was 8.42% for 2001 as compared to 9.21 % for 2000. The increase in interest income results from the growth in the average volume of interest earning assets of $1,307 million in 2001, partially offset by a lower yield due to lower market rates. On a rate/volume basis, the increase of $62 million in net interest income (on a tax equivalent basis) is the result of a positive volume variance of $42 million, plus a positive rate variance of $20 million. During the year 2001, the Federal Reserve Bank cut short term rates by a total of 475 basis points to 1.75%. Long term rates fell by less than 50 basis points, increasing the spread between short and long yields and increasing the Corporation's interest rate spread and net interest margin.

For the loan portfolio, the growth in 2001 of $374 million in the average volume of commercial loans (including commercial real estate loans) represented an increase of $31 million in interest income due to volume, and a decrease of $22 million in interest income due to rate. The average portfolio of construction loans increased by $51 million for 2001, representing a positive volume variance of $5 million and a negative rate variance of $6 million. Management has been pursuing a consistent strategy of shifting the lending portfolio towards commercial lending without sacrificing the consumer area. The average portfolio of residential mortgage loans increased by $296 million for 2001, representing a positive volume variance of $24 million and a negative rate variance of $7 million. The average finance lease portfolio (mostly composed of consumer loans) increased by $25 million in 2001, representing a positive volume variance of $3 million. The increase of $11 million in the average volume of consumer loans in 2001, represented a positive variance in interest income due to volume of $2 million and a negative rate variance of $2 million.

For the investment portfolio, the average volume of mortgage backed securities increased by $255 million in 2001. The tax equivalent yield on mortgage backed securities was 7.37% in 2001 and 6.89% in 2000. The portfolio of mortgage backed securities contributed $18 million in interest income due to volume and $7 million in interest income due to rate. The average volume of corporate bonds increased by $196 million for 2001 as compared to 2000, causing an increase in interest income of $17 million totally due to volume.

Interest expense increased by $8 million for 2001 as compared to 2000. This was the result of the increase in the average volume of interest bearing liabilities of $1,191 million for 2001 as compared to 2000 which generated a negative volume variance of $63 million, partially offset by the decrease in the cost of interest bearing liabilities due to lower market rates, causing a positive rate variance of $55 million. The cost of interest bearing liabilities decreased from 5.83% for 2000 to 4.78% for 2001.

PROVISION FOR LOAN LOSSES

During 2002, the Corporation provided $62 million for loan losses, as compared to $61 million in 2001 and $46 million in 2000. Charge offs were stable despite weakened economic conditions. Net charge offs for 2002 amounted to $41.5 million, as compared to net charge offs for 2001 of $46.9 million, and of $42.0 million for 2000. Net charge offs to average loans outstanding has improved to 0.87% as compared to 1.22% and 1.36% for 2001 and 2000, respectively.

The allowance activity for 2002, and previous four years was as follows:

Year ended December 31,	2002	2001	2000	1999	1998
			(Dollars in thousands)		
Allowance for loan losses, beginning of year	$ 91,060	$ 76,919	$ 71,784	$ 67,854	$ 57,712
Provision for loan losses	62,302	61,030	45,719	47,960	76,000
Loans charged off:					
Residential real state	(555)	(192)			
Commercial	(4,643)	(9,523)	(3,463)	(825)	(880)
Finance leases	(2,532)	(2,316)	(2,145)	(793)	(3,438)
Consumer	(41,261)	(42,349)	(46,223)	(52,047)	(67,906)
Recoveries	7,540	7,391	9,807	9,048	6,034
Net charge offs	(41,451)	(46,989)	(42,024)	(44,617)	(66,190)
Other adjustments (1)		100	1,440	587	332
Allowance for loan losses, end of year	$ 111,911	$ 91,060	$ 76,919	$ 71,784	$ 67,854
Allowance for loan losses to year end total loans and loans held for sale	1.99%	2.11%	2.20%	2.61%	3.20%
Net charge offs to average loans outstanding during the period	0.87%	1.22%	1.36%	1.90%	3.31%

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

The Corporation maintains the allowance for loan losses at a level that Management considers adequate to absorb losses inherent in the loan portfolio. The adequacy of the allowance for loan losses is reviewed on a quarterly basis as part of the continuing evaluation of the quality of the assets. This evaluation is based upon a number of factors, including the following:
historical loan loss experience, projected loan losses, loan portfolio composition, current economic conditions, fair value of the underlying collateral, financial condition of the borrowers, and, as such, includes amounts based on judgments and estimates made by Management.

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

The following table presents the composition of other income: Year ended December 31,

Year ended December 31,	2002	2001	2000
		(In thousands)	
Other fees on loans	$ 21,441	$ 19,632	$ 19,913
Service charges on deposit accounts	9,200	9,213	8,898
Mortgage banking activities	3,540	1,562	409
Rental income	2,285	2,293	2,434
Other commissions	1,081	1,511	1,340
Insurance income	2,269	700	
Dividend on equity securities	705	669	698
Other operating income	10,032	7,794	8,071
Other income before net gain on sale of investments, derivatives loss and trading income	50,553	43,374	41,763
Net gain on sale of investments	48,873	9,606	7,850
Impairment on investments	(36,872)		
Net gain on sale of investments, and impairment	12,001	9,606	7,850
Derivatives loss	(4,062)		
Trading income			419
Total	$ 58,492	$ 52,980	$ 50,032

Other income primarily consists of fees on loans, service charges on deposit accounts, commissions derived from various banking activities, securities and insurance activities, and the net gain of investments, net of derivatives losses. Other fees on loans consist mainly of credit card fees and late charges collected on loans.

Service charges on deposit accounts represent an important and stable source of other income for the Corporation.

Mortgage banking activities income includes gain on sale of loans and the servicing fees on residential mortgage loans originated by the Corporation and subsequently securitized or sold. Gains on sale of loans amounted to approximately $3.4 million in 2002 (2001-$1.2 million). No sales were made in 2000.

The Corporation's subsidiary. First Leasing and Rental Corporation, generates income on the rental of various types of motor vehicles. This source of income has averaged approximately $2 million in the past three years.

Insurance income consists of commissions earned by the new subsidiary FirstBank Insurance Agency, Inc., which started operations in May 2001.

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

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

The gain on sale of investment securities reflects gains that resulted from sales that are in consonance to the Corporation's investment policies. A substantial portion earned in 2002 represents gains of $40.1 million on the sale of mortgage backed securities, realized as part of the restructuring of the investment portfolio, as explained in the Corporation's financial statements, see Note 10. In addition, during the year ended on December 31, 2002 losses of $37 million on other-than-temporary impairment of certain securities were recognized, as explained in the Corporation's financial statements, refer to Notes 2 and 10.

As explained in Note 29 of the Corporation's financial statements, the derivatives loss consists mainly of an unrealized loss of $4.5 million due to the valuation to fair value of a portfolio of swaps that does not qualify for hedge accounting.

OTHER OPERATING EXPENSE

Other operating expenses amounted to $133 million for 2002 as compared to $121 million for 2001 and $113 million for 2000. The following table presents the components of other operating expenses:

Year ended December 31,	2002	2001	2000
		(In thousands)	
Salaries and benefits	$ 59,432	$ 54,703	$ 50,014
Occupancy and equipment	29,015	24,992	22,792
Deposit insurance premium	746	645	547
Other taxes and insurance	8,915	7,804	6,355
Professional and service fees	7,685	7,931	8,740
Business promotion	9,304	7,506	8,468
Communications	5,865	5,395	5,573
Expense of rental equipment	1,588	1,578	1,525
Other	10,206	10,300	9,036
Total	$132,756	$120,854	$113,050

Management's goal is to limit expenditures to those that directly contribute to increase the efficiency, service quality and profitability of the Corporation. This control over other operating expenses has been an important factor contributing to the increase in earnings in recent years. The Corporation's efficiency ratio, which is the ratio of other operating expenses to the sum of net interest income and other income, improved to 40.81% for 2002 as compared to 41.81% and 46.95% for 2001 and 2000, respectively. The Corporation has maintained a better than average efficiency ratio, while it has provided the latest in delivery channels for its commercial and consumer financial products and services.

The increase in operating expenses for 2002 is mainly the result of the Corporation's continuous investment in technology to provide the latest in delivery channels to its commercial and consumer lending business and to the general growth in the subsidiary Bank's operations. Operating expenses have also increased due to higher expenditures on advertising campaigns, which support the Corporation's growth and image.

The salary and benefits category was affected by annual increases in salary and fringe benefits and an increase in the number of employees to support the Corporation's growth.

INCOME TAX EXPENSE

The provision for income tax amounted to $22 million (or 17% of pre-tax earnings) for 2002 as compared to $20 million (or 19% of pre-tax earnings) in 2001, and $15 million (or 18% of pre-tax earnings) in 2000. The Corporation has maintained an effective tax rate lower than the statutory rate of 39% mainly by investing in government obligations and mortgage backed securities exempt from U.S. and Puerto Rico income tax combined with gains on sale of investments held by the international banking division of the Corporation and the Bank. These divisions were created under the International Banking Entity Act of P. R., which provides for total P. R. tax exemption on its interest income, other income and gain on sale of investments. The decrease in the effective tax rate is mainly due to an increase in the portfolio of exempt investments and investments held in the Corporation's international banking divisions. For additional information relating to income taxes, see Note 25 of the Corporation's financial statements.

FINANCIAL CONDITION

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

	December 31, 2002	2001	2000
	(In thousands)		
Interest earning assets:			
Money market instruments	$ 60,522	$ 46,517	$ 9,293
Government obligations	1,236,281	588,932	528,903
Mortgage backed securities	2,144,236	1,711,980	1,457,044
Corporate bonds	259,840	247,094	51,508
FHLB stock	32,586	21,841	18,008
Total investments	3,733,465	2,616,364	2,064,756
Commercial loans	2,080,892	1,584,910	1,210,783
Consumer loans	1,048,283	1,036,637	1,026,044
Residential real estate loans	1,283,710	869,374	573,866
Construction loans	223,627	219,890	169,257
Finance leases	136,851	127,872	103,114
Total loans	4,773,363	3,838,683	3,083,064
Total interest earning assets	8,506,828	6,455,047	5,147,820
Equity securities	52,703	48,122	29,254
Total non-earning assets (1)	188,691	198,233	62,302
Total assets	$8,748,222	$6,701,402	$5,239,376
LIABILITIES AND STOCKHOLDERS' EQUITY			
Interest bearing liabilities:			
Interest bearing checking accounts	$ 215,462	$ 186,111	$ 162,456
Savings accounts	609,324	436,595	433,937
Certificate accounts	3,622,918	2,859,181	2,173,244
Interest bearing deposits	4,447,704	3,481,887	2,769,637
Other borrowed funds	2,868,212	2,125,022	1,851,524
FHLB advances	339,477	256,354	51,053
Total interest bearing liabilities	7,655,393	5,863,263	4,672,214
Total non-interest bearing liabilities	368,315	307,237	250,135
Total liabilities	8,023,708	6,170,500	4,922,349
Stockholders' equity	724,514	530,902	317,027
Total liabilities and stockholders' equity	$8,748,222	$6,701,402	$5,239,376

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

ASSETS

The Corporation's total assets at December 31, 2002 amounted to $9,644 million, $1,446 million over the $8,198 million at December 31, 2001, mainly due to the growth in the loan portfolio.

The following table presents the composition of the loan portfolio at year-end for each of the last five years:

	December 31,									
	2002	% of Total	2001	% of Total	2000	% of Total	1999	% of Total	1998	% of Total
	(Dollars in thousands)									
Residential real estate loans	$1,854,068	33	$1,011,908	23	$ 746,792	21	$ 473,563	17	$ 303,011	14
Commercial real estate loans	813,513	14	688,922	16	438,321	13	371,643	14	332,219	16
Construction loans	259,053	5	219,396	5	203,955	6	132,068	5	62,963	3
Commercial loans	1,418,792	25	1,238,173	29	947,709	27	655,417	24	368,549	17
Total commercial	2,491,358	44	2,146,491	50	1,589,985	46	1,159,128	43	763,731	36
Finance leases	143,412	3	127,935	3	122,883	3	85,692	3	52,214	3
Consumer loans	1,149,012	20	1,022,445	24	1,038,538	30	1,026,985	37	1,001,098	47
Total	$5,637,850	100	$4,308,779	100	$3,498,198	100	$2,745,368	100	$2,120,054	100

Total loans receivable increased by $1,329 million in 2002 when compared with 2001. During 2002 the Corporation continued its strategy of diversifying its loan portfolio composition through the origination and purchase of commercial loans and residential real estate loans, while maintaining its investment in consumer loans. In addition, the Corporation acquired a banking operation in the U.S. and British Virgin Islands with $291 million in residential real estate loans, $40 million in commercial loans and $105 million in consumer loans. This acquisition provides the Corporation with a geographic diversification. The Corporation's strategy and the acquisition resulted in a significant increase of $345 million in the commercial loan portfolio and of $842 million in residential real estate loans. Finance leases, which are mostly composed of loans to individuals to finance the acquisition of an auto, increased by $15 million, and consumer loans increased by $127 million in 2002.

The Corporation's investment portfolio at December 31, 2002 amounted to $3,729 million, an increase of $13 million when compared with the investment portfolio of $3,716 million at December 31, 2001. Mortgage backed securities represent a substantial balance of the Corporation's portfolio. These securities are subject to prepayment risk. As described in Note 10 of the Corporation's financial statements, during 2002, the Corporation restructured its portfolio to shorten maturities and reduce the existing prepayment risk under current interest rate scenario. Government obligations included approximately $644 million and $1.3 million in zero coupon bonds and government agency securities, respectively, that are callable. At December 31, 2002 money market instruments included approximately $237 million of FHLB discount notes maturing in less than ninety days, which collateralized repurchase agreements. Management of the Corporation will determine during 2003 how prepayments on the mortgage backed securities and repayments on the callable securities will be reinvested, considering, among other factors, the interest rate outlook.

The composition and estimated tax equivalent weighted average interest and dividend yields of the Corporation's earning assets at December 31, 2002 were as follows:

	Amount (In thousands)	Tax Equivalent Weighted Average Rate
Money market instruments	$ 273,660	1.66%
Government obligations	666,946	10.84%
Mortgage backed securities	2,512,606	6.26%
FHLB stock	35,629	5.58%
Corporate bonds	198,174	6.93%
Equity securities	41,654	1.72%
Total investments	3,728,669	6.72%
Consumer loans	1,149,012	13.13%
Residential real estate loans	1,854,068	5.43%
Construction loans	259,053	5.13%
Commercial and commercial real estate loans	2,232,305	5.03%
Finance leases	143,412	10.14%
Total loans (1)	5,637,850	6.95%
Total earning assets	$9,366,519	6.86%

(1) Excludes the reserve for loan losses.

NON-PERFORMING ASSETS

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

At December 31, 2002, total non-performing assets amounted to $105 million (1.09% of total assets) as compared to $79 million (0.96% of total assets) at December 31, 2001 and $74 million (1.25% of total assets) at December 31, 2000. Approximately $9.1 million of the increase in non-performing assets when compared to the amount at December 31, 2001 is attributed to a construction loan fully secured with finished homes, where the Corporation stopped accruing interest due to a slow down in the selling process of the homes. More than half of the project houses have been either sold or optioned and are in the process of closing. The remaining increase in non performing assets is attributed to a corporate bond of approximately $3.8 million, which was reclassified to non-accruing status during 2002, to non-performing assets acquired in the Virgin Islands and to the general growth in the Corporation's commercial loan portfolio. The Corporation's allowance for loan losses to non-performing loans was 121.95% at December 31, 2002 as compared to 124.74% and 113.59% at December 31, 2001 and 2000, respectively.

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

	December 31, 2002	2001	2000	1999	1998
	(Dollars in thousands)				
Non-accruing loans:					
Residential real estate	$ 23,018	$18,540	$15,977	$ 8,633	$ 9,151
Commercial and commercial real estate	47,705	29,378	31,913	17,975	19,355
Finance leases	2,049	2,469	2,032	2,482	1,716
Consumer	18,993	22,611	17,794	24,726	26,736
	91,765	72,998	67,716	53,816	56,958
Other real estate owned	2,938	1,456	2,981	517	3,642
Other repossessed property	6,222	4,596	3,374	3,112	2,277
Investment securities	3,750				
Total non-performing assets	$104,675	$79,050	$74,071	$57,445	$62,877
Past due loans	$ 24,435	$27,497	$16,358	$13,781	$15,110
Non-performing assets to total assets	1.09%	0.96%	1.25%	1.22%	1.57%
Non-performing loans to total loans	1.63%	1.69%	1.94%	1.96%	2.69%
Allowance for loan losses	$111,911	$91,060	$76,919	$71,784	$67,854
Allowance to total non-performing loans	121.95%	124.74%	113.59%	133.39%	119.13%

NON-ACCRUING LOANS

RESIDENTIAL REAL ESTATE LOANS - The Corporation classifies all real estate loans delinquent 90 days or more in non-accruing status. Even though these loans are in non-accruing status, Management considers, based on the value of the underlying collateral, the loan to value ratios and historical experience, that no material losses will be incurred in this portfolio. Non-accruing real estate loans amounted to $23 million (1.24% of total residential real estate loans) at December 31, 2002, as compared to $19 million (1.83% of total residential real estate loans) and $16 million (2.14% of total residential real estate loans) at December 31, 2001 and 2000, respectively. The increase as compared to 2001 is mainly attributed to non performing loans of approximately $4 million acquired in the Virgin Islands.

COMMERCIAL LOANS - The Corporation places commercial loans (including commercial real estate and construction loans) 90 days delinquent as to principal and interest in non-accruing status. The risk exposure of this portfolio is diversified. Non-accruing commercial loans amounted to $48 million (1.91% of total commercial loans) at December 31, 2002 as compared to $29 million (1.37% of total commercial loans) and $32 million (2.01% of total commercial loans) at December 31, 2001 and 2000, respectively. At December 31, 2002 there were five non-accruing commercial loans of over $1 million, for a total of $17.7 million including the afore mentioned non-accruing construction loan of $9.1 million.

FINANCE LEASES - Finance leases are classified as non-accruing when they are delinquent 90 days or more. Non-accruing finance leases amounted to approximately $2 million at December 31, 2002, 2001 and 2000, representing 1.43%, 1.93% and 1.65%, respectively, of total finance leases.

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

Non-accruing consumer loans amounted to $19 million (1.65% of the total consumer loan portfolio) at December 31, 2002, $23 million (or 2.21% of the total consumer loan portfolio) at December 31, 2001 and $18 million (or 1.71% of the total consumer loan portfolio) at December 31, 2000.

OTHER REAL ESTATE OWNED

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

OTHER REPOSSESSED PROPERTY

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

INVESTMENT SECURITIES

This category presents the carrying amount of $3.8 million of the Corporation's investment in WorldCom Corporation bonds, which was reclassified to non-accruing status during the year, as more fully explained in Note 10 of the Corporation's financial statements. Management's impairment analysis on the investment in WorldCom Corporation bonds concluded that an other-than-temporary impairment of approximately $11.7 million had occurred. As aforementioned, the remaining $3.8 million were reclassified to non-accruing status.

PAST DUE LOANS

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

SOURCES OF FUNDS

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

DEPOSITS

Total deposits amounted to $5,483 million at December 31, 2002, as compared to $4,099 million and $3,346 million at December 31, 2001 and 2000, respectively.

The following table presents the composition of total deposits:

	December 31, 2002	December 31, 2001	December 31, 2000
		(Dollars in thousands)	
Savings accounts	$ 921,103	$ 469,452	$ 430,298
Interest bearing checking accounts	230,743	205,760	170,631
Certificates of deposit	3,883,996	3,183,491	2,512,891
Interest bearing deposits	5,035,842	3,858,703	3,113,820
Non-interest bearing deposits	447,076	239,851	232,164
Total	$5,482,918	$4,098,554	$3,345,984
Weighted average rate during the period on interest bearing deposits	3.00%	4.62%	5.53%
Interest bearing deposits:			
Average balance outstanding	$4,447,704	$3,481,887	$2,769,637
Non-interest bearing deposits:			
Average balance outstanding	$ 257,454	$ 233,254	$ 213,728

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

Total deposits increased by approximately $1,384 million at December 31, 2002 when compared to December 31, 2001. This fluctuation was mainly due to: (1) an increase in branch-based deposits of $813 million and to (2) an increase of $456 million in brokered certificates of deposit. The increase in branch-based deposits reflects the acquisition of approximately $557 million in deposits in the Virgin Islands.

Retail brokered certificates of deposits, which are certificates sold through brokers, represent a large portion of the Corporation's deposits. The total U.S. market for this source of funding approximates $280,000 million.

At December 31, 2002, approximately 73% of retail brokered certificates of deposit held by the Corporation are callable, but only at Corporation's option. At December 31, 2002, the average life of callable and fixed term brokered certificates approximated 12 years and 2.54 years, respectively.

As more fully explained in Note 29 to the Corporation's financial statements, the Corporation enters into interest rate swap agreements where it agrees to pay variable-rates of interest as a hedge against changes in the fair value of fixed-rate brokered certificates of deposit. The effect of this agreements is that interest expense of retail brokered certificates of deposits is generally variable interest rate. The interest rate swap agreements are not callable.

BORROWINGS

At December 31, 2002 total borrowings amounted to $3,249 million as compared to $3,425 million and $2,069 million at December 31, 2001 and 2000, respectively.

	December 31, 2002	December 31, 2001	December 31, 2000
	(Dollars in thousands)		
Federal funds purchased and securities sold under agreements to repurchase	$2,793,540	$2,997,174	$1,856,436
Advances from FHLB	373,000	343,700	67,000
Subordinated notes	82,815	84,362	90,548
Notes payable			55,500
Total	$3,249,355	$3,425,236	$2,069,484
Weighted average rate during the period	4.36%	5.02%	6.27%

The Corporation uses federal funds purchased, repurchase agreements, advances from FHLB and notes payable as additional funding sources. The borrowings of the Corporation consist primarily of federal funds purchased and securities sold under agreements to repurchase (repurchase agreements) which at December 31, 2002 amounted to $2,794 million or 86% of total borrowings. Repurchase agreements had a total weighted average cost of 3.82% during the year ended December 31, 2002. For more information on borrowings please refer to Notes 18 through 21 of the Corporation's financial statements.

The composition and estimated weighted average interest rates of interest bearing liabilities at December 31, 2001, were as follows:

	Amount (In thousands)	Weighted Average Rate
Interest bearing deposits	$5,035,842	2.58%
Borrowed funds	3,249,355	3.98%
	$8,285,197	3.13%

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table presents a detail of the maturities of contractual debt obligations, operational leases and commitments to extend credit:

	Payments Due/Commitments Expiration by Period (In thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual Obligations:					
Federal funds purchased and securities sold under agreements to repurchase	$2,793,540	$ 718,580	$156,500	$100,000	$1,818,460
Advances from FHLB	373,000	50,000	50,000		273,000
Subordinated Notes	82,815		82,815		
Total Contractual Cash Obligations	$3,249,355	$ 768,580	$289,315	$100,000	$2,091,460
Other Commitments:					
Lines of Credit	$ 322,351	$ 322,351			
Standby Letters of Credit	30,313	30,313			
Other Commercial Commitments	729,369	729,369			
Operating Leases	22,897	4,894	$ 6,905	$ 3,765	$ 7,333
Total Commercial Commitments	$1,104,930	$1,086,927	$ 6,905	$ 3,765	$ 7,333

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

CAPITAL

During 2002, the Corporation increased its total capital from $603 million at December 31, 2001 to $798 million at December 31, 2002. Total capital increased by $195 million mainly due to earnings of $108 million, the issuance of 3,680,000 shares of preferred stock with a net proceed of $89 million, the issuance of 96,750 (as adjusted for 2002 stock split) shares of common stock through the exercise of stock options with proceeds of $1.3 million, a positive fluctuation in the valuation of securities available for sale, net of a negative valuation of fair value hedges of $40 million, and cash dividends of $42 million.

The Corporation's objective is to maintain a solid capital position above the "well capitalized" classification under the federal banking regulations. The Corporation continues to exceed the well capitalized guidelines. To be in a "well capitalized" position, an institution should have: (i) a leverage ratio of 5% or greater; (ii) a total risk based capital ratio of 10% or greater; and (iii) a Tier 1 risk-based capital ratio of 6% or greater. At December 31, 2002 the Corporation had a leverage ratio of 7.35%; a total risk based capital ratio of 13.75%; and a Tier 1 risk-based capital ratio of 11.90%.

DIVIDENDS

In 2002, 2001 and 2000 the Corporation declared four quarterly cash dividends of $0.10, $0.09 and $0.07 per common share, respectively, for an annual dividend of $0.40, $0.35 and $0.29, respectively. Total cash dividends paid on common shares amounted to $16 million for 2002 (or a 19.58% dividend payout ratio), $14 million for 2001 (or a 19.91% dividend payout ratio) and $12 million for 2000 (or a 19.72% dividend payout ratio). Dividends declared on preferred stock amounted to $26 million in 2002, $17 million in 2001, and $7 million in 2000. Increase in dividends on preferred stocks resulted from the issuance of preferred stock of $92 million in 2002, $103.5 million in 2001 and $75 million in 2000.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The day-to-day management of interest rate risk, as well as liquidity management and other related matters, is assigned to the Asset Liability Management and Investment Committee of FirstBank (ALCO). The ALCO is composed of the following officers: President and CEO, the Senior Executive Vice President and Chief Financial Officer, the Executive Vice President for Retail and Mortgage Banking, the Senior Vice President of Treasury and Investments and the Economist. The ALCO meets on a weekly basis. The Economist also acts as secretary, keeping minutes of all meetings. An Investment Committee for First BanCorp also monitors the investment portfolio of the Holding Company, including a stock portfolio which amounted to $42 million at December 31, 2002. This Committee meets weekly and has the same membership as the ALCO Committee described previously.

Committee meetings focus on, among other things, current and expected conditions in world financial markets, competition and prevailing rates in the local deposit market, reviews of liquidity, unrealized gains and losses in securities, recent or proposed changes to the investment portfolio, alternative funding sources and their costs, hedging and the possible purchase of derivatives such as swaps and caps, and any tax or regulatory issues which may be pertinent to these areas. The ALCO approves funding decisions in light of the Corporation's overall growth strategies and objectives. On a quarterly basis the ALCO performs a comprehensive asset/liability review, examining the measures of interest rate risk described below together with other matters such as liquidity and capital.

The Corporation uses simulations to measure the effects of changing interest rates on net interest income. These measures are carried out over a one year time horizon, assuming gradual upward and downward interest rate movements of 200 basis points. Simulations are carried out in two ways:

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

These simulations assume gradual upward or downward movements of interest rates over the year of projection, with the change totaling 200 basis points at the end of the twelve month period. The balance sheet is divided into groups of similar assets and liabilities in order to simplify the process of carrying out these projections. As interest rates rise or fall, these simulations incorporate expected future lending rates, current and expected future funding sources and cost, the possible exercise of options, changes in prepayment rates, and other factors which may be important in determining the future growth of net interest income. All computations are done on a tax equivalent basis, including the effects of the changing cost of funds on the tax-exempt spreads of certain investments. The projections are carried out for First BanCorp on a fully consolidated basis.

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

Assuming a no growth balance sheet as of December 31, 2002, tax equivalent net interest income projected for 2003, would rise by $27.8 million (8.23%) under a rising rate scenario and would decrease by $1.5 million (0.5%) under falling rates.

The same simulations were also carried out assuming that the Corporation would grow. As of December 31, 2002 the growing balance sheet simulations indicate that tax equivalent net interest income projected for 2003, would rise by $27.0 million (7.70%) under a rising rate scenario and would decrease by $0.8 million (0.2%) with falling rates.

The simulation for the year 2002 assuming a no growth balance sheet as of December 31, 2001, concluded that under a rising rate scenario net interest income would have declined by $6.2 million (1.7%) and that under a falling rate scenario would have increased by $1.9 million (0.5%).

The same simulations were also carried assuming that Corporation was going to grow. As of December 31, 2001, the growing balance sheet simulation indicated that the tax equivalent net interest income for 2002 would have fallen by $8.8 million (2.4%) under a rising interest rate scenario and increased by $3.8 million (1.0%) with falling rates.

The Corporation compared 2002 projections with actual results. In the growth scenario, which is more realistic, the Bank projected taxable equivalent net interest income of $369.7 million under flat rates and $373.5 million under falling rates for 2002. In reality, taxable equivalent net interest income was $302.6 million. The most important reason for this difference was that FirstBank restructured its investment portfolio to reduce the Bank's exposure to rising rates. Some corporate bonds were sold and most 30 year MBS were replaced with 15 year securities at lower tax equivalent spreads. While these changes were going on, the Bank also had substantial investments in discount notes for short periods of time. These changes all led to smaller spreads than anticipated in the initial projection. Partially offsetting the effect of smaller spreads was a more rapid growth of the balance sheet. The consolidated balance sheet actually reached $9.64 billion at the end of 2002, compared with a projected figure of $8.68 billion in the baseline scenario. Part of this growth was due to the unanticipated purchase of a $590 million banking operation in the Virgin Islands, which closed in October, 2002. Substantial unanticipated growth also occurred in average commercial loans, which reached $2.30 billion by the end of 2002, compared with a projected figure of $2.00 billion in the baseline scenario.

LIQUIDITY

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

The principal sources of short-term funds are loan repayments, deposits, securities sold under agreements to repurchase, and lines of credit with the FHLB and other financial institutions. The Investment Committee reviews credit availability on a regular basis. In the past, the Corporation has securitized and sold auto and mortgage loans as supplementary sources of funding. Commercial paper had also provided additional funding. The Corporation has obtained long-term funding through the issuance of notes and long-term institutional certificates of deposit. The Corporation's principal uses of funds are the origination of loans and the repayment of maturing deposit accounts and borrowings.

A large portion of the Corporation's funding represent retail brokered certificates of deposit. In the event that the Corporation falls under the ratios of a well-capitalized institution, it faces the risk of not being able to replace this source of funding. It is Management's believe that this possibility is remote. In addition, the average life of the retail brokered certificates of deposit was 9.54 years at December 31, 2002. Approximately 73% of these certificates are callable, but only at the Corporation's option.

The Corporation's liquidity plan contemplates alternative sources of funding that could provide significant amounts of funding at reasonable cost. The alternative sources of funding include, among others, FHLB advances, lines of credits from other banks, sale of commercial loans participations, securitization of auto loans and commercial paper.

IMPACT OF INFLATION AND CHANGING PRICES

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

Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a greater impact on a financial institution's performance than the effects of general levels of inflation. Interest rate movements are not necessarily correlated with changes in the prices of goods and services.

CONCENTRATION RISK

The Corporation conducts its operations in a geographically concentrated area, as its main market is Puerto Rico. However, the Corporation continues diversifying its geographical risk as evidenced by recent acquisitions in the Virgin Islands. Puerto Rico's economy is generally similar to U.S. economy and its economic performance is a natural result of its increasing integration into the U.S. economy. At December 31, 2002, there is no significant concentration of credit risk in any specific industry.

SELECTED QUARTERLY FINANCIAL DATA

Financial data showing results of the 2002 and 2001 quarters is presented below. In the opinion of Management, all adjustments necessary for a fair presentation have been included:

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

	2001			
	March 31	June 30	Sept. 30	Dec. 31
	(In thousands, except for per share results)			
Interest income	$128,750	$126,178	$127,527	$133,801
Net interest income	52,474	58,101	61,989	63,491
Provision for loan losses	15,000	17,800	12,790	15,440
Net income	18,786	20,172	23,019	24,024
Earnings per common share-basic	$ 0.39	$ 0.43	$ 0.45	$ 0.47
Earnings per common share-diluted	$ 0.39	$ 0.43	$ 0.45	$ 0.47

MARKET PRICES AND STOCK DATA

The Corporation's common stock is traded in the New York Stock Exchange (NYSE) under the symbol FBP. On December 31, 2002, there were 640 holders of record of the Corporation's common stock.

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

Quarter ended	High	Low	Last
2002:			
December	$ 26.38	$ 22.08	$ 22.60
September	27.61	22.82	25.41
June	25.13	19.13	25.13
March	19.80	18.43	19.27
2001:			
December	$ 20.00	$ 17.07	$ 19.00
September	20.00	16.00	17.24
June	17.99	15.32	17.99
March	17.42	13.00	17.27
2000:			
December	$ 16.46	$ 13.67	$ 15.75
September	16.33	12.00	16.29
June	12.50	11.13	12.37
March	14.00	10.83	11.75

FINANCIAL STATEMENTS

[PHOTO]

[PRICEWATERHOUSECOOPERS LOGO]

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of First BanCorp.

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows present fairly, in all material respects, the financial position of First BanCorp. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 2, 9 and 29 to the accompanying consolidated financial statements, in 2001 the Company adopted the Statement of Financial Accounting Standards No. 133, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," as amended, which effect was accounted for as a cumulative effect of a change in accounting principle.

/S/ PRICEWATERHOUSECOOPERS

March 7, 2003

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2004
Stamp 1838396 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

CONSOLIDATED STATEMENTS
OF FINANCIAL CONDITION

	December 31, 2002	December 31, 2001
ASSETS		
Cash and due from banks	$ 108,305,943	$ 59,898,550
Money market instruments	273,659,553	34,564,568
Investment securities available for sale, at market:		
Securities pledged that can be repledged	2,379,786,252	2,988,828,088
Other investment securities	336,987,292	385,419,989
Total investment securities available for sale	2,716,773,544	3,374,248,077
Investment securities held to maturity, at cost:		
Securities pledged that can be repledged	541,047,654	171,152,930
Other investment securities	161,558,730	113,142,662
Total investment securities held to maturity	702,606,384	284,295,592
Federal Home Loan Bank (FHLB) stock	35,629,500	22,890,600
Loans, net of allowance for loan losses of $111,911,470 (2001 - $91,060,307)	5,515,185,610	4,213,089,836
Loans held for sale, at lower of cost or market	10,753,585	4,629,562
Total loans	5,525,939,195	4,217,719,398
Other real estate owned	2,938,249	1,455,577
Premises and equipment, net	87,595,569	76,155,620
Accrued interest receivable	39,282,010	37,630,883
Due from customers on acceptances	304,346	262,153
Other assets	150,818,003	88,396,770
Total assets	$ 9,643,852,296	$ 8,197,517,788
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Non-interest bearing deposits	$ 447,076,347	$ 239,850,816
Interest bearing deposits	5,035,841,381	3,858,703,322
Federal funds purchased and securities sold under agreements to repurchase	2,793,539,832	2,997,173,944
Advances from FHLB	373,000,000	343,700,000
Bank acceptances outstanding	304,346	262,153
Accounts payable and other liabilities	112,851,285	70,547,126
	8,762,613,191	7,510,237,361
Subordinated notes	82,815,105	84,361,525
Stockholders' equity:		
Preferred stock, authorized 50,000,000 shares; issued and outstanding 14,420,000 shares at $25 liquidation value per share (2001 - 10,740,000)	360,500,000	268,500,000
Common stock, $1 par value, authorized 250,000,000 shares; issued 44,875,435 shares, including 14,958,383 shares issued on September 30, 2002 from a stock split (2001-29,852,552)	44,875,435	29,852,552
Less: Treasury stock, including 1,640,300 shares issued on September 30, 2002 from a stock split (at par value)	(4,920,900)	(3,280,600)
Common stock outstanding	39,954,535	26,571,952
Additional paid-in capital		14,214,877
Capital reserve	70,000,000	60,000,000
Legal surplus	149,345,178	136,792,514
Retained earnings	145,243,124	103,132,913
Accumulated other comprehensive income (loss), net of tax of $11,127,054 (2001-$2,097,785)	33,381,163	(6,293,354)
	798,424,000	602,918,902
Contingencies and commitments		
Total liabilities and stockholders' equity	$ 9,643,852,296	$ 8,197,517,788

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31, 2002	2001	2000
INTEREST INCOME:			
Loans	$ 351,838,718	$353,777,585	$329,007,974
Investment securities	185,561,056	159,713,664	132,603,596
Short-term investments	998,710	1,475,521	527,155
Dividends on FHLB stock	1,634,899	1,289,125	1,248,755
Total interest income	540,033,383	516,255,895	463,387,480
INTEREST EXPENSE:			
Deposits	133,234,567	160,758,451	153,283,358
Short-term borrowings	117,127,270	97,952,979	105,326,693
Notes payable	6,797,889	8,904,611	10,803,634
Advances from FHLB	16,023,967	12,585,108	3,200,940
Total interest expense	273,183,693	280,201,149	272,614,625
Net interest income	266,849,690	236,054,746	190,772,855
PROVISION FOR LOAN LOSSES	62,301,996	61,030,000	45,718,500
Net interest income after provision for loan losses	204,547,694	175,024,746	145,054,355
OTHER INCOME:			
Other fees on loans	21,440,852	19,631,741	19,913,340
Service charges on deposit accounts	9,200,327	9,213,436	8,898,170
Mortgage banking activities	3,540,034	1,562,158	409,011
Trading income			419,367
Gain on sale of investments, net	12,000,487	9,606,314	7,850,472
Rental income	2,285,021	2,292,541	2,433,664
Derivatives loss, net	(4,061,988)		
Other operating income	14,087,218	10,673,633	10,108,036
Total other income	58,491,951	52,979,823	50,032,060
OTHER OPERATING EXPENSES:			
Employees' compensation and benefits	59,432,111	54,702,977	50,014,110
Occupancy and equipment	29,015,200	24,991,540	22,791,863
Business promotion	9,304,277	7,506,040	8,468,916
Other taxes	6,857,010	5,973,897	5,054,748
Insurance	2,803,905	2,475,411	1,846,984
Other	25,343,669	25,204,513	24,872,883
Total other operating expenses	132,756,172	120,854,378	113,049,504
Income before income tax provision and cumulative effect of accounting change	130,283,473	107,150,191	82,036,911
INCOME TAX PROVISION	22,327,122	20,133,858	14,761,302
Income before cumulative effect of accounting change	107,956,351	87,016,333	67,275,609
Cumulative effect of accounting change, net of tax		(1,014,889)	
NET INCOME	$ 107,956,351	$ 86,001,444	$ 67,275,609
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 81,550,077	$ 69,493,246	$ 59,868,067
NET INCOME PER COMMON SHARE BASIC:			
Income before cumulative effect of accounting change	$ 2.04	$ 1.77	$ 1.48
Cumulative effect of accounting change		(0.03)	
Earnings per common share basic	$ 2.04	$ 1.74	$ 1.48
NET INCOME PER COMMON SHARE DILUTED:			
Income before cumulative effect of accounting change	$ 2.01	$ 1.76	$ 1.47
Cumulative effect of accounting change		(0.03)	
Earnings per common share diluted	$ 2.01	$ 1.73	$ 1.47
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.40	$ 0.35	$ 0.29

The accompanying notes are an integral part of these statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 107,956,351	$ 86,001,444	$ 67,275,609
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	11,710,016	9,844,282	9,014,068
Core deposit intangible amortization	1,165,488	919,261	866,330
Provision for loan losses	62,301,996	61,030,000	45,718,500
Deferred income tax benefit	(8,610,812)	(5,402,000)	(4,356,000)
Gain on sale of investments, net	(12,000,487)	(9,606,314)	(7,850,472)
Derivative loss	4,522,925		
Net gain on sale of loans	(3,416,222)	(1,282,845)	
Increase (decrease) in accrued income tax payable	3,434,149	11,306,695	(19,474,679)
Increase in accrued interest receivable	(141,451)	(9,661,332)	(10,052,025)
(Decrease) increase in accrued interest payable	(1,364,672)	4,841,187	11,677,924
Amortization of deferred loan (fees) costs	(1,544,375)	522,685	(144,768)
Net origination of loans held for sale	(40,264,215)	(4,629,562)	
Decrease in other assets	39,671,318	22,893,906	4,657,136
Increase (decrease) in other liabilities	27,974,273	(9,395,151)	20,740,407
Total adjustments	83,437,931	71,380,812	50,796,421
Net cash provided by operating activities	191,394,282	157,382,256	118,072,030
CASH FLOWS FOR INVESTING ACTIVITIES:			
Principal collected on loans	635,765,469	897,831,839	646,581,300
Loans originated	(903,166,444)	(1,334,581,873)	(1,222,590,263)
Purchase of loans	(734,531,121)	(481,200,701)	(238,055,000)
Proceeds from sales of loans	83,862,533	42,343,060	
Proceeds from sales of investment securities	2,242,654,071	847,716,293	58,452,236
Purchase of securities held to maturity	(17,031,372,741)	(254,818,754)	(6,949,462)
Purchase of securities available for sale	(10,336,516,102)	(12,462,323,482)	(5,125,184,351)
Principal repayments and maturities of securities held to maturity	16,613,061,948	74,529,997	
Principal repayments of securities available for sale	8,816,493,581	10,377,705,993	4,692,427,578
Additions to premises and equipment	(14,412,317)	(13,912,556)	(19,153,597)
Net liabilities assumed on acquisition of business	73,357,625		
Purchase of FHLB stock	(12,738,900)	(4,354,100)	(710,000)
Net cash used in investing activities	(567,542,398)	(2,311,064,284)	(1,215,181,559)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in deposits	790,122,398	764,012,251	780,840,486
Net (decrease) increase in federal funds purchased and securities sold under agreements to repurchase	(202,096,134)	1,134,888,478	403,553,556
Decrease in other short-term borrowings			(152,484,084)
FHLB advances taken	29,300,000	276,700,000	17,000,000
Payments of notes payable	(1,550,000)	(62,000,000)	(3,125,000)
Dividends	(42,372,613)	(30,343,298)	(19,212,141)
Issuance of preferred stock	88,906,000	100,069,250	72,437,500
Treasury stock acquired		(1,929,685)	(30,086,592)
Exercise of stock options	1,340,843	1,355,211	93,750
Net cash provided by financing activities	663,650,494	2,182,752,207	1,069,017,475
Net increase (decrease) in cash and cash equivalents	287,502,378	29,070,179	(28,092,054)
Cash and cash equivalents at beginning of year	94,463,118	65,392,939	93,484,993
Cash and cash equivalents at end of year	$ 381,965,496	$ 94,463,118	$ 65,392,939
Cash and cash equivalents include:			
Cash and due from banks	$ 108,305,943	$ 59,898,550	$ 63,372,591
Money market instruments	273,659,553	34,564,568	2,020,348
	$ 381,965,496	$ 94,463,118	$ 65,392,939

The accompanying notes are integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred stock	Common stock	Additional paid-in capital	Capital reserve	Legal surplus	Retained earnings	Accumulated other comprehensive income (loss)
December 31, 1999	$ 90,000,000	$28,060,552	$19,863,466	$40,000,000	$126,792,514	$58,834,676	$(68,648,959)
Net income						67,275,609	
Other comprehensive income							49,050,174
Issuance of preferred stock	75,000,000		(2,562,500)				
Addition to capital reserve				10,000,000		(10,000,000)	
Treasury stock acquired		(1,642,400)	(821,200)			(27,622,992)	
Stock options exercised		6,000	87,750				
Cash dividends:							
Common stock						(11,804,599)	
Preferred stock						(7,407,542)	
DECEMBER 31, 2000	165,000,000	26,424,152	16,567,516	50,000,000	126,792,514	69,275,152	(19,598,785)
Net income						86,001,444	
Other comprehensive income							13,305,431
Issuance of preferred stock	103,500,000		(3,430,750)				
Addition to legal surplus					10,000,000	(10,000,000)	
Addition to capital reserve				10,000,000		(10,000,000)	
Treasury stock acquired		(86,200)	(43,100)			(1,800,385)	
Stock options exercised		234,000	1,121,211				
Cash dividends:							
Common stock						(13,835,100)	
Preferred stock						(16,508,198)	
DECEMBER 31, 2001	268,500,000	26,571,952	14,214,877	60,000,000	136,792,514	103,132,913	(6,293,354)
Net income						107,956,351	
Other comprehensive income							39,674,517
Issuance of preferred stock	92,000,000		(3,094,000)				
Addition to legal surplus					12,552,664	(12,552,664)	
Addition to capital reserve				10,000,000		(10,000,000)	
Stock options exercised		64,500	1,276,343				
Common stock split on September 30, 2002		13,318,083	(12,397,220)			(920,863)	
Cash dividends:							
Common stock						(15,966,339)	
Preferred stock						(26,406,274)	
DECEMBER 31, 2002	$360,500,000	$39,954,535	$	$70,000,000	$149,345,178	$145,243,124	$ 33,381,163

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS
OF COMPREHENSIVE INCOME

	Year ended December 31, 2002	2001	2000
NET INCOME	$ 107,956,351	$ 86,001,444	$ 67,275,609
Other comprehensive income, net of tax:			
Unrealized gains on securities:			
Unrealized holding gains arising during the period, net of tax of $16,289,254 (2001-$6,820,246; 2000-$18,312,676)	48,867,763	20,460,738	54,938,028
Less: Reclassification adjustment for gains included in net income, net of tax of $3,000,122 (2001-$2,401,578; 2000-$1,962,618)	(9,000,365)	(7,204,736)	(5,887,854)
Cumulative effect of accounting change, net of tax benefit of $331,500		994,500	
Unrealized gains on securities	39,867,398	14,250,502	49,050,174
Unrealized loss on fair value hedge attributable to credit risk, net of tax of $64,294 (2001-$315,024)	(192,881)	(945,071)	
Total other comprehensive income	39,674,517	13,305,431	49,050,174
COMPREHENSIVE INCOME	$ 147,630,868	$ 99,306,875	$ 116,325,783

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS

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

FirstBank Puerto Rico (FirstBank or the Bank), the Corporation's wholly-owned bank subsidiary, is a commercial bank chartered under the laws of the Commonwealth of Puerto Rico. Its main office is located in San Juan, Puerto Rico, and it has 43 full-service banking branches in Puerto Rico and 11 in the U.S. and British Virgin Islands. It has 11 loan origination offices in Puerto Rico focusing on consumer loans and residential mortgage loans. The Bank, through wholly-owned subsidiaries, operates 33 offices in Puerto Rico specializing in small personal loans, finance leases, and vehicle rental. The Bank offers brokerage services in selected branches through an alliance with a national brokerage house in Puerto Rico. The Bank is subject to the supervision, examination and regulation of the Office of the Commissioner of Financial Institutions of Puerto Rico and the Federal Deposit Insurance Corporation (FDIC), which insures its deposits through the Savings Association Insurance Fund (SAIF).

In October 2002, the Corporation acquired JPMorgan Chase's Eastern Caribbean Region business in the U.S. Virgin Islands, British Virgin Islands and Barbados. In addition to branches acquired, this transaction included the acquisition of the assets of the former Chase Trade, Inc., now First Trade, Inc., and of all outstanding shares of the former Chase Agency Services, Inc., now FirstBank Insurance Agency V.I., Inc. Total assets acquired in this transaction amounted to approximately $590 million, including approximately $435 million in loans receivable, and total deposits amounted to approximately $557 million.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Corporation and its subsidiaries conform with accounting principles generally accepted in the United States of America, and, as such, include amounts based on judgments, estimates and assumptions made by Management that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Following is a description of the more significant accounting policies followed by the Corporation:

PRINCIPLES OF CONSOLIDATION

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

STATEMENTS OF CASH FLOWS

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

INVESTMENT SECURITIES

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

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

Trading - Securities that are bought and held principally for the purpose of selling them in the near term. These securities are carried at fair value, with unrealized gains and losses reported in earnings.

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

Premiums and discounts are amortized as an adjustment to interest income over the life of the related securities using a method that approximates the interest method. Realized gains or losses on securities are reported in earnings. When computing realized gains or losses, the cost of securities is determined on the specific identification method.

OTHER-THAN-TEMPORARY IMPAIRMENTS

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

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

The equity securities impairment analyses are performed and reviewed quarterly based on the latest financial information and any supporting research report made by a major brokerage house. These analyses are very subjective and based, among other things, on relevant financial data such as capitalization, cash flow, liquidity, systematic risk, and debt outstanding. Management also considers the industry trends, the historical performance of the stock, as well as the Corporation's intent to hold the security for an extended period. If Management believes there is a low probability of achieving book value in a reasonable time frame, then an impairment will be recorded by writing the security down to market value.

LOANS HELD FOR SALE

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

LOANS AND ALLOWANCE FOR LOAN LOSSES

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

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

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

LOAN FEES AND COSTS

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

SERVICING ASSETS

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

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

OTHER REAL ESTATE OWNED

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

PREMISES AND EQUIPMENT

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

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

ACCOUNTING FOR INCOME TAXES

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

TREASURY STOCK

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

STOCK OPTION PLAN

The Corporation has a stock-based employee compensation plan, which is described more fully in Note 5. The Corporation accounts for the plan under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock based employee compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. The table below illustrates the effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement No. 123, Accounting for Stock Based Compensation, to stock-based employee compensation granted in year 2002 and 2000 (no options were granted during 2001).

Pro forma information	Year ended December 31, 2002	2000
	(In thousands, except per share data)	
Employees' compensation and benefits	$ 61,647	$ 51,763
Net income-available to common stockholders	$ 79,335	$ 58,119
Earnings per common share-basic	$ 1.99	$ 1.44
Earnings per common share-diluted	$ 1.96	$ 1.43

EARNINGS PER COMMON SHARE

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

COMPREHENSIVE INCOME

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

DERIVATIVE INSTRUMENTS

On January 1, 2001, the Corporation adopted the Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. All derivatives are recognized in the statement of financial position at fair value. Changes in the fair value of derivative instruments are accounted for as current income or other comprehensive income, depending on their intended use and designation. For transactions that qualify for hedge accounting, SFAS No. 133 provides for a matching of the timing of gain or loss recognition on the hedging instrument with the recognition in earnings of (a) the changes in the fair value of the hedged asset or liability, that are attributable to the hedged risk (fair value hedges) or (b) the effect of the exposure to the variability of cash flows from the hedged asset or liability (cash flows hedges). Note 29 describes in more detail the hedging transactions entered into by the Corporation.

ACQUISITION OF BUSINESS

Business combinations are accounted using the purchase method of accounting, as required by SFAS No. 141, Business Combinations. Assets acquired and liabilities assumed are recorded at estimated fair values at the date of acquisition. After initial recognition, any resulting intangible assets are accounted under the provisions of SFAS No. 142, Goodwill and Other Intangible Assets.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections - In April 2002, the FASB issued SFAS No. 145, which rescinds SFAS No. 4 and amends SFAS No. 13. This amendment became effective for transactions occurring after May 15, 2002. The adoption of this statement did not have a significant impact on the Corporation's financial statements.

SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities - In June 2002, the FASB issued SFAS No. 146, which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. Management expects that the adoption of this statement will not have a significant impact on the Corporation's financial statements.

SFAS No. 147, Acquisitions of Certain Financial Institutions - In October 2002, effective immediately, the FASB issued SFAS No. 147, which requires financial acquisitions of financial institutions to be accounted for in accordance with FASB Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. In addition, SFAS No. 147 amends FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor and borrower relationship intangible assets and credit cardholder intangible assets. The adoption of SFAS No. 147 did not have an impact on the Corporation's financial statements.

SFAS No. 148, Accounting for Stock-Based Compensation- Transition and Disclosure an amendment of FASB Statement No. 123- In December 2002, the FASB issued SFAS No. 148, which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. All required disclosures under SFAS No. 123, as amended by SFAS No. 148, are included in these financial statements. The Corporation has not adopted the fair value method for recognition of stock based compensation.

FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees - In November 2002, the FASB issued this interpretation, which requires a guarantor of certain types of guarantees to recognize, at the inception of guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. These provisions for initial recognition are effective for guarantees that are issued or modified after December 31, 2002. In the case of the Corporation, these provisions apply for the standby letters of credit. See Note 29 for details of the letters of credit outstanding as of December 31, 2002. The adoption of this interpretation will not have a significant effect in the Corporation's financial statements.

NOTE 3 - STOCKHOLDERS' EQUITY

COMMON STOCK

On August 27, 2002, the Corporation declared a three for two (or 50%) stock split on its 26,636,452 outstanding shares of common stock at September 13, 2002. As a result, a total of 14,958,383 additional shares of common stock were issued on September 30, 2002, of which 1,640,300 shares were recorded as treasury stock. All per share amounts have been adjusted for the effect of the stock split in the third quarter of 2002.

STOCK REPURCHASE PLAN AND TREASURY STOCK

The Corporation has a stock repurchase program under which from time to time it repurchases shares of common stock in the open market and hold them as treasury stock. Under this program, the Corporation repurchased a total of 86,200 shares of common stock at a cost of $1,929,685 during 2001, and 1,642,400 shares of common stock at a cost of $30,086,592 during 2000. No shares of common stock were repurchased during 2002. From the total amount of common stock repurchased, 4,920,900 shares, as adjusted for September 30, 2002 stock split, were held as treasury stock at December 31, 2002 (2001 - 3,280,600 shares) and were available for general corporate purposes.

PREFERRED STOCK

The Corporation has 50,000,000 shares of authorized non-cumulative and non-convertible preferred stock with a par value of $1, redeemable at the Corporation's option subject to certain terms. This stock may be issued in series and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. During 2002, the Corporation issued 3,680,000 shares of preferred stock (2001-4,140,000 shares; 2000-3,000,000 shares; 1999-3,600,000 shares). The liquidation value per share is $25. Annual dividends of $1.8125 per share (issuance of 2002), $1.85 per share (issuance of 2001), $2.0875 per share (issuance of 2000) and of $1.78125 per share (issuance of 1999), are payable monthly, if declared by the Board of Directors. During the year, dividends declared on preferred stock amounted to $26,406,274 (2001 - $16,508,198; 2000 - $7,407,542).

CAPITAL RESERVE

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

LEGAL SURPLUS

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

NOTE 4 - REGULATORY CAPITAL REQUIREMENTS

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

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

At December 31, 2002 and 2001, the most recent notification from FDIC, categorized the Corporation as a well-capitalized institution under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Corporation must maintain minimum total risk based, Tier 1 risk based and Tier 1 leverage ratios as set forth in the following table. Management believes that there are no conditions or events since that date that have changed that classification.

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

	Actual		Regulatory Requirements For capital adequacy purposes		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
At December 31, 2002						
Total Capital (to Risk-Weighted Assets):						
First BanCorp	$816,946	13.75%	$475,155	8%	$593,944	10%
FirstBank	739,996	12.50%	473,617	8%	592,022	10%
Tier I Capital (to Risk-Weighted Assets):						
First BanCorp	$707,083	11.90%	$237,578	4%	$356,366	6%
FirstBank	632,487	10.68%	236,809	4%	355,213	6%
Tier I Capital (to Average Assets):						
First BanCorp	$707,083	7.35%	$288,628	3%	$481,046	5%
FirstBank	632,487	6.62%	286,801	3%	478,002	5%
At December 31, 2001						
Total Capital (to Risk-Weighted Assets):						
First BanCorp	$678,679	14.50%	$374,498	8%	$468,123	10%
FirstBank	590,652	12.75%	370,472	8%	463,090	10%
Tier I Capital (to Risk-Weighted Assets):						
First BanCorp	$569,255	12.16%	$187,249	4%	$280,874	6%
FirstBank	481,850	10.41%	185,236	4%	277,854	6%
Tier I Capital (to Average Assets):						
First BanCorp	$569,255	7.49%	$228,074	3%	$380,124	5%
FirstBank	481,850	6.40%	225,738	3%	376,231	5%

NOTE 5 - STOCK OPTION PLAN

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

Management uses the Black-Scholes option pricing model for the computation of the estimated fair value of each option granted to buy shares of the Corporation's common stock (refer to Note 2 for accounting policy). The fair value of each option granted during 2002 and 2000 (no options were granted during 2001) was estimated using the following assumptions: weighted dividend growth of 20% (2002) and 0% (2000); expected life of 3.29 years (2002) and 3.11 years (2000); weighted expected volatility of 31.76% (2002) and 31.74% (2000); and weighted risk-free interest rate of 3.66% (2002) and 5.36% (2000). The weighted estimated fair value of the options granted was $4.08 (2002) and $3.67 (2000) per option, as adjusted for the September 2002 stock split.

Following is a summary of the activity related to stock options, adjusted to reflect the stock split of September 30, 2002:

	Number of Options	Weighted Average Exercise Price per Option
At December 31, 1999	1,449,750	$ 11.38
Granted	477,000	$ 14.87
Exercised	(9,000)	$ 10.42
Canceled	(10,500)	$ 17.33
At December 31, 2000	1,907,250	$ 12.24
Exercised	(351,000)	$ 3.86
Canceled	(3,000)	$ 18.92
At December 31, 2001	1,553,250	$ 14.12
Granted	542,750	$ 18.96
Exercised	(96,750)	$ 13.86
At December 31, 2002	1,999,250	$ 15.44

The exercise price of the options outstanding at December 31, 2002, as adjusted for September 2002 stock split, ranges from $10.42 to $25.99 and the weighted average remaining contractual life is approximately seven years.

Following is additional information concerning the stock options outstanding at December 31, 2002.

Number of Options	Exercise Price per Option	Contractual Maturity
300,000	$10.42	November 2007
75,000	$12.79	February 2008
60,000	$18.06	May 2008
18,000	$17.71	June 2008
261,000	$17.33	November 2008
3,000	$17.29	February 2009
5,250	$17.63	April 2009
270,750	$13.08	November 2009
465,000	$14.88	December 2010
521,250	$18.69	February 2012
20,000	$25.99	October 2012
1,999,250		

NOTE 6 - EARNINGS PER COMMON SHARE

The calculations of earnings per common share for the years ended December 31, 2002, 2001 and 2000 follow:

	Year ended December 31, 2002	2001	2000
	(In thousands, except per share data)		
Net income	$ 107,956	$ 86,001	$ 67,276
Less: Preferred stock dividend	(26,406)	(16,508)	(7,408)
Net income-attributable to common stockholders	$ 81,550	$ 69,493	$ 59,868
EARNINGS PER COMMON SHARE-BASIC:			
Net income - available to common stockholders	$ 81,550	$ 69,493	$ 59,868
Weighted average common shares outstanding	39,901	39,851	40,415
Earnings per common share-basic	$ 2.04	$ 1.74	$ 1.48
EARNINGS PER COMMON SHARE-DILUTED:			
Net income - available to common stockholders	$ 81,550	$ 69,493	$ 59,868
Weighted average common shares and share equivalents:			
Average common shares outstanding	39,901	39,851	40,415
Common stock equivalents - Options	652	293	303
Total	40,553	40,144	40,718
EARNINGS PER COMMON SHARE-DILUTED:	$ 2.01	$ 1.73	$ 1.47

The earnings per share for prior years have been restated to reflect the effect of the stock split in the third quarter of 2002. The 2001 earnings per common share basic and diluted are net of cumulative effect of change in accounting principle.

Stock options outstanding, under the Corporation's stock option plan for officers, are common stock equivalents and, therefore, considered in the computation of earnings per common share diluted. Common stock equivalents were computed using the treasury stock method. In 2002, 20,000 stock options (2001-10,500, 2000-858,750) were not included in the computation of outstanding shares because they were antidilutive. These amounts have been adjusted for 2002 stock split.

NOTE 7 - CASH AND DUE FROM BANKS

The Corporation is required by law to maintain minimum average reserve balances. The amount of those average reserve balances was approximately $93,263,632 at December 31, 2002 (2001 - $46,078,200).

NOTE 8 - INVESTMENT SECURITIES HELD FOR TRADING

At December 31, 2002 and 2001, there were no securities held for trading purposes or options on such securities.

All trading instruments are subject to market risk, the risk that future changes in market conditions, such as fluctuations in market prices or interest rates, may make an instrument less valuable or more onerous. The instruments are accounted for at market value, and their changes are reported directly in earnings. The Corporation may write options on trading securities as part of its trading activities. Also the Corporation may enter in transactions of securities sold not yet purchased for trading purposes. These transactions are carried at market value. Net gains and losses resulting from these transactions are recorded in the trading income or loss account. The net gain from the sale of trading securities amounted to $419,367 for the year ended December 31, 2000, and was included in earnings as trading income. No trading activities were recorded during 2002 and 2001.

NOTE 9 - INVESTMENT SECURITIES HELD TO MATURITY

The amortized cost, gross unrealized gains and losses, approximate market value, weighted average yield and final maturities of investment securities held to maturity at December 31, 2002 and 2001 were as follows:

	December 31, 2002					December 31, 2001				
		Gross Unrealized			Weighted		Gross Unrealized			Weighted
	Amortized cost	gains	losses	Market value	average yield%	Amortized cost	gains	losses	Market value	average yield%
					(Dollars in thousands)					
Obligations of other U.S. Government Agencies:										
After 10 years	$628,820	$3,307	$ 59	$632,068	7.85	$211,194	$ 3	$6,466	$204,731	7.39
Puerto Rico Government Obligations:										
After 1 to 5 years	5,000	113		5,113	5.00	5,000			5,000	5.00
After 10 years	4,354	586		4,940	6.50	4,084	228		4,312	6.50
United States and Puerto Rico Government obligations	$638,174	$4,006	$ 59	$642,121	7.82	$220,278	$231	$6,466	$214,043	7.32
Corporate bonds:										
Due within 1 year	$ 25,000			$ 25,000	3.05					
After 1 to 5 years	39,432		$609	38,823	2.95	$ 64,018		$ 277	63,741	3.49
Corporate bonds	$ 64,432		$609	$ 63,823	2.98	$ 64,018		$ 277	$ 63,741	3.49
Total Investment Securities Held to Maturity	$702,606	$4,006	$668	$705,944	7.38	$284,296	$231	$6,743	$277,784	6.46

Expected maturities of investments might differ from contractual maturities because they may be subject to prepayments and / or call options. At January 1, 2001, in connection with the adoption of SFAS No. 133, the Corporation transferred a portfolio of $207 million of GNMA certificates held to maturity into the available for sale category. The unrealized gain of $994,500, net of taxes, was reflected in other comprehensive income as a cumulative effect of the change in accounting principle.

Note 10 - Investment Securities Available For Sale

The amortized cost, gross unrealized gains and losses, approximate market value, weighted average yield and final maturities of investment securities available for sale at December 31, 2002 and 2001 were as follows:

	December 31, 2002					December 31, 2001				
	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Market value	Weighted average yield%	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Market value	Weighted average yield%
	(Dollars in thousands)									
U.S. Treasury Securities:										
Within 1 year						$ 7,726	$ 30		$ 7,756	3.18
Obligations of other U.S. Government Agencies:										
Within 1 year						407,324		$ 32	407,292	1.72
After 1 to 5 years	$ 500	$ 3		$ 503	3.87					
After 5 to 10 years	750	17		767	5.60	500	1		501	5.59
After 10 years	15,568	480		16,048	7.69	87,519	469	1,805	86,183	7.55
Puerto Rico Government Obligations:										
After 5 to 10 years	4,999	375		5,374	6.27	4,458	128		4,586	6.19
After 10 years	5,679	401		6,080	6.30	5,932	151		6,083	6.34
United States and Puerto Rico Government Obligations	$ 27,496	$ 1,276		$ 28,772	7.02	$ 513,459	$ 779	$ 1,837	$ 512,401	2.83
Mortgage Backed Securities:										
FHLMC certificates:										
Within 1 year						$ 8			$ 8	5.85
After 1 to 5 years	$ 1,458	$ 82		$ 1,540	6.47	112	$ 4		116	7.63
After 5 to 10 years	8,211	613		8,824	7.42	13,211	576		13,787	7.29
After 10 years	6,347	358		6,705	6.86	8,030	172	$ 6	8,196	6.95
	16,016	1,053		17,069	7.11	21,361	752	6	22,107	7.16
GNMA certificates:										
After 5 to 10 years	3,608	170		3,778	6.41	4,605	101		4,706	6.39
After 10 years	524,278	9,439		533,717	5.11	2,515,953	12,672	6,539	2,522,086	6.52
	527,886	9,609		537,495	5.12	2,520,558	12,773	6,539	2,526,792	6.52
FNMA certificates:										
Within 1 year	29			29	6.33					
After 1 to 5 years	5			5	7.68	158	4		162	6.92
After 5 to 10 years	764	53		817	7.66	124	5		129	7.32
After 10 years	1,916,460	39,523		1,955,983	4.93	7,095	408		7,503	7.96
	1,917,258	39,576		1,956,834	4.93	7,377	417		7,794	7.93
Mortgage pass through certificates:										
After 10 years	1,175	32		1,207	7.23	1,958	38		1,996	8.70
Mortgage Backed Securities	$2,462,335	$50,270		$2,512,605	4.99	$2,551,254	$13,980	$ 6,545	$2,558,689	6.53
Corporate Bonds:										
Within 1 year	$ 979	$ 36		$ 1,015	7.87	$ 19,246	$ 410		$ 19,656	7.70
After 1 to 5 years	85,711	1,244	$10,865	76,090	6.16	118,919	1,770	$ 2,899	117,790	6.68
After 5 to 10 years	57,276	445	1,084	56,637	6.94	114,855	77	1,906	113,026	7.34
After 10 years						18,531	328		18,859	7.35
Corporate bonds	$ 143,966	$ 1,725	$11,949	$ 133,742	6.48	$ 271,551	$ 2,585	$ 4,805	$ 269,331	7.08
Equity securities (without contractual maturity)	$ 36,951	$10,006	$ 5,302	$ 41,655	1.72	$ 45,115	$ 4,901	$16,189	$ 33,827	1.43
Total Investments Securities Available for Sale	$2,670,748	$63,277	$17,251	$2,716,774	5.04	$3,381,379	$22,245	$29,376	$3,374,248	5.95

Maturities for mortgage backed securities are based upon contractual terms assuming no repayments. The weighted average yield on investment securities held for sale is based on amortized cost; therefore, it does not give effect to changes in fair value.

During 2002, the Corporation's bank subsidiary restructured its portfolio of mortgage backed securities available for sale in order to shorten its duration and reduce its prepayment risk. As a result, in late June and early July of 2002, approximately $1 billion of 30-year mortgage backed securities were sold. The sales derived a gain of $14 million. The securities sold were substantially substituted with $900 million of 15-year mortgage backed securities, which have a lower average life and yield, and which value is less sensitive to increases in interest rates. In addition, in September and October, the Corporation sold its 7% GNMA portfolio of approximately $964 million to substitute with lower coupons. The sales derived a gain of $26.1 million. These securities were substituted in November with $1 billion FNMA's 15 years.

It is the Corporation's policy to invest in corporate bonds, which at the time of the purchase, are of an investment grade quality. The total carrying amount of the corporate bonds portfolio is $198 million, or approximately 5% of total investments of the Corporation as of December 31, 2002. In 2002, two of the bonds in FirstBank's portfolio were downgraded, to non-investment grade quality by two credit rating agencies. These were, WorldCom Corporation, $15.5 million outstanding at the time of the downgrade and Nortel Networks Corporation, $23.5 million outstanding at the time of the downgrade. Management's impairment analysis on these securities concluded that an other-than-temporary impairment of approximately $11.7 million had occurred in the case of the WorldCom Corporation bonds. The estimated impairment amount of this security was recognized as a loss in the statement of income. In addition, Management reclassified to non-accruing status the remaining carrying amount of $3.8 million. Management's impairment analysis concluded that no other-than-temporary impairment existed on Nortel's bonds. The unrealized loss of the Nortel's bonds at December 31, 2002 approximated $8.5 million.

At December 31, 2002, the Corporation's equity securities portfolio carrying amount is $41.7 million, and its adjusted cost is $37 million. The Corporation's current policy guidelines limit investments in equity securities to $60 million, which is 1.6% of the Corporation's total investments as of December 31, 2002. The Corporation invests in equity securities that have long-term appreciation prospects. During the year ended on December 31, 2002, the Corporation recognized a loss of $25.2 million for other-than-temporary impairment on equity securities. At December 31, 2002, these securities have not been sold.

Management determined that except for the impairments on the bonds and stocks mentioned above, there are no other-than-temporary impairments on the rest of the bonds and equity securities portfolio. Management will continue its ongoing monitoring of the Corporation's investment on individual corporate bonds and equity securities to identify any other-than-temporary impairment.

At December 31, 2002, the net unrealized gain of $34,519,114 (2001 - net unrealized loss of $5,348,283) on securities available for sale, net of the deferred income tax of $11,506,371 (2001 - $1,782,761), was reported as part of accumulated other comprehensive income. For 2002, the change in the net unrealized holding gain on the available for sale securities amounted to $53,156,531 (2001 - a gain of $19,000,669) before deferred income taxes.

For 2002, proceeds from the sale of securities amounted to $2,243 million (2001 - $847.7 million, 2000 - $58.5 million) resulting in gross realized gains of $49.7 million (2001 - $13.6 million, 2000 -$7.9 million), and gross realized losses on sale of investments and impairments of $37.7 million (2001 - $4 million). No losses were realized during 2000.

NOTE 11 - FEDERAL HOME LOAN BANK (FHLB) STOCK

At December 31, 2002 and 2001, there were investments in FHLB stock with book value of $35,629,500 and $22,890,600 respectively. The estimated market value of such investments is its redemption value.

NOTE 12 - INTEREST AND DIVIDEND ON INVESTMENTS

A detail of interest and dividend income on investments follows:

	Year ended December 31, 2002	2001	2000
	(In thousands)		
Mortgage Backed Securities:			
Taxable	$ 3,765	$ 2,666	$ 3,325
Exempt	117,338	106,571	91,416
	$121,103	$109,237	$ 94,741
Other Investment Securities:			
Taxable	$ 3,079	$ 2,639	$ 1,577
Exempt	64,013	50,602	38,060
	$ 67,092	$ 53,241	$ 39,637

NOTE 13 - LOANS RECEIVABLE

The following is a detail of the loan portfolio:

	December 31, 2002	2001
	(In thousands)	
Residential real estate loans:		
Secured by first mortgages:		
Conventional	$ 1,778,046	$ 955,573
Insured by government agencies:		
Federal Housing Administration and Veterans Administration	41,805	25,211
Puerto Rico Housing Bank and Finance Agency	19,060	23,513
Secured by second mortgages	7,650	8,088
	1,846,561	1,012,385
Deferred net loan fees	(3,247)	(5,107)
Residential real estate loans	1,843,314	1,007,278
Commercial loans:		
Construction loans	259,053	219,396
Commercial loans	1,418,792	1,238,173
Commercial mortgage	813,513	688,922
Commercial loans	2,491,358	2,146,491
Finance leases	143,412	127,935
Consumer and other loans:		
Personal	413,931	362,490
Personal lines of credit	10,401	11,216
Auto	565,478	502,902
Boat	53,017	39,570
Credit card	164,172	176,226
Home equity reserve loans	4,566	1,851
Unearned interest	(62,553)	(71,810)
Consumer and other loans	1,149,012	1,022,445
Loans receivable	5,627,096	4,304,149
Allowance for loan losses	(111,911)	(91,060)
Loans receivable, net	5,515,185	4,213,089
Loans held for sale	10,754	4,630
Total loans	$ 5,525,939	$ 4,217,719

The Corporation's primary lending area is Puerto Rico. At December 31, 2002 and 2001 there is no significant concentration of credit risk in any specific industry on the loan portfolio.

At December 31, 2002, loans in which the accrual of interest income had been discontinued amounted to $91,765,000 (2001 - $72,998,000; 2000 - $67,716,000). If these loans had been accruing interest, the additional interest income realized would have been approximately $5,833,000 (2001 - $5,735,000; 2000 - $5,937,000). There are no material commitments to lend additional funds to borrowers whose loans were in non-accruing status at these dates.

At December 31, 2002 mortgage loans held for sale amounted to $10.8 million (2001-$4.6 million).

At December 31, 2002, the Corporation was servicing residential mortgage loans owned by others aggregating approximately $196,748,000 (2001 - $160,583,000; 2000 - $144,805,000).

Various loans secured by first mortgages were assigned as collateral for term notes, certificates of deposit, advances from the Federal Home Loan Bank, and unused lines of credit. The mortgage loans pledged as collateral amounted to $778,829,294 and $195,267,091 at December 31, 2002 and 2001, respectively.

NOTE 14 - ALLOWANCE FOR LOAN LOSSES

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

	Year ended December 31,		
	2002	2001	2000
		(In thousands)	
Balance at beginning of period	$ 91,060	$ 76,919	$ 71,784
Provision charged to income	62,302	61,030	45,719
Losses charged against the allowance	(48,991)	(54,380)	(51,831)
Recoveries credited to the allowance	7,540	7,391	9,807
Other adjustments		100	1,440
Balance at end of period	$ 111,911	$ 91,060	$ 76,919

At December 31, 2002, $27 million ($10.7 million at December 31, 2001) in commercial and real estate loans over $1,000,000 were considered impaired with an allowance of $5.9 million ($3.7 million at December 31, 2001), which was established based on the fair value of the collateral. For 2001, $2 million of the allowance on impaired loans was established based on the fair value of the collateral and $1.7 million was established based on the present value of expected future cash flows. The average recorded investment in impaired loans amounted to $18.9 million for 2002 (2001 - $11.9 million). Interest income in the amount of approximately $803,000 was recognized on impaired loans in 2002 (2001 -$377,000; 2000 - $227,000).

NOTE 15 - RELATED PARTY TRANSACTIONS

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

	Amount
	(In thousands)
Balance at December 31, 2000	$ 20,174
New loans	14,659
Payments	(170)
Balance at December 31, 2001	$ 34,663
New loans	48,784
Payments	(1,943)
Balance at December 31, 2002	$ 81,504

NOTE 16 - PREMISES AND EQUIPMENT

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

	Useful life in years	December 31, 2002	December 31, 2001
		(In thousands)	
Land		$ 8,203	$ 7,357
Buildings and improvements	10-40	41,918	39,809
Leasehold improvements	1-15	20,436	14,753
Furniture and equipment	3-10	94,675	62,466
		165,232	124,385
Accumulated depreciation		(87,083)	(55,001)
		78,149	69,384
Projects in progress		9,447	6,772
Total premises and equipment, net		$ 87,596	$ 76,156

NOTE 17 - INTANGIBLE ASSETS

At December 31, 2002, the Corporation has a core deposit intangible with a carrying amount of $20,807,539 (2001-$7,199,439) included in the Other Assets category. Increase in this category represents the recognition of an intangible asset as part of the acquisition of the JP Morgan Chase's Eastern Caribbean Region business. The straight-line amortization expense for the year ended December 31, 2002 amounted to approximately $1,165,000. The estimated aggregate amortization expense for each of the five succeeding fiscal years will be approximately $2,400,000. Management has reviewed the core deposits intangible assets concluding that no impairment is necessary and that the useful life of ten years used to amortize them is the best estimate of the economic benefit period.

NOTE 18 - DEPOSITS AND RELATED INTEREST

Deposits and related interest consist of the following:

	December 31, 2002	December 31, 2001
	(In thousands)	
Type of account and interest rate:		
Savings accounts - 1.25% to 2.25% (2001 - 2.25% to 3.50%)	$ 921,103	$ 469,452
Interest bearing checking accounts - 1.15% to 2.00% (2001 - 2.25% to 3.05%)	230,743	205,760
Non-interest bearing checking accounts	447,076	239,851
Certificate accounts - 1.00% to 7.50% (2001 - 2.00% to 7.50%)	3,883,996	3,183,491
	$5,482,918	$4,098,554

The weighted average interest rate on total deposits at December 31, 2002 and 2001 was 2.58% and 3.82%, respectively.

At December 31, 2002, the aggregate amount of overdraft in demand deposits that were reclassified as loans amounted to $7,281,895 (2001 - $7,807,724).

The following table presents a summary of certificates of deposits with remaining term of more than one year at December 31, 2002:

	Total
	(In thousands)
Over one year to two years	$ 258,698
Over two years to three years	162,066
Over three years to four years	341,276
Over four years to five years	199,752
Over five years	1,814,983
Total	$2,776,775

At December 31, 2002 certificates of deposit (CD's) in denominations of $100,000 or higher amounted to $3,379,748,775 (2001 - $2,669,536,603) including brokered certificates of deposit of $2,645,909,222 (2001 - $2,189,687,222) at a weighted average rate of 2.64%, after hedging (2001 - 4.0%). See Note 29 for a description of the program used to hedge the fair value of the brokered certificates of deposit.

At December 31, 2002, deposit accounts issued to government agencies with a carrying value of $220,869,357 (2001 - $63,639,152) were collateralized by securities with a carrying value of $259,433,606 (2001 - $75,126,925) and estimated market value of $263,467,485 (2001 - $71,979,923), by specific mortgage loans with a carrying value of $2,416,677 (2001 - $2,895,723) and estimated market value of $3,010,938 (2001 - $3,370,043) and by municipal obligations with a carrying value and estimated market value of $27,810,000.

A table showing interest expense on deposits follows:

	Year ended December 31, 2002	2001	2000
	(In thousands)		
Savings	$ 15,096	$ 12,954	$ 12,792
Interest bearing checking accounts	4,763	5,296	5,546
Certificates of deposit	113,376	142,508	134,945
Total	$133,235	$160,758	$153,283

NOTE 19 - FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

	December 31, 2002	2001
	(In thousands)	
Federal funds purchased, interest rate 1.80%		$ 10,000
Repurchase agreements, interest ranging from 1% to 5.37% (2001 - 1.25% to 6.09%)	$2,784,078	2,976,174
Accrued interest payable	9,462	11,000
Total	$2,793,540	$2,997,174

The weighted average interest rates of federal funds purchased and repurchase agreements at December 31, 2002 and 2001 was 3.82% and 4.05%, respectively.

Federal funds purchased and repurchase agreements mature as follows:

	December 31, 2002	2001
	(In thousands)	
One to thirty days	$ 708,924	$ 723,010
Over thirty to ninety days	194	14,062
Over ninety days to one year		274,142
Over one year	2,074,960	1,974,960
Total	$2,784,078	$2,986,174

The following securities were sold under agreements to repurchase:

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

UNDERLYING SECURITIES	Amortized cost of underlying securities	Balance of borrowing	Approximate market value of underlying securities	Weighted average interest rate
	December 31, 2001			
U.S. Treasury Securities and obligations of other U.S. Government Agencies	$ 506,685	$ 392,081	$ 515,447	3.80%
Mortgage backed securities	2,441,777	2,380,851	2,389,645	6.70%
Corporate bonds	262,648	203,242	260,542	7.17%
Total	$3,211,110	$2,976,174	$3,165,634	
Accrued interest receivable	$ 15,715			

The maximum aggregate balance outstanding at any month-end during 2002 was $3,342,284,753 (2001 - $2,986,174,065). The average balance during 2002 was approximately $2,784,701,323 (2001 - $1,997,705,000).

At December 31, 2002 and 2001, the securities underlying such agreements were delivered to, and are being held by the dealers with which the repurchase agreements were transacted, except for transactions where the Corporation has agreed to repurchase similar but not identical securities.

NOTE 20 - ADVANCES FROM THE FEDERAL HOME LOAN BANK (FHLB)

Following is a detail of the advances from the FHLB:

Maturity	Interest rate	December 31, 2002	2001
		(In thousands)	
January 2, 2002	1.85%		$ 20,700
January 13, 2003	1.44%	$ 50,000	
August 16, 2005	6.30%	50,000	50,000
October 9, 2008	5.10%	14,000	14,000
October 16, 2008	5.09%	15,000	15,000
February 28, 2011	4.50%	79,000	79,000
March 21, 2011	4.42%	165,000	165,000
		$373,000	$343,700

Advances are received from the FHLB under an Advances, Collateral Pledge and Security Agreement (the Collateral Agreement). Under the Collateral Agreement, the Corporation is required to maintain a minimum amount of qualifying mortgage collateral with a market value at least 110% of the outstanding advances. At December 31, 2002, specific mortgage loans with an estimated value of $553,144,554 (2001 - $197,506,039), as computed by Federal Home Loan Bank for collateral purposes, were pledged to the FHLB as part of the Collateral Agreement. The carrying value of such loans at December 31, 2002 amounted to $776,412,617 (2001 - $192,371,368). In addition, securities with an approximated market value of $26,587,830 (2001 - $145,140,574) and a carrying value of $29,149,623 (2001 - $158,117,351) were pledged to the FHLB.

NOTE 21 - SUBORDINATED NOTES

On December 20, 1995, the Corporation issued 7.63% subordinated capital notes in the amount of $100,000,000 maturing in 2005. The notes were issued at a discount. At December 31, 2002 the outstanding balance net of the unamortized discount and notes repurchased was $82,815,105 (2001 - $84,361,525). Interest on the notes is payable semiannually and at maturity. The notes represent unsecured obligations of the Corporation ranking subordinate in right of payment to all existing and future senior debt including the claims of depositors and other general creditors. The notes may not be redeemed prior to their maturity. At December 31, 2002, the Corporation has transferred to capital reserves from the retained earnings account $70,000,000 as a result of the requirement explained in Note 3 - "Stockholders' Equity."

NOTE 22 - UNUSED LINES OF CREDIT

The Corporation maintains unsecured standby lines of credit with other banks. At December 31, 2002 and 2001, the Corporation's total unused lines of credit with these banks amounted to approximately $180,000,000. At December 31, 2002, the Corporation has an available line of credit with the FHLB guaranteed with excess collateral, in the amount of $206,732,384.

NOTE 23 - EMPLOYEES' BENEFIT PLAN

FirstBank provides contributory retirement plans pursuant to Section 1165(e) of the Puerto Rico Internal Revenue Code for Puerto Rico employees and Section 401(K) of the U.S. Internal Revenue Code for U.S.V.I. employees. All employees are eligible to participate in the Plan after one year of service. Under the provisions of the Plan, the Bank contributes a quarter of the first 4% of each participant's compensation. Participants are permitted to contribute up to 10% of their annual compensation, limited to $8,000 per year ($11,000 for U.S.V.I. employees). Additional contributions to the Plan are voluntarily made by the Bank as determined by its Board of Directors. The Bank made a total contribution of $861,478, $845,227 and $699,060 during 2002, 2001 and 2000 respectively, to the Plan.

NOTE 24 - OTHER EXPENSES

A detail of other expenses follows:

	Year ended December 31,		
	2002	2001	2000
		(In thousands)	
Professional and service fees	$ 7,685	$ 7,461	$ 8,406
Communications	5,865	5,395	5,573
Revenue earning equipment	1,588	1,578	1,525
Supplies and printing	1,963	1,282	1,214
Other	8,243	9,489	8,155
Total	$25,344	$25,205	$24,873

NOTE 25 - INCOME TAXES

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

The provision for income taxes was as follows:

Year ended December 31,

	2002	2001	2000
		(In thousands)	
Current	$ 30,938	$ 25,536	$ 19,117
Deferred	(8,611)	(5,402)	(4,356)
Total	$ 22,327	$ 20,134	$ 14,761

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

	Year ended December 31,					
	2002		2001		2000	
	Amount	% of pre-tax Income	Amount	% of pre-tax Income	Amount	% of pre-tax Income
			(Dollars in thousands)			
Computed income tax at statutory rate	$ 50,811	39	$ 41,789	39	$ 31,994	39
Benefit of net exempt income	(31,819)	(24)	(24,442)	(23)	(12,707)	(15)
Other-net	3,335	2	2,787	3	(4,526)	(6)
Total income tax provision	$ 22,327	17	$ 20,134	19	$ 14,761	18

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

	December 31, 2002	December 31, 2001
	(In thousands)	
Deferred tax asset:		
Allowance for loan losses	$ 43,645	$ 34,732
Unrealized loss on available for sale securities		1,783
Unrealized loss on fair value hedges attributable to credit risk	379	315
Other	6,584	7,110
Deferred tax asset	$ 50,608	$ 43,940
Deferred tax liability:		
Unrealized gain on available for sale securities	$(11,506)	
Other	(98)	$ (322)
Deferred tax liability	$(11,604)	$ (322)

No valuation allowance was considered necessary for the deferred tax asset.

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

The Puerto Rico Treasury Department is conducting an investigation of the Bank's income tax returns for the years 1995, 1997, 1998 and 1999. Management has prepared these tax returns in accordance with the Puerto Rico Internal Revenue Code and its regulations. Therefore, Management believes that a deficiency, if any, resulting from this investigation, will not have a material effect on the Corporation's financial statements.

NOTE 26 - COMMITMENTS

At December 31, 2002 certain premises are leased with terms expiring through the year 2022. The Corporation has the option to renew or extend certain leases from two to ten years beyond the original term. Some of these leases require the payment of insurance, increases in property taxes and other incidental costs. At December 31, 2002, the obligation under various leases follows:

Year	Amount
(In thousands)	
2003	$ 4,894
2004	4,079
2005	2,826
2006	2,039
2007	1,726
2008 and later years	7,333
Total	$22,897

Rental expense included in occupancy and equipment expense was $4,509,798 in 2002 (2001 - $4,240,437; 2000 - $4,042,069).

NOTE 27 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The information about the estimated fair values of financial instruments as required by accounting principles generally accepted in the United States of America, is presented hereunder. The disclosure requirements exclude certain financial instruments and all non - financial instruments. Accordingly, the aggregate fair value amounts presented do not represent Management's estimate of the underlying value of the Corporation. A summary table of estimated fair values and carrying values of financial instruments at December 31, 2002 and 2001 follows:

	December 31,			
	2002		2001	
	Estimated fair value	Carrying value	Estimated fair value	Carrying value
	(In thousands)			
Assets:				
Cash and due from banks and money market instruments	$ 381,965	$ 381,965	$ 94,463	$ 94,463
Investment securities	3,422,718	3,419,380	3,652,031	3,658,544
FHLB stock	35,630	35,630	22,891	22,891
Loans receivable, including loans held for sale - net	5,527,122	5,525,939	4,226,033	4,217,719
Interest rate swaps	27,022	27,022		
Liabilities:				
Deposits	5,499,998	5,482,918	4,121,145	4,098,554
Federal funds, securities sold under agreements to repurchase	2,966,580	2,793,540	3,005,466	2,997,174
Advances from FHLB	399,941	373,000	348,733	343,700
Subordinated notes	89,084	82,815	83,729	84,362
Interest rate swaps	9,739	9,739	15,053	15,053

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

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

CASH AND DUE FROM BANKS AND MONEY MARKET INSTRUMENTS

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

INVESTMENT SECURITIES

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

FHLB STOCK

Investments in FHLB stock are valued at their redemption values.

LOANS RECEIVABLE, INCLUDING LOANS HELD FOR SALE - NET

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

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

DEPOSITS

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

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

Substantially all swaps currently held by the Corporation form part of structured broker CD's. In these instruments a fixed rate CD is matched with a swap of the same rate and maturity, thereby converting the fixed rate broker CD to a floating rate instrument which reprices quarterly based on a fixed differential to three month LIBOR. The swaps are recorded at fair value with a corresponding adjustment to CD's, therefore, for purposes of fair value analysis, these structured broker CD's are valued at book.

FEDERAL FUNDS AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Federal funds purchased and some repurchase agreements reprice at least quarterly, and their outstanding balances are estimated to be their fair values. Where longer commitments are involved, fair values are estimated in the same way as fixed term deposits.

ADVANCES FROM FHLB AND SUBORDINATED NOTES

The fair value of advances from FHLB with fixed maturities was determined using discounted cash flow analysis over the full term of the borrowings. The cash flows assumed no early repayment of the borrowings. Discount rates were based on the LIBOR yield curve. The fair value of subordinated notes was based on indications of market prices.

INTEREST RATE SWAPS

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

NOTE 28 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information follows:

Supplemental cash flow information follows:

	Year ended December 31,		
	2002	2001	2000
		(In thousands)	
Cash paid for:			
Interest	$274,548	$275,360	$260,937
Income tax	15,799	12,535	30,477
Non-cash investing and financing activities:			
Additions to other real estate owned	3,338	1,797	3,121

NOTE 29 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK, COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT

THE FOLLOWING TABLE PRESENTS A DETAIL OF COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT:

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

	December 31,	
	2002	2001
Financial instruments whose contract amounts represent credit risk:	(In thousands)	
Commitments to extend credit:		
To originate loans	$208,925	$194,363
Unused credit card lines	307,492	291,120
Unused personal lines of credit	14,859	13,480
Commercial lines of credit	439,996	222,821
Commercial letters of credit	80,448	19,067
Standby letters of credit	30,313	24,172

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

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

In general, commercial and standby letters of credit are issued to facilitate foreign and domestic trade transactions. Normally, commercial and standby letters of credit are short-term commitments used to finance commercial contracts for the shipment of goods. The collateral for these letters of credit include cash or available commercial lines of credit. The fair value of commercial and standby letters of credit is based on the fees currently charged for such agreements, which at December 31, 2002 is not significant.

INTEREST RATE RISK MANAGEMENT

The operations of the Corporation are subject to interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in different amounts. As part of the interest rate risk management, the Corporation has entered into a series of interest rate swap agreements. Under the interest rate swaps, the Corporation agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional principal amount. Net interest settlements on interest rate swaps are recorded as an adjustment to interest expense on deposit accounts or interest income on investment accounts.

The following table indicates the types of swaps used:

	Notional amount (In thousands)
Pay-fixed and receive-variable swaps:	
Balance at December 31, 2000	$ --
New Contracts	58,165
Balance at December 31, 2001	58,165
New contracts	20,000
Balance at December 31,2002	$ 78,165
Receive-fixed and pay variable swaps:	
Balance at December 31, 2000	$ 1,151,000
Expired contracts	(1,116,000)
New contracts	1,460,000
Balance at December 31, 2001	$ 1,495,000
Expired contracts	(1,193,681)
New contracts	1,656,590
Balance at December 31, 2002	$ 1,957,909

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

Interest rate swap agreements under which the Corporation agrees to pay fixed-rates of interest are considered to be a hedge against changes in the fair value attributable to market interest rates of fixed rate available for sale corporate bonds. Accordingly, the interest rate swap agreements and the securities being hedged are reflected at fair value in the Corporation's consolidated statement of financial condition. The adjustment of the hedged item's carrying amount attributable to the hedged risk is recorded in earnings in order to offset the gain or loss on the hedging instrument. The change in the fair value of the security attributable to credit risk is recorded in other comprehensive income. The hedge relationship is estimated to be 100 percent effective; therefore, there is no impact on the statement of income, because the gain or loss on the interest rate swap reflects the full amount of the gain or loss on the hedged item attributable to the hedged risk. The net effect of this accounting is that the interest of the fixed-rate securities being hedged generally reflects variable interest rates. During the year ended on December 31, 2002, the Corporation sold certain corporate bonds to which interest rate swap agreements with an aggregate notional principal balance of $53.2 million were attributable. Therefore, these swaps no longer qualify for hedge accounting, and an unrealized loss of $4.5 million was recorded to reflect changes in the fair value of these derivatives as part of derivative loss in the Other Income section of the statement of income.

Interest rate swaps with an aggregate notional principal balance of $25 million had an unrealized loss of $1,517,268 (2001 - $1,260,094 unrealized loss), attributable to credit risk, which was recorded in accumulated comprehensive income net of income tax.

Pay-fixed swaps at December 31, 2002 had a fixed weighted average rate payment of 6.53% (2001 - 7.14%) and a floating weighted average rate receiving of 3.53% (2001 -4.20%). Receive-fixed swaps at December 31, 2002, have a floating weighted average rate payment of 1.58% (2001 - 2.16%) and a fixed weighted average rate receiving of 5.60% (2001 -6.32%). Floating rates on pay fixed swaps range from 175 to 240 basis points over LIBOR and from minus 25 basis points to 7 over LIBOR rate on receive fixed swaps.

For swap transactions, the amounts potentially subject to credit loss are the net streams of payments under the agreements and not the notional principal amounts used to express the volume of the swaps. At December 31, 2002, the Corporation had total net receivable of $12,147,354 (2001 - $12,755,949) related to the swap transactions. The Corporation controls the credit risk of its interest rate swap agreements through approvals, limits, and monitoring procedures. The Corporation does not anticipate non-performance by the counter parties. The Corporation has a policy of diversifying swap counter parties to reduce the risk that any counter party will fail. As part of the swap transactions, the Corporation is required to pledge collateral in the form of deposits in banks or securities. The book value and aggregate market value of securities pledged as collateral for interest rate swaps at December 31, 2002 was approximately $42.1 million and $42.9 million, respectively (2001 - $48.1 million and $47.9 million, respectively). The final maturity of the swaps at December 31, 2002 ranged from one month through nineteen years (2001 - from one year through twenty years).

Interest rate swaps with an aggregate notional principal balance of $2,036,074,000 had a gross unrealized gain of approximately $27,021,907 and gross unrealized loss of $9,738,638 at December 31, 2002, which are included in the Other Assets category and Other Liabilities category, respectively.

INTEREST RATE PROTECTION AGREEMENTS (CAPS)

From time to time the Corporation also uses interest rate protection agreements
(Caps) to limit its exposure to rising interest rates on its deposits. Under these agreements, the Corporation pays an up front premium or fee for the right to receive cash flow payments in excess of the predetermined cap rate; thus, effectively capping its interest rate cost for the duration of the agreement. There were no caps agreements outstanding at December 31,2002

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

NOTE 30 - SEGMENT INFORMATION

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

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

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

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

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

The following table presents information about the reportable segments:

	Retail	Treasury and Investments	Commercial Corporate	Other	Total
			(In thousands)		
For the year ended December 31, 2002:					
Interest income	$ 230,141	$ 188,194	$ 121,698		$ 540,033
Net (charge) credit for transfer of funds	(46,552)	97,360	(50,808)		
Interest expense	(58,835)	(214,349)			(273,184)
Net interest income	124,754	71,205	70,890		266,850
Provision for loan losses	(43,090)		(19,212)		(62,302)
Other income	39,352	8,643	5,080	$ 5,417	58,492
Direct Operating Expenses	(74,357)	(2,227)	(6,439)	(697)	(83,721)
Segment income	46,659	77,621	50,319	4,720	179,319
Average earning assets	$ 2,410,548	$ 3,746,245	$ 2,258,025		$ 8,414,818
For the year ended December 31, 2001:					
Interest income	$ 217,021	$ 162,478	$ 136,757		$ 516,256
Net (charge) credit for transfer of funds	(21,043)	102,123	(81,081)		
Interest expense	(71,410)	(208,791)			(280,201)
Net interest income	124,568	55,810	55,676		236,055
Provision for loan losses	(44,541)		(16,489)		(61,030)
Other income	35,384	10,211	4,440	$ 2,945	52,980
Direct Operating Expenses	(69,198)	(1,844)	(5,664)	(362)	(77,069)
Segment income	46,213	64,177	37,963	2,583	150,936
Average earning assets	$ 1,970,768	$ 2,627,205	$ 1,781,314		$ 6,379,287
For the year ended December 31, 2000:					
Interest income	$ 222,950	$ 134,328	$ 106,110		$ 463,388
Net (charge) credit for transfer of funds	(12,582)	85,013	(72,431)		
Interest expense	(74,093)	(198,522)			(272,615)
Net interest income	136,275	20,819	33,679		190,773
Provision for loan losses	(28,084)		(17,635)		(45,719)
Other income	34,556	8,968	4,221	$ 2,287	50,032
Direct Operating Expenses	(69,369)	(1,922)	(5,010)	(318)	(76,619)
Segment income	73,378	27,865	15,255	1,969	118,467
Average earning assets	$ 1,893,699	$ 1,985,580	$ 1,110,608		$ 4,989,887

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

	Year ended December 31, 2001		
	2002	2001	2000
	(In thousands)		
Net income:			
Total income for segments	$ 179,319	150,936	$ 118,467
Other operating expenses	(49,036)	$ (43,786)	(36,430)
Income taxes	(22,327)	(20,134)	(14,761)
Income before cumulative effect of accounting change	107,956	87,016	67,276
Cumulative effect of accounting change		(1,015)	
Total consolidated net income	$ 107,956	$ 86,001	$ 67,276
Average assets:			
Total average earning assets for segments	$ 8,414,818	$ 6,379,287	$ 4,989,887
Average assets not assigned to segments	333,404	322,115	249,489
Total consolidated average assets	$ 8,748,222	$ 6,701,402	$ 5,239,376

NOTE 31 - LITIGATION

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

NOTE 32 - FIRST BANCORP (HOLDING COMPANY ONLY) FINANCIAL INFORMATION

The following condensed financial information presents the financial position of the Holding Company only at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years ended on December 31,2002,2001 and 2000.

STATEMENTS OF FINANCIAL CONDITION

Insurance Agency, at equity Other assets Total assets

Liabilities and Stockholders' Equity: Accounts payable and other liabilities Stockholders' equity Contingencies and commitments Total liabilities and stockholders' equity

	December 31,2002	December 31, 2001
	(In thousands)	
Assets:		
Cash and due from banks	$ 26,276	$ 17,422
Money market instruments	300	300
Investment securities available for sale, at market value:		
United States Government obligations		24,802
Other investments	42,674	35.507
Total investment securities available for sale	42.674	60.309
Investment securities held to maturity, at cost:		
United States Government obligations	5,700	
Total investment securities held to maturity	5,700	
Loans receivable	6,000	5,682
Investment in FirstBank Puerto Rico, at equity	718,480	515,623
Investment in FirstBank	1,445	371
Other Assets	726	3,383
Total Assets	$801,601	$603,090
Liabilities and Stockholders' Equity:		
Accounts payable and other liabilities	$ 3,177	$ 171
Stockholders' equity	798,424	602,919
Contingencies and commitments		

Total liabilities and stockholders' equity	$801,601	$603,090

STATEMENTS OF INCOME

	2002	2001	2000
Income:			
Interest income on investment securities	$ 351	$ 658	$ 776
Interest income on other investments	248	250	289
Interest income on loans	5,269	306	
Dividend from FirstBank	28,000	24,000	24,000
Other income	705	668	1,117
	34,573	25,882	26,182
Expenses:	2		25
Interest expense	709	559	487
Other operating expenses	711	559	512
Gain (loss) on sale of investments, net	(22,321)	1,093	7,134
Income before income taxes and equity in undistributed earnings of subsidiaries	11,541	26,416	32,804
Income taxes	2,250	170	209
Equity in undistributed earnings of subsidiaries	98,665	59,755	34,681
Net income	107,956	86,001	67,276
Other comprehensive income, net of tax	39,675	13,306	49,050
Comprehensive income	$ 147,631	$99,307	$116,326

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

STATEMENT OF CASH FLOWS

	Year ended December 31, 2002	2001	2000
Cash flows from operating activities:			
Net income	$ 107,956	$ 86,001	$ 67,276
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(98,662)	(59,755)	(34,681)
Net loss (gain) on sale of investments securities	22,321	(1,093)	(7,134)
Net (increase) decrease in other assets	(175)	(75)	120
Net increase (decrease) in other liabilities	2,069	(186)	(527)
Total adjustments	(74,447)	(61,109)	(42,222)
Net cash provided by operating activities	33,509	24,892	25,054
Cash flows from investing activities:			
Capital contribution to subsidiaries	(88,000)	(80,305)	(40,000)
Loans originated	(88,000)	(5,682)	
Purchases of securities available for sale	(1,235,145)	(24,203)	(50,119)
Sales and maturity of securities held to maturity and available for sale	1,240,079	10,227	44,807
Other investing activities	98,537	6,316	278
Net cash used in investing activities	(72,529)	(93,647)	(45,034)
Cash flows from financing activities:			
Net decrease in other borrowings			(865)
Proceeds from issuance on preferred stock	88,906	100,069	72,438
Exercise of stock options	1,341	1,355	94
Cash dividends paid	(42,373)	(30,343)	(19,212)
Treasury stock acquired		(1,930)	(30,087)
Net cash provided by financing activities	47,874	69,151	22,368
Net increase in cash	8,854	396	2,388
Cash and cash equivalents at the beginning of the year	17,722	17,326	14,938
Cash and cash equivalents at the end of the year	$ 26,576	$ 17,722	$ 17,326
Cash and cash equivalents include:			
Cash and due from banks	$ 26,276	$ 17,422	$ 17,026
Money market instruments	300	300	300
	$ 26,576	$ 17,722	$ 17,326

Stockholders' information

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

PricewaterhouseCoopers LLP

ANNUAL MEETING:

The annual meeting of stockholder will be held on April 29, 2003, at 2:00 p.m., at the main office of the Corporation located at 1519 Ponce de Leon Avenue, Santurce, Puerto Rico.

Telephone (787) 729-8200
Internet http://www.firstbankpr.com

ADDITIONAL INFORMATION AND FORM 10-K: Additional financial information about First BanCorp may be required to Mrs. Laura Villarino, Senior Vice President and Controller, PO Box 9146, Santurce, Puerto Rico 00908. First BanCorp's filings with the Securities and Exchange Commission (SEC) may be accessed in the web site maintained by the SEC at http://www.sec.gov and at out web site http://firstbankpr.com, First BanCorp section, Company Filings link.

TRANSFER AGENT AND REGISTRAR:

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

ADDRESS SHAREHOLDER INQUIRIES TO:

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

E-MAIL ADDRESS

shareowner-svcs@bankofny.com

THE BANK OF NEW YORK'S STOCK TRANSFER WEB SITE:

http://www.stockbny.com

SEND CERTIFICATES FOR TRANSFER AND ADDRESS CHANGES TO:

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

This Annual Report was prepared by ADWORKS

[PHOTO]

EXHIBIT 21.0

List of Subsidiaries
(Direct and Indirect)

Direct

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

Indirect

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

EXHIBIT 99.1

CERTIFICATION

Pursuant to 18 U.S.C. sec.1350, the undersigned officer of First BanCorp. (the “Company”) hereby certifies, to such officer’s knowledge, that the Annual Report on Form 10-K for the year ended December 31, 2002 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: 03/25 /03	/s/ Angel Alvarez-Pérez
	Angel Alvarez-Pérez, Esq. Chairman, President and Chief Executive Officer

EXHIBIT 99.2

CERTIFICATION

Pursuant to 18 U.S.C. sec.1350, the undersigned officer of First BanCorp. (the “Company”) hereby certifies, to such officer’s knowledge, that the Annual Report on Form 10-K for the year ended December 31, 2002 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: 03/25/03

/s/ Annie Astor-Carbonell

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

End of Filing