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2004 Annual Report

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First BanCorp

This annual report stands to the strength of our institution. To our ability to grow and reach higher to achieve our goals. With this important element of nature we provide a symbol of our solid foundation. One that has provided us with steady and consistent growth. That has proven our stability and verticality. And provides us with an impressive perspective of our financial performance.

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

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

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

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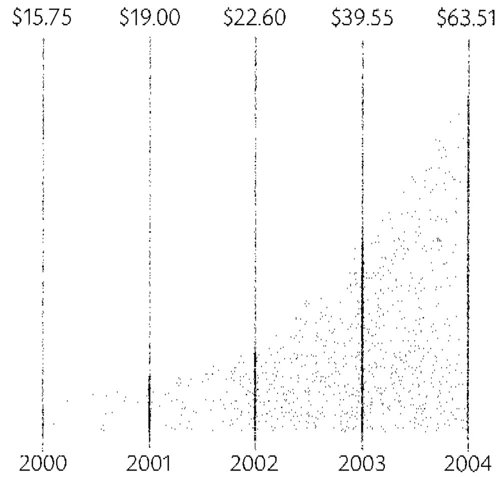
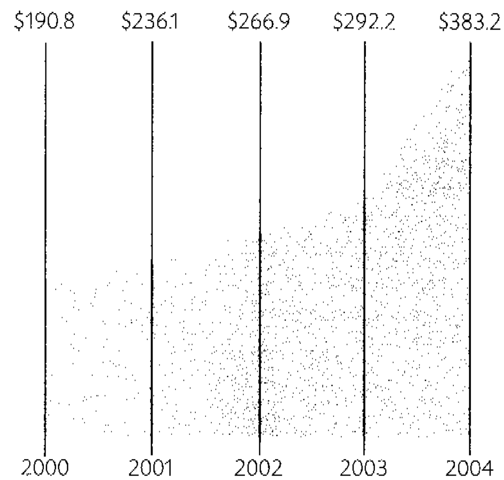
Financial Highlights

In thousands (except for per share results)	2004	2003
Operating results:		
Net interest income	$ 383,206	$ 292,210
Provision for loan losses	52,799	55,916
Gain on sale of credit card portfolio	5,533	30,885
Gain on sale of investments, net	9,457	34,856
Other income	55,843	52,969
Other operating expenses	180,436	163,991
Income tax provision	41,926	38,672
Net income	178,878	152,338
Per common share:		
Net income - basic	$ 3.44	$ 3.04
Net income - diluted	3.34	2.98
Weighted average common shares:		
Basic	40,209	39,994
Diluted	41,505	40,983
At year end:		
Assets	$ 15,619,817	$12,667,910
Loans	9,478,017	7,044,518
Allowance for loan losses	141,036	126,378
Investments	5,821,262	5,366,205
Deposits	7,902,982	6,765,107
Borrowings	6,310,624	4,646,115
Capital	1,222,911	1,089,569

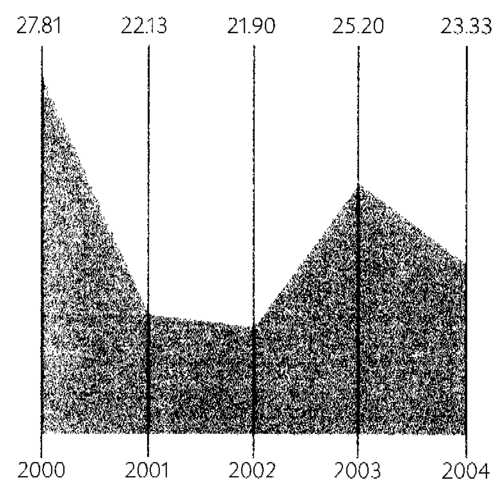
Market Price per Common Share (end of year)



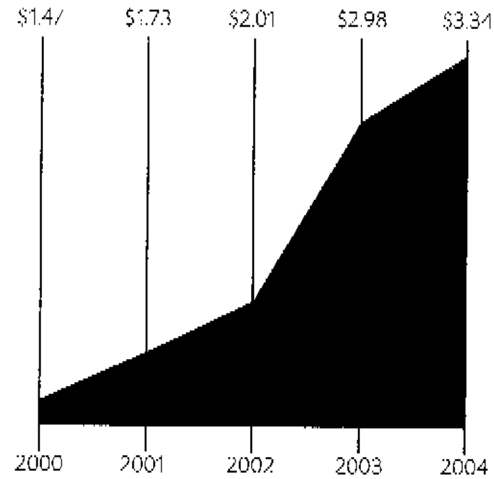
Net Interest Income (in millions)



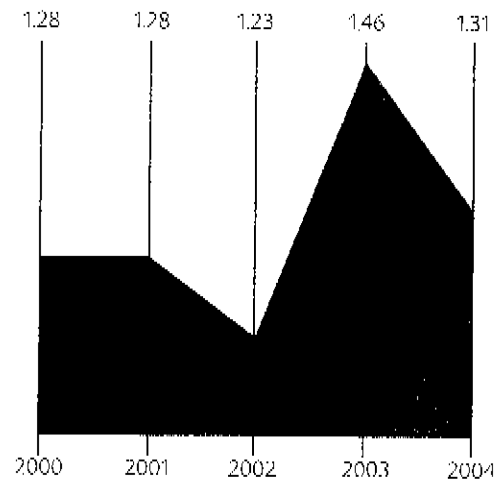
Return on Common Equity (in percent)



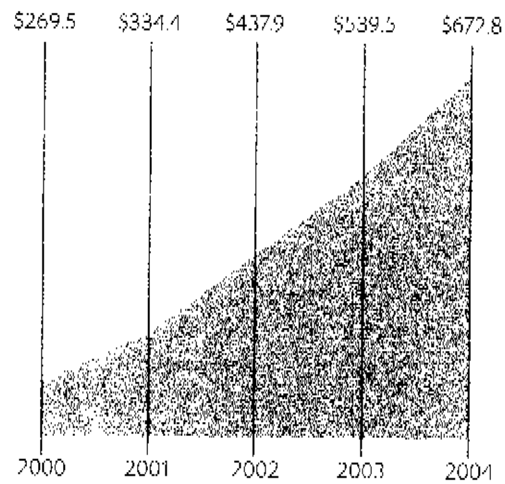
Diluted Earnings per Common Share



Return on Assets (in percent)



Common Stockholders' Equity (in millions)




First Bank
First Bank

Selected Financial Data

Since 1991 when current management took over, the Bank has transformed itself from First Federal Savings Bank, a small Savings and Loan institution with $1.9 billion in assets, into First BanCorp, a $15.6 billion financial holding company with a wide array of operations and expanded geography.

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

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

Selected Financial Data

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

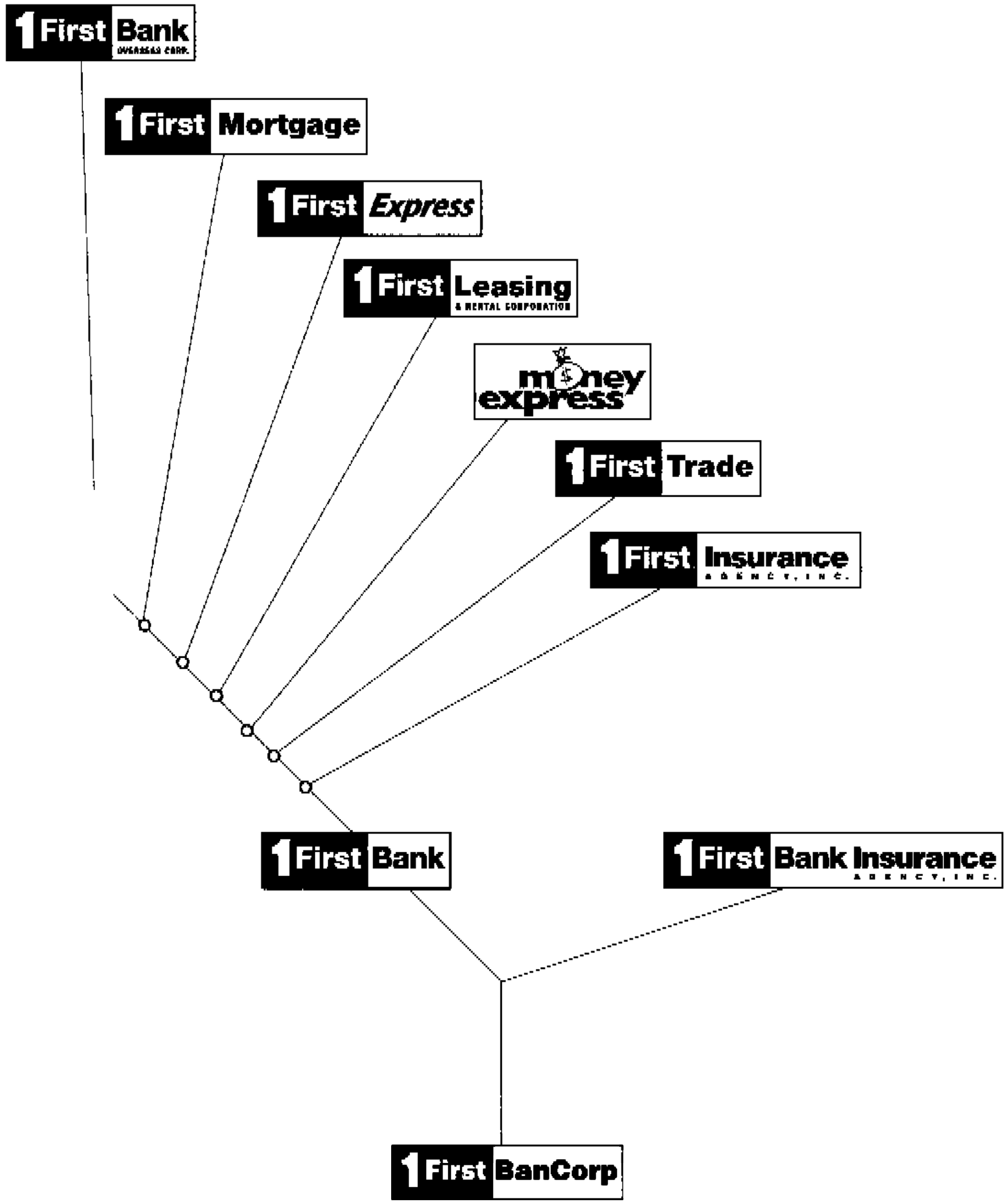
	2004	2003	2002	2001	2000
Condensed Income Statements: Year ended					
Total interest income	$ 676,390	$ 536,681	$ 540,033	$ 516,256	$ 463,388
Total interest expense	293,184	244,471	273,184	280,201	272,615
Net interest income	383,206	292,210	266,850	236,055	190,773
Provision for loan losses	52,799	55,916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

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

1999	1998	1997	1996	1995	1994	1993	1992	1991
$ 369,063	$ 371,298	$ 285,160	$ 256,523	$ 208,488	$ 180,309	$ 159,433	$ 158,993	$ 171,789
183,330	155,130	130,429	113,027	96,838	76,674	72,413	85,986	109,942
185,733	166,168	154,731	143,496	111,650	103,635	87,020	73,007	61,847
47,961	76,000	55,676	31,582	30,894	17,674	18,669	13,596	16,444
32,862	58,240	39,866	29,614	48,268	18,169	17,123	13,563	18,895
101,271	91,798	83,268	82,498	65,628	60,760	56,994	54,745	51,423
			9,115					
69,363	56,610	55,653	49,915	63,396	43,370	28,480	18,229	12,875
7,288	4,798	8,125	12,281	14,295	12,385	6,525	2,879	1,420
62,075	51,812	47,528	37,634	49,101	30,985	21,955	15,350	11,455
					(429)		(870)	(1,400)
						6,840		
62,075	51,812	47,528	37,634	49,101	30,556	28,795	14,480	10,055
$ 1.32	$ 1.16	$ 1.05	$ 0.81	$ 1.05	$ 0.67	$ 0.42	$ 0.25	$ 0.17
					(0.01)		(0.02)	(0.03)
						0.14		
$ 1.32	$ 1.16	$ 1.05	$ 0.81	$ 1.05	$ 0.66	$ 0.56	$ 0.23	$ 0.15
$ 1.33	$ 1.17	$ 1.05	$ 0.81	$ 1.07	$ 0.68	$ 0.63	$ 0.27	$ 0.17
$ 0.24	$ 0.20	$ 0.16	$ 0.13	$ 0.05	N/A	N/A	N/A	N/A
43,412	44,379	45,054	46,191	45,888	44,966	43,983	42,876	42,876
43,799	44,787	45,306	46,428	46,677	46,289	49,419	51,098	49,856
$ 2,745,368	$ 2,120,054	$ 1,959,301	$ 1,896,074	$ 1,556,606	$ 1,501,273	$ 1,237,928	$ 1,182,409	$ 1,264,380
71,784	67,854	57,712	55,254	55,009	37,413	30,453	30,474	29,001
1,811,164	1,800,489	1,276,900	830,980	785,747	595,555	603,373	636,781	564,431
4,721,568	4,017,352	3,327,436	2,822,147	2,432,816	2,174,692	1,913,902	1,888,754	1,898,399
2,565,422	1,775,045	1,594,635	1,703,926	1,518,367	1,493,445	1,398,247	1,359,448	1,396,066
1,803,729	1,930,488	1,461,581	889,668	700,609	538,080	400,977	415,257	408,414
204,902	270,368	236,379	191,142	171,202	120,015	92,785	50,194	38,410
294,902	270,368	236,379	191,142	171,202	120,015	92,785	88,622	74,146
4.87	6.11	5.29	4.21	3.67	2.66	2.09	1.17	0.90
16.16	17.39	17.26	15.25	16.17	9.76	9.05	9.32	7.08
11.64	11.55	11.07	9.32	9.93	8.50	7.79	8.06	5.75
7.47	6.59	7.44	6.65	6.82	5.74	4.70	4.60	3.74
1.49	1.48	1.63	1.48	2.22	1.53	1.53	0.78	0.53
4.29	4.76	5.30	5.46	5.07	5.23	4.73	3.66	3.19
4.85	5.27	5.83	6.03	5.59	5.65	5.10	4.04	3.39
9.29	9.83	10.45	10.63	10.12	9.63	9.10	8.80	9.41
5.00	5.07	5.15	5.17	5.05	4.40	4.37	5.14	6.22
21.06	20.54	22.30	20.49	33.19	29.07	30.36	17.70	14.38
24.68	20.54	22.30	20.49	33.19	29.07	39.68	26.37	20.20
7.07	7.22	7.32	7.23	6.68	5.27	5.05	4.38	3.67
17.96	17.12	15.14	16.32	5.06	N/A	N/A	N/A	N/A
46.33	40.91	42.79	47.66	41.04	49.88	54.73	63.24	63.69
$ 13.83	$ 20.13	$ 11.35	$ 8.67	$ 7.46	$ 3.89	$ 3.69	$ 1.56	$ 0.61
48	40	36	36	36	32	33	33	33

Coral Gables, FL.

Corporate Structure



Offices

45 FirstBank Puerto Rico Branches

31 Money Express

[illegible] First Express, Inc.

11 FirstBank USVI Branches

[illegible] FirstMortgage, Inc.

03 First Insurance Agency, Inc.

01 FirstBank BVI Branch

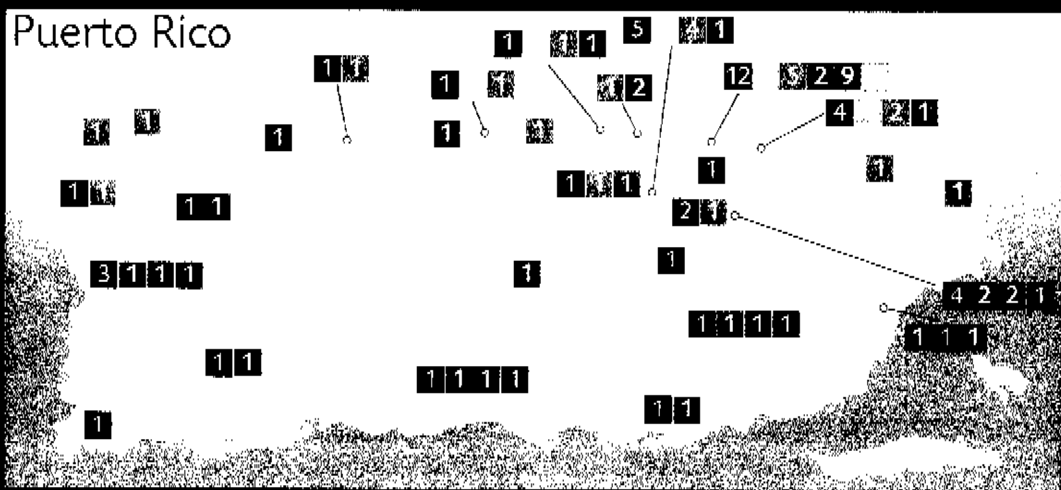
12 FirstBank Insurance Agency, Inc.

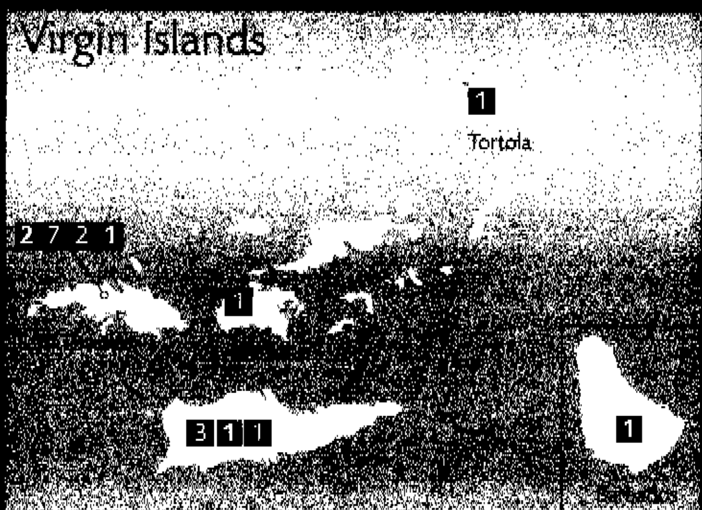
02 First Trade, Inc.

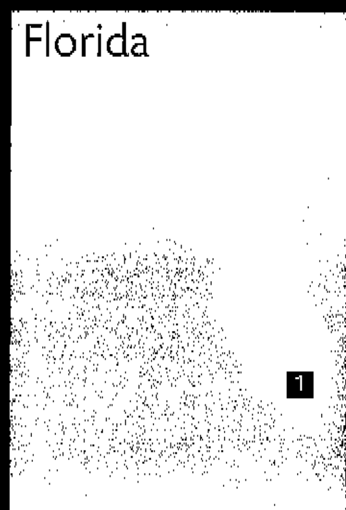
01 FirstBank-Florida Agency

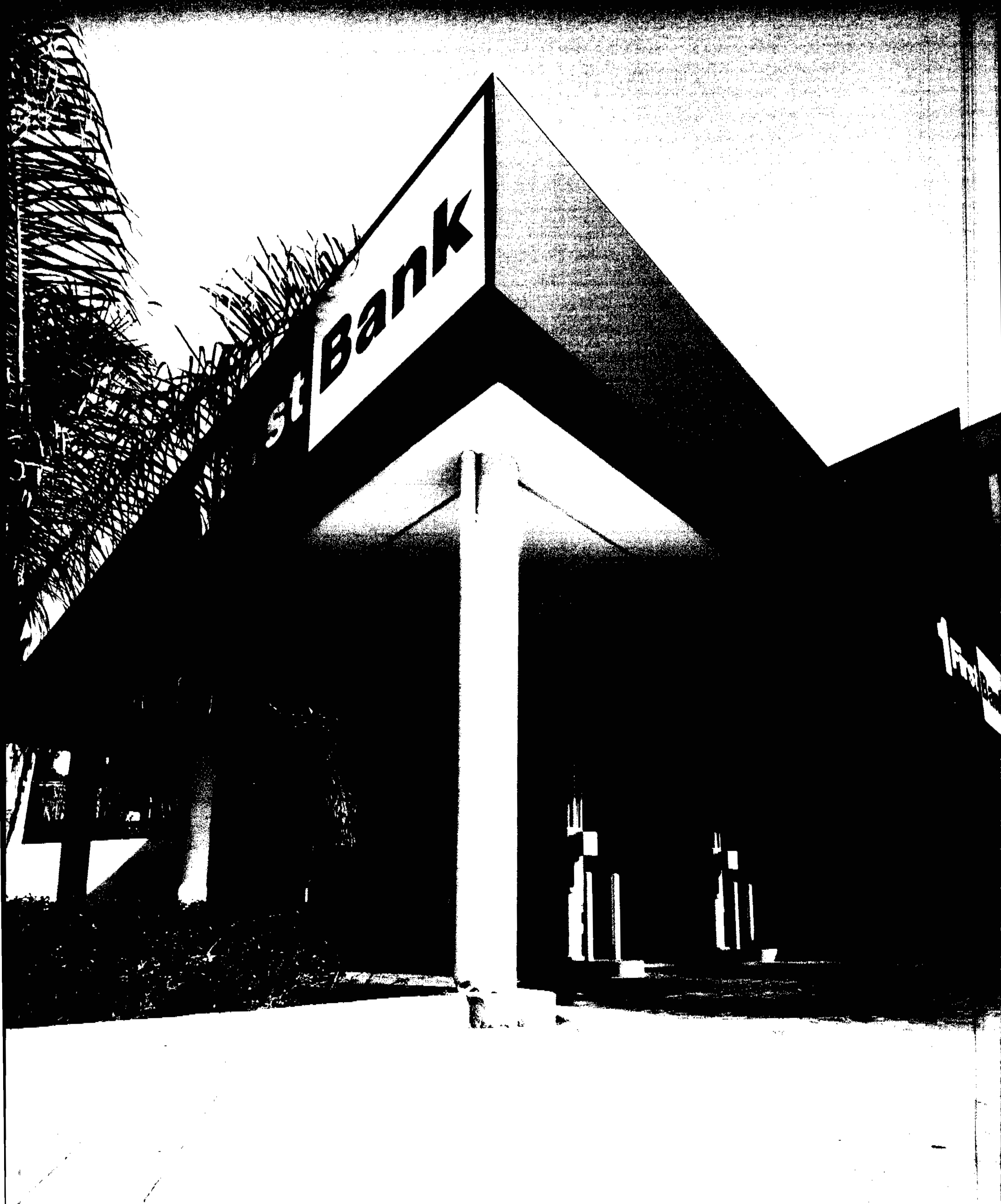
09 First Leasing and Rental Corporation

[illegible] FirstBank Overseas Corp.


Puerto Rico


Virgin Islands
Tortola


Florida



St. Thomas, USVI

Business Profile

First BanCorp ("the Corporation") is a publicly-owned, Puerto Rico-chartered financial holding company that is subject to regulation, supervision and examination by the Federal Reserve Board. First BanCorp operates two direct wholly-owned subsidiaries: FirstBank Puerto Rico ("FirstBank or the Bank") and FirstBank Insurance Agency, Inc. In addition, First BanCorp owns sixty percent of "Grupo Empresas de Servicios Financieros" (d/b/a PR Finance Group), an auto loan finance company with focus on the used car market. FirstBank is a Puerto Rico-chartered commercial bank and FirstBank Insurance Agency is a Puerto Rico-chartered insurance agency. FirstBank is subject to the supervision, examination and regulation of both the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico and the Federal Deposit Insurance Corporation. Deposits are insured through the Savings Association Insurance Fund. The Virgin Islands operations of FirstBank are subject to regulation and examination by the United States Virgin Islands Banking Board and by the British Virgin Islands Financial Services Commission. FirstBank Insurance Agency, Inc. is subject to supervision, examination and regulation by the Office of the Insurance Commissioner of the Commonwealth of Puerto Rico.

First BanCorp is engaged in the banking business and provides a wide range of financial services for retail, commercial and institutional clients. First BanCorp had total assets of $15.6 billion, total deposits of $7.9 billion and total stockholder's equity of $1.2 billion as of December 31, 2004. Based on total assets, First BanCorp is the second largest locally owned financial holding company headquartered in the Commonwealth of Puerto Rico and the second largest depository institution in Puerto Rico.

FirstBank conducts its business through its main offices located in San Juan, Puerto Rico, forty-five full service banking branches in Puerto Rico, twelve branches in the United States Virgin Islands (USVI) and British Virgin Islands (BVI) and a loan agency in Coral Gables, Florida (USA). FirstBank has four wholly-owned subsidiaries with operations in Puerto Rico; First Leasing and Rental Corporation, a vehicle leasing and daily rental company with nine offices in Puerto Rico; First Federal Finance Corp. (d/b/a Money Express La Financiera), a finance company with thirty-one offices in Puerto Rico; FirstMortgage, Inc., a residential mortgage loan origination company with twenty-three offices in FirstBank branches and at stand alone sites and FirstBank Overseas Corporation, an international banking entity under the International Banking Entity Act of Puerto Rico. FirstBank has three subsidiaries with operations outside of Puerto Rico; First Insurance Agency, Inc., an insurance agency with three offices that sell insurance products in the USVI, First Trade, Inc., which provides foreign sales corporation management services with an office in the USVI and an office in Barbados and First Express, Inc., a small loans company with three offices in the USVI.

San Patricio, P.R.

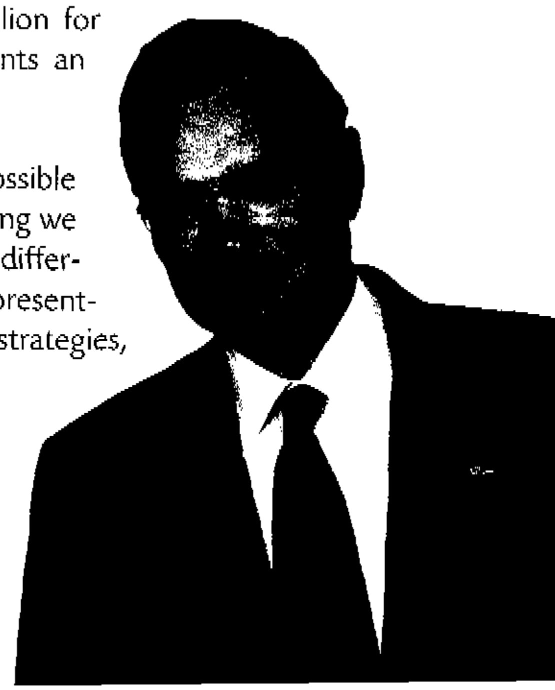
President's Letter

Dear Stockholders:

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

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

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



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

Financial Performance and Shareholder Value

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

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

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

Strong Asset Quality

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

Sources of Funds

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

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

Highly Efficient Operation

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

Strengthening Market Presence, New Products and Services

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

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

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

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

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

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

Corporate Citizenship

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

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

Disciplined Risk Management

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

Building a Great Culture

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

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

The Future

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

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

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

Angel Alvarez-Pérez
Chairman, President, Chief Executive Officer

Mayagüez, PR

Economy

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

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

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

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

Board of Directors

1

2

3

4

5

Ángel Álvarez-Pérez
Chairman of the Board of Directors
1

José L. Ferrer-Canals
2

Annie Astor-Carbonell
3

José Teixidor-Méndez
4

José Julián Álvarez-Bracero
5


6


7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9

Richard Reiss-Huyke
6

Sharee Ann Umpierre Catinchi
7

Jorge L. Díaz Irizarry
8

José Menéndez Cortada
9

Officers


1


2


3


4


5


6

Angel Alvarez-Pérez
1

Annie Astor-Carbonell
2

Luis M. Beauchamp
3

Aurelio Alemán
4

Fernando L. Batlle
5

Randolfo Rivera
6


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14

Dacio A. Pasarell
7

Cassan A. Pancham
8

Luis M. Cabrera
9

Alan Cohen
10

Aida M. García
11

Miguel Mejías
12

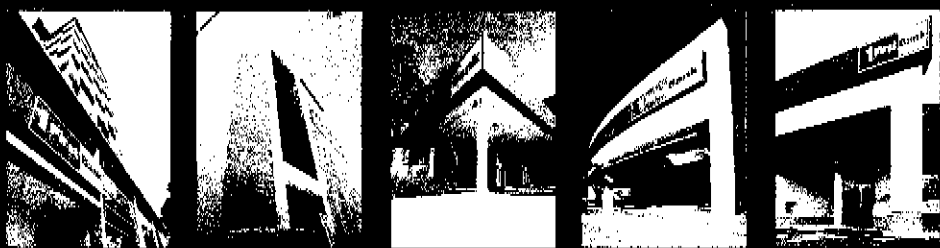
Carmen G. Szendrey Ramos
13

Laura Villarino
14

President	Angel Alvarez-Pérez	*Chief Executive Officer*
Senior Executive Vice Presidents	Annie Astor-Carbonell	*Chief Financial Officer*
	Luis M. Beauchamp	*Wholesale Banking Executive and Chief Lending Officer*
Executive Vice Presidents	Aurelio Alemán	*Consumer Banking Executive*
	Fernando L. Batlle	*Retail and Mortgage Banking Executive*
	Dacio A. Pasarell	*Operations and Technology Executive*
	Randolfo Rivera	*Commercial Banking Executive*
First Senior Vice President	Cassan A. Pancham	*Eastern Caribbean Region Executive*
Senior Vice Presidents	José H. Aponte	*Commercial Mortgage Lending*
	Miguel Babilonia	*Consumer Risk Management*
	Luis M. Cabrera	*Treasury and Investments*
	Salvador Calaf	*Commercial Banking*
	Alan Cohen	*Marketing and Public Relations*
	Aida M. García	*Human Resources*
	Michael García	*Consumer Collection*
	Roger Lay	*Internal Audit*
	Emilio Martinó	*Credit Risk Management*
	Miguel Mejías	*Information Systems*
	Carmen Nigaglioni	*Commercial Department*
	John Ortiz	*Consumer Products and Credit Cards*
	James Partridge	*Florida Agency*
	Jorge Rendón	*Facilities Management*
	Haydeé Rivera	*Branch Banking Operations*
	Julio Rivera	*Construction Lending*
	Nayda Rivera	*General Auditor*
	Carmen Rocafort	*Corporate and Structured Finance*
	Demetrio Santiago	*Auto Wholesale*
	Héctor Santiago	*Auto Business and Operations*
	Ingrid Schmidt	*Mortgage Banking*
	Denise Segarra	*Sales and Distribution*
	Luis Sueiro	*Commercial Wholesale Operations*
	Carmen G. Szendrey-Ramos	*General Counsel and Secretary of the Board of Directors*
	Laura Villarino	*Controller*

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

Financial Review



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

Forward Looking Statements

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

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

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

Overview

First BanCorp is the financial holding company of FirstBank ("FirstBank or the Bank"); a commercial bank headquartered in San Juan, Puerto Rico. First BanCorp, the second largest financial holding company headquartered in San Juan, Puerto Rico, had $15.6 billion in assets at December 31, 2004 and operates full-service banking branches in Puerto Rico and in the U.S. Virgin Islands (USVI) and British Virgin Islands (BVI). Since October 2004, the Bank also operates a loan agency in Coral Gables, Florida (USA). In addition, the holding company owns an insurance agency. The Bank through its wholly-owned subsidiaries, operates offices in Puerto Rico specializing in residential mortgage loans originations, small personal loans, finance leases and vehicle rental, and subsidiaries in the USVI and Barbados specializing in insurance agency services, small personal loans and foreign sales corporation management.

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

Financial Highlights

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

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

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

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

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

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

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

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

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

Corporation's subsidiary, FirstBank, started operations in Coral Gables, Florida, through the establishment of a loan agency.

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

In 2003 the Corporation's subsidiary Bank entered into a long-term strategic marketing alliance with MBNA Corporation. As part of the alliance, FirstBank became an MBNA Financial Institution Partner in Puerto Rico and is the only Puerto Rico based financial institution whose credit cards are issued by MBNA. As before mentioned and in accordance with agreement reached in 2003, FirstBank sold credit card loan portfolios to MBNA in late 2003 and in the first quarter of 2004; these sales generated before tax gains of $30.9 million and $5.5 million in 2003 and 2004, respectively.

The following table provides a reconciliation of financial information, as reported under accounting principles generally accepted in the United States of America (GAAP), to information excluding the after tax effect of the gains on sale of the credit card loans to MBNA in 2004 and 2003. Management believes this presentation is useful to investors as it provides information excluding the effect of the gain on these sales, both of which were made pursuant to the agreement reached in 2003. The presentation below has a limitation in the fact that these gains may not be recurring in future periods.

First BanCorp
(Dollars in thousands except per share and financial ratios data)

Year ended December 31, 2004

	Earnings for Year	Basic EPS	Diluted EPS	ROA	ROCE	Efficiency Ratio
Under GAAP as reported	$ 178,878	$ 3.44	$ 3.34	1.31%	23.33%	39.74%
Effect of the after tax gain on the sale of a small credit card portfolio of the subsidiary bank	(3,375)	(0.08)	(0.08)	(0.02%)	(0.57%)	0.30%
Excluding effect stated above	$ 175,503	$ 3.36	$ 3.26	1.29%	22.76%	40.04%

Year ended December 31, 2003

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

Critical Accounting Policies and Practices

The accounting and reporting policies of the Corporation and its subsidiaries conform to accounting principles generally accepted in the United States of America. A summary of accounting policies and recently issued accounting pronouncements is included in Note 2 to the Corporation's financial statements. The reported amounts are based on judgments, estimates and assumptions made by Management that affect the recorded assets and liabilities and contingent assets and liabilities disclosed 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. The Corporation believes that of its significant accounting policies the following involve a higher degree of judgment:

Investments Classification and Valuation

The Corporation classifies its investments in debt and equity securities as trading, held to maturity and available for sale securities at the time of purchase. The available for sale securities are carried at fair value, with unrealized holding gains and losses, net of deferred tax effects, reported in other comprehensive income as a separate component of stockholders' equity. The fair values of these securities were calculated based on quoted market prices and dealer quotes. Changes in the assumptions used in calculating the fair values such as interest rates, estimated prepayments rates for such securities subject to prepayment risk and discount rates could affect the reported valuations. Held to maturity securities are accounted for at amortized cost. Trading securities, if any, are reported at fair value with unrealized gains and losses included in earnings.

Evaluation for Other-Than-Temporary Impairment on Available for Sale and Held to Maturity Securities

The Corporation evaluates its investment securities for impairment. An impairment charge in the Consolidated

Statements of Income is recognized when the decline in the fair value of investments below their cost basis is judged to be other-than-temporary. The Corporation considers various factors in determining whether it should recognize an impairment charge, including but not limited to, the length of time and extent to which the fair value has been less than its cost basis and the Corporation's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. For debt securities, the Corporation also considers, among other factors, the obligor's repayment ability on its bond obligations and its cash and capital generation ability.

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 and homogeneous loans are collectively evaluated for impairment. The portfolios of residential mortgage loans, consumer loans, auto loans and finance leases are considered homogeneous and are evaluated collectively for impairment. In determining probable losses for each category of homogeneous pools of loans, Management uses historical information about loan losses over several periods of time that reflect varying economic conditions and adjusts such historical data based on the current conditions, considering information and trends on charge-offs, non-accrual loans, changes in underwriting policies, risk characteristics relevant to the particular loan category and delinquencies. The Corporation measures impairment individually for those commercial and real estate loans with a principal balance exceeding $1 million. An allowance for impaired loans is established based on the present value of expected future cash flows or the fair value of the collateral, if the loan is collateral dependent. Accordingly, the measurement of impairment for loans evaluated individually involves assumptions by Management as to the amount and timing of cash flows to be recovered and of appropriate discount rates. When the loans are collateral dependent, the fair value of the collateral is based on an independent appraisal that may also involve estimates of future cash flows and appropriate discount rates or adjustments to comparable properties.

The Corporation's primary lending area is Puerto Rico. The Corporation's subsidiary Bank also lends in the U.S. and British Virgin Islands markets and in the U.S. market through its loan agency located in Coral Gables, Florida. At December 31, 2004, 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 assumptions differ from Management's assumptions, the result and adjustments required could have a material effect on the Corporation's results of operation. There are currently no open income tax investigations. Information regarding income taxes is included in Note 25 to the Corporation's financial statements.

Derivatives Financial Instruments

The Corporation maintains an overall interest-rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by changes in interest-rates. The Corporation's goal is to manage interest-rate sensitivity by modifying the repricing characteristics of certain balance sheet assets and liabilities ("hedged assets and liabilities") so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. As a result of interest-rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation will generally be offset by income or loss on the derivative instruments that are linked to the hedged assets and liabilities. Unrealized gains or losses that reflect changes in fair value of derivatives not qualifying for hedge accounting are recognized in earnings in Other Income as "Derivatives gain (loss)" and recorded in the Other Asset and Other Liabilities categories, as applicable. The estimated fair values of derivatives instruments held by the Corporation are obtained from dealer quotes. Information regarding derivatives instruments is included on Note 29 to the Corporation's financial statements.

Accounting Pronouncements

During 2004, the Financial Accounting Standards Board (FASB), its Emerging Issues Task Force (EITF) and the SEC issued several accounting pronouncements, namely FASB Statement no. 123R, *Share-Based Payment*, EITF Issue no. 04-10, *Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds*, EITF Issue no. 03-01, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, FASB Statement of Position (SOP) No. 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, and SEC Staff Accounting Bulletin (SAB) no. 105, *Application of Accounting Principles to Loan Commitments*. Refer to Note 2 to Corporation's financial statements for a summary of the major provisions of these pronouncements. The Corporation's results of operations could be affected by the effect of new accounting pronouncements issued in the future.

Results of Operations

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

Net Interest Income

Net interest income increased to $383.2 million for 2004 from $292.2 million in 2003 and $266.8 million in 2002. The increase in net interest income for the year 2004 was mainly driven by volume increases of $3.2 billion in the Corporation's loan and investment portfolios, especially residential estate loans, commercial loan portfolios and government agency securities.

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,	2004	2003	2002	2004	2003	2002	2004	2003	2002
				(Dollars in thousands)					
Earning assets:									
Money market investments	$ 308,962	$ 455,866	$ 60,522	$ 3,736	$ 4,494	$ 999	1.21%	0.99%	1.65%
Government obligations (2)	2,061,280	850,516	1,236,281	133,790	48,912	56,130	6.49%	5.75%	4.54%
Mortgage backed securities	2,800,638	2,257,617	2,144,236	155,372	116,778	147,779	5.55%	5.17%	6.89%
Corporate bonds	57,462	181,063	259,840	2,007	7,792	15,493	3.49%	4.30%	5.96%
FHLB stock	56,699	40,447	32,586	974	1,206	1,635	1.72%	2.98%	5.02%
Total investments (3)	5,285,041	3,785,509	3,733,465	295,879	179,182	222,036	5.60%	4.73%	5.95%
Consumer loans	1,255,246	1,198,964	1,048,283	150,980	152,937	142,612	12.03%	12.76%	13.60%
Residential real estate loans	3,538,419	2,286,809	1,283,710	149,984	107,777	74,411	4.24%	4.71%	5.80%
Construction loans	380,816	314,588	223,627	19,432	14,824	11,726	5.10%	4.71%	5.24%
Commercial loans	2,586,103	2,340,744	2,080,892	110,640	101,293	110,315	4.28%	4.33%	5.30%
Finance leases	185,966	150,832	136,851	16,661	14,670	14,659	8.96%	9.73%	10.71%
Total loans (4)	7,946,550	6,291,937	4,773,363	447,697	391,501	353,723	5.63%	6.22%	7.41%
Total earning assets	$13,231,591	$10,077,446	$ 8,506,828	$743,576	$570,683	$575,759	5.62%	5.66%	6.77%
Interest bearing liabilities:									
Interest bearing checking accounts	$ 317,633	$ 259,447	$ 215,462	$ 3,688	$ 3,426	$ 5,146	1.16%	1.32%	2.39%
Savings accounts	1,020,229	922,887	609,324	10,939	11,849	14,603	1.07%	1.28%	2.40%
Certificate accounts	5,099,139	4,158,111	3,622,918	107,409	97,266	113,486	2.11%	2.34%	3.13%
Interest bearing deposits	6,437,001	5,340,445	4,447,704	122,036	112,541	133,235	1.90%	2.11%	3.00%
Other borrowed funds	4,236,416	2,965,714	2,868,212	143,479	112,512	123,925	3.39%	3.79%	4.32%
FHLB advances	1,056,325	633,692	339,477	27,668	19,418	16,024	2.62%	3.06%	4.72%
Total interest bearing liabilities	$11,729,742	$ 8,939,851	$ 7,655,393	$293,183	$244,471	$ 273,184	2.50%	2.73%	3.57%
Net interest income				$450,393	$326,212	$ 302,575			
Interest rate spread							3.12%	2.93%	3.20%
Net interest margin							3.40%	3.24%	3.56%

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

(2) Government obligations includes debt issued by government sponsored agencies.

(3) Valuation in investments available for sale is excluded from the average volumes. Equity securities, other than FHLB stock, are not included on this analysis.

(4) Non-accruing loans are included in the average balances, however, uncollected interest on these loans is excluded from this analysis.

Part II	2004 compared to 2003 Increase (decrease) Due to:			2003 compared to 2002 Increase (decrease) Due to:		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Earning assets:						
Money market investments	$ (1,612)	$ 854	$ (758)	$ 5,212	$ (1,717)	$ 3,495
Government and agency obligations	77,828	7,050	84,878	(19,856)	12,638	(7,218)
Mortgage-backed securities	29,654	8,940	38,594	6,839	(37,840)	(31,001)
Corporate bonds	(4,534)	(1,251)	(5,785)	(4,015)	(3,686)	(7,701)
FHLB stock	382	(614)	(232)	314	(743)	(429)
Total investments	101,718	14,979	116,697	(11,506)	(31,348)	(42,854)
Consumer loans	6,975	(8,932)	(1,957)	19,860	(9,535)	10,325
Residential real estate loans	56,021	(13,814)	42,207	52,710	(19,345)	33,365
Construction loans	3,307	1,301	4,608	4,528	(1,430)	3,098
Commercial loans	10,558	(1,211)	9,347	12,511	(21,533)	(9,022)
Finance leases	3,283	(1,292)	1,991	1,429	(1,416)	13
Total loans	80,144	(23,948)	56,196	91,038	(53,259)	37,779
Total interest income	181,862	(8,969)	172,893	79,532	(84,607)	(5,075)
Interest bearing liabilities:						
Deposits	21,949	(12,454)	9,495	22,778	(43,472)	(20,694)
Other borrowed funds	45,622	(14,655)	30,967	3,956	(15,369)	(11,413)
FHLB advances	12,011	(3,761)	8,250	11,452	(8,058)	3,394
Total interest expense	79,582	(30,870)	48,712	38,186	(66,899)	(28,713)
Change in net interest income	$ 102,280	$ 21,901	$ 124,181	$ 41,346	$ (17,708)	$ 23,638

Total interest income includes tax equivalent adjustments based on the Puerto Rico statutory income tax rate of $67.2 million, $34.0 million and $35.7 million for 2004, 2003, and 2002, respectively. The adjustments have been made primarily on debt securities (mainly United States and Puerto Rico government obligations), mortgage backed securities and on loans guaranteed by United States Virgin Islands and Puerto Rico government agencies which are generally exempt for income tax purposes, also on interest earning assets held by the international banking entities of the Corporation. See related information in the Income Tax Expense section of this Management Discussion and Analysis. The computation considers the interest expense disallowance required by Puerto Rico tax law.

On a tax equivalent basis, net interest income increased to $450.4 million for 2004 from $326.2 million for 2003, and $302.6 million for 2002. The interest rate spread and net interest margin amounted to 3.12% and 3.40%, respectively, for 2004, as compared to 2.93% and 3.24%, respectively, for 2003 and to 3.20% and 3.56%, respectively, for 2002.

2004 compared to 2003

On a tax equivalent basis, interest income increased by $172.9 million for 2004 as compared to 2003. The tax equivalent yield on interest earning assets was 5.62% for 2004 as compared to 5.66% for 2003. While the tax equivalent yield on the investment's portfolio increased to 5.60% as compared to 4.73% for 2003, due to the reinvestment of proceeds from prepayments on mortgage backed securities and to new investments in higher yielding long-term securities; the tax equivalent yield on the loan portfolio decreased to 5.63% for 2004 as compared to 6.22% for 2003, due to the repricing of variable rate loans and to the purchase and origination of loans at lower rates.

Significant volume increases in the Corporation's loan portfolio partially offset by negative variances due to rate, mainly in the residential estate and consumer portfolios, contributed significantly to interest income for 2004. As shown in Part I, the Corporation experienced continuous growth of its loan portfolios. Average loans increased by $1.7 billion compared to 2003. Residential real estate loans and commercial loans, accounted for the largest growth in the portfolio, with average volumes rising $1.3 billion and $245.4 million, respectively. For the loan portfolio, the growth in average volume driven by the origination and purchase of loans represented a positive increase of $80.1 million in interest income on loans due to volume. The negative $23.9 million decrease in interest income on loans due to rate, mentioned earlier, is mainly attributed to the floating rate characteristics of a substantial portion of the Corporation's portfolio and to the purchase and origination of new loans at lower rates. At December 31, 2004, 88% of the commercial, 71% of the residential mortgage and 100% of the construction loan portfolios have floating rates.

Significant volume increases in the Corporation's investment portfolio and positive rate variances, mainly in the mortgage-backed securities and government obligations portfolio, contributed significantly to interest income for 2004. Average investment securities increased by $1.5 billion. During the first quarter of 2004, the Corporation maintained a portion of its investments portfolio, mostly the proceeds of prepayments on mortgage backed securities, in short term instruments, awaiting an opportunity to reenter the longer-term investment market. With the increase in long-term rates during the latter part of the first quarter of 2004, the Corporation reentered the long-term investment market by purchasing $1.6 billion in higher yielding 15 to 25 year callable agency securities, of which $306.8 million were called during the fourth quarter of 2004. Most of the purchases were made during the second quarter of 2004. Since the purchases of these higher yielding securities, interest income increased significantly. These purchases accounted for the most part of positive variances in interest income from investments due to volume and due to rate. The growth in the average balance of investments represented a positive increase in interest income on investments due to volume of $101.8 million. The positive variance in interest income on investments due to rate, mainly due to higher yielding government agency securities, amounted to $14.9 million.

On the liabilities side the Corporation benefited from the re-pricing of short-term liabilities and by the origination of new short term (i.e. deposits and repurchase agreements) and long-term (i.e. long-term repurchase agreements and other advances) liabilities at lower rates. Interest expense increased by $ 48.7 million for 2004 as compared to 2003, mainly due to volume increases in interest bearing liabilities to support the Corporation's investment and loan portfolios growth. The increase in the average volume of interest bearing liabilities, to fund the investment's and loan portfolios growth, resulted in an increase in interest expense due to volume of $79.6 million. The increase in interest expense due to volume variance was partially offset by decreases in rate given the re-pricing and origination of interest bearing liabilities at lower rates, as explained above, which resulted in a decrease in interest expense due to rate of $30.9 million. The cost of interest bearing liabilities decreased from 2.73% for 2003 to 2.50% for 2004.

In summary, positive variances resulting from an increase in average earning assets, higher yields on the investment's portfolio and lower cost of funds were partially offset by a decrease in the loan portfolio interest yields. The net impact on net interest income and earnings was positive, on a rate/volume basis the Corporation's net interest income (on tax equivalent basis) increased by $124.2 million, as a result of positive volume and rate variances of $102.3 million and $21.9 million, respectively. The net interest margin increased from 3.24% for the year 2003 to 3.40% for 2004.

2003 compared to 2002

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

The variances due to rate were partially offset by significant volume increases in the Corporation's lending operations. As shown in Part I, the Corporation experienced continuous growth of its loan portfolios. Average loans increased by $1.5 billion compared to 2002. Residential real estate loans and commercial loans accounted for the largest growth in the portfolio, with average volumes rising $1.0 billion and $259.9 million, respectively. For the loan portfolio, the growth in average volume represented a positive increase of $91 million in interest income due to volume. The negative $53.3 million decrease in interest income due to rate, mentioned earlier, is mainly attributed to the floating rate characteristics of a substantial portion of the Corporation's portfolio and to the origination of new loans in a lower rate environment. At December 31, 2003, 75% of the commercial, 60% of the residential mortgage and 90% of the construction portfolios have floating rates.

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

On the liabilities side the Corporation benefited from a low interest rate environment, as the cost of funds decreased when short term liabilities re-priced and new short-term (i.e. deposits and repurchase agreements) and long-term (i.e. long-term repurchase agreements and other advances) liabilities were originated at lower rates. Interest expense decreased by $28.7 million for 2003 as compared to 2002. This was the result of the decrease in the average rates of interest bearing liabilities, which generated a positive rate variance of $66.9 million, which was partially offset by increases in the average volume of liabilities to support the Corporation's growth.

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

Provision for Loan Losses

During 2004, the Corporation provided $52.8 million for loan losses, as compared to $55.9 million in 2003 and $62.3 million in 2002. The decrease in the provision is mainly attributed to lower charge offs as a result of diversification into secured lending, such as residential mortgage loans and commercial loans with real estate collateral. Net charge offs amounted to $38.1 million for 2004, $41.4 million for 2003, and $41.5 million for 2002. The ratio of net charge offs to average loans outstanding for 2004 has improved to 0.48% as compared to 0.66% and 0.87% for 2003 and 2002, respectively. The improvement, when compared to recent historical data, is attributed to improvements in the Corporation's underwriting standards, credit administration policies and an effective risk management infrastructure as well as the diversification into secured lending.

The allowance activity for 2004, and previous four years was as follows:

Year ended December 31,	2004	2003	2002	2001	2000
			(Dollars in thousands)		
Allowance for loan losses, beginning of year	$ 126,378	$ 111,911	$ 91,060	$ 76,919	$ 71,784
Provision for loan losses	52,799	55,916	62,302	61,030	45,719
Loans charged off:					
Residential real estate	(254)	(475)	(555)	(192)	
Commercial and Construction	(6,190)	(6,488)	(4,643)	(9,523)	(3,463)
Finance leases	(2,894)	(2,424)	(2,532)	(2,316)	(2,145)
Consumer	(34,704)	(38,745)	(41,261)	(42,349)	(46,223)
Recoveries	5,901	6,683	7,540	7,391	9,807
Net charge offs	(38,141)	(41,449)	(41,451)	(46,989)	(42,024)
Other adjustments				100	1,440
Allowance for loan losses, end of year	$ 141,036	$ 126,378	$ 111,911	$ 91,060	$ 76,919
Allowance for loan losses to year end total loans	1.49%	1.80%	1.99%	2.12%	2.20%
Net charge offs to average loans outstanding during the period	0.48%	0.66%	0.87%	1.22%	1.36%

The Corporation maintains the allowance for loan losses at a level that Management considers adequate to absorb probable losses inherent in the loan portfolio. The adequacy of the allowance for loan losses is reviewed on a quarterly basis as part of the continuing evaluation of the quality of the assets. This evaluation is based upon a number of factors, including the following: historical loan loss experience, projected loan losses, loan portfolio composition, current economic conditions, changes in underwriting process, fair value of the underlying collateral, financial condition of the borrowers, and, as such, includes amounts based on judgments and estimates made by Management. The increase in the allowance is mostly attributable to the growth of the commercial loan portfolio in the year 2004, together with the seasoning of this same portfolio.

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

Other Income

The following table presents the composition of other income.

Year ended December 31,	2004	2003	2002
		(In thousands)	
Other fees on loans	$ 19,008	$ 20,617	$ 21,441
Service charges on deposit accounts	10,938	9,527	9,200
Mortgage banking activities	3,921	3,014	3,540
Rental income	3,071	2,224	2,285
Other commissions and fees	1,515	1,526	1,081
Insurance income	6,439	4,258	2,269
Dividends on equity securities	651	703	705
Other operating income	11,583	10,481	10,032
Other income before net gain on sale of investments, gain on sale of credit card portfolios and derivatives gain (loss)	57,126	52,350	50,553
Net gains on sale of investments	12,156	40,617	48,873
Impairment on investments	(2,699)	(5,761)	(36,872)
Gain on sale of investments, net	9,457	34,856	12,001
Gain on sale of credit card portfolios	5,533	30,885	
Derivatives (loss) gain	(1,283)	619	(4,062)
Total	$ 70,833	$ 118,710	$ 58,492

Other income primarily consists of fees on loans, service charges on deposit accounts, commissions derived from various banking activities, securities and insurance activities, net gain on sale of investments, and derivatives gains or losses. Other income, excluding the net gains on sales of investments, gain on sale of credit card loans portfolio, and derivatives gain (loss), increased $4.8 million for 2004 as compared to 2003. The increase is mainly attributed to increases in income from mortgage banking activities, commission income from the Corporation's insurance businesses and service charges on deposit accounts, partially offset by decreases in other fees on loans.

The gain on the sale of credit card loans results from portfolios sold pursuant to the before mentioned strategic alliance agreement reached with MBNA Corporation in 2003.

Other fees on loans consist mainly of late charges on loans and penalties on early cancellation of loans. The decrease, when comparing 2004 with the year 2003, is due to fees previously earned on the credit card portfolios sold to MBNA Corporation during the last quarter of 2003 and the first two quarters of 2004.

Service charges on deposit accounts include monthly fees on deposit accounts and fees on returned and paid check services. This source of income has increased significantly due to a larger volume of accounts and transactions during 2004.

Mortgage banking activities income includes gains on sale of residential mortgage loans and the fees earned for administering residential mortgage loans originated by the Corporation and subsequently sold with servicing retained. Gains on sale of loans amounted to $3.6 million in 2004 (2003-$2.9 million, 2002-$3.4 million).

The Corporation's subsidiary, First Leasing and Rental Corporation, generates income on the rental of various types of motor vehicles. Rental income amounted to $3.1 million for 2004 as compared to $2.2 million for 2003 and 2002, respectively. This subsidiary opened two new locations late in 2003 and increased its vehicle inventory to meet market demand, which has resulted in increased revenues from vehicle rentals.

Insurance income consists of commissions earned by the Corporation's subsidiary FirstBank Insurance Agency, Inc., and the Bank's subsidiary in the U.S.V.I, First Insurance Agency, Inc. These subsidiaries offer a wide variety of insurance related products and have increased business through cross selling strategies, marketing efforts and the strategic locations of sale offices.

Other commissions and fees income is the result of an agreement with a major investment banking firm to participate in bond issues by the Government Development Bank for Puerto Rico, and an agreement with an international brokerage firm doing business in Puerto Rico to offer brokerage services in selected branches.

The other operating income category is composed of miscellaneous fees such as check fees and rental of safe deposit boxes. Other operating income also includes fees generated on the portfolio of commercial loans.

The net gain on the sale of investment securities reflects gains or losses as a result of sales that are consistent with the Corporation's investment policies and strategy as well as other-than-temporary impairment charges on portfolio securities.

The derivatives loss is composed of valuations to fair value and net interest settlements of derivatives not qualifying for hedge accounting and of realized losses on the early termination of derivatives instruments. Refer to Note 29 to the financial statements for further discussion of derivatives activities.

Other Operating Expenses

Other operating expenses amounted to $180.4 million for 2004 as compared to $163.9 million for 2003 and $132.8 million for 2002. The following table presents the components of other operating expenses.

	Year ended December 31, 2004	2003	2002
		(Dollars in thousands)	
Salaries and benefits	$ 83,528	$ 75,213	$ 59,432
Occupancy and equipment	39,368	36,394	29,015
Deposit insurance premium	979	806	746
Other taxes, insurance and supervisory fees	11,615	10,329	8,915
Professional , servicing and processing fees	6,773	9,402	7,685
Business promotion	16,349	12,415	9,304
Communications	7,274	6,959	5,854
Expense of daily rental vehicles	1,943	1,642	1,588
Other	12,607	10,834	10,217
Total	$ 180,436	$ 163,994	$ 132,756

Management's goal is to limit expenditures to those that directly contribute to increase the efficiency, service quality and profitability of the Corporation. This control over other operating expenses has been an important factor contributing to the increase in earnings in recent years. The Corporation's efficiency ratio, which is the ratio of other operating expenses to the sum of net interest income and other income, remained in line with prior years at 39.74% for 2004 as compared to 39.91% and 40.81% for 2003 and 2002, respectively. The Corporation has maintained a better than average efficiency ratio when compared to other financial institutions in the banking business, while it has provided the latest in delivery channels for its commercial and consumer financial products and services.

The increase in operating expenses for 2004 is in part attributable to increases in personnel and occupancy costs to support the growth of the Corporation and to significant expenditures in advertising and business promotions to support new products and services, especially FirstMortgage, the Bank's subsidiary which started operations late in the year 2003. The decrease in professional, servicing and processing fees as compared to 2003 is mainly due to processing costs previously incurred on the portfolio of credit cards sold late in 2003 and early in 2004 to MBNA.

Income Tax Expense

The provision for income tax amounted to $41.9 million (or 19% of pre-tax earnings) for 2004 as compared to $38.7 million (or 20% of pre-tax earnings) in 2003, and $22.3 million (or 17% of pre-tax earnings) in 2002. The Corporation has maintained an effective tax rate lower than the maximum statutory rate of 39% mainly by investing in government obligations and mortgage-backed securities exempt from U. S. and Puerto Rico income tax combined with gains on sale of investments held by the international banking divisions (IBE's) of the Corporation and the Bank and by the Bank's subsidiary FirstBank Overseas Corporation. The IBE divisions and FirstBank Overseas Corporation were created under the International Banking Entity Act of Puerto Rico, which provides for total Puerto Rico tax exemption on net income derived by the IBE's operating in Puerto Rico. On January 8, 2004, the IBE Act was amended to impose income tax at normal rates on IBE's that operate as units of a bank, to the extent that the IBE's net income exceeds 40% of the bank's total net taxable income (including net income generated by the IBE unit) for a taxable year commencing between July 1, 2003 and July 1, 2004, 30% of such total net taxable income for a taxable year commencing between July 1, 2004 and July 1, 2005, and 20% of such total net taxable income for taxable years commencing thereafter. These amendments apply only to IBE's that operate as units of a bank. Management estimates that the financial impact of the amendments is not likely to be material. 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 of the Corporation for the following years:

December 31,	2004	2003	2002
		(Dollars in thousands)	
Assets			
Interest earning assets:			
Money market investments	$ 308,962	$ 455,866	$ 60,522
Government and agency obligations	2,061,280	850,516	1,236,281
Mortgage-backed securities	2,800,638	2,257,617	2,144,236
Corporate bonds	57,462	181,063	259,840
FHLB stock	56,699	40,447	32,586
Total investments	5,285,041	3,785,509	3,733,465
Commercial loans	2,586,103	2,340,744	2,080,892
Consumer loans	1,255,246	1,198,964	1,048,283
Residential real estate loans	3,538,419	2,286,809	1,283,710
Construction loans	380,816	314,588	223,627
Finance leases	185,966	150,832	136,851
Total loans	7,946,550	6,291,937	4,773,363
Total interest earning assets	13,231,591	10,077,446	8,506,828
Equity securities	43,682	34,029	52,703
Total non-earning assets (1)	336,760	318,787	188,691
Total assets	$ 13,612,033	$ 10,430,262	$ 8,748,222
Liabilities and stockholders' equity			
Interest bearing liabilities:			
Interest bearing checking accounts	$ 317,633	$ 259,447	$ 215,462
Savings accounts	1,020,229	922,887	609,324
Certificate accounts	5,099,139	4,158,111	3,622,918
Interest bearing deposits	6,437,001	5,340,445	4,447,704
Other borrowed funds	4,236,416	2,965,714	2,868,212
FHLB advances	1,056,325	633,692	339,477
Total interest bearing liabilities	11,729,742	8,939,851	7,655,393
Total non-interest bearing liabilities	738,045	597,651	368,315
Total liabilities	12,467,787	9,537,502	8,023,708
Stockholders' equity:			
Preferred stock	550,100	408,809	352,171
Common stockholder's equity	594,146	483,951	372,343
Total stockholders' equity	1,144,246	892,760	724,514
Total liabilities and stockholders' equity	$ 13,612,033	$ 10,430,262	$ 8,748,222

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

Earning Assets Composition

The composition and estimated tax equivalent weighted average interest and dividend yields of the Corporation's earning assets at December 31, 2004 were as follows:

	Amount (In thousands)	Tax Equivalent Weighted Average Rate
Money market investments	$ 702,164	2.25%
Federal Funds	118,000	2.26%
Government and agency obligations	2,058,086	6.70%
Mortgage-backed securities	2,760,090	5.43%
FHLB of N.Y. stock	79,900	2.36%
Corporate bonds	44,288	6.45%
Equity securities	58,735	1.39%
Total investments	5,821,263	5.36%
Consumer loans	1,371,669	11.80%
Residential real estate loans	4,684,575	4.48%
Construction loans	401,373	5.72%
Commercial and commercial real estate loans	2,805,737	4.94%
Finance leases	214,663	8.56%
Total loans (1)	9,478,017	5.82%
Total earning assets	$ 15,299,280	5.61%

(1) Excludes the reserve for loan losses.

Assets

The Corporation's total assets at December 31, 2004 amounted to $15.6 billion, $2.9 billion over the $12.7 billion at December 31, 2003; the increase is mainly attributed to significant increases in the Corporation's loan portfolios and to the leveraged growth of the Corporation's investment's portfolio.

Loans Receivable

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

December 31,	2004	% of Total	2003	% of Total	2002	% of Total	2001	% of Total	2000	% of Total
					(Dollars in thousands)					
Residential real estate loans	$4,684,575	49	$ 2,879,011	41	$ 1,854,068	33	$1,011,908	23	$ 746,792	21
Commercial real estate loans	943,497	10	889,156	13	813,513	14	688,922	16	438,321	13
Construction loans	401,373	4	328,175	4	259,053	5	219,396	5	203,955	6
Commercial loans	1,862,240	20	1,615,304	23	1,418,792	25	1,238,173	29	947,709	27
Total commercial	3,207,110	34	2,832,635	40	2,491,358	44	2,146,491	50	1,589,985	46
Finance leases	214,663	2	161,283	2	143,412	3	127,935	3	122,883	3
Consumer loans	1,371,669	15	1,171,589	17	1,149,012	20	1,022,445	24	1,038,538	30
Total	$9,478,017	100	$ 7,044,518	100	$ 5,637,850	100	$4,308,779	100	$3,498,198	100

Lending Activities

Total loans receivable increased by $2.4 billion in 2004 when compared with 2003. The Corporation maintains a balanced and diversified loan portfolio. As shown on the table above, the loan portfolio is comprised of residential real estate (49%), commercial (34%), and consumer and finance leases (17%). For 2004, the Corporation achieved significant increases of $1.8 billion in residential real estate loans and of $374.5 million in the total commercial loan portfolio. A significant portion of the increase in residential mortgage loans is related to bulk purchases from mortgage bankers doing business in Puerto Rico. Finance leases, which are mostly composed of loans to individuals to finance the acquisition of an auto, increased by $53.4 million, and consumer loans increased by $200.1 million in 2004.

Residential Real Estate Loans

The pace of new housing construction and the renovation of existing housing are continuing to drive the residential mortgage loans originations in Puerto Rico, the Corporation's primary market.

FirstMortgage, the Corporation's mortgage banking operation, successfully completed its first full year of operations. The Corporation has committed substantial resources to this operation with the goal of becoming a leading institution in the highly competitive residential mortgage loans market. The Corporation's strategy is to penetrate markets by providing customers with a variety of high quality mortgage products to serve their financial needs faster, simpler and at competitive prices.

FirstBank purchases non-conforming residential mortgage loans from local mortgage bankers. The contractual rate payable to the Bank on these mortgage loan purchases is generally a floating rate based on a spread over the 90-day London Interbank Offered Rate ("LIBOR") limited to the weighted-average coupon rate of the mortgage loans purchased, less a contractual servicing fee. The weighted-average coupon rate varies on a purchase to purchase basis and subject to the terms of a commitment agreement. The servicing of these mortgage loans is retained by the selling mortgage banking institution and the arrangements provide for the timely payment of principal and interest of the mortgage loans. These residential mortgage loan purchases are subject to limited recourse arrangements that generally obligate the seller to repurchase the loans if loans are 120 days or more past due or otherwise in default. In addition, the Bank obtains customary representations and warranties regarding the characteristics of the loans purchased. To the extent the sellers breach any of these warranties, the Bank is generally entitled to obligate the seller to repurchase the loan subject to the breach. The Bank's interest rate risk management strategy contemplates the possibility of net interest margin compressions from the floating rates on mortgage loans reaching the weighted-average coupon. The interest rate risk management strategies include derivatives instruments and structured transactions. Refer to Quantitative and Qualitative Disclosures about Market Risk section of this Management's Discussion and Analysis for further discussion on interest rate risk management strategies followed by the Corporation. The outstanding balance of mortgage loans purchased to local mortgage bankers approximated $3.3 billion at December 31, 2004.

Commercial Loans

In recent years, the Corporation has emphasized commercial lending activities and continues to penetrate this market, including commercial mortgages and constructions loans. A substantial portion of this portfolio is collateralized by real estate collateral. Although commercial loans involve a greater credit risk because they are larger in size and more risk is concentrated in a single borrower, the Corporation has and continues to develop an effective credit risk management infrastructure that mitigates potential losses associated with commercial lending, including strong underwriting and loan review functions, sales of loan participations, and continuous monitoring of concentrations within portfolios.

The Corporation has initiated a strategy aimed to cater customer needs in the commercial loans middle market segment. This commercial lending segment is managed by well trained and highly competitive officials with vast experience in commercial lending and the strategy should result in added profits to the Corporation.

Consumer Loans

Consumer lending growth has been mainly driven by auto loan and finance lease originations. Management finds this market attractive; the growth of these portfolios has been achieved through a strategy of providing outstanding service to selected auto dealers who provide the channel for the bulk of the Corporation's auto loan originations.

The above mentioned strategy is directly linked to our commercial lending activities as the Corporation maintains strong and stable auto floor plan relationships, which is the foundation of a successful auto loan generation operation. The Corporation will continue to strengthen the commercial relations with floor plan dealers, which directly benefit the Corporation's consumer lending operation.

Personal loans, and to a lesser extent marine financing and a small credit card portfolio also contribute to interest income generated on consumer lending. Management plans to continue active in the consumer loan market applying the Corporation's strict underwriting standards.

Investment Activities

The Corporation's investment portfolio at December 31, 2004 amounted to $5.8 billion, an increase of $455.1 million when compared with the investment portfolio of $5.4 billion at December 31, 2003. During the first quarter of 2004, the Corporation maintained a portion of its investments portfolio, mostly the proceeds of prepayments on mortgage backed securities, in short term instruments; awaiting an opportunity to reenter the longer-term investment market. With the increase in long term rates during the latter part of the first quarter of 2004, the Corporation reentered the long term investment market by purchasing $1.6 billion in higher yielding 15 to 25 year callable government agency securities, of which $306.8 million were called during the fourth quarter of 2004. Most of the purchases were made during the second quarter of 2004. The income generated by the Corporation on these securities is exempt from income taxes. Although at the time of purchase Management projected interest rates to be higher in the coming years, Management concluded that yields on securities purchased were attractive on a tax equivalent basis based on different projected scenarios. Purchases of these higher yielding securities resulted in increases in interest income from the investment's portfolio.

Total investment securities called during 2004 amounted to $963.2 million, these were mainly agency securities. A portion of the proceeds from calls experienced during 2004 and calls experienced subsequent to December 31, 2004, which approximate $416 million, were re-invested in February 2005 in 17 year 5.75% coupon FNMA callable bonds amounting to approximately $700 million. Management continues to believe that interest rates might be higher in the future, but concluded that the tax equivalent yield of the securities purchased is attractive.

The Corporation realized gross gains of $12.2 million (2003-$43.8 million), and gross losses including other-than-temporary impairments of $2.7 million on equity securities (2003 - $8.9 million).

Net interest income of future periods may be affected by the acceleration in prepayments of mortgage-backed securities. An acceleration in the prepayments of mortgage-backed securities would lower yields on these securities, as the amortization of premiums paid upon acquisition of these securities would accelerate. Also, net interest income in future periods might be affected given substantial investments in callable securities. The book value of these securities, mainly agency securities, amounted to $1.7 billion at December 31, 2004. Lower reinvestment rates and time lag between calls, prepayment and/or maturity of investments and actual reinvestment of proceeds into new investments, might also affect net interest income in future periods. These risks are directly linked to future period's market interest rate fluctuations. Refer to Quantitative and Qualitative Disclosures about Market Risk section of this Management's Discussion and Analysis for simulations carried to measure the effects of changing interest rates on the Corporation's net interest income and for interest rate risk management strategies followed by the Corporation.

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, 2004, total non-performing assets amounted to approximately $108.6 million (0.70% of total assets) as compared to $100.8 million (0.80% of total assets) at December 31, 2003 and $104.7 million (1.09% of total assets) at December 31, 2002. The Corporation's allowance for loan losses to non-performing loans was 153.86% at December 31, 2004 as compared to 147.77% and 121.95% at December 31, 2003 and 2002, respectively.

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

December 31,	2004	2003	2002	2001	2000
			(Dollars in thousands)		
Non-accruing loans:					
Residential real estate	$ 31,577	$ 26,327	$ 23,018	$ 18,540	$ 15,977
Commercial, commercial real estate and construction	32,454	38,304	47,705	29,378	31,913
Finance leases	2,212	3,181	2,049	2,469	2,032
Consumer	25,422	17,713	18,993	22,611	17,794
	91,665	85,525	91,765	72,998	67,716
Other real estate owned	9,649	4,617	2,938	1,456	2,981
Other repossessed property	7,291	6,879	6,222	4,596	3,374
Investment securities		3,750	3,750		
Total non-performing assets	$ 108,605	$ 100,771	$ 104,675	$ 79,050	$ 74,071
Past due loans	$ 18,359	$ 23,493	$ 24,435	$ 27,497	$ 16,358
Non-performing assets to total assets	0.70%	0.80%	1.09%	0.96%	1.25%
Non-performing loans to total loans	0.97%	1.21%	1.63%	1.69%	1.94%
Allowance for loan losses	$ 141,036	$ 126,378	$ 111,911	$ 91,060	$ 76,919
Allowance to total non-performing loans	153.86%	147.77%	121.95%	124.74%	113.59%

Non-accruing Loans

At December 31, 2004, loans in which the accrual of interest income had been discontinued amounted to $91.7 million (2003 - $85.5 million; 2002 - $91.8 million). If these loans had been accruing interest, the additional interest income realized would have been $5.9 million (2003 - $6.6 million; 2002 - $5.8 million). The non performing loans amount has stabilized relative to substantial increases in the Corporation's loan portfolios, as a result of the Corporation's prudent underwriting policy and credit risk management infrastructure. There are no material commitments to lend additional funds to borrowers whose loans were in non-accruing status at these dates.

Residential Real Estate Loans - The Corporation classifies real estate loans in non-accruing status when interest and principal have not been received in a period of 90 days or more. 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 $31.6 million (0.67% of total residential real estate loans) at December 31, 2004, as compared to $26.3 million (0.92% of total residential real estate loans) and $23.0 million (1.25% of total residential real estate loans) at December 31, 2003 and 2002, respectively. The increase as compared to 2004 is mainly attributed to the general growth of this portfolio. At December 31, 2004 there was one non-accruing residential mortgage loan over $1 million, which amounted to $1.8 million.

Commercial Loans - The Corporation places commercial loans (including commercial real estate and construction loans) in non-accruing status when interest and principal have not been received in a period of 90 days or more. The risk exposure of this portfolio is diversified as to individual borrowers and industries among other factors. In addition, a large portion is secured with real estate collateral. Non-accruing commercial loans amounted to $32.5 million (1.01% of total commercial loans) at December 31, 2004 as compared to $38.3 million (1.35% of total commercial loans) and $47.7 million (1.91% of total commercial loans) at December 31, 2003 and 2002, respectively. At December 31, 2004 there were 7 non-accruing commercial loans over $1 million, for a total of $12.7 million.

Finance Leases - Finance leases are classified in non-accruing status when interest and principal have not been received in a period of 90 days or more. Non-accruing finance leases amounted to $2.2 million (1.03% of total finance leases) at December 31, 2004 as compared to $3.2 million (1.97% of total finance leases) and $2.0 million (1.43% of total finance leases) at December 31, 2003 and 2002, respectively.

Consumer Loans - Consumer loans are classified in non accruing status when interest and principal have not been received in a period of 90 days or more in auto, boat and home equity reserve loans, 120 days or more in personal loans (including small loans) and 180 days or more in credit cards and personal lines of credit.

Non-accruing consumer loans amounted to $25.4 million (1.85% of the total consumer loan portfolio) at December 31, 2004, $17.7 million (1.51% of the total consumer loan portfolio) at December 31, 2003 and $19.0 million (1.65% of the total consumer loan portfolio) at December 31, 2002. The increase as compared to 2004 is mainly attributed to the general growth of this portfolio.

Other Real Estate Owned (OREO)

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

Other Repossessed Property

The other repossessed property category includes repossessed boats and autos acquired in settlement of loans. Repossessed boats and autos are recorded at the lower of cost or estimated fair value.

Investment Securities

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

Past Due Loans

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

Sources of Funds

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

As of December 31, 2004, total liabilities amounted to $14.4 billion, an increase of $2.8 billion as compared to $11.6 billion increase as of December 31, 2003. The net increase in total liabilities was mainly due to: (1) $1.1 billion increase in total deposits, including $641.6 million increase in retail brokered certificates of deposit (2) $571.2 million increase in federal funds and securities sold under agreements to repurchase, (3) $685.0 million increase in advances from FHLB, (4) $176.8 million increase in notes payable, and (5) an increase of $231.5 in other borrowings.

The Corporation maintains unsecured standby lines of credit with other banks. At December 31, 2004 the Corporation's total unused lines of credit with these banks amounted to $225.0 million. At December 31, 2004, the Corporation had an available line of credit with the FHLB guaranteed with excess collateral pledge to FHLB, in the amount of $94.7 million.

Deposits

Total deposits amounted to $7.9 billion at December 31, 2004, as compared to $6.8 billion and $5.5 billion at December 31, 2003 and 2002, respectively.

The following table presents the composition of total deposits.

	Weighted average rates at December 31, 2004	2004	December 31, 2003 (Dollars in thousands)	2002
Savings accounts	1.14%	$ 1,077,002	$ 985,062	$ 921,103
Interest bearing checking accounts	1.22%	385,078	286,607	230,743
Certificates of deposit	2.54%	5,749,517	4,944,517	3,883,996
Interest bearing deposits	2.29%	7,211,597	6,216,186	5,035,842
Non-interest bearing deposits		691,386	548,921	447,076
Total		$ 7,902,983	$ 6,765,107	$ 5,482,918
Interest bearing deposits:				
Average balance outstanding		$ 6,437,001	$ 5,340,445	$ 4,447,704
Non-interest bearing deposits:				
Average balance outstanding		$ 644,780	$ 520,902	$ 257,454
Weighted average rate during the period on interest bearing deposits		1.90%	2.11%	3.00%

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

Total deposits increased by $1.1 billion at December 31, 2004 when compared to December 31, 2003 mainly due to an increase in brokered certificates of deposits, an increase in branch based deposits gathered through the launching of new products and to increases attributed to an institutional strategy focused on obtaining large institutional and governmental entities deposits.

Retail brokered certificates of deposits, which are certificates sold through brokers amount to $4.5 billion or 56% of the Corporation's deposits at December 31, 2004. The total U. S. market for this source of funding approximates $400 billion. The use of brokered certificates of deposits is particularly important in Puerto Rico. The Corporation encounters intense competition in attracting and retaining deposits, as financial institutions are at a competitive disadvantage since the income generated on other investment products available to investors in Puerto Rico is taxed at lower rates than tax rates for income generated on deposit products. The brokered certificates of deposit market is a very competitive and liquid market in which the Corporation has been able to obtain substantial amounts of funding in short periods of time. This strategy has enhanced the Corporation's liquidity position, since the brokered certificates are unsecured and can be obtained at substantially longer maturities than other regular retail deposits. Also the Corporation has the ability to convert the fixed rate brokered deposits to short term adjustable rate liabilities using interest rate swap agreements. Refer to Quantitative and Qualitative Disclosures about Market Risk section of this Management's Discussion and Analysis for further discussion on interest rate risk management strategies followed by the Corporation.

At December 31, 2004, 88% of retail brokered certificates of deposit held by the Corporation are callable, but only at Corporation's option. At December 31, 2004, the average remaining maturity of callable and fixed term brokered certificates approximated 13.44 years (2003-14.28 years) and 1.27 years (2003-1.12 years), respectively.

The following table presents a maturity summary of certificates of deposit with balances of $100,000 or more at December 31, 2004:

	(Dollars in thousands)
Three months or less	$ 783,548
Over three months to six months	96,355
Over six months to one year	133,379
Over one year	4,316,223
Total	$ 5,329,505

Borrowings

At December 31, 2004 total borrowings amounted to $6.3 billion as compared to $4.6 billion and $3.2 billion at December 31, 2003 and 2002, respectively.

	Weighted average rates at December 31, 2004	2004	December 31, 2003 (Dollars in thousands)	2002
Federal funds purchased and securities sold under agreements to repurchase	3.54%	$ 4,221,523	$ 3,650,297	$ 2,793,540
Advances from FHLB	2.95%	1,598,000	913,000	373,000
Notes payable	2.45%	176,754		
Other borrowings	5.12%	231,525		
Subordinated notes	8.04%	82,822	82,818	82,815
Total	3.48%	$ 6,310,624	$ 4,646,115	$ 3,249,355
Weighted average rate during the period		3.23%	3.66%	4.36%

The Corporation uses federal funds purchased, repurchase agreements, advances from FHLB, notes payable and other borrowings, such as trust preferred securities, as additional funding sources.

The leveraged growth of the Corporation's investments portfolio is substantially funded with repurchase agreements. One of the Corporation's most important interest rate risk protection strategies is the use of structured repurchase agreements, which are generally used to fund purchases of mortgage-backed and governmental agency securities. Under these agreements the Corporation reduces exposure to interest rate risk by lengthening the maturities of its liabilities while keeping funding cost low. As of December 31, 2004, the outstanding balance of structured repurchase agreements was $2.6 billion.

FirstBank is a member of the Federal Home Loan Bank (FHLB) system and obtains advances to fund its operations under a collateral agreement with the FHLB that requires the Bank to maintain minimum qualifying mortgages as collateral for advances taken.

During 2004, the Corporation undertook several financing transactions to diversify its funding sources. FirstBank, the Corporation's bank subsidiary, issued notes payable that as of December 31, 2004 had an outstanding balance of $176.7 million.

In the second quarter of 2004, FBP Statutory Trust I, a statutory trust that is wholly owned by the Corporation and not consolidated in the Corporation's financial statements, sold to institutional investors $100 million of its variable rate trust preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.1 million of FBP Statutory Trust I variable rate common securities, were used to purchase $103.1 million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures.

In the third quarter of 2004, FBP Statutory Trust II, a statutory trust that is wholly-owned by the Corporation and not consolidated in the Corporation's financial statements, sold to institutional investors $125 million of its variable rate trust preferred securities. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $3.9 million of FBP Statutory Trust II variable rate common securities, were used to purchase $128.9

million aggregate principal amount of the Corporation's Junior Subordinated Deferrable Debentures.

The Trust Preferred debentures are presented in the Corporation's Consolidated Statement of Financial Condition as Other Borrowings, net of related issuance costs. The variable rate trust preferred securities are fully and unconditionally guaranteed by the Corporation. The $100 million Junior Subordinated Deferrable Debentures issued by the Corporation in April 2004 and the $125 million issued in September 2004, mature on September 17, 2034 and September 20, 2034, respectively, however, under certain circumstances the maturity of Junior Subordinated Debentures may be shortened (which shortening would result in a mandatory redemption of the variable rate trust preferred securities). The trust preferred securities, subject to certain limitations, qualify as Tier I regulatory capital under current Federal Reserve rules and regulations.

The composition and estimated weighted average interest rates of interest bearing liabilities at December 31, 2004, were as follows:

	Amount (In thousands)	Weighted Average Rate
Interest bearing deposits	$ 7,211,597	2.29%
Borrowed funds	6,310,624	3.48%
	$ 13,522,221	2.84%

Contractual Obligations and Commitments

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

	Contractual Obligations and Commitments (In thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual Obligations:					
Certificates of Deposit	$ 5,749,516	$ 1,301,437	$ 497,431	$ 304,398	$3,646,250
Federal funds purchased and securities sold under agreements to repurchase	4,221,523	1,703,063	100,000	550,000	1,868,460
Advances from FHLB	1,598,000	1,225,000	100,000	29,000	244,000
Notes payable	176,755				176,755
Other borrowings	231,525				231,525
Subordinated Notes	82,822	82,822			
Operating Leases	36,474	6,266	10,748	7,663	11,797
Other contractual obligations	4,637	2,901	1,736		
Total Contractual Obligations	$12,101,252	$ 4,321,489	$ 709,915	$ 891,061	$6,178,787
Commitments to Purchase Mortgage Loans	$ 2,200,000		$ 2,200,000		
Other Commitments:					
Lines of Credit	$ 130,989	$ 130,989			
Standby Letters of Credit	99,134	99,134			
Other Commercial Commitments	1,238,941	1,238,941			
Total Commercial Commitments	$ 1,469,064	$ 1,469,064			

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

In November 2004, the Corporation announced the signing of a definitive merger agreement for the acquisition of the parent company of Unibank, a federal savings and loan association with approximately $500 million in assets, which operates 9 full service branches in the southern region of the state of Florida. At December 31, 2004 obligations that will arise upon the closing of the acquisition are not presented on the contractual obligations table as the transaction is pending regulatory approval.

Capital

During 2004, the Corporation's capital increased from $1.1 billion at December 31, 2003 to $1.2 billion at December 31, 2004. Total capital increased by $133.3 million mainly due to earnings of $178.9 million, the issuance of 361,870 shares of common stock through the exercise of stock options with proceeds of $4.6 million, a positive fluctuation in the valuation of securities available for sale of $9.1 million, net of cash dividends of $60 million.

As of December 31, 2004, First BanCorp and FirstBank were in compliance with all the regulatory capital requirements that were applicable to them as a financial holding company, and a state non-member bank, respectively (i.e., total capital and Tier 1 capital to risk-weighted assets of at least 8% and 4%, respectively, and Tier 1 capital to average assets of at least 3%). Set forth below are First BanCorp and its banking subsidiary regulatory capital ratios as of December 31, 2004, based on existing Federal Reserve and FDIC guidelines.

		First BanCorp Banking Subsidiary	
	First BanCorp	FirstBank	Well- Capitalized Minimum
Total capital (Total capital to risk-weighted assets)	14.89%	12.28%	10.00%
Tier 1 capital ratio (Tier 1 capital to risk-weighted assets)	13.57%	11.03%	6.00%
Leverage ratio	9.25%	7.50%	5.00%

As of December 31, 2004, FirstBank was considered a well-capitalized bank for purposes of the prompt corrective action regulations adopted by the FDIC.

Dividends

In 2004, 2003 and 2002 the Corporation declared four quarterly cash dividends of $0.12, $0.11 and $0.10 per common share outstanding, respectively, for an annual dividend of $0.48, $0.44 and $0.40, respectively. Total cash dividends paid on common shares amounted to $19.3 million for 2004 (or a 13.94% dividend payout ratio), $17.6 million for 2003 (or a 14.43% dividend payout ratio) and $16.0 million for 2002 (or a 19.58% dividend payout ratio). Dividends declared on preferred stock amounted to $40.3 million in 2004, $30.4 million in 2003, and $26 million in 2002. The increase in preferred stock dividends is attributed to the issuance of 7,584,000 shares of the Corporation's Preferred Stock Series E at the end of the third quarter of 2003.

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 generally 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. This Committee generally 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.

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, 2004, tax equivalent net interest income projected for 2005 would fall by $7.5 million (1.55%) under a rising rate scenario and would rise by $16.3 million (3.37%) under falling rates.

As of December 31, 2004, the same simulations were also carried out assuming that the Corporation would grow. The growing balance sheet simulations indicate that tax equivalent net interest income projected for 2005 would fall by $9.5 million (1.86%) under a rising rate scenario and would rise by $29.6 million (5.81%) with falling rates.

The simulation for the year 2004 assuming a no growth balance sheet as of December 31, 2003, concluded that under a gradual 200 basis point rising rate scenario net interest income would have risen by $15.6 million (3.78%) and that under a gradual 75 basis point falling rate scenario would have increased by $7.4 million (1.79%).

As of December 31, 2003, the same simulations were also carried assuming that Corporation was going to grow. The growing balance sheet simulation indicated that the tax equivalent net interest income for 2004 would have risen by $16.2 million (3.70%) under a gradual 200 basis point rising interest rate scenario and increased by $8.3 million (1.89%) with rates gradually falling by 75 basis points.

The Corporation compared 2004 projections with actual results. In the growth scenario, which is more realistic, the Bank projected taxable equivalent net interest income of $437.5 million under flat rates for 2004. In reality, taxable equivalent net interest income was $450.4 million. The most important reason for this difference was that the projections did not include changes which Management made in the investment portfolio after the projection was made. Purchases of agency securities during 2004 led to larger spreads than anticipated in the initial projection. In addition, the flat rate scenario did not include the 125 basis point increase in short-term rates which occurred during 2004. While this rate increase was smaller than that which had been assumed in the rising rate scenario, it was still large enough to affect significantly the yields and costs on the Corporation's variable rate assets and liabilities.

First BanCorp uses derivative instruments and other strategies to manage its exposure to interest rate risk caused by changes in interest rates beyond Management's control. The Corporation's asset liability management program includes the use of derivatives instruments, which have worked effectively to date, and that Management believes will continue to be effective in the future.

The following summarizes major strategies, including derivatives activities, used by the Corporation in managing interest rate risk:

Interest rate swaps - Under interest rate swap agreements, the Corporation agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest rate amounts calculated by reference to an agreed notional principal amount. Since a substantial portion of the Corporation's loans, mainly commercial and mortgage loans, yield variable rates, the interest rate swaps are utilized to convert fixed-rate certificates of deposit (liabilities) to a variable rate to better match the variable rate nature of these loans.

Interest rate cap agreements- In order to hedge risk inherent on mortgage loans purchased to other financial institutions, as the yield is a variable rate limited to the weighted-average coupon of the mortgages, less a contractual servicing fee, the Corporation enters into referenced interest rate cap agreements that provide protection against rising interest rates. In managing this risk the Corporation determines the need of derivatives, including cap agreements, based on different rising interest rate scenario projections and the weighted-average coupon of the mortgage loans purchased.

Structured repurchase agreements- The Corporation uses structured repurchase agreements, with embedded call options, with the primary purpose of reducing the Corporation's exposure to interest rate risk by lengthening the maturities of its liabilities, while keeping funding costs low. Another type of structured repurchase agreement includes repurchased agreements with embedded corridors; these instruments also provide protection for a rising rate scenario.

Refer to Note 29 to the Corporation's Financial Statements for further discussion on interest rate risk management and derivatives strategies followed by the Corporation.

Liquidity

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

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

A large portion of the Corporation's funding represents retail brokered certificates of deposit gathered by the Bank subsidiary. In the event that the Corporation's Bank subsidiary falls under the ratios of a well-capitalized institution, it faces the risk of not being able to replace this source of funding. The Bank currently complies with the minimum requirements of ratios for a "well capitalized" institution and does not foresee falling below required levels to issue brokered deposits. In addition, the average life of the retail brokered certificates of deposit were approximately 12 years at December 31, 2004. Approximately 88% of these certificates are callable, but only at the Bank's option.

Certificates of deposit with denominations of $100,000 or higher amounted to $5.3 billion at December 31, 2004 of which $4.5 billion were brokered certificates of deposit.

The following table presents a maturity summary of brokered certificates of deposits at December 31, 2004:

	Total (In thousands)
Less than one year	$ 214,821
Over one year to five years	554,437
Over five years to ten years	680,232
Over ten years	3,005,434
Total	$4,454,924

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 loan participations, and the securitization of auto loans and commercial paper.

Impact of Inflation and Changing Prices

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

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

Concentration Risk

The Corporation conducts its operations in a geographically concentrated area, as its main market is Puerto Rico. However, the Corporation continues diversifying its geographical risk as evidenced by its operations in the Virgin Islands and entrance into new markets, for example on October 2004 the Corporation started operations in the United States through the establishment of a loan agency in Coral Gables, Florida (U.S.A.). At December 31, 2004, there is no significant concentration of credit risk in any specific industry.

Selected Quarterly Financial Data

Financial data showing results of the 2004 and 2003 quarters is presented below. In the opinion of Management, all adjustments necessary for a fair presentation have been included:

	2004			
	March 31	June 30	Sept. 30	Dec. 31
	(In thousands, except for per share results)			
Interest income	$ 146,547	$ 161,208	$ 180,079	$ 188,555
Net interest income	84,203	94,278	103,272	101,453
Provision for loan losses	13,200	13,200	13,200	13,200
Net income	40,205	39,935	49,079	49,659
Earnings per common share-basic	$ 0.75	$ 0.74	$ 0.97	$ 0.98
Earnings per common share-diluted	$ 0.73	$ 0.72	$ 0.94	$ 0.95

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

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, 2004, there were 630 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
2004:			
December	$ 64.85	$ 47.30	$ 63.51
September	49.85	39.62	48.30
June	42.67	35.14	40.75
March	43.32	39.00	41.60
2003:			
December	$ 40.32	$ 31.24	$ 39.55
September	31.98	28.35	30.75
June	31.68	27.45	27.45
March	28.00	22.71	26.98
2002:			
December	$ 26.38	$ 22.08	$ 22.60
September	27.61	22.82	25.41
June	25.13	19.13	25.13
March	19.80	18.43	19.27