

FIRST BANCORP /PR/  
Form 10-Q/A  
August 16, 2002

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

FORM 10-Q/A  
AMENDMENT NO. 1

Quarterly Report Pursuant to Section 13  
of the Securities Exchange Act of 1934

For the Quarter ended  
June 30, 2002

Commission File 001-14793

First BanCorp.

(Exact name of Corporation as specified in its charter)

Puerto Rico

(State or other jurisdiction of  
incorporation or organization)

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

(Address of principal office)

66-0561882

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

00908

(Zip Code)

Corporation's telephone number, including area code:

(787) 729-8200

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

Number of shares of the Corporation's Common Stock outstanding as of August 12, 2002

26,615,452

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This Amendment No. 1 to Form 10-Q for the quarter ended on June 30, 2002 (the Form 10-Q ) is being filed for the purpose of correcting the following error; on page 13 (Note 6) of the Corporation s Form 10-Q, \$23.5 million should replace the outstanding balance of Nortel Networks Corporation corporate bonds, currently printed as \$18.5 million; no other changes are being made by means of this filing.

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

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

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

**Table of Contents****FIRST BANCORP****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
(Unaudited)**

	<u>June 30, 2002</u>	<u>December 31, 2001</u>
<b>Assets</b>		
Cash and due from banks	\$ 68,144,854	\$ 59,898,550
Money market instruments	43,009,631	34,564,568
Investment securities available for sale, at market:		
Securities pledged that can be repledged	1,994,774,831	2,988,828,088
Other investment securities	216,387,544	385,419,989
Total investment securities available for sale	2,211,162,375	3,374,248,077
Investment securities held to maturity, at cost:		
Securities pledged that can be repledged	1,083,267,413	171,152,930
Other investment securities	388,276,209	113,142,662
Total investment securities held to maturity	1,471,543,622	284,295,592
Federal Home Loan Bank (FHLB) stock	35,629,500	22,890,600
Loans net of allowance for loans losses of \$104,150,526 (2001-\$91,060,307)	4,564,399,217	4,213,089,836
Loans held for sale	21,520,469	4,629,562
Total loans	4,585,919,686	4,217,719,398
Other real estate owned	1,183,566	1,455,577
Premises and equipment	76,031,012	76,155,620
Accrued interest receivable	34,841,537	37,630,883
Due from customers on acceptances	170,495	262,153
Other assets	121,370,660	88,396,770
Total assets	\$8,649,006,938	\$8,197,517,788
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities:</b>		
Non-interest bearing deposits	\$ 230,746,852	\$ 239,850,816
Interest bearing deposits	4,512,974,109	3,858,703,322
Federal funds purchased and securities sold under agreements to repurchase	2,660,487,501	2,997,173,944
Advances from FHLB	336,000,000	343,700,000
Bank acceptances outstanding	170,495	262,153
Accounts payable and other liabilities	91,372,822	70,547,126
	7,831,751,779	7,510,237,361
Subordinated notes	84,363,223	84,361,525
Stockholders equity:		

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Preferred stock, authorized 50,000,000 shares: issued and outstanding 14,420,000 shares at \$25.00 liquidation value per share (2001 10,740,000)	360,500,000	268,500,000
Common stock, \$1.00 par value, authorized 250,000,000 shares; issued 29,881,052 shares (2001-29,852,552)	29,881,052	29,852,552
Less: Treasury stock (at par value)	(3,280,600)	(3,280,600)
Common stock outstanding	26,600,452	26,571,952
Additional paid-in capital	11,685,627	14,214,877
Capital reserve	60,000,000	60,000,000
Legal surplus	136,792,514	136,792,514
Retained earnings	134,885,621	103,132,913
Accumulated other comprehensive income unrealized gain (loss) on securities available for sale, net of tax of \$809,241 (2001-\$2,097,785)	2,427,722	(6,293,354)
	732,891,936	602,918,902
<b>Contingencies and commitments</b>		
Total liabilities and stockholders equity	\$8,649,006,938	\$8,197,517,788

The accompanying notes are an integral part of these statements.

**Table of Contents****FIRST BANCORP****CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
<b>Interest income:</b>				
Loans	\$ 84,794,833	\$ 89,078,153	\$ 168,289,311	\$ 180,315,454
Investments	51,086,925	36,784,564	104,055,022	73,956,457
Dividends on FHLB stock	466,163	314,742	719,452	655,814
<b>Total interest income</b>	<b>136,347,921</b>	<b>126,177,459</b>	<b>273,063,785</b>	<b>254,927,725</b>
<b>Interest expense:</b>				
Deposits	33,736,063	41,388,925	66,279,582	85,653,959
Short term borrowings	32,393,483	24,296,875	65,599,497	53,659,767
Long term borrowings	1,695,112	2,391,160	3,390,224	5,039,211
<b>Total interest expense</b>	<b>67,824,658</b>	<b>68,076,960</b>	<b>135,269,303</b>	<b>144,352,937</b>
<b>Net interest income</b>	<b>68,523,263</b>	<b>58,100,499</b>	<b>137,794,482</b>	<b>110,574,788</b>
<b>Provision for loan losses</b>	<b>14,500,499</b>	<b>17,800,000</b>	<b>34,300,998</b>	<b>32,800,000</b>
<b>Net interest income after provision for loan losses</b>	<b>54,022,764</b>	<b>40,300,499</b>	<b>103,493,484</b>	<b>77,774,788</b>
<b>Other income:</b>				
Other fees on loans	5,465,426	5,171,189	10,728,121	9,794,770
Service charges on deposit accounts	2,354,493	2,384,642	4,832,597	4,770,245
Mortgage banking activities	895,838	825,102	1,309,744	933,353
Gain (loss) on investments	(211,329)	2,937,887	616,518	9,526,776
Derivative loss	(2,253,522)		(2,253,522)	
Other operating income	4,746,834	3,021,981	8,255,051	5,799,218
<b>Total other income</b>	<b>10,997,740</b>	<b>14,340,801</b>	<b>23,488,509</b>	<b>30,824,362</b>
<b>Other operating expenses:</b>				
Employees compensation and benefits	14,437,748	13,462,053	28,817,733	26,592,525
Occupancy and equipment	6,862,318	6,017,382	13,689,546	11,827,640
Business promotion	2,455,271	2,248,368	5,098,128	4,272,145
Taxes	1,643,889	1,355,194	3,286,719	2,699,604
Insurance	721,654	580,463	1,359,219	1,118,150
Other	5,727,087	6,554,320	11,445,240	13,526,700
<b>Total other operating expenses</b>	<b>31,847,967</b>	<b>30,217,780</b>	<b>63,696,585</b>	<b>60,036,764</b>
Income before income tax provision and cumulative effect of accounting change	33,172,537	24,423,520	63,285,408	48,562,386
Income tax provision	6,193,483	4,251,721	10,656,836	8,589,891

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Income before cumulative effect of accounting change	26,979,054	20,171,799	52,628,572	39,972,495
<b>Cumulative effect of accounting change, net of tax</b>				(1,014,889)
<b>Net income</b>	<u>\$ 26,979,054</u>	<u>\$ 20,171,799</u>	<u>\$ 52,628,572</u>	<u>\$ 38,957,606</u>
<b>Net income available to common stockholders</b>	<u>\$ 20,228,052</u>	<u>\$ 17,003,049</u>	<u>\$ 39,724,295</u>	<u>\$ 32,620,103</u>
<b>Net income per common share-basic:</b>				
Income before cumulative effect of accounting change	\$ 0.76	\$ 0.64	\$ 1.49	\$ 1.27
Cumulative effect of accounting change				(0.04)
<b>Earnings per common share-basic</b>	<u>\$ 0.76</u>	<u>\$ 0.64</u>	<u>\$ 1.49</u>	<u>\$ 1.23</u>
<b>Net income per common share-diluted:</b>				
Income before cumulative effect of accounting change	\$ 0.75	\$ 0.64	\$ 1.48	\$ 1.26
Cumulative effect of accounting change				(0.04)
<b>Earnings per common share-diluted</b>	<u>\$ 0.75</u>	<u>\$ 0.64</u>	<u>\$ 1.48</u>	<u>\$ 1.22</u>
<b>Dividends declared per common share</b>	<u>\$ 0.15</u>	<u>\$ 0.13</u>	<u>\$ 0.30</u>	<u>\$ 0.26</u>

The accompanying notes are an integral part of these statements.



**Table of Contents****FIRST BANCORP****CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)**

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
<b>Cash flows from operating activities:</b>		
Net income	\$ 52,628,572	\$ 38,957,606
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,649,614	4,508,530
Core deposit intangible amortization	459,631	459,631
Provision for loan losses	34,300,998	32,800,000
Deferred tax asset provision	(6,400,930)	(3,149,127)
Gain on sale of investments	(616,518)	(9,526,776)
Increase in taxes payable	4,645,560	6,635,486
Decrease (increase) in accrued interest receivable	2,789,347	(8,098,672)
Increase in accrued interest payable	4,949,898	3,584,482
Amortization of deferred net loan fees	(1,000,656)	394,770
Increase in loans held for sale	(16,620,907)	
Decrease in other assets	2,951,689	4,344,180
Increase (decrease) in other liabilities	10,796,240	(4,865,149)
Total adjustments	41,903,966	27,087,355
Net cash provided by operating activities	94,532,538	66,044,961
<b>Cash flows from investing activities:</b>		
Principal collected on loans	491,059,389	399,783,962
Loans originated	(532,005,574)	(592,510,027)
Purchase of loans	(354,645,777)	(202,888,515)
Proceeds from sale of investments available for sale	547,538,534	317,687,253
Purchase of securities held to maturity	(6,423,506,156)	(80,801,786)
Purchase of securities available for sale	(6,721,924,357)	(3,718,347,345)
Principal repayments and maturities of securities held to maturity	5,236,258,127	76,354,381
Principal repayments of securities available for sale	7,348,923,095	3,314,059,225
Additions to premises and equipment	(5,525,007)	(8,725,925)
Purchase of FHLB stock	(12,738,900)	(4,354,102)
Net cash used in investing activities	(426,566,626)	(499,742,879)
<b>Cash flows from financing activities:</b>		
Net increase in deposits	623,297,666	335,172,161
Net decrease in federal funds purchased and securities sold under repurchase agreements	(335,495,597)	(174,447,419)
FHLB advances paid/taken	(7,700,000)	227,000,000
Payments of notes payable		(6,446,115)
Dividends	(20,875,864)	(13,260,653)
Exercise of stock options	593,250	1,355,211
Issuance of preferred stock	88,906,000	89,900,000
Treasury stock acquired		(1,317,388)
Net cash provided by financing activities	348,725,455	457,955,797

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Net (decrease) increase in cash and cash equivalents	16,691,367	24,257,879
Cash and cash equivalents at beginning of period	94,463,118	65,392,939
	<hr/>	<hr/>
Cash and cash equivalents at end of period	\$ 111,154,485	\$ 89,650,818
	<hr/>	<hr/>
<b>Cash and cash equivalents include:</b>		
Cash and due from banks	\$ 68,144,854	\$ 75,515,308
Money market instruments	43,009,631	14,135,510
	<hr/>	<hr/>
	\$ 111,154,485	\$ 89,650,818
	<hr/>	<hr/>

**Supplemental disclosures of cash flow information:**

Cash paid during the period for:		
Interest	\$ 130,319,405	\$ 140,768,455
Income Taxes	7,236,912	2,965,487

The accompanying notes are an integral part of these statements.

**Table of Contents****FIRST BANCORP****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY  
(Unaudited)**

	<u>Preferred stock</u>	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Capital reserve</u>	<u>Legal surplus</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive income (loss)</u>
<b>December 31, 2000</b>	\$ 165,000,000	\$ 26,424,152	\$ 16,567,516	\$ 50,000,000	\$ 126,792,514	\$ 69,275,152	\$ (19,598,785)
Net income						86,001,444	
Other comprehensive income							13,305,431
Issuance of preferred stock	103,500,000		(3,430,750)				
Addition to legal surplus					10,000,000	(10,000,000)	
Addition to capital reserve				10,000,000		(10,000,000)	
Treasury stock acquired		(86,200)	(43,100)			(1,800,385)	
Stock options exercised		234,000	1,121,211				
Cash dividends:							
Common stock						(13,835,100)	
Preferred stock						(16,508,198)	
<b>December 31, 2001</b>	268,500,000	26,571,952	14,214,877	60,000,000	136,792,514	103,132,913	(6,293,354)
Net income						52,628,572	
Other comprehensive income							8,721,076
Issuance of preferred stock	92,000,000		(3,094,000)				
Stock options exercised		28,500	564,750				
Cash dividends:							
Common stock						(7,971,588)	
Preferred stock						(12,904,276)	
<b>June 30, 2002</b>	\$ 360,500,000	\$ 26,600,452	\$ 11,685,627	\$ 60,000,000	\$ 136,792,514	\$ 134,885,621	\$ 2,427,722

The accompanying notes are an integral part of these statements.

**Table of Contents****FIRST BANCORP****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Net income	\$26,979,054	\$ 20,171,799	\$52,628,572	\$38,957,606
Other comprehensive income, net of tax:				
Unrealized gain (losses) on securities:				
Unrealized holding gains (losses) arising during the period net of tax of \$7,392,746 (2001-\$4,280,397) for the quarter and \$3,061,155 (2001-\$2,178,859) for the six-month period	22,178,237	(12,841,190)	9,183,465	6,536,578
Less: reclassification adjustment for gains(losses) included in net income net of tax of \$52,832 (2001-\$734,472) for the quarter and \$154,129 (2001-\$2,381,694) for the six-month period	158,497	(2,203,415)	(462,389)	(7,145,082)
Cumulative effect of accounting change, net of tax benefit of \$331,500				994,500
Total other comprehensive (loss) income	22,336,734	(15,044,605)	8,721,076	385,996
Comprehensive income	\$49,315,788	\$ 5,127,194	\$61,349,648	\$39,343,602

The accompanying notes are an integral part of these statements.

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**FIRST BANCORP**

**PART I NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1 NATURE OF BUSINESS**

First BanCorp (the Corporation) is a financial holding company offering a full range of financial services. First BanCorp is subject to the Federal Bank Holding Company Act and to the regulations, supervision, and examination of the Federal Reserve Board.

FirstBank Puerto Rico (FirstBank or the Bank), the Corporation's wholly owned bank subsidiary, is a commercial bank chartered under the laws of the Commonwealth of Puerto Rico. Its main office is located in San Juan, Puerto Rico, and it has 44 full-service banking branches in Puerto Rico and four in the U.S. Virgin Islands. It also has loan origination offices in Puerto Rico focusing on consumer loans and residential mortgage loans. In addition, through its wholly-owned subsidiaries, FirstBank operates other offices in Puerto Rico specializing in small personal loans, finance leases and vehicle rental. The Bank offers brokerage services in selected branches through an alliance with a national brokerage house in Puerto Rico. The Bank is subject to the supervision, examination and regulation of the Office of the Commissioner of Financial Institutions of Puerto Rico and the Federal Deposit Insurance Corporation (FDIC), which insures its deposits through the Savings Association Insurance Fund (SAIF).

Effective August 2001, the Corporation entered into the insurance business through a wholly owned subsidiary, FirstBank Insurance Agency. This subsidiary is subject to the supervision, examination and regulation of the Office of the Commissioner of Insurance of Puerto Rico.

On April 25, 2002, the Corporation filed a Report on Form 8-K, reporting under item 5, a Definitive Agreement to acquire JPMorgan Chase's Eastern Caribbean Region business in the U.S. Virgin Islands, British Virgin Islands and Barbados. On August 8, 2002, the Corporation received the approval for this transaction from the U.S. Virgin Islands Banking Board. This transaction is pending other regulatory approvals. Management expects that the acquisition will be completed during the second semester of 2002.

**2 ACCOUNTING POLICIES**

The accounting and reporting policies of the Corporation and its subsidiaries conform with generally accepted accounting principles, and, as such, include amounts based on judgments, estimates and assumptions made by Management that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The accompanying unaudited financial statements have been prepared in accordance with the instructions for Form 10-Q. Complete information regarding the financial statements can be found in the notes to the financial statements for the year ended December 31, 2001 contained in the annual report of the Corporation. Certain amounts in the 2001 financial statements have been reclassified to conform with the 2002 presentation.

In the opinion of Management, the accompanying unaudited consolidated statements of financial condition and the related consolidated statements of income, of comprehensive income, of cash flows, and of changes in stockholders' equity include all adjustments (consisting only of normal recurring accruals) necessary for a fair statement of the Corporation's financial position at June 30, 2002, and the results of operations and the cash flows for the three and six months ended on June 30, 2002 and 2001. The results of operations for the three and six months ended on June 30, 2002, are not necessarily indicative of the results to be expected for the entire year.

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### **New accounting pronouncements**

During 2001 the Financial Accounting Standards Board (FASB) issued the following statements of financial accounting standards (SFAS):

*SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections* In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections. This statement rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, an amendment of APB Opinion No. 30, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as extraordinary item, net of related income tax effect. As a result, the criteria in Opinion No. 30 will now be used to classify those gains and losses. This amendment became effective on July 1, 2002. SFAS No. 145 also amends SFAS No. 13, Accounting for Leases, which requires that certain lease modifications that have economics effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. This amendment became effective for transactions occurring after May 15, 2002. The adoption of this statement did not have a significant impact on the Corporation's financial statements.

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

### **Goodwill and other intangible assets**

During 2001 the FASB issued the SFAS No. 142, Goodwill and Other Intangible Assets. This statement addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) at acquisition or subsequent to their acquisition. SFAS No. 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Specifically, under this statement, goodwill and other indefinite life intangibles will no longer be amortized but will be evaluated at least annually for impairment. The standard also provides a methodology for evaluating impairment of goodwill and other intangibles based on fair value. The provisions of this statement apply to fiscal years beginning after December 15, 2001. Retroactive application is not permitted. The Corporation does not have goodwill. Management has reviewed the Corporation's core deposit intangible assets, and determined that there is no impairment of the intangible assets and that the useful life of ten years used to amortize them is the best estimate of the economic benefit period. At June 30, 2002, the Corporation has a core deposit intangible with a carrying amount of \$6,739,808 (gross carrying amount of \$9,170,846 and accumulated amortization of \$2,431,038) included in the Other Assets category. The straight-line amortization expense for the period ended on June 30, 2002 amounted to \$459,631. The estimated aggregate amortization expense for each of the five succeeding fiscal years will amount to approximately \$919,260.

## **3 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Corporation adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, on January 1, 2001. Upon adoption of SFAS No. 133, as amended, a loss of approximately \$1.3 million was recognized in the statement of income as a cumulative effect, as a result of unamortized premium paid for interest rate caps of \$1.5 million less an estimated fair market value of \$200,000.

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At June 30, 2002, interest rate swap agreements with an aggregate notional amount of \$2,035.9 million under which the Corporation agrees to pay variable-rates of interest are considered to be a hedge against changes in the fair value of the Corporation fixed-rate certificates of deposit. The interest rate swap agreements are reflected at its fair value of \$8.1 million in the Corporation's consolidated statement of financial condition as a swap asset with a corresponding increase in certificates of deposit by the same amount. The hedge relationship is estimated to be 100 percent effective; therefore, there is no impact on the statement of income nor on comprehensive income.

Interest rate swaps under which the Corporation agrees to pay fixed-rates of interest are considered to be a hedge against changes in the fair value attributable to market interest rates of fixed rate available for sale corporate bonds. Accordingly, the interest rate swap agreements and the securities being hedged are reflected at fair value in the Corporation's consolidated statement of financial condition. The hedge relationship is estimated to be 100 percent effective; therefore, there is no impact on the statement of income. Interest rate swaps with an aggregate notional principal balance of \$25 million had an unrealized loss of approximately \$467,000 at June 30, 2002, attributable to credit risk which was recorded in accumulated comprehensive income net of income tax.

During the quarter ended on June 30, 2002, the Corporation sold certain corporate bonds to which interest rate swap agreements with an aggregate notional principal balance of \$53.2 million were attributable. Therefore, these swaps no longer qualify for hedge accounting, and an unrealized loss of \$2.4 million was recorded to reflect changes in the fair value of these derivatives as a derivative loss in the Other Income section of the statement of income.

The Corporation also writes covered call options on securities maintained in the portfolio. The Corporation receives a premium on these call options. Changes in the fair value of these call options are recorded as derivative income or loss in the statement of income. For the quarter ended on June 30, 2002, a total of \$132,737 was recorded as a derivative income in the Other Income section of the statement of income.

## **4 STOCKHOLDERS EQUITY**

### **Preferred stock**

The Corporation has 50,000,000 shares of authorized non-cumulative and non-convertible preferred stock with a par value of \$1, redeemable at the Corporation's option subject to certain terms. This stock may be issued in series and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. During the period ended on June 30, 2002, the Corporation issued 3,680,000 shares of preferred stock (4,140,000 shares-2001; 3,000,000 shares-2000; 3,600,000 shares-1999). The liquidation value per share is \$25. Annual dividends of \$1.8125 per share (issuance of 2002), of \$1.85 per share (issuance of 2001), of \$2.0875 per share (issuance of 2000) and of \$1.78125 per share (issuance of 1999), are payable monthly, if declared by the Board of Directors.

**Table of Contents****5 EARNINGS PER COMMON SHARE**

The calculations of earnings per common share for the three and six months ended on June 30, 2002 and 2001 are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
(In thousands, except per share data)				
Income before cumulative effect of accounting change and dividend on preferred stock	\$26,979	\$20,172	\$ 52,628	\$39,973
Dividend on preferred stock	(6,751)	(3,169)	(12,904)	(6,338)
	20,228	17,003	39,724	33,635
Income before cumulative effect of accounting change	20,228	17,003	39,724	33,635
Cumulative effect of accounting change				(1,015)
	20,228	17,003	39,724	32,620
Net income available to common stockholders	\$20,228	\$17,003	\$ 39,724	\$32,620
Earnings per common share basic:				
Weighted average common shares outstanding	26,575	26,597	26,573	26,550
	\$ 0.76	\$ 0.64	\$ 1.49	\$ 1.27
Income before cumulative effect of accounting change	\$ 0.76	\$ 0.64	\$ 1.49	\$ 1.27
Cumulative effect of accounting change				(0.04)
	\$ 0.76	\$ 0.64	\$ 1.49	\$ 1.23
Earnings per common share basic	\$ 0.76	\$ 0.64	\$ 1.49	\$ 1.23
Earnings per common share diluted:				
Weighted average common shares and share equivalents:				
Average common shares outstanding	26,575	26,597	26,573	26,550
Common stock equivalents Options	430	174	355	158
	27,005	26,771	26,928	26,708
Total	27,005	26,771	26,928	26,708
	\$ 0.75	\$ 0.64	\$ 1.48	\$ 1.26
Income before cumulative effect of accounting change	\$ 0.75	\$ 0.64	\$ 1.48	\$ 1.26
Cumulative effect of accounting change				(0.04)
	\$ 0.75	\$ 0.64	\$ 1.48	\$ 1.22
Earnings per common share diluted	\$ 0.75	\$ 0.64	\$ 1.48	\$ 1.22

Stock options outstanding under the Corporation's stock option plan for officers are common stock equivalents and, therefore, considered in the computation of earnings per common share diluted. Common stock equivalents were computed using the treasury stock method. At June 30, 2002, all options outstanding during the period have been included in the computation of outstanding shares. At June 30, 2001, 239,500 stock options were not included in the computation of outstanding shares because they were antidilutive.

**6 INVESTMENT SECURITIES**

The amortized cost, gross unrealized gains and losses, approximate market value, weighted average yield and maturities of investment securities were as follows:



**Table of Contents****Investment Securities Available For Sale**

	June 30, 2002					December 31, 2001				
	Amortized cost	Unrealized		Market value	Weighted average yield%	Amortized cost	Unrealized		Market value	Weighted average yield%
		gains	(losses)				gains	(losses)		
(Dollars in thousands)										
U.S. Treasury Securities:										
Within 1 year						\$ 7,726	\$ 30		\$ 7,756	3.18
Obligations of other U.S. Government Agencies:										
Within 1 year						407,324	\$ (32)		407,292	1.72
After 5 to 10 years	\$ 750	\$ 7		\$ 757	5.60	500	1		501	5.59
After 10 years	100,069	640	\$ (1,062)	99,647	7.57	87,519	469	(1,805)	86,183	7.55
Puerto Rico Government Obligations:										
After 5 to 10 years	4,872	156		5,028	6.25	4,458	128		4,586	6.19
After 10 years	5,659	272		5,931	6.31	5,932	151		6,083	6.34
United States and Puerto Rico Government Obligations										
	\$ 111,350	\$ 1,075	\$ (1,062)	\$ 111,363	7.44	\$ 513,459	\$ 779	\$ (1,837)	\$ 512,401	2.83
Mortgage backed securities:										
FHLMC certificates:										
Within 1 year						\$ 8			\$ 8	5.85
After 1 to 5 years	\$ 361	\$ 13		\$ 374	6.81	112	\$ 4		116	7.63
After 5 to 10 years	11,226	609		11,835	7.30	13,211	576		13,787	7.29
After 10 years	7,142	287		7,429	6.92	8,030	172	\$ (6)	8,196	6.95
	18,729	909		19,638	7.15	21,361	752	(6)	22,107	7.16
GNMA certificates:										
After 5 to 10 years	4,112	104	\$ (9)	4,207	6.41	4,605	101		4,706	6.39
After 10 years	1,855,803	30,765		1,886,568	6.45	2,515,953	12,672	(6,539)	2,522,086	6.52

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	<u>1,859,915</u>	<u>30,869</u>	<u>(9)</u>	<u>1,890,775</u>	6.45	<u>2,520,558</u>	<u>12,773</u>	<u>(6,539)</u>	<u>2,526,792</u>	6.52
FNMA certificates:										
Within 1 year	24			24	5.77					
After 1 to 5 years	64	2		66	7.10	158	4		162	6.92
After 5 to 10 years	94	5		99	7.29	124	5		129	7.32
After 10 years	<u>6,115</u>	<u>384</u>		<u>6,499</u>	7.51	<u>7,095</u>	<u>408</u>		<u>7,503</u>	7.96
	<u>6,297</u>	<u>391</u>		<u>6,688</u>	7.50	<u>7,377</u>	<u>417</u>		<u>7,794</u>	7.93
Mortgage pass through certificates:										
After 10 years	<u>1,452</u>	<u>21</u>		<u>1,473</u>	8.41	<u>1,958</u>	<u>38</u>		<u>1,996</u>	8.70
Mortgage backed securities	<u>\$ 1,886,393</u>	<u>\$ 32,190</u>	<u>\$ (9)</u>	<u>\$ 1,918,574</u>	6.46	<u>\$ 2,551,254</u>	<u>\$ 13,980</u>	<u>\$ (6,545)</u>	<u>\$ 2,558,689</u>	6.53
Corporate bonds:										
Within 1 year	\$ 8,774	\$ 70		\$ 8,844	7.55	\$ 19,246	\$ 410		\$ 19,656	7.70
After 1 to 5 years	86,471	799	\$(12,904)	74,366	6.27	118,919	1,770	\$(2,899)	117,790	6.68
After 5 to 10 years	57,378	743	(1,837)	56,284	7.66	114,855	77	(1,906)	113,026	7.34
After 10 years						18,531	328		18,859	7.35
Corporate bonds	<u>\$ 152,623</u>	<u>\$ 1,612</u>	<u>\$(14,741)</u>	<u>\$ 139,494</u>	6.87	<u>\$ 271,551</u>	<u>\$ 2,585</u>	<u>\$ (4,805)</u>	<u>\$ 269,331</u>	7.08
Equity securities (without contractual maturity)										
	<u>\$ 57,092</u>	<u>\$ 8,011</u>	<u>\$(23,372)</u>	<u>\$ 41,731</u>	1.24	<u>\$ 45,115</u>	<u>\$ 4,901</u>	<u>\$(16,189)</u>	<u>\$ 33,827</u>	1.43
Total Investments Securities Available for Sale										
	<u>\$ 2,207,458</u>	<u>\$ 42,888</u>	<u>\$(39,184)</u>	<u>\$ 2,211,162</u>	6.40	<u>\$ 3,381,379</u>	<u>\$ 22,245</u>	<u>\$(29,376)</u>	<u>\$ 3,374,248</u>	5.95

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

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The Corporation's bank subsidiary is restructuring its portfolio of mortgage backed securities available for sale, in order to shorten its duration to enable a future reinvestment, in the next two to four years, at expected higher interest rates. If rates stay at today's levels, the proceeds would be reinvested at these lower levels. As a result, during late June 2002, approximately \$550 million of 30 year mortgage backed securities and certain corporate bonds were sold. An additional amount of approximately \$600 million of 30 year mortgage backed securities was sold during the third quarter, before the filing of this report. These sales of securities were substantially substituted with \$900 million of 15 year mortgage backed securities which have a lower average life and yield, and which value is less sensitive to increases in interest rates.

It is the Corporation's policy to invest in corporate bonds, which at the time of the investment, are of an investment grade quality. The total carrying amount of the corporate bonds portfolio is \$203.6 million, or 5.4% of total investments of the Corporation as of June 30, 2002. During the second quarter of 2002, two of the bonds in the FirstBank's portfolio were downgraded to non-investment grade quality by the credit rating agencies. These were, WorldCom Corporation, \$15.5 million outstanding at the time of the downgrade and Nortel Networks Corporation, \$23.5 million outstanding at the time of the downgrade. Management performed an impairment analysis on these securities and determined that an other-than-temporary impairment of approximately \$11.7 million had occurred in the case of the WorldCom Corporation bonds. The estimated impairment amount of this security was recognized as a loss in accordance with SFAS No. 115 in the statement of income. In addition, Management reclassified to non-accruing status the remaining carrying amount of \$3.8 million as presented in the Non performing Assets section of the Management Discussion Analysis of this report.

The Corporation's equity securities portfolio carrying amount is \$41.7 million, and its cost is \$57.1 million as of June 30, 2002. The Corporation's current policy guidelines limit the equities portfolio investments to \$60 million, which is 1.6% of the Corporation's total investments as of June 30, 2002. Management performed an impairment analysis on the Corporation's investment in equity securities and determined that an other-than-temporary impairment had occurred in the case of a \$2.3 million investment in WorldCom Corporation shares of common stock. In accordance with SFAS No. 115, the Corporation recorded a loss in the statement of income for such amount on this investment.

At June 30, 2002, Management determined that except for the impairment on the WorldCom Corporation bonds and stock, there are no other-than-temporary impairments on the rest of the bonds and equity securities portfolio. Management will continue monitoring the Corporation's investment on individual corporate bonds and equity securities to identify any other-than-temporary impairment in accordance with SFAS No.115. Future other-than-temporary impairments may occur that would need to be recognized as a loss.

For the six-month ended on June 30, 2002, proceeds from the sale of securities amounted to \$547.5 million (2001 \$317.7 million) resulting in gross realized gains of \$15.4 million (2001 \$10.3 million), and gross realized losses of \$14.8 million (2001 \$822,034).

**Table of Contents****Investment Securities Held to Maturity**

	June 30, 2002				December 31, 2001					
	Amortized cost	Unrealized		Market value	Weighted average yield %	Amortized cost	Unrealized		Market value	Weighted average yield %
		gains	(losses)				gains	(losses)		
(Dollars in thousands)										
U.S. Treasury Securities:										
Within 1 year	\$ 19,380			\$ 19,380	1.65					
Obligations of U.S. Government Agencies:										
Within 1 year	860,090		\$ (115)	859,975	1.84					
After 10 years	518,634	\$ 4,789	(1,893)	521,530	7.70	\$ 211,194	\$ 3	\$(6,466)	\$ 204,731	7.39
Puerto Rico Government Obligations:										
After 1 to 5 years	5,000	25		5,025	5.00	5,000			5,000	5.00
After 10 years	4,217	404		4,621	6.50	4,084	228		4,312	6.50
United States and Puerto Rico Government Obligations										
	\$ 1,407,321	\$ 5,218	\$ (2,008)	\$ 1,410,531	4.02	\$ 220,278	\$ 231	\$(6,466)	\$ 214,043	7.32
Corporate bonds:										
After 1 to 5 years	\$ 64,223	\$ 8	\$ (153)	\$ 64,078	3.46	\$ 64,018		\$ (277)	\$ 63,741	3.49
Total Investment Securities Held to Maturity										
	\$ 1,471,544	\$ 5,226	\$ (2,161)	\$ 1,474,609	4.00	\$ 284,296	\$ 231	\$(6,743)	\$ 277,784	6.46

Expected maturities of mortgage backed securities and certain other securities might differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. At January 1, 2001, in connection with the adoption of SFAS No. 133, the Corporation transferred a portfolio of \$207 million of GNMA certificates from held to maturity into the available for sale category. The unrealized gain of \$994,500, net of taxes, was reflected in other comprehensive income as a cumulative effect of the change in accounting principle.

**7 INVESTMENT IN FHLB STOCK**

At June 30, 2002 and December 31, 2001, there were investments in FHLB stock with book value of \$35,629,500 and \$22,890,600, respectively. The estimated market value of such investments is its redemption value.

**Table of Contents****8 LOANS RECEIVABLE**

The following is a detail of the loan portfolio:

	June 30, 2002	December 31, 2001
(In thousands)		
Residential real estate loans:		
Secured by first mortgages:		
Conventional	\$ 1,170,043	\$ 955,573
Insured by government agencies:		
Federal Housing Administration and Veterans Administration	34,967	25,211
Puerto Rico Housing Bank and Finance Agency	21,229	23,513
Secured by second mortgages	7,242	8,088
	<u>1,233,481</u>	<u>1,012,385</u>
Deferred net loan fees	(5,085)	(5,107)
	<u>1,228,396</u>	<u>1,007,278</u>
Residential real estate loans	1,228,396	1,007,278
Commercial loans:		
Construction loans	214,647	219,396
Commercial loans	1,289,359	1,238,173
Commercial mortgage	777,341	688,922
	<u>2,281,347</u>	<u>2,146,491</u>
Commercial loans	2,281,347	2,146,491
Finance leases	138,617	127,935
Consumer and other loans:		
Personal	361,505	362,490
Personal lines of credit	10,757	11,216
Auto	498,087	502,902
Boat	47,177	39,570
Credit card	162,771	176,226
Home equity reserve loans	1,646	1,851
Unearned interest	(61,754)	(71,810)
	<u>1,020,189</u>	<u>1,022,445</u>
Consumer and other loans	1,020,189	1,022,445
Loans receivable	4,668,549	4,304,149
Allowance for loan losses	(104,150)	(91,060)
	<u>4,564,399</u>	<u>4,213,089</u>
Loans receivable-net	4,564,399	4,213,089
Loans held for sale	21,521	4,630
	<u>\$ 4,585,920</u>	<u>\$ 4,217,719</u>
Total loans	\$ 4,585,920	\$ 4,217,719

**9 IMPAIRED LOANS**

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At June 30, 2002, the Corporation had \$31.3 million (\$10.7 million at December 31, 2001) in commercial and real estate loans over \$1,000,000 considered impaired with an allowance of \$7.6 million (\$3.7 million at December 31, 2001), of which \$7.1 million was established based on the fair value of the collateral (2001-\$2 million) and \$500,000 was established based on the present value of expected future cash flows (2001-\$1.7 million). The allowance for impairment loans is part of the allowance for loan losses. The average recorded investment in impaired loans amounted to \$17 million for the six months ended on June 30, 2002 (2001 - \$11.9 million). Interest income in the amount of approximately \$570,000 and \$84,000 was recognized on impaired loans for the period ended on June 30, 2002 and 2001, respectively.

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**10 SEGMENT INFORMATION**

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

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

The accounting policies of the segments are the same as those described in Note 2 of the Corporation's financial statements for the year ended December 31, 2001 contained in the annual report of the Corporation.

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

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

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The following table presents information about the reportable segments (in thousands):

	<u>Retail</u>	<u>Treasury and Investments</u>	<u>Commercial Corporate</u>	<u>Other</u>	<u>Total</u>
<b>For the quarter ended June 30, 2002:</b>					
Interest income	\$ 54,842	\$ 51,553	\$ 29,953		\$ 136,348
Net (charge) credit for transfer of funds	(12,681)	26,999	(14,318)		
Interest expense	(14,560)	(53,264)			(67,824)
Net interest income	27,601	25,288	15,635		68,524
Provision for loan losses	(8,383)		(6,117)		(14,500)
Other income	9,977	(2,295)	1,103	\$ 2,212	10,997
Direct operating expenses	(18,173)	(527)	(1,359)	(158)	(20,217)
Segment income	\$ 11,022	\$ 22,466	\$ 9,262	\$ 2,054	\$ 44,804
Average earning assets	\$ 2,230,054	\$ 3,571,237	\$ 2,178,420		\$ 7,979,711
<b>For the period ended June 30, 2002:</b>					
Interest income	\$ 108,592	\$ 104,774	\$ 59,698		\$ 273,064
Net (charge) credit for transfer of funds	(23,770)	52,071	(28,301)		
Interest expense	(29,276)	(105,993)			(135,269)
Net interest income	55,546	50,852	31,397		137,795
Provision for loan losses	(21,328)		(12,972)		(34,300)
Other income	19,430	(1,309)	2,083	\$ 3,283	23,487
Direct operating expenses	(35,068)	(1,076)	(2,776)	(276)	(39,196)
Segment income	\$ 18,580	\$ 48,467	\$ 17,731	\$ 3,007	\$ 87,786
Average earning assets	\$ 2,174,623	\$ 3,646,760	\$ 2,156,930		\$ 7,978,313
<b>For the quarter ended June 30, 2001:</b>					
Interest income	\$ 54,398	\$ 37,099	\$ 34,680		\$ 126,177
Net (charge) credit for transfer of funds	(3,846)	24,865	(21,019)		
Interest expense	(18,860)	(49,217)			(68,077)
Net interest income	31,692	12,747	13,661		58,100
Provision for loan losses	(14,790)		(3,010)		(17,800)
Other income	9,625	3,107	909	\$ 700	14,341
Direct operating expenses	(17,277)	(444)	(1,343)	(61)	(19,125)
Segment income	\$ 9,250	\$ 15,410	\$ 10,217	\$ 639	\$ 35,516
Average earning assets	\$ 1,927,782	\$ 2,327,290	\$ 1,727,054		\$ 5,982,126
<b>For the period ended June 30, 2001:</b>					
Interest income	\$ 108,394	\$ 74,612	\$ 71,921		\$ 254,927
Net (charge) credit for transfer of funds	(5,047)	49,786	(44,739)		
Interest expense	(38,966)	(105,387)			(144,353)
Net interest income	64,381	19,011	27,182		110,574
Provision for loan losses	(27,243)		(5,557)		(32,800)
Other income	17,931	9,860	2,013	\$ 1,021	30,825
Direct operating expenses	(32,951)	(885)	(2,555)	(119)	(36,510)
Segment income	\$ 22,118	\$ 27,986	\$ 21,083	\$ 902	\$ 72,089
Average earning assets	\$ 1,895,539	\$ 2,299,078	\$ 1,694,546		\$ 5,889,164





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

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
Net income:				
Total income for segments	\$ 44,804	\$ 35,515	\$ 87,786	\$ 72,089
Other operating expenses	(11,631)	(11,091)	(24,501)	(23,526)
Income taxes	(6,193)	(4,252)	(10,657)	(8,590)
Income before cumulative effect of accounting change	26,980	20,172	52,628	39,973
Cumulative effect of accounting change				(1,015)
<b>Total consolidated net income</b>	<b>\$ 26,980</b>	<b>\$ 20,172</b>	<b>\$ 52,628</b>	<b>\$ 38,958</b>
Average assets:				
Total average earning assets for segments	\$7,979,711	\$5,982,126	\$7,978,313	\$5,889,164
Average non earning assets	318,514	370,904	318,802	329,687
<b>Total consolidated average assets</b>	<b>\$8,298,225</b>	<b>\$6,353,030</b>	<b>\$8,297,115</b>	<b>\$6,218,851</b>

**11 INCOME TAX**

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

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.****SELECTED FINANCIAL DATA**

	Three Months Ended June 30,		Six Months Ended June 30	
	2002	2001	2002	2001
<b>Condensed income statements (in thousands):</b>				
Interest income	\$ 136,348	\$ 126,178	\$ 273,064	\$ 254,928
Interest expense	67,825	68,077	135,269	144,353
Net interest income	68,523	58,101	137,795	110,575
Provision for loan losses	14,500	17,800	34,301	32,800
Net interest income after provision for loan losses	54,023	40,301	103,494	77,775
Other income	11,209	11,403	22,872	21,298
Gain on sale of investments	(211)	2,938	617	9,527
Other operating expense	31,848	30,218	63,697	60,037
Income before income tax expense and cumulative effect of accounting change	33,173	24,424	63,286	48,563
Income tax expense	6,194	4,252	10,657	8,590
Income before cumulative effect of accounting change	26,979	20,172	52,629	39,973
Cumulative effect of accounting change				(1,015)
Net income	\$ 26,979	\$ 20,172	\$ 52,629	\$ 38,958
Net income available to common stockholders	\$ 20,228	\$ 17,003	\$ 39,724	\$ 32,620
<b>Per common share results (diluted):</b>				
Income before cumulative effect of accounting change	\$ 0.75	\$ 0.64	\$ 1.48	\$ 1.26
Cumulative effect of accounting change				(0.04)
Net income per common share	\$ 0.75	\$ 0.64	\$ 1.48	\$ 1.22
Cash dividends declared	\$ 0.15	\$ 0.13	\$ 0.30	\$ 0.26
<b>Selected financial ratios (in percent):</b>				
Average yield on earning assets (1)	7.41	8.77	7.47	8.93
Cost of interest bearing liabilities	3.74	4.92	3.74	5.34
Interest rate spread (1)	3.67	3.85	3.73	3.59
Net interest margin (1)	4.04	4.28	4.09	4.06
Net income to average total assets	1.30	1.27	1.27	1.25
Net income to average total equity	15.07	17.39	15.12	17.00
Net income to average common equity	22.75	22.91	22.53	22.33
Average equity to average total assets	8.63	7.30	8.39	7.37
Dividend payout ratio	19.70	20.39	20.07	21.22
Efficiency ratio (2)	40.05	41.71	39.49	42.46

June 30,

December 31,

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	2002	2001
<b>Regulatory capital ratios (in percent):</b>		
Total capital to risk weighted assets	15.81	14.50
Tier 1 capital to risk weighted assets	13.54	12.16
Tier 1 capital to average assets	8.19	7.49
<b>Balance sheet data (in thousands):</b>		
Loans and loans held for sale	\$4,690,070	\$4,308,780
Allowance for loan losses	104,150	91,060
Investments	3,761,345	3,715,999
Total assets	8,649,007	8,197,518
Deposits	4,743,721	4,098,554
Borrowings	3,080,851	3,425,236
Total common equity	372,392	334,419
Total equity	732,892	602,919
Book value per common share	\$ 14.00	\$ 12.59
Number of full service branches	48	48
Loan origination offices	43	43

- 
- (1) On a taxable equivalent basis.
- (2) Other operating expenses to the sum of net interest income and other income.

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**RESULTS OF OPERATIONS**

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

For the quarter ended on June 30, 2002, the Corporation recorded earnings of \$26,979,054 or \$0.76 per common share (basic) and \$0.75 per share (diluted), a per share increase of 17.2% as compared to earnings of \$20,171,799 or \$0.64 per common share (basic and diluted) for the second quarter of 2001. Earnings for the six months ended on June 30, 2002 amounted to \$52,628,572 or \$1.49 per common share (basic) and \$1.48 per common share (diluted), as compared to earnings of \$38,957,606 or \$1.23 per common share (basic) and \$1.22 per common share (diluted) for the same period of 2001. On a per share basis-diluted, earnings for the six months ended on June 30, 2002 increased by 21.3% as compared to earnings for the six months ended on June 30, 2001.

**Net Interest Income**

Net interest income for the three and six months ended on June 30, 2002 increased by \$10.4 million and \$27.2 million, respectively, as compared with the same periods in 2001; or by \$16.7 million and \$43.4 million on a taxable equivalent basis. The interest rate spread and net interest margin, on a taxable equivalent basis, amounted to 3.67% and 4.04%, respectively, for the second quarter of 2002 as compared to 3.85% and 4.28%, respectively, for the second quarter of 2001. The interest rate spread and net interest margin on a taxable equivalent basis, amounted to 3.73% and 4.09%, respectively, for the six months ended on June 30, 2002 as compared to 3.59% and 4.06%, respectively, for the six months ended on June 30, 2001.

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

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	Average volume		Six months ended June 30, Interest income (1) / expense		Average rate (1)	
	2002	2001	2002	2001	2002	2001
(Dollars in thousands)						
<b>Earning assets:</b>						
Money market instruments	\$ 50,924	\$ 17,348	\$ 461	\$ 375	1.83%	4.36%
Government obligations	876,699	567,671	26,214	19,043	6.03%	6.76%
Mortgage backed securities	2,371,471	1,450,139	90,933	52,396	7.73%	7.29%
FHLB stock	29,577	20,774	719	656	4.90%	6.37%
Corporate bonds	305,643	247,011	10,256	10,512	6.77%	8.58%
<b>Total investments</b>	<b>3,634,314</b>	<b>2,302,943</b>	<b>128,583</b>	<b>82,982</b>	<b>7.13%</b>	<b>7.27%</b>
Residential real estate loans	1,081,403	790,703	34,114	32,054	6.36%	8.17%
Construction	212,409	217,881	5,713	9,690	5.42%	8.97%
Commercial loans	1,987,221	1,497,514	54,176	62,231	5.50%	8.38%
Finance leases	133,291	126,400	7,312	7,367	11.06%	11.75%
Consumer loans	1,020,168	1,040,249	69,146	70,437	13.67%	13.65%
<b>Total loans (2)</b>	<b>4,434,492</b>	<b>3,672,747</b>	<b>170,461</b>	<b>181,779</b>	<b>7.75%</b>	<b>9.98%</b>
<b>Total earning assets</b>	<b>\$ 8,068,806</b>	<b>\$ 5,975,690</b>	<b>\$ 299,044</b>	<b>\$ 264,761</b>	<b>7.47%</b>	<b>8.93%</b>
<b>Interest-bearing liabilities:</b>						
Deposits	\$ 4,233,784	\$ 3,283,354	\$ 66,280	\$ 85,654	3.16%	5.26%
Other borrowed funds	2,731,440	1,958,174	61,193	53,586	4.52%	5.52%
FHLB advances	325,781	205,092	7,797	5,112	4.83%	5.03%
<b>Total interest-bearing liabilities</b>	<b>\$ 7,291,005</b>	<b>\$ 5,446,620</b>	<b>\$ 135,270</b>	<b>\$ 144,352</b>	<b>3.74%</b>	<b>5.34%</b>
<b>Net interest income</b>			<b>\$ 163,774</b>	<b>\$ 120,409</b>		
<b>Interest rate spread</b>					<b>3.73%</b>	<b>3.59%</b>
<b>Net interest margin</b>					<b>4.09%</b>	<b>4.06%</b>

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

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

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	Three months ended on June 30, 2002 compared to 2001			Six months ended on June 30, 2002 compared to 2001		
	Variance due to volume	Variance due to rate	Total variance	Variance due to volume	Variance due to rate	Total variance
(In thousands)						
Interest income on earning assets:						
Money market instruments	\$ 211	\$ (257)	\$ (46)	\$ 519	\$ (433)	\$ 86
Government obligations	5,523	74	5,597	9,856	(2,685)	7,171
Mortgage backed securities	16,614	320	16,934	35,148	3,389	38,537
FHLB stock	172	(21)	151	248	(185)	63
Corporate bonds	(549)	(1,618)	(2,167)	2,187	(2,443)	(256)
<b>Total investments</b>	<b>21,971</b>	<b>(1,502)</b>	<b>20,469</b>	<b>47,958</b>	<b>(2,357)</b>	<b>45,601</b>
Consumer loans	(695)	202	(493)	(1,369)	78	(1,291)
Real estate loans	5,518	(4,404)	1,114	10,556	(8,496)	2,060
Construction loans	(203)	(1,529)	(1,732)	(212)	(3,765)	(3,977)
Commercial loans	8,204	(11,128)	(2,924)	17,076	(25,131)	(8,055)
Finance leases	194	(228)	(34)	394	(449)	(55)
<b>Total loans</b>	<b>13,018</b>	<b>(17,087)</b>	<b>(4,069)</b>	<b>26,445</b>	<b>(37,763)</b>	<b>(11,318)</b>
<b>Total interest income</b>	<b>34,989</b>	<b>(18,589)</b>	<b>16,400</b>	<b>74,403</b>	<b>(40,120)</b>	<b>34,283</b>
Interest expense on interest bearing liabilities:						
Deposits	10,159	(17,812)	(7,653)	20,082	(39,456)	(19,374)
Other borrowed funds	8,243	(1,194)	7,049	19,370	(11,763)	7,607
FHLB advances	375	(22)	353	2,962	(277)	2,685
<b>Total interest expense</b>	<b>18,777</b>	<b>(19,028)</b>	<b>(251)</b>	<b>42,414</b>	<b>(51,496)</b>	<b>(9,082)</b>
<b>Change in net interest income</b>	<b>\$ 16,212</b>	<b>\$ 439</b>	<b>\$ 16,651</b>	<b>\$ 31,989</b>	<b>\$ 11,376</b>	<b>\$ 43,365</b>

Total interest income includes tax equivalent adjustments based on the Puerto Rico income tax rate of \$12.8 million and \$26.0 million for the three and six months ended on June 30, 2002, respectively, and of \$6.6 million and \$9.8 million for the three and six months ended on June 30, 2001, respectively. The adjustments have been made on debt securities (primarily United States and Puerto Rico government obligations) and on loans guaranteed by United States and Puerto Rico government agencies. The computation considers the interest expense disallowance as required by the Puerto Rico tax law.

**Interest Income**

Interest income increased by \$10.2 million and \$18.1 million for the three and six months ended on June 30, 2002, respectively, as compared to the same periods for 2001. When adjusted to a taxable equivalent basis, interest income increased by \$16.4 million and \$34.3 million for the three and six months ended on June 30, 2002, respectively, as compared to the same periods in 2001. The yield on earning assets, on a taxable equivalent basis, amounted to 7.41% and 8.77% for the three months ended on June 30, 2002 and 2001, respectively; and 7.47% and 8.93% for the six months ended on June 30, 2002 and 2001, respectively. The improvement in the interest income for the periods analyzed was due to the increase in the average volume of earning assets, partially offset by a lower yield due to lower market rates. The average volume of earning assets increased by \$2,010 million and \$2,093 million for the three and six months ended on June 30, 2002, respectively, as compared to the

same periods in 2001.



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The average volume of total investments increased by \$1,231.6 million and \$1,331.4 million for the three and six month period ended on June 30, 2002 as compared with the same periods in 2001, mostly concentrated in government obligations and mortgage backed securities.

The average volume of the loan portfolio increased by \$778.0 million and \$761.7 million for the three and six months ended on June 30, 2002, respectively, as compared with the same periods in 2001, mostly concentrated in residential real estate and commercial loans.

**Interest Expense**

Interest expense decreased by \$252,000 and \$9.1 million for the three and six months ended on June 30, 2002, respectively, as compared with the amounts recorded in the same periods of 2001. The decrease in the interest expense for the period ended on June 30, 2002 when compared with the same period last year, was the result of a decrease in the cost of interest bearing liabilities, due to lower market rates, causing a positive rate variance of \$19 million and \$51.5 million, for the three and six months period ended June 30, 2002. This positive effect was partially offset with an increase in the average volume of interest bearing liabilities generating a negative volume variance of \$18.8 million and \$42.4 million, for the three and six months period ended June 30, 2002. The cost of interest bearing liabilities decreased from 4.92% and 5.34% for the three and six month periods ended on June 30, 2001 to 3.74% for the three and six month periods ended on June 30, 2002.

**Provision for Loan Losses**

For the three and six months ended on June 30, 2002, the Corporation provided \$14.5 million and \$34.3 million for loan losses, as compared to \$17.8 million and \$32.8 million for the same periods of 2001. The provision for loan losses recorded for such periods was necessary to maintain the allowance for loan losses on the loan portfolio at a level that Management considers adequate to absorb losses inherent in the portfolio. The Corporation establishes a quarterly allowance for loan losses based on its asset classification report to cover the total amount of any assets classified as a loss, the probable loss exposure of other classified assets, and a percentage of the assets not classified. The adequacy of the allowance for loan losses is also based upon a number of additional factors including historical loan loss experience, current economic conditions, fair value of the underlying collateral, financial condition of the borrowers, and, as such, includes amounts based on judgments and estimates made by Management. Although Management believes that the allowance for loan losses is adequate, factors beyond the Corporation's control, including factors affecting the Puerto Rico economy, may contribute to delinquencies and defaults thus necessitating additional reserves.

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.

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The following table sets forth an analysis of the activity in the allowance for loan losses during the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
(Dollars in thousands)				
Allowance for loan losses, beginning of period	\$ 99,467	\$ 77,639	\$ 91,060	\$ 76,919
Provision for loan losses	14,500	17,800	34,301	32,800
<b>Loans Charge-Offs:</b>				
Residential real estate	(2)		(38)	(107)
Commercial	(1,420)	(2,160)	(2,266)	(7,185)
Finance leases	(369)	(689)	(1,102)	(1,352)
Consumer	(9,819)	(10,501)	(21,424)	(20,625)
Total charge-offs	(11,610)	(13,350)	(24,830)	(29,269)
<b>Recoveries of loans previously charged-off:</b>				
Commercial	180	21	191	82
Finance leases	90	42	160	96
Consumer	1,523	1,857	3,268	3,381
Total recoveries	1,793	1,920	3,619	3,559
Net charge-offs	(9,817)	(11,430)	(21,211)	(25,710)
Allowance for loan losses, end of period	\$ 104,150	\$ 84,009	\$ 104,150	\$ 84,009
Allowance for loan losses to total loans	2.22%	2.18%	2.22%	2.18%
Net charge-offs annualized to average loans outstanding during the period	0.87%	1.22%	0.96%	1.40%

**Table of Contents****Other Income**

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
<b>(Dollars in thousands)</b>				
Other fees on loans	\$ 5,465	\$ 5,171	\$ 10,728	\$ 9,795
Service charges on deposit accounts	2,354	2,385	4,833	4,770
Mortgage banking activities	896	825	1,310	933
Rental income	577	559	1,128	1,096
Insurance income	570		996	
Other commissions	333	702	770	802
Dividend on equity securities	170	169	328	333
Other operating income	3,098	1,592	5,033	3,569
Other income before gain (loss) on investments and derivative income (loss)	13,463	11,403	25,126	21,298
Gain (loss) on sale of investments	13,961	2,938	15,039	9,527
Impairment on investments	(14,172)		(14,422)	
Gain (loss) on investments	(211)	2,938	617	9,527
Derivative loss	(2,254)		(2,254)	
<b>Total</b>	<b>\$ 10,998</b>	<b>\$ 14,341</b>	<b>\$ 23,489</b>	<b>\$ 30,825</b>

Other income primarily consists of fees on loans; service charges on deposit accounts; commissions derived from various banking, securities and insurance activities; net gains (losses) on sale of investments; and derivative income. Other fees on loans consist mainly of credit card fees and late charges collected on loans. The increase of approximately \$294,000 and \$933,000 during the three and six months ended on June 30, 2002, respectively, when compared with the same periods last year was mainly due to fees generated on the increased portfolio of loans.

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

Mortgage banking activities income reflects the servicing fees on residential mortgage loans originated by the Corporation and subsequently securitized or sold, and gain on sale of loans.

The Corporation's subsidiary, First Leasing and Rental Corporation, generates income on the rental of various types of motor vehicles.

Insurance income includes the commissions earned by the new subsidiary FirstBank Insurance Agency, Inc.

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

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

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The gain (loss) on investment securities reflects gains or losses as a result of sales that are in consonance to the Corporation's investment policies as well as impairments on securities held in the portfolio. During the second quarter of 2002 losses on the impairment of certain securities were realized as explained in Note 6 of this report. In addition, during the quarter ended on June 30, 2002 gains of \$14 million on the sale of mortgage backed securities and corporate bonds were realized, as part of the Bank's restructuring of the investment portfolio, as explained in Note 6 of this report.

The derivative income (loss) includes an unrealized loss of \$2.4 million due to the valuation to fair value of a portfolio of swaps that does not qualify for hedge accounting in accordance with SFAS No. 133, as previously explained in Note 3 of this report.

**Other Operating Expenses**

The following table presents the detail of other operating expenses for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
	(Dollars in thousands)			
Employees' compensation and benefits	\$ 14,438	\$ 13,463	\$ 28,818	\$ 26,593
Occupancy and equipment	6,862	6,018	13,690	11,828
Business promotion	2,455	2,248	5,098	4,272
Taxes	1,644	1,355	3,287	2,700
Insurance	722	580	1,359	1,118
Net cost (gain) of operations and disposition of other real estate owned	(70)	27	51	128
Professional fees	751	619	1,491	1,164
Servicing and processing fees	1,359	1,188	2,644	2,503
Communications	1,352	1,368	2,651	2,659
Supplies and printing	457	325	741	658
Other	1,878	3,027	3,867	6,414
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$31,848	\$30,218	\$63,697	\$60,037
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Operating expenses increased to \$31.8 million and \$63.7 million for the three and six months ended on June 30, 2002, respectively, as compared to \$30.2 million and \$60.0 million for the same periods in 2001. The increase in operating expenses for 2002 is mainly the result of technology investments and the general growth in the subsidiary Bank's operations.

Management's goal has been to make only expenditures that contribute clearly and directly to increase the efficiency and profitability of the Corporation. This control over other operating expenses has been an important factor contributing to the improvement 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, was 39.49% for the six months period ended June 30, 2002 as compared to 42.5% for the same period last year.

**Table of Contents****Provision for Income Tax**

The provision for income tax amounted to \$10.7 million (or 16.8% of pretax earnings) for the six months ended on June 30, 2002 as compared to \$8.6 million (or 17.7% of pretax earnings) for the same period in 2001. The Corporation has maintained an effective tax rate lower than the statutory rate of 39% mainly by investing in obligations and loans exempt from federal and Puerto Rico income taxes.

**FINANCIAL CONDITION****Assets**

Total assets as of June 30, 2002 amounted to \$8,649 million, an increase of \$451 million as compared to total assets as of December 31, 2001 of \$8,198 million. The increase was mainly the result of an increase of \$381.3 million in total loans and \$45.3 million in total investments and money market instruments.

The composition of loans receivable:

	June 30, 2002	December 31, 2001	Increase (Decrease)
(Dollars in thousands)			
Residential real estate loans	\$ 1,249,917	\$ 1,011,908	\$ 238,009
Commercial real estate loans	777,341	688,922	88,419
Construction loans	214,647	219,396	(4,749)
Commercial loans	1,289,359	1,238,173	51,186
<b>Total commercial</b>	<b>2,281,347</b>	<b>2,146,491</b>	<b>134,856</b>
Finance leases	138,617	127,935	10,682
Consumer and other loans	1,020,189	1,022,445	(2,256)
<b>Total</b>	<b>\$ 4,690,070</b>	<b>\$ 4,308,779</b>	<b>\$ 381,291</b>

The fluctuation in the loans receivable category was the net result of total loan origination and purchases of \$886.7 million and repayments and other adjustments of \$505.4 million. The Corporation continued its strategy of diversifying its loan portfolio composition through the origination of commercial loans and residential real estate loans. This resulted in an increase of \$134.9 million in the commercial loan portfolio and of \$238 million in residential real estate loans. Finance leases, which are mostly composed of loans to individuals to finance the acquisition of an auto, increased by \$10.7 million.

**Non-performing Assets**

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

At June 30, 2002, total non-performing assets amounted to \$79.4 million (0.92% of total assets) as compared to \$79 million (0.96% of total assets) at December 31, 2001 and \$74 million (1.25% of total assets) at December 31, 2000. The Corporation s allowance for loan losses to non-performing loans ratio was 148.1% at June 30, 2002 as compared to 124.7% and 113.6% at December 31, 2001 and 2000, respectively.

Past due loans are loans delinquent 90 days or more as to principal and/or interest and still accruing interest.

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

	June 30, 2002	December 31, 2001                      2000	
(Dollars in thousands)			
<b>Non-accruing loans:</b>			
Residential real estate	\$ 18,544	\$18,540	\$15,977
Commercial and commercial real estate	32,106	29,378	31,913
Finance leases	2,514	2,469	2,032
Consumer	17,167	22,611	17,794
	<u>70,331</u>	<u>72,998</u>	<u>67,716</u>
Other real estate owned (OREO)	1,184	1,456	2,981
Other repossessed property	4,147	4,596	3,374
Investment securities	3,750		
	<u>\$ 79,412</u>	<u>\$79,050</u>	<u>\$74,071</u>
Past due loans	\$ 24,823	\$27,497	\$16,358
Non-performing assets to total assets	0.92%	0.96%	1.25%
Non-performing loans to total loans	1.50%	1.69%	1.94%
Allowance for loan losses	\$104,150	\$91,060	\$76,919
Allowance to total non-performing loans	148.09%	124.74%	113.59%

**Non-accruing Loans**

**Residential Real Estate Loans** The Corporation classifies all residential real estate loans delinquent 90 days or more in non-accruing status. Even though these loans are in non-accruing status, Management considers based on the value of the underlying collateral and the loan to value ratios, that no material losses will be incurred in this portfolio. Management's understanding is based on the historical experience of the Corporation. Non-accruing residential real estate loans amounted to \$18.5 million (1.48% of total residential real estate loans) at June 30, 2002, as compared to \$19 million (1.83% of total residential real estate loans) and \$16 million (2.14% of total residential real estate loans) at December 31, 2001 and 2000, respectively.

**Commercial Loans** The Corporation places all commercial loans (including commercial real estate and construction loans) 90 days delinquent as to principal and interest in non-accruing status. The risk exposure of this portfolio is diversified. Non-accruing commercial loans amounted to \$32.1 million (1.41% of total commercial loans) at June 30, 2002 as compared to \$29 million (1.37% of total commercial loans) and \$32 million (2.01% of total commercial loans) at December 31, 2001 and 2000, respectively. At June 30, 2002, there were only one non-accruing commercial loan of over \$1 million, of \$1.4 million.

**Finance Leases** Finance leases are classified as non-accruing status when they are delinquent 90 days or more. Non-accruing finance leases amounted to \$2.5 million (1.81% of total finance leases) at June 30, 2002, as compared to \$2 million (1.93% of total finance leases) and \$2 million (1.65% of total finance leases) at December 31, 2001 and 2000, respectively.

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

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Non-accruing consumer loans amounted to \$17.2 million (1.68% of the total consumer loan portfolio) at June 30, 2002, \$23 million (or 2.21% of the total consumer loan portfolio) at December 31, 2001 and \$18 million (or 1.71% of the total consumer loan portfolio) at December 31, 2000.

### **Other Real Estate Owned (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.

### **Other Repossessed Property**

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

### **Investment securities**

This category presents the carrying amount of \$3.8 million of the Bank's investment in WorldCom Corporation bonds which was reclassified to non-accruing status on June 30, 2002 as explained in Note 6 of this 10-Q.

### **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**

As of June 30, 2002, total liabilities amounted to \$7,916 million, an increase of \$321 million as compared to \$7,595 million as of December 31, 2001. The increase in total liabilities was mainly due to: (1) an increase in total deposits of \$645 million; (2) an increase in accounts payable and other liabilities of \$20.7 million; net of a decrease in federal funds and securities sold under agreements to repurchase of \$336.7 million; and (4) a decrease in advances from FHLB of \$7.7 million.

The Corporation maintains unsecured standby lines of credit with other banks. At June 30, 2002, the Corporation's total unused lines of credit with these banks amounted to approximately \$180,000,000 (2001 - \$180,000,000). At June 30, 2002, the Corporation has an available line of credit with the FHLB guaranteed with excess collateral, in the amount of \$44,644,982. At June 30, 2002, the Corporation has available collateral that can be pledged with the FHLB to obtain additional line of credit in the amount of \$604,377,482.

### **Capital**

Total stockholders' equity as of June 30, 2002 amounted to \$733 million, increasing by \$130 million from the amount as of December 31, 2001. The increase was mainly the result of earnings for the period ended on June 30, 2002 of \$52.6 million, the issuance of 3,680,000 shares of preferred stock at \$89 million, the issuance of 28,500 shares of common stock through the exercise of stock options with proceeds of \$593,250, the positive fluctuation in the valuation of securities available for sale of \$8.7 million, reduced by dividends paid of \$20.9 million.

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

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

At June 30, 2002 and December 31, 2001, the most recent notification from FDIC, categorized the Corporation as a well capitalized institution under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Corporation must maintain minimum total risk based, Tier 1 risk based and Tier 1 leverage ratios as set forth in the following table. Management believes that there are no conditions or events since that date that have changed that classification.

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

	Regulatory requirements					
	Actual		For capital adequacy purposes		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
At June 30, 2002						
Total Capital (to Risk-Weighted Assets):						
First BanCorp	\$ 789,966	15.81%	\$ 399,693	8%	\$ 499,616	10%
FirstBank	619,669	12.46%	398,000	8%	497,500	10%
Tier I Capital (to Risk-Weighted Assets):						
First BanCorp	\$ 676,485	13.54%	\$ 199,846	4%	\$ 299,770	6%
FirstBank	506,450	10.18%	199,000	4%	298,500	6%
Tier I Capital (to Average Assets):						
First BanCorp	\$ 676,485	8.19%	\$ 247,809	3%	\$ 413,015	5%
FirstBank	506,450	6.20%	245,176	3%	408,626	5%
At December 31, 2001						
Total Capital (to Risk-Weighted Assets):						
First BanCorp	\$ 678,679	14.50%	\$ 374,498	8%	\$ 468,123	10%
FirstBank	590,652	12.75%	370,472	8%	463,090	10%
Tier I Capital (to Risk-Weighted Assets):						
First BanCorp	\$ 569,255	12.16%	\$ 187,249	4%	\$ 280,874	6%
FirstBank	481,850	10.41%	185,236	4%	277,854	6%
Tier I Capital (to Average Assets):						
First BanCorp	\$ 569,255	7.49%	\$ 228,074	3%	\$ 380,124	5%
FirstBank	481,850	6.40%	225,738	3%	376,231	5%



**Table of Contents****Dividends**

During the period ended June 30, 2002, the Corporation declared a quarterly cash dividend of \$0.15 per common share representing a 15% increase over the quarterly cash dividend of \$0.13 per common share declared for the same period in 2001. Total dividends declared per common share for the period ended on June 30, 2002 amounted to \$8.0 million for an annualized dividend payout ratio of 20.07% as compared to \$6.9 million for the period ended June 30, 2001 (or a 21.22% dividend payout ratio). Dividends declared on preferred stock amounted to \$12.9 million for the period ended on June 30, 2002 as compared to \$6.3 million for the same period last year.

**Contractual Obligations and Commitments**

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

	Total	Less than 1 year	1-3 years	4-5 year	After 5 years
<b>Contractual Obligations:</b>					
Federal funds purchased and securities sold under agreements to repurchase, excluding accrued interest	\$2,649,830	\$574,870	\$156,500		\$1,818,460
Advances from FHLB	336,000	13,000	50,000	\$100,000	273,000
Subordinated Notes	84,363		84,363		
<b>Total Contractual Cash Obligations</b>	<b>\$3,070,193</b>	<b>\$587,870</b>	<b>\$290,863</b>	<b>\$100,000</b>	<b>\$2,091,460</b>
<b>Other Commitments:</b>					
Lines of Credit	\$ 304,726	\$304,726			
Standby Letters of Credit	24,929	24,929			
Other Commercial Commitments	657,834	657,834			
<b>Total Commercial Commitments</b>	<b>\$ 987,489</b>	<b>\$987,489</b>			

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

The Corporation has obligations to make future payments under lease agreements contracts. The maturities of the operational leases are included on page 75 of the Corporation's annual report to security holders for the year ended December 31, 2001.

**Critical Accounting Policies and Practices**

The information required herein is incorporated by reference from page 43 of the annual report to security holders for the year ended December 31, 2001.

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**Liquidity**

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

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information required herein is incorporated by reference from pages 41 to 43 of the annual report to security holders for the year ended December 31, 2001.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The Corporation is a defendant in a number of legal proceedings arising out of, and incidental to its business. Based on its review with counsel on the development of these matters to date, Management is of the opinion that the ultimate aggregate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the accompanying consolidated financial statements.

**ITEM 2. CHANGES IN SECURITIES**

Not applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**ITEM 5. OTHER INFORMATION**

For the preparation of the Corporation's earnings release dated July 16, 2002, total average assets and total average earning assets were inadvertently erroneously calculated. As a result, the following numbers and ratios, which are computed based on the above-mentioned average balances were incorrectly presented in the release. The net interest margin for the six months ended June 30, 2002 was 4.09% as compared to 4.01% presented in the earnings release. Total average earning assets for the six month period ended June 30, 2002 was \$8,069 million as compared to \$8,232 million presented on the earnings release. Total average earning loans for the six months period ended June 30, 2002 was \$4,434 million as compared to \$4,597 million presented on the earnings release. Net write offs to average loans for the six month ended June 30, 2002 was 0.96% instead of 0.92% as reported in the earnings release. Average earnings assets, average loans, net interest margin and the net write offs to average loans for the quarter ended June 30, 2002 were correctly presented in the release. Total average assets for the three and six month period ended June 30, 2002 was \$8,298 million and \$8,297 million, respectively, as compared to \$8,266 million and \$8,281 million, respectively, presented on the earnings release. The return on assets for the quarter ended on June 30, 2002 was 1.30% instead of 1.31% as reported in the earnings release. The return on assets for the six month period ended on June 30, 2002 was correctly presented in the release.

**ITEM 6. EXHIBITS AND REPORT ON FORM 8-K**

Not applicable.

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**SIGNATURES**

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Corporation has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

**First BanCorp.**

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Name of the Corporation

Date: August 15, 2002

By: /s/ Angel Alvarez-Pérez, Esq

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

Date: August 15, 2002

By: /s/ Annie Astor-Carbonell

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