FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. 0001057706-99-000003

(HTML Version on secdatabase.com)

FILER

FIRST BANCORP /PR/
CIK:**1057706**| IRS No.: **000000000** | State of Incorp.:**PR** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **001-14793** | Film No.: **99573999**
SIC: **6035** Savings institution, federally chartered

Mailing Address
1519 PONCE DE LEON AVE
SAN JUAN PR 00908

Business Address
1519 PONCE DE LEON AVE
SANTUREE
SAN JUAN PR 00908
7877298200

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

FORM 10-K

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

For the fiscal year ended December 31, 1998	Commission File 001-14793

First BanCorp.
(Exact name of Corporation as specified in its charter)

Puerto Rico	66-0561882
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1519 Ponce de Leon Avenue, Stop 23	
Santurce, Puerto Rico	00908
(Address of principal office)	(Zip Code)

Corporation's telephone number, including area code:

(787) 729-8200

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

Common Stock ($1.00 par value)
Title of Class

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

Not applicable

Indicate by check mark whether the Corporation (1) has filed all reports required to be filed 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 ___

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

State the aggregate market value of the voting stock held by nonaffiliates of the Corporation: $558,182,136 (based on the closing sales price of $24 at March 15, 1999 for such shares). Number of shares of Common Stock outstanding as of March 15, 1999:

29,145,552

Documents Incorporated by Reference

(1) Portions of the annual report to security holders for the fiscal year ended December 31, 1998 are incorporated by reference in Part I, II and IV; and (2) Portions of the definite proxy statement filed on March 19, 1999 are incorporated by reference in Part III and IV.

FIRST BANCORP

CONTENTS

PART I
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

PART II

PART III

PART IV

</TABLE>

PART I

Item 1. Business

GENERAL

First BanCorp. (the Corporation) is a publicly owned bank holding company, registered under the Bank Holding Company Act of 1956, as amended and, accordingly, subject to the supervision and regulation by the Federal Reserve Board. The Corporation was incorporated on March 17, 1998 under the laws of the Commonwealth of Puerto Rico to serve as the bank holding company for FirstBank Puerto Rico (FirstBank or the Bank). As a result of this reorganization consummated on October 1st, 1998, each of the Bank's outstanding shares of common stock was converted into one share of common stock of the new bank holding company. This reorganization was carried out pursuant to an Agreement and Plan of Merger by and between the Corporation and the Bank.

Based on total assets, the Corporation is the second largest locally owned bank holding company headquartered in the Commonwealth of Puerto Rico and the third largest depository institution in Puerto Rico. The Corporation had total assets of $4.017 billion, total deposits of $1.775 billion and total tangible stockholders' equity of $270.4 million at December 31, 1998.

The Corporation's only subsidiary, FirstBank, conducts its business through its main office located in San Juan, Puerto Rico, 38 full-service branches in Puerto Rico and two branches in the U.S. Virgin Islands of St. Thomas and St. Croix. The Bank also has nine loan origination offices focusing on personal loans and credit cards, and four loan origination offices focusing on auto loans. First chartered in 1948, FirstBank was the first savings and loan association established in Puerto Rico. It has been a stockholder-owned institution since January 1987. Effective at the close of business on October 31, 1994, FirstBank converted to a Puerto Rico chartered commercial bank. The Bank is subject to supervision, examination and regulation by the Office of the Commissioner of Financial Institutions of Puerto Rico (the Commissioner) and the Federal Deposit Insurance Corporation (FDIC), which insures its deposits through the Savings Association Insurance Fund (SAIF). FirstBank has two subsidiaries, First Leasing and Rental Corporation, a vehicle leasing and daily rental company with six offices, and First Federal Finance Corp. D/B/A Money Express "La Financiera," a small loan company with 26 offices.

The Corporation has distinguished itself by providing innovative marketing strategies and novel products to attract clients. Besides the branches and lending offices described above, the Corporation has offered a telephone information service called "Telebanco" since 1983. This was the first telebanking service offered in Puerto Rico. The Corporation's clients have access to an extensive ATM network with access in the U.S. Virgin Islands, the U.S. mainland and all over the world. The Corporation was the first institution in Puerto Rico to accept loan applications by fax, and was also the first banking institution in Puerto Rico with a presence on the Internet. Clients can now submit applications for some loans by way of the Corporation's web site. The Corporation was also the first in Puerto Rico to open on weekends and the first to offer in-store branches to its clients. The Corporation is committed to continue providing the most efficient and cost effective banking services possible in selected products niches. Management's long term goal is to transform the Corporation into a conservatively managed, diversified financial institution in order to position itself to deliver superior financial performance.

The information under the caption "1998: the Year in Review" on pages 12 to 15 and the information under Note 34 - Segment Information on pages 67 to 69 of the Corporation's annual report to security holders for the year ended December 31, 1998 is incorporated herein by reference.

SUPERVISION AND REGULATION

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

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

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

State Chartered Non-Member Bank. FirstBank is subject to extensive regulation and examination by the Commissioner and the FDIC, and subject to certain requirements established by the Federal Reserve Board. The federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing and availability of deposited funds and the nature and amount of and collateral for certain loans. In addition to the impact of regulations, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to influence the economy.

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

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

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

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

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

Capital Requirements. The Federal Reserve Board has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the Bank Holding Company Act. The Federal Reserve Board capital adequacy guidelines generally require bank holding companies to maintain total capital equal to 8% of total risk-adjusted assets, with at least one-half of that amount consisting of Tier I or core capital and up to one-half of that amount consisting of Tier II or supplementary capital. Tier I capital for bank holding companies generally consists of the sum of common stockholders' equity and

perpetual preferred stock, subject in the case of the latter to limitations on the kind and amount of such stocks which may be included as Tier I capital, less goodwill and, with certain exceptions, intangibles. Tier II capital generally consists of hybrid capital instruments, perpetual preferred stock which is not eligible to be included as Tier I capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, generally allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics, with the categories ranging from 0% (requiring no additional capital) for assets such as cash to 100% for the bulk of assets which are typically held by a bank holding company, including multi-family residential and commercial real estate loans, commercial business loans and commercial loans. Off-balance sheet items also are adjusted to take into account certain risk characteristics.

In addition to the risk-based capital requirements, the Federal Reserve Board requires bank holding companies to maintain a minimum leverage capital ratio of Tier I capital to total assets of 3.0%. Total assets for this purpose does not include goodwill and any other intangible assets and investments that the Federal Reserve Board determines should be deducted from Tier I capital. The Federal Reserve Board has announced that the 3.0% Tier I leverage capital ratio requirement is the minimum for the top-rated bank holding companies without a supervisory, financial or operational weaknesses or deficiencies or those which are not experiencing or anticipating significant growth. Other bank holding companies will be expected to maintain Tier I leverage capital ratios of at least 4.0% or more, depending on their overall condition. At December 31, 1998, the Corporation exceeded each of its capital requirements and was a well-capitalized institution as defined in the Federal Reserve Board regulations.

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

The FDIC also requires that banks meet a risk-based capital standard. The risk-based capital standard for banks requires the maintenance of total capital (which is defined as Tier I capital and supplementary (Tier 2) capital) to risk weighted assets of 8%. In determining the amount of risk-weighted of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item. The components of Tier I capital are equivalent to those discussed above under the 3% leverage capital standard. The components of supplementary capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and generally allowances for loan and lease losses. Allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital.

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

goodwill and certain purchased mortgage servicing rights. At December 31, 1998, the Bank exceeded each of its capital requirements and was a well-capitalized institution as defined in the FDIC regulations.

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

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

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

The Banking Law requires every bank to maintain a legal reserve which shall not be less than twenty percent (20%) of its demand liabilities, except government deposits (federal, state and municipal) which are secured by actual collateral. The reserve is required to be composed of any of the following securities or combination thereof: (1) legal tender of the United States; (2) checks on banks or trust companies located in any part of Puerto Rico, to be presented for collection during the day following that on which they are received, and (3) money deposited in other banks provided said deposits are authorized by the Commissioner, subject to immediate collection.

The Banking Law permits Puerto Rico commercial banks to make loans to any one person, firm, partnership or corporation, up to an aggregate amount of fifteen percent (15%) of paid-in capital and reserve fund of the commercial bank. If such loans are secured by collateral worth at least twenty-five percent (25%) more than the amount of the loan, the aggregate maximum amount may reach one third of the paid-in capital of the commercial bank, plus its reserve fund. There are no restrictions under the Banking Law on the amount of loans which are wholly secured by bonds, securities and other evidences of indebtedness of the Government of the United States, of the Commonwealth of

Puerto Rico, or by bonds, not in default, of municipalities or instrumentalities of the Commonwealth of Puerto Rico.

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

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

The Banking Law requires that Puerto Rico commercial banks strike each year a general balance of their operations, and to submit such balance for approval to a regular general meeting of stockholders, together with an explanatory report thereon. The Banking Law also requires that at least ten percent (10%) of the yearly net income of a Puerto Rico commercial bank be credited annually, to a reserve fund. This apportionment is required to be done every year until such reserve fund shall be equal to the total paid in capital of the bank.

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

The Finance Board, which is composed of the Commissioner, the Secretary of the Treasury, the Secretary of Commerce, the Secretary of Consumer Affairs, the President of the Housing Bank, the President of the Government Development Bank of Puerto Rico, and three public interest representatives, has the authority to regulate the maximum interest rates and finance charges that may be charged on loans to individuals and unincorporated businesses in Puerto Rico. The current regulations of the Finance Board provide that the applicable interest rate on loans to individuals and unincorporated businesses, including real estate development loans but excluding certain other personal and commercial loans secured by mortgages on real estate properties, is to be determined by free competition. The Finance Board also has authority to regulate the maximum finance charges on retail installment sales contracts, which are currently set at 21%, and for credit card purchases, which are currently set at 26%. There is no maximum rate set for installment sales contracts involving motor vehicles, commercial, agricultural and industrial equipment, commercial electric appliances and insurance premiums.

MARKET AREA AND COMPETITION

Puerto Rico, where the banking market is highly competitive, is the main geographic service area of the Corporation. At December 31, 1998, Puerto Rico had 17 banking institutions with a total of approximately $43 billion in assets according to industry statistics published by the Commissioner. The Corporation ranked third based on total assets at December 31, 1998. The other largest banks in order of size were Banco Popular de Puerto Rico and Banco Santander Puerto Rico. Puerto Rico banks are subject to the same federal laws, regulations and supervision that apply to similar institutions on the United States mainland.

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

The Corporation encounters intense competition in attracting and retaining deposits and in its consumer and commercial lending activities. The Corporation competes for loans with other financial institutions, some of which are larger and have available resources greater than those of the Corporation. There can be no assurance that in the future the Corporation will be able to continue to increase its deposit base or originate loans in the manner or on the terms on which it has done so in the past.

Management believes that the Corporation has been able to compete effectively for deposits and loans by offering a variety of transaction account products and loans with competitive features, by pricing its products at competitive interest rates and by offering convenient branch locations and emphasizing the quality of its service. The Corporation's ability to originate loans depends primarily on the rates and fees charged and the service it provides to its borrowers in making prompt credit decisions.

FINANCIAL CONDITION

The Corporation's total assets at December 31, 1998 amounted to $4,017.4 million, $690.0 million over the $3,327.4 million at December 31, 1997. The increase in total assets was mainly the result of an increase in total investments of $523.6 million plus an increase of $150.6 million in loans receivable (net of the allowance for loan losses) and loans held for sale.

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

The following table presents an average balance sheet as of the dates indicated:
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	December 31, 1998	1997	1996
	(In thousands)		
Assets			
Interest earning assets:			
Deposits at Bank and other short term investments	$ 40,766	$ 67,969	$ 36,883
Government obligations	319,777	404,517	405,221
Mortgage backed securities	1,032,632	428,804	255,926
Other investment	1,150	519	3,920
FHLB stock	10,252	10,150	11,701
Consumer loans	1,032,704	1,090,991	985,554
Real estate loans	642,112	567,446	552,385
Commercial loans	324,426	250,757	207,745
Total interest earning assets	3,403,819	2,821,153	2,459,335
Allowance for loan losses	(58,613)	(52,287)	(53,089)
Total non-interest earnings assets	148,331	143,643	133,421
Total assets	$ 3,493,537	$2,912,509	$2,539,667
Liabilities and Stockholders' Equity			
Interest bearing liabilities:			
Deposits	$1,494,530	$1,502,975	$1,441,612
Other borrowed funds	1,559,892	1,012,757	718,407
FHLB advances	4,515	15,157	25,637
Total interest bearing liabilities	3,058,937	2,530,889	2,185,656
Total non-interest bearing liabilities	182,369	168,515	170,348
Total liabilities	3,241,306	2,699,404	2,356,004
Stockholders' equity	252,231	213,105	183,663
Total liabilities and stockholders' equity	$3,493,537	$2,912,509	$2,539,667

</TABLE>

The following table sets forth the maturity distribution of earning assets at December 31, 1998:
<TABLE>

<S> <C> <C> <C> <C> <C> <C>

As of December 31, 1998
Maturities

		After one year through five years		After five years		
	One year or less	Fixed interest rates	Variable interest rates	Fixed interest rates	Variable interest rates	Total
	(In thousands)					
Money market securities	$ 526					$ 526
Investment and trading securities	312,830	$ 34,605	$ 2,585	$1,421,489	$ 28,454	1,799,963
Loans:						
Commercial	68,890	62,390	44,867	29,701	162,701	368,549
Construction	13,232		50,707			63,939
Lease financing	23,636	28,578				52,214
Consumer	319,919	653,995		27,184		1,001,098
Residential Mortgage	14,902	40,241	2,257	250,512		307,912
Commercial Mortgage	18,999	5,871	90,624	17,580	193,268	26,342
Total Loans	459,578	791,075	188,455	324,977	355,969	2,120,054
Total	$ 772,934	$ 825,680	$191,040	$1,746,466	$384,423	$3,920,543

</TABLE>

LENDING ACTIVITIES

First BanCorp's lending activities are concentrated in the consumer and commercial lines of business. At December 31, 1998 total consumer loans amounted to $1,001.1 million, total commercial loans to $811.0 million, including $326.3 million in commercial real estate loans and $63.9 million in construction loans that for financial reporting purposes are presented within the real estate category, and total residential mortgage loans to $307.9 million. The consumer loan portfolio consists principally of auto loans, personal loans and credit cards. The Corporation's portfolio of commercial loans is composed in its majority of asset based financing and commercial mortgage loans. First BanCorp continues to originate long-term fixed rate residential real estate loans to maintain this portfolio at the same level of prior years.

The following table sets forth the composition of First BanCorp 's total loan portfolio and the percentage of loans in each category to total loans in the Corporation's portfolio at the dates indicated.

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	1998	1997	1996	1995	1994
			(In thousands)		
Real estate loans:					
Secured by first mortgages:					
Residential	$237,561	$223,098	$224,253	$ 231,744	$ 313,270
Commercial	326,342	306,734	256,227	210,645	175,415
Construction, land acquisition and land improvements	162,474	15,400	12,407	12,088	19,783
Insured by government agencies:					
Federal Housing Administration and Veterans Administration	8,185	10,176	9,282	12,418	6,505
Puerto Rico Housing Corporation and Finance Agency	38,516	44,073	50,016	55,325	61,210
Secured by second mortgages	13,256	14,171	14,375	23,208	16,907
	786,334	613,652	566,560	545,428	593,090
Less:					
Loans in process	(98,535)	(6,121)	(2,198)	(2,855)	(5,971)
Deferred loan fees	(10,246)	(9,138)	(8,531)	(8,461)	(8,484)
	677,553	598,393	555,831	534,112	578,635
Commercial loans:					
Commercial loans	368,549	235,571	174,770	156,369	117,564
Finance Leases	52,214	42,500	58,481	32,965	9,278
	420,763	278,071	233,251	189,334	126,842

Consumer loans:					
Auto	512,116	512,938	510,083	329,296	255,112
Personal	472,588	676,965	749,732	619,549	412,979
Credit card	125,956	116,734	109,259	79,164	64,459
Boat	32,209	29,145	29,458	30,168	35,718
Home equity reserve	3,385	4,282	5,828	6,811	9,037
Agency for International Development	128	148	651	795	929
Unearned finance interest	(145,284)	(267,599)	(305,870)	(238,146)	(155,683)
	1,001,098	1,072,613	1,099,141	827,637	622,551
Loans receivable	2,099,413	1,949,077	1,888,223	1,551,083	1,328,028
Loans held for sale	20,642	10,225	7,851	5,523	173,244
Total loans	2,120,054	1,959,302	1,896,074	1,556,606	1,501,272
Less - Allowance for loan losses	(67,854)	(57,712)	(55,254)	(55,009)	(37,412)
Loans receivable - net	$2,052,200	$1,901,590	$1,840,821	$1,501,597	$1,463,860

</TABLE>

The following table sets forth the composition of First BanCorp's total loan portfolio before the allowance for loan losses and the weighted average taxable equivalent interest rates of loans in each category at December 31, 1998.

<TABLE>
<S> <C> <C>

	December 31, 1998 (In thousands)	Weighted average rate
Real estate loans	$ 698,194	9.54%
Commercial loans	420,763	9.03%
Consumer and other loans (net of unearned interest)		
Auto	416,898	12.56%
Personal	425,834	16.92%
Credit card	125,956	15.50%
Boat	28,897	10.91%
Home equity reserve loans	3,385	12.88%
Agency for International Development	128	8.15%
Total consumer and other loans	1,001,098	14.76%
Total	$2,120,054	11.91%

</TABLE>

Loan Activity

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

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	For the year ended December 31, 1998	1997	1996	1995	1994
	(Dollars in thousands)				
Beginning balance	$1,901,590	$1,840,821	$1,501,597	$1,463,860	$1,207,475
Consumer loans originated	371,333	569,620	823,884	663,056	631,021
Commercial loans originated	285,812	125,604	125,814	118,123	43,339
Real estate loans originated(1)	149,096	132,248	99,402	94,527	173,320
Total loans originated	806,241	827,472	1,049,100	875,706	847,680
Purchase of loans	1,330		446		31,903
Sales of loans		(1,250)		(360,428)	(6,488)
Repayments and securitization of loans into mortgage backed securities	(559,727)	(665,175)	(654,450)	(436,616)	(584,269)
Other decreases(2)	(97,234)	(100,278)	(55,872)	(40,925)	(32,441)
Net increase	150,610	60,769	339,224	37,737	256,385

Ending balance	$2,052,200	$1,901,590	$1,840,821	$1,501,597	$1,463,860
	==========	==========	==========	==========	==========
Percentage increase	7.92%	3.30%	22.59%	2.58%	21.23%

(1) Includes commercial real estate loans.
(2) Includes the change in the allowance for loan losses and cancellation of loans due to the repossession of the collateral.
</TABLE>

Non-Performing Assets

The following table presents non-performing assets as of the dates indicated:
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	December 31,		
	1998	1997	1996
	(In thousands)		
Past due loans:			
Commercial	$ 6,986	$ 2,023	$ 2,412
Consumer:			
Personal	4,385	6,745	6,011
Credit cards	3,739	2,776	1,329
Total consumer	8,124	9,521	7,340
Total past due loans	15,110	11,544	9,752
Non-accruing loans:			
Real estate	17,399	12,249	12,795
Commercial	12,823	16,143	12,712
Consumer:			
Personal	3,868	5,125	4,370
Auto	20,753	18,225	19,360
Boat	1,864	923	1,083
Credit cards		10	286
HERL	251	264	556
Total Consumer	26,736	24,547	25,655
Total non-accruing loans	56,958	52,939	51,162
Non-performing loans	72,068	64,483	60,914
Other real estate owned (OREO)	3,642	1,132	1,696
Other repossessed property:			
Repossessed autos	1,929	7,354	6,949
Repossessed boats	348	1,348	617
Total other repossessed property	2,277	8,702	7,566
Total non-performing assets	$77,987	$74,317	$70,176
	=======	=======	=======
Non-performing assets to total assets	1.94%	2.23%	2.49%
Allowance for loan losses	$67,854	$57,712	$55,254
Allowance to total non-performing loans	94.15%	89.50%	90.71%

</TABLE>

Non-performing loans consist of non-accruing loans (loans as to which interest is no longer being recognized) and past due loans (loans delinquent 90 days or more as to principal and/or interest, but still accruing interest).

INVESTMENT ACTIVITIES

The Corporation's investment is managed by the Treasury and Investment Division, under the supervision of the Senior Vice President, Treasury and Investments, who reports to the Corporation's Senior Executive Vice President and Chief Financial Officer. Investment policy is set by the Corporation's Asset Liability Management and Investment Committee (the ALCO), which includes the President and Chief Executive Officer, the Senior Executive Vice President and Chief Financial Officer, the Senior Executive Vice President and Chief Lending Officer, the Executive Vice President

President of Money Express, the Senior Vice President - Treasury and Investments, and the Corporation's Economist. Significant investment transactions are reported to the ALCO and on a monthly basis to the Board of Directors through the expanded ALCO, which consists of officers who are members of the ALCO plus two outside directors, one of whom acts as chairman.

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

SOURCES OF FUNDS

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

Deposit Accounts

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

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Weighted average rates at December 31, 1998	December 31, 1998	1997	1996
		(Dollars in thousands)		
Non-interest bearing checking accounts		$173,104	$ 140,099	$ 135,707
Saving accounts	2.92%	416,424	403,129	412,511
Interest bearing checking accounts	3.52%	130,883	121,452	115,899
Certificate accounts	5.35%	1,054,634	929,955	1,039,809
Total		$1,775,045	$1,594,635	$1,703,926
Weighted average rate on interest bearing deposits	4.57%			
Total deposits as a percentage of total assets		44.18%	47.92%	60.38%
Weighted average rate during period on interest bearing deposits		4.71%	4.80%	4.92%

The following table presents the average amounts of and the average rate paid on certain deposit categories as of each date indicated:

	1998 Average Outstanding Amount	1998 Interest Rate	1997 Average Outstanding Amount	1997 Interest Rate	1996 Average Outstanding Amount	1996 Interest Rate
Deposits:			(Dollars in thousands)			
Non-interest bearing checking accounts	$ 145,357		$ 127,256		$ 126,661	
Savings accounts	398,249	2.94%	400,998	3.03%	399,036	3.10%
Interest bearing checking accounts	123,847	3.62%	116,852	3.57%	121,947	3.50%
Certificate accounts	972,433	5.58%	985,124	5.67%	920,629	5.90%
	$1,639,886	4.29%	$1,630,230	4.43%	$1,568,273	4.52%

</TABLE>

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

The following table presents a maturity summary of certificates of deposits with balances of $100,000 or more at December 31, 1998.

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	(In thousands)
Three months or less	$238,481
Over three months to six months	80,402
Over six months to one year	63,633
Over one year	284,857
Total	$667,374

</TABLE>

Borrowings

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

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Weighted average rates at December 31,	December 31,		
	1998	1998	1997	1996
		(Dollars in thousands)		
Borrowings:				
Federal funds purchased and securities sold under agreements to repurchase	5.03%	$1,620,630	$ 965,869	$584,857
FHLB-N.Y. advances	5.13%	2,600	29,000	14,100
Notes payable	5.42%	118,100	132,350	186,433
Other short-term borrowings	6.38%	86,595	231,505	
Subordinated notes	8.14%	99,496	99,423	99,351
Total	5.27%	$1,927,421	$1,458,147	$884,741
Total borrowed funds as a percentage of total assets		47.98%	43.82%	31.35%
Weighted average rate during period		5.41%	5.67%	5.65%
Short-term borrowings:				
Securities sold under agreements to repurchase:				
Average balance outstanding		$1,220,717	$565,095	$455,552
Maximum amount outstanding at any month end during period		$1,638,714	$965,870	$584,857
Weighted average interest rate during the period		5.07%	5.08%	5.04%
Other short-term borrowings:				
Average balance outstanding		$111,237	$176,657	
Maximum amount outstanding at any month end during period		$224,780	$250,000	
Weighted average interest rate during period		6.39%	6.10%	

</TABLE>

CAPITAL

At December 31, 1998, total common stockholders' equity for the Corporation amounted to $270.4 million, an increase of $34 million as compared to $236.4 million at December 31, 1997.

The Corporation's actual and required ratios and amounts of total risk-based capital, Tier I risk-based capital and Tier I leverage at December 31, 1998 and for the Bank at December 31, 1998 and 1997 were as follows:

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Actual		Regulatory requirements: For capital adequacy purposes		Regulatory requirements: To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 1998			(Dollars in thousands)			
Total Capital (to Risk-Weighted Assets):						
First BanCorp	$377,939	17.39%	$173,835	8%	$217,294	10%
FirstBank	372,015	17.12%	173,817	8%	217,271	10%
Tier I Capital (to Risk-Weighted Assets):						
First BanCorp	$250,910	11.55%	$86,917	4%	$130,376	6%
FirstBank	244,989	11.28%	86,909	4%	130,363	6%
Tier I Capital (to Average Assets):						
First BanCorp	$250,910	6.59%	$152,272	4%	$190,340	5%
FirstBank	244,989	6.44%	152,272	4%	190,340	5%

	Actual		Regulatory requirements: For capital adequacy purposes		Regulatory requirements: To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 1998			(Dollars in thousands)			
Total Capital (to Risk-Weighted Assets):						
FirstBank	$348,359	17.26%	$161,452	8%	$201,816	10%
Tier I Capital (to Risk-Weighted Assets):						
FirstBank	$223,481	11.07%	$80,726	4%	$121,089	6%
Tier I Capital (to Average Assets):						
FirstBank	$223,481	7.44%	$120,101	4%	$150,126	5%

</TABLE>

Employees

At December 31, 1998 the Corporation employed 1,750 persons. None of its employees are represented by a collective bargaining group. The Corporation considers its employees' relations to be good.

Item 2. Properties

At December 31, 1998 First BanCorp owned three main offices premises, 12 branch and office premises, and four loan centers. All these premises are located in Puerto Rico. In addition, at December 31, 1998, the Corporation leased in Puerto Rico 26 branch premises, 35 loan and office centers and seven other facilities. The Corporation leased two branch premises in the Virgin Islands. Management believes that the Corporation's properties are well maintained and are suitable for the Corporation's business as presently conducted.

Main offices:

1. Headquarters Offices - Located at First Federal Building, 1519 Ponce de Leon Avenue, Santurce, Puerto Rico, a 16 story office building. Approximately 50% of the building and an underground three levels parking lot are owned by the Corporation.

2. EDP & Operations Center - A five story structure located at 1506 Ponce de Leon Avenue, Santurce, Puerto Rico. These facilities are fully occupied by the Corporation.

3. Personal Lending and Branch Administration Center - A three story building with a three levels parking lot located at 876 Munoz Rivera Avenue, corner Jesus T. Pinero Avenue, Hato Rey , Puerto Rico. These facilities are fully occupied by the Corporation.

Item 3. Legal Proceedings

The information required herein is incorporated by reference from page 69 of the annual report to security holders for the year ended December 31, 1998 (see Exhibit C to this Form 10-K).

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

No matters were voted upon during the fourth quarter of 1998.

PART II

Item 5. Market for Corporation's Common Equity and Related Stockholder Matters

a) Market Information

The information required herein is incorporated by reference from page 35 of the annual report to security holders for the year ended December 31, 1998.

b) Holders

The information required herein is incorporated by reference from page 35 of the annual report to security holders for the year ended December 31, 1998.

c) Dividends

The Corporation has a policy providing for the payment of quarterly cash dividends on its outstanding shares of common stock. Accordingly, the Corporation declared a cash dividend of $0.05 per share for each quarter of 1996, $0.06 per share for each quarter of 1997 and $0.075 per share for each quarter of 1998.

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

Resident U.S. Citizens

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

Nonresident U.S. Citizens

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

U.S. Corporations and Partnerships

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

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

Item 6. Selected Financial Data

The information required herein is incorporated by reference from page 21 of the annual report to security holders for the year ended December 31, 1998.

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

The information required herein is incorporated by reference from page 22 through 35 of the annual report to security holders for the year ended December 31, 1998.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required herein is incorporated by reference from page 36 of the annual report to security holders for the year ended December 31, 1998.

Item 8. Financial Statements and Supplementary Data

The information required herein is incorporated by reference from page 38 through 71 of the annual report to security holders for the year ended December 31, 1998.

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

Financial Disclosure

None

PART III

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

The information required herein is incorporated by reference to the information under the captions "Information with respect to nominees for directors of the Company, directors whose terms continue and executive officers of the Company" and "Section 16(a) Compliance" in the Corporation's definite proxy statement filed on March 19, 1999.

Item 11. Executive Compensation

The information required herein is incorporated by reference to the information under the captions "Compensation of Directors", "Compensation of Executive Officers", "Stock Options Plans", "Options/Grants in Last Fiscal Year", "Aggregate Options/SAR Exercises in Last Fiscal Year and Fiscal Year-End Options/SAR Values", "Employment Agreements", "Defined Contributions Retirement Plan", "Report of the Compensation Committee", "Compensation Committee Interlocks and Insider Participation", "Other Employment Benefits" and "Performance of Common Stock" in the definite proxy statement filed on March 19, 1999.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required herein is incorporated by reference to the information under the caption "Benefical Ownership of Securities" in the Corporation's definite proxy statement filed on March 19, 1999.

Item 13. Certain Relationships and Related Transactions

The information required herein is incorporated by reference to the information under the caption "Business Transactions Between the Company and its Subsidiaries and Executive Officers and Directors" in the Corporation's definite proxy statement filed on March 19, 1999.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

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

Report of independent accountants

Consolidated Statements of Financial Condition at December 31, 1998 and 1997.

Consolidated Statements of Income for Each of the Three Years in the Period Ended December 31, 1998.

Consolidated Statements of Changes in Stockholders' Equity for Each of the Three Years in the Period Ended December 31, 1998.

Consolidated Statements of Comprehensive Income for each of the Three Years in the Period Ended December 31, 1998.

Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 1998.

Notes to Consolidated Financial Statements.

(2) Financial statement schedules.

Schedules are omitted because they are not applicable or because the required information is contained in the Consolidated Financial Statements described in (a)(1) above or in the Notes thereto.

(3) Exhibits

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

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter ended December 31, 1998.

(c) See Index to Exhibits on page 25 for the exhibits filed as a part of this Form 10-K.

(d) Financial data schedules

Schedules are omitted because they are not applicable.

Index to Exhibits

<TABLE>

<S> <C> <C> <C> <C> <C> <C>

No.	Exhibit	Page No.
2.0	Agreement and Plan of Merger dated March 31, 1998 by and between FirstBank, First Interim Bank and the Corporation.	(1)
3.1	Certificate of Incorporation	(1)
3.2	By-Laws	(1)
4.0	Form of Common Stock Certificate	(1)
10.1	FirstBank's 1987 Stock Option Plan	-
10.2	FirstBank's 1997 Stock Option Plan	-
10.3	Employment Agreement between FirstBank and Angel Alvarez-Perez	-
10.4	Employment Agreement between FirstBank and Annie Astor de Carbonell	-
10.5	Employment Agreement between FirstBank and Luis M. Beauchamp	-
10.6	Employee Agreement between FirsBank and Aurelio Aleman.	-
10.7	Employment Agreement between FirstBank and Fernando L. Batlle.	-
10.8	Employment Agreement between FirstBank and Randolfo Rivera.	-
11.0	Statement Report to Shareholders for fiscal year ended December 31, 1998.	(2)
13.0	Annual Report to shareholders for fiscal year ended December 31, 1998.	-
21.0	List of subsidiaries (direct and indirect)	-
27.0	Financial Data Schedule	-

(1) Incorporated by reference from Registration statement on Form-S-4 filed by the Corporation on April 15, 1998. (2) Information is included on page 50 of the Corporation's annual report to security holders and is incorporated by

reference herein (See Exhibit 13.0).
</TABLE>

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 by the undersigned, thereunto duly authorized.

FIRST BANCORP

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

By: /s/ Angel Alvarez-Perez Angel Alvarez Perez, Chairman President and Chief Executive Officer	Date:	03/23/99

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

/s/ Angel Alvarez-Perez Angel Alvarez Perez, Chairman President and Chief Executive Officer	Date:	03/23/99
/s/ Annie Astor de Carbonell Annie Astor de Carbonell, Director Senior Executive Vice President and Chief Financial Officer	Date:	03/23/99
/s/ Jose Julian Alvarez Jose Julian Alvarez, Director	Date:	03/23/99
/s/ Rafael Bouet Rafael Bouet, Director	Date:	03/23/99
/s/ Francisco D. Fernandez Francisco D. Fernandez, Director	Date:	03/23/99
/s/ Armando Lopez Armando Lopez, Director	Date:	03/23/99
/s/ German Malaret, German Malaret, Director	Date:	03/23/99
/s/ Hector M. Nevares Hector M. Nevares, Director	Date:	03/23/99
/s/ Antonio Pavia Villamil Antonio Pavia Villamil, Director	Date:	03/23/99

/s/ Jose Teixidor Jose Teixidor, Director	Date:	03/23/99
/s/ Angel L. Umpierre Angel L. Umpierre, Director	Date:	03/23/99
/s/ Luis M. Beauchamp Luis M. Beauchamp, Senior Executive Vice President and Chief Lending Officer	Date:	03/23/99
/s/ Laura Villarino Tur Laura Villarino Tur, Senior Vice President and Controller	Date:	03/23/99

</TABLE>

First Federal Savings Bank

1987 - AMENDED EMPLOYEE STOCK OPTION PLAN

1. PURPOSE

This Stock Option Plan (the "Option Plan") is intended to encourage stock ownership by officers and other employees of First Federal Savings Bank (the "Bank") or of subsidiary corporations, as defined in Section 425(f) of the Internal Revenue Code of 1986, as amended (the "Code"), or as may be defined pursuant to regulations that may be approved under Section 44A of the Puerto Rico Income Tax Act of 1954, as amended (the "Act"), of the Bank (the "Subsidiaries"), so that the person to whom the option is granted (the "Optionee") may acquire or increase his or her propietary interest in the success of the Bank, and to encourage the Optionee to remain in the employ of the Bank or of its Subsidiaries.

At the time this Option Plan was established, the Act, as amended up to date, did not contain any specific provisions with respect to stock options. On October 6, 1987, the Act was amended by Act No. 2 which, among other things, added Section 44A to the Act to provide specific provisions with respect to the Puerto Rico income taxation of certain stock option plans. The Option Plan is being restated in order to comply with the requirements of said Section 44A of the Act.

2. ADMINISTRATION

(a) The Option Plan shall be administered by a committee of not less than three directors of the Bank, none of whom is an officer or other salaried employee of the Bank. The members of this committee (the "Compensation Committee") shall be appointed by the Board of Directors and shall be "disinterested persons" within the meaning of Rule 16b-3(b), - 3(d)(3) and - 3(e) of the Securities Exchange Act of 1934 (the "Act"). No person shall serve as a member of the Compensation Committee if such person is then eligible, or has been eligible at any time during the prior twelve months, to receive stock, stock options or stock appreciation rights under the Option Plan or any other option, stock purchase or similar plan of the Bank or its Subsidiaries, except that eligibility to participate in the Stock Option Plan for Non-Employee Directors of the Bank shall not disqualify such person from serving on the Compensation Committee. A majority vote of the members of the Compensation Committee shall be required for all its actions.

(b) the Compensation Committee shall have the power, subject to, and within the limits of, the express provisions of the Option Plan and in furtherance of its purposes;

(i) To determine from time to time which of the eligible persons shall be granted options under the Option Plan and the time or times when, and the number of shares for which, an option or options shall be granted to such persons;

(ii) To prescribe the other terms and provisions (which need no be identical) of each option granted under the Option Plan to eligible persons;

(iii) To construe and interpret the Option Plan and options granted under it, and to establish, amend, and revoke rules and regulations for its administration. The Compensation Committee, in the exercise of this power, may correct any defect or supply any omission, or reconcile any inconsistency in the Option Plan, or in any option agreement, in the manner and to the extent it shall deem necessary or expedient to make the Option Plan fully effective. In exercising this power the Compensation Committee may retain counsel at the expense of the Bank. All decisions and determinations by the Compensation Committee in exercising this power shall be final and binding upon the Bank and the Optionee;

(iv) To determine the duration and purpose of leaves of absence which may be granted to an Optionee without constituting a termination of his or her employment for purpose of the Option Plan; and

(v) Generally, to exercise such powers and to perform such acts as are deemed necessary or expedient to promote the best interests of the Bank with respect to the Option Plan.

(c) In the case of options granted after October 6, 1987 (date of enhancement of Section 44A of the Act), the aggregate fair market value of the shares, determined as of the time the option is granted, with respect to which stock options granted under all stock option plans of the Bank and its subsidiaries corporations are exercisable for the first time by an employee during any calendar year, shall not exceed $100,000.

With respect to options granted prior to October 7, 1987, the Compensation Committe is authorized and empowered, with the written consent of the person to whom such option were granted, to vary the terms of said options comply with the requirements of the preceding paragraph, if such action is necessary in order for the provisions of Section 44A nof the Act to apply to such options."

3. STOCK

(a) The stock subject to the options shall be shares of the Bank's authorized but unissued common stock, par value $0.01 per share (the "Common Stock"). The number of shares for which options may be granted hereunder, and under any other stock option plan of the Bank, whether or not an "incentive" or "qualified" option under the Code, excluding the shares involved in the unexercised portion of any canceled, terminated or expired options, shall not exceed an aggregate of twenty percent (20%) of the number of shares of Common Stock outstanding as of January 21, 1987, date upon which conversion of the Bank from mutual to the stock form and the completion of the subscription and public offerings were effective

(b) Whenever any outstanding option under the Option Plan expires, is canceled or is otherwise terminated, the shares of Common Stock allocable to the unexercised portion of such option may again be the subject of options under the Option Plan, except for options surrendered as provided by Section 7 hereof.

4. ELIGIBILITY

(a) The persons who shall be eligible to receive options hereunder shall be officers and other employees (i.e. persons employed 1,000 or more hours per year) of the Bank or its Subsidiaries. Subject to the following provisions, the Compensation Committee may from time to time grant options to one or more eligible persons. An optionee may hold more than one option.

(b) No person shall be eligible to receive any option if, at the date of grant, such person beneficially, directly or indirectly, owns in excess of ten percent (10%) of the outstanding Common Stock of the Bank, and no option will be granted to any other person to the extent such option, if exercised, would increase the ownership of such person to an amount in excess of ten percent (10%).

5. TERMS OF THE OPTION AGREEMENTS

Each option agreement shall contain such provisions as the Compensation Committee shall from time to time deem appropriate. Option Agreements need not be identical, but each option agreement by appropriate language shall include the substance of all the following provisions:

(a) An option shall expire on the date specified in the option agreement, which date shall not be later than the tenth anniversary of the date on which the option was granted. All options must be granted by the tenth anniversary of the effective date of the Option Plan.

(b) The minimum number of shares with respect to which an option may be exercised at any one time shall be 100 shares, unless the number purchased is the total number at the time available for purchase under the option.

(c) Each option shall be exercisable in such installments (which need not be equal) and at such times as designated by the Compensation Committee. To the extent not exercised, installments shall accumulate and be exercisable, in whole or in part, at any time after becoming exercisable, but not later than the date the option expires. No option granted hereunder shall be exercisable unless and until the Option Plan has been ratified by the stockholders as specified in Section 15 hereof.

(d) The purchase price per share of Common Stock under each option shall be not less than the fair market value of the Common Stock subject to the option on the date the option is granted. For this purpose, the fair market value of the Common Stock shall be determined by the Compensation Committee, however, that (i) with respect to the grant of options on the effective date of the Conversion, fair market value shall be the initial public offering price of the

Common Stock in the Conversion, (ii) if the Common Stock is admitted to quotation on he National Association of Securities Dealers Automated Quotation System (the "NASDAQ System") on the date the option is granted, fair market value shall not be less than the average of the highest bid and lowest asked prices of Common Stock on the NASDAQ System on such date, or (iii) if the Common Stock is admitted to trading on a national securities exchange on the date the option is granted, fair market value shall not be less than the last sale price reported for the Common Stock on such exchange on such date or on the last date preceding such date on which a sale was reported.

(e) The Optionee shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such option unless and until the option shall have been exercised pursuant to the terms thereof, the Bank shall have issued and delivered the shares to the Optionee, and the Optionee's name shall have been entered as a stockholder of record on the books of the Bank. Thereupon, the Optionee shall have full voting, dividend and other ownership rights with respect to such shares of Common Stock.

(f) Except as provided in Section 10 hereof:

(i) All options granted pursuant to an Option Plan shall not be transferable, except by will or the laws of descent and distribution, and shall be exercisable during the Optionee's lifetime only by the Optionee; and

(ii) No assignment or transfer of an option, or of the rights represented thereby, whether voluntary or involuntary, by operation of law or otherwise, shall vest in the assignee or transferee any interest or right in the option whatsoever, but immediately upon any attempt to assign or transfer an option, the same shall terminate and be of no force or effect.

(g) The option shall be subject to any provision necessary to assure compliance with the securities laws of the United States, the Commonwealth of Puerto Rico, or any state.

(h) For purposes of the Option Plan, the term "change in control" shall be deemed to have taken place if: (i) an acquirer is deemed to have acquired control of the Bank under the provisions of Section 574.4(a) of the regulations of the Federal Home Loan Bank Board (the "Bank Board"); or (ii) as the result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions, the persons who were directors of the Bank before such transaction shall cease to constitute a majority of the Board of Directors of the Bank or of any successor institution.

6. METHOD OF EXERCISE, PAYMENT OF PURCHASE PRICE

(a) An option may be exercised by the Optionee delivering to the Compensation Committee on any business day a written notice specifying the number of shares of Common Stock the Optionee desires to purchase (the "Notice").

(b) Payment for the shares of Common Stock purchased pursuant to the exercise of an option shall be either in (i) cash in an amount equal to the purchase price per share multiplied by the number of shares specified in the Notice (the "Total Option Price"), or (ii) in the discretion of the Compensation Committee, shares of Common Stock of the Bank, valued at the then fair market value, determined as provided in Section 5 hereof, equal to or less than the total Option Price, plus cash in an amount equal to the amount, if any, by which the Total Option Price exceeds the fair market value of the Common Stock.

7. STOCK APPRECIATION RIGHTS, RELEASE OF FINANCIAL INFORMATION

(a) The Compensation Committee may, but shall not be obligated to, grant the stock appreciation rights provided in this Section 7 at any time subsequent to the grant of an option under the Option Plan. Subsequent to such grant of the stock appreciation rights, if any, the Compensation Committee may, but shall not be obligated to, authorize, on such terms and conditions as it deems appropriate in each case, the Bank to accept the surrender by the Optionee of the right to exercise an option granted under the Option Plan or portion thereof in consideration for payment by the Bank of an amount equal to the excess of the fair market value of the shares of Common Stock subject to such option or portion thereof surrendered over the Total Option Price of such shares. Such payment, at the discretion of the Compensation Committee, may be made in shares of Common Stock valued at the then fair market value thereof, determined as provided in Section 5 hereof, or in cash, or partly in cash and partly in shares of Common Stock.

(b) Any election by an Optionee to exercise the stock appreciation rights provided in this Section shall be made during the period beginning on the third business day following the release for publication of quarterly or annual financial information and ending on the twelfth business day following such date. This condition shall be deemed to be satisfied when the specified financial data appears on or in a wire service, financial news service or newspaper of general circulation or is otherwise first made publicly available. No stock appreciation rights may be exercised within six months of the date it is granted except that this limitation shall not apply in the event death or disability of the Optionee occurs prior to the expiration of the six-month period. For purpose of this Section, the stock appreciation rights shall be deemed to have been granted as of the date specified by the Compensation Committee.

(c) A copy of the Bank's annual report to stockholders shall be delivered to each Optionee. Upon request, the Bank shall furnish each optionee a copy of its most recent annual report on FDIC Form 10-K and each quarterly report and current report filed under the Act or with the Bank Board since the end of the Bank's prior fiscal year.

(d) Any option surrendered as provided in this Section 7 shall be canceled by the Bank and the shares subject to the option shall not be eligible for further grants under the Option Plan.

8. USE OF PROCEEDS FROM STOCK

Proceeds from the sale of Common Stock pursuant to options granted under the Option Plan shall constitute general funds of the Bank.

9. ADJUSTMENTS UPON CHANGE IN CAPITALIZATION

a) If the shares of the Bank's Common Stock as a whole are increased, decreased or changed into, or exchanged for, a different number or kind of shares or securities of the Bank, whether through merger, consolidation, reorganization, recapitalization, reclassification, stock dividend, stock split, combination of shares, exchange of shares, change in corporate structure or the like, an appropriate and proportionate adjustment shall be made in the number and kinds of shares subject to the Option Plan and in the number, kinds and per share exercise price of shares subject to unexercised options or portions thereof granted prior to any such change. Any such adjustment in an outstanding option, however, shall be made without change in the total price applicable to the unexercised portion of the option but with a corresponding adjustment in the price for each share of Common Stock covered by the option.

(b) Upon dissolution or liquidation of the Bank, or upon reorganization, merger or consolidation in which the Bank is not the surviving corporation, or upon the sale of substantially all of the property of the Bank to another corporation, the Option Plan and the options issued thereunder shall terminate unless provision is made in connection with such transaction for the assumption of options therefore granted, or the substitution for such options of new options of the successor employer corporation or a parent or subsidiary thereof, with appropriate adjustment as to the number and kind of shares and the per share exercise prices. In the event of such termination, all outstanding options shall be exercisable in full at least 30 days prior to the termination date whether or not otherwise exercisable during such period.

(c) Adjustments under this Section shall be made by the Compensation Committee, whose determination as to what adjustments shall be made, and the extent thereof, shall be conclusive. The Compensation Committee shall have the discretion and power in any such event to determine and to make effective provisions for the acceleration of the time during which the option may be exercised, notwithstanding the provisions of the option setting forth the date or dates on which all or any part of it may be exercised. No fractional shares of Common Stock shall be issued under the Option Plan on account of any adjustment specified above.

10. TERMINATION OF EMPLOYMENT OR SERVICE

(a) In the event of the death of an Optionee while in the employ of the Bank:

(i) The options, whether or not exercisable at the time of the death of the Optionee, may be exercised, as provided in Section 6 hereof, by the estate of the Optionee or by a person who acquired the right to exercise such option by bequest or inheritance from such Optionee, within one year after the date of such death but not later that the date on which the option would otherwise expire; or

(ii) The Compensation Committee may, but shall not be obligated to, grant if not theretofore granted, the stock appreciation rights provided in Section 7 hereof and may, but shall not be obligated to, authorize, if not theretofore authorized, the Bank to accept surrender of the right to exercise an option or any portion thereof under Section 7 of this Option Plan by the estate of the Optionee, or by a person who acquired the right to exercise such option by bequest or inheritance from such Optionee, within one year after the date of such death but no later than the date on which the option would otherwise expire.

(b) If the employment of an Optionee is terminated by reason of disability, as determined by the Compensation Committee, the options held by such Optionee may be exercised, whether or not exercisable at the time of such termination of employment, within one year after such termination but not later than the date on which such options would otherwise expire.

(c) If the employment of the Optionee is terminated for any reason other than death or disability, options held by such Optionee shall, to the extent not theretofore exercised, be canceled upon such termination and shall not thereafter be exercisable: provided, however, that an Optionee whose employment is terminated by retirement in accordance with the Bank's normal retirement policies as determined by the Compensation Committee, or who is voluntarily or involuntarily terminated within one year after a change in control of the Bank, as defined in Section 5 (h) hereof, shall be permitted to exercise such options, whether or not exercisable at the time of such termination, within three months after the date of such termination but not later than the date on which the options would otherwise expire.

(d) Notwithstanding the provisions of subsections (a), (b) and (c) above, no option granted hereunder shall be exercisable prior to stockholders ratification, as provided in Section 15 hereof.

11. AMENDMENT OF THE OPTION PLAN

The Board of Directors at any time, and from time to time, may amend the Option Plan subject to any required regulatory approval and subject to the limitation that, except as provided in Section 9 hereof, no amendment shall be effective unless approved by vote of a majority of the total votes cast by the stockholders of the Bank at an annual or special meeting held within twelve months before or after the date of such amendment's adoption where such amendment will:

(a) Increase the number of shares of Common Stock as to which options may be granted under the Option Plan; (b) Change in substances Section 4 hereof relating to eligibility to participate in the Option Plan; (c) Change the minimum purchase price; or (d) Increase the maximum term of options as provided herein.

Except as provided in Section 9 hereof, rights and obligations under any option granted before amendment of the Option Plan shall not be altered or impaired by amendment of the Option Plan, except with the consent of the person to whom the option was granted.

12. TERMINATION OR SUSPENSION OF THE OPTION PLAN

The Board of Directors at any time may terminate or suspend the Option Plan. Unless sooner terminated, the Option Plan shall terminate on the tenth anniversary of the effective date specified in Section 15 hereof, but such termination shall not affect any option theretofore granted. An option may not be granted while the Option Plan is suspended or after it is terminated.

Rights and obligations under any option granted while the Option Plan is in effect shall not be altered nor impaired by suspension or termination of the Option Plan under this Section 12 except with the consent of the Optionee.

13. NON EXCLUSIVlTY OF THE PLAN

Neither the adoption of the Option Plan by the Board of Directors nor the submission of the Plan to the stockholders of the Bank for approval shall be construed as creating any limitations on the power of the Board of Directors to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options otherwise than under the Option Plan, and such arrangements may be either applicable generally or only in specific cases.

14. GOVERNMENT AND OTHER REGULATIONS, GOVERNING LAW

(a) The obligation of the Bank to sell and deliver shares of Common Stock under options granted under the Option Plan shall be subject to all applicable laws, rules and regulations and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Board of Directors of the Bank.

(b) The Option Plan shall be governed by federal law.

(c) The Option Plan is intended to comply with Rule 16b-3 under the Act. Any provision inconsistent with such Rule shall be inoperative and shall not affect the validity of the Option Plan.

(d) Reference herein to the Code shall be deemed to include reference to comparable provisions of Puerto Rico law, if any.

15. EFFECTIVE DATE OF OPTION PLAN, STOCKHOLDER APPROVAL

The Option Plan shall be effective upon commencement of the public offering in connection with the conversion of the Bank or, if no public offering is held, upon consummation of the Conversion; provided, however, that the Option Plan shall be subject to the approval of the stockholders of the Bank by vote of a majority of the total votes cast by its stockholders at an annual or special meeting held within twelve months of such effective date. No options granted under the Option Plan prior to such stockholder approval may be exercised until such approval has been obtained.

FirstBank

1997 EMPLOYEE STOCK OPTION PLAN

1. PURPOSE

The purpose of this 1997 Stock Option Plan (the "Option Plan") is to further the success of FirstBank Puerto Rico (The "Bank") and its Subsidiaries (the "Subsidiaries") as defined under Section 1046 of the Puerto Rico Internal Revenue Code of 1994, by making available Common Stock of the Bank for purchase by key officer or employees of the Bank or its Subsidiaries and to give such persons a proprietary interest in the continued growth and success of the Bank. The Plan is also intended to encourage Optionees to remain in the employ of the Bank and to assist the Board of Directors and Management in the attraction and recruitment of qualified officers to serve the Bank and/or its Subsidiaries. The Plan is intended to comply with Section 1046 the Puerto Rico Internal Revenue Code (the "P. R. Code") and regulations promulgated thereunder.

2. ADMINISTRATION

(a) The Option Plan shall be administered by a committee of the Board of Directors (the "Compensation Committee") which shall be composed of not less than three directors none of whom is an officer or other salaried employee of the Bank or of a Subsidiary of the Bank. The members of the Compensation Committee shall be appointed by the Board of Directors and all shall be "disinterested persons" within the meaning of Rule 16b-3(c)(2)(i) of the Securities Exchange Act of 1934 (the "Act"). No person shall serve as a member of the Compensation Committee if such person is then eligible, or has been eligible at any time during the prior twelve months, to receive stock, stock options or stock appreciation rights under the Option Plan or any other option, stock purchase or similar plan of the Bank or its Subsidiaries. A majority vote of the members of the Compensation Committee shall be required for all actions.

(b) the Compensation Committee shall have the power, subject to, and within the limits of, the express provisions of the Option Plan, and in furtherance of the purposes of such plan:

(i) To determine from time to time which eligible persons shall be granted options under the Option Plan and the time or times, and the number of shares for which, an option or options shall be granted to such persons:

(ii) To prescribe the other terms and provisions (which need no be identical) of each option granted under the Option Plan to eligible persons:

(iii) To construe and interpret the Option Plan and options granted under it, and to establish, amend, and revoke rules and regulations for its administration. The Compensation Committee, in the exercise of its powers, may correct any defect or supply any omissions, or reconcile any inconsistency in the Option Plan, or in any option agreement in the manner and to the extent it shall deem necessary or expedient to make the Option Plan fully effective. In exercising this power the Compensation Committee may retain counsel at the expense of the Bank. All decisions and determinations by the Compensation Committee in exercising this power shall be final and binding upon the Bank and the Optionee:

(iv) To determine the duration and purpose of leaves of absence which may be to an optionee without constituting a termination of his or her employment for purpose of the Option Plan; and

(v) Generally to exercise such powers and to perform such acts as are deemed necessary or expedient to promote the best interest of the Bank with respect to the Option Plan.

(c) Pursuant to Section 1046(c)(6) of the P.R. Code in the case of options granted under this 1997 Plan, the aggregate fair market value of the shares, determined as of the time the option is granted, with respect to which stock options granted under all stock option plans of the Bank and its Subsidiaries are exercisable for the first time by an employee during any calendar year shall not exceed S100,000.

3. STOCK SUBJECT TO PLAN

(a) The stock subject to the options shall be shares of authorized and unissued common stock, par value S1.00 per share (the "Common Stock"). The number of shares for which options may be granted hereunder shall be 1,449,352 of FirstBank Common Stock, which amount represents the number of remaining shares that could have been granted under the Bank's prior plan at the time of its termination. Such number shall be subject to adjustments as provided in Section 9 hereof.

(b) Whenever any outstanding option under the Option Plan expires, is canceled or is otherwise terminated, the shares of Common Stock allocable to the unexercised portion of such option may again be subject of option under the Option Plan, except for options surrendered as provided by Section 7 hereof.

4. ELIGIBILITY

(a) The persons who shall be eligible to receive options hereunder shall be officers and other employees (i.e. persons employed 1,000 or more hours per year) of the Bank or its Subsidiaries. Subject to the following provisions, the Compensation Committee may from time to time grant options to one or more eligible persons. An Optionee may hold more than one option.

(b) No person shall be eligible to receive any option if at the date of grant, such person beneficially, directly or indirectly, owns in excess of ten percent (10%) of the outstanding common stock of the Bank, and no option will be granted to any other person to the extent such option, if exercised, would increase such persons ownership to an amount in excess of ten percent (10%).

(c) Pursuant to Section 12 of the Puerto Rico Banking Law (7 LPRA 39), no person may exercise an option to the extent that as a result of such exercise such person would acquire beneficial ownership of five percent (5%) or more of the then issued and outstanding Common Stock of the Bank, unless such person has previously obtained the written approval of the Commissioner of Financial institutions of P.R.

(d) The aggregate fair market value of the shares, determined as of the time the option is granted, with respect to which the stock options, as defined by Section 1046 of Puerto Rico Code, are exercisable for the first time in any calendar year, under this plan or any other plan of the Bank, shall not exceed S100,000.

5. TERMS OF THE OPTION AGREEMENTS

Each option agreement shall contain such provisions as the Compensation Committee shall from time to time deem appropriate. Option Agreements need not be identical, but each option agreement by appropriate language shall include the substance of all the following provisions:

(a) An option shall expire on the date specified in the option agreement, which date shall not be later than the tenth anniversary of the date on which the option was granted. All options must be granted by the tenth anniversary of the effective date of the Option Plan.

(b) The minimum number of shares with respect to which an option may be exercised at any one time shall be 100 shares, unless the number purchased is the total number available for purchase under the option at the time.

(c) Each option shall be exercisable in such installments (which need not be equal) and at such times as designated by the Compensation Committee. To the extent not exercised, installments shall accumulate and be exercisable, in whole or in part. at any time after becoming exercisable, but not later than the date of expiration of the option. No option granted hereunder shall be exercisable unless and until the Option Plan has been ratified by the stockholders as specified in Section 15 hereof.

(d) The purchase price of per share of Common Stock under each option shall not be less than the fair market value of the Common Stock subject to the option on the date the option is granted as determined by the Compensation Committee. The fair market value shall not be less than the last sale price reported for the Common Stock on the New York Stock Exchange on the date of grant or on the last date preceding such date on which the sale was reported.

(e) The Optionee shall not be deemed to be the holder of, or to have any rights of a holder with respect to, any shares of Common Stock subject to such option unless and until the option shall have been exercised pursuant to the terms thereof, the Bank shall have issued and delivered the shares to the Optionee, and the Optionee's name shall have been entered as a stockholder of record on the books of the Bank. Thereupon, the Optionee shall have full voting, dividend and other ownership rights with respect to such shares of Common Stock.

(f) Except as provided in Section 10 hereof:

(i) All options granted pursuant to an Option Plan shall not be transferable, except by will or the laws of descent and distribution. and shall be exercisable during the Optionee's lifetime only by the Optionee; and

(ii) No assignment or transfer of an option, or of the rights represented thereby, whether voluntary or involuntary, by operation of law or otherwise, shall vest in the assignee or transferee any interest or right in the option whatsoever, but immediately upon any attempt to assign or transfer an option, the same shall terminate and be of no force or effect.

(g) The option shall be subject to any provision necessary to assure compliance with the securities laws of the United States and of Puerto Rico, or of any other jurisdiction in which the Bank or its Subsidiaries may have qualifying employees.

(h) For purposes of the Option Plan, the term "change in control" shall be deemed to have taken place if: (1) an acquirer is deemed to have acquired control of the under provisions of Section 1817 of the Federal Deposit Insurance Act (12 USC 1817[i]); or as a result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions, the persons who were directors of the Bank before such transaction shall cease to constitute a majority of the Board of Directors of the Bank or of any successor Institution.

6. METHOD OF EXERCISE, PAYMENT OF PURCHASE PRICE

(a) An option may be exercised by the Optionee by delivering to the Compensation Committee on any business day a written notice specifying the numbers of shares of Common Stock the Optionee desires to purchase (the "Notice").

(b) Payment for the shares of common stock purchased pursuant to the exercise of an option shall be either in (1) cash in an amount equal to the purchase price per share multiplied by the number of shares specified in the Notice (the "Total Option Price"), or in the discretion of the Compensation Committee, shares of common stock of the Bank valued at the then fair market value, determined as provided in Section 5 hereof, equal to or less than the total Option Price, plus cash in an amount equal to the amount, if any, by which the Total Option Price exceeds the fair market value of the Common Stock.

7. STOCK APPRECIATION RIGHTS, RELEASE OF FINANCIAL INFORMATION

(a) The Compensation Committee may, but shall not be obligated to, grant the stock appreciation rights provided in this Section 7 at any time subsequent to the grant of an option under the Option Plan. Subsequent to such grant of the stock appreciation rights, if any, the Compensation Committee may, but shall not be obligated to, authorize, on such terms and conditions as it deems appropriate in each case, the Bank to accept surrender by the Optionee of the right to exercise an option granted under the Option Plan or portion thereof in consideration for payment by the Bank of an amount equal to the excess of the fair market value of the shares of Common Stock subject to such option or portion thereof surrendered over the Total Option Price of such shares. Such payment, at the sole discretion of the Compensation Committee, may be made in shares of Common Stock valued at the fair market value thereof, determined as provided in Section 5 hereof, or in cash, or partly in cash and partly in shares of Common Stock.

(b) Any election by an Optionee to exercise the stock appreciation rights provided in this Section shall by made during the period beginning on the third business day following the release for publication of quarterly or annual financial information and ending on the twelfth business day following such date. This condition shall be deemed to be satisfied when the specified financial data appears on or in a wire service, financial news service or newspaper of general circulation or is otherwise first made publicly available. No stock appreciation rights may be exercised within six months of the date it is granted except that this limitation shall not apply in the event death or disability of the Optionee occurs prior to the expiration of the six month period. For purpose of this Section, the stock appreciation rights shall be deemed to have been granted as of the date specified by the Compensation Committee.

(c) A copy of the Bank's Annual Report to Stockholders shall be delivered to each Optionee. Upon request, the Bank shall furnish each optionee a copy of its most recent annual report on FDIC Form F-2 and each quarterly reports filed by the Bank under FDIC law.

(d) Any option surrendered as provided in this Section 7 shall be canceled by the Bank and the shares subject to the option shall not be eligible for further grants under the Option Plan.

8. USE OF PROCEEDS FROM STOCK

Proceeds from the sale of Common Stock pursuant to options granted under the Option Plan shall constitute general funds of the Bank.

9. ADJUSTMENTS UPON CHANGE IN CAPITALIZATION

a) If the shares of the Bank's Common Stock as a whole are increased, decreased or changed into, or exchanged for, a different number or kind of shares or securities of the Bank, whether through merger, consolidation, reorganization, recapitalization, reclassification, Stock dividend, stock split, combination of shares, exchange of shares, change in corporate structure or the like, an appropriate and proportionate adjustment shall be made in the number and kinds of share subject to the Plan and in the number, kinds and per share exercise price of shares subject to unexercised options or portions thereof granted prior to any such change. Any such adjustment in an outstanding option, however, shall be made without change in the total price applicable to the unexercised portion of the option but with corresponding adjustment in the price of each share of Common Stock covered by the option.

(b) Upon dissolution or liquidation of the Bank, or upon reorganization, merger or consolidation in which the Bank is not the surviving corporation, or upon the sale of substantially all of the property of the Bank to another corporation, the Option Plan and the options issued thereunder shall terminate unless provision is made in connection with such transaction for the assumption of options therefore granted, or the substitution for such options of new number and kinds of shares and the per share exercise prices. In the event of such termination, all outstanding options shall be exercisable in full at least 30 days prior to the termination date whether or not otherwise exercisable during such period.

(c) Adjustments under this Section shall be made by the Compensation Committee, whose determination as to what adjustments shall be made, and the extent thereof, shall be conclusive. The Compensation Committee shall have the discretion and power in any such event to determine and to make effective provisions for the acceleration of the time during which the option may be exercised, notwithstanding the provisions of the option setting forth the date or dates which all or any part of it may be exercised. No fractional shares of Common Stock shall be issued under the Option Plan on account of any adjustment specified above.

10. TERMINATION OF EMPLOYMENT OR SERVICE

(a) In the event of the death of an Optionee while in the employ of the Bank:

(i) The options. whether or not exercisable at the time of the death of the Optionee, may be exercised, as provided in Section 6 hereof, by the estate of the Optionee or by any person who acquired the right to exercise such option by bequest or inheritance from such Optionee, within one year after the date of such death but not later that the date on which the option would otherwise expire: or

(ii) The Compensation Committee may, but shall not be obligated to, grant if not theretofor granted, the stock appreciation rights provided in Section 7 hereof and may, but shall not be obligated to, authorize, if not theretofor authorized, the Bank to accept surrender of the right to exercise an option or any portion thereof under Section 7 of this Option Plan by the estate of the Optionee, or by a person who acquired the right to exercise such option by bequest or inheritance from such Optionee, within one year after the date of such death but no later than the date on which the option would otherwise expire.

(b) If the employment of an Optionee is terminated by reason of disability, as determined by the Compensation Committee, the options held by such Optionee may be exercised, whether or not exercisable at the time of such termination of employment, within one year after such termination but not later than the date on which such options would otherwise expire.

(c) If the employment of the Optionee is terminated for any reason other than death or disability, options held by such Optionee shall, to the extent not theretofor exercised, be canceled upon such termination and shall not thereafter be exercisable: provided, however, that an Optionee whose employment is terminated by retirement in accordance with the Bank's normal retirement policies. as determined by the Compensation Committee, or who is voluntarily or involuntarily terminated within one year after a change in control of the Bank, as defined in Section 5 (h) hereof, shall be permitted to exercise such options, whether or not exercisable at the time of such termination, within three months after the date of such termination but not later than the date on which the options would otherwise expire.

(d) Notwithstanding the provisions of subsections (a), (b) and (c) above, no option granted hereunder shall be exercisable prior to ratification of the Plan by the stockholders, as provided in Section 15 hereof.

11. AMENDMENT OF THE OPTION PLAN

The Board of Directors at any time, and from time to time, may amend the Option Plan subject to any required regulatory approval and subject to the limitation that, except as provided in Section 9 hereof, no amendment shall be effective unless approved by vote of a majority of the total votes cast by the stockholders of the Bank at an annual or special meeting held within twelve months before or after the date of such amendment's adoption where such amendment will:

(a) Increase the number of shares of Common Stock as to which options may be granted under the Option Plan; (b Change in substance Section 4 hereof relating to eligibility to participate in the Option Plan; (c) Change the minimum purchase price; or (d) Increase the maximum term of options as provided herein.

Except as provided in Section 9 hereof, rights and obligations under any option granted before amendment of the Option Plan shall not be altered or impaired by amendment of the Option Plan, except with the consent of the person to whom the option was granted.

12. TERMINATION OR SUSPENSION OF THE OPTION PLAN

The Board of Directors at any time may terminate or suspend the Option Plan. Unless sooner terminated, the Option Plan shall terminate on the tenth anniversary of the effective date specified in Section 5 hereof, but such termination shall not affect any option theretofor granted. An option may not be granted while the Option Plan is suspended or after it is terminated.

Rights and obligations under any option granted while the Option Plan is in effect shall not be altered nor impaired by suspension or termination of the Option Plan under this Section 12 except with the consent of the Optionee.

13. NON EXCLUSIVlTY OF THE PLAN

Neither the adoption of the Option Plan by the Board of Directors nor the submission of the Plan to the stockholders of the Bank for approval shall be construed as creating any limitations on the power of the Board of Directors to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options otherwise than under the Option Plan, and such arrangements may be either applicable generally or only in specific cases.

14. GOVERNMENT AND OTHER REGULATIONS, GOVERNING LAW

(a) The obligation of the Bank to sell and deliver shares of Common Stock under options granted under the Option Plan shall be subject to all applicable laws, rules and regulations and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Board of Directors of the Bank.

(b) The Option Plan shall be governed by the laws of Puerto Rico and any applicable federal law and regulations.

(c) The Option Plan is intended to comply with Rule 16b-3 under the Act. Any provision inconsistent with such Rule shall be inoperative and shall not affect the validity of the Option Plan.

15. EFFECTIVE DATE OF OPTION PLAN, STOCKHOLDER APPROVAL

The Option Plan shall be effective as of January 21, 1997, the date of termination of the 1987 Employee Stock Option Plan, provided, however. that the Option Plan shall be subject to the approval of the stockholders of the Bank by vote of a majority of the total votes cast by its stockholders at an annual or special meeting held within twelve months of such effective date. No options granted under the Option Plan prior to such stockholder approval may be exercised until such approval has been obtained.

EMPLOYMENT AGREEMENT

AGREEMENT, dated as of May 14, 1998, by and between FIRSTBANK PUERTO RICO (the "Bank") and Angel Alvarez Perez (the "Executive").

WHEREAS, the Bank wishes to retain the services of the Executive and the retention of the Executive's services for and on behalf of the Bank is of material importance to the preservation and enhancement of the value of the Bank's business;

WHEREAS, the Board of Directors of the Bank has approved and authorized the entry into this Agreement with the Executive to take effect immediately upon execution of the same;

WHEREAS , the parties desire to enter into this Agreement setting forth the terms and conditions of the employment relationship of the Bank and the Executive;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein, the parties hereto agree as follows:

1. Employment. The Bank agrees to continue to employ the Executive and the Executive agrees to continue in the employment of the Bank for the period stated in Paragraph 4 hereof and upon the other terms and conditions herein provided.

2. Position and Responsibilities. The Executive is employed as President and Chief Executive Officer, and shall carry out and render to the Bank such services as are customarily performed by persons situated in a similar executive and professional capacity. The Executive shall also perform such other related duties as he may from time to time be reasonably directed, including, but not limited to performing duties for the Bank or for any of its present or future subsidiaries. The Executive shall report to the Board of Directors of the Bank.

3. Duties. During the period of employment hereunder, and except for illness, vacation periods, and reasonable leaves of absence, the Executive shall devote his business time, attention, skill, and efforts to the faithful performance of his duties hereunder as is customary for an executive holding a similar position in a financial institution of comparable size.

The Executive agrees that during the term of his employment hereunder, except with the express consent of the Board of Directors he will not, directly or indirectly, engage or participate, become director of, or render advisory or other services for, or in connection with, or become interested in, or make any financial investment in any firm, corporation, business entity or business enterprise competitive with or to any business of the Bank; provided, however, that the Executive shall not thereby be precluded or prohibited from owning passive investments, including investments in the securities of other financial institutions, so long as such ownership does not require him to devote substantial time to management or control of the business or activities in which he has invested.

4. Term. The initial term of employment under this Agreement shall be for a period of four (4) years, commencing on the date hereof and terminating May 14, 2002. On each anniversary of the date of commencement of this Agreement, the term of employment hereunder shall automatically be extended for an additional one (1) year period beyond the then effective expiration date, unless either party receives written notice, not less than 90 days prior to the anniversary date, advising the other party that this Agreement shall not be further extended. Any such written notice shall not affect any prior extensions of the term of employment hereunder.

5. Standards. The Executive shall perform his duties and responsibilities under this Agreement in accordance with such reasonable standards as are established from time to time by the Board of Directors and/or management of the Bank. The reasonableness of such standards shall be measured against standards for executive performance generally prevailing in the banking industry.

Notwithstanding anything to the contrary, nothing in this Agreement will be interpreted in any manner which would tend to limit or interfere with the authority or oversight duties and discretion of the Board of Directors to establish adequate guidelines for the effective management of the Bank.

6. Compensation and Reimbursement of Expenses.

a) Compensation

The Bank agrees to pay the Executive during the term of this Agreement a base salary of not less than $550,000 per year. The performance of the Executive shall be reviewed annually by the Board of Directors and the salary provided herein may be increased, but not decreased, in accordance with the recommendation of the Compensation Committee. The salary provided herein shall not be paid less frequently than monthly.

b) Performance Bonus

In addition to the salary set forth above, the performance of the Executive and of the Bank during each year of employment shall be evaluated on the basis of the Bank's achievement of the predetermined business objectives contained in the Bank's annual business plan. The contribution of the Executive to the achievement of the Bank's annual business objectives and his performance in such other functions as may be reasonably put under his charge, will be evaluated by the President and Chief Executive Officer who may recommend to the Compensation Committee payment of a performance bonus in an amount which the Compensation Committee may determine at its discretion.

c) Stock Options

The Executive will be entitled to participate in and receive the benefits of any stock option, profit sharing, or other plans, benefits and privileges given to employees and executives of the Bank or its subsidiaries and affiliates which now exist or may come into existence hereafter, to the extent commensurate with his then duties and responsibilities, as fixed by the Compensation Committee and approved by the Board of Directors. The terms and conditions of such stock options will be within the parameters set forth in the employee stock option plan of the Bank or other similar plan under which a benefit or privilege is made available.

d) Automobile Expenses.

(i) The Bank shall provide the Executive with a company owned automobile. Such automobile will be furnished in accordance with existing executive automobile policy as approved by the Board of Directors. All expenses, including but not limited to insurance, maintenance, repairs, fuel, and lubrication services, shall be provided by the Bank.

(ii) Monthly or not more than thirty (30) days after the expenses are incurred, the Bank shall pay or reimburse the Executive for any gasoline, oil and maintenance or repair expenses which the Executive incurs directly in the operation of the automobile provided hereunder.

e) Reimbursement of Expenses.

Not less frequently than monthly, the Bank shall pay or reimburse the Executive for all reasonable travel and other expenses incurred by the Executive in the performance of his duties under this Agreement.

f) Office.

The Bank shall furnish the Executive with a private office, a private secretary and such other assistance and accommodations as shall be suitable to the character of the Executive's position with the Bank and adequate for the performance of his duties hereunder.

7. Participation in Benefit Plans. The payments and benefits provided hereunder are in addition to any payment and benefits to which Executive may be or may become entitled under any other present or future group employee benefit plan or program of the Bank for which executives are or shall become eligible, and the Executive shall be eligible to receive all benefits and entitlements for which the executives are eligible under every such plan or program.

8. Voluntary Absences; Vacations and Sick Leave. The Executive shall be entitled, without loss of pay, to absent himself voluntarily for reasonable periods of time from the performance of his duties and responsibilities under this Agreement. All such voluntary absences shall count either as paid vacation time or sick leave, unless otherwise provided by the Board of Directors. The

Executive shall be entitled to an annual paid vacation of 21 working days per year, or such longer periods as the Board of Directors may approve, which vacations shall be scheduled by the Executive, taking into account the needs of the Bank. The Executive may accumulate unused paid vacation time from one calendar year to the next; provided, that such accumulation shall not exceed 36 working days of unused vacation time from prior years. The Executive shall be entitled to up to 15 non-cumulative working days of paid sick leave per year or such longer period as the Board of Directors may approve.

9. Benefits Payable Upon Disability or Death. The Bank shall, at all times, maintain in effect disability and death benefits insurance for the benefit of the Executive in an amount at least equal to that maintained for executives of similar rank and which will not be less than that maintained by the Bank for all officers and employees. Provided that the Bank may increase but never decrease the benefits which the Executive and/or the Executive's heirs would be entitled to thereunder.

10. Disability.

(a) If the Executive shall become disabled or incapacitated for a number of consecutive days exceeding those to which he is entitled as sick-leave, and it is determined that he will continue to temporarily be unable to perform his duties under this Agreement, he shall nevertheless continue to receive 60% of his compensation, exclusive of any benefits which may be in effect for Bank employees under Paragraph 7 hereof until such time as he may rejoin active employment. Upon returning to active duty, the Executive's full compensation as set forth in this Agreement shall be reinstated. In the event that the Executive returns to active employment on other than a full-time basis, then his compensation (as set forth in Paragraph 6 of this Agreement) shall be reduced in proportion to the time spent in said employment.

(b) For purposes of this Agreement, the Executive shall be deemed to be permanently disabled or incapacitated if the Executive, due to physical or mental illness, shall have been absent from his duties with the Bank on a full-time basis for three consecutive months. In such case, the Board of Directors may remove the Executive from employment and may employ another executive in such capacity; provided, that, if the Executive shall not agree with a determination to remove him/her because of disability or incapacity, the question of the Executive's ability to continue in active employment shall be submitted to an impartial and reputable physician selected by the parties hereto and such physician's determination on the question of disability or incapacity shall be binding. If it is determined that the Executive is permanently disabled, he shall nevertheless continue to receive 60% of his compensation for the remaining term of this Agreement.

(c) There shall be deducted from the amounts paid to the Executive hereunder during any period of disability or incapacitation as described herein, any amounts actually paid to the Executive pursuant to any disability insurance or other similar such program, as provided in Paragraph 9 hereof, which the Bank has instituted or may institute on behalf of its employees for the purpose of compensating the Executive in the event of disability.

11. Termination of Employment.

(a) Without cause. The Board of Directors may, without cause, terminate this Agreement at any time, by giving 90 days written notice to the Executive. In such event, the Executive, if requested by the Board of Directors, shall continue to render his services, and shall be paid his regular salary up to the date of termination. In addition, the Executive shall be paid from the date of termination a severance payment of four (4) years base salary (less all amounts required to be withheld and deducted), such payment to be made in substantially equal semimonthly installments on the fifteenth and last days of each month, or if these days are nonbusiness days, the immediately preceding business day, commencing with the month in which the date of termination occurs and continuing for 24 consecutive semimonthly payment dates.

The Executive may, without cause, terminate the Agreement by giving 90 days written notice to the Board of Directors. In such event, the Executive shall continue to render his services and shall be paid his regular salary up to the date of termination, but shall not receive any severance payment. In the event that the Executive terminates his agreement without cause, the Bank shall be entitled to enjoin the employment of the Executive as an officer or employee of any significant competitor of the Bank for a period of one year. The term "significant competitor" shall mean any bank, savings bank or savings and loan association which at the date of its employment of the Executive has total assets of one billion dollars or more and a home or branch office in any city in Puerto Rico. In consideration of the Executive entering into this non-competition agreement, he shall receive an amount of $50,000 which amount is for purposes of this Agreement included as part of the Executive's base salary.

(b) With Cause. The Board of Directors may, at any time, terminate this Agreement for cause. In such event, the Executive shall not be entitled to receive any further compensation from the date of notice of termination. For the purpose of this Agreement, "termination for cause" shall include any act or omission on the part of the Executive which involves personal dishonesty, willful misconduct, breach of fiduciary duty, a material violation of any law, rule or regulation relating to the banking industry or a material breach of any provision of this Agreement, such as the willful and continued failure of the Executive to perform the duties herein set forth. No act or failure to act on the Executive's part shall be considered "willful" unless done, or omitted to be done, by him/her not in good faith and without reasonable belief that his action or omission was in the best interest of the Bank. For purposes of this paragraph, any act or omission to act on the part of the Executive in reliance upon an opinion of counsel to the Bank or to the Executive shall not be deemed to be willful or without reasonable belief that the act or omission to act was in the best interest of the Bank.

The Executive may, with cause, terminate this Agreement. For purposes of this paragraph, termination with cause shall mean a failure of the Bank to comply with any material provision of this Agreement, which failure has not been cured within 15 days of receipt of a written notice by the Executive of such noncompliance by the Bank.

(c) If the Executive is suspended and/or prohibited from participating in the conduct of the Bank's affairs by a notice or order served under Sections 8(e)(3), (e)(4) or (g)(1) of the Federal Deposit Insurance Act [12 USC 1818(e)(3), (e)(4) and (g)(1)], or any other similar provision of state or federal law now in place or enacted in future, the Bank's obligations under this Agreement shall be suspended as of the date of service, unless such prohibition and/or suspension is stayed by appropriate proceedings. If after a hearing is held and upon judicial review, the notice or order suspending and/or prohibiting the Executive from participating in the affairs of the Bank is confirmed, then this Agreement shall be terminated with cause. If the charges in the notice or order are dismissed, the Bank shall: (i) pay the Executive all the compensation withheld while the contractual obligations were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(d) If the Bank is in default, as defined to mean an adjudication or other official determination of a court of competent jurisdiction, the appropriate Federal banking agency or other public authority pursuant to which a conservator, receiver or other legal custodian is appointed for the Bank for the purpose of liquidation, all obligations under this Agreement shall terminate as of the date of default, but rights of the Executive to compensation earned as of the date of termination shall not be affected.

(e) In the event that the Executive is terminated or he terminates this Agreement, in a manner which violates the provisions of this Paragraph 11, as determined by the arbitration procedure provided in Paragraph 21, the Executive or the Bank, as the case may be, shall be entitled to reimbursement for all reasonable costs, including attorney's fees, incurred by the Executive or the Bank, as the case may be, in challenging such termination

12. Change in Control.

(a) If during the term of this Agreement there is a "change in control" of the Bank, as such term is defined in sub-paragraph (c) hereunder, the Executive shall be entitled to receive from the Bank a severance payment in consideration of having bound himself to employment by the Bank and having foregone other business or professional opportunities, actual or potential. The severance payment shall be a lump sum cash payment equal to four (4) times the Executive's total compensation, as the term is defined in Section 12(b) of this Agreement, to be made on or before the fifth day following the date on which the change in control occurs.

(b) For purposes of this section, the term total compensation shall mean the Executive's base salary plus the highest cash Performance Bonus paid to the Executive in any of the four (4) fiscal years prior to the date of the change in control, and the value of any other benefits provided to the Executive during the year in which the change in control occurs which are listed and attached hereto as Exhibit A, as it may be amended from time to time.

(c) The term "change in control" shall be deemed to have taken place if: (i) a third person, including a "group" as defined in Section 13(d)(3) of the

Securities Exchange Act of 1934, becomes the beneficial owner of shares of the Bank having 25% or more of the total number of votes which may be cast for the election of directors of the Bank or which, by cumulative voting, if permitted by the Banks charter or bylaws, would enable such third person to elect 25% or more of the directors of the Bank; or (ii) as the result of, or in connection with, any cash tender or exchange offer, merger or any other business combination, sales of assets or contested election, or any combination of the foregoing transactions, the persons who were directors of the Bank before such transaction shall cease to constitute a majority of the Board of the Bank or any successor institution. Notwithstanding the provisions of this paragraph, a change in control of the Bank shall not be deemed to have occurred in the event the Bank undertakes a reorganization to form a bank holding company.

(d) Any payments made to the Executive pursuant to this Agreement are subject to and conditioned upon their compliance with 12 USC 1828(k) and any regulations promulgated thereunder. The Bank shall in good faith seek to obtain, if necessary or required, any consents or approvals from the FDIC or any other applicable regulatory agency and any successors thereto with respect to any payments to be made or any benefits to be provided to the Executive pursuant to the terms of this Agreement.

13. Confidentiality; Injunctive Relief. Recognizing that the knowledge and information about, or relationships with, the business associates, customers, clients, and agents of the Bank and its affiliated companies and the business methods, systems, plans, and policies of the Bank and of its affiliated companies which Executive has heretofore and shall hereafter receive, obtain, or establish as an employee of the Bank or otherwise are valuable and unique assets of the Bank, the Executive agrees that, during the continuance of this Agreement and thereafter, he shall not (otherwise than pursuant to his duties hereunder) disclose without the written consent of the Bank, any material or substantial, confidential, or proprietary know-how, data, or information pertaining to the Bank, or its business, personnel, or plans, to any person, firm, corporation, or other entity, for any reason or purpose whatsoever. Executive acknowledges and agrees that all memoranda, notes, records, and other documents made or compiled by Executive or made available to Executive concerning the Bank's business shall be the Bank's exclusive property and shall be delivered by Executive to the Bank upon expiration or termination of this Agreement or at any other time upon the request of the Company.

The provisions of this Paragraph 13 shall survive the expiration or termination of this Agreement or any part thereof, without regard to the reason therefor.

Executive hereby acknowledges that the services to be rendered by him/her are of special, unique, and extraordinary character and, in connection with such services, he will have access to confidential information concerning the Bank's business. By reason of this, Executive consents and agrees that if he violates any of the provisions of this Agreement with respect to confidentiality, the Bank would sustain irreparable harm and, therefore, in addition to any other remedies which the Bank may have under this Agreement or otherwise, the Bank will be entitled to an injunction to be issued by any court of competent jurisdiction restraining the Executive from committing or continuing any such violation of this Agreement. The term "Confidential Information" means: (1) proprietary information of the Bank; (2) information marked or designated by the Bank as confidential; (3) information, whether or not in written form and whether or not designated as confidential, which is known to the Executive as treated by the Bank as confidential; and (4) information provided to the Bank by third parties which the Bank is obligated to keep confidential, specifically including Bank customer lists and information. Confidential Information does not include any information now or hereafter voluntarily disseminated by the Bank to the public, or which otherwise becomes part of the public domain through lawful means.

14. No assignments. This Agreement is personal to each of the parties hereto. Neither party may assign or delegate any of his or its rights or obligations hereunder without first obtaining the written consent of the other party. However, in the event of the death of the Executive all his rights to receive payments hereunder shall become rights of his estate.

15. Benefits. Any benefits due or provided hereunder to the Executive shall be in addition to, and not in substitution of, any benefit to which the Executive is otherwise entitled to without regard to the Agreement.

16. Mitigation. The Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Agreement, and the obtaining of any such other employment shall in no event effect any reduction of the Bank's obligation to make the payments and arrangements required to be made under this Agreement.

17. Notices. All notices required by this Agreement to be given by one party to the other shall be in writing and shall be deemed to have been delivered either:

(a) When personally delivered to the Office of the Secretary of the Bank at his regular corporate office, or the Executive in person; or

(b) Five days after depositing such notice in the United States mails, certified mail with return receipt requested and postage prepaid, to: (i) the Bank: c/o Office of the Secretary of the Bank FirstBank Puerto Rico PO Box 9146 Santurce, PR 00908-0146

(ii) the Executive:

Angel Alvarez Perez
S-9 Calle Jardin
Garden Hills
Guaynabo, PR 00969

or to such other address as either party may designate to the other by notice in writing in accordance with the terms hereof.

18. Amendments or Additions; Action by Board of Directors. No amendments or

additions to this Agreement shall be binding unless in writing and signed by both parties. The prior approval by a two-thirds affirmative vote of the full Board of Directors of the Bank shall be required in order for the Bank to authorize any amendments or additions to this Agreement, to give any consents or waivers of provisions of this Agreement, or to take any other action under this Agreement including any termination of the employment of the Executive with or without cause under Paragraph 10 hereof.

19. Section Headings. The Paragraph headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

20. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

21. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Puerto Rico. Venue for the litigation of any and all matters arising under or in connection with this Agreement shall be in the Superior Court for the Commonwealth of Puerto Rico, in San Juan, in the case of state court jurisdiction, when clause 21 of this Agreement is not legally applicable.

22. Arbitration. Any controversy as to the interpretation of this contract must be submitted before three arbitrators to be appointed by the American Arbitration Association ("AAA"). The rules and regulations of the AAA shall govern the procedures of said arbitration. The award of a majority of arbitrators shall be binding and final on the parties.

FIRSTBANK PUERTO RICO

/S/ German Malaret

Chairman

ATTEST:/s/ Antonio Escriba

EXECUTIVE:/s/Angel Alvarez

EMPLOYMENT AGREEMENT

AGREEMENT, dated as of May 14, 1998, by and between FIRSTBANK PUERTO RICO (the "Bank") and Annie Astor de Carbonell (the "Executive").

WHEREAS, the Bank wishes to retain the services of the Executive and the retention of the Executive's services for and on behalf of the Bank is of material importance to the preservation and enhancement of the value of the Bank's business;

WHEREAS, the Board of Directors of the Bank has approved and authorized the entry into this Agreement with the Executive to take effect immediately upon execution of the same;

WHEREAS , the parties desire to enter into this Agreement setting forth the terms and conditions of the employment relationship of the Bank and the Executive;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein, the parties hereto agree as follows:

1. Employment. The Bank agrees to continue to employ the Executive and the Executive agrees to continue in the employment of the Bank for the period stated in Paragraph 4 hereof and upon the other terms and conditions herein provided.

2. Position and Responsibilities. The Executive is employed as Senior Executive Vice President, and shall carry out and render to the Bank such services as are customarily performed by persons situated in a similar executive and professional capacity. The Executive shall also perform such other related duties as she may from time to time be reasonably directed, including, but not limited to performing duties for the Bank or for any of its present or future subsidiaries. The Executive shall report to the President and Chief Executive Officer of the Bank, and/or to the Board of Directors of the Bank.

3. Duties. During the period of employment hereunder, and except for illness, vacation periods, and reasonable leaves of absence, the Executive shall devote her business time, attention, skill, and efforts to the faithful performance of her duties hereunder as is customary for an executive holding a similar position in a financial institution of comparable size.

The Executive agrees that during the term of her employment hereunder, except with the express consent of the Board of Directors she will not, directly or indirectly, engage or participate, become director of, or render advisory or other services for, or in connection with, or become interested in, or make any financial investment in any firm, corporation, business entity or business enterprise competitive with or to any business of the Bank; provided, however, that the Executive shall not thereby be precluded or prohibited from owning passive investments, including investments in the securities of other financial institutions, so long as such ownership does not require her to devote substantial time to management or control of the business or activities in which she has invested.

4. Term. The initial term of employment under this Agreement shall be for a period of four (4) years, commencing on the date hereof and terminating May 14, 2002. On each anniversary of the date of commencement of this Agreement, the term of employment hereunder shall automatically be extended for an additional one (1) year period beyond the then effective expiration date, unless either party receives written notice, not less than 90 days prior to the anniversary date, advising the other party that this Agreement shall not be further extended. Any such written notice shall not affect any prior extensions of the term of employment hereunder.

5. Standards. The Executive shall perform her duties and responsibilities under this Agreement in accordance with such reasonable standards as are established from time to time by the Board of Directors and/or management of the Bank. The reasonableness of such standards shall be measured against standards for executive performance generally prevailing in the banking industry.

Notwithstanding anything to the contrary, nothing in this Agreement will be interpreted in any manner which would tend to limit or interfere with the authority or oversight duties and discretion of the Board of Directors to establish adequate guidelines for the effective management of the Bank.

6. Compensation and Reimbursement of Expenses.

a) Compensation

The Bank agrees to pay the Executive during the term of this Agreement a base salary of not less than $265,000 per year. The performance of the Executive shall be reviewed annually by the Board of Directors and the salary provided herein may be increased, but not decreased, in accordance with the recommendation of the Compensation Committee. The salary provided herein shall not be paid less frequently than monthly.

b) Performance Bonus

In addition to the salary set forth above, the performance of the Executive and of the Bank during each year of employment shall be evaluated on the basis of the Bank's achievement of the predetermined business objectives contained in the Bank's annual business plan. The contribution of the Executive to the achievement of the Bank's annual business objectives and her performance in such other functions as may be reasonably put under her charge, will be evaluated by the President and Chief Executive Officer who may recommend to the Compensation Committee payment of a performance bonus in an amount which the Compensation

Committee may determine at its discretion.

c) Stock Options

The Executive will be entitled to participate in and receive the benefits of any stock option, profit sharing, or other plans, benefits and privileges given to employees and executives of the Bank or its subsidiaries and affiliates which now exist or may come into existence hereafter, to the extent commensurate with her then duties and responsibilities, as fixed by the Compensation Committee and approved by the Board of Directors. The terms and conditions of such stock options will be within the parameters set forth in the employee stock option plan of the Bank or other similar plan under which a benefit or privilege is made available.

d) Automobile Expenses.

(i) The Bank shall provide the Executive with a company owned automobile. Such automobile will be furnished in accordance with existing executive automobile policy as approved by the Board of Directors. All expenses, including but not limited to insurance, maintenance, repairs, fuel, and lubrication services, shall be provided by the Bank.

(ii) Monthly or not more than thirty (30) days after the expenses are incurred, the Bank shall pay or reimburse the Executive for any gasoline, oil and maintenance or repair expenses which the Executive incurs directly in the operation of the automobile provided hereunder.

e) Reimbursement of Expenses.

Not less frequently than monthly, the Bank shall pay or reimburse the Executive for all reasonable travel and other expenses incurred by the Executive in the performance of his duties under this Agreement.

f) Office. The Bank shall furnish the Executive with a private office, a private secretary and such other assistance and accommodations as shall be suitable to the character of the Executive's position with the Bank and adequate for the performance of her duties hereunder.

7. Participation in Benefit Plans. The payments and benefits provided hereunder are in addition to any payment and benefits to which Executive may be or may become entitled under any other present or future group employee benefit plan or program of the Bank for which executives are or shall become eligible, and the Executive shall be eligible to receive all benefits and entitlements for which the executives are eligible under every such plan or program.

8. Voluntary Absences; Vacations and Sick Leave. The Executive shall be entitled, without loss of pay, to absent herself voluntarily for reasonable periods of time from the performance of his duties and responsibilities under this Agreement. All such voluntary absences shall count either as paid vacation time or sick leave, unless otherwise provided by the Board of Directors. The Executive shall be entitled to an annual paid vacation of 21 working days per

year, or such longer periods as the Board of Directors may approve, which vacations shall be scheduled by the Executive with the prior approval of the President and Chief Executive Officer, taking into account the needs of the Bank. The Executive may accumulate unused paid vacation time from one calendar year to the next; provided, that such accumulation shall not exceed 36 working days of unused vacation time from prior years. The Executive shall be entitled to up to 15 non-cumulative working days of paid sick leave per year or such longer period as the Board of Directors may approve.

9. Benefits Payable Upon Disability or Death. The Bank shall, at all times, maintain in effect disability and death benefits insurance for the benefit of the Executive in an amount at least equal to that maintained for executives of similar rank and which will not be less than that maintained by the Bank for all officers and employees. Provided that the Bank may increase but never decrease the benefits which the Executive and/or the Executive's heirs would be entitled to thereunder.

10. Disability.

(a) If the Executive shall become disabled or incapacitated for a number of consecutive days exceeding those to which she is entitled as sick-leave, and it is determined that she will continue to temporarily be unable to perform her duties under this Agreement, she shall nevertheless continue to receive 60% of her compensation, exclusive of any benefits which may be in effect for Bank employees under Paragraph 7 hereof until such time as she may rejoin active employment. Upon returning to active duty, the Executive's full compensation as set forth in this Agreement shall be reinstated. In the event that the Executive returns to active employment on other than a full-time basis, then her compensation (as set forth in Paragraph 6 of this Agreement) shall be reduced in proportion to the time spent in said employment.

(b) For purposes of this Agreement, the Executive shall be deemed to be permanently disabled or incapacitated if the Executive, due to physical or mental illness, shall have been absent from his duties with the Bank on a full-time basis for three consecutive months. In such case, the Board of Directors may remove the Executive from employment and may employ another executive in such capacity; provided, that, if the Executive shall not agree with a determination to remove her because of disability or incapacity, the question of the Executive's ability to continue in active employment shall be submitted to an impartial and reputable physician selected by the parties hereto and such physician's determination on the question of disability or incapacity shall be binding. If it is determined that the Executive is permanently disabled, she shall nevertheless continue to receive 60% of her compensation for the remaining term of this Agreement.

(c) There shall be deducted from the amounts paid to the Executive hereunder during any period of disability or incapacitation as described herein, any amounts actually paid to the Executive pursuant to any disability insurance or other similar such program, as provided in Paragraph 9 hereof, which the Bank has instituted or may institute on behalf of its employees for the purpose of compensating the Executive in the event of disability.

11. Termination of Employment.

(a) Without cause. The Board of Directors may, without cause, terminate this Agreement at any time, by giving 90 days written notice to the Executive. In such event, the Executive, if requested by the Board of Directors, shall continue to render her services, and shall be paid her regular salary up to the date of termination. In addition, the Executive shall be paid from the date of termination a severance payment of four (4) years base salary (less all amounts required to be withheld and deducted), such payment to be made in substantially equal semimonthly installments on the fifteenth and last days of each month, or if these days are nonbusiness days, the immediately preceding business day, commencing with the month in which the date of termination occurs and continuing for 24 consecutive semimonthly payment dates.

The Executive may, without cause, terminate the Agreement by giving 90 days written notice to the Board of Directors. In such event, the Executive shall continue to render her services and shall be paid her regular salary up to the date of termination, but shall not receive any severance payment. In the event that the Executive terminates her agreement without cause, the Bank shall be entitled to enjoin the employment of the Executive as an officer or employee of any significant competitor of the Bank for a period of one year. The term "significant competitor" shall mean any bank, savings bank or savings and loan association which at the date of its employment of the Executive has total assets of one billion dollars or more and a home or branch office in any city in Puerto Rico. In consideration of the Executive entering into this non-competition agreement, she shall receive an amount of $50,000 which amount is for purposes of this Agreement included as part of the Executive's base salary.

(b) With Cause. The Board of Directors may, at any time, terminate this Agreement for cause. In such event, the Executive shall not be entitled to receive any further compensation from the date of notice of termination. For the purpose of this Agreement, "termination for cause" shall include any act or omission on the part of the Executive which involves personal dishonesty, willful misconduct, breach of fiduciary duty, a material violation of any law, rule or regulation relating to the banking industry or a material breach of any provision of this Agreement, such as the willful and continued failure of the Executive to perform the duties herein set forth. No act or failure to act on the Executive's part shall be considered "willful" unless done, or omitted to be done, by her not in good faith and without reasonable belief that her action or omission was in the best interest of the Bank. For purposes of this paragraph, any act or omission to act on the part of the Executive in reliance upon an opinion of counsel to the Bank or to the Executive shall not be deemed to be willful or without reasonable belief that the act or omission to act was in the best interest of the Bank.

The Executive may, with cause, terminate this Agreement. For purposes of this paragraph, termination with cause shall mean a failure of the Bank to comply with any material provision of this Agreement, which failure has not been cured within 15 days of receipt of a written notice by the Executive of such noncompliance by the Bank.

(c) If the Executive is suspended and/or prohibited from participating in the conduct of the Bank's affairs by a notice or order served under Sections 8(e)(3), (e)(4) or (g)(1) of the Federal Deposit Insurance Act [12 USC 1818(e)(3), (e)(4) and (g)(1)], or any other similar provision of state or federal law now in place or enacted in future, the Bank's obligations under this Agreement shall be suspended as of the date of service, unless such prohibition and/or suspension is stayed by appropriate proceedings. If after a hearing is held and upon judicial review, the notice or order suspending and/or prohibiting the Executive from participating in the affairs of the Bank is confirmed, then this Agreement shall be terminated with cause. If the charges in the notice or order are dismissed, the Bank shall: (i) pay the Executive all the compensation withheld while the contractual obligations were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(d) If the Bank is in default, as defined to mean an adjudication or other official determination of a court of competent jurisdiction, the appropriate Federal banking agency or other public authority pursuant to which a conservator, receiver or other legal custodian is appointed for the Bank for the purpose of liquidation, all obligations under this Agreement shall terminate as of the date of default, but rights of the Executive to compensation earned as of the date of termination shall not be affected.

(e) In the event that the Executive is terminated or she terminates this Agreement, in a manner which violates the provisions of this Paragraph 11, as determined by the arbitration procedure provided in Paragraph 21, the Executive or the Bank, as the case may be, shall be entitled to reimbursement for all reasonable costs, including attorney's fees, incurred by the Executive or the Bank, as the case may be, in challenging such termination.

12. Change in Control.

(a) If during the term of this Agreement there is a "change in control" of the Bank, as such term is defined in sub-paragraph (c) hereunder, the Executive shall be entitled to receive from the Bank a severance payment in consideration of having bound herself to employment by the Bank and having foregone other business or professional opportunities, actual or potential. The severance payment shall be a lump sum cash payment equal to four (4) times the Executive's total compensation, as the term is defined in Section 12(b) of this Agreement, to be made on or before the fifth day following the date on which the change in control occurs.

(b) For purposes of this section, the term total compensation shall mean the Executive's base salary plus the highest cash Performance Bonus paid to the Executive in any of the four (4) fiscal years prior to the date of the change in control, and the value of any other benefits provided to the Executive during the year in which the change in control occurs which are listed and attached hereto as Exhibit A, as it may be amended from time to time.

(c) The term "change in control" shall be deemed to have taken place if: (i) a third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of the Bank having 25% or more of the total number of votes which may be cast for the election of directors of the Bank or which, by cumulative voting, if permitted by the Banks charter or bylaws, would enable such third person to elect 25% or more of the directors of the Bank; or (ii) as the result of, or in connection with, any cash tender or exchange offer, merger or any other business combination, sales of assets or contested election, or any combination of the foregoing transactions, the persons who were directors of the Bank before such transaction shall cease to constitute a majority of the Board of the Bank or any successor institution. Notwithstanding the provisions of this paragraph, a change in control of the Bank shall not be deemed to have occurred in the event the Bank undertakes a reorganization to form a bank holding company.

(d) Any payments made to the Executive pursuant to this Agreement are subject to and conditioned upon their compliance with 12 USC 1828(k) and any regulations promulgated thereunder. The Bank shall in good faith seek to obtain, if necessary or required, any consents or approvals from the FDIC or any other applicable regulatory agency and any successors thereto with respect to any payments to be made or any benefits to be provided to the Executive pursuant to the terms of this Agreement.

13. Confidentiality; Injunctive Relief. Recognizing that the knowledge and information about, or relationships with, the business associates, customers, clients, and agents of the Bank and its affiliated companies and the business methods, systems, plans, and policies of the Bank and of its affiliated companies which Executive has heretofore and shall hereafter receive, obtain, or establish as an employee of the Bank or otherwise are valuable and unique assets of the Bank, the Executive agrees that, during the continuance of this Agreement and thereafter, she shall not (otherwise than pursuant to her duties hereunder) disclose without the written consent of the Bank, any material or substantial, confidential, or proprietary know-how, data, or information pertaining to the Bank, or its business, personnel, or plans, to any person, firm, corporation, or other entity, for any reason or purpose whatsoever. Executive acknowledges and agrees that all memoranda, notes, records, and other documents made or compiled by Executive or made available to Executive concerning the Bank's business shall be the Bank's exclusive property and shall be delivered by Executive to the Bank upon expiration or termination of this Agreement or at any other time upon the request of the Company.

The provisions of this Paragraph 13 shall survive the expiration or termination of this Agreement or any part thereof, without regard to the reason therefor.

Executive hereby acknowledges that the services to be rendered by her are of special, unique, and extraordinary character and, in connection with such services, she will have access to confidential information concerning the Bank's business. By reason of this, Executive consents and agrees that if she violates any of the provisions of this Agreement with respect to confidentiality, the Bank would sustain irreparable harm and, therefore, in addition to any other remedies which the Bank may have under this Agreement or otherwise, the Bank will be entitled to an injunction to be issued by any court of competent jurisdiction restraining the Executive from committing or continuing any such violation of this Agreement. The term "Confidential Information" means: (1) proprietary information of the Bank; (2) information marked or designated by the Bank as confidential; (3) information, whether or not in written form and whether or not designated as confidential, which is known to the Executive as treated by the Bank as confidential; and (4) information provided to the Bank by third parties which the Bank is obligated to keep confidential, specifically including Bank customer lists and information. Confidential Information does not include any information now or hereafter voluntarily disseminated by the Bank to the public, or which otherwise becomes part of the public domain through lawful means.

14. No assignments. This Agreement is personal to each of the parties hereto. Neither party may assign or delegate any of his or its rights or obligations hereunder without first obtaining the written consent of the other party. However, in the event of the death of the Executive all his rights to receive payments hereunder shall become rights of his estate.

15. Benefits. Any benefits due or provided hereunder to the Executive shall be in addition to, and not in substitution of, any benefit to which the Executive is otherwise entitled to without regard to the Agreement.

16. Mitigation. The Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Agreement, and the obtaining of any such other employment shall in no event effect any reduction of the Bank's obligation to make the payments and arrangements required to be made under this Agreement.

17. Notices. All notices required by this Agreement to be given by one party to the other shall be in writing and shall be deemed to have been delivered either:

(a) When personally delivered to the Office of the Secretary of the Bank at his regular corporate office, or the Executive in person; or

(b) Five days after depositing such notice in the United States mails, certified mail with return receipt requested and postage prepaid, to:

(i) the Bank:
c/o Office of the Secretary of the Bank
FirstBank Puerto Rico
PO Box 9146
Santurce, PR 00908-0146

(ii) the Executive:

Mrs. Annie Astor de Carbonell
Parque de Santa Maria

M-12 Rosa St.
San Juan, PR 00927

or to such other address as either party may designate to the other by notice in writing in accordance with the terms hereof.

18. Amendments or Additions; Action by Board of Directors. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties. The prior approval by a two-thirds affirmative vote of the full Board of Directors of the Bank shall be required in order for the Bank to authorize any amendments or additions to this Agreement, to give any consents or waivers of provisions of this Agreement, or to take any other action under this Agreement including any termination of the employment of the Executive with or without cause under Paragraph 10 hereof.

19. Section Headings. The Paragraph headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

20. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

21. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Puerto Rico. Venue for the litigation of any and all matters arising under or in connection with this Agreement shall be in the Superior Court for the Commonwealth of Puerto Rico, in San Juan, in the case of state court jurisdiction, when clause 21 of this Agreement is not legally applicable.

22. Arbitration. Any controversy as to the interpretation of this contract must be submitted before three arbitrators to be appointed by the American Arbitration Association ("AAA"). The rules and regulations of the AAA shall govern the procedures of said arbitration. The award of a majority of arbitrators shall be binding and final on the parties.

FIRSTBANK PUERTO RICO

/S/ German Malaret

Chairman

ATTEST:/s/ Antonio Escriba

EXECUTIVE:/s/Annie A. de Carbonell

EMPLOYMENT AGREEMENT

AGREEMENT, dated as of May 14, 1998, by and between FIRSTBANK PUERTO RICO (the "Bank") and Luis M. Beauchamp (the "Executive").

WHEREAS, the Bank wishes to retain the services of the Executive and the retention of the Executive's services for and on behalf of the Bank is of material importance to the preservation and enhancement of the value of the Bank's business;

WHEREAS, the Board of Directors of the Bank has approved and authorized the entry into this Agreement with the Executive to take effect immediately upon execution of the same;

WHEREAS , the parties desire to enter into this Agreement setting forth the terms and conditions of the employment relationship of the Bank and the Executive;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein, the parties hereto agree as follows:

1. Employment. The Bank agrees to continue to employ the Executive and the Executive agrees to continue in the employment of the Bank for the period stated in Paragraph 4 hereof and upon the other terms and conditions herein provided.

2. Position and Responsibilities. The Executive is employed as Senior Executive Vice President, and shall carry out and render to the Bank such services as are customarily performed by persons situated in a similar executive and professional capacity. The Executive shall also perform such other related duties as he may from time to time be reasonably directed, including, but not limited to performing duties for the Bank or for any of its present or future subsidiaries. The Executive shall report to the President and Chief Executive Officer of the Bank, and/or to the Board of Directors of the Bank.

3. Duties. During the period of employment hereunder, and except for illness, vacation periods, and reasonable leaves of absence, the Executive shall devote his business time, attention, skill, and efforts to the faithful performance of his duties hereunder as is customary for an executive holding a similar position in a financial institution of comparable size.

The Executive agrees that during the term of his employment hereunder, except with the express consent of the Board of Directors he will not, directly or indirectly, engage or participate, become director of, or render advisory or other services for, or in connection with, or become interested in, or make any financial investment in any firm, corporation, business entity or business enterprise competitive with or to any business of the Bank; provided, however, that the Executive shall not thereby be precluded or prohibited from owning passive investments, including investments in the securities of other financial institutions, so long as such ownership does not require him to devote substantial time to management or control of the business or activities in which he has invested.

4. Term. The initial term of employment under this Agreement shall be for a period of four (4) years, commencing on the date hereof and terminating May 14, 2002. On each anniversary of the date of commencement of this Agreement, the term of employment hereunder shall automatically be extended for an additional one (1) year period beyond the then effective expiration date, unless either party receives written notice, not less than 90 days prior to the anniversary date, advising the other party that this Agreement shall not be further extended. Any such written notice shall not affect any prior extensions of the term of employment hereunder.

5. Standards. The Executive shall perform his duties and responsibilities under this Agreement in accordance with such reasonable standards as are established from time to time by the Board of Directors and/or management of the Bank. The reasonableness of such standards shall be measured against standards for executive performance generally prevailing in the banking industry.

Notwithstanding anything to the contrary, nothing in this Agreement will be interpreted in any manner which would tend to limit or interfere with the authority or oversight duties and discretion of the Board of Directors to establish adequate guidelines for the effective management of the Bank.

6. Compensation and Reimbursement of Expenses.

a) Compensation

The Bank agrees to pay the Executive during the term of this Agreement a base salary of not less than $265,000 per year. The performance of the Executive shall be reviewed annually by the Board of Directors and the salary provided herein may be increased, but not decreased, in accordance with the recommendation of the Compensation Committee. The salary provided herein shall not be paid less frequently than monthly.

b) Performance Bonus

In addition to the salary set forth above, the performance of the Executive and of the Bank during each year of employment shall be evaluated on the basis of the Bank's achievement of the predetermined business objectives contained in the Bank's annual business plan. The contribution of the Executive to the achievement of the Bank's annual business objectives and his performance in such other functions as may be reasonably put under his charge, will be evaluated by the President and Chief Executive Officer who may recommend to the Compensation Committee payment of a performance bonus in an amount which the Compensation Committee may determine at its discretion.

c) Stock Options

The Executive will be entitled to participate in and receive the benefits of any stock option, profit sharing, or other plans, benefits and privileges given to employees and executives of the Bank or its subsidiaries and affiliates which now exist or may come into existence hereafter, to the extent commensurate with his then duties and responsibilities, as fixed by the Compensation Committee and approved by the Board of Directors. The terms and conditions of such stock options will be within the parameters set forth in the employee stock option plan of the Bank or other similar plan under which a benefit or privilege is made available.

d) Automobile Expenses.

(i) The Bank shall provide the Executive with a company owned automobile. Such automobile will be furnished in accordance with existing executive automobile policy as approved by the Board of Directors. All expenses, including but not limited to insurance, maintenance, repairs, fuel, and lubrication services, shall be provided by the Bank.

(ii) Monthly or not more than thirty (30) days after the expenses are incurred, the Bank shall pay or reimburse the Executive for any gasoline, oil and maintenance or repair expenses which the Executive incurs directly in the operation of the automobile provided hereunder.

e) Reimbursement of Expenses.

Not less frequently than monthly, the Bank shall pay or reimburse the Executive for all reasonable travel and other expenses incurred by the Executive in the performance of his duties under this Agreement.

f) Office.

The Bank shall furnish the Executive with a private office, a private secretary and such other assistance and accommodations as shall be suitable to the character of the Executive's position with the Bank and adequate for the performance of his duties hereunder.

7. Participation in Benefit Plans. The payments and benefits provided hereunder are in addition to any payment and benefits to which Executive may be or may become entitled under any other present or future group employee benefit plan or program of the Bank for which executives are or shall become eligible, and the Executive shall be eligible to receive all benefits and entitlements for which the executives are eligible under every such plan or program.

8. Voluntary Absences; Vacations and Sick Leave. The Executive shall be entitled, without loss of pay, to absent himself voluntarily for reasonable periods of time from the performance of his duties and responsibilities under this Agreement. All such voluntary absences shall count either as paid vacation time or sick leave, unless otherwise provided by the Board of Directors. The

Executive shall be entitled to an annual paid vacation of 21 working days per year, or such longer periods as the Board of Directors may approve, which vacations shall be scheduled by the Executive with the prior approval of the President and Chief Executive Officer, taking into account the needs of the Bank. The Executive may accumulate unused paid vacation time from one calendar year to the next; provided, that such accumulation shall not exceed 36 working days of unused vacation time from prior years. The Executive shall be entitled to up to 15 non-cumulative working days of paid sick leave per year or such longer period as the Board of Directors may approve.

9. Benefits Payable Upon Disability or Death. The Bank shall, at all times, maintain in effect disability and death benefits insurance for the benefit of the Executive in an amount at least equal to that maintained for executives of similar rank and which will not be less than that maintained by the Bank for all officers and employees. Provided that the Bank may increase but never decrease the benefits which the Executive and/or the Executive's heirs would be entitled to thereunder.

10. Disability.

(a) If the Executive shall become disabled or incapacitated for a number of consecutive days exceeding those to which he is entitled as sick-leave, and it is determined that he will continue to temporarily be unable to perform his duties under this Agreement, he shall nevertheless continue to receive 60% of his compensation, exclusive of any benefits which may be in effect for Bank employees under Paragraph 7 hereof until such time as he may rejoin active employment. Upon returning to active duty, the Executive's full compensation as set forth in this Agreement shall be reinstated. In the event that the Executive returns to active employment on other than a full-time basis, then his compensation (as set forth in Paragraph 6 of this Agreement) shall be reduced in proportion to the time spent in said employment.

(b) For purposes of this Agreement, the Executive shall be deemed to be permanently disabled or incapacitated if the Executive, due to physical or mental illness, shall have been absent from his duties with the Bank on a full-time basis for three consecutive months. In such case, the Board of Directors may remove the Executive from employment and may employ another executive in such capacity; provided, that, if the Executive shall not agree with a determination to remove him/her because of disability or incapacity, the question of the Executive's ability to continue in active employment shall be submitted to an impartial and reputable physician selected by the parties hereto and such physician's determination on the question of disability or incapacity shall be binding. If it is determined that the Executive is permanently disabled, he shall nevertheless continue to receive 60% of his compensation for the remaining term of this Agreement.

(c) There shall be deducted from the amounts paid to the Executive hereunder during any period of disability or incapacitation as described herein, any amounts actually paid to the Executive pursuant to any disability insurance or other similar such program, as provided in Paragraph 9 hereof, which the Bank has instituted or may institute on behalf of its employees for the purpose of compensating the Executive in the event of disability.

11. Termination of Employment.

(a) Without cause. The Board of Directors may, without cause, terminate this Agreement at any time, by giving 90 days written notice to the Executive. In such event, the Executive, if requested by the Board of Directors, shall continue to render his services, and shall be paid his regular salary up to the date of termination. In addition, the Executive shall be paid from the date of termination a severance payment of four (4) years base salary (less all amounts required to be withheld and deducted), such payment to be made in substantially equal semimonthly installments on the fifteenth and last days of each month, or if these days are nonbusiness days, the immediately preceding business day, commencing with the month in which the date of termination occurs and continuing for 24 consecutive semimonthly payment dates.

The Executive may, without cause, terminate the Agreement by giving 90 days written notice to the Board of Directors. In such event, the Executive shall continue to render his services and shall be paid his regular salary up to the date of termination, but shall not receive any severance payment. In the event that the Executive terminates his agreement without cause, the Bank shall be entitled to enjoin the employment of the Executive as an officer or employee of any significant competitor of the Bank for a period of one year. The term "significant competitor" shall mean any bank, savings bank or savings and loan association which at the date of its employment of the Executive has total assets of one billion dollars or more and a home or branch office in any city in Puerto Rico. In consideration of the Executive entering into this non-competition agreement, he shall receive an amount of $50,000 which amount is for purposes of this Agreement included as part of the Executive's base salary.

(b) With Cause. The Board of Directors may, at any time, terminate this Agreement for cause. In such event, the Executive shall not be entitled to receive any further compensation from the date of notice of termination. For the purpose of this Agreement, "termination for cause" shall include any act or omission on the part of the Executive which involves personal dishonesty, willful misconduct, breach of fiduciary duty, a material violation of any law, rule or regulation relating to the banking industry or a material breach of any provision of this Agreement, such as the willful and continued failure of the Executive to perform the duties herein set forth. No act or failure to act on the Executive's part shall be considered "willful" unless done, or omitted to be done, by him/her not in good faith and without reasonable belief that his action or omission was in the best interest of the Bank. For purposes of this paragraph, any act or omission to act on the part of the Executive in reliance upon an opinion of counsel to the Bank or to the Executive shall not be deemed to be willful or without reasonable belief that the act or omission to act was in the best interest of the Bank.

The Executive may, with cause, terminate this Agreement. For purposes of this paragraph, termination with cause shall mean a failure of the Bank to comply with any material provision of this Agreement, which failure has not been cured within 15 days of receipt of a written notice by the Executive of such noncompliance by the Bank.

(c) If the Executive is suspended and/or prohibited from participating in the conduct of the Bank's affairs by a notice or order served under Sections 8(e)(3), (e)(4) or (g)(1) of the Federal Deposit Insurance Act [12 USC 1818(e)(3), (e)(4) and (g)(1)], or any other similar provision of state or federal law now in place or enacted in future, the Bank's obligations under this Agreement shall be suspended as of the date of service, unless such prohibition and/or suspension is stayed by appropriate proceedings. If after a hearing is held and upon judicial review, the notice or order suspending and/or prohibiting the Executive from participating in the affairs of the Bank is confirmed, then this Agreement shall be terminated with cause. If the charges in the notice or order are dismissed, the Bank shall: (i) pay the Executive all the compensation withheld while the contractual obligations were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(d) If the Bank is in default, as defined to mean an adjudication or other official determination of a court of competent jurisdiction, the appropriate Federal banking agency or other public authority pursuant to which a conservator, receiver or other legal custodian is appointed for the Bank for the purpose of liquidation, all obligations under this Agreement shall terminate as of the date of default, but rights of the Executive to compensation earned as of the date of termination shall not be affected.

(e) In the event that the Executive is terminated or he terminates this Agreement, in a manner which violates the provisions of this Paragraph 11, as determined by the arbitration procedure provided in Paragraph 21, the Executive or the Bank, as the case may be, shall be entitled to reimbursement for all reasonable costs, including attorney's fees, incurred by the Executive or the Bank, as the case may be, in challenging such termination.

12. Change in Control.

(a) If during the term of this Agreement there is a "change in control" of the Bank, as such term is defined in sub-paragraph (c) hereunder, the Executive shall be entitled to receive from the Bank a severance payment in consideration of having bound himself to employment by the Bank and having foregone other business or professional opportunities, actual or potential. The severance payment shall be a lump sum cash payment equal to four (4) times the Executive's total compensation, as the term is defined in Section 12(b) of this Agreement, to be made on or before the fifth day following the date on which the change in control occurs.

(b) For purposes of this section, the term total compensation shall mean the Executive's base salary plus the highest cash Performance Bonus paid to the Executive in any of the four (4) fiscal years prior to the date of the change in control, and the value of any other benefits provided to the Executive during the year in which the change in control occurs which are listed and attached hereto as Exhibit A, as it may be amended from time to time.

(c) The term "change in control" shall be deemed to have taken place if: (i) a third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of the Bank having 25% or more of the total number of votes which may be cast for the election of directors of the Bank or which, by cumulative voting, if permitted by the Banks charter or bylaws, would enable such third person to elect 25% or more of the directors of the Bank; or (ii) as the result of, or in connection with, any cash tender or exchange offer, merger or any other business combination, sales of assets or contested election, or any combination of the foregoing transactions, the persons who were directors of the Bank before such transaction shall cease to constitute a majority of the Board of the Bank or any successor institution. Notwithstanding the provisions of this paragraph, a change in control of the Bank shall not be deemed to have occurred in the event the Bank undertakes a reorganization to form a bank holding company.

(d) Any payments made to the Executive pursuant to this Agreement are subject to and conditioned upon their compliance with 12 USC 1828(k) and any regulations promulgated thereunder. The Bank shall in good faith seek to obtain, if necessary or required, any consents or approvals from the FDIC or any other applicable regulatory agency and any successors thereto with respect to any payments to be made or any benefits to be provided to the Executive pursuant to the terms of this Agreement.

13. Confidentiality; Injunctive Relief. Recognizing that the knowledge and information about, or relationships with, the business associates, customers, clients, and agents of the Bank and its affiliated companies and the business methods, systems, plans, and policies of the Bank and of its affiliated companies which Executive has heretofore and shall hereafter receive, obtain, or establish as an employee of the Bank or otherwise are valuable and unique assets of the Bank, the Executive agrees that, during the continuance of this Agreement and thereafter, he shall not (otherwise than pursuant to his duties hereunder) disclose without the written consent of the Bank, any material or substantial, confidential, or proprietary know-how, data, or information pertaining to the Bank, or its business, personnel, or plans, to any person, firm, corporation, or other entity, for any reason or purpose whatsoever. Executive acknowledges and agrees that all memoranda, notes, records, and other documents made or compiled by Executive or made available to Executive concerning the Bank's business shall be the Bank's exclusive property and shall be delivered by Executive to the Bank upon expiration or termination of this Agreement or at any other time upon the request of the Company.

The provisions of this Paragraph 13 shall survive the expiration or termination of this Agreement or any part thereof, without regard to the reason therefor.

Executive hereby acknowledges that the services to be rendered by him/her are of special, unique, and extraordinary character and, in connection with such services, he will have access to confidential information concerning the Bank's business. By reason of this, Executive consents and agrees that if he violates any of the provisions of this Agreement with respect to confidentiality, the Bank would sustain irreparable harm and, therefore, in addition to any other remedies which the Bank may have under this Agreement or otherwise, the Bank will be entitled to an injunction to be issued by any court of competent jurisdiction restraining the Executive from committing or continuing any such violation of this Agreement. The term "Confidential Information" means: (1) proprietary information of the Bank; (2) information marked or designated by the Bank as confidential; (3) information, whether or not in written form and whether or not designated as confidential, which is known to the Executive as treated by the Bank as confidential; and (4) information provided to the Bank by third parties which the Bank is obligated to keep confidential, specifically including Bank customer lists and information. Confidential Information does not include any information now or hereafter voluntarily disseminated by the Bank to the public, or which otherwise becomes part of the public domain through lawful means.

14. No assignments. This Agreement is personal to each of the parties hereto. Neither party may assign or delegate any of his or its rights or obligations hereunder without first obtaining the written consent of the other party. However, in the event of the death of the Executive all his rights to receive payments hereunder shall become rights of his estate.

15. Benefits. Any benefits due or provided hereunder to the Executive shall be in addition to, and not in substitution of, any benefit to which the Executive is otherwise entitled to without regard to the Agreement.

16. Mitigation. The Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Agreement, and the obtaining of any such other employment shall in no event effect any reduction of the Bank's obligation to make the payments and arrangements required to be made under this Agreement.

17. Notices. All notices required by this Agreement to be given by one party to the other shall be in writing and shall be deemed to have been delivered either:

(a) When personally delivered to the Office of the Secretary of the Bank at his regular corporate office, or the Executive in person; or

(b) Five days after depositing such notice in the United States mails, certified mail with return receipt requested and postage prepaid, to:

(i) the Bank:
c/o Office of the Secretary of the Bank
FirstBank Puerto Rico
PO Box 9146
Santurce, PR 00908-0146

(ii) the Executive:

Mr. Luis M. Beauchamp
1678 Calle Geranio
Urb. San Francisco

Rio Piedras, PR 00927

or to such other address as either party may designate to the other by notice in writing in accordance with the terms hereof.

18. Amendments or Additions; Action by Board of Directors. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties. The prior approval by a two-thirds affirmative vote of the full Board of Directors of the Bank shall be required in order for the Bank to authorize any amendments or additions to this Agreement, to give any consents or waivers of provisions of this Agreement, or to take any other action under this Agreement including any termination of the employment of the Executive with or without cause under Paragraph 10 hereof.

19. Section Headings. The Paragraph headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

20. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

21. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Puerto Rico. Venue for the litigation of any and all matters arising under or in connection with this Agreement shall be in the Superior Court for the Commonwealth of Puerto Rico, in San Juan, in the case of state court jurisdiction, when clause 21 of this Agreement is not legally applicable.

22. Arbitration. Any controversy as to the interpretation of this contract must be submitted before three arbitrators to be appointed by the American Arbitration Association ("AAA"). The rules and regulations of the AAA shall govern the procedures of said arbitration. The award of a majority of arbitrators shall be binding and final on the parties.

FIRSTBANK PUERTO RICO

/S/ German Malaret

Chairman

ATTEST:/s/ Antonio Escriba

EXECUTIVE:/s/Luis Beauchamp

EMPLOYMENT AGREEMENT

AGREEMENT, dated as of February 24, 1998, by and between FIRSTBANK PUERTO RICO (the "Bank") and Aurelio Aleman (the "Executive").

WHEREAS, the Bank wishes to retain the services of the Executive and the retention of the Executive's services for and on behalf of the Bank is of material importance to the preservation and enhancement of the value of the Bank's business;

WHEREAS, the Board of Directors of the Bank has approved and authorized the entry into this Agreement with the Executive to take effect immediately upon execution of the same;

WHEREAS , the parties desire to enter into this Agreement setting forth the terms and conditions of the employment relationship of the Bank and the Executive;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein, the parties hereto agree as follows:

1. Employment. The Bank agrees to continue to employ the Executive and the Executive agrees to continue in the employment of the Bank for the period stated in Paragraph 4 hereof and upon the other terms and conditions herein provided.

2. Position and Responsibilities. The Executive is employed as an Executive Vice President, and shall carry out and render to the Bank such services as are customarily performed by persons situated in a similar executive and professional capacity. The Executive shall also perform such other related duties as he/she may from time to time be reasonably directed, including, but not limited to performing duties for the Bank or for any of its present or future subsidiaries. The Executive shall report to the President and Chief Executive Officer of the Bank, or to any Executive Officer designated by the President or the Board of Directors.

3. Duties. During the period of employment hereunder, and except for illness, vacation periods, and reasonable leaves of absence, the Executive shall devote his/her business time, attention, skill, and efforts to the faithful performance of his/her duties hereunder as is customary for an executive holding a similar position in a financial institution of comparable size.

The Executive agrees that during the term of his/her employment hereunder, except with the express consent of the Board of Directors he/she will not, directly or indirectly, engage or participate, become director of, or render advisory or other services for, or in connection with, or become interested in, or make any financial investment in any firm, corporation, business entity or business enterprise competitive with or to any business of the Bank; provided, however, that the Executive shall not thereby be precluded or prohibited from owning passive investments, including investments in the securities of other financial institutions, so long as such ownership does not require him/her to devote substantial time to management or control of the business or activities in which he/she has invested.

4. Term. The initial term of employment under this Agreement shall be for a period of four (4) years, commencing on the date hereof and terminating February 24, 2002. On each anniversary of the date of commencement of this Agreement, the term of employment hereunder shall automatically be extended for an additional one (1) year period beyond the then effective expiration date, unless either party receives written notice, not less than 90 days prior to the anniversary date, advising the other party that this Agreement shall not be further extended. Any such written notice shall not affect any prior extensions of the term of employment hereunder.

5. Standards. The Executive shall perform his/her duties and responsibilities under this Agreement in accordance with such reasonable standards as are established from time to time by the Board of Directors and/or management of the Bank. The reasonableness of such standards shall be measured against standards for executive performance generally prevailing in the banking industry.

Notwithstanding anything to the contrary, nothing in this Agreement will be interpreted in any manner which would tend to limit or interfere with the authority or oversight duties and discretion of the Board of Directors to establish adequate guidelines for the effective management of the Bank.

6. Compensation and Reimbursement of Expenses.

a) Compensation

The Bank agrees to pay the Executive during the term of this Agreement a base salary of not less than $200,000 per year. The performance of the Executive shall be reviewed annually by the Board of Directors and the salary provided herein may be increased, but not decreased, in accordance with the recommendation of the Compensation Committee. The salary provided herein shall not be paid less frequently than monthly.

b) Performance Bonus

In addition to the salary set forth above, the performance of the Executive and of the Bank during each year of employment shall be evaluated on the basis of the Bank's achievement of the predetermined business objectives contained in the Bank's annual business plan. The contribution of the Executive to the achievement of the Bank's annual business objectives and his/her performance in such other functions as may be reasonably put under his/her charge, will be evaluated by the President and Chief Executive Officer who may recommend to the Compensation Committee payment of a performance bonus in an amount which the

Compensation Committee may determine at its discretion.

c) Stock Options

The Executive will be entitled to participate in and receive the benefits of any stock option, profit sharing, or other plans, benefits and privileges given to employees and executives of the Bank or its subsidiaries and affiliates which now exist or may come into existence hereafter, to the extent commensurate with his/her then duties and responsibilities, as fixed by the Compensation Committee and approved by the Board of Directors. The terms and conditions of such stock options will be within the parameters set forth in the employee stock option plan of the Bank or other similar plan under which a benefit or privilege is made available.

d) Automobile Expenses.

(i) The Bank shall provide the Executive with a company owned automobile. Such automobile will be furnished in accordance with existing executive automobile policy as approved by the Board of Directors. All expenses, including but not limited to insurance, maintenance, repairs, fuel, and lubrication services, shall be provided by the Bank.

(ii) Monthly or not more than thirty (30) days after the expenses are incurred, the Bank shall pay or reimburse the Executive for any gasoline, oil and maintenance or repair expenses which the Executive incurs directly in the operation of the automobile provided hereunder.

e) Reimbursement of Expenses.

Not less frequently than monthly, the Bank shall pay or reimburse the Executive for all reasonable travel and other expenses incurred by the Executive in the performance of his duties under this Agreement.

f) Office.

The Bank shall furnish the Executive with a private office, a private secretary and such other assistance and accommodations as shall be suitable to the character of the Executive's position with the Bank and adequate for the performance of his/her duties hereunder.

7. Participation in Benefit Plans. The payments and benefits provided hereunder are in addition to any payment and benefits to which Executive may be or may become entitled under any other present or future group employee benefit plan or program of the Bank for which executives are or shall become eligible, and the Executive shall be eligible to receive all benefits and entitlements for which the executives are eligible under every such plan or program.

8. Voluntary Absences; Vacations and Sick Leave. The Executive shall be entitled, without loss of pay, to absent himself voluntarily for reasonable periods of time from the performance of his duties and responsibilities under this Agreement. All such voluntary absences shall count either as paid vacation

time or sick leave, unless otherwise provided by the Board of Directors. The Executive shall be entitled to an annual paid vacation of 18 working days per year, or such longer periods as the Board of Directors may approve, which vacations shall be scheduled by the Executive with the prior approval of the President and Chief Executive Officer or any other officer to whom the Executive reports, taking into account the needs of the Bank. The Executive may accumulate unused paid vacation time from one calendar year to the next; provided, that such accumulation shall not exceed 36 working days of unused vacation time from prior years. The Executive shall be entitled to up to 15 non-cumulative working days of paid sick leave per year or such longer period as the Board of Directors may approve.

9. Benefits Payable Upon Disability or Death. The Bank shall, at all times, maintain in effect disability and death benefits insurance for the benefit of the Executive in an amount at least equal to that maintained for executives of similar rank and which will not be less than that maintained by the Bank for all officers and employees. Provided that the Bank may increase but never decrease the benefits which the Executive and/or the Executive's heirs would be entitled to thereunder.

10. Disability.

(a) If the Executive shall become disabled or incapacitated for a number of consecutive days exceeding those to which he/she is entitled as sick-leave, and it is determined that he/she will continue to temporarily be unable to perform his/her duties under this Agreement, he/she shall nevertheless continue to receive 60% of his/her compensation, exclusive of any benefits which may be in effect for Bank employees under Paragraph 7 hereof until such time as he/she may rejoin active employment. Upon returning to active duty, the Executive's full compensation as set forth in this Agreement shall be reinstated. In the event that the Executive returns to active employment on other than a full-time basis, then his/her compensation (as set forth in Paragraph 6 of this Agreement) shall be reduced in proportion to the time spent in said employment.

(b) For purposes of this Agreement, the Executive shall be deemed to be permanently disabled or incapacitated if the Executive, due to physical or mental illness, shall have been absent from his duties with the Bank on a full-time basis for three consecutive months. In such case, the Board of Directors may remove the Executive from employment and may employ another executive in such capacity; provided, that, if the Executive shall not agree with a determination to remove him/her because of disability or incapacity, the question of the Executive's ability to continue in active employment shall be submitted to an impartial and reputable physician selected by the parties hereto and such physician's determination on the question of disability or incapacity shall be binding. If it is determined that the Executive is permanently disabled, he/she shall nevertheless continue to receive 60% of his/her compensation for the remaining term of this Agreement.

(c) There shall be deducted from the amounts paid to the Executive hereunder during any period of disability or incapacitation as described herein, any amounts actually paid to the Executive pursuant to any disability insurance or other similar such program, as provided in Paragraph 9 hereof, which the Bank has instituted or may institute on behalf of its employees for the purpose of compensating the Executive in the event of disability.

11. Termination of Employment.

(a) Without cause. The Board of Directors may, without cause, terminate this Agreement at any time, by giving 90 days written notice to the Executive. In such event, the Executive, if requested by the Board of Directors, shall continue to render his/her services, and shall be paid his/her regular salary up to the date of termination. In addition, the Executive shall be paid from the date of termination a severance payment of four (4) years base salary (less all amounts required to be withheld and deducted), such payment to be made in substantially equal semimonthly installments on the fifteenth and last days of each month, or if these days are nonbusiness days, the immediately preceding business day, commencing with the month in which the date of termination occurs and continuing for 24 consecutive semimonthly payment dates.

The Executive may, without cause, terminate the Agreement by giving 90 days written notice to the Board of Directors. In such event, the Executive shall continue to render his/her services and shall be paid his/her regular salary up to the date of termination, but shall not receive any severance payment. In the event that the Executive terminates his/her agreement without cause, the Bank shall be entitled to enjoin the employment of the Executive as an officer or employee of any significant competitor of the Bank for a period of one year. The term "significant competitor" shall mean any bank, savings bank or savings and loan association which at the date of its employment of the Executive has total assets of one billion dollars or more and a home or branch office in any city in Puerto Rico. In consideration of the Executive entering into this non-competition agreement, he/she shall receive an amount of $50,000 which amount is for purposes of this Agreement included as part of the Executive's base salary. (b) With Cause. The Board of Directors may, at any time, terminate this Agreement for cause. In such event, the Executive shall not be entitled to receive any further compensation from the date of notice of termination. For the purpose of this Agreement, "termination for cause" shall include any act or omission on the part of the Executive which involves personal dishonesty, willful misconduct, breach of fiduciary duty, a material violation of any law, rule or regulation relating to the banking industry or a material breach of any provision of this Agreement, such as the willful and continued failure of the Executive to perform the duties herein set forth. No act or failure to act on the Executive's part shall be considered "willful" unless done, or omitted to be done, by him/her not in good faith and without reasonable belief that his/her action or omission was in the best interest of the Bank. For purposes of this paragraph, any act or omission to act on the part of the Executive in reliance upon an opinion of counsel to the Bank or to the Executive shall not be deemed to be willful or without reasonable belief that the act or omission to act was in the best interest of the Bank. The Executive may, with cause, terminate this Agreement. For purposes of this paragraph, termination with cause shall mean a failure of the Bank to comply with any material provision of this Agreement, which failure has not been cured within 15 days of receipt of a written notice by the Executive of such noncompliance by the Bank. (c) If the Executive is suspended and/or prohibited from participating in the conduct of the Bank's affairs by a notice or order served under Sections 8(e)(3), (e)(4) or (g)(1) of the Federal Deposit Insurance Act [12 USC 1818(e)(3), (e)(4) and (g)(1)], or any other similar provision of state or federal law now in place or enacted in future, the Bank's obligations under this Agreement shall be suspended as of the date of service, unless such prohibition and/or suspension is stayed by appropriate proceedings. If after a hearing is held and upon judicial review, the notice or order suspending and/or prohibiting the Executive from participating in the affairs of the Bank is confirmed, then this Agreement shall be terminated with cause. If the charges in the notice or order are dismissed, the Bank shall: (i) pay the Executive all the compensation withheld while the contractual obligations were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended. (d) If the Bank is in default, as defined to mean an adjudication or other official determination of a court of competent jurisdiction, the appropriate Federal banking agency or other public authority pursuant to which a conservator, receiver or other legal custodian is appointed for the Bank for the purpose of liquidation, all obligations under this Agreement shall terminate as of the date of default, but rights of the Executive to compensation earned as of the date of termination shall not be affected. (e) In the event that the Executive is terminated or he/she terminates this Agreement, in a manner which violates the provisions of this Paragraph 11, as determined by the arbitration procedure provided in Paragraph 21, the Executive or the Bank, as the case may be, shall be entitled to reimbursement for all reasonable costs, including attorney's fees, incurred by the Executive or the Bank, as the case may be, in challenging such termination.

12. Change in Control. (a) If during the term of this Agreement there is a "change in control" of the Bank, as such term is defined in sub-paragraph (c) hereunder, the Executive shall be entitled to receive from the Bank a severance payment in consideration of having bound himself to employment by the Bank and having foregone other business or professional opportunities, actual or potential. The severance payment shall be a lump sum cash payment equal to four (4) times the Executive's total compensation, as the term is defined in Section 12(b) of this Agreement, to be made on or before the fifth day following the date on which the change in control occurs. (b) For purposes of this section, the term total compensation shall mean the Executive's base salary plus the highest cash Performance Bonus paid to the Executive in any of the four (4) fiscal years prior to the date of the change in control, and the value of any other benefits provided to the Executive during the year in which the change in control occurs which are listed and attached hereto as Exhibit A, as it may be amended from time to time. (c) The term "change in control" shall be deemed to have taken place if: (i) a third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of the Bank having 25% or more of the total number of votes which may be cast for the election of directors of the Bank or which, by cumulative voting, if permitted by the Bank's charter or bylaws, would enable such third person to elect 25% or more of the directors of the Bank; or (ii) as the result of, or in connection with, any cash tender or exchange offer, merger or any other business combination, sales of assets or contested election, or any combination of the foregoing transactions, the persons who were directors of the

Bank before such transaction shall cease to constitute a majority of the Board of the Bank or any successor institution. Notwithstanding the provisions of this paragraph, a change in control of the Bank shall not be deemed to have occurred in the event the Bank undertakes a reorganization to form a bank holding company. (d) Any payments made to the Executive pursuant to this Agreement are subject to and conditioned upon their compliance with 12 USC 1828(k) and any regulations promulgated thereunder. The Bank shall in good faith seek to obtain, if necessary or required, any consents or approvals from the FDIC or any other applicable regulatory agency and any successors thereto with respect to any payments to be made or any benefits to be provided to the Executive pursuant to the terms of this Agreement.

13. Confidentiality; Injunctive Relief. Recognizing that the knowledge and information about, or relationships with, the business associates, customers, clients, and agents of the Bank and its affiliated companies and the business methods, systems, plans, and policies of the Bank and of its affiliated companies which Executive has heretofore and shall hereafter receive, obtain, or establish as an employee of the Bank or otherwise are valuable and unique assets of the Bank, the Executive agrees that, during the continuance of this Agreement and thereafter, he/she shall not (otherwise than pursuant to his/her duties hereunder) disclose without the written consent of the Bank, any material or substantial, confidential, or proprietary know-how, data, or information pertaining to the Bank, or its business, personnel, or plans, to any person, firm, corporation, or other entity, for any reason or purpose whatsoever. Executive acknowledges and agrees that all memoranda, notes, records, and other documents made or compiled by Executive or made available to Executive concerning the Bank's business shall be the Bank's exclusive property and shall be delivered by Executive to the Bank upon expiration or termination of this Agreement or at any other time upon the request of the Company. The provisions of this Paragraph 13 shall survive the expiration or termination of this Agreement or any part thereof, without regard to the reason therefor. Executive hereby acknowledges that the services to be rendered by him/her are of special, unique, and extraordinary character and, in connection with such services, he/she will have access to confidential information concerning the Bank's business. By reason of this, Executive consents and agrees that if he/she violates any of the provisions of this Agreement with respect to confidentiality, the Bank would sustain irreparable harm and, therefore, in addition to any other remedies which the Bank may have under this Agreement or otherwise, the Bank will be entitled to an injunction to be issued by any court of competent jurisdiction restraining the Executive from committing or continuing any such violation of this Agreement. The term "Confidential Information" means: (1) proprietary information of the Bank; (2) information marked or designated by the Bank as confidential; (3) information, whether or not in written form and whether or not designated as confidential, which is known to the Executive as treated by the Bank as confidential; and (4) information provided to the Bank by third parties which the Bank is obligated to keep confidential, specifically including Bank customer lists and information. Confidential Information does not include any information now or hereafter voluntarily disseminated by the Bank to the public, or which otherwise becomes part of the public domain through lawful means.

14. No assignments. This Agreement is personal to each of the parties hereto. Neither party may assign or delegate any of his or its rights or obligations hereunder without first obtaining the written consent of the other party. However, in the event of the death of the Executive all his rights to receive payments hereunder shall become rights of his estate.

15. Benefits. Any benefits due or provided hereunder to the Executive shall be in addition to, and not in substitution of, any benefit to which the Executive is otherwise entitled to without regard to the Agreement.

16. Mitigation. The Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Agreement, and the obtaining of any such other employment shall in no event effect any reduction of the Bank's obligation to make the payments and arrangements required to be made under this Agreement.

17. Notices. All notices required by this Agreement to be given by one party to the other shall be in writing and shall be deemed to have been delivered either:

(a) When personally delivered to the Office of the Secretary of the Bank at his regular corporate office, or the Executive in person; or

(b) Five days after depositing such notice in the United States mails, certified mail with return receipt requested and postage prepaid, to:

(i) the Bank:
c/o Office of the Secretary of the Bank
FirstBank Puerto Rico
PO Box 9146
Santurce, PR 00908-0146

(ii) the Executive:

Mr. Aurelio Aleman
Calle San Paolo #4
Monte Alvernia
Guaynabo, PR 00969

or to such other address as either party may designate to the other by notice in writing in accordance with the terms hereof.

18. Amendments or Additions; Action by Board of Directors. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties. The prior approval by a two-thirds affirmative vote of the full Board of Directors of the Bank shall be required in order for the Bank to authorize any amendments or additions to this Agreement, to give any consents or waivers of provisions of this Agreement, or to take any other action under this Agreement including any termination of the employment of the Executive with or without cause under Paragraph 10 hereof.

19. Section Headings. The Paragraph headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

20. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

21. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Puerto Rico. Venue for the litigation of any and all matters arising under or in connection with this Agreement shall be in the Superior Court for the Commonwealth of Puerto Rico, in San Juan, in the case of state court jurisdiction, when clause 21 of this Agreement is not legally applicable.

22. Arbitration. Any controversy as to the interpretation of this contract must be submitted before three arbitrators to be appointed by the American Arbitration Association ("AAA"). The rules and regulations of the AAA shall govern the procedures of said arbitration. The award of a majority of arbitrators shall be binding and final on the parties.

FIRSTBANK PUERTO RICO

/S/ German Malaret

Chairman

ATTEST:/s/ Angel Alvarez-Perez

EXECUTIVE: /s/Aurelio Aleman

EMPLOYMENT AGREEMENT

AGREEMENT, dated as of May 14, 1998, by and between FIRSTBANK PUERTO RICO (the "Bank") and Fernando L. Batlle (the "Executive").

WHEREAS, the Bank wishes to retain the services of the Executive and the retention of the Executive's services for and on behalf of the Bank is of material importance to the preservation and enhancement of the value of the Bank's business;

WHEREAS, the Board of Directors of the Bank has approved and authorized the entry into this Agreement with the Executive to take effect immediately upon execution of the same;

WHEREAS , the parties desire to enter into this Agreement setting forth the terms and conditions of the employment relationship of the Bank and the Executive;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein, the parties hereto agree as follows:

1. Employment. The Bank agrees to continue to employ the Executive and the Executive agrees to continue in the employment of the Bank for the period stated in Paragraph 4 hereof and upon the other terms and conditions herein provided.

2. Position and Responsibilities. The Executive is employed as an Executive Vice President, and shall carry out and render to the Bank such services as are customarily performed by persons situated in a similar executive and professional capacity. The Executive shall also perform such other related duties as he may from time to time be reasonably directed, including, but not limited to performing duties for the Bank or for any of its present or future subsidiaries. The Executive shall report to the President and Chief Executive Officer of the Bank, or to any Executive Officer designated by the President or the Board of Directors.

3. Duties. During the period of employment hereunder, and except for illness, vacation periods, and reasonable leaves of absence, the Executive shall devote his business time, attention, skill, and efforts to the faithful performance of his duties hereunder as is customary for an executive holding a similar position in a financial institution of comparable size.

The Executive agrees that during the term of his employment hereunder, except with the express consent of the Board of Directors he will not, directly or indirectly, engage or participate, become director of, or render advisory or other services for, or in connection with, or become interested in, or make any financial investment in any firm, corporation, business entity or business enterprise competitive with or to any business of the Bank; provided, however, that the Executive shall not thereby be precluded or prohibited from owning passive investments, including investments in the securities of other financial institutions, so long as such ownership does not require him to devote substantial time to management or control of the business or activities in which he has invested.

4. Term. The initial term of employment under this Agreement shall be for a period of four (4) years, commencing on the date hereof and terminating May 14, 2002. On each anniversary of the date of commencement of this Agreement, the term of employment hereunder shall automatically be extended for an additional one (1) year period beyond the then effective expiration date, unless either party receives written notice, not less than 90 days prior to the anniversary date, advising the other party that this Agreement shall not be further extended. Any such written notice shall not affect any prior extensions of the term of employment hereunder.

5. Standards. The Executive shall perform his duties and responsibilities under this Agreement in accordance with such reasonable standards as are established from time to time by the Board of Directors and/or management of the Bank. The reasonableness of such standards shall be measured against standards for executive performance generally prevailing in the banking industry.

Notwithstanding anything to the contrary, nothing in this Agreement will be interpreted in any manner which would tend to limit or interfere with the authority or oversight duties and discretion of the Board of Directors to establish adequate guidelines for the effective management of the Bank.

6. Compensation and Reimbursement of Expenses.

a) Compensation

The Bank agrees to pay the Executive during the term of this Agreement a base salary of not less than $200,000 per year. The performance of the Executive shall be reviewed annually by the Board of Directors and the salary provided herein may be increased, but not decreased, in accordance with the recommendation of the Compensation Committee. The salary provided herein shall not be paid less frequently than monthly.

b) Performance Bonus

In addition to the salary set forth above, the performance of the Executive and of the Bank during each year of employment shall be evaluated on the basis of the Bank's achievement of the predetermined business objectives contained in the Bank's annual business plan. The contribution of the Executive to the achievement of the Bank's annual business objectives and his performance in such other functions as may be reasonably put under his charge, will be evaluated by the President and Chief Executive Officer who may recommend to the Compensation

Committee payment of a performance bonus in an amount which the Compensation Committee may determine at its discretion.

c) Stock Options

The Executive will be entitled to participate in and receive the benefits of any stock option, profit sharing, or other plans, benefits and privileges given to employees and executives of the Bank or its subsidiaries and affiliates which now exist or may come into existence hereafter, to the extent commensurate with his then duties and responsibilities, as fixed by the Compensation Committee and approved by the Board of Directors. The terms and conditions of such stock options will be within the parameters set forth in the employee stock option plan of the Bank or other similar plan under which a benefit or privilege is made available.

d) Automobile Expenses.

(i) The Bank shall provide the Executive with a company owned automobile. Such automobile will be furnished in accordance with existing executive automobile policy as approved by the Board of Directors. All expenses, including but not limited to insurance, maintenance, repairs, fuel, and lubrication services, shall be provided by the Bank.

(ii) Monthly or not more than thirty (30) days after the expenses are incurred, the Bank shall pay or reimburse the Executive for any gasoline, oil and maintenance or repair expenses which the Executive incurs directly in the operation of the automobile provided hereunder.

e) Reimbursement of Expenses.

Not less frequently than monthly, the Bank shall pay or reimburse the Executive for all reasonable travel and other expenses incurred by the Executive in the performance of his duties under this Agreement.

f) Office.

The Bank shall furnish the Executive with a private office, a private secretary and such other assistance and accommodations as shall be suitable to the character of the Executive's position with the Bank and adequate for the performance of his duties hereunder.

7. Participation in Benefit Plans. The payments and benefits provided hereunder are in addition to any payment and benefits to which Executive may be or may become entitled under any other present or future group employee benefit plan or program of the Bank for which executives are or shall become eligible, and the Executive shall be eligible to receive all benefits and entitlements for which the executives are eligible under every such plan or program.

8. Voluntary Absences; Vacations and Sick Leave. The Executive shall be entitled, without loss of pay, to absent himself voluntarily for reasonable

periods of time from the performance of his duties and responsibilities under this Agreement. All such voluntary absences shall count either as paid vacation time or sick leave, unless otherwise provided by the Board of Directors. The Executive shall be entitled to an annual paid vacation of 18 working days per year, or such longer periods as the Board of Directors may approve, which vacations shall be scheduled by the Executive with the prior approval of the President and Chief Executive Officer or any other officer to whom the Executive reports, taking into account the needs of the Bank. The Executive may accumulate unused paid vacation time from one calendar year to the next; provided, that such accumulation shall not exceed 36 working days of unused vacation time from prior years. The Executive shall be entitled to up to 15 non-cumulative working days of paid sick leave per year or such longer period as the Board of Directors may approve.

9. Benefits Payable Upon Disability or Death. The Bank shall, at all times, maintain in effect disability and death benefits insurance for the benefit of the Executive in an amount at least equal to that maintained for executives of similar rank and which will not be less than that maintained by the Bank for all officers and employees. Provided that the Bank may increase but never decrease the benefits which the Executive and/or the Executive's heirs would be entitled to thereunder.

10. Disability.

(a) If the Executive shall become disabled or incapacitated for a number of consecutive days exceeding those to which he is entitled as sick-leave, and it is determined that he will continue to temporarily be unable to perform his duties under this Agreement, he shall nevertheless continue to receive 60% of his compensation, exclusive of any benefits which may be in effect for Bank employees under Paragraph 7 hereof until such time as he may rejoin active employment. Upon returning to active duty, the Executive's full compensation as set forth in this Agreement shall be reinstated. In the event that the Executive returns to active employment on other than a full-time basis, then his compensation (as set forth in Paragraph 6 of this Agreement) shall be reduced in proportion to the time spent in said employment.

(b) For purposes of this Agreement, the Executive shall be deemed to be permanently disabled or incapacitated if the Executive, due to physical or mental illness, shall have been absent from his duties with the Bank on a full-time basis for three consecutive months. In such case, the Board of Directors may remove the Executive from employment and may employ another executive in such capacity; provided, that, if the Executive shall not agree with a determination to remove him/her because of disability or incapacity, the question of the Executive's ability to continue in active employment shall be submitted to an impartial and reputable physician selected by the parties hereto and such physician's determination on the question of disability or incapacity shall be binding. If it is determined that the Executive is permanently disabled, he shall nevertheless continue to receive 60% of his compensation for the remaining term of this Agreement.

(c) There shall be deducted from the amounts paid to the Executive hereunder during any period of disability or incapacitation as described herein, any amounts actually paid to the Executive pursuant to any disability insurance or other similar such program, as provided in Paragraph 9 hereof, which the Bank has instituted or may institute on behalf of its employees for the purpose of compensating the Executive in the event of disability.

11. Termination of Employment.

(a) Without cause. The Board of Directors may, without cause, terminate this Agreement at any time, by giving 90 days written notice to the Executive. In such event, the Executive, if requested by the Board of Directors, shall continue to render his services, and shall be paid his regular salary up to the date of termination. In addition, the Executive shall be paid from the date of termination a severance payment of four (4) years base salary (less all amounts required to be withheld and deducted), such payment to be made in substantially equal semimonthly installments on the fifteenth and last days of each month, or if these days are nonbusiness days, the immediately preceding business day, commencing with the month in which the date of termination occurs and continuing for 24 consecutive semimonthly payment dates.

The Executive may, without cause, terminate the Agreement by giving 90 days written notice to the Board of Directors. In such event, the Executive shall continue to render his services and shall be paid his regular salary up to the date of termination, but shall not receive any severance payment. In the event that the Executive terminates his agreement without cause, the Bank shall be entitled to enjoin the employment of the Executive as an officer or employee of any significant competitor of the Bank for a period of one year. The term "significant competitor" shall mean any bank, savings bank or savings and loan association which at the date of its employment of the Executive has total assets of one billion dollars or more and a home or branch office in any city in Puerto Rico. In consideration of the Executive entering into this non-competition agreement, he shall receive an amount of $50,000 which amount is for purposes of this Agreement included as part of the Executive's base salary.

(b) With Cause. The Board of Directors may, at any time, terminate this Agreement for cause. In such event, the Executive shall not be entitled to receive any further compensation from the date of notice of termination. For the purpose of this Agreement, "termination for cause" shall include any act or omission on the part of the Executive which involves personal dishonesty, willful misconduct, breach of fiduciary duty, a material violation of any law, rule or regulation relating to the banking industry or a material breach of any provision of this Agreement, such as the willful and continued failure of the Executive to perform the duties herein set forth. No act or failure to act on the Executive's part shall be considered "willful" unless done, or omitted to be done, by him/her not in good faith and without reasonable belief that his action or omission was in the best interest of the Bank. For purposes of this paragraph, any act or omission to act on the part of the Executive in reliance upon an opinion of counsel to the Bank or to the Executive shall not be deemed to be willful or without reasonable belief that the act or omission to act was in the best interest of the Bank.

The Executive may, with cause, terminate this Agreement. For purposes of this paragraph, termination with cause shall mean a failure of the Bank to comply with any material provision of this Agreement, which failure has not been cured within 15 days of receipt of a written notice by the Executive of such noncompliance by the Bank.

(c) If the Executive is suspended and/or prohibited from participating in the conduct of the Bank's affairs by a notice or order served under Sections 8(e)(3), (e)(4) or (g)(1) of the Federal Deposit Insurance Act [12 USC 1818(e)(3), (e)(4) and (g)(1)], or any other similar provision of state or federal law now in place or enacted in future, the Bank's obligations under this Agreement shall be suspended as of the date of service, unless such prohibition and/or suspension is stayed by appropriate proceedings. If after a hearing is held and upon judicial review, the notice or order suspending and/or prohibiting the Executive from participating in the affairs of the Bank is confirmed, then this Agreement shall be terminated with cause. If the charges in the notice or order are dismissed, the Bank shall: (i) pay the Executive all the compensation withheld while the contractual obligations were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(d) If the Bank is in default, as defined to mean an adjudication or other official determination of a court of competent jurisdiction, the appropriate Federal banking agency or other public authority pursuant to which a conservator, receiver or other legal custodian is appointed for the Bank for the purpose of liquidation, all obligations under this Agreement shall terminate as of the date of default, but rights of the Executive to compensation earned as of the date of termination shall not be affected.

(e) In the event that the Executive is terminated or he terminates this Agreement, in a manner which violates the provisions of this Paragraph 11, as determined by the arbitration procedure provided in Paragraph 21, the Executive or the Bank, as the case may be, shall be entitled to reimbursement for all reasonable costs, including attorney's fees, incurred by the Executive or the Bank, as the case may be, in challenging such termination.

12. Change in Control.

(a) If during the term of this Agreement there is a "change in control" of the Bank, as such term is defined in sub-paragraph (c) hereunder, the Executive shall be entitled to receive from the Bank a severance payment in consideration of having bound himself to employment by the Bank and having foregone other business or professional opportunities, actual or potential. The severance payment shall be a lump sum cash payment equal to four (4) times the Executive's total compensation, as the term is defined in Section 12(b) of this Agreement, to be made on or before the fifth day following the date on which the change in control occurs.

(b) For purposes of this section, the term total compensation shall mean the Executive's base salary plus the highest cash Performance Bonus paid to the Executive in any of the four (4) fiscal years prior to the date of the change in control, and the value of any other benefits provided to the Executive during the year in which the change in control occurs which are listed and attached hereto as Exhibit A, as it may be amended from time to time.

(c) The term "change in control" shall be deemed to have taken place if: (i) a third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of the Bank having 25% or more of the total number of votes which may be cast for the election of directors of the Bank or which, by cumulative voting, if permitted by the Bank's charter or bylaws, would enable such third person to elect 25% or more of the directors of the Bank; or (ii) as the result of, or in connection with, any cash tender or exchange offer, merger or any other business combination, sales of assets or contested election, or any combination of the foregoing transactions, the persons who were directors of the Bank before such transaction shall cease to constitute a majority of the Board of the Bank or any successor institution. Notwithstanding the provisions of this paragraph, a change in control of the Bank shall not be deemed to have occurred in the event the Bank undertakes a reorganization to form a bank holding company.

(d) Any payments made to the Executive pursuant to this Agreement are subject to and conditioned upon their compliance with 12 USC 1828(k) and any regulations promulgated thereunder. The Bank shall in good faith seek to obtain, if necessary or required, any consents or approvals from the FDIC or any other applicable regulatory agency and any successors thereto with respect to any payments to be made or any benefits to be provided to the Executive pursuant to the terms of this Agreement.

13. Confidentiality; Injunctive Relief. Recognizing that the knowledge and information about, or relationships with, the business associates, customers, clients, and agents of the Bank and its affiliated companies and the business methods, systems, plans, and policies of the Bank and of its affiliated companies which Executive has heretofore and shall hereafter receive, obtain, or establish as an employee of the Bank or otherwise are valuable and unique assets of the Bank, the Executive agrees that, during the continuance of this Agreement and thereafter, he shall not (otherwise than pursuant to his duties hereunder) disclose without the written consent of the Bank, any material or substantial, confidential, or proprietary know-how, data, or information pertaining to the Bank, or its business, personnel, or plans, to any person, firm, corporation, or other entity, for any reason or purpose whatsoever. Executive acknowledges and agrees that all memoranda, notes, records, and other documents made or compiled by Executive or made available to Executive concerning the Bank's business shall be the Bank's exclusive property and shall be delivered by Executive to the Bank upon expiration or termination of this Agreement or at any other time upon the request of the Company.

The provisions of this Paragraph 13 shall survive the expiration or termination of this Agreement or any part thereof, without regard to the reason therefor.

Executive hereby acknowledges that the services to be rendered by him/her are of special, unique, and extraordinary character and, in connection with such services, he will have access to confidential information concerning the Bank's business. By reason of this, Executive consents and agrees that if he violates any of the provisions of this Agreement with respect to confidentiality, the Bank would sustain irreparable harm and, therefore, in addition to any other remedies which the Bank may have under this Agreement or otherwise, the Bank will be entitled to an injunction to be issued by any court of competent jurisdiction restraining the Executive from committing or continuing any such violation of this Agreement. The term "Confidential Information" means: (1) proprietary information of the Bank; (2) information marked or designated by the Bank as confidential; (3) information, whether or not in written form and whether or not designated as confidential, which is known to the Executive as treated by the Bank as confidential; and (4) information provided to the Bank by third parties which the Bank is obligated to keep confidential, specifically including Bank customer lists and information. Confidential Information does not include any information now or hereafter voluntarily disseminated by the Bank to the public, or which otherwise becomes part of the public domain through lawful means.

14. No assignments. This Agreement is personal to each of the parties hereto. Neither party may assign or delegate any of his or its rights or obligations hereunder without first obtaining the written consent of the other party. However, in the event of the death of the Executive all his rights to receive payments hereunder shall become rights of his estate.

15. Benefits. Any benefits due or provided hereunder to the Executive shall be in addition to, and not in substitution of, any benefit to which the Executive is otherwise entitled to without regard to the Agreement.

16. Mitigation. The Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Agreement, and the obtaining of any such other employment shall in no event effect any reduction of the Bank's obligation to make the payments and arrangements required to be made under this Agreement.

17. Notices. All notices required by this Agreement to be given by one party to the other shall be in writing and shall be deemed to have been delivered either:

(a) When personally delivered to the Office of the Secretary of the Bank at his regular corporate office, or the Executive in person; or

(b) Five days after depositing such notice in the United States mails, certified mail with return receipt requested and postage prepaid, to: (i) the Bank: c/o Office of the Secretary of the Bank FirstBank Puerto Rico PO Box 9146 Santurce, PR 00908-0146

(ii) the Executive:

Mr. Fernando L. Batlle
44 Calle Principe Alberto
Urb. Estancias Reales

Guaynabo, PR 00969

or to such other address as either party may designate to the other by notice in writing in accordance with the terms hereof.

18. Amendments or Additions; Action by Board of Directors. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties. The prior approval by a two-thirds affirmative vote of the full Board of Directors of the Bank shall be required in order for the Bank to authorize any amendments or additions to this Agreement, to give any consents or waivers of provisions of this Agreement, or to take any other action under this Agreement including any termination of the employment of the Executive with or without cause under Paragraph 10 hereof.

19. Section Headings. The Paragraph headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

20. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

21. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Puerto Rico. Venue for the litigation of any and all matters arising under or in connection with this Agreement shall be in the Superior Court for the Commonwealth of Puerto Rico, in San Juan, in the case of state court jurisdiction, when clause 21 of this Agreement is not legally applicable.

22. Arbitration. Any controversy as to the interpretation of this contract must be submitted before three arbitrators to be appointed by the American Arbitration Association ("AAA"). The rules and regulations of the AAA shall govern the procedures of said arbitration. The award of a majority of arbitrators shall be binding and final on the parties.

FIRSTBANK PUERTO RICO

/S/ German Malaret

Chairman

ATTEST:/s/ Antonio Escriba

EXECUTIVE:/s/Fernando L. Batlle

EMPLOYMENT AGREEMENT

AGREEMENT, dated as of May 26, 1998, by and between FIRSTBANK PUERTO RICO (the "Bank") and Randolfo Rivera Sanfeliz (the "Executive").

WHEREAS, the Bank wishes to retain the services of the Executive and the retention of the Executive's services for and on behalf of the Bank is of material importance to the preservation and enhancement of the value of the Bank's business;

WHEREAS, the Board of Directors of the Bank has approved and authorized the entry into this Agreement with the Executive to take effect immediately upon execution of the same;

WHEREAS , the parties desire to enter into this Agreement setting forth the terms and conditions of the employment relationship of the Bank and the Executive;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein, the parties hereto agree as follows:

1. Employment. The Bank agrees to continue to employ the Executive and the Executive agrees to continue in the employment of the Bank for the period stated in Paragraph 4 hereof and upon the other terms and conditions herein provided.

2. Position and Responsibilities. The Executive is employed as an Executive Vice President, and shall carry out and render to the Bank such services as are customarily performed by persons situated in a similar executive and professional capacity. The Executive shall also perform such other related duties as he may from time to time be reasonably directed, including, but not limited to performing duties for the Bank or for any of its present or future subsidiaries. The Executive shall report to the Senior Executive Vice President and Chief Lending Officer of the Bank, or to any Executive Officer designated by the President or the Board of Directors.

3. Duties. During the period of employment hereunder, and except for illness, vacation periods, and reasonable leaves of absence, the Executive shall devote his business time, attention, skill, and efforts to the faithful performance of his duties hereunder as is customary for an executive holding a similar position in a financial institution of comparable size.

The Executive agrees that during the term of his employment hereunder, except with the express consent of the Board of Directors he will not, directly or indirectly, engage or participate, become director of, or render advisory or other services for, or in connection with, or become interested in, or make any financial investment in any firm, corporation, business entity or business enterprise competitive with or to any business of the Bank; provided, however, that the Executive shall not thereby be precluded or prohibited from owning passive investments, including investments in the securities of other financial institutions, so long as such ownership does not require him to devote substantial time to management or control of the business or activities in which he has invested.

4. Term. The initial term of employment under this Agreement shall be for a period of four (4) years, commencing on the date hereof and terminating May 31, 2002. On each anniversary of the date of commencement of this Agreement, the term of employment hereunder shall automatically be extended for an additional one (1) year period beyond the then effective expiration date, unless either party receives written notice, not less than ninety (90) days prior to the anniversary date, advising the other party that this Agreement shall not be further extended. Any such written notice shall not affect any prior extensions of the term of employment hereunder.

5. Standards. The Executive shall perform his duties and responsibilities under this Agreement in accordance with such reasonable standards as are established from time to time by the Board of Directors and/or management of the Bank. The reasonableness of such standards shall be measured against standards for executive performance generally prevailing in the banking industry.

Notwithstanding anything to the contrary, nothing in this Agreement will be interpreted in any manner which would tend to limit or interfere with the authority or oversight duties and discretion of the Board of Directors to establish adequate guidelines for the effective management of the Bank.

6. Compensation and Reimbursement of Expenses.

a) Compensation

The Bank agrees to pay the Executive during the term of this Agreement a base salary of not less than two hundred thousand dollars ($200,000) per year, and a signing bonus of fifty thousand dollars ($50,000) at the term of the execution of this Employment Agreement. The performance of the Executive shall be reviewed annually by the Board of Directors and the salary provided herein may be increased, but not decreased, in accordance with the recommendation of the Compensation Committee. The salary provided herein shall not be paid less frequently than monthly.

b) Performance Bonus

In addition to the salary set forth above, the performance of the Executive and of the Bank during each year of employment shall be evaluated on the basis of the Bank's achievement of the predetermined business objectives contained in the Bank's annual business plan. The contribution of the Executive to the achievement of the Bank's annual business objectives and his performance in such other functions as may be reasonably put under his charge, will be evaluated by the President and Chief Executive Officer and/or the Senior Executive Vice President and Chief Lending Officer who may recommend to the Compensation Committee payment of a performance bonus in an amount which the Compensation Committee may determine at its discretion. The performance bonus payable on January 1999 and the performance bonus payable on January 2000 will not be less than one hundred thousand dollars ($100,000) per each such years.

c) Stock Options

The Executive will be entitled to participate in and receive the benefits of any stock option, profit sharing, or other plans, benefits and privileges given to employees and executives of the Bank or its subsidiaries and affiliates which now exist or may come into existence hereafter, to the extent commensurate with his then duties and responsibilities, as fixed by the Compensation Committee and approved by the Board of Directors. The terms and conditions of such stock options will be within the parameters set forth in the employee stock option plan of the Bank or other similar plan under which a benefit or privilege is made available. Notwithstanding the above, simultaneously with the execution of this Employment Agreement, and as an integral part of the recruitment package agreed upon, the Executive will receive stock options for forty thousand (40,000) shares.

d) Automobile Expenses.

(i) The Bank shall provide the Executive with a company owned automobile. Such automobile will be furnished in accordance with existing executive automobile policy as approved by the Board of Directors. All expenses, including but not limited to insurance, maintenance, repairs, fuel, and lubrication services, shall be provided by the Bank.

(ii) Monthly or not more than thirty (30) days after the expenses are incurred, the Bank shall pay or reimburse the Executive for any gasoline, oil and maintenance or repair expenses which the Executive incurs directly in the operation of the automobile provided hereunder.

e) Reimbursement of Expenses.

Not less frequently than monthly, the Bank shall pay or reimburse the Executive for all reasonable travel and other expenses incurred by the Executive in the performance of his duties under this Agreement.

f) Office.

The Bank shall furnish the Executive with a private office, a private secretary and such other assistance and accommodations as shall be suitable to the character of the Executive's position with the Bank and adequate for the performance of his duties hereunder.

g) Membership at club

The Bank shall pay all initiation and monthly fees related to a full membership for the Executive in the Dorado Beach Hotel.

7. Participation in Benefit Plans. The payments and benefits provided hereunder are in addition to any payment and benefits to which Executive may be or may become entitled under any other present or future group employee benefit plan or program of the Bank for which executives are or shall become eligible, and the Executive shall be eligible to receive all benefits and entitlements for which the executives are eligible under every such plan or program.

8. Voluntary Absences; Vacations and Sick Leave. The Executive shall be entitled, without loss of pay, to absent himself voluntarily for reasonable periods of time from the performance of his duties and responsibilities under this Agreement. All such voluntary absences shall count either as paid vacation time or sick leave, unless otherwise provided by the Board of Directors. The Executive shall be entitled to an annual paid vacation of eighteen (18) working days per year, or such longer periods as the Board of Directors may approve, which vacations shall be scheduled by the Executive with the prior approval of the Senior Executive Vice President and Chief Lending Officer, taking into account the needs of the Bank. The Executive may accumulate unused paid vacation time from one calendar year to the next; provided, that such accumulation shall not exceed thirty-six (36) working days of unused vacation time from prior years. The Executive shall be entitled to up to fifteen (15) non-cumulative working days of paid sick leave per year or such longer period as the Board of Directors may approve.

9. Benefits Payable Upon Disability or Death. The Bank shall, at all times, maintain in effect disability and death benefits insurance for the benefit of the Executive in an amount at least equal to that maintained for executives of similar rank and which will not be less than that maintained by the Bank for all officers and employees. Provided that the Bank may increase but never decrease the benefits which the Executive and/or the Executive's heirs would be entitled to thereunder.

10. Disability.

(a) If the Executive shall become disabled or incapacitated for a number of consecutive days exceeding those to which he is entitled as sick-leave, and it is determined that he will continue to temporarily be unable to perform his duties under this Agreement, he shall nevertheless continue to receive sixty percent (60%) of his total compensation, exclusive of any benefits which may be in effect for Bank employees under Paragraph 7 hereof until such time as he may rejoin active employment. Upon returning to active duty, the Executive's full compensation as set forth in this Agreement shall be reinstated. In the event that the Executive returns to active employment on other than a full-time basis, then his compensation (as set forth in Paragraph 6 of this Agreement) shall be reduced in proportion to the time spent in said employment.

(b) For purposes of this Agreement, the Executive shall be deemed to be permanently disabled or incapacitated if the Executive, due to physical or mental illness, shall have been absent from his duties with the Bank on a full-time basis for three (3) consecutive months. In such case, the Board of

Directors may remove the Executive from employment and may employ another executive in such capacity; provided, that, if the Executive shall not agree with a determination to remove him because of disability or incapacity, the question of the Executive's ability to continue in active employment shall be submitted to an impartial and reputable physician selected by the parties hereto and such physician's determination on the question of disability or incapacity shall be binding. If it is determined that the Executive is permanently disabled, he shall nevertheless continue to receive sixty percent (60%) of his total compensation for the remaining term of this Agreement.

(c) There shall be deducted from the amounts paid to the Executive hereunder during any period of disability or incapacitation as described herein, any amounts actually paid to the Executive pursuant to any disability insurance or other similar such program, as provided in Paragraph 9 hereof, which the Bank has instituted or may institute on behalf of its employees for the purpose of compensating the Executive in the event of disability.

11. Termination of Employment.

(a) Without cause. The Board of Directors may, without cause, terminate this Agreement at any time, by giving ninety (90) days written notice to the Executive. In such event, the Executive, if requested by the Board of Directors, shall continue to render his services, and shall be paid his regular salary up to the date of termination. In addition, the Executive shall be paid from the date of termination a severance payment of four (4) years base salary (less all amounts required to be withheld and deducted), such payment to be made in substantially equal semimonthly installments on the fifteenth and last days of each month, or if these days are nonbusiness days, the immediately preceding business day, commencing with the month in which the date of termination occurs and continuing for twenty-four (24) consecutive semimonthly payment dates.

The Executive may, without cause, terminate the Agreement by giving ninety (90) days written notice to the Board of Directors. In such event, the Executive shall continue to render his services and shall be paid his regular salary up to the date of termination, but shall not receive any severance payment. In the event that the Executive terminates his agreement without cause, the Bank shall be entitled to enjoin the employment of the Executive as an officer or employee of any significant competitor of the Bank for a period of one (1) year. The term "significant competitor" shall mean any bank, savings bank or savings and loan association which at the date of its employment of the Executive has total assets of one billion dollars or more and a home or branch office in any city in Puerto Rico. In consideration of the Executive entering into this non-competition agreement, he shall receive an amount of $50,000 which amount is for purposes of this Agreement included as part of the Executive's base salary.

(b) With Cause. The Board of Directors may, at any time, terminate this Agreement for cause. In such event, the Executive shall not be entitled to receive any further compensation from the date of notice of termination. For the purpose of this Agreement, "termination for cause" shall include any act or omission on the part of the Executive which involves personal dishonesty, willful misconduct, breach of fiduciary duty, a material violation of any law, rule or regulation relating to the banking industry or a material breach of any provision of this Agreement, such as the willful and continued failure of the Executive to perform the duties herein set forth. No act or failure to act on the Executive's part shall be considered "willful" unless done, or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interest of the Bank. For purposes of this paragraph, any act or omission to act on the part of the Executive in reliance upon an opinion of counsel to the Bank or to the Executive shall not be deemed to be willful or without reasonable belief that the act or omission to act was in the best interest of the Bank.

The Executive may, with cause, terminate this Agreement. For purposes of this paragraph, termination with cause shall mean a failure of the Bank to comply with any material provision of this Agreement, which failure has not been cured within fifteen (15) days of receipt of a written notice by the Executive of such noncompliance by the Bank, to such case the Executive shall be entitled to the same severance payment set forth for cases of termination without cause by the Bank.

(c) If the Executive is suspended and/or prohibited from participating in the conduct of the Bank's affairs by a notice or order served under Sections 8(e)(3), (e)(4) or (g)(1) of the Federal Deposit Insurance Act [12 USC 1818(e)(3), (e)(4) and (g)(1)], or any other similar provision of state or federal law now in place or enacted in future, the Bank's obligations under this Agreement shall be suspended as of the date of service, unless such prohibition and/or suspension is stayed by appropriate proceedings. If after a hearing is held and upon judicial review, the notice or order suspending and/or prohibiting the Executive from participating in the affairs of the Bank is confirmed, then this Agreement shall be terminated with cause. If the charges in the notice or order are dismissed, the Bank shall: (i) pay the Executive all the compensation withheld while the contractual obligations were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(d) If the Bank is in default, as defined to mean an adjudication or other official determination of a court of competent jurisdiction, the appropriate Federal banking agency or other public authority pursuant to which a conservator, receiver or other legal custodian is appointed for the Bank for the purpose of liquidation, all obligations under this Agreement shall terminate as of the date of default, but rights of the Executive to compensation earned as of the date of termination shall not be affected.

(e) In the event that the Executive is terminated or he terminates this Agreement, in a manner which violates the provisions of this Paragraph 11, as determined by the arbitration procedure provided in Paragraph 22, the Executive or the Bank, as the case may be, shall be entitled to reimbursement for all reasonable costs, including attorney's fees, incurred by the Executive or the Bank, as the case may be, in challenging such termination.

12. Change in Control.

(a) If during the term of this Agreement there is a "change in control" of the Bank, as such term is defined in sub-paragraph (c) hereunder, the Executive shall be entitled to receive from the Bank a severance payment in consideration of having bound himself to employment by the Bank and having foregone other business or professional opportunities, actual or potential. The severance payment shall be a lump sum cash payment equal to four (4) times the Executive's total compensation, as the term is defined in Section 12(b) of this Agreement, to be made on or before the fifth day following the date on which the change in control occurs.

(b) For purposes of this section, the term total compensation shall mean the Executive's base salary plus the highest cash Performance Bonus paid to the Executive in any of the four (4) fiscal years prior to the date of the change in control, and the value of any other benefits provided to the Executive during the year in which the change in control occurs which are listed and attached hereto as Exhibit A, as it may be amended from time to time.

(c) The term "change in control" shall be deemed to have taken place if: (i) a third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of the Bank having twenty-five percent (25%) or more of the total number of votes which may be cast for the election of directors of the Bank or which, by cumulative voting, if permitted by the Banks charter or bylaws, would enable such third person to elect twenty-five percent (25%) or more of the directors of the Bank; or (ii) as the result of, or in connection with, any cash tender or exchange offer, merger or any other business combination, sales of assets or contested election, or any combination of the foregoing transactions, the persons who were directors of the Bank before such transaction shall cease to constitute a majority of the Board of the Bank or any successor institution. Notwithstanding the provisions of this paragraph, a change in control of the Bank shall not be deemed to have occurred in the event the Bank undertakes a reorganization to form a bank holding company.

(d) Any payments made to the Executive pursuant to this Agreement are subject to and conditioned upon their compliance with 12 USC 1828(k) and any regulations promulgated thereunder. The Bank shall in good faith seek to obtain, if necessary or required, any consents or approvals from the FDIC or any other applicable regulatory agency and any successors thereto with respect to any payments to be made or any benefits to be provided to the Executive pursuant to the terms of this Agreement.

13. Confidentiality; Injunctive Relief. Recognizing that the knowledge and information about, or relationships with, the business associates, customers, clients, and agents of the Bank and its affiliated companies and the business methods, systems, plans, and policies of the Bank and of its affiliated companies which Executive has heretofore and shall hereafter receive, obtain, or establish as an employee of the Bank or otherwise are valuable and unique assets of the Bank, the Executive agrees that, during the continuance of this Agreement and thereafter, he shall not (otherwise than pursuant to his duties hereunder) disclose without the written consent of the Bank, any material or substantial, confidential, or proprietary know-how, data, or information pertaining to the Bank, or its business, personnel, or plans, to any person, firm, corporation, or

other entity, for any reason or purpose whatsoever. Executive acknowledges and agrees that all memoranda, notes, records, and other documents made or compiled by Executive or made available to Executive concerning the Bank's business shall be the Bank's exclusive property and shall be delivered by Executive to the Bank upon expiration or termination of this Agreement or at any other time upon the request of the Company.

The provisions of this Paragraph 13 shall survive the expiration or termination of this Agreement or any part thereof, without regard to the reason therefor.

Executive hereby acknowledges that the services to be rendered by him are of special, unique, and extraordinary character and, in connection with such services, he will have access to confidential information concerning the Bank's business. By reason of this, Executive consents and agrees that if he violates any of the provisions of this Agreement with respect to confidentiality, the Bank would sustain irreparable harm and, therefore, in addition to any other remedies which the Bank may have under this Agreement or otherwise, the Bank will be entitled to an injunction to be issued by any court of competent jurisdiction restraining the Executive from committing or continuing any such violation of this Agreement. The term "Confidential Information" means: (1) proprietary information of the Bank; (2) information marked or designated by the Bank as confidential; (3) information, whether or not in written form and whether or not designated as confidential, which is known to the Executive as treated by the Bank as confidential; and (4) information provided to the Bank by third parties which the Bank is obligated to keep confidential, specifically including Bank customer lists and information. Confidential Information does not include any information now or hereafter voluntarily disseminated by the Bank to the public, or which otherwise becomes part of the public domain through lawful means.

14. No assignments. This Agreement is personal to each of the parties hereto. Neither party may assign or delegate any of his or its rights or obligations hereunder without first obtaining the written consent of the other party. However, in the event of the death of the Executive all his rights to receive payments hereunder shall become rights of his estate.

15. Benefits. Any benefits due or provided hereunder to the Executive shall be in addition to, and not in substitution of, any benefit to which the Executive is otherwise entitled to without regard to the Agreement.

16. Mitigation. The Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Agreement, and the obtaining of any such other employment shall in no event effect any reduction of the Bank's obligation to make the payments and arrangements required to be made under this Agreement.

17. Notices. All notices required by this Agreement to be given by one party to the other shall be in writing and shall be deemed to have been delivered either:

(a) When personally delivered to the Office of the Secretary of the Bank at his regular corporate office, or the Executive in person; or

(b) Five days after depositing such notice in the United States mails, certified mail with return receipt requested and postage prepaid, to: (i) the Bank: c/o Office of the Secretary of the Bank FirstBank Puerto Rico PO Box 9146 Santurce, PR 00908-0146

(ii) the Executive:

Mr. Randolfo Rivera Sanfeliz
Urb. Tierra Alta II
P-12 Calle Las Palomas
Guaynabo, PR 00969

or to such other address as either party may designate to the other by notice in writing in accordance with the terms hereof.

18. Amendments or Additions; Action by Board of Directors. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties. The prior approval by a two-thirds affirmative vote of the full Board of Directors of the Bank shall be required in order for the Bank to authorize any amendments or additions to this Agreement, to give any consents or waivers of provisions of this Agreement, or to take any other action under this Agreement including any termination of the employment of the Executive with or without cause under Paragraph 10 hereof.

19. Section Headings. The Paragraph headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

20. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

21. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Puerto Rico. Venue for the litigation of any and all matters arising under or in connection with this Agreement shall be in the Superior Court for the Commonwealth of Puerto Rico, in San Juan, in the case of state court jurisdiction, when clause 21 of this Agreement is not legally applicable.

22. Arbitration. Any controversy as to the interpretation of this contract must be submitted before three (3) arbitrators to be appointed by the American Arbitration Association ("AAA"). The rules and regulations of the AAA shall govern the procedures of said arbitration. The award of a majority of arbitrators shall be binding and final on the parties.

FIRSTBANK PUERTO RICO

/S/ German Malaret

Chairman

ATTEST:/s/ Antonio Escriba

EXECUTIVE: /s/ Randolfo Rivera

Constant evolution and solid performance

Annual Report 1998

[LOGO] 1First BanCorp

What started out as a small community bank in the heart of Santurce, has become one of the leading financial institutions in the Island and the second largest locally owned financial services company in Puerto Rico.

In 1948 First Federal Savings & Loan Association began operations in Puerto Rico. From its early days, the institution was committed to Puerto Rico's growth and quality of life. In 1987, the institution became a savings bank, and in 1994, a commercial bank under the laws of Puerto Rico. In 1998, it was reorganized as a bank holding company under the name of First BanCorp.

The first 50 years have been marked by constant innovation and the creation of top quality services with one primary goal in mind: promoting the development in Puerto Rico.

New technology, new branches and new products are part of First BanCorp's plan to provide outstanding service to our customers while benefiting employees and stockholders.

While the future brings on new challenges and opportunities, we reafirm our commitment to quality services and products to our customers. A community that has seen us grow and has been part of this growth. Because without them, there would be no future, and success would not have been possible. Their loyalty is our motivation for the next 50 years to come.

[LOGO] 1First BanCorp 50 Anniversary

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

F i n a n c i a l H i g h l i g h t s

In Thousands (Except for per share results)	1998	1997	Percentage Increase (Decrease)
Operating Results:			
Net interest income	$166,168	$154,731	7.39
Provision for loan losses	76,000	55,676	36.50
Other income	58,240	39,866	46.09
Other operating expenses	91,798	83,268	10.24
Income tax provision	4,798	8,125	(40.95)
Net income	51,812	47,528	9.01
Weighted average shares-basic*	29,586	30,036	(1.50)
Weighted average shares-diluted*	29,858	30,204	(1.15)
Per common share:			
Net income - basic	1.75	1.58	10.76
Net income - diluted	1.74	1.58	10.13
At Year End:			
Assets	$4,017,352	$3,327,436	20.73
Loans	2,120,054	1,959,301	8.20
Allowance for loan losses	67,854	57,712	17.57
Investments	1,800,489	1,276,900	41.00

Deposits	1,775,045	1,594,635	11.31
Borrowings	1,930,488	1,461,582	32.08
Capital	270,368	236,379	14.38

* Retroactively adjusted for the 100% stock split distributed in 1998.
</TABLE>

[GRAPHS]

Performance of First BanCorp's Common Stock
[GRAPH]

(P.R. GEOGRAPHIC MAP)

Branches - 40 Offices	
Aguada	1
San Sebastian	1
Arecibo	1
Manati	1
Vega Baja	1
Dorado	1
Bayamon	4
Guaynabo	1
San Juan	10
Carolina	3
Humacao	1
Caguas	4
Aguas Buenas	1
Cidra	1
Guayama	1
Cayey	1
Barranquitas	1
Ponce	1
Yauco	1
Cabo Rojo	1
Mayaguez	1
Saint Thomas	1
Saint Croix	1

Money Express - 26 Offices	
Aguada	1
Aguadilla	1
Isabela	1
San Sebastian	1
Arecibo	1
Manati	1
Vega Baja	1
Toa Baja	1
Bayamon	3
San Juan	3
Carolina	1
Rio Grande	1
Fajardo	1
Humacao	1
Yabucoa	1
Caguas	1
Guayama	1
Cayey	1
Ponce	1
Utuado	1
Yauco	1
Mayaguez	1

First Leasing & Rentals - 6 Offices	
Isabela	1
Bayamon	1
San Juan	3
Caguas	1

Auto Loan Center - 4 Offices	
Bayamon	1
San Juan	1
Caguas	1
Mayaguez	1

Loan Center - 9 Offices

Aguadilla	1
Moca	1
Barceloneta	1
Fajardo	1
Las Piedras	1
Juana Diaz	1
Utuado	1
San German	1
Mayaguez	1

Total 85 Offices

Business Profile

First BanCorp ("the Corporation"), incorporated in Puerto Rico, is the holding company for FirstBank ("the Bank"), the second largest locally owned Commercial Bank in Puerto Rico. First BanCorp had total assets of $4.017 billion as of December 31, 1998. First BanCorp operates primarily in the Puerto Rico banking market, offering a wide selection of financial services to a growing number of consumer and commercial customers. Commercial loans, consumer loans, mortgage loans and investment securities are the most important areas of its business.

The Corporation has a $747 million portfolio of commercial loans, commercial mortgages and other related commercial products. Its commercial clients include a wide range of small and medium sized businesses and professional practices. First BanCorp also has a $1.0 billion consumer loan portfolio, which is concentrated in auto loans, personal loans and credit cards. Its $1.80 billion investment portfolio consists mostly of U.S. government securities and mortgage backed securities. In addition, First BanCorp has $372 million in residential mortgage and construction loans. Fifteen years ago these mortgage loans were the Corporation's principal line of business, but Management has moved to diversify First BanCorp's operations in recent years. Approximately 1,750 full time professionals and a sophisticated computer system support the business activities of the Corporation.

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

First BanCorp, which is a well-capitalized institution under federal standards, operates 40 full service branches including two offices in the U.S. Virgin Islands. The Corporation also has 13 loan centers in Puerto Rico. A second tier subsidiary of First BanCorp, Money Express, operates 26 small loan offices throughout Puerto Rico. First BanCorp also includes a second tier subsidiary known as First Leasing, which rents and leases motor vehicles from its six offices in Puerto Rico.

First BanCorp has distinguished itself by providing innovative marketing strategies and novel products to attract clients. Besides its main branches and specialized lending offices, the Corporation has offered a

telephone information service called "Telebanco" since 1983. This was the first telebanking service offered in Puerto Rico. First BanCorp clients have access to an extensive ATM network with access to the U.S. Virgin Islands, the U.S. mainland and all over the world. First BanCorp was the first institution in Puerto Rico to accept loan applications by FAX. First BanCorp was also the first banking institution in Puerto Rico with a presence on the Internet. Clients can now submit applications for some loans by way of the Corporation's web site. The Corporation was also the first in Puerto Rico to open on weekends and the first to offer in-store branches to its clients. First BanCorp was the first financial institution in the world to offer an indexed CD whose interest is based on the average appreciation of the Dow Jones Industrial Average and whose principal is insured by the Federal Deposit Insurance Corporation ("FDIC").

First BanCorp and its subsidiaries are subject to supervision, examination and regulation by the Federal Reserve Board, the Office of the Commissioner of Financial Institutions of Puerto Rico and the FDIC.

First BanCorp is committed to continue providing the most efficient and cost effective banking services possible in selected product niches. Management's long term goal is to transform First BanCorp into a conservatively managed, diversified financial institution that will deliver superior financial performance in the years to come.

President's Letter

[PHOTO]
Angel Alvarez-Perez
Chairman, President
and Chief Financial Officer

To our stockholders:

On behalf of the Board of Directors and staff of First BanCorp I am pleased to submit our annual report for 1998, our fiftieth anniversary year. First BanCorp earned $51.8 million or $1.74 per share in 1998. This represents a 10.1 percent increase in earnings per share. The Corporation earned $47.5 million or $1.58 per share in 1997. During 1998 we also surpassed $4 billion in assets and $2 billion in loans. These achievements continue a record of consistent growth that goes back to 1991.

Our institution converted to a bank holding company, First BanCorp, during 1998. This reorganization will increase our agility in a changing regulatory environment and give us the flexibility to take advantage of new business opportunities.

We achieved these outstanding results in a difficult environment, with stronger local competition due to continuing mergers in the local market. Bankruptcies have also continued their uptrend on the Island. Although the growth of bankruptcies has moderated in recent months, it has affected the entire Puerto Rico financial services industry. As outgoing President of the Puerto Rico Bankers' Association, I have had a unique opportunity to observe the broad implications of this trend. Under my leadership the industry developed an advertising campaign to educate consumers and steer them toward alternative ways of dealing with financial problems.

Strengthening Management and Operations

Management has been working intensively to strengthen First BanCorp here in Puerto Rico. We are placing greater emphasis on commercial lending, while adding experienced managers and strengthening our technological base.

To begin with, we have enhanced our management team by bringing in senior executives with extensive experience in consumer, mortgage and commercial lending. We have also re-initiated active lending programs in construction lending and auto leasing, led by talented and experienced executives whom we have recently recruited. Over the next few years we expect

our strengthened management team to improve efficiency and contribute new ideas that will help us to increase our market share.

Second, we have made important additions to our branch network, opening four new offices. Two of these new branches are modern, full service offices in local shopping centers. The other two are in-store branches in principal towns away from the San Juan metropolitan area. This makes a total of forty branches, including two in the U.S. Virgin Islands.

Third, First BanCorp introduced new and innovative products during 1998. We were the first financial institution in the world to offer an indexed CD whose interest is based on the average appreciation of the Dow Jones Industrial Average and whose principal is FDIC insured. This account allows depositors to earn an equity market return on their bank deposits. We also introduced our "First Class" auto loan program, which provides personalized service and accelerated loan processing for participating dealers and their clients. Finally, the Corporation inaugurated a new mortgage product that allows selected clients to finance 105% of the assessed value of their property. Although similar offerings are available on the U.S. mainland, no other bank in Puerto Rico offers a similar product.

Fourth, we have changed our public relations and advertising strategy, undertaking a focused marketing campaign of high quality. The Corporation has also adopted a new, streamlined logo to symbolize the new First BanCorp.

Fifth, Management has continued to dedicate many hours of time to maintaining strict cost controls. While First BanCorp has been outstanding in maintaining low costs, as shown by our efficiency ratio of 46.5% in 1998, Management has been examining ways to carry cost control even further. We have been systematically analyzing all important functions of the Corporation, with the objective of becoming more efficient and improving customer service.

Sixth, we have continued to invest in new technology, as we have been doing for the past several years. During 1998 we installed a more powerful mainframe computer, significantly improved our web site and finished converting all major mainframe applications to more modern software. Our management recognizes the importance of the technological revolution that has been changing the face of the financial services industry. We will continue to take full advantage of these new technologies.

Seventh, the Information Technology area made substantial progress on our long range plan to eliminate the year 2000 problem. Since Management began dealing with this issue in 1996, we have dedicated countless staff resources to resolving it. The Corporation has upgraded all critical systems to new platforms that are year 2000 compliant, and is testing all systems in house. We will be fully tested by March 1999. The total expenditure for year 2000 compliance will range between $1.5 million and $2.0 million, excluding the cost of converting to new systems which are year 2000.

Enhancing Shareholder Value

Our past efforts have paid off in strong earnings growth and stock appreciation, which have benefited our shareholders. The total return to First BanCorp shareholders in 1998 was 79.4%, including dividends of 30 cents per share after adjustment for a two for one stock split. Investors who held First BanCorp stock over the seven year period from year-end 1991 to year-end 1998 received a total return of 3,398 percent, for an average annual growth rate of 66.1 percent on their investment.

Puerto Rico government policy has contributed to the performance of our stock. To stimulate the formation of a local capital market, the Puerto Rico government has allowed local IRA holders to invest limited amounts in stocks of local companies since 1997. This change in policy has broadened the market for stocks of all Puerto Rican companies, including First BanCorp.

The Corporation began a stock repurchase program three years ago. During 1998 we repurchased 317,600 shares. This brought total activity over the three years of our share repurchase program to 1,663,450 shares, adjusted for splits, representing a total investment of $21.8 million. In addition, officers and directors of First BanCorp owned approximately 19 percent of its shares on December 31, 1998. This shows their confidence in First BanCorp's future and their commitment to keep its fundamentals sound.

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

Angel Alvarez-Perez
Chairman
President
Chief Executive Officer

1998: The Year in Review

During 1998 First BanCorp exceeded $4 billion in total assets and $2 billion in total loans for the first time. Loans grew by 8.2%, from $1.959 billion to $2.120 billion. At the same time, the investment portfolio was expanding even more rapidly from $1.277 billion to $1.800 billion. Deposits grew 11.3% from $1.595 billion to $1.775 billion.

First BanCorp earned $51.8 million or $1.74 per share in 1998, as compared to $47.5 million or $1.58 per share in 1997. Net income increased by 9%, or 10.1% on a per share basis. Net interest income, the main source of earnings, grew 7.4% from $154.7 million last year to $166.2 million in 1998. Other income also increased by $18.3 million, from $39.9 million in 1997 to $58.2 million in 1998. This growth was mostly due to increases in trading income and gains on the sale of investments. Due to strong earnings, shareholder equity rose by $34 million, from $236.4 million at the end of 1997 to $270.4 million at December 31, 1998.

Management has achieved these gains in a highly competitive market in which rising bankruptcies have been notable. This trend has affected the entire financial services industry in Puerto Rico. In response, Management has maintained tight underwriting standards while improving loan tracking and collections systems. Also, the rate of increase in bankruptcies has declined in the last few months of 1998.

Analysis of Key Financial Ratios

High spreads in the loan portfolio combined with strict cost controls have been important features of First BanCorp's strategy in recent years. Last year these factors, combined with a strong increase in trading and investment income, helped the Corporation combine above-average returns on assets and capital with a healthy growth in earnings. At the same time, the Corporation was able to show a strong increase in reserves although loan losses grew during the year.

The results of these high spreads and cost controls are evident in the financial ratios. The return on average assets was 1.48% in 1998, compared with the annualized average of 1.15% for all FDIC insured financial institutions through September 30. Similarly, First BanCorp's return on equity was 20.54% as compared with a similar FDIC average of 13.31%. In 1998 the Corporation had a net interest margin of 5.27% on a tax equivalent basis. At the same time Management held the efficiency ratio at 46.5% in 1998 in spite of investments in new information technology and new branches. The Corporation remains committed to tight cost controls in the future.

Ample spreads allowed Management to maintain profitability even while the provision for loan losses was expanding by $20.3 million from $55.7 million in 1997 to $76.0

million in 1998. This, in turn, allowed to increase loan loss reserves by $10.1 million, from $57.7 million at the end of 1997 to $67.8 million at December 31, 1998. Although non-performing loans rose from 3.29% to 3.40% of total loans during 1998 the increase in reserves more than compensated for the rise in delinquencies. The reserve coverage ratio, which consists of total loan loss reserves as a percentage of non-performing loans, rose from 89.5 percent at the end of 1997 to 94.2 percent at December 31, 1998. Management's target is to raise the reserve coverage ratio to 100%. The tightening in underwriting standards that has been in effect for the past two years should bear fruit in the future as loan losses return to normal levels.

Growth in Major Lending Areas

First BanCorp has achieved a strong position in several key lending areas in Puerto Rico. The Corporation's loan portfolio has been expanding and diversifying as Puerto Rico has grown and become more sophisticated. Here is an outline of major developments in the lending area during 1998.

Commercial Loans

In recent years, a significant portion of the growth of this portfolio had come from commercial mortgages. However, growth in that area was relatively limited in 1998, as the portfolio grew by $19.6 million, from $306.7 million to $326.3 million. First BanCorp has made mortgage loans for businesses as diverse as office buildings, restaurants with national franchises, professional offices and shopping centers.

A major goal of the Corporation in 1998 was to expand commercial lending in other areas besides mortgages. Management achieved this goal, expanding commercial lending by $142.7 million from $278.1 million to $420.8 million. The Corporation recruited experienced personnel to support this effort.

First BanCorp directs part of its commercial lending to small and medium sized businesses, many of which are locally owned and managed. The Corporation is a certified U.S. Small Business Administration ("SBA") lender, allowing rapid processing of loans under this Federal program. First BanCorp also offers commercial loans guaranteed by the local Economic Development Bank.

Commercial lending executives are flexible in meeting the individualized needs of each client, and they try to develop a mutually productive relationship. This approach requires the continuous development of new methods and services as the sophistication and diversity of Puerto Rico's business sector grows.

Residential Mortgage Loans

First BanCorp was active in the residential mortgage market during 1998. Management introduced a new mortgage product that allows clients to finance 105% of the assessed value of their property. This allows clients to take advantage of generally rising property values on the Island. No other bank in Puerto Rico offers this product. Because land is limited in Puerto Rico, property values have risen steadily during the postwar period.

First BanCorp has also renewed its construction loan department, bringing in a new executive with considerable experience in this area. Thanks to the financing of new housing developments in the San Juan metropolitan area, construction loans grew by $54.6 million from $9.3 million to $63.9 million during 1998. As these projects are completed the Corporation will have the opportunity to obtain part of the permanent financing. Management expects to be more active in construction and mortgage financing than it has in the recent past.

Consumer Loans

The consumer loan portfolio declined by $71.5 million during 1998 as tighter underwriting standards slowed new originations. Still, Management sees considerable future potential in this area.

In auto loans First BanCorp introduced a new, personalized program for auto dealers and their clients. This service, known as "First Class", assigns special representatives to participating dealers so that they can process loans rapidly by sending applications electronically to the main office. Clients will be able to choose among three alternatives: a conventional auto loan, a loan with reduced payments and a residual, or a lease. A distinctive "First Class" logo identifies participating dealers.

First BanCorp's credit card portfolio grew by $9.3 million from $116.7 million at the end of 1997 to $126.0 million as of last December 31. The Corporation offers special cards with Texaco and the Puerto Rico Telephone Co., as well as a collateralized card for clients who need to establish a credit record or who cannot obtain access to credit through other channels. Under the "First Miles" program, cardholders can obtain free airline travel as they use their credit cards.

First BanCorp also operates Money Express, a small loan subsidiary of FirstBank with 26 offices throughout Puerto Rico. Management plans to expand the activities of Money Express during the coming year. First Leasing, another subsidiary of FirstBank, offers vehicle rental and leasing services.

First BanCorp's growing selection of consumer products reflects the needs and demands of Puerto Rico's growing middle class. Management hopes to continue expanding the variety and sophistication of consumer loans in the years to come.

Increasing Shareholder Value

The financial results reported here are part of a continuing trend of earnings growth that has produced excellent value for shareholders. Return on average equity was 20.54% in 1998. First BanCorp shareholders received a total return of 79.4% in 1998, and a cumulative increase in shareholder value of 3,398 percent from year-end 1991 to year-end 1998. Although dividends were increased in 1998, the dividend payout ratio remained low at 17.12% compared with 15.14% in 1997. During 1998 the Corporation repurchased 317,600 common shares.

Management is optimistic about the future of First BanCorp. The range of services it offers, its effective network of offices and branches supplemented by new sales methods, its dedicated staff and its reputation with clients will all contribute to future earnings growth. Management will continue its efforts to improve First BanCorp's excellent performance in 1999 and in the years to come.

The Puerto Rico Economy

The island of Puerto Rico is a U.S. Commonwealth with a population of 3.8 million, located in the Caribbean approximately 1,600 miles southeast of New York. Puerto Rico has been enjoying solid economic growth over most of the 1990's. Real GNP grew by 3.1% in fiscal 1998. Private economists are forecasting 2% to 3% real growth in the 1999 fiscal year. Management expects recent growth patterns on the Island to continue, with some slowdown during the coming fiscal year.

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

Puerto Rico has made a rapid transition from poverty in the immediate postwar period to prosperity today. Throughout this process the Island has attracted industry using tax exemption. Many multinational corporations have substantial operations here. During 1996 Congress repealed Section 936 of the Internal Revenue Code, which provided Federal tax exemption for companies operating in Puerto Rico. However, Congress also provided a ten year grandfather clause for companies already operating here. Because Puerto Rico has a fiscal system independent from that of the U.S., it can fashion local tax incentives to attract or retain industry. A new law broadening and strengthening local tax incentives went into effect on January 1, 1998.

Puerto Rico is becoming somewhat less dependent on manufacturing than it was in the early postwar period. Manufacturing attracted by tax exemption is still an important part of the island's economy. Nevertheless, Puerto Rico has been diversifying its economic base to include tourism, business services and transportation. As part of these changes the Island has been receiving U.S. private investment in diverse areas such as hotels, financial services and large retail stores. During the past year a slowdown in manufacturing growth was balanced by strong construction activity, both private and public. Management is very optimistic about Puerto Rico's economic future.

Board of Directors

[PHOTO]
Angel Alvarez-Perez, Esq.
Chairman of First BanCorp
German Malaret, M.D.
Chairman of FirstBank

[PHOTO]
Annie Astor de Carbonell, C.P.A.
Angel L. Umpierre, C.P.A.
Jose Texidor

[PHOTO]
Antonio Pavia Villamil, M.D.
Francisco D. Fernandez, Eng.
Rafael Bouet, Eng.

[PHOTO]
Armando Lopez Ortiz, Eng.
Hector M. Nevares, Esq.
Jose Julian Alvarez

FIRST BANCORP OFFICERS

[PHOTO]
Standing from left to right: Aida Garcia, Francisco Cortes, Aurelio Aleman, Randolfo Rivera, Fernando L. Batlle, Luis Cabrera, Josianne M. Rossello
Seated from left to right: Luis Beauchamp, Angel Alvarez-Perez, Annie Astor de Carbonell

PRESIDENT

Angel Alvarez-Perez
President and Chief
Executive Officer

SENIOR EXECUTIVE
VICE PRESIDENTS

Annie Astor de Carbonell
Chief Financial Officer

Luis M. Beauchamp
Chief Lending Officer

EXECUTIVE
VICE PRESIDENTS

Aurelio Aleman
Retail Banking

Fernando L. Batlle
Branch Banking
Mortgages &
Money Express

Francisco Cortes
Administrative Services
& Information Systems

Rodolfo Rivera
Corporate Services

SENIOR VICE
PRESIDENT

Nicolas Badillo
Data Center

Luis Cabrera
Treasury & Investments

Eva Candelario
Corporate Business
Development

Antonio Escriba
Secretary of the Board

Aida M. Garcia
Human Resources

Michael Garcia
Consumer Collection

Fernando Iglesias
Special Loans &
Credit Administration

Roger Lay
Internal Auditing

John Ortiz
Remote Banking

Haydee Rivera
Branch Banking
Operations

Julio Rivera
Construction Lending

Jose H. Rodriguez
Branch banking
Administration

Josianne M. Rosello
Marketing & Public
Relations

Demetrio Santiago
Auto Wholesale
Business

Laura Villarino
Controller

VICE PRESIDENTS

William Alvarez
Area Business

Jose H. Aponte
Commercial Mortgage

Miguel Babilonia
Consumer Portfolio
Management

Juan E. Barnes
Branch Manager

Ana Colon
Centralized Accounting

Ada Davila
Branch Manager

Elizabeth de la Cruz
Mortgage Operations

Roberto Girald
Construction Lending

David Gonzalez
Corporate Business
Development

Daisy Gonzalez
Operational Accounting

Nelson Gonzalez
Corporate Business Development

Marcelo Lopez
Branch Banking
Administration
District Manager

Juanita Marrero
First Mortgage

Ivan Martinez
Project Manager

Miguel Mejias
System Development

Jose Negron
Floor Plan

Jaime Noble
First Leasing

Luis Orengo
Commercial Loans

Osvaldo Padilla
Corporate Business

Reynaldo Padilla
Auto Finance

Miguel Pimentel
Corporate Business
Development

Carlos Power
Auto Operations

Rolando Quevedo, Esq.
Legal Counsel

Jorge Rendon
Operational Support

Migdalia Rivera
Community Banking

Sandra Rivera
Auto Collection

Belinda Rodriguez
Remote Sales

Jose L. Rodriguez
Special Projects
Year 2000

Luis Rodriguez
Special Projects

Elizabeth Sanchez
Marine Financing

Roberto Sanchez
Marine Financing

Roberto Sanchez
Credit Risk

Carmen Torres
Branch Banking

Administration
District Manager

Raphael Torres
Branch Banking
Administration
District Manager

SUBSIDIARIES

FIRST FEDERAL FINANCE CORPORATION
DBA MONEY EXPRESS "LA FINANCIERA"

Angel Alvarez-Perez
Chief Executive Officer

Fernando L. Batlle
President and Chief
Operating Officer

Orlando Velez
Vice President and
Operations Manager

FIRST LEASING AND RENTAL CORPORATION

Angel Alvarez-Perez, Esq.
Chief Executive Officer

Aurelio Aleman
President and Chief
Operating Officer

Jaime Noble
Vice President and
Manager Leasing Operation

William Velez
Vice President and
Manager Daily Rental Operation

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

SELECTED FINANCIAL DATA

Years ended December 31,	1998	1997	1996	1995	1994
	(Dollars in thousands except for per share results)				
Condensed Income Statements:					
Total interest income	$321,298	$285,160	$256,523	$208,488	$180,309
Total interest expense	155,130	130,429	113,027	96,838	76,674
Net interest income	166,168	154,731	143,496	111,650	103,635
Provision for loan losses	76,000	55,676	31,582	30,894	17,674
Other income	58,240	39,866	29,614	48,268	18,169
Other operating expenses	91,798	83,268	82,498	65,628	60,760
Unusual item - SAIF assessment			9,115		
Income before income tax provision and extraordinary item	56,610	55,653	49,915	63,396	43,370
Provision for income tax	4,798	8,125	12,281	14,295	12,385
Income before extraordinary item	51,812	47,528	37,634	49,101	30,985
Extraordinary item					(429)
Net income	51,812	47,528	37,634	49,101	30,556
Per Common Share Results - Diluted (1):					
Income before extraordinary item	$1.74	$1.58	$1.22	$1.58	$1.01
Extraordinary item					(.02)
Net income per common share	$1.74	$1.58	$1.22	$1.58	$0.99
Cash dividends declared	$0.30	$0.24	$0.20	$0.08	
Average shares outstanding	29,586	30,036	30,794	30,592	29,977
Average shares diluted	29,858	30,204	30,952	31,118	30,859
Balance Sheet Data:					
Loans and loans held for sale (net of unearned interest)	$2,120,054	$1,959,301	$1,896,074	$1,556,606	$1,501,273
Allowance for possible loan losses	67,854	57,712	55,254	55,009	37,413
Investments	1,800,489	1,276,900	830,980	785,747	595,555
Total assets	4,017,352	3,327,436	2,822,147	2,432,816	2,174,692
Deposits	1,775,045	1,594,635	1,703,926	1,518,367	1,493,445

Borrowings	1,930,488	1,458,148	884,741	698,097	536,278
Total capital (100% common equity)	270,368	236,379	191,142	171,202	120,015
Book value per common share, end of year (1)	9.17	7.93	6.32	5.51	3.99
Regulatory Capital Ratios (In Percent):					
Total capital to risk weighted assets	17.39	17.26	15.25	16.17	9.76
Tier 1 capital to risk weighted assets	11.55	11.07	9.32	9.93	8.50
Tier 1 capital to average assets	6.59	7.44	6.65	6.82	5.74
Selected Financial Ratios (In Percent):					
Net income to average total assets	1.48	1.63	1.48	2.22	1.53
Interest rate spread (2)	4.76	5.30	5.46	5.07	5.23
Net interest income to average earning assets (2)	5.27	5.83	6.03	5.59	5.65
Net yield on average earning assets (2)	9.83	10.45	10.63	10.12	9.63
Net cost on average interest bearing liabilities	5.07	5.15	5.17	5.05	4.40
Net income to average total equity	20.54	22.30	20.49	33.19	29.07
Average total equity to average total assets	7.22	7.32	7.23	6.68	5.27
Dividend payout ratio	17.12	15.14	16.32	5.06	N/A
Efficiency ratio (3)	46.46	45.45	47.66	47.71	49.88
Offices:					
Number of full service branches	40	36	36	36	32
Loan origination offices	45	44	47	43	23

(1) Amounts presented were recalculated, when applicable, to retroactively consider the effect of common stock splits. (2) Ratios were computed on a taxable equivalent basis. (3) Other operating expenses to the sum of net interest income and other income (excluding gain on sale of investments in 1998, 1997 and 1995, and gain on sale of subsidiary in 1995).

</TABLE>

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

FINANCIAL REVIEW SUMMARY

For the year 1998, First BanCorp (the Corporation) recorded earnings of $51,812,386 or $1.74 per common share as compared to $47,527,552 or $1.58 per common share for 1997 and $37,633,791 or $1.22 per common share for 1996. First BanCorp is the bank holding company for FirstBank (or the Bank).

Earnings for the year 1996 included a one time Savings Association Insurance Fund (SAIF) industry wide deposit insurance assessment of $6,715,000 (net of tax) or $.22 per share. Excluding this unusual item, operational amounted to $44,348,791 or $1.44 per share. All per share figures are presented on a diluted basis.

The Corporation's continuous increase in net interest income and other income and tight control over operating expenses net of the provision for loan losses, have resulted in the sustained growth in net income. For 1998 as compared to 1997, net income increased by $4,284,834 or $.16 per common share, and for 1997 as compared to 1996, by $3,178,761 or $0.14 per common share, excluding for 1996 the one time SAIF insurance assessment.

Return on average assets was 1.48% for 1998, 1.63% for 1997 and 1.48% for 1996. Return on average common equity was 20.54% for 1998, 22.30% for 1997 and 20.49% for 1996. The decrease in the return on average assets and average common equity for 1998 as compared to 1997 was due to the increase in total assets and common equity, respectively.

RESULTS OF OPERATIONS

First BanCorp'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 paid on interest bearing liabilities, including deposits and borrowings. The Corporation's results of operations also depend on the provision for loan losses, operating expenses (such as personnel, occupancy and other costs), on other income (mainly service charges and fees on loans), and on gains on sale of investments.

Net Interest Income

The main component of the Corporation's results of operations is net interest income. Net interest income is the difference between interest earned on loans and investment securities (interest earning assets) and the interest expense on deposits and borrowings (interest bearing liabilities). Net interest income is the result of the spread between the yield of interest earning assets and the cost of interest bearing liabilities, and the volume of such assets and liabilities.

Net interest income increased to $166.2 million for 1998 from $154.7 million in 1997 and $143.5 million in 1996. The improvement was the result of the continuous increase in the average volume of interest earning assets together with a higher available capital and non-interest bearing liabilities to fund those assets. This is reflected in an increase in the average volume of interest earning assets by $582.7 million for 1998 as compared to 1997 and by $361.8 million for 1997 as compared to 1996. Interest bearing liabilities increased by $528.0 million for 1998 as compared to 1997 and by $345.2 million for 1997 as compared to 1996.

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.

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

Part I	Average volume			Interest income (1) / expense			Average rate (1)		
Year ended December 31,	1998	1997	1996	1998	1997	1996	1998	1997	1996
				(Dollars in thousands)					
Earning Assets:									
Deposits at banks and other short-term investments	$ 40,766	$ 67,969	$ 36,883	$ 2,028	$ 3,708	$ 1,959	4.97%	5.45%	5.31%
Government obligations	319,777	404,517	405,221	19,984	26,949	23,242	6.25%	6.66%	5.74%
Mortgage backed securities	1,032,632	428,804	255,926	77,463	34,942	18,142	7.50%	8.15%	7.09%
Other investment	1,150	519	3,920	186	22	190	16.14%	4.24%	4.85%
FHLB stock	10,252	10,150	11,701	743	670	756	7.25%	6.60%	6.46%
Total investments	1,404,577	911,959	713,651	100,404	66,290	44,289	7.15%	7.27%	6.21%
Consumer loans (2)	1,032,704	1,090,991	985,554	139,309	147,100	139,732	13.49%	13.48%	14.18%
Real estate loans (2)	642,112	567,446	552,385	63,789	56,985	55,894	9.93%	10.04%	10.12%
Commercial loans (2)	324,426	250,757	207,745	31,131	24,494	21,490	9.60%	9.77%	10.34%
Total loans	1,999,242	1,909,194	1,745,684	234,229	228,579	217,116	11.72%	11.97%	12.44%
Total earning assets	$3,403,820	$2,821,153	$2,459,334	$334,633	$294,869	$261,405	9.83%	10.45%	10.63%
Interest Bearing Liabilities:									
Deposits	$1,494,530	$1,502,975	$1,441,612	$70,418	$72,148	$ 70,964	4.71%	4.80%	4.92%
Other borrowed funds	1,559,892	1,012,757	718,407	84,460	57,419	40,608	5.41%	5.67%	5.65%
FHLB advances	4,515	15,157	25,637	252	864	1,455	5.58%	5.70%	5.68%
Total interest bearing liabilities	$3,058,937	$2,530,889	$2,185,656	$155,130	$130,431	$113,027	5.07%	5.15%	5.17%
Net interest income				$179,503	$164,438	$148,379			
Interest rate spread							4.76%	5.30%	5.46%
Net interest margin							5.27%	5.83%	6.03%

(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.

</TABLE>

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

Part II	1998 compared to 1997 Increase (decrease)			1997 compared to 1996 Increase (decrease)		
	Due to:			Due to:		
	Volume	Rate	Total	Volume	Rate	Total
Earning assets:			In thousands			
Deposits at banks and other						

short-term investments	$(1,377)	$(303)	$ (1,680)	$ 1,694	$ 54	$ 1,748
Government obligations	(5,375)	(1,589)	(6,964)	(44)	3,751	3,707
Mortgage backed securities	47,250	(4,729)	42,521	13,755	3,044	16,799
Other investment	50	114	164	(147)	(21)	(168)
FHLB stock	7	66	73	(101)	15	(86)
Total investments	40,555	(6,441)	34,114	15,157	6,843	22,000
Consumer loans	(7,861)	70	(7,791)	14,583	(7,215)	7,368
Real estate loans	7,458	(654)	6,804	1,518	(427)	1,091
Commercial loans	7,133	(496)	6,637	4,325	(1,321)	3,004
Total loans	6,730	(1,080)	5,650	20,426	(8,963)	11,463
Total interest income	47,285	(7,521)	39,764	35,583	(2,120)	33,463
Interest bearing liabilities:						
Deposits	(403)	(1,327)	(1,730)	2,984	(1,800)	1,184
Borrowed funds	30,323	(3,282)	27,041	16,688	123	16,811
FHLB advances	(594)	(18)	(612)	(596)	5	(591)
Total interest expense	29,326	(4,627)	24,699	19,076	(1,672)	17,404
Change in net interest income	$17,959	$(2,894)	$15,065	$16,507	$ (448)	$16,059

</TABLE>

Total interest income includes tax equivalent adjustments of $13.3 million, $9.7 million and $4.9 million for 1998, 1997, and 1996, respectively.

On a tax equivalent basis, net interest income increased to $179.5 million for 1998 from $164.4 million for 1997, and $148.4 million for 1996. The interest rate spread and net interest margin amounted to 4.76% and 5.27%, respectively, for 1998, as compared to 5.30% and 5.83%, respectively, for 1997 and to 5.46% and 6.03%, respectively, for 1996.

The reduction in the interest rate spread and net interest margin for 1998 is mainly due to the increase of $492.6 million in the average volume of total investments when compared to the average volume recorded for 1997. These investments have a lower spread than loans but without the credit risk. In addition, there was a reduction of $58.3 million in the average volume of consumer loans, which are the assets with the highest spread but, also the highest credit risk in the portfolio.

1998 compared to 1997

On a tax equivalent basis interest income increased by $39.8 million for 1998 as compared to 1997. On a tax equivalent basis the yield on earning assets was 9.83% for 1998 as compared to 10.45% for 1997. The improvement in interest income was due to the increase in the average volume of investments of $492.6 million, of real estate (mostly commercial real estate loans) and commercial loans of $74.7 million and $73.7 million, respectively, net of a decrease in consumer loans of $58.3 million. The increase in the commercial real estate and commercial loans portfolio was the result of the Corporation's strategy of diversifying its asset base, which was concentrated in consumer loans. The consumer loan portfolio decreased as a result of the tightening implemented early in 1997 of the underwriting standards for the origination of these loans.

For the investment portfolio, the average volume of mortgage backed securities increased in 1998 by $603.8 million. The tax equivalent yield on mortgage backed securities was 7.50% in 1998 and 8.15% in 1997. The portfolio of mortgage backed securities contributed $47.3 million in interest income due to volume net of $4.7 million decrease in interest income due to rate. The average volume of government obligations decreased by $84.7 million for 1998 as compared to 1997, causing a total decrease in interest income of $7.0 million.

For the loan portfolio, the growth in the average volume of commercial loans represented an increase of $7.1 million in income due to volume, partially offset by a reduction of $.5 million in interest income due to rate. The reduction due to rate was mainly caused by various decreases in the prime rate from 8.50% effective for 1997 through September 29, 1998 to 7.75% effective on November 18, 1998. The average portfolio of mortgage loans increased for 1998, representing a positive volume variance of $7.5 million. This increase was mostly achieved in commercial real estate loans. The decrease in the average volume of consumer loans caused a negative variance in interest income due to volume of $7.9 million.

Interest expense increased by $24.7 million for 1998 as compared to 1997. This was the result of the increase in the average volume of interest bearing liabilities of $528.0 million for 1998 as compared to 1997 with a volume variance of $29.3 million. However, interest expense was affected by a decrease of eight basis points in the cost of interest bearing liabilities from 5.15% for 1997 to 5.07% for 1998 causing a positive rate variance of $4.6 million for 1998 as compared to 1997.

1997 compared to 1996

On a tax equivalent basis interest income increased by $33.5 million for 1997 as compared to 1996. On a tax equivalent basis the yield on earning assets was 10.45% for 1997 as compared to 10.63% for 1996. The improvement in interest income was primarily due to the increase in the average volume of investments of $198.3 million and to an increase in the average volume of consumer and commercial loans of $105.4 million and $43.0 million, respectively.

For the investment portfolio, the average volume of mortgage backed securities increased in 1997 by $172.9 million. The tax equivalent yield on mortgage backed securities increased from 7.09% for 1996 to 8.15% for 1997. The portfolio of mortgage backed securities contributed $13.8 million in interest income due to volume and $3.0 million in interest income due to yield improvement. Interest income from investments was also positively affected by the improvement in the tax equivalent yield of government obligations from 5.74% in 1996 to 6.66% in 1997, representing an increase of $3.8 million in interest income due to rate. To a lesser extent, investment income was positively affected by an increase of $31.1 million in the average volume of short term investments.

For the loan portfolio, the increase in the average volume of consumer loans represented a growth of $14.6 million in interest income, which was partially offset by a reduction of $7.2 million in interest income due to rate. The yield on consumer loans decreased from 14.18% in 1996 to 13.48% in 1997 as a result of the increase in non-accruing loans written off in 1997, and the tightening of underwriting standards in the origination of consumer loans. Early in 1997, stricter underwriting standards were implemented in response to the industry wide increase in delinquencies and bankruptcies. As the credit quality of the customers improves, the yield charged to the loans is lower, causing a decrease in the average yield of the consumer loan portfolio.

The growth in the average volume of commercial loans represented an increase of $4.3 million in income due to volume, partially offset by a reduction of $1.3 million in interest income due to rate. The growth in the commercial loan portfolio responded to the strategy of emphasizing commercial loans to diversify the loan portfolio, which has been concentrated in consumer loans. The average portfolio of mortgage loans increased for 1997, representing a positive volume variance of $1.5 million. This increase was mostly recorded in commercial real estate loans. The negative variance due to rate was mostly due to loans that were placed in non accruing status. The prime rate was at 8.50% for 1997 and 1996.

Interest expense increased by $17.4 million for 1997 as compared to 1996. The increase was the result of the increase in the average volume of interest bearing liabilities of $345.2 million for 1997 as compared to 1996 with an additional cost of $19.1 million. However, interest expense was positively affected by a decrease of two basis points in the cost of interest bearing liabilities from 5.17% for 1996 to 5.15% for 1997. This reduction was entirely due to a decrease in the cost of interest bearing deposits from 4.92% in 1996 to 4.80% in 1997.

Provision for Loan Losses

During 1998, the Corporation provided $76.0 million for loan losses, a significant increase as compared to $55.7 million in 1997 and $31.6 million in 1996.

The increased provision for loan losses recorded in 1998 was necessary to cover net charge offs of $65.9 million, and to increase by $10.1 million the allowance for loan losses at December 31, 1998 as compared to December 31, 1997. This level of net charge offs resulted mainly from the increase in the level of delinquencies and bankruptcies experienced in Puerto Rico during 1998. In addition, net charge offs for 1998 included $8.9 million in loans written off as a result of changes in the write off policy to a more conservative one. During the first quarter of 1998 the Corporation changed its write off policy to include personal unsecured loans in bankruptcy status and more than 30 days delinquent. These loans were previously written off according to the general regulatory guidance for unsecured personal loans which were 120 days delinquent. As a result of this change, $4.5 million loans were written off during the first quarter. During the fourth quarter of 1998 the Corporation changed the timing to record the estimated partial write offs of certain auto loans and repossessed units. This change resulted in an additional write off of $4.4 million of previously reserved losses. Net charge offs for 1997 and 1996 amounted to $53.2 million and $31.3 million, respectively.

The allowance activity for 1998, and prior two years was as follows:

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Year ended December 31,				
	1998	1997	1996	1995	1994
	(Dollars in thousands)				
Allowance for loan losses, beginning of period	$57,712	$55,254	$55,009	$37,413	$30,453
Provision for loan losses	76,000	55,675	31,582	30,894	17,674
Loans charged off:					
Real estate	(168)	(284)	(492)	(403)	(839)
Commercial	(4,150)	(1,996)	(942)	(3,299)	(4,329)
Consumer	(67,906)	(57,311)	(33,295)	(10,821)	(6,753)
Recoveries and other adjustments	6,366	6,374	3,392	1,225	1,207
Net charge offs	(65,858)	(53,217)	(31,337)	(13,298)	(10,714)
Allowance for loan losses, end of period	$67,854	$57,712	$55,254	$55,009	$37,413
Allowance for loan losses to year end total loans and loans held for sale	3.20%	2.95%	2.91%	3.53%	2.49%
Net charge offs to average loans outstanding during the period	3.29%	2.79%	1.80%	.93%	.79%

</TABLE>

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

Other Income

The following table presents the composition of other income.

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

Year ended December 31,	1998	1997	1996
		(In thousands)	
Other fees on loans	$11,158	$10,899	$10,651
Service charges on deposit accounts	7,844	7,363	6,184
Fees on loans serviced for others	1,617	2,670	3,993
Rental income	2,292	1,935	2,356
Other operating income	5,137	4,866	2,928
Other income before gain on sale of investments and trading	28,048	27,733	26,112
Gain on sale of investments	26,827	11,388	4,857
Trading income (loss)	3,365	745	(1,355)
Total	$58,240	$39,866	$29,614

</TABLE>

Other income primarily consists of service charges on deposit accounts, fees on loans, servicing income, commissions derived from various banking activities, the results of trading activities and gains on sale of investments.

Other income before gains on the sale of investments and trading activities increased to $28.0 million in 1998 from $27.7 million in 1997 and $26.1 million in 1996. These variances were mainly due to fees and charges on deposit and loan accounts and other fees on miscellaneous banking services, partially offset by a decrease in fees on loans serviced for others.

Service charges on deposit accounts represent an important and stable source of other income for the Corporation. This source of income increased to $7.8 million in 1998 from $7.4 million in 1997 and $6.2 million in 1996.

Other fees on loans consist mainly of credit card fees and late charges collected on loans. The increase in this source of income to $11.2 million in 1998 from $10.9 million in 1997 and $10.7 million in 1996 was due to fees generated on the increased portfolio of commercial loans.

Fees on loans serviced for others primarily reflect the servicing fees for the auto loan securitizations closed in 1995. It also includes servicing fees on residential mortgage loans originated and subsequently securitized. Due to the repayment of the auto loan portfolio securitized in 1995, the related servicing income decreased from 1996 to 1998.

The Corporation's second tier subsidiary, First Leasing and Rental Corporation, generates income on the rental of various types of motor vehicles. This source of income has averaged $2.0 million in the past three years.

The other operating income category is composed of miscellaneous fees such as check fees and rental of safe deposit boxes. For 1998 and 1997, other operating income also includes earned discounts on tax credits purchased and utilized against income tax payments.

The Corporation recorded $26.8 million in 1998, $11.4 million in 1997 and $4.9 million in 1996 from gains on sale of investment securities. These sales of investments were realized as market opportunities arose and in response to the Corporation's investment policies.

Other Operating Expenses

Other operating expenses amounted to $91.8 million for 1998 as compared to $83.3 million for 1997 and $82.5 million for 1996. The following table presents the components of other operating expenses.

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

Year ended December 31,	1998	1997	1996
		(In thousands)	
Salaries and benefits	$43,185	$38,644	$37,359
Occupancy and equipment	18,155	16,101	14,932
Deposit insurance premium	971	1,040	2,431
Other taxes and insurance	5,607	5,536	4,663
Professional and service fees	5,820	4,883	4,956
Business promotion	5,922	4,993	5,880
Communications	4,330	4,364	4,789
Real estate owned operations	42	(21)	219
Amortization of debt issue costs	691	788	873
Expense of rental equipment	1,226	1,184	1,113
Other	5,849	5,756	5,283
Total	$91,798	$83,268	$82,498

</TABLE>

Management's goal has been to make only expenditures that contribute clearly and directly to increasing 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 best measure of the success of this program is the efficiency ratio, which is the ratio of other operating expenses to the sum of net interest income and other recurring income. The Corporation's efficiency ratio was 46.46% for 1998 as compared to 45.45% and 47.66% for 1997 and 1996, respectively.

For 1998 as compared to 1997, salary increases, incentive compensation and increases in fringe benefits affected the salaries and benefits category for all employees. Additional employees were hired to staff two full service branches and two in-store branches that opened in 1998, to strengthen the commercial lending business, the support areas of consumer lending such as credit and collection, and other support areas of the Corporation. For 1997 as compared to 1996, salaries and benefits were mainly affected by increases in salary and fringe benefits.

The occupancy and equipment category consists of expenses associated with premises, office and computer equipment, and other automated banking equipment. The increase in the past three years was mainly affected by enhancements of hardware and software through system conversions, which have enabled the Corporation to offer new products, and to improve customer service and portfolio servicing. For 1998, the increase was also due to the expansion of the branch network mentioned above. Expenses related to the year 2000 issue also affected this category (see Year 2000 section).

The increase in the professional and service fee category for 1998 was mainly due to credit card processing and assessment fees related to the increase in the portfolio and in the number of accounts. The increase in credit card related fee income exceeded the related processing costs.

Business promotion costs amounted to $5.9 million for 1998 as compared to $5.0 million in 1997, and $5.9 million for 1996. Business promotion expense has been incurred to obtain the loan and deposit volumes achieved during those years.

In 1998 and 1997, communications expense decreased as compared to 1996, due to an improvement in the telephone and data line network.

Unusual Item

In 1996, FirstBank recorded the one time industry wide SAIF deposit insurance special assessment as provided by the Omnibus Spending bill signed by the President of the United States on September 30, 1996, in order to recapitalize the SAIF. The Bank's assessment was $9.1 million, which represented a net after tax expenditure of $6.7 million. On October 31, 1994, the Bank, formerly a savings institution, converted its charter to a commercial bank, but stayed in the SAIF because legal restrictions prevented the Bank from switching to the Bank Insurance Fund.

Income Tax Expense

The provision for income tax amounted to $4.8 million (or 8% of pre-tax earnings) for 1998 as compared to $8.1 million (or 15% of pre-tax earnings) in 1997, and $12.3 million (or 25% of pre-tax earnings) in 1996. 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 tax. Also the current income tax expense was reduced by the increase in loans written off. For additional information relating to taxes, see Note 29 of the Corporation's financial statements - "Income Taxes."

FINANCIAL CONDITION

Assets

The Corporation's total assets at December 31, 1998 amounted to $4,017.4 million, $690.0 million over the $3,327.4 million at December 31, 1997. The increase in total assets was mainly the result of an increase in total investments of $523.6 million plus an increase of $150.6 million in loans receivable (net of the allowance for loan losses) and loans held for sale.

The investment portfolio grew from $1,276.9 million at December 31, 1997 to $1,800.5 million at December 31, 1998. This resulted from the strategy of purchasing $733.7 million in additional mortgage backed securities, increasing the portfolio of mortgage backed securities to $1,492.5 million. The portfolio of mortgage backed securities yielded 7.50% in 1998 as compared to 8.15% in 1997. Government obligations decreased by $211.8 million. Government obligations yielded 6.25% in 1998 compared to 6.66% in 1997. The shift to mortgage backed securities was due to the higher yield on these investments as compared to government obligations.

The increase in loans receivable of $150.6 million was composed of an increase in commercial loans of $142.7 million and $89.6 million in real estate loans, net of an increase in the allowance for loan losses of $10.1 million and a decrease in consumer loans of $71.6 million.

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.
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

December 31,	1998	% of Total	1997	% of Total	1996	% of Total	1995	% of Total	1994	% of Total
						(Dollars in thousands)				
Real estate loans:										
Residential	$ 307,912	15	$ 292,604	15	$ 297,246	16	$ 319,758	21	$ 406,653	28
Commercial	326,342	16	306,734	16	256,227	14	210,645	14	175,415	12
Construction and land	63,939	3	9,279	1	10,209	1	9,233	1	13,812	1
	698,193	34	608,617	32	563,682	31	539,636	36	595,880	41
Commercial loans	420,763	20	278,071	15	233,251	12	189,334	13	126,842	9
Consumer loans	1,001,098	49	1,072,613	56	1,099,141	60	827,636	55	778,551	53
Total	2,120,054	103	1,959,301	103	1,896,074	103	1,556,606	104	1,501,273	103
Allowance for loan losses	(67,854)	(3)	(57,712)	(3)	(55,254)	(3)	(55,009)	(4)	(37,413)	(3)
Net loans	$2,052,200	100	$1,901,589	100	$1,840,820	100	$1,501,597	100	$1,463,860	100

</TABLE>

Early in 1997, the Corporation tightened its underwriting standards for the origination of consumer loans because of the industry wide higher trend in delinquencies and bankruptcies. This resulted in a decrease in the consumer loan portfolio from $1,072.6 million at December 31, 1997 to $1,001.1 million at December 31, 1998.

During 1998, the Corporation continued emphasizing the origination of commercial loans as a strategy to diversify the loan portfolio, which is concentrated in consumer loans. Most of the commercial loans originated are asset based loans. The portfolio of commercial loans includes also floor plan financing to dealers, which has enhanced the Corporation's ability to maintain its production of auto loans. As a result of this strategy, the commercial loan portfolio grew by $142.7 million in 1998. 1997 ended with an increase of $44.8 million as compared to the commercial loan portfolio at the end of 1996, and 1996 with an increase of $43.9 million as compared to 1995. The Corporation has been able to increase its percentage of commercial loans to total loans to 20%.

As to real estate loans, the increase in the portfolio of $89.6 million was composed of the following increases: (1) $19.6 million in real estate commercial loans; (2) $15.3 million in residential real estate loans; and (3) $54.7 million in construction loans. The growth in the real estate commercial loan portfolio is consistent with the strategy of emphasizing commercial loans. Real estate commercial loans grew by $50.5 million in 1997 and by $45.6 million in 1996.

Average earning assets for 1998 amounted to $3,403.8 million, an increase of $582.7 million when compared to total average earning assets of $2,821.1 million for 1997. The composition and tax equivalent weighted average interest rates of the Corporation's earning assets at December 31, 1998 were as follows:

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Amount (In thousands)	Weighted Average Rate
Money market instruments	$ 526	3.40%
Government obligations	295,533	5.74%
Mortgage backed securities	1,492,539	7.02%
FHLB of N.Y. stock	10,271	7.00%
Other investment	1,620	15.76%
Total investments	1,800,489	6.82%
Consumer loans	1,001,098	14.76%
Real estate loans	698,193	9.54%
Commercial loans	420,763	9.03%
Total loans(1)	2,120,054	11.91%
Total earning assets	$3,920,543	9.57%

(1) Excludes the reserve for loan losses. Generally, non-accruing loans were included in this analysis as if they were accruing interest.
</TABLE>

Non-performing Assets

Total non-performing assets are the sum of non-accruing loans, past due loans, OREO's and other repossessed properties. Past due loans are loans delinquent 90 days or more as to principal and/or interest, and still accruing interest. 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 December 31, 1998, total non-performing assets amounted to $78.0 million (1.94% of total assets) as compared to $74.3 million (2.23% of total assets) at December 31, 1997 and $70.2 million (2.49% of total assets) at December 31, 1996. The Bank's reserve to non-performing loans ratio was 94.2% at December 31, 1998 as compared to 89.5% and 90.71% at December 31, 1997 and 1996, respectively.

The following table presents non-performing assets at the dates indicated:
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

December 31,	1998	1997	1996	1995	1994
			(Dollars in thousands)		
Past due loans	$ 15,110	$ 11,544	$ 9,752	$ 5,544	$ 4,859
Non-accruing loans:					
Real estate	17,399	12,249	12,795	14,106	18,422
Commercial	12,823	16,143	12,712	14,479	10,295
Consumer	26,736	24,547	25,655	26,085	13,993
	56,958	52,939	51,162	54,670	42,710

Non-performing loans	72,068	64,483	60,914	60,214	47,569
Other real estate owned (OREO)	3,642	1,132	1,696	2,991	12,383
Other repossessed property	2,277	8,702	7,566	3,132	1,619
Total non-performing assets	$77,987	$74,317	$70,176	$66,337	$61,571
Non-performing assets to total assets	1.94%	2.23%	2.49%	2.73%	2.83%
Non-performing loans to total loans	3.40%	3.29%	3.21%	3.87%	3.17%
Allowance for loan losses	$67,854	$57,712	$55,254	$55,009	$37,413
Allowance to total non-performing loans	94.15%	89.50%	90.71%	91.36%	78.65%

</TABLE>

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.

Non-accruing Loans

Real Estate Loans - The Corporation classifies all real estate loans delinquent 90 days or more in non-accruing status. Even though these loans are in non-accruing status, Management considers based on the value of the underlying collateral 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 real estate loans amounted to $17.4 million (2.49% of total real estate loans) at December 31, 1998, as compared to $12.2 million (2.01% of total real estate loans) and $12.8 million (2.27% of total real estate loans) at December 31, 1997 and 1996, respectively.

Non-accruing real estate loans at December 31, 1998 were composed of $9.2 million in low risk residential mortgage loans and $8.2 million in commercial real estate loans. No construction loans were on non-accruing status at December 31,1998. There was only one real estate loan over $500,000 in non-accruing status. This loan was a $1.0 million mortgage secured by an income producing property, which has an estimated fair value that exceeds the principal balance of the loan.

Commercial Loans - The Corporation places all commercial loans 90 days delinquent as to principal and interest in non-accruing status. The risk exposure of this portfolio is diversified and a portion of the portfolio is collateralized by liens on real property. Non-accruing commercial loans amounted to $12.8 million (3.05% of total commercial loans) at December 31, 1998 as compared to $16.1 million (5.81% of total commercial loans) and $12.7 million (5.45% of total commercial loans) at December 31, 1997 and 1996, respectively. At December 31, 1998, non-accruing commercial loans of over $500,000 were: (1) a $3.6 million loan secured by senior lien on receivables and junior liens on real estate; and (2) a $1.9 million loan partially secured by inventory and accounts receivable.

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

Non-accruing consumer loans amounted to $26.7 million (2.67% of the total consumer loan portfolio) at December 31, 1998, $24.5 million (or 2.29% of the total consumer loan portfolio) at December 31, 1997 and $25.7 million (or 2.33% of the total consumer loan portfolio) at December 31, 1996. The ratio of non-accruing consumer loans to total consumer loans is the result of the level of delinquencies and write offs, mainly due to the overall level of bankruptcies in Puerto Rico. During 1998 and 1997 the delinquencies and bankruptcies increased and, as a result, the amount of net charge offs increased to $62.5 million from $51.9 million in 1997 and $30.9 million in 1996 (see Provision for Loan Losses section).

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. Therefore, the Corporation does not expect to incur significant losses on the disposition of OREO's at December 31, 1998.

Repossessed Property

The 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. For 1997 and 1996, repossessed autos were recorded at the principal balance of the loans. For 1998, repossessed autos were recorded at the principal balance of the loans less an estimated loss on the disposition of the units in accordance with the new write off policy implemented in late 1998 (see Provision for Loan Losses section).

Sources of Funds

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

Deposits

Total deposits amounted to $1,775.0 million at December 31, 1998, as compared to $1,594.6 million and $1,703.9 million at December 31, 1997 and 1996, respectively.

The following table presents the composition of total deposits.

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

At December 31,	1998	1997	1996
		(Dollars in thousands)	
Savings accounts	$ 416,424	$ 403,129	$ 412,511
Interest bearing checking accounts	130,883	121,452	115,899
Certificates of deposit	1,054,634	929,955	1,039,809
Interest bearing deposits	1,601,941	1,454,536	1,568,219
Non-interest bearing deposits	173,104	140,099	135,707
Total	$1,775,045	$1,594,635	$1,703,926
Weighted average rate during the period on interest bearing deposit	4.71%	4.80%	4.92%

</TABLE>

Total deposits are composed of branch-based deposits and institutional deposits. Institutional deposits include brokered certificates of deposits and certificates issued to agencies of the Government of Puerto Rico.

Total interest bearing deposits increased by $147.4 million at December 31, 1998 when compared to December 31, 1997. This fluctuation was mainly due to: (1) an increase in branch-based deposits of $63.2 million; (2) an increase of $58.2 million in brokered certificates of deposits; and (3) an increase of $31.0 million in certificates issued to the agencies of the Government of Puerto Rico.

The increase of $33.0 million in non interest bearing deposits was mainly due to the increase in commercial demand deposit accounts resulting from the growth in the commercial lending business.

Borrowings

At December 31, 1998 total borrowings amounted to $1,930.5 million as compared to $1,458.1 million and $884.7 million at December 31, 1997 and 1996, respectively. The increase in total borrowings was used to fund the increase in total interest earning assets. The following table presents the composition of borrowings.

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

At December 31,	1998	1997	1996
		(Dollars in thousands)	
Advances from FHLB	$ 2,600	$ 29,000	$ 14,100
Federal funds purchased and securities sold under agreements to repurchase	1,623,698	965,869	584,857
Other short term borrowings	86,595	231,505	
Notes payable	118,100	132,350	186,433
Subordinated notes	99,496	99,423	99,351
Total	$1,930,489	$1,458,147	$884,741
Weighted average rate during the period	5.41%	5.67%	5.65%

</TABLE>

The Corporation uses advances from FHLB, federal funds purchased, repurchase agreements and notes payable as additional funding sources. In March 1997, the Corporation obtained $250.0 million in short term borrowings under a three year commercial paper asset backed program, collateralized with the personal loan portfolio. In December 1995, FirstBank sold $100 million in ten year subordinated notes with a yield of 7.63%.

The borrowings of the Corporation consist primarily of federal funds purchased and securities sold under agreements to repurchase (repurchase agreements) which at December 31, 1998 amounted to $1,623.7 million or 84% of total borrowings. Repurchase agreements had a total weighted average cost of 5.08%, during the year ended December 31, 1998.

The composition and weighted average interest rates of interest bearing liabilities at December 31, 1998, were as follows:
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Amount (In thousands)	Weighted Average rate
Interest bearing deposits	$1,601,941	4.57%
Borrowed funds	1,930,489	5.27%

	$3,532,430	4.95%
	==========	

</TABLE>

Average interest bearing liabilities amounted to $3,058.9 million in 1998 as compared to $2,530.9 million in 1997. During the year the cost was 4.71% for interest bearing deposits, and 5.41% for borrowed funds.

Capital

During 1998, the Corporation increased its total capital, composed solely of common equity, mainly through retained earnings. Total capital increased from $236.4 million at December 31, 1997 to $270.4 million at December 31, 1998. Total capital increased by $34.0 million due to earnings of $51.8 million, reduced by the repurchased shares of common stock at a total cost of $5.9 million, a decrease in the unrealized gain on investment securities available for sale of $3.3 million and cash dividends of $8.9 million.

The Corporation is a "well capitalized" institution, the highest ranking available under the capital standards set by the federal banking agencies. To be in a "well capitalized" position, an institution should have: (i) a leverage ratio of 5% or greater; (ii) a total risk based capital ratio of 10% or greater; and (iii) a Tier 1 risk-based capital ratio of 6% or greater. At December 31, 1998 the Corporation had a leverage ratio of 6.59%; a total risk based capital ratio of 17.39%; and a Tier 1 risk-based capital ratio of 11.55%.

Dividends

In 1998, the Corporation declared four quarterly cash dividends of $0.075 per common share for an annual dividend of $0.30. In 1997, the Corporation declared four quarterly cash dividends of $0.06 per common share for an annual dividend of $0.24. In 1996, the Corporation declared four quarterly cash dividends of $0.05 per common share for an annual dividend of $0.20. Total cash dividends paid amounted to $8.9 million for 1998 (or a 17.12% dividend payout ratio), $7.2 million for 1997 (or a 15.14% dividend payout ratio) and $6.1 million for 1996 (or a 16.32% dividend payout ratio).

Year 2000

The year 2000 issue concerns the inability of information systems to properly recognize and process date-sensitive information beyond January 1, 2000. The Corporation recognizes the need to ensure that its operations will not be adversely impacted by Year 2000 problem and has established a plan to address Year 2000 risks.

The Corporation continues its program of improving its information systems through the systematic wholesale replacement of certain hardware and software. Since October 1996, it has been the practice to install new systems that are already year 2000 enabled. Therefore, there are no additional costs associated with changes or modifications to accommodate the year 2000 issue on these new systems. All the related costs associated with the replacement of these systems are recorded as assets and amortized.
Any year 2000 expenditure is expensed as incurred.

Based on the Corporation's final action plan addressing the Year 2000 issue, Management estimates that the expenses required to modify existing computer systems enabling them for the year 2000 will be between $1.5 million and $2.0 million for 1998 and 1999. Accordingly, the amounts to be expensed will not have a significant impact on the Corporation's financial position or results of operations. For 1998, a total of $650,000 in expenses was related to the year 2000 effort. No expenses were incurred during 1997.

The year 2000 action plan uses clearly articulated program criteria that is being implemented by the Corporation for compliance. Management named a Project Team, responsible for the plan implementation. The plan guides the planning and execution of all activities related to: (1) information and computerized systems, including related hardware and software; (2) non information systems (i.e., environmental, communication and security equipment); (3) credit customers; and (4) service providers who participate in the project testing. The Corporation completed the assessment phase on these project risk areas.

Management has substantially completed the renovation phase of the information and computerized systems risk area composed of: business applications, data center hardware, operating systems software and end-user and desktop computing.

Unit test and validation of the mission critical applications is in process and was substantially completed at December 31, 1998. Integration test and validation of all information systems should be completed by March 31, 1999.

The identification and documentation of the Year 2000 contingency plan for the Corporation's mission critical functions should be substantially completed by March 31, 1999 and completed by June 30, 1999.

Asset/Liability Management

The Corporation has a formal system of interest rate risk management. Management recognizes that it may sometimes be necessary to forego earning opportunities in order to maintain a stable stream of net interest income as interest rates rise and fall.

Management monitors the Corporation's interest rate risk position primarily through computer simulations of the effect of rising and falling interest rates on net interest income. Two sets of simulations are carried out, both of which cover a two year time horizon: one assuming a flat balance sheet with a constant asset/liability mix and another assuming a balance sheet which grows according to expected loan originations and funding. These simulations also incorporate expected changes in prepayment rates as interest rates rise or fall, repricing characteristics of variable rate assets and liabilities, current and expected lending rates, funding sources and costs. Other factors, which may be potentially important in determining the future growth of net interest income (i.e. planned securitizations and liquidity requirements), are considered in these simulations.

Management also uses one year GAP analysis as a secondary technique for evaluating interest rate risk. The Corporation's one year GAP fluctuated between a negative 2% and a negative 27% of assets during 1998. Management considers that the ranges of the GAP ratio achieved during 1998 are adequate, considering the Corporation's net interest margin and capital ratios.

The Corporation's interest rate risk position is measured on a quarterly basis and is evaluated by the Asset Liability Management and Investment Committee. This Committee is in charge, among other things, of informing Management as to the current levels of interest rate risk and, when necessary, managing the repricing of the Corporation's assets, liabilities and off balance sheet contracts to maintain that risk at reasonable and prudent levels.

Liquidity

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

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

Impact of Inflation and Changing Prices

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

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

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, 1998, there were 673 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. Common stock prices were adjusted to give retroactive effect to the stock split declared in May 1998.

Quarter ended	High	Low
1998:		
December	$30.50	$21.38
September	29.50	23.63
June	29.63	22.72
March	23.88	16.50
1997:		
December	$18.82	$15.13
September	17.75	12.53
June	13.63	11.69
March	14.38	12.50
1996:		
December	$14.19	$11.13
September	11.57	10.00
June	12.07	10.07
March	12.13	10.32

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 (ALCO). The ALCO is composed of the following officers: President and CEO, Senior Executive Vice President/Chief Financial Officer, Senior Executive Vice President/Chief Lending Officer, Executive Vice President and President of Money Express, Senior Vice President/Investments, and the Economist. The ALCO meets on a weekly basis. The Economist acts as secretary, keeping minutes of all meetings.

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 pricing and funding decisions in the light of the Corporation's overall growth strategies and objectives. On a semi annual 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 in two ways, assuming upward and downward interest rate movements of 200 basis points:

(1) using a balance sheet which is assumed to be flat at the levels existing on the simulation date, and

(2) using a balance sheet which has growthpatterns and strategies similar

to those which have occurred in the recent past.

Assuming a flat balance sheet, tax equivalent net interest income for the twelve months following December 31, 1998 would be $207.1 million under flat rates, $185.4 million under rising rates, and $211.0 million under falling rates. Assuming a growing balance sheet, tax equivalent net interest income for the same one year period would be $209.1 million under flat rates, $188.3 million under rising rates and $212.5 million under falling rates. These simulations do not represent what actual results would be, since interest rate risk management is dynamic, and can be adjusted depending on the committee's interest rate outlook.

These simulations assume gradual upward or downward movements of interest rates over one year, with the change totaling 200 basis points at the end of the twelve month period. The balance sheet is divided into groups of similar assets and liabilities in order to simplify the process of carrying out these projections. As interest rates rise or fall these simulations incorporate expected future lending rates, current and expected future funding sources and cost, the possible exercise of options, liquidity requirements, and other factors which may be important in determining the future growth of net interest income. Only interest and fee income is included in these projections; profits on the sale of assets are excluded. 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.

These simulations are highly complex, and they use many simplifying assumptions which 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.

Report of Independent
Accountants and Consolidated
Financial Statements

PricewaterhouseCoopers

Report of Independent Accountants

To the Board of Directors
and Stockholders
of First BanCorp

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of income, of changes in stockholders' equity, of comprehensive income, and of cash flows present fairly, in all material respects, the financial position of First BanCorp and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurane about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, asssessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec., 1 2001
Stamp 1537438 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

February 12, 1999

FIRST BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

<TABLE>
<S> <C> <C> <C> <C> <C> <C>
<C>

December 31,	1998	1997
Assets		
Cash and due from depository institutions	$ 39,416,097	$ 37,666,068
Money market instruments -		
Deposits at interest with banks	525,669	514,236
Debt securities available for sale, at market:		
United States and Puerto Rico Government obligations	268,611,106	448,092,442
Mortgage backed securities	1,492,538,909	758,886,800
Other investment	1,620,000	
Total debt securities available for sale	1,762,770,015	1,206,979,242
Debt securities held to maturity, at cost -		
United States and Puerto Rico Government obligations	26,921,836	59,256,360
Federal Home Loan Bank (FHLB) stock	10,270,600	10,150,300
Loans held for sale	20,641,628	10,224,509
Loans receivable	2,099,412,756	1,949,076,978
Total loans	2,120,054,384	1,959,301,487
Allowance for loan losses	(67,854,066)	(57,711,927)
Total loans - net	2,052,200,318	1,901,589,560
Other real estate owned	3,642,525	1,131,808
Premises and equipment - net	51,537,192	48,447,167
Accrued interest receivable	10,738,072	13,035,934
Due from customers on acceptances	2,392,338	353,587
Other assets	56,937,413	48,311,296
Total assets	$4,017,352,075	$3,327,435,558
Liabilities and Stockholders' Equity		
Liabilities:		
Non-interest bearing deposits	$ 173,103,709	$ 140,099,305
Interest bearing deposits	1,601,941,185	1,454,535,378
Federal funds purchased and securities sold under agreements to repurchase	1,623,697,988	969,303,381
Other short-term borrowings	86,594,710	231,504,896
Advances from FHLB	2,600,000	29,000,000
Notes payable	118,100,000	132,350,000
Bank acceptances outstanding	2,392,338	353,587
Accounts payable and other liabilities	39,058,247	34,486,321
	3,647,488,177	2,991,632,868
Subordinated notes	99,495,830	99,423,490
Stockholders' equity:		
Common stock, $1.00 par value, authorized 250,000,000 shares; issued 29,599,552 shares (including 14,796,526 shares issued on May 29, 1998 as a stock split) (1997 - 14,901,826)	29,599,552	14,901,826
Less: Treasury Stock (100,000 shares at par)	100,000	
Common stock outstanding	29,499,552	14,901,826
Additional paid-in capital	23,575,936	38,453,561
Capital reserve	30,000,000	20,000,000
Legal surplus	53,454,469	53,454,469
Retained earnings	125,088,180	97,537,900
Accumulated other comprehensive income - unrealized gain on securities available for sale, net of tax	8,749,931	12,031,444
	270,368,068	236,379,200
Contingencies and commitments		

Total liabilities and stockholders' equity	$4,017,352,075	$3,327,435,558

The accompanying notes are an integral part of these statements.

</TABLE>

FIRST BANCORP
CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Year ended December 31, 1998	1997	1996
Interest income:			
Loans	$231,513,730	$225,524,452	$213,744,790
Debt securities	88,312,096	55,310,691	40,180,410
Short-term investments	729,417	3,654,806	1,842,204
Dividends on FHLB stock	743,161	670,156	755,485
Total interest income	321,298,404	285,160,105	256,522,889
Interest expense:			
Deposits	70,418,359	72,147,084	70,963,853
Short-term borrowings	69,494,151	39,460,518	23,319,871
Notes payable	14,965,751	17,958,092	17,289,034
Advances from FHLB	251,707	863,599	1,454,547
Total interest expense	155,129,968	130,429,293	113,027,305
Net interest income	166,168,436	154,730,812	143,495,584
Provision for loan losses	76,000,000	55,675,500	31,582,401
Net interest income after provision for loan losses	90,168,436	99,055,312	111,913,183
Other income:			
Other fees on loans	11,157,852	10,898,586	10,651,284
Service charges on deposit accounts	7,843,837	7,363,369	6,184,113
Trading income (loss)	3,364,843	744,789	(1,354,773)
Fees on loans serviced for others	1,617,292	2,669,673	3,993,007
Gain on sale of investments	26,827,417	11,388,137	4,856,568
Rental income	2,291,814	1,935,169	2,356,358
Other operating income - net	5,136,795	4,865,788	2,927,920
Total other income	58,239,850	39,865,511	29,614,477
Other operating expenses:			
Employees' compensation and benefits	43,185,324	38,644,042	37,358,733
Occupancy and equipment	18,154,663	16,101,054	14,931,955
Taxes and insurance	6,577,894	6,575,896	7,093,764
Net cost (gain) of operations and disposition of other real estate owned	42,359	(21,128)	218,522
Amortization of debt issuance costs	691,411	787,745	873,420
Other	23,146,048	21,180,662	22,021,236
Total other operating expenses	91,797,699	83,268,271	82,497,630
Income before unusual item and income tax provision	56,610,587	55,652,552	59,030,030
Unusual item - SAIF assessment			9,115,000
Income before income tax provision	56,610,587	55,652,552	49,915,030
Income tax provision	4,798,200	8,125,000	12,281,239
Net income	$ 51,812,387	$47,527,552	$37,633,791
Earnings per common share - basic	$1.75	$1.58	$1.22
Earnings per common share - diluted	$1.74	$1.58	$1.22

The accompanying notes are an integral part of these statements.
</TABLE>

FIRST BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Year ended December 31,		
	1998	1997	1996
Net income	$51,812,387	$47,527,552	$37,633,791
Other comprehensive income net of tax:			
Unrealized gain (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(14,665,309)	12,081,362	(3,585,742)
Less: reclassification adjustment for gains included in net income	(11,383,796)	657,037	(1,074,566)
Total other comprehensive income	(3,281,513)	11,424,325	(2,511,176)
Comprehensive income	$48,530,874	$58,951,877	$35,122,615

The accompanying notes are an integral part of these statements.

</TABLE>

FIRST BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Year ended December 31,		
	1998	1997	1996
Cash flows from (for) operating activities:			
Net income	$ 51,812,387	$ 47,527,552	$ 37,633,791
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	7,827,866	7,281,936	6,156,487
Provision for loan losses	76,000,000	55,675,500	31,582,401
Increase in taxes payable	3,454,049	1,464,869	1,539,279
Increase in deferred tax asset	(11,454,033)	(1,765,992)	(7,625,000)
Decrease (increase) in accrued interest receivable	2,297,862	(3,843,610)	3,582,598
Increase (decrease) in accrued interest payable	1,072,485	(2,371,552)	4,527,433
Amortization of deferred loan fees	881,411	(30,868)	950
Net gain on sale of investments securities	(26,827,417)	(11,388,137)	(4,856,568)
Originations of loans held for sale	(9,086,622)	(7,668,575)	(8,455,567)
Proceeds from sale of loans		1,249,543	
Decrease (increase) in other assets	(2,194,128)	3,294,965	(734,092)
Increase (decrease) in other liabilities	1,718,243	(3,157,333)	3,058,474
Total adjustments	43,689,716	38,740,746	28,776,395
Net cash provided by operating activities	95,502,103	86,268,298	66,410,186
Cash flows from (for) investing activities:			
Principal collected on loans	559,726,839	661,129,038	648,321,626
Loans originated	(798,487,248)	(819,802,988)	(1,041,089,883)
Sales of investment securities and deposits at interest with banks	302,128,585	118,004,497	208,657,726
Maturities of investment securities and deposits at interest with banks	6,096,509,572	7,546,078,859	4,744,671,620
Purchases of investment securities and deposits at interest with banks	(6,899,653,771)	(8,079,336,836)	(4,999,351,451)
Additions to premises and equipment	(10,917,891)	(6,739,859)	(16,183,784)
Proceeds from sale of other real estate owned	463,867	1,105,200	4,780,000
Proceeds from sale of auto repossessions	22,506,674	44,413,066	19,932,726
Redemption of FHLB stock	(120,300)		2,297,100
Net cash used by investing activities	(727,843,673)	(535,149,023)	(427,964,320)
Cash flows from (for) financing activities:			
Proceeds from issuance of certificates of deposit and savings accounts	1,213,776,011	894,793,781	977,210,993
Payments for maturing certificates of deposit and withdrawals of saving accounts	(1,029,607,935)	(961,330,999)	(740,699,072)
Interest credited to deposits	(53,226,355)	(53,567,387)	(45,258,544)
Proceeds from federal funds purchased and			

securities sold under repurchase agreements	16,408,940,022	14,057,501,079	8,180,227,456
Payments/Maturities of federal funds purchased and securities sold under repurchase agreements	(15,754,179,517)	(13,676,488,479)	(8,016,755,718)
Net increase (decrease) in other short-term borrowings	(144,910,185)	231,504,896	
FHLB-N.Y. advances taken	2,600,000	29,000,000	14,100,000
Principal payments on FHLB-N.Y. advances	(29,000,000)	(14,100,000)	(29,500,000)
Payments of notes payable	(14,177,660)	(54,010,993)	(16,927,316)
Proceeds from notes payable			55,500,000
Decrease (increase) in debt securities issuance cost	(1,049,270)	957,972	327,813
Net increase (decrease) in demand deposit accounts	49,468,489	10,813,682	(3,184,250)
Dividends	(8,870,832)	(7,197,417)	(6,140,400)
Repurchase of common stock	(3,656,420)	(6,899,822)	(9,042,230)
Treasury stock acquired	(2,211,250)		
Exercise of stock options	196,501	382,249	
Net cash provided by financing activities	634,091,599	451,358,562	359,858,732
Net increase (decrease) in cash and cash equivalents	1,750,029	2,477,837	(1,695,402)
Cash and cash equivalents at beginning of year	37,666,068	35,188,231	36,883,633
Cash and cash equivalents at end of year	$ 39,416,097	$ 37,666,068	$ 35,188,231

The accompanying notes are an integral part of these statements.

</TABLE>

FIRST BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Common stock outstanding	Additional paid-in capital	Capital reserve	Legal surplus	Retained earnings	Unrealized gain on securities available for sale
Balance at December 31, 1995	$15,541,751	$39,450,162		$45,343,616	$67,748,506	$3,118,295
Net income					37,633,791	
Change in valuation of securities available for sale						(2,511,176)
Addition to legal surplus				3,763,379	(3,763,379)	
Addition to capital reserve			$10,000,000		(10,000,000)	
Repurchase of common stock	(425,100)	(850,200)			(7,766,930)	
Cash dividends					(6,140,402)	
Balance at December 31, 1996	15,116,651	38,599,962	10,000,000	49,106,995	77,711,586	607,119
Net income					47,527,552	
Change in valuation of securities available for sale						11,424,325
Addition to legal surplus				4,347,474	(4,347,474)	
Addition to capital reserve			10,000,000		(10,000,000)	
Repurchase of common stock	(247,825)	(495,650)			(6,156,347)	
Stock option exercised	33,000	349,249				
Cash dividends					(7,197,417)	
Balance at December 31, 1997	14,901,826	38,453,561	20,000,000	53,454,469	97,537,900	12,031,444
Net income					51,812,387	
Change in valuation of securities available for sale						(3,281,513)
Addition to capital reserve			10,000,000		(10,000,000)	
Repurchase of common stock	(108,800)	(217,600)			(3,330,024)	
Treasury stock	(100,000)	(50,000)			(2,061,250)	
Stock option exercised	10,000	186,501				
Cash dividends					(8,870,832)	
Common stock split on May 29, 1998	14,796,526	(14,796,526)				
Balance at December 31, 1998	$29,499,552	$23,575,936	$30,000,000	$53,454,469	$125,088,180	$ 8,749,931

</TABLE>
The accompanying notes are an integral part of these statements.

Note 1 - Nature of Business

First BanCorp (the Corporation) was incorporated on October 1st, 1998 under the laws of the Commonwealth of Puerto Rico to serve as the bank holding company for FirstBank Puerto Rico (FirstBank or the Bank). As a result of this reorganization each of the Bank's outstanding shares of common stock was converted into one share of common stock of the new bank holding company. This reorganization was carried out pursuant to an Agreement and Plan of Merger by and between the Corporation and the Bank. First BanCorp is subject to the Federal Bank Holding Company Act and to the regulations, supervision, and examination of the Federal Reserve Board.

FirstBank, the Corporation's 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 has 38 full service banking branches in Puerto Rico and two in the U.S. Virgin Islands. It also has loan origination offices in Puerto Rico focusing on consumer 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 is subject to the supervision, examination and regulation by 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).

Note 2 - Summary of Significant 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual result could differ from those estimates. Following is a description of the more significant accounting policies followed by the Corporation:

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, all of which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation.

Statement of cash flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from depository institutions.

Segments of an enterprise and related information

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 131 "Disclosures about Segments of an Enterprise and Related Information." This statement changes the way public companies report information about segments of their business in their financial statements and requires them to report selected segment information in the reports issued to shareholders. It also requires entity-wide disclosures about the products and services an entity provides, activities in different geographic areas, and reliance on major customers.

The segments are determined based on the way that Management organizes the segments within the entity for making operating decisions and assessing performance. Management implemented SFAS No. 131 for all the periods presented. The implementation affected only the disclosures given in the notes to the financial statements.

Securities purchased under agreements to resell

The Corporation enters into purchases of securities under agreements to resell the same securities. Amounts advanced under these agreements represent short-term loans and are reflected as assets in the statements of financial condition.

Investment securities

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

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

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

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

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

Loans and allowance for loan losses

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

Loans on which the recognition of interest income has been discontinued are designated as non-accruing. When loans are placed on non-accruing status, any accrued but uncollected interest income is reversed and charged against interest income.

Consumer loans are classified as non-accruing when they are delinquent: 90 days or more for auto, boat and home equity reserve loans, 120 days or more for personal loans, and 180 days or more for credit cards and personal lines of credit. Commercial and mortgage loans are classified as non-accruing when they are delinquent 90 days or more. This policy is also applied to all impaired loans.

The Corporation provides for estimated losses on mortgage, commercial and consumer loans upon an evaluation of the risk characteristics of said loans, loss experience, economic conditions and other pertinent factors. Loan losses are charged and recoveries are credited to the allowance for loan losses.

Loan origination fees and costs

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

Other real estate owned - acquired in settlement of loans

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

Premises and equipment

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

Securities sold under agreements to repurchase

The Corporation enters into sales of securities under agreements to repurchase the same or similar securities. Generally, similar securities are securities from the same issuer, with identical form and type, similar maturity, identical contractual interest rates, similar assets as collateral and the same aggregate unpaid principal amount. Amounts advanced under these agreements are accounted as short-term borrowings and the securities underlying the agreements remain in the asset accounts.

Amortization of debt issuance costs

Costs related to the issuance of debt are amortized under a method which approximates the interest method.

Treasury stock

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

Stock option plan

The cost associated with stock option plan under which certain employees receive options to buy shares of stock of the Corporation must be recognized either by the fair value based method or the intrinsic value based method. The Corporation uses the intrinsic value based method of accounting. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. If material, entities using the intrinsic value based method on awards granted to employees must make pro forma disclosures of net income and earnings per share, as if the fair value based method of accounting had been applied. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period.

Earnings per common share

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

Reporting comprehensive income

In June 1997, the FASB issued SFAS No. 130 "Reporting Comprehensive Income." This statement establishes standards for reporting and displaying comprehensive income and its components in the financial statements. Comprehensive income includes net income and several other items that current accounting standards require to be recognized outside of net income. This statement was implemented in 1998 and affected only financial statements' presentation. Reclassification of financial statements for earlier periods was presented for comparative purposes.

Reclassifications

Certain amounts in the 1997 and 1996 financial statements have been reclassified to conform with the 1998 classifications.

Accounting for derivative instruments and hedging activities

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including derivative instruments that are embedded in other contracts, and for hedging activities. SFAS No. 133 standardizes accounting for derivative instruments, including those embedded in other contracts, by requiring the recognition of all derivatives (both assets and liabilities) in the statement of financial position at fair value. In accordance with SFAS No. 133, changes in the fair value of derivative instruments are generally accounted for as current income or other comprehensive income, depending on their designation.

SFAS No. 133 generally provides for the matching of the timing of gain or loss recognition on the hedging instruments with the recognition of either the changes in the fair value of the hedged asset or liability, or the earnings effect of the hedged forecasted transaction.

SFAS No. 133 is effective for fiscal periods beginning after June 15, 1999. Based on current volumes, Management expects that the adoption of SFAS No. 133 will not have a significant impact on the Corporation's financial position and results of operations.

Note 3 - Stockholders' Equity

Common stock

Authorized common stock shares at December 31, 1998 were 250,000,000 (1997 - 200,000,000), with a par value of $1.00.

On April 30, 1998, the Corporation declared a two for one stock split on its then outstanding 14,796,526 shares of common stock. As a result, a total of 14,796,526 additional shares of common stock were issued on May 29, 1998. In addition, 33,000 and 10,000 shares of common stock were issued during 1997 and 1998 as part of the exercise of stock options under the Corporation's stock option plan.

The Corporation declared a cash dividend on its common stock of $0.20 per share in 1996, of $0.24 per share in 1997, and of $0.30 per share in 1998.

Stock repurchase plan and treasury stock

In 1996 a stock repurchase program was established (the 1996 Program) where the Corporation is authorized to repurchase in the open market, and retire from circulation or hold as treasury stock, up to ten percent of the 31,083,502 issued and outstanding shares of common stock at the time the program was approved by the stockholders. Under this program the Corporation repurchased a total of 317,600 shares of common stock at a cost of $5,867,674 during 1998, 495,650 shares of common stock at a cost of $6,899,822 during 1997, and 850,200 shares of common stock at a cost of $9,042,230 during 1996. The number of shares were adjusted to recognize the May 1998 stock split.

In 1997 an additional stock repurchase program was established whereby the Corporation may repurchase in the open market shares of common stock, which amount represents 10% of the issued and outstanding shares after all shares authorized under the 1996 Program have been repurchased.

As permitted by the new bank holding company structure, at December 31, 1998, 100,000 shares were held as treasury stock and were available for general corporate purposes.

Preferred stock

The Corporation has 50,000,000 shares (1997 - 20,000,000) of authorized preferred stock with a par value of $1. 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. At December 31, 1998, no shares of preferred stock were outstanding.

Capital reserve

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

Legal surplus

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

Dividend restrictions

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

Note 4 - Regulatory Capital Requirement

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 December 31, 1998 and 1997, the Corporation exceeded the requirements for an adequately capitalized institution.

At December 31, 1998, the Corporation also was 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 that have changed that classification.

The Corporation's regulatory capital position was as follows (dollars in thousands):

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio
At December 31, 1998:				
Total capital to risk weighted assets:				
Actual	$377,939	17.39%	$377,939	17.39%
Requirement	173,835	8.00%	217,294	10.00%
Excess	$204,104	9.39%	$160,645	7.39%
Tier 1 capital to risk weighted assets:				
Actual	$250,910	11.55%	$250,910	11.55%
Requirement	86,917	4.00%	130,376	6.00%
Excess	$163,993	7.55%	$120,534	5.55%
Tier 1 capital to average assets:				
Actual	$250,910	6.59%	$250,910	6.59%
Requirement	152,272	4.00%	190,340	5.00%
Excess	$ 98,638	2.59%	$ 60,570	1.59%
At December 31, 1997:				
Total capital to risk weighted assets:				
Actual	$348,359	17.26%	$348,359	17.26%
Requirement	161,452	8.00%	201,816	10.00%
Excess	$186,907	9.26%	$146,543	7.26%
Tier 1 capital to risk weighted assets:				
Actual	$223,481	11.07%	$223,481	11.07%
Requirement	80,726	4.00%	121,089	6.00%
Excess	$142,755	7.07%	$102,392	5.07%
Tier 1 capital to average assets:				
Actual	$223,481	7.44%	$223,481	7.44%
Requirement	120,101	4.00%	150,126	5.00%
Excess	$103,380	3.44%	$ 73,355	2.44%

</TABLE>

At December 31, 1998, the Bank's regulatory capital ratios, which exceeded the requirements for an adequately and well capitalized institution, were as follows: (1) total risk based of 17.12%; (2) Tier 1 risk based of 11.28% and; (3) Tier 1 leverage ratio of 6.44%. Management believes that there are no conditions or events that have changed that classification.

Note 5 - Stock Option Plan

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

Following is a summary of the activity related to stock options as adjusted retroactively for the May 1998 stock split:
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Number of Options	Weighted Average Exercise Price of Option
At December 31, 1995	305,714	$ 5.72
Granted	20,000	12.69

At December 31, 1996	325,714	6.15
Granted	240,000	15.45
Exercised	(66,000)	5.79
Expired or canceled	(25,714)	10.20

At December 31, 1997	474,000	10.68
Granted	294,000	24.83
Exercised	(13,500)	14.56

At December 31, 1998	754,500	16.13
	=======	

</TABLE>

During 1998 the Corporation granted 294,000 options to buy common stock shares with a weighted exercise price of $24.83 per option. The option prices equal the quoted market price of the stock on the grant date, therefore no compensation cost was recognized on the options granted.

The options outstanding at December 31, 1998 have an original expiration term of ten years and all of them are exercisable. The exercise price of the options outstanding at December 31, 1998 ranges from $5.79 to $28.38 and the weighted average remaining contractual life is eight years and three months.

Following is additional information concerning the stock options outstanding at December 31, 1998. The data included herein have been adjusted to reflect the May 1998 stock split.
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

Number of Options	Exercise Price	Contractual Maturity
234,000	$ 5.79	November 2004
13,000	13.56	January 2007
213,500	15.63	November 2007
60,000	19.19	February 2008
7,000	28.38	April 2008
40,000	27.09	May 2008
10,000	26.56	June 2008
177,000	26.00	November 2008

754,500		

</TABLE>

Note 6 - Earnings Per Common Share

The calculations of earnings per common share for the years ended December 31, 1998, 1997 and 1996 follow (in thousands, except per share data):
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Year ended December 31,		
Earnings per common share-basic:	1998	1997	1996
-------------------------------	------	------	----
Net income - available to common stockholders	$51,812	$47,528	$37,634
	-------	-------	-------
Weighted average common shares outstanding	29,586	30,036	30,794
	-------	-------	-------
Earnings per common share-basic	$ 1.75	$ 1.58	$ 1.22
	========	========	========

Earnings per common share-diluted:

Net income - available to common stockholders	$51,812	$47,528	$37,634
Weighted average common shares and share equivalents:			
Average common shares outstanding	29,586	30,036	30,794
Common stock equivalents - Options	272	168	158
Total	29,858	30,204	30,952
Earnings per common share-diluted	$ 1.74	$ 1.58	$ 1.22

</TABLE>

Had compensation cost for the stock options granted been determined based on the fair value at the grant date (as a result of the requirement explained in Note 2 - Stock option plan), the Corporation's net income and earnings per common share would have been reduced to the pro forma amounts indicated, as follow (in thousands, except per share data):

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Year ended December 31,		
Pro forma earnings per common share:	1998	1997	1996
Net income	$48,592	$46,354	$37,634
Earnings per common share-basic	$1.64	$1.55	$1.22
Earnings per common share-diluted	$1.63	$1.54	$1.22

</TABLE>

Management uses the binomial model for the computation of the fair value of each option granted to buy shares of the Corporation's common stock. The fair value of each option granted during 1998 and 1997 was estimated using the following assumptions: weighted dividend growth of 21.97% (1998); expected life of 10 years; weighted expected volatility of 36.08% (1998) and 29.8% (1997) and weighted risk-free interest rate of 5.10% (1998) and 5.76% (1997). The weighted estimated fair value of the options granted was $10.95 (1998) and $4.89 (1997) per option. The options granted during 1996 were not considered in the 1996 pro forma earnings per share since their effect in the computation was immaterial.

Note 7 - Cash and Due from Banks

The Corporation is required by law to maintain average reserve balances. The amount of those reserve balances was approximately $34,867,200 at December 31, 1998 (1997 - $25,095,400).

Note 8 - Securities Purchased Under Agreements To Resell

At December 31, 1998 and 1997, there were no securities purchased under agreements to resell. The maximum aggregate balance outstanding at any month-end during 1998 was approximately $209,232,000 (1997 - $552,969,000). The average aggregate balance during 1998 was $15,009,052 (1997 - $66,401,236). The securities underlying these agreements are kept under the Corporation's control or held by the dealers through which the agreements were transacted. These securities are not recorded as assets of the Corporation.

Note 9 - Debt Securities Held For Trading

At December 31, 1998 and 1997, there were no securities held for trading purposes or options on such securities.

All trading instruments are subject to market risk, the risk that future changes in market conditions, such as fluctuations in market prices or interest rates, may make an instrument less valuable or more onerous. The instruments are accounted for at market value, and their changes are reported directly in earnings.

The Corporation may write options on trading securities as part of its trading activities. These options are carried at market value. Net gains and losses resulting from these transactions are recorded in the trading income or loss account.

The net gain from the sale of trading securities amounted to $3,365,000 for the year ended December 31, 1998 (a gain of $745,000 for 1997 and a loss of $1,355,000 for 1996), and were included in earnings as trading income.

Note 10 - Debt Securities Held To Maturity

The amortized cost, unrealized gains and losses, approximate market value, taxable equivalent weighted average yield and maturities of debt securities held to maturity at December 31, 1998 and 1997 were as follows (dollars in thousands):

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	December 31, 1998					December 31, 1997				
	Amortized cost	Unrealized gains	(losses)	Market value	Weighted average yield%	Amortized cost	Unrealized gains	(losses)	Market value	Weighted average yield%
Obligations of other U.S. Government Agencies:										
Within 1 year	$ 500		$ (2)	$ 498	3.37	$10,704		$ (64)	$10,640	4.45
After 1 to 5 years						500		(12)	488	3.99
After 10 years	23,051	$569		23,620	10.20	33,890	$412		34,302	9.53
Puerto Rico Government Obligations:										
Within 1 year						11,000			11,000	2.94
After 10 years	3,371	204		3,575	7.41	3,162		(32)	3,130	7.36
Total	$26,922	$ 773	$ (2)	$27,693	9.73	$59,256	$412	$(108)	$59,560	7.23

</TABLE>

During 1998, certain debt securities held to maturity were called by the issuers.

Note 11 - Debt Securities Held For Sale

The amortized cost, gross unrealized gains and losses, approximate market value, taxable equivalent weighted average yield and maturities of debt securities held for sale at December 31, 1998 and 1997 were as follows (dollars in thousands):

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	December 31, 1998					December 31, 1997				
	Amortized cost	Unrealized gains	(losses)	Market value	Weighted average yield%	Amortized cost	Unrealized gains	(losses)	Market value	Weighted average yield%
U.S. Treasury Securities:										
After 5 to 10 years						$251,092	$5,197		$256,289	7.61
Obligations of other U.S. Government Agencies:										
Within 1 year	$240,040	$51		$240,091	5.00	188,852		$(34)	188,818	5.72
After 10 years	25,619		$(159)	25,460	8.32					
Puerto Rico Government Obligations:										
After 10 years	2,964	96		3,060	7.18	2,963	22		2,985	7.15
Total	$268,623	$147	$(159)	$268,611	5.35	$442,907	$5,219	$(34)	$448,092	6.82
Mortgage backed securities- Federal Home Loan Mortgage Corporation (FHLMC) certificates:										
Within 1 year	$ 4,564	$ 19		$ 4,583	7.84	$12,046		$(67)	$11,979	6.76
After 1 to 5 years	1,001	9		1,010	8.14	7,361	$ 46		7,407	7.82
After 5 to 10 years	10,169	149		10,318	7.68	4,902	63		4,965	8.23
After 10 years	32,363	802		33,166	9.07	48,374	882		49,256	8.71
	48,098	979		49,077	8.64	72,684	991	(67)	73,608	8.26
Government National Mortgage Association (GNMA) certificates:										
After 10 years	1,411,369	9,936	$(357)	1,420,947	6.91	643,839	8,261	(183)	651,917	8.00
Federal National Mortgage Association (FNMA) certificates:										
Within 1 year	157	1		158	8.23					
After 1 to 5 years	2,691	30		2,721	8.40	3,501	37		3,538	8.31
After 5 to 10 years	274	11		285	10.28	1,452	22		1,474	8.89
After 10 years	14,299	605	(10)	14,894	10.35	18,011	843		18,854	10.36

	17,422	646	(10)	18,058	10.02	22,964	902		23,866	9.95
Mortgage pass through certificates:										
After 5 to 10 years						2,627		(20)	2,608	6.54
After 10 years	2,764	767		3,530	9.33	3,049	924		3,973	9.48
	2,764	767		3,530	9.33	5,676	924	(20)	6,581	8.12
Real Estate Mortgage Interest Conduit:										
After 1 to 5 years	865	62		927	11.63	2,867	48		2,915	11.30
Total	$1,480,516	$12,390	$(367)	$1,492,539	7.02	$748,031	$11,126	$(270)	$758,887	8.10
Other Investment:										
After 5 to 10 years	$1,964		$(344)	$1,620	15.76					

</TABLE>

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

At December 31, 1998, the net unrealized gain of $8,749,931 (1997 - $12,031,444) on securities available for sale after the estimated income tax of $2,916,644 (1997 - $4,010,476) was reported as a separate component of stockholders' equity. For 1998 the change in the net unrealized holding gain on the available for sale securities amounted to a loss of $4,375,351 (1997 - a gain of $15,232,433) before estimated income taxes.

For 1998, proceeds from the sale of securities amounted to $302.1 million (1997 - $118.0 million, 1996 - $208.7 million) resulting in a realized gain of $26.8 million (1997 - $11.4 million, 1996 -$4.9 million). No losses were recognized on those sales.

Note 12 - Federal Home Loan Bank (FHLB) Stock

At December 31, 1998 and 1997, there were investments in FHLB stock with book value and estimated market value of $10,270,600 and $10,150,300, respectively. The estimated market value of such investments is its redemption value.

Note 13 - Interest and Dividend on Investments

A detail of interest and dividend income on investments follows (in thousands):
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Year ended December 31, 1998	1997	1996
Mortgage-backed securities:			
Taxable	$ 5,230	$ 6,239	$13,343
Exempt	63,131	24,481	4,194
	$68,361	$30,720	$17,537
Other investment securities:			
Taxable	$ 801	$ 1,372	$ 2,788
Exempt	20,621	27,544	22,453
	$21,422	$28,916	$25,241

</TABLE>

Note 14 - Loans Receivable

The following is a detail of the loan portfolio:
<TABLE>
<S> <C>

	December 31, 1998	1997
Real estate loans:		
Secured by first mortgages:		
Residential	$237,560,711	$223,097,793

Commercial	326,341,768	306,733,946
Construction, land acquisition and land improvements	162,474,127	15,399,778
Insured by government agencies:		
Federal Housing Administration and Veterans Administration	8,185,232	10,176,044
Puerto Rico Housing Bank and Finance Agency	38,515,744	44,072,871
Secured by second mortgages	13,255,512	14,171,031
	786,333,094	613,651,463
Undisbursed portion of loans in process	(98,535,025)	(6,120,583)
Deferred loan and commitment fees - net	(10,246,116)	(9,138,124)
Real estate loans	677,551,953	598,392,756
Commercial loans:		
Commercial loans	368,548,532	235,570,531
Finance leases	52,214,183	42,500,399
Commercial loans	420,762,715	278,070,930
Consumer and other loans:		
Personal	463,052,946	666,003,133
Personal lines of credit	9,535,354	10,961,902
Auto	512,116,471	512,937,974
Boat	32,208,879	29,144,971
Credit card	125,955,592	116,734,201
Home equity reserve loans	3,385,220	4,282,064
Unearned interest	(145,284,440)	(267,598,801)
	1,000,970,022	1,072,465,444
Agency for International Development	128,066	147,848
Consumer and other loans	1,001,098,088	1,072,613,292
Loans receivable	2,099,412,756	1,949,076,978
Loans held for sale	20,641,628	10,224,509
Total loans	2,120,054,384	1,959,301,487
Allowance for loan losses	(67,854,066)	(57,711,927)
Total loans-net	$2,052,200,318	$1,901,589,560

</TABLE>

The Corporation's primary lending area is Puerto Rico. At December 31, 1998 and 1997 there is no significant concentration of credit risk in any specific industry on the loan portfolio.

At December 31, 1998, loans in which the accrual of interest income had been discontinued amounted to $56,958,000 (1997 - $52,939,000; 1996 - $51,162,000). If these loans had been accruing interest, the additional interest income realized would have been approximately $4,970,000 (1997 - $5,246,000; 1996 - $3,879,000). There are no material commitments to lend additional funds to borrowers whose loans were in non-accruing status at these dates.

At December 31, 1998 and 1997 mortgage loans held for sale amounted to $20,641,628 and $10,224,509, respectively. All mortgage loans originated and sold during 1998 and 1997 were sold based on pre-established commitments or at market values, which in both situations were equal or exceeded the carrying value of the loans.

At December 31, 1998, the Corporation was servicing mortgage loans owned by others aggregating approximately $147,439,000 (1997 - $168,416,000; 1996 - $186,781,000). As a result of the securitization of auto loans, at December 31, 1998 the Corporation was servicing auto loans aggregating approximately $19,567,000 (1997 - $59,049,000; 1996 - $121,775,000).

Various loans secured by first mortgages were assigned as collateral for term notes, certificates of deposit, advances from the Federal Home Loan Bank of New York, and unused lines of credit. The total of loans pledged as collateral amounted to $222,732,275 and $308,003,080 at December 31, 1998 and 1997, respectively. A portfolio of personal loans was assigned as collateral for short-term borrowings as explained in Note 21 - "Other Short-Term Borrowings." The total of loans pledged as collateral amounted to $220,443,511 and $288,024,128 at December 31, 1998 and 1997, respectively.

Note 15 - Allowance for Loan Losses
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

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

	Year ended December 31,		
	1998	1997	1996
Balance at beginning of period	$57,711,927	$55,253,546	$55,008,754
Provision charged to income	76,000,000	55,675,500	31,582,401
Losses charged against the allowance	(72,223,389)	(59,590,916)	(34,729,651)
Recoveries credited to the allowance	6,033,922	6,373,797	3,291,857
Other adjustments	331,606		100,185
Balance at end of period	$67,854,066	$57,711,927	$55,253,546

</TABLE>

At December 31, 1998, $14.3 million ($7.2 million at December 31, 1997) in commercial and real estate loans over $1,000,000 was considered impaired with an allowance of $3.8 million ($3.6 million at December 31, 1997). As of both periods, no increases in the provision for loan losses were necessary, since the allowance provided already covered the estimated impairment. There were no consumer loans over $1,000,000 considered impaired at December 31, 1998 and 1997. The average recorded investment in impaired loans amounted to $10.8 million for 1998 (1997 - $6.4 million). Interest income in the amount of approximately $736,000 was recognized on impaired loans for 1998. No interest income was recognized in 1997 on the portfolio of impaired loans during the period they were impaired.

Note 16 - Related Party Transactions

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

	Amount
Balance at December 31, 1997	$ 8,902,326
New loans	21,006,257
Payments	(8,379,759)
Balance at December 31, 1998	$21,528,824

</TABLE>

Note 17 - Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation as follows:
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	December 31,	
	1998	1997
Land	$ 5,825,249	$ 5,825,249
Buildings and improvements	30,976,673	30,536,536
Leasehold improvements	10,807,734	10,095,690
Furniture and equipment	41,330,835	38,507,052
	88,940,491	84,964,527
Accumulated depreciation	(42,167,391)	(39,052,917)
	46,773,100	45,911,610
Projects in progress	4,764,092	2,535,557
Total premises and equipment - net	$51,537,192	$48,447,167

Note 18 - Other Assets

Following is a detail of other assets:

	December 31,	
	1998	1997
Deferred income taxes	$22,142,665	$ 9,594,795
Accounts receivable	10,023,555	7,840,930
Prepaid expenses	10,219,939	8,466,690
Revenue earning vehicles	4,465,609	3,673,464
Other repossessed property	2,276,766	8,702,146
Insurance claims	1,778,133	2,003,426
Other	6,030,746	8,029,845
Total	$56,937,413	$48,311,296

Note 19 - Deposits and Related Interest

Deposits and related interest consist of the following:

	December 31, 1998	December 31, 1997
Type of account and interest rate at:		
Savings accounts - 2.75% to 4.00% (1997 - 2.75% to 4.00%)	$ 416,423,887	$ 403,128,424
Interest bearing checking accounts - 2.90% to 4.50% (1997 - 2.90% to 5.00%)	130,883,439	121,452,204
Non-interest bearing checking accounts	173,103,709	140,099,305
Certificate accounts - 3.80% to 7.15% (1997 - 4.00% to 8.00%)	1,054,633,858	929,954,750
	$1,775,044,893	$1,594,634,683

</TABLE>

The weighted average interest rate on total deposits at December 31, 1998 and 1997 was 4.57% and 4.70%, respectively.

The following table presents a summary of certificates of deposits with remaining term of more than one year at December 31, 1998 (in thousands):

	Total
Over one year to two years	$136,776
Over two years to three years	44,432
Over three years to four years	39,059
Over four years to five years	84,627
Over five years	42,650
Total	$347,544

At December 31, 1998 time deposits in denominations of $100,000 or higher amounted to $667,373,511 (1997 - $559,625,405) including brokered certificates of deposit of $283,249,222 (1997 - $225,018,000) at a weighted average rate of 5.63% (1997 - 6.03%).

At December 31, 1998, certificates of deposits aggregating $59,000,000 (1997 - $64,000,000) were guaranteed by irrevocable standby letters of credit issued by the Federal Home Loan Bank of New York and other banks. At December 31, 1998 specific mortgage loans with a carrying value of $137,483,494 (1997 - $139,635,855) and estimated market value of $141,951,708 (1997 - $148,530,700) and securities with a book value of $6,877,563 (1997 - $9,239,236) and approximate market value of $7,041,301 (1997 - $9,519,152) were pledged to the Federal Home Loan Bank of New York as part of the agreements covering the letters of credit.

At December 31, 1998, deposit accounts issued to government agencies with a carrying value of $67,306,284 (1997 - $37,757,061) were collateralized by securities with a carrying value of $70,892,236 (1997 - $48,737,539) and estimated market value of $72,177,444 (1997 - $49,384,763) and specific mortgage loans with a carrying value of $4,838,781 (1997 - $5,498,532) and estimated market value of $5,684,600 (1997 - $6,322,913).

A table showing interest expense on deposits follows:

<TABLE>
<S> <C>

	Year ended December 31, 1998	1997	1996
Savings	$11,716,764	$12,155,192	$12,376,620
Interest bearing checking accounts	4,486,582	4,167,371	4,264,731
Certificates	54,215,013	55,824,521	54,322,502
Total	$70,418,359	$72,147,084	$70,963,853

Note 20 - Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

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

	December 31, 1998	December 31, 1997
Federal funds purchased, interest rate 5.32% (1997 - 7.33%)	$ 15,000,000	$ 53,400,000
Repurchase agreements, interest ranging from 4.65% to 5.80% (1997 - 3.50% to 5.34%)	1,605,630,051	912,469,546
	1,620,630,051	965,869,546
Accrued interest payable	3,067,937	3,433,835

Total	$1,623,697,988	$969,303,381

Federal funds purchased and repurchase agreements mature as follows:

	December 31, 1998	1997
Federal funds purchased:		
One to thirty days	$ 15,000,000	$ 53,400,000
Repurchase agreements:		
One to thirty days	1,158,520,676	681,469,546
Over thirty to ninety days	247,109,375	31,000,000
Over ninety days	200,000,000	200,000,000
	1,605,630,051	912,469,546
Total	$1,620,630,051	$965,869,546

</TABLE>

The following securities were sold under agreements to repurchase:

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

December 31, 1998

Underlying securities	Book value of underlying securities	Balance of borrowing	Approximate market value of underlying securities	Weighted average interest rate
U.S. Treasury Securities and obligations of other U.S. Government Agencies	$ 216,073,870	$ 214,716,114	$ 216,111,108	5.13%
Mortgage backed securities	1,393,322,895	1,390,913,937	1,403,729,265	6.08%
Total	$1,609,396,765	$1,605,630,051	$1,619,840,373	
Accrued interest receivable	$ 4,321,371			

December 31, 1997

Underlying securities	Book value of underlying securities	Balance of borrowing	Approximate market value of underlying securities	Weighted average interest rate
U.S. Treasury Securities and obligations of other U.S. Government Agencies	$392,557,900	$404,869,203	$397,473,320	6.02%
Mortgage backed securities	518,205,340	507,600,343	522,328,823	6.74%
Total	$910,763,240	$912,469,546	$919,802,143	
Accrued interest receivable	$ 7,479,125			

</TABLE>

The weighted average interest rates of federal funds purchased and repurchase agreements at December 31, 1998 and 1997 was 5.03% and 5.13%, respectively.

At December 31, 1998, the securities underlying such agreements were delivered to, and are being held by the dealers with which the repurchase agreements were transacted, except for transactions where the Corporation has agreed to repurchase similar but not identical securities. The maximum aggregate balance outstanding at any month-end during 1998 was $1,648,513,898 (1997 - $965,869,546). The average balance during 1998 was approximately $1,225,726,000 (1997 - $565,095,000).

Note 21 - Other Short-Term Borrowings

On March 31, 1997, the Corporation entered into a $250,000,000 financing arrangement administered by Credit Suisse First Boston to be renewed annually within a term of three years. At December 31, 1998 borrowings through this arrangement amounted to $86,594,710 (1997 - $231,504,896), with an available line of $95,254,992 under the financing arrangement. Interest periods under the financing agreement cannot exceed 100 days. The rate of interest for this type of financing, in which advances may be repaid or reborrowed at the option of the Corporation, is equivalent to A-1+/P-1 rated commercial paper. The weighted average maturity at December 31, 1998 was 21 days (1997 - eight days).

The weighted average interest rate of these borrowings at December 31, 1998 and 1997 was 6.38% and 6.23%, respectively. The maximum aggregate balance outstanding at any month-end was approximately $224,780,000 (1997 - $250,000,000). The average aggregate balance outstanding during the year was approximately $111,236,888 (1997 - $176,656,943).

Under this arrangement, the Corporation is required to maintain eligible collateral consisting of personal loans owned by the Corporation to secure this borrowing. The Corporation has to maintain at all times the aggregate outstanding balance of the borrowing at a maximum of 85% of the aggregate book value of the personal loans placed as collateral. The aggregate book value of the loans pledged as collateral at December 31, 1998 amounted to $220,443,511 (1997 - $288,024,128).

Note 22 - Advances From The Federal Home Loan Bank of New York (FHLB-N.Y.)

Following is a detail of the advances from the FHLB-NY:

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

		December 31,	
Maturity	Interest rate	1998	1997
January 4, 1999	5.13%	$2,600,000	
January 2, 1998	7.12%		$29,000,000
Total		$2,600,000	$29,000,000

</TABLE>

Advances are received from the FHLB-N.Y. under an Advances, Collateral Pledge and Security Agreement (the Collateral Agreement). Under the Collateral Agreement, the Corporation is required to maintain a minimum amount of qualifying mortgage collateral with a market value at least 110% of the outstanding advances. At December 31, 1998, specific mortgage loans with an estimated market value of $3,155,152 (1997 - $35,539,790) were pledged to the FHLB-N.Y. as part of the Collateral Agreement. The carrying value of such loans at December 31, 1998 amounted to $2,860,000 (1997 - $31,900,000).

Note 23 - Notes Payable

Following is a detail of notes payable outstanding:

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

		December 31, 1998	December 31,	
Issue date (footnote)	Maturity	Interest rate	1998	1997
Notes payable:				
May 31, 1990 (a)	1998	8.37%		$ 3,000,000
January 29, 1993 (b)	1998	4.95%		5,000,000
February 8, 1993 (b)	1998	4.95%		1,250,000
April 15, 1993 (b)	1998	4.57%		5,000,000
February 11, 1994 (b)	1999	5.44%	$ 2,100,000	2,100,000
May 13, 1994 (b)	1999	6.19%	5,000,000	5,000,000
May 13, 1994 (b)	1999	6.19%	5,000,000	5,000,000
May 26, 1994 (b)	1999	6.09%	5,000,000	5,000,000
September 7, 1994 (a)	1999	4.33%	15,500,000	15,500,000
September 29, 1994 (a)	1999	6.40%	30,000,000	30,000,000
September 12, 1996 (b)	2001	4.87%	10,000,000	10,000,000
September 20, 1996 (b)	2001	4.88%	20,500,000	20,500,000
September 20, 1996 (a)	2001	4.77%	25,000,000	25,000,000
Total			$118,100,000	$132,350,000

</TABLE>

Footnotes:

a. These notes have the benefit of a firm commitment issued by the FHLB-N.Y. whereby it will make advances to pay the principal and interest on the notes as they become due if the Corporation fails to do so. The Corporation is required to maintain as collateral with the FHLB-N.Y. securities having an aggregate market value, determined monthly, equal to 110% of the aggregate outstanding principal amount of the notes plus interest. The collateral securities may consist of a combination of all or some of the following: (i) home mortgage loans owned by the Corporation and secured by first mortgages on real properties in Puerto Rico; (ii) obligations of, or guaranteed by, the United States Government or certain agencies; (iii) fully-modified pass-through mortgage backed certificates guaranteed by GNMA; (iv) mortgage participation certificates issued by FHLMC; (v) guaranteed mortgage pass-through certificates issued by FNMA; and (vi) certain certificates of deposit issued by banks approved by the FHLB-N.Y.

At December 31, 1998, specific mortgage loans with a book value of $77,550,000 (1997 - $80,850,000) and an estimated market value of $88,887,810 (1997 - $91,789,005) were pledged to the FHLB-N.Y. as part of the agreement covering the above mentioned firm commitment. The estimated market value was computed based on parameters given by the Federal Home Loan Bank.

b. The Corporation is required to maintain with the holder of these notes, cash or securities with a market value of at least 105% of the aggregate amount of the notes. The aggregate estimated market value and carrying value of the eligible collateral at December 31, 1998 amounted to $46,162,955 (1997 - $59,456,354) and $45,328,289 (1997 - $54,069,211), respectively.

Note 24 - Subordinated Notes

On December 20, 1995, the Bank issued 7.63% subordinated capital notes in the amount of $100,000,000 maturing in 2005. The notes were issued at a discount. At December 31, 1998 the outstanding balance net of the unamortized discount was $99,495,830 (1997 - $99,423,490). Interest on the notes is payable semiannually and at maturity. The notes represent unsecured obligations of the Bank ranking subordinate in right of payment to all existing and future senior debt including the claims of depositors and other general creditors. The notes may not be redeemed prior to their maturity. At December 31, 1998, the Bank has transferred to capital reserves from the retained earnings account $30,000,000, as a result of the requirement explained in Note 3 - "Stockholders' Equity."

Note 25 - Unused Lines Of Credit

The Corporation maintains unsecured standby lines of credit with other banks. At December 31, 1998, the Corporation's total unused lines of credit with these banks amounted to approximately $69,500,000 (1997 - $25,100,000). At December 31, 1998, the Corporation has an available line of credit with the FHLB guaranteed with excess collateral, in the amount of $20,808,133 (1997 - $1,470,265). In addition, the Corporation had at December 31, 1998 an available line of $95,254,992 under the financing arrangement explained in Note 21 - "Other Short-Term Borrowings."

Note 26 - Other Expenses
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

A detail of other expenses follows:

	Year ended December 31, 1998	1997	1996
Professional and service fees	$ 5,819,978	$ 4,883,088	$ 4,956,210
Advertising and business promotion	5,922,039	4,993,392	5,879,478
Communications	4,330,023	4,363,802	4,789,451
Revenue earning equipment	1,225,689	1,183,557	1,113,125
Supplies and printing	1,314,131	1,128,672	1,694,046
Other	4,534,188	4,628,151	3,588,927
Total	$23,146,048	$21,180,662	$22,021,237

</TABLE>

Note 27 - Employees' Benefit Plan

FirstBank has a defined contribution retirement plan (the Plan) qualified under the provisions of the Puerto Rico Internal Revenue Code Section 1165(e). All employees (excluding the Bank's subsidiaries) are eligible to participate in the Plan after one year of service. Under the provisions of the Plan, the Bank is required to make a contribution of a quarter of the first 4% (1997 - 4% and 1996 - 1%) of each participant's compensation. Participants are permitted to contribute up to 10% of their annual compensation, limited to $8,000 per year. Additional contributions to the Plan are voluntarily made by the Bank as determined by its Board of Directors. The Bank made a total contribution of $575,000, $540,000 and $450,000 during 1998, 1997 and 1996, respectively, to the Plan.

Note 28 - Unusual Item

In September 1996, the Bank recorded a one time special SAIF assessment of $9.1 million with an estimated income tax benefit of $2.4 million. This special assessment was required by the Deposit Insurance Funds Act of 1996 to capitalize the SAIF.

Note 29 - Income Taxes

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

The provision for income taxes was as follows (in thousands):
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Year ended December 31,		
	1998	1997	1996
Current	$17,845	$16,364	$18,500
Deferred	(13,047)	(8,239)	(6,219)
Total	$ 4,798	$ 8,125	$12,281

</TABLE>

Income tax expense applicable to income before provision for income tax differs from the amount computed by applying the Puerto Rico statutory rate of 39% as follows (dollars in thousands):
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Year ended December 31,					
	1998		1997		1996	
	Amount	% of pre-tax income	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rate	$22,078	39	$21,705	39	$19,467	39
Benefit of net exempt income	(22,078)	(39)	(13,137)	(24)	(7,611)	(15)
Other-net	4,798	8	(443)		425	1
Total income tax provision	$ 4,798	8	$ 8,125	15	$12,281	25

</TABLE>

Accounting for income taxes

Deferred taxes arise because certain transactions affect the determination of taxable income for financial reporting purposes in periods different from the period in which the transactions affect taxable income for tax return purposes. Deferred taxes have been recorded based upon the Puerto Rico enacted tax rate of 39%. Current tax expense has been provided based upon the estimated tax liability to be incurred for tax return purposes.

The components of the deferred tax asset and liability were as follows (in thousands):
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	December 31,	
	1998	1997
Deferred tax asset:		
Adjustment to charge-off method	$25,460	$ 12,768
Other	1,232	3,305
Gross deferred tax asset	$26,692	$16,073
Deferred tax liability:		
Unrealized gain on available for sale securities	$(2,917)	$(4,010)
Other	(1,633)	(2,468)
Gross deferred tax liability	$(4,550)	$(6,478)

</TABLE>

Due to the above temporary differences, a net deferred tax asset resulted amounting to $22.1 million at December 31, 1998 (1997 - $9.6 million). The primary timing difference was the effect of future deductions under the charge-offs method for deducting bad debt losses. No valuation allowance was considered necessary.

The tax effect of the unrealized holding gain or loss for securities available for sale is included as a part of stockholders' equity in other comprehensive income.

Note 30 - Commitments

At December 31, 1998 certain premises are leased with terms expiring through the year 2011. The Corporation has the option to renew or extend certain leases from two to ten years beyond the original term. Some of these leases require the payment of insurance, increases in property taxes and other incidental costs. At December 31, 1998, the obligation under various leases was follows:

Year	Amount
1999	$ 2,607,737
2000	1,794,633
2001	1,272,775
2002	1,096,813
2003 and later years	5,161,246
Total	$11,933,204

Rental expense included in occupancy and equipment expense was $3,158,156 in 1998 (1997 - $2,933,798; 1996 - $2,894,698).

Note 31 - Fair Value of Financial Instruments

The information about the estimated fair values of financial instruments as required by SFAS No. 107, is presented hereunder including some items not recognized in the statement of financial condition. The disclosure requirements of SFAS No. 107 exclude certain financial instruments and all non financial instruments. Accordingly, the aggregate fair value amounts presented do not represent Management's estimation of the underlying value of the Corporation. A summary table of estimated fair values and carrying values of financial instruments at December 31, 1998 and 1997 follows (in thousands):
<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	December 31,			
	1998		1997	
	Estimated fair value	Carrying value	Estimated fair value	Carrying value
Assets:				
Money market instruments	$ 526	$ 526	$ 514	$ 514
Debt securities	1,790,463	1,789,692	1,266,539	1,266,236
FHLB stock	10,271	10,271	10,150	10,150
Loans receivable - net	2,146,003	2,052,200	2,009,447	1,901,590
Liabilities:				
Deposits	1,776,811	1,775,045	1,593,688	1,594,635
Federal funds, securities sold under agreements to repurchase and other short-term borrowings	1,710,293	1,710,293	1,200,808	1,200,808
Advances from FHLB	2,600	2,600	29,000	29,000
Debt security borrowings	231,923	217,596	233,425	231,773

</TABLE>

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

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

Money market instruments

The carrying amounts of money market instruments are reasonable estimates of their fair values.

Debt securities

The fair values of debt securities are the market values based on quoted market prices and dealer quotes. The fair value of debt securities available for sale equals their carrying value since they are marked-to-market for accounting purposes with unrealized gains and losses, net of deferred tax, reported as a separate component of stockholders' equity.

Other investment

The fair value of other investments securities represents the market value of the securities in which the funds are invested.

FHLB stock

Investments in FHLB stock are valued at their redemption values.

Loans receivable - net

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

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

Deposits

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

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

Federal funds, securities sold under agreements to repurchase and other short-term borrowings

Federal funds purchased, repurchase agreements and other short-term borrowings are commitments to borrow funds which reprice at least quarterly. Therefore, their outstanding balances are estimated to be their fair values.

Advances from FHLB

The fair value of advances was determined using book value, since they have terms of less than three months. Therefore, their outstanding balances are estimated to be their fair values.

Debt security borrowings

The fair value of debt security borrowings with fixed maturities was determined using discounted cash flow analysis over the full term of the borrowings. The cash flows assumed no early repayment of the borrowings. Discount rates were based on the LIBOR yield curve. Variable rate debt securities reprice at intervals of three months or less, therefore, their outstanding balances are estimated to be their fair values.

Note 32 - Supplemental Cash Flow Information

Supplemental cash flow information follows (in thousands):

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Year ended December 31,		
	1998	1997	1996
Cash paid for:			

Interest	$153,645	$132,801	$108,500
Income tax	1,494	1,089	9,461
Non cash investing and financing activities:			
Mortgage loans exchanged for mortgage backed securities		4,046	6,128
Additions to other real estate owned	2,975	541	3,485

</TABLE>

Note 33 - Financial Instruments With Off-Balance Sheet Risk, Commitments to Extend Credit and Standby Letters of Credit

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

The following table presents a detail of commitments to extend credit and standby letters of credit (in thousands):

	December 31, 1998	December 31, 1997
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
To originate loans	$245,257	$103,214
Unused credit card lines	132,867	103,842
Unused personal lines of credit	10,536	11,021
Commercial lines of credit	96,874	64,584
Commercial letters of credit	19,101	22,966
Standby letters of credit	1,575	4,660

</TABLE>

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

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

In general, commercial and standby letters of credit are issued to facilitate foreign and domestic trade transactions. Normally, commercial and standby letters of credit are short-term commitments used to finance commercial contracts for the shipment of goods. The collateral for these letters of credit include cash or available commercial lines of credit. The fair value of commercial and standby letters of credit is based on the fees currently charged for such agreements, which at December 31, 1998 is not significant.

Interest rate risk management

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

The following table indicates the types of swaps used (in thousands):

	Notional amount
Pay-fixed swaps:	
Balance at December 31, 1996	$220,000
Expired contracts in 1996	170,000
Balance at December 31, 1997 and 1998	$ 50,000

Receive-fixed swaps:

Balance at December 31, 1996	$65,000
Expired contracts	25,000
New contracts	40,000
Balance at December 31, 1997	80,000
Expired contracts	40,000
Balance at December 31, 1998	$40,000

Pay-fixed swaps at December 31, 1998, have a fixed weighted average rate payment of 5.41% (1997 - 6.48%) and a floating weighted average rate receiving of 6.48% (1997 - 5.88%). Receive-fixed swaps at December 31, 1998, have a floating weighted average rate payment of 5.13% (1997 - 5.68%) and a fixed weighted average rate receiving of 7.15% (1997 - 7.12%). Floating rates are based on an 85% to 100% of the average of the last three months LIBOR rate.

For swap transactions, the amounts potentially subject to credit loss are the net streams of payments under the agreements and not the notional principal amounts used to express the volume of the swaps. At December 31, 1998 the Corporation had total assets of $876,949 (1997 - $956,530) related to the swap transactions. The Corporation controls the credit risk of its interest rate swap agreements through approvals, limits, and monitoring procedures. The Corporation does not anticipate non-performance by the counterparties. As part of the swap transactions, the Corporation is required to pledge collateral in the form of deposits in banks or securities. The book value and aggregate market value of securities pledged as collateral for interest rate swaps at December 31, 1998 was approximately $1.8 million and $1.9 million, respectively (1997 - $2.69 million and $2.73 million, respectively). The period to maturity of the swaps at December 31, 1998 ranged from one year and four months through eight years and two months (1997 - from two years and five months through nine years and three months).

At December 31, 1998, the estimated fair value to liquidate the Corporation's interest rate swaps was approximately $2,760,000 (1997 - $4,013,500).

Yield enhancement program

The Corporation writes put and call options with the intention of enhancing the yield of its investment portfolio (Yield Enhancement Program). The Corporation acquires and manages a portfolio of assets consisting of Treasury notes. The aggregate amount permitted to be outstanding under this program cannot exceed $120 million. Future changes to this limitation may be made by resolution of the Board of Directors. The Corporation does not write uncovered calls (i.e., calls on securities which are not in the portfolio when the call is written) under this program.

The Corporation writes covered call options on securities maintained in the portfolio, and put options on securities eligible for inclusion in the portfolio. The Corporation will only write put options on securities that the Corporation has the intention and ability to own. When put options are exercised, the related securities enter the pool. The purchase price of the securities is reduced by the amount of the option premium received. Call options are subsequently written on the assets in the pool, and the pool is reduced in size if the call options are exercised. The Corporation receives a premium on these call options, thereby increasing the net price received when the securities are sold. Premiums from expired call options are applied to reduce the book value of the corresponding securities; those from expired put options are recorded as income.

During 1998, no premiums were received under this program (1997 - $685,938; 1996 - $1,579,686). At December 31, 1998 no options were outstanding under this program. The options either expired or were exercised, and premiums were either recorded as other income or applied to the price of the security purchased or sold.

The risks in the Yield Enhancement Program stem from the possibility of large, unforeseen adverse market movements while the options are in effect. If the market falls sharply after the Corporation sells a put option, the Corporation may be forced to purchase a security at a price above that which could have been obtained by buying in the open market at expiration, even after adjusting the yield for the option premium received. In this case, the Corporation would be unable to take advantage of unexpectedly lower market prices. Similarly, if the market rises sharply and suddenly after the Corporation sells a call option, it may be forced to sell the security at a price below the market, even after adjusting for the option premium. In this case, the Corporation will fail to participate fully in the market rally with respect to this particular transaction.

Management considers that the risks inherent in this program are controlled, prudent, and moderate compared to the opportunities for enhancing the income stream of the Corporation through option premiums.

Forward contracts

Forward contracts are commitments for future purchase of a specific quantity of debt securities for purposes other than trading at a price specified at the beginning of the contract and at a specified rate with delivery and settlement at a specified future date. The market risk relates to economic losses due to adverse changes in the fair value of the contract related to price and liquidity. At December 31, 1998 the Corporation had no forward contracts. At December 31, 1997, the Corporation had a commitment to purchase mortgage backed securities (GNMA's) in the amount of $300 million, which was exercised in January 1998.

Interest Rate Protection Agreements (Caps)

The Corporation also issues interest rate protection agreements (Caps) to limit its exposure to rising interest rates on its deposits. Under these agreements, the Corporation pays an up front premium or fee for the right to receive cash flow payments in excess of the predetermined cap rate; thus, effectively capping its interest rate cost for the duration of the agreement. The premium is amortized as an adjustment to interest expense on deposits. The following table indicates the agreements outstanding at December 31, 1998 (dollars in thousands):

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

Cap agreements notional amount	Cap Rate	Current 90 day LIBOR	Maturity
$ 50,000	6.00%	5.065%	March 27, 2000
200,000	6.50%	5.065%	June 4, 2000

</TABLE>

Note 34 - Segment Information

In 1998, the Corporation implemented SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information". The Corporation has three reportable segments: Retail business, Treasury and Investments, and Commercial Corporate business. Management determined the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Corporation's organizational chart, nature of the products, distribution channels and the economic characteristics of the products were also considered in the determination of the reportable segments.

The Retail business segment is composed of the Corporation's branches and loan centers together with the retail products of deposits and consumer loans. Consumer loans include loans such as personal, residential real estate, auto, credit card and small loans. Finance leases are also included in Retail business. The Commercial Corporate segment is composed of commercial loans and corporate services such as letters of credit and cash management. The Treasury and Investment segment is responsible for the Corporation investment portfolio and treasury functions.

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

The Corporation evaluates the performance of the segments based on net interest income after the estimated provision for loan losses. 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 segments and the Treasury and Investment segment. 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 charge or credit by Investment and Treasury is based on market rates.

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

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Retail	Treasury and Investments	Commercial Corporate	Total
For the year ended December 31, 1998:				
Interest income	$ 178,251	$ 89,785	$ 52,499	$ 320,535
Net (charge) credit for transfer of funds	7,683	20,698	(28,381)	
Interest expense	(60,003)	(95,127)		(155,130)
Net interest income	125,931	15,356	24,118	165,405
Provision for loan losses	(74,837)		(1,163)	(76,000)
Segment income	51,094	15,356	22,955	89,405
Average earning assets	1,364,803	1,418,791	561,612	3,345,206

For the year ended December 31, 1997:				
Interest income	$ 184,761	$ 59,263	$ 40,246	$ 284,270
Net (charge) credit for transfer of funds	(4,396)	27,534	(23,138)	
Interest expense	(58,553)	(71,876)		(130,429)
Net interest income	121,812	14,921	17,108	153,841
Provision for loan losses	(52,343)		(3,332)	(55,675)
Segment income	69,469	14,921	13,776	98,166
Average earning assets	1,443,982	909,457	415,427	2,768,866
For the year ended December 31, 1996:				
Interest income	$ 177,354	$ 42,773	$ 35,666	$ 255,793
Net (charge) credit for transfer of funds	(1,310)	20,088	(18,778)	
Interest expense	(52,156)	(60,871)		(113,027)
Net interest income	123,888	1,990	16,888	142,766
Provision for loan losses	(31,038)		(544)	(31,582)
Segment income	92,850	1,990	16,344	111,184
Average earning assets	1,337,197	714,753	354,296	2,406,246

</TABLE>

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

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Year ended December 31,		
	1998	1997	1996
Interest income :			
Total interest income for segments	$320,535	$284,270	$255,793
Interest income credited to expense accounts	763	890	730
Total consolidated interest income	$321,298	$285,160	$256,523
Net income:			
Total income for segments	$89,405	$98,166	$111,184
Other income	58,240	39,866	29,614
Operating expenses	(91,035)	(82,379)	(90,883)
Income taxes	(4,798)	(8,125)	(12,281)
Total consolidated net income	$51,812	$47,528	$37,634
Average assets:			
Total average earning assets for segments	$3,345,206	$2,768,866	$2,406,246
Average non earning assets	148,331	143,643	133,421
Total consolidated average assets	$3,493,537	$2,912,509	$2,539,667

</TABLE>

Note 35 - Litigation

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

Note 36 - Selected Quarterly Financial Data (Unaudited)

Financial data showing results of the 1998 and 1997 quarters is presented below. These results are unaudited. In the opinion of Management, all adjustments necessary for a fair presentation have been included:

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

			1998	
	March 31	June 30	Sept. 30	Dec. 31
Interest income	$77,397,641	$77,731,354	$79,846,911	$86,322,498
Net interest income	40,607,988	41,193,889	39,812,331	44,554,228
Provision for loan losses	21,738,000	13,929,000	21,420,000	18,913,000
Net income	12,360,681	12,700,723	13,064,618	13,686,365
Earnings per common share-basic	$0.42	$0.43	$0.44	$0.46
Earnings per common share-diluted	$0.42	$0.43	$0.43	$0.46
			1997	
	March 31	June 30	Sept. 30	Dec. 31
Interest income	$70,227,271	$72,237,188	$69,877,982	$72,817,664
Net interest income	38,277,561	38,864,060	38,230,170	39,359,021
Provision for loan losses	10,025,500	13,575,000	17,962,500	14,112,500

Net income	11,645,214	11,815,757	11,920,926	12,145,655
Earnings per common share-basic	$0.39	$0.39	$0.40	$0.40
Earnings per common share-diluted	$0.39	$0.39	$0.40	$0.40

</TABLE>

Note 37 - First BanCorp (Holding Company Only) Financial Information:

The following condensed financial information presents the financial position of the Holding Company only at December 31, 1998 and the results of its operations and its cash flows for the period from October 1st , 1998 through December 31, 1998.

Statement of Financial Condition

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	December 31, 1998
Assets	
Cash and due from depository institutions	$ 5,702,362
Investment in FirstBank Puerto Rico, at equity	264,447,053
Other assets	218,653
Total assets	$270,368,068
Liabilities & Stockholders' Equity	
Borrowings	-
Accounts payable and other liabilities	-
Stockholders' equity	$270,368,068
Total liabilities and stockholders' equity	$270,368,068

Statement of Income

	Period from October 1, 1998 through December 31, 1998
Income:	
Dividend from subsidiary	$ 10,359,843
Expenses:	
Operating expenses	15,110
Income before income taxes and equity in undistributed earnings of subsidiary	10,344,733
Equity in undistributed earnings of subsidiary	3,341,632
Net income	$13,686,365

</TABLE>

Statement of Cash Flows

<TABLE>
<S> <C> <C> <C> <C> <C> <C>

	Period from October 1, 1998 through December 31, 1998
Cash flows from operating activities:	
Net income	$13,686,365
Adjustments to reconcile net income to net Cash provided by operating activities:	
Equity in undistributed earnings of subsidiary	(3,341,632)
Net increase in other assets	(218,654)
Total adjustments	(3,560,286)
Net cash provided by operating activities	10,126,079
Cash flows from financing activities:	
Cash dividends paid	(2,212,467)
Treasury stock acquired	(2,211,250)
Net cash provided by financing activities	(4,423,717)
Net increase in cash	5,702,362
Cash at the beginning of period	
Cash at the end of period	$ 5,702,362

</TABLE>

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

Stockholders' Information

Independent Certified Public Accountants
PricewaterhouseCoopers LLP

Annual Meeting:
The annual meeting of stockholders will be held on April 27, 1999, at 2:00 p.m., at the main office of the Corporation located at 1519 Ponce de Leon Avenue, Santurce, Puerto Rico.

Telephone (787) 729-8200
Internet http://www.1bankpr.com

Additional Information and Form 10-K:
Additional financial information about First BanCorp may be requested to Mrs. Laura Villarino, Senior Vice President and Controller, PO Box 9146, Santurce, Puerto Rico 00908. Copies of First BanCorp's Form 10K filed with the SEC, will be provided to stockholders upon written request to Mrs. Laura Villarino at the same mailing address.

Transfer Agent and Registrar:
The Bank of New York, 101 Barclay Street 12W, New York, NY 10286

General Counsels:
Fiddler, Gonzalez & Rodriguez, LLP
Latimer, Biaggi, Rachid & Godreau
Melendez Perez, Moran & Santiago

List of Subsidiaries
(Direct and Indirect)

Direct
1. FirstBank Puerto Rico

Indirect
1. First Leasing and Rental Corporation

2. First Federal Finance Corp. D/B/A Money Express "La Financiera"

<TABLE> <S> <C>

<ARTICLE>	9

<S>	<C>	
<PERIOD-TYPE>	year	
<FISCAL-YEAR-END>		DEC-31-1998
<PERIOD-START>		JAN-1-1998
<PERIOD-END>		DEC-31-1998
<CASH>		39,416,097
<INT-BEARING-DEPOSITS>		525,669
<FED-FUNDS-SOLD>		0
<TRADING-ASSETS>		0
<INVESTMENTS-HELD-FOR-SALE>		1,762,770,015
<INVESTMENTS-CARRYING>		26,921,836
<INVESTMENTS-MARKET>		27,692,500
<LOANS>		2,120,054,384
<ALLOWANCE>		67,854,066
<TOTAL-ASSETS>		4,017,352,075
<DEPOSITS>		1,775,044,894
<SHORT-TERM>		1,712,892,698
<LIABILITIES-OTHER>		41,450,585
<LONG-TERM>		217,595,830
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		29,599,552
<OTHER-SE>		240,768,516
<TOTAL-LIABILITIES-AND-EQUITY>		4,017,352,075
<INTEREST-LOAN>		231,513,730
<INTEREST-INVEST>		89,041,513
<INTEREST-OTHER>		743,161
<INTEREST-TOTAL>		321,298,404
<INTEREST-DEPOSIT>		70,418,359
<INTEREST-EXPENSE>		155,129,960
<INTEREST-INCOME-NET>		166,168,436
<LOAN-LOSSES>		76,000,000
<SECURITIES-GAINS>		26,827,417
<EXPENSE-OTHER>		91,797,699
<INCOME-PRETAX>		56,610,587
<INCOME-PRE-EXTRAORDINARY>		56,610,587
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		51,812,387
<EPS-PRIMARY>		1.75
<EPS-DILUTED>		1.74
<YIELD-ACTUAL>		5.27

<LOANS-NON>	56,958,000
<LOANS-PAST>	15,110,000
<LOANS-TROUBLED>	0
<LOANS-PROBLEM>	0
<ALLOWANCE-OPEN>	57,711,927
<CHARGE-OFFS>	72,223,389
<RECOVERIES>	6,365,528
<ALLOWANCE-CLOSE>	67,854,066
<ALLOWANCE-DOMESTIC>	67,854,066
<ALLOWANCE-FOREIGN>	0
<ALLOWANCE-UNALLOCATED>	0

</TABLE>