

FIRST BANCORP /PR/
Form 424B5
September 05, 2003

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The information contained in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, and we are not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
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PRELIMINARY PROSPECTUS SUPPLEMENT

(To prospectus dated January 16, 2002)

Subject to completion and amendment

September 4, 2003

4,000,000 Shares

% Noncumulative Perpetual Monthly Income Preferred Stock, Series E

First BanCorp is a publicly-owned, Puerto Rico-chartered financial holding company that offers a wide range of financial services through its wholly-owned subsidiaries, FirstBank Puerto Rico and FirstBank Insurance Agency. First BanCorp is offering, to the public, 4,000,000 shares of its % Noncumulative Perpetual Monthly Income Preferred Stock, Series E. The Series E Preferred Stock has the following characteristics:

Annual dividends of \$ _____ per share, payable monthly, if declared by the board of directors. Missed dividends never have to be paid.

Redeemable at First BanCorp's option, with regulatory approval, beginning on _____, 2008.

No mandatory redemption or stated maturity.

There is currently no public market for the Series E Preferred Stock. First BanCorp will file an application with the New York Stock Exchange to list the Series E Preferred Stock under the symbol FBPPrE. Trading of the Series E Preferred Stock on the New York Stock Exchange is expected to commence no later than 30 days after the initial delivery of the Series E Preferred Stock.

Investing in these securities involves risks. Before buying any of these securities, you should carefully consider the risk factors described in Risk factors beginning on page S-5 of this prospectus supplement and page 2 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state or Commonwealth of Puerto Rico securities or financial institutions commission or any other United States federal or state securities or banking agency has approved or disapproved these securities or passed upon the accuracy or adequacy of this prospectus supplement and the accompanying prospectus. Any representation to the contrary is a criminal offense.

These securities are not savings accounts, deposits or obligations of any bank and are not insured by the FDIC or any other governmental agency, and are subject to investment risks, including possible loss of the principal amount invested.

	Per Share	Total
Public offering price	\$25.00	\$ 100,000,000
Underwriting discounts and commissions	\$ 0.85	\$ 3,400,000
Proceeds, before expenses, to First BanCorp	\$24.15	\$ 96,600,000

First BanCorp has granted the underwriters a 30-day option to purchase up to an additional 600,000 shares of the Series E Preferred Stock to cover over-allotments at \$25.00 per share less underwriting discounts and commissions.

UBS Financial Services Incorporated of Puerto Rico

BBVA Capital Markets

R-G Investments Corporation

Santander Securities

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You may rely only on the information incorporated by reference or contained in this prospectus supplement and the accompanying prospectus. Neither First BanCorp nor any underwriter has authorized anyone to provide prospective investors with information different from that incorporated by reference or contained in this prospectus supplement and the accompanying prospectus. This prospectus supplement and the accompanying prospectus are not an offer to sell nor are they seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus supplement and the accompanying prospectus is correct only as of their dates, regardless of the time of the delivery of this prospectus supplement and the accompanying prospectus or any sale of these securities. First BanCorp's business, financial condition, results of operation and prospects may have changed since those dates. In this prospectus supplement, the company, we, us, and our refer to First BanCorp.

This document consists of two parts. The first part is the prospectus supplement, which describes the specific terms of this offering. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering.

If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

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Prospectus supplement summary

This summary highlights information contained elsewhere in this prospectus supplement. You should read the entire prospectus supplement and the accompanying prospectus, including the information incorporated by reference into the accompanying prospectus and the Risk factors section beginning on page S-5 of this prospectus supplement and page 2 of the accompanying prospectus.

Unless otherwise stated, all information in this prospectus supplement assumes that the underwriters will not exercise their over-allotment option to purchase any of the 600,000 shares subject to that option.

THE COMPANY

First BanCorp is a publicly-owned, Puerto Rico-chartered financial holding company that is subject to regulation, supervision and examination by the Federal Reserve Board. First BanCorp operates two direct subsidiaries: FirstBank Puerto Rico and FirstBank Insurance Agency, Inc. FirstBank is a Puerto Rico-chartered commercial bank, and FirstBank Insurance Agency is a Puerto Rico-chartered insurance agency. FirstBank is subject to supervision, examination and regulation by the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico and the Federal Deposit Insurance Corporation, which insures its deposits through the Savings Association Insurance Fund. The Virgin Islands operations of FirstBank are subject to regulation and examination by the United States Virgin Islands Banking Board and by the British Virgin Islands Financial Services Commission. FirstBank Insurance Agency is subject to supervision, examination and regulation by the Office of the Insurance Commissioner of the Commonwealth of Puerto Rico.

First BanCorp is engaged in the banking business and provides a wide range of financial services for retail and institutional clients. First BanCorp had total assets of approximately \$9.9 billion, total deposits of approximately \$5.4 billion and total stockholders' equity of approximately \$855.2 million at June 30, 2003. Based on total assets, First BanCorp is the second largest, locally-owned bank holding company headquartered in the Commonwealth of Puerto Rico and the second largest depository institution in Puerto Rico.

FirstBank conducts its business through its main offices located in San Juan, Puerto Rico, forty-three full service banking branches in Puerto Rico and twelve branches in the United States Virgin Islands and British Virgin Islands. FirstBank also has twenty-one loan origination offices in Puerto Rico focusing on consumer loans and residential mortgage loans. FirstBank has two subsidiaries with operations in Puerto Rico, First Leasing and Rental Corporation, a vehicle leasing and daily rental company with six offices in Puerto Rico, and First Federal Finance Corp. (d/b/a Money Express La Financiera), a finance company with twenty-seven offices in Puerto Rico. FirstBank has two subsidiaries with operations outside of Puerto Rico, FirstBank Insurance Agency V.I., Inc., an insurance agency with one office that sells insurance products in the United States Virgin Islands, and First Trade, Inc., which provides foreign sales corporation management services with an office in the United States Virgin Islands and an office in Barbados.

As of June 30, 2003, First BanCorp had a portfolio of approximately \$2.6 billion in commercial loans, commercial mortgages, construction loans and other related commercial products, a portfolio of approximately \$2.3 billion in residential mortgages and a portfolio of approximately \$1.4 billion in consumer loans, concentrated in auto loans and leases, personal loans and credit cards. As of June 30, 2003, First BanCorp had an investment portfolio of approximately \$3.4 billion which consisted mostly of U.S. government securities, mortgage backed securities and money market instruments.

First BanCorp's principal executive offices are located at 1519 Ponce de León Avenue, San Juan, Puerto Rico 00908, and its telephone number is (787) 729-8200.

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THE OFFERING

Series E Preferred Stock offered	4,000,000 shares; 4,600,000 shares if the underwriters exercise their over-allotment option in full.
Offering price	\$25 per share.
Liquidation preference	If First BanCorp is liquidated or dissolved, you will be entitled to receive \$25 per share plus accrued dividends for the current month from any assets available for distribution. You will be paid before any of First BanCorp's assets are distributed to holders of common stock or any stock ranking junior to the Series E Preferred Stock.
Dividends	Dividends will be paid on the last day of each month beginning on _____, 2003. The board of directors must approve each dividend payment and any payment it does not approve never has to be paid. The annual dividend rate is equal to _____ % of the liquidation preference per share.
No voting rights	You will not have any voting rights, except as described on page S-14 of this prospectus supplement.
Redemption at First BanCorp's option	The Series E Preferred Stock may be redeemed beginning on _____, 2008 at First BanCorp's option, subject to regulatory approval. Redemption prices are discussed on page S-12 of this prospectus supplement.
No maturity date or mandatory redemption	The Series E Preferred Stock does not have a maturity date. First BanCorp is not required to provide for the retirement of the Series E Preferred Stock by mandatory redemption or sinking fund payments.
Rank	The Series E Preferred Stock ranks senior to the common stock of First BanCorp and on an equal basis to First BanCorp's outstanding preferred stock for purposes of dividend rights and the distribution of assets upon liquidation. First BanCorp may not issue preferred stock ranking senior to the Series E Preferred Stock without the approval of holders of at least two-thirds of the Series E Preferred Stock.
New York Stock Exchange Listing	First BanCorp will file an application with the New York Stock Exchange to list the Series E Preferred Stock under the symbol FBPPrE. Trading of the Series E Preferred Stock on the New York Stock Exchange is expected to commence no later than 30 days after the initial delivery of the Series E Preferred Stock.

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You should read the summary financial information presented below together with First BanCorp's consolidated financial statements and notes which are incorporated by reference into the accompanying prospectus and with the historical financial information of First BanCorp included under "Selected Financial Data" beginning on page S-8 of this prospectus supplement.

The return on average assets ratio is computed by dividing net income by average assets for the period. The return on average common equity ratio is computed by dividing net income less preferred stock dividends by average common stockholders' equity for the period. Both ratios have been computed using daily averages. These ratios for the six months ended June 30, 2003 and 2002 have been presented on an annualized basis.

	As of or for the six months ended June 30,		As of or for the year ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
(\$ in thousands, except per share data)							
Income statement data:							
Net interest income	\$ 136,340	\$ 137,795	\$ 266,849	\$ 236,055	\$ 190,773	\$ 185,733	\$ 166,168
Provision for loan losses	29,164	34,301	62,302	61,030	45,719	47,961	76,000
Gain on sale of investments and trading, net	23,822	617	12,001	9,606	8,269	1,369	30,192
Other income-excluding gain on sale of investments and trading, net	25,346	22,872	46,491	43,374	41,763	31,493	28,048
Net income	65,699	52,629	107,956	86,001	67,276	62,075	51,812
Net income per common share basic	1.30	0.99	2.04	1.74	1.48	1.33	1.17
Net income per common share diluted	1.28	0.99	2.01	1.73	1.47	1.32	1.16
Cash dividends paid	22,298	20,876	42,373	30,343	19,213	14,658	8,871
Balance sheet data:							
Total assets	\$9,934,314	\$8,649,007	\$9,643,852	\$8,197,518	\$5,919,657	\$4,721,568	\$4,017,352
Stockholders' equity	855,196	732,892	798,424	602,919	434,461	294,902	270,368
Book value per common share	12.37	9.33	10.96	8.39	6.80	4.87	6.11
Selected ratios:							
Return on average assets	1.41%	1.27%	1.23%	1.28%	1.28%	1.49%	1.48%
Return on average common equity	22.20	22.53	21.90	22.13	27.81	24.68	20.54
Interest rate spread	3.03	3.73	3.20	3.64	3.38	4.29	4.76
Asset quality ratios:							
Non-performing assets to total assets at the end of period	1.02%	0.92%	1.09%	0.96%	1.25%	1.22%	1.57%
Net charge-offs to average loans outstanding	0.70	0.96	0.87	1.22	1.36	1.90	3.31
Loan loss allowance to total non-performing loans at the end of period	135.47	148.09	121.95	124.74	113.59	133.39	119.13

Table of Contents**CONSOLIDATED RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

The following table sets forth First BanCorp's consolidated ratios of earnings to fixed charges and preferred stock dividends for the respective periods indicated. First BanCorp issued its Series A Preferred Stock in April 1999, its Series B Preferred Stock in October and November 2000, its Series C Preferred Stock in June and July 2001 and its Series D Preferred Stock in January and February 2002. The consolidated ratios of earnings to fixed charges and preferred stock dividends were computed by dividing earnings by fixed charges and preferred stock dividends.

	For the six months ended June 30,	For the year ended December 31,				
	2003	2002	2001	2000	1999	1998
Ratio of earnings to combined fixed charges and preferred stock dividends:						
Including interest on deposits	1.45x	1.32x	1.29x	1.26x	1.34x	1.36x
Excluding interest on deposits	1.77	1.57	1.61	1.56	1.66	1.65

For purposes of computing the consolidated ratios of earnings to combined fixed charges and preferred stock dividends, earnings consist of pre-tax income from continuing operations plus fixed charges and amortization of capitalized interest, less interest capitalized. Fixed charges consist of interest expensed and capitalized, amortization of debt issuance costs and our estimate of the interest component of rental expense. The term preferred stock dividends is the amount of pre-tax earnings that is required to pay dividends on our outstanding preferred stock. Ratios are presented both including and excluding interest on deposits.

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Risk factors

You should carefully consider the following factors and other information in this prospectus supplement and the accompanying prospectus, including the information incorporated by reference into the accompanying prospectus, before deciding to invest in the Series E Preferred Stock.

DIVIDENDS WILL NOT BE PAID UNLESS DECLARED BY THE BOARD OF DIRECTORS

Monthly dividends will only be paid if declared by First BanCorp's board of directors. The board of directors is not obligated or required to declare monthly dividends.

MISSED DIVIDENDS NEVER HAVE TO BE PAID

If the board of directors does not declare a dividend for a particular month, those dividends never have to be paid.

BANKING REGULATIONS MAY RESTRICT FIRST BANCORP'S ABILITY TO PAY DIVIDENDS

First BanCorp may not be able to pay dividends in the future if it does not earn sufficient operational income. Federal Reserve Board policy is that a bank holding company should pay dividends only out of its current operating earnings. First BanCorp had net income from operations of approximately \$108.0 million for the fiscal year ended December 31, 2002 and net income from operations of approximately \$65.7 million for the six months ended June 30, 2003.

PAYMENT OF DIVIDENDS MAY BE RESTRICTED BY FIRSTBANK'S ABILITY TO PAY DIVIDENDS TO FIRST BANCORP

Payment of dividends by First BanCorp may be restricted by FirstBank's ability to pay dividends to First BanCorp. First BanCorp's principal source of cash flow to pay dividends consists of dividends from FirstBank because First BanCorp is a financial holding company with limited operations of its own. For example, FirstBank's ability to pay dividends to First BanCorp may be restricted under certain circumstances by Puerto Rico and Federal banking laws and regulations.

FirstBank is a party to certain contracts that may prevent it from paying dividends to First BanCorp if it does not comply with certain terms and conditions set forth in those contracts. In addition, FirstBank issued its 7 5/8% subordinated capital notes due 2005 under an agreement that prohibits it from paying dividends if the aggregate amount of dividends paid on its capital stock exceeds certain limits tied to earnings and proceeds from the sale of capital stock. As of June 30, 2003, FirstBank could have paid up to \$219 million in dividends under that agreement.

THERE MAY BE NO ACTIVE OR LIQUID MARKET FOR THE SERIES E PREFERRED STOCK

Prior to this offering, there has been no public market for the Series E Preferred Stock. First BanCorp will file an application with the New York Stock Exchange to list the Series E Preferred Stock under the symbol FBPPrE. However, there can be no assurance that an established or liquid trading market for the Series E Preferred Stock will develop, that it will continue if it does develop, or that after the completion of this offering, the Series E Preferred Stock will trade at or above the public offering price set forth in the cover of this prospectus supplement.

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Forward-looking statements

This prospectus supplement and the accompanying prospectus, including information incorporated into the accompanying prospectus by reference, contains certain forward-looking statements concerning First BanCorp's operations, performance and financial condition, including its future economic performance, plans and objectives and the likelihood of success in developing and expanding its business. The words "may," "would," "could," "will," "expect," "anticipate," "believe," "intend," "plan," "estimate" and similar expressions are meant to identify these forward-looking statements. The statements in the "Risk Factors" section in this prospectus supplement and the accompanying prospectus constitute cautionary statements identifying important risks and uncertainties with respect to these forward-looking statements that could cause the actual results, performance or achievements of the company to differ materially from those reflected in the forward-looking statements. We also may provide projections, forecasts or estimates of future performance or cash flows. Projections, forecasts and estimates are forward-looking statements and will be based upon a number of assumptions. Actual events are difficult to predict and may be beyond our control. Actual events may differ from those assumed. Accordingly, there can be no assurance that any estimated returns, projections, forecasts or estimates can be realized or that actual returns or results will not be materially lower than those that may be estimated.

Use of proceeds

The net proceeds to First BanCorp after deducting expenses from the sale of shares of Series E Preferred Stock are estimated at approximately \$96,450,000. If the underwriters' over-allotment option is exercised in full, the net proceeds are estimated at approximately \$110,940,000. First BanCorp intends to use the net proceeds for general corporate purposes, which may include:

making capital contributions and loans to its subsidiaries;

funding possible passive portfolio equity and debt investments in other companies as permitted by applicable banking laws and regulations;

increasing working capital;

carrying out repurchases of its common and preferred stock under stock repurchase programs that may be approved by its board of directors; and

funding possible acquisitions of banking and other financial institutions.

First BanCorp does not at present have any plans to use the net proceeds of this offering for an acquisition.

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The following table shows the unaudited indebtedness and capitalization of First BanCorp at June 30, 2003, on an actual basis and as adjusted to give effect to the issuance of the shares of Series E Preferred Stock offered by this prospectus supplement. In addition to the indebtedness reflected below, First BanCorp had total deposits of \$5.4 billion at June 30, 2003. The table also assumes that the underwriters do not exercise their over-allotment option. This table should be read together with First BanCorp's Consolidated Financial Statements and related notes incorporated by reference into the accompanying prospectus.

(\$ in thousands)	As of June 30, 2003	
	Actual	As adjusted for this offering
Short-term borrowings		
Advances from Federal Home Loan Bank of N.Y.	\$ 713,000	\$ 713,000
Federal Funds purchased and securities sold under agreements to repurchase	2,363,557	2,363,557
Total short-term borrowings	<u>\$3,076,557</u>	<u>\$3,076,557</u>
Long-term borrowings		
Subordinated notes	\$ 82,817	\$ 82,817
Total long-term borrowings	<u>\$ 82,817</u>	<u>\$ 82,817</u>
Stockholders' equity		
Preferred stock, \$1 par value, 50,000,000 shares authorized;		
3,600,000 shares of Series A Preferred Stock outstanding,		
3,000,000 shares of Series B Preferred Stock outstanding,		
4,140,000 shares of Series C Preferred Stock outstanding,		
3,680,000 shares of Series D Preferred Stock outstanding, and		
4,000,000 shares of Series E Preferred Stock outstanding, as adjusted	\$ 360,500	\$ 460,500
Common stock, \$1.00 par value, 250,000,000 shares authorized; issued		
44,926,435 and outstanding 40,005,535	44,927	44,927
Treasury stock (4,920,900 shares at par)	(4,921)	(4,921)
Additional paid-in capital	676	0
Capital reserve	70,000	70,000
Legal surplus	149,345	149,345
Retained earnings	188,644	185,770
Accumulated other comprehensive income-unrealized gain on securities available for sale net of tax	46,025	46,025
Total stockholders' equity	<u>\$ 855,196</u>	<u>\$ 951,646</u>

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Table of Contents**Selected financial data**

The following table shows certain selected consolidated financial and operating data of First BanCorp on a historical basis as of and for the six-month periods ended June 30, 2003 and 2002 and for each of the five years in the period ended December 31, 2002. This information should be read together with First BanCorp's Consolidated Financial Statements and the related notes incorporated by reference into the accompanying prospectus. Financial information for the six-month periods ended June 30, 2003 and 2002, is derived from unaudited financial statements, which, in the opinion of management, include all adjustments necessary for a fair presentation of the results for those periods. These adjustments consist only of normal recurring accruals. Results for the six-month period ended June 30, 2003 are not necessarily indicative of results for a full year. First BanCorp has made certain reclassifications to data for years prior to 2003 to conform to 2003 classifications. Certain amounts shown on a per share basis were recalculated, when applicable, to retroactively consider the effect of common stock splits.

The return on average assets ratio is computed by dividing net income by average assets for the period. The return on average common equity ratio is computed by dividing net income less preferred stock dividends by average common stockholders' equity for the period. The average equity to average assets ratio is computed by dividing average assets for the period by average stockholders' equity. The return on average assets and average common equity ratios for the six-month periods ended June 30, 2003 and 2002 have been presented on an annualized basis. The efficiency ratio is computed by dividing the amount of other operating expenses by the sum of net interest income and other income. All ratios have been computed using daily averages and on a taxable equivalent basis.

	For the six months ended June 30,		For the year ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
(\$ in thousands, except per share data)							
Condensed income statements:							
Total interest income	\$255,744	\$273,064	\$540,033	\$516,256	\$463,388	\$369,063	\$321,298
Total interest expense	119,404	135,269	273,184	280,201	272,615	183,330	155,130
Net interest income	136,340	137,795	266,849	236,055	190,773	185,733	166,168
Provision for loan losses	29,164	34,301	62,302	61,030	45,719	47,961	76,000
Net interest income after provision for loan losses	107,176	103,494	204,547	175,025	145,054	137,772	90,168
Gain on sale of investments and trading, net	23,822	617	12,001	9,606	8,269	1,369	30,192
Other income excluding gains on sale of investments and trading, net	25,346	22,872	46,491	43,374	41,763	31,493	28,048
Other operating expenses	78,745	63,697					