The power of 1

2001 annual report

>. This annual report is dedicated to the strength of our identity and individuality. The power of being number one in the mind of consumers; of being a first choice for banking. As First BanCorp we are single in kind and excellence; we have One clear focus, being singular in every way. We represent the power of Oneness: one bank; one institution; one name that stands for the best in financial services and products: First BanCorp. At First BanCorp we are one –exceptional, unmatched and unparalleled.

One is a powerful number. It has the quality of standing alone. It represents us and our most important symbol: **1**.

Table of contents

- Financial Highlights 002
- Offices 004
- One Business Profile 005
- One Message 007
- One Set of Numbers 011
- One Economy 015
- One Team 017
- Financial Review 023
- Financial Statements 045
- Stockholders' Information 083

Financial Highlights

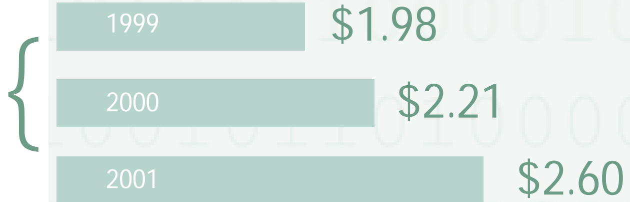
In thousands (except for per share results)

	2001	2000
Operating results:		
Net interest income	$236,055	$190,773
Provision for loan losses	61,030	45,718
Other income	52,980	50,032
Other operating expenses	120,855	113,050
Income tax provision	20,134	14,761
Cumulative effect of accounting change	(1,015)	
Net income	86,001	67,276
Per common share:		
Net income – basic	2.61	2.22
Net income – diluted	2.60	2.21
Weighted average common shares:		
Basic	26,567	26,943
Diluted	26,762	27,145
At year end:		
Assets	$8,197,518	$5,919,657
Loans	4,308,780	3,498,198
Allowance for loan losses	91,060	76,919
Investments	3,715,999	2,233,216
Deposits	4,098,554	3,345,984
Borrowings	3,425,235	2,069,484
Capital	602,919	434,461

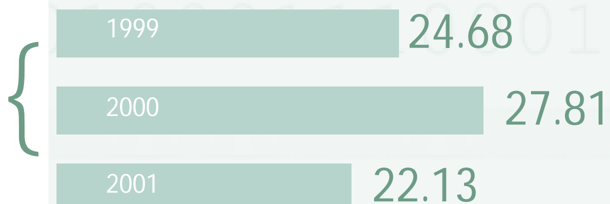
Market price per common share
(End of year)

Return on assets
(Percentage)

Diluted earnings per common share



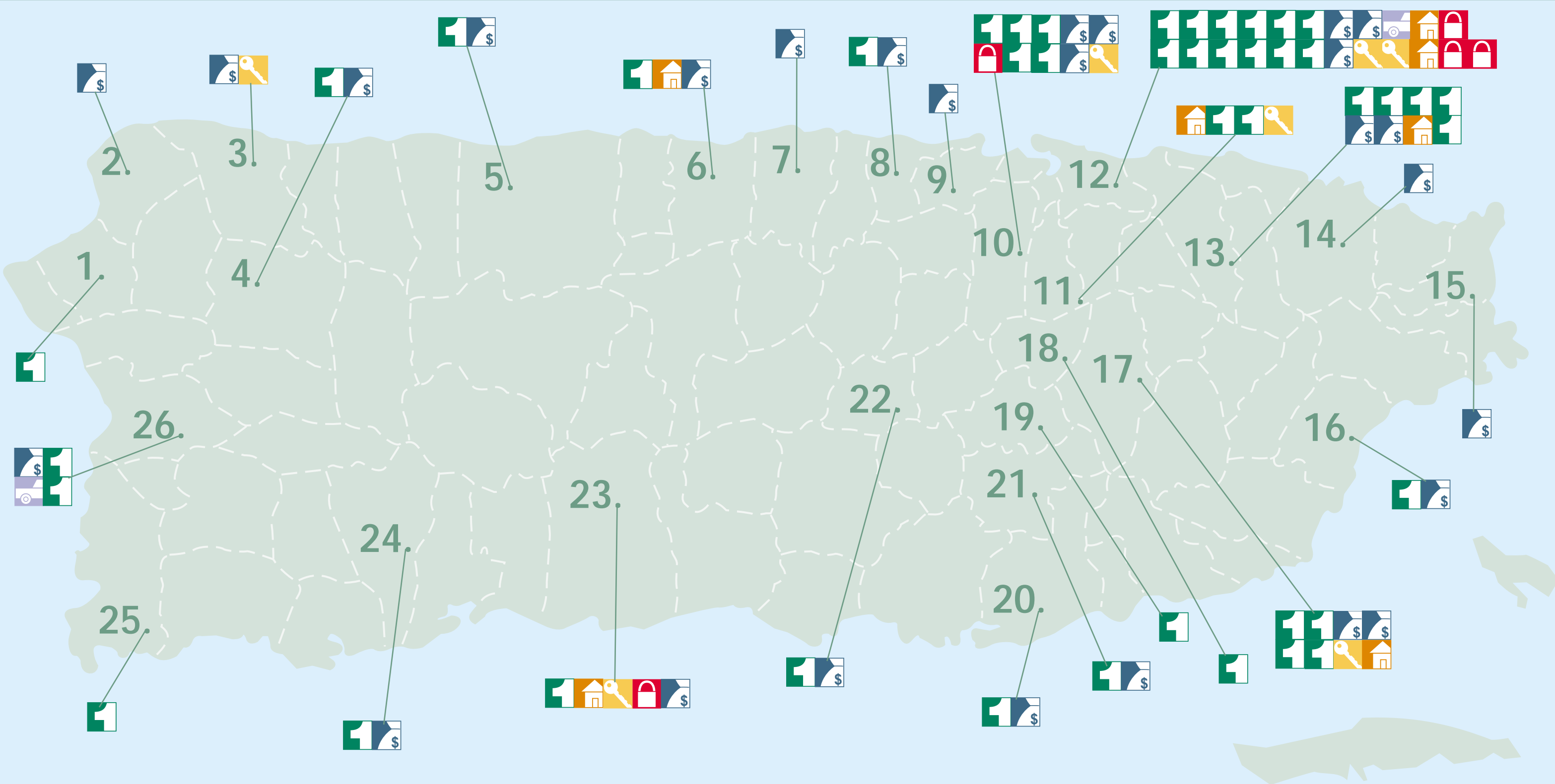
Return on common equity
(Percentage)



Net interest income
(In millions)

Common stockholders' equity
(In millions)

Puerto Rico



U.S.Virgin Islands 27. 28.

Offices

001. Aguada
002. Aguadilla
003. Isabela
004. San Sebastián
005. Arecibo
006. Manatí
007. Vega Baja
008. Dorado
009. Toa Baja
010. Bayamón
011. Guaynabo
012. San Juan
013. Carolina
014. Río Grande
015. Fajardo
016. Humacao
017. Caguas
018. Aguas Buenas
019. Cidra
020. Guayama
021. Cayey
022. Barranquitas
023. Ponce
024. Yauco
025. Cabo Rojo
026. Mayagüez
027. Saint Thomas
028. Saint Croix

Branch	48
Money Express	27
First Leasing & Rental Corp.	7
Auto Loan Center	2
Mortgage Loan Center	7
FirstBank Insurance	5

total.> 96

investment

residential mortgages

insurance

consumer loans

commercial loans

deposits

construction loans

leases

First BanCorp ("the Corporation"), incorporated in Puerto Rico, is the holding company for FirstBank ("the Bank"), the second largest commercial bank in Puerto Rico. First BanCorp also owns an insurance subsidiary, the FirstBank Insurance Agency. First BanCorp had total assets of $8.2 billion as of December 31, 2001. The Corporation, a Financial Holding Company, 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 $2.1 billion portfolio of commercial loans, commercial mortgages, construction loans and other related commercial products. Its commercial clients include businesses of all sizes covering a wide range of economic activities. First BanCorp has a $1.0 billion portfolio of residential mortgages. The institution also has $1.15 billion in consumer loans, concentrated in auto loans and leases, personal loans and credit cards. Its $3.7 billion investment portfolio consists mostly of U.S. Treasury and agency securities and mortgage backed securities. A strategic alliance with a major national brokerage firm allows FirstBank to offer brokerage

First BanCorp has distinguished itself by providing innovative marketing strategies and novel products to attract clients.

services in its largest branches, and the FirstBank Insurance Agency sells insurance from some FirstBank branches as well. Approximately 1,700 professionals and a sophisticated computer system support the business activities of the Corporation.

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

The Corporation, which is a well-capitalized institution under federal standards, operates 48 full service branches including four offices in the U.S. Virgin Islands. The Corporation also has two auto loan centers and seven mortgage loan centers in Puerto Rico. In addition, the FirstBank Insurance Agency operates five sales offices. A second tier subsidiary of First BanCorp, Money Express, operates 27 small loan offices throughout Puerto Rico. First BanCorp also includes a second tier subsidiary known as First Leasing and Rental Corp. which rents and leases motor vehicles from its seven 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. The Corporation was also the first in Puerto Rico to open on weekends and the first to offer in-store branches to its clients. First BanCorp was also the first banking institution in Puerto Rico with a presence on the internet. The Corporation now offers a wide menu of internet banking services to its clients.

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

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

Angel Alvarez-Pérez, President

Growth, diversification, cost control and service have laid the foundations for these achievements.

To our stockholders:

On behalf of the Board of Directors and staff of First BanCorp I am pleased to submit our annual report for 2001, another record year. In 2001 First BanCorp earned $86.0 million, representing $2.61 per common share (basic) or $2.60 per common share (diluted). These earnings compare favorably with 2000, when the Corporation earned $67.3 million, which came to $2.22 per common share (basic) or $2.21 per common share (diluted).

Net income increased 27.8% and diluted earnings per share rose 17.6% in 2001. The Corporation achieved a 22.13% return on common equity in 2001, while the return on average assets was 1.28%. The efficiency ratio improved to an outstanding 41.81%. Growth, diversification, cost control and service have laid the foundations for these achievements. I will emphasize those four themes in this letter.

New Initiatives and Growth

Our business grew substantially last year. Assets rose 38.5% from $5.9 billion at year-end 2000 to $8.2 billion at the end of 2001. Loans increased 23.2% to $4.3 billion, due mainly to an $822 million increase in residential mortgage and commercial lending. Deposits increased 22.5% to $4.1 billion.

During 2001 First BanCorp created a new subsidiary, the FirstBank Insurance Agency. The Gramm Leach Bliley Act and related changes in local laws now permit Financial Holding Companies to enter the insurance business. The FirstBank Insurance Agency will not underwrite insurance or cover risks. It will sell third party insurance from FirstBank branches using its own licensed representatives. The new company will initiate operations in five branches during 2002 and we expect it to grow steadily in coming years. The FirstBank Insurance Agency moves us one step closer to "one stop shopping" for financial services.

At the beginning of 2002 we announced plans to acquire the operations of JP Morgan Chase & Co. in the Virgin Islands. This transaction is subject to regulatory approval and to a formal agreement concerning its details. Chase's Virgin Islands operations include over $500 million of assets, including eight branches and 14 ATM locations on four islands. This acquisition also includes an insurance agency, Chase Agency Services, Inc. and an export service company, Chase Trade, Inc. This acquisition shows our commitment to the Virgin Islands, where we currently have four offices. FirstBank has been serving the U.S. Virgin Islands since 1962.

>. Strategic Relationships with Other Firms

FirstBank has an agreement with a major national brokerage house to provide financial and investment services in our branches. They have opened offices in twelve FirstBank facilities, while serving our remaining branches by telephone. On December 31 that firm had accounts totaling approximately $115 million in the Corporation's offices. During 2001 FirstBank also provided consulting services to Goldman Sachs for seven Puerto Rico bond issues totaling $6.3 billion.

During 2001 FirstBank also entered new relationships with other firms. The Bank began providing a credit card for clients of a local furniture chain, with approximately 35 outlets and 900 employees, which is currently expanding its operations on the Island. The Bank already offers credit cards for Texaco and Western Auto in Puerto Rico.

Second, First BanCorp purchased an eight percent share of Southern Security Bank, a small Florida institution that is changing its name to Pan American Bank. First BanCorp also owns approximately two percent share in a new Florida banking institution, American Premier Bank. Both institutions are small, community banks that emphasize service. Management remains interested in the Florida banking market. Expansion there remains a possibility, depending on business opportunities and market conditions.

In coming years we will continue working to develop strategic arrangements with established firms. Such alliances allow both

parties to contribute their own specialized knowledge, experience and customer relationships to each specific venture.

>. Funding and Liability Management

We have also been adding new sources of funding. In March 2001 the Corporation opened a new branch in Plaza Guaynabo, a local shopping center in a high income area. This branch has drive-through facilities. During 2002 the Corporation plans to open another office in a new shopping center in the San Juan metropolitan area. These expansions are part of a long-term effort to improve and modernize the Corporation's branch network.

First BanCorp also introduced a CD whose yield is indexed to the S&P 500 stock index. This product complements the existing Dow Jones indexed CD. Both will help the Corporation compete for savings and retirement funds by offering higher long term returns than conventional savings accounts and CD's.

During 2001 First BanCorp also issued $103.5 million of preferred stock, successfully completing the largest Puerto Rico preferred stock offering ever. At the end of 2001 the Corporation's core capital ratio was 7.49% and the risk-based ratio was 14.50%. We closed an additional $92 million preferred stock issue at the beginning of 2002, ensuring a comfortable margin for future growth. In addition, the Corporation has restructured its balance sheet to reduce interest rate risk.

>. Client Service and Corporate Image

First Bancorp has traditionally had a special place in the minds of consumers in Puerto Rico. Our institution began operations in 1948 as "First Federal Savings Bank" and for many years was the leading Savings and Loan institution on the island. Even after converting to a commercial bank in 1994 the Corporation specialized in consumer lending for many years. While we have diversified into commercial lending during the past four years, our base of 600,000 to 700,000 local clients remains, along with our roots in the Puerto Rican community.

As a community service project we have been running a series of advertising campaigns to promote awareness and encourage membership in the Puerto Rico Conservation Trust, a foundation which conserves historic landmarks on the Island. The program featured an "Isla Viva" bank account for children, which included a membership in the same organization. In addition, the program introduced an "Isla Viva" credit card which contributes to the Conservation Trust. This program won the 2001 Excel prize, an award given by the Association of Public Relations Professionals of Puerto Rico for the best public relations program of the year.

First BanCorp has traditionally had a special place in the minds of consumers...

In response to the economic slowdown on the Island, Management also began a campaign to encourage Puerto Ricans to visit local stores and restaurants, to travel throughout the Island, and to invest in Puerto Rico. The local business community reacted favorably.

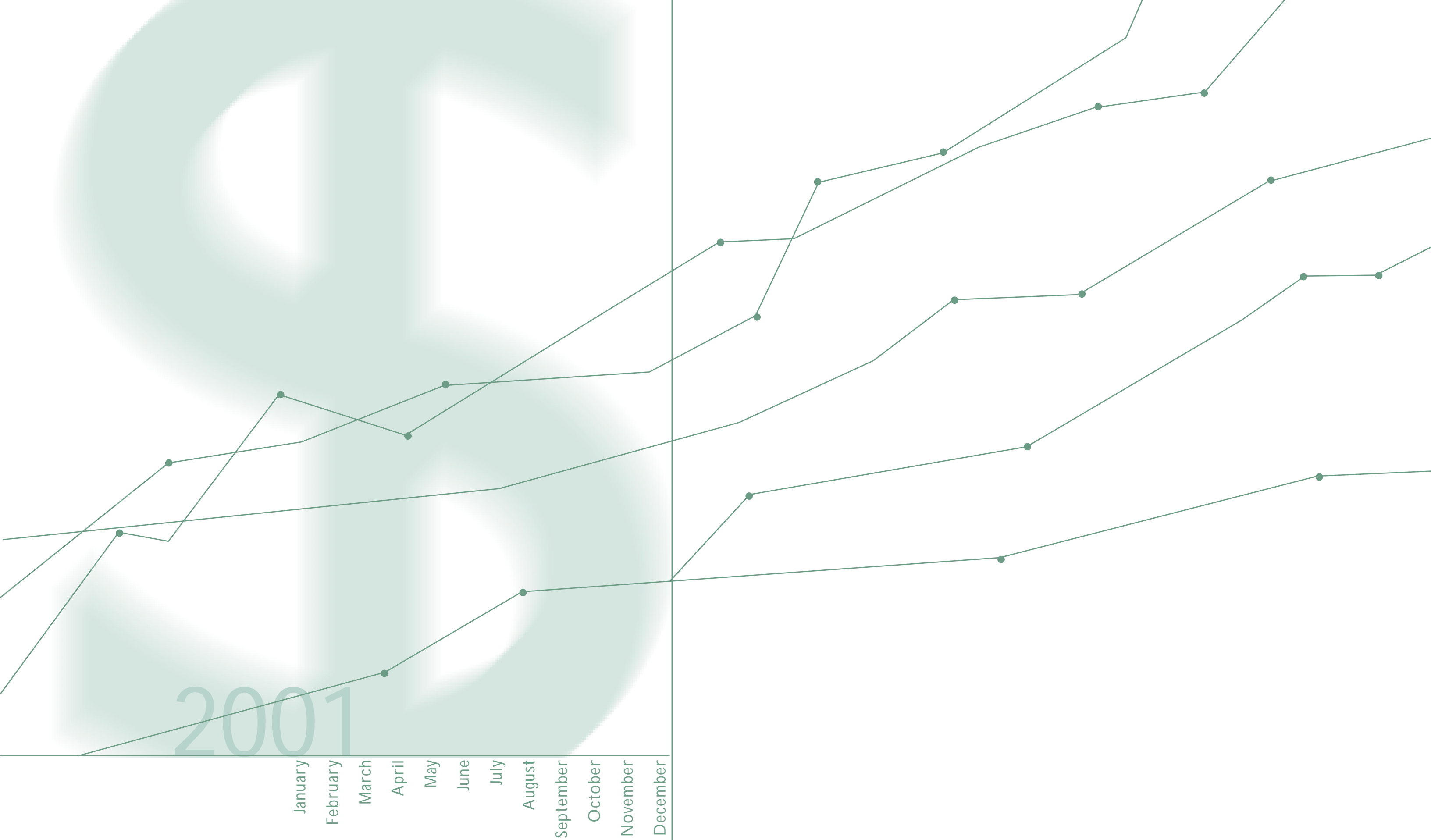
Finally, Management launched a three-year effort to further improve service in all areas of our operations. Our continuing efforts to automate branch operations will form part of this process. Beyond this, quality teams composed of bank officers and employees will evaluate, design and implement improved procedures throughout the organization. The goal of this effort is to fully satisfy the banking needs of all our consumer and corporate clients.

>. Enhancing Shareholder Value

The efforts of our Management and employees have paid off in strong earnings growth in 2001. The Corporation experienced a return on common equity of 22.13% compared with 27.81% last year. Our stock price has reflected these strong results, and our shareholders experienced a return of 22.86% on their investment during 2001. Investors who held First BanCorp stock over the ten year period from year-end 1991 to year-end 2001 received a cumulative total return of 3,397%. Officers and directors of First BanCorp own approximately 16 percent of its shares. This shows their confidence in First BanCorp's future and their commitment to keep its fundamentals sound.

As First BanCorp begins another year of growth and service to the Puerto Rican and Virgin Islands 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 we will provide better service than ever to our clients, while benefiting employees and stockholders in the years to come.

Angel Alvarez-Pérez
Chairman
President
Chief Executive Officer



One 1 Set of Numbers - Achievements in 2001

Record profits made 2001 a successful year as First BanCorp earned $86.0 million, which comes to $2.61 per common share (basic) or $2.60 per common share (diluted). In 2000 the Corporation earned $67.3 million, the equivalent of $2.22 (basic) or $2.21 (diluted) per common share. Net income increased by 27.8% in 2001, or 17.6% per share on a diluted basis. Net interest income was the key factor in this outstanding performance, and it grew 23.7% to $236.1 million during 2001.

Loans increased by $810.6 million or 23.2% for the year, as residential mortgage and commercial loans grew $822 million. The investment portfolio grew by $1.5 billion. During 2001 deposits grew from $3.3 billion to $4.1 billion, an increase of $1.0 billion, or 22.5%.

>. Diversification of the Balance Sheet

Management has been pursuing a consistent strategy of shifting the lending portfolio towards commercial lending without sacrificing the consumer area. During the latter part of the 1990's Management supported this expansion by recruiting experienced executives and other personnel, by adding new

computer programs and capacity, and by offering new products tailored to commercial clients.

During 2001 the Corporation continued this transition as commercial loans grew $557 million to $2.1 billion while consumer lending remained roughly constant at $1.15 billion. In the five years between the end of 1996 and the end of 2001 consumer loans declined from 61.0% to 26.7% of the Corporation's loan portfolio, while commercial loans increased from 23.3% to 49.8%. Residential mortgage loans increased from 15.7% to 23.5%. In absolute terms, commercial loans grew from $0.4 billion in 1996 to $2.1 billion in 2001.

The inauguration of the FirstBank Insurance Agency in 2001 will lead to further diversification. It will lay the groundwork for greater fee income in the future, and complement the First Securities operation in providing a greater variety of services for clients. These changes are transforming First BanCorp into a full service financial holding company which emphasizes both commercial and consumer lending.

>. Cost Control and Restructuring

During 2001 First BanCorp continued its outstanding record in cost control. The Corporation had an efficiency ratio of 41.81%, considerably better than the 46.95% of 2000. These results compare favorably with others in the industry. Operating expenses rose by 6.9% in 2001, from $113.0 million to $120.9 million.

Improvements in data processing technology continued to move forward in 2001. Having introduced internet banking in 2000, the Corporation will be advancing the process of branch automation by mechanizing clerical functions such as opening accounts and handling documents. Teller functions were previously streamlined in 2000. During 2002 the Corporation will also add a larger, more modern mainframe computer which will triple previous computing capacity. These changes will allow the Corporation to continue growing and improving customer service.

The Corporation opened one strategically important branch in 2001 and plans another opening during 2002. Both these branches are located in shopping centers in the San Juan metropolitan area. In addition, First BanCorp is beginning a three year total quality campaign to improve service quality in all areas of the institution. These changes will make the branch network more efficient and serve clients better.

>. Asset Quality

Despite economic growth on the island slowing, Management has mostly maintained the hard-won gains in asset quality

achieved since 1998, when the Corporation improved its underwriting, introduced tighter approval procedures and improved computer systems. The quality of the Corporation's assets contributed importantly to the record profits last year.

During 2001 First BanCorp wrote off $47.0 million of loans on a net basis, compared with $42.0 million in 2000, $44.6 million in 1999 and $66.2 million in 1998. The amounts provided for loan losses have followed a similar trend. They were $61.0 million in 2001, $45.7 million in 2000, $48.0 million in 1999 and $76.0 million in 1998. On December 31, 2001 non-performing loans totaled $73.0 million, compared to $67.7 million on the same date in 2000, and $53.8 million at the end of 1999.

These trends took place as the overall loan portfolio more than doubled to $4.3 billion at the end of 2001 from $2.1 billion at the end of 1998. The Corporation has built its loan loss reserves in line with this growth. Loan loss reserves reached $91.1 million at the end of 2001, compared with $76.9 million for 2000, $71.8 million for 1999 and $67.9 million for 1998. As a result, the reserve coverage ratio (allowance for loan losses as a percentage of non-performing loans) has remained above100% in the recent past. It was 124.7% at the end of 2001, 113.6% at the end of 2000, 133.4% at year-end 1999 and 119.1% at the end of 1998.

Overall, loan quality has been improving even as the size of the loan portfolio has grown. At the end of 2001 the ratio of non-performing loans to total loans had fallen to 1.69%, compared with 1.94% at the end of 2000, 1.96% at the end of 1999 and 2.69% at year-end 1998. Maintaining good asset quality has been an achievement, in view of the recessionary environment which prevailed during 2001.

>. Restructuring Liabilities and Capital

Management also restructured the Corporation's liabilities during 2001, adding fixed rate borrowings and deposits with terms ranging from two to five years. These changes have reduced the Corporation's exposure to interest rate risk in the future.

During 2001 Management also strengthened the capital structure of First BanCorp by issuing $103.5 million in preferred stock, the largest issue of its type ever undertaken in Puerto Rico. Management closed an additional $92 million issue of preferred stock in early 2002. Although assets grew substantially during 2001 these transactions helped the Corporation to maintain a solid and prudent capital structure. As of December 31, 2001 the core capital ratio was 7.49% and the risk based capital ratio was 14.50%.

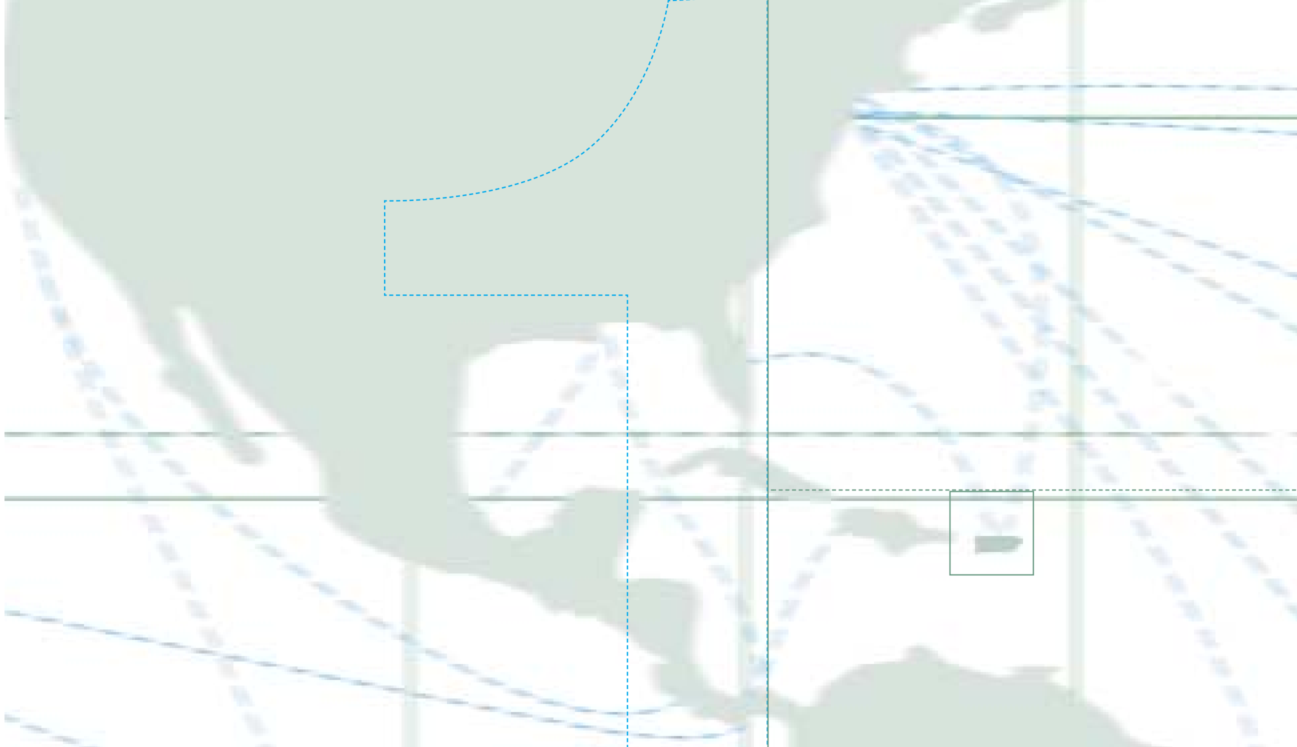
Maintaining good asset quality has been an achievement, in view of the recessionary environment which prevailed during 2001.

>. Increasing Shareholder Value

The financial results reported here continue a pattern of growth and improving asset quality that has been consistent for several years. The results have been very beneficial to shareholders. First BanCorp's return on common equity was 22.13% in 2001, while the return on average assets was 1.28%. Dividends were increased in 2001, but the payout ratio remained a conservative 19.91% compared with 19.72% in 2000.

First BanCorp shareholders experienced a total return of 22.86% on their investment during 2001. Investors who held First BanCorp stock over the ten year period from year-end 1991 to year-end 2001 received a cumulative total return of 3,397%.

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 2002 and in the years to come.



One 1 Economy

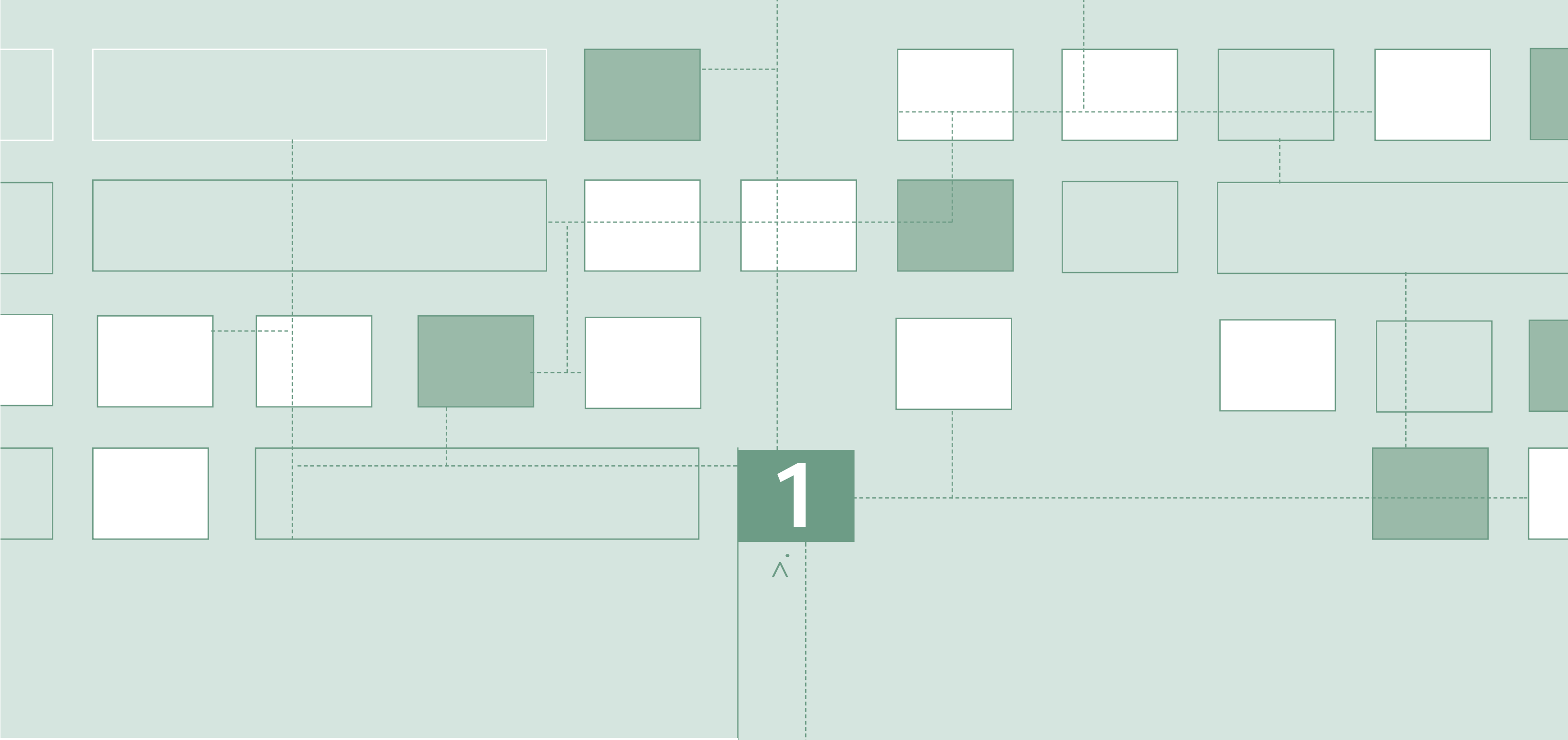
The Island of Puerto Rico is a U.S. Commonwealth with a population of 3.8 million, located in the Caribbean approximately 1,600 miles southeast of New York. Puerto Rico enjoyed solid economic growth over most of the 1990's. Real GNP grew by 3.1% in the 2000 fiscal year, according to the most recent official data available. Economists project a slowdown to less than 2% during fiscal 2001 and a small decline in fiscal 2002 due to the U.S. recession.

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

Puerto Rico 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. The reduction of tax incentives has combined with intense wage competition in other areas and the U.S. recession to reduce manufacturing employment.

Still, Puerto Rico is becoming somewhat less dependent on manufacturing than it was in the early postwar period. While manufacturing is still an important part of its economy, Puerto Rico has been diversifying to include tourism, services and transportation.

During the recent slowdown construction activity has held up well, but manufacturing and consumption have weakened somewhat. Tourism has been affected along with the rest of the Caribbean region, though new hotels have mitigated this effect. Economists expect a decrease of less than 1% in real GNP during fiscal 2002 followed by recovery and growth in future years.



One 1 team

Juan Acosta Reboyras
Francisco D. Fernández
José Teixidor

>.

Board of Directors

Jorge L. Díaz Irizarry
José Julián Alvarez
Rafael Bouet

>.

Annie Astor-Carbonell
Angel Alvarez-Pérez, Chairman
Germán E. Malaret

>.

José L. Ferrer Canals
Héctor M. Nevares

>.

Angel Alvarez-Pérez

Annie Astor-Carbonell

Luis M. Beauchamp

Aurelio Alemán

Fernando L. Batlle

Ricardo N. Ramos

First BanCorp Officers

President >. **Angel Alvarez-Pérez** Chief Executive Officer

Senior Executive Vice Presidents >. **Annie Astor-Carbonell** Chief Financial Officer
Luis M. Beauchamp Chief Lending Officer

Executive Vice Presidents >. **Aurelio Alemán** Retail Banking
Fernando L. Batlle Branch Banking, Mortgages
Ricardo N. Ramos First Securities
Randolfo Rivera Commercial Wholesale

Senior Vice Presidents >. **José H. Aponte** Commercial Mortgage
Miguel Babilonia Credit Policy & Portfolio Management
Luis Cabrera Treasury & Investments
Eva Candelario Corporate Business Development
James E. Crites Sales & Distribution Virgin Islands
Aida M. García Human Resources
Michael García Consumer Collection
Fernando Iglesias Special Loans
Roger Lay Internal Audit
Miguel Mejías Information Systems
Carmen Nigaglioni Middle Market
John Ortiz Remote Banking
Haydeé Rivera Branch Banking Operations
Julio Rivera Construction Lending
Carmen Rocafort Structured Financing
Josianne M. Rosselló Marketing & Public Relations
Demetrio Santiago Auto Wholesale
Héctor Santiago Auto Business & Operations
Denisse Segarra Sales & Distribution
Laura Villarino Controller

Vice Presidents >.

Alexis Aguiar Structured Financing
William Alvarez Indirect Business & Merchants
José Alvelo Information Systems
Marga Avilés Consumer Loans Operations
Beverly Bachetti Private Banking
María Benabe Consumer Collections
Ana Colón Centralized Accounting
Wanda Cooper Customer Care Center
Lenitzia Delgado Corporate Services
Mayra Gascot Information Systems
David González Corporate Business Development
Nelson González Structured Financing
Gilberto López Middle Market
Marcelo López Sales & Distribution
Juanita Marrero First Mortgage
José Negrón Auto Lot
José Nevárez Information Systems
Luis Orengo Commercial Wholesale
Eduardo Ortiz Auto Wholesale
María Cristina Oruña Customer Relationship Management
Osvaldo Padilla Corporate Services
Reynaldo Padilla Auto Finance
Miguel Pimentel Corporate Business Development
Dionisio Ramírez Construction Lending
Jorge Rendón Operational Support
Migdalia Rivera Middle Market
Sandra Rivera Consumer Collections
Belinda Rodríguez Remote Sale
José L. Rodríguez Information Systems
Elizabeth Sánchez Marine Financing
Roberto Sánchez Consumer Loans Credit Risk
José J. Santiago Commercial Wholesale
Ramón Santiago Asset Based Unit
Miguel Santín Corporate Banking
Carmen Szendrey Legal Counsel
Carmen Torres Branch Manager
Raphael Torres Sales & Distribution

>. First Federal Finance Corporation DBA Money Express "La Financiera"

Angel Alvarez-Pérez
Chief Executive Officer
Aurelio Alemán
President and Chief Operating Officer
Carlos Power
Senior Vice President and General Manager

>. First Leasing and Rental Corporation

Angel Alvarez-Pérez
Chief Executive Officer
Aurelio Alemán
President and Chief Operating Officer
Agustín Dávila
General Manager

>. FirstBank Insurance Agency, Inc.

Angel Alvarez-Pérez
Chief Executive Officer
Aurelio Alemán
President and Chief Operating Officer
Víctor Santiago
Product Development Manager

1 First BanCorp

<.

1 First Bank

<.

1 First Bank Insurance
AGENCY, INC.

>.

1 First Leasing
& RENTAL CORPORATION

>.

money express

Financial Review

>. The table on the following pages shows the Corporation's history in numbers. From 1991 to 2001, the Corporation reported consistent growth without restating earnings. Over this period, asset size increased more than fourfold from $1.9 billion to $8.2 billion, while book value per common share grew ninefold from $1.35 to $12.59. Earnings also increased as net income grew more than eight times from $10 million to $86 million. The efficiency ratio improved dramatically from 63.69% to 41.81%, and diluted per share earnings grew tenfold from $0.22 to $2.60. Since 1991 First BanCorp has transformed itself from First Federal Savings Bank, a small Savings and Loan Institution, into First BanCorp, a diversified financial services organization.

Selected Financial Data

(In thousands except for per share results)	2001	2000	1999	1998
Condensed Income Statements:				
Total interest income	$516,256	$463,388	$369,063	$321,298
Total interest expense	280,201	272,615	183,330	155,130
Net interest income	236,055	190,773	185,733	166,168
Provision for loan losses	61,030	45,719	47,961	76,000
Other income	52,980	50,032	32,862	58,240
Other operating expenses	120,855	113,049	101,271	91,798
Unusual item - SAIF assessment				
Income before income tax provision, extraordinary item and cumulative effect of accounting change	107,150	82,037	69,363	56,610
Provision for income tax	20,134	14,761	7,288	4,798
Income before extraordinary item and cumulative effect of accounting change	87,016	67,276	62,075	51,812
Extraordinary item				
Cumulative effect of accounting change	(1,015)			
Net income	86,001	67,276	62,075	51,812
Per Common Share Results (1):				
Income before extraordinary item and cumulative effect of accounting change diluted	$2.64	$2.21	$1.98	$1.74
Extraordinary item				
Cumulative effect of accounting change	(0.04)			
Net income per common share diluted	$2.60	$2.21	$1.98	$1.74
Net income per common share basic	$2.61	$2.22	$2.00	$1.75
Cash dividends declared	$0.52	$0.44	$0.36	$0.30
Average shares outstanding	26,567	26,943	28,941	29,586
Average shares outstanding diluted	26,762	27,145	29,199	29,858
Balance Sheet Data: End of year				
Loans and loans held for sale	$4,308,780	$3,498,198	$2,745,368	$2,120,054
Allowance for possible loan losses	91,060	76,919	71,784	67,854
Investments	3,715,999	2,233,216	1,811,164	1,800,489
Total assets	8,197,518	5,919,657	4,721,568	4,017,352
Deposits	4,098,554	3,345,984	2,565,422	1,775,045
Borrowings	3,425,236	2,069,484	1,803,729	1,930,488
Total common equity	334,419	269,461	204,902	270,368
Total equity	602,919	434,461	294,902	270,368
Book value per common share	12.59	10.20	7.30	9.17
Regulatory Capital Ratios (In Percent): End of year				
Total capital to risk weighted assets	14.50	14.43	16.16	17.39
Tier 1 capital to risk weighted assets	12.16	11.23	11.64	11.55
Tier 1 capital to average assets	7.49	7.28	7.47	6.59
Selected Financial Ratios (In Percent): Year ended				
Net income to average total assets	1.28	1.28	1.49	1.48
Interest rate spread (2)	3.64	3.38	4.29	4.76
Net interest income to average earning assets (2)	4.08	3.91	4.85	5.27
Yield on average earning assets (2)	8.42	9.21	9.29	9.83
Cost on average interest bearing liabilities	4.78	5.83	5.00	5.07
Net income to average total equity	16.20	21.21	21.06	20.54
Net income to average common equity	22.13	27.81	24.68	20.54
Average total equity to average total assets	7.92	6.05	7.07	7.22
Dividend payout ratio	19.91	19.72	17.96	17.12
Efficiency ratio (3)	41.81	46.95	46.33	40.91
Offices:				
Number of full service branches	48	48	48	40
Loan origination offices	43	38	41	45

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

1997	1996	1995	1994	1993	1992	1991
$285,160	$256,523	$208,488	$180,309	$159,433	$158,993	$171,789
130,429	113,027	96,838	76,674	72,413	85,986	109,942
154,731	143,496	111,650	103,635	87,020	73,007	61,847
55,676	31,582	30,894	17,674	18,669	13,596	16,444
39,866	29,614	48,268	18,169	17,123	13,563	18,895
83,268	82,498	65,628	60,760	56,994	54,745	51,423
	9,115					
55,653	49,915	63,396	43,370	28,480	18,229	12,875
8,125	12,281	14,295	12,385	6,525	2,879	1,420
47,528	37,634	49,101	30,985	21,955	15,350	11,455
			(429)		(870)	(1,400)
				6,840		
47,528	37,634	49,101	30,556	28,795	14,480	10,055
$1.58	$1.22	$1.58	$1.01	$0.63	$0.37	$0.26
			(0.02)		(0.03)	(0.04)
				0.21		
$1.58	$1.22	$1.58	$0.99	$0.84	$0.34	$0.22
$1.58	$1.22	$1.61	$1.02	$0.94	$0.41	$0.25
$0.24	$0.20	$0.08	N/A	N/A	N/A	N/A
30,036	30,794	30,592	29,977	29,322	28,584	28,584
30,204	30,952	31,118	30,859	32,946	34,065	33,237
$1,959,301	$1,896,074	$1,556,606	$1,501,273	$1,237,928	$1,182,409	$1,264,380
57,712	55,254	55,009	37,413	30,453	30,474	29,001
1,276,900	830,980	785,747	595,555	603,373	636,781	564,431
3,327,436	2,822,147	2,432,816	2,174,692	1,913,902	1,888,754	1,898,399
1,594,635	1,703,926	1,518,367	1,493,445	1,398,247	1,359,448	1,396,066
1,461,581	889,668	700,609	538,080	400,977	415,257	408,414
236,379	191,142	171,202	120,015	92,785	50,194	38,410
236,379	191,142	171,202	120,015	92,785	88,622	74,146
7.93	6.32	5.51	3.99	3.14	1.75	1.35
17.26	15.25	16.17	9.76	9.05	9.32	7.08
11.07	9.32	9.93	8.50	7.79	8.06	5.75
7.44	6.65	6.82	5.74	4.70	4.60	3.74
1.63	1.48	2.22	1.53	1.53	0.78	0.53
5.30	5.46	5.07	5.23	4.73	3.66	3.19
5.83	6.03	5.59	5.65	5.10	4.04	3.39
10.45	10.63	10.12	9.63	9.10	8.80	9.41
5.15	5.17	5.05	4.40	4.37	5.14	6.22
22.30	20.49	33.19	29.07	30.36	17.70	14.38
22.30	20.49	33.19	29.07	39.68	26.37	20.20
7.32	7.23	6.68	5.27	5.05	4.38	3.67
15.14	16.32	5.06	N/A	N/A	N/A	N/A
42.79	47.66	41.04	49.88	54.73	63.24	63.69
36	36	36	32	33	33	33
44	47	43	23	9	4	1

FINANCIAL REVIEW SUMMARY

For the year 2001, First BanCorp (the Corporation) recorded earnings of $86,001,444 or $2.61 per common share basic and $2.60 per common share diluted, compared to $67,275,609 or $2.22 per common share basic and $2.21 per common share diluted for 2000, and $62,074,949 or $2.00 per common share basic and $1.98 per common share diluted for 1999.

The increase in the Corporation's earnings is attributed to the net interest income earned on the growing portfolio of average earning assets, net of increases in operating expenses, a higher provision for loan losses and income taxes. For 2001 as compared to 2000, net income increased by $18,725,835 or $0.39 per common share diluted, and for 2000 as compared to 1999, by $5,200,660 or $0.23 per common share diluted.

Return on average assets was 1.28% for 2001 and 2000 and 1.49% for 1999. Return on average equity was 16.20% for 2001, 21.21% for 2000 and 21.06% for 1999. Return on average common equity was 22.13% for 2001, 27.81% for 2000 and 24.68% for 1999.

RESULTS OF OPERATIONS

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

Net Interest Income

Net interest income increased to $236 million for 2001 from $191 million in 2000 and $186 million in 1999. The increase in net interest income for the year 2001 is the result of volume increases of $1,307 million in the Corporation's average loan and investment portfolios, and the improvement in the net interest margin.

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

Part I Year ended December 31,	Average volume 2001	2000	1999	Interest income **(1)** / expense 2001	2000	1999	Average rate **(1)** 2001	2000	1999
				(Dollars in thousands)					
Earning assets:									
Money market instruments	$ 46,517	$ 9,293	$ 27,344	$ 1,476	$ 527	$ 450	3.17%	5.67%	1.65%
Government obligations	588,932	528,903	415,742	35,955	36,043	24,997	6.11%	6.81%	6.01%
Mortgage backed securities	1,711,980	1,457,044	1,294,195	126,098	100,415	92,157	7.37%	6.89%	7.12%
Corporate bonds	247,094	51,508	18,646	21,230	4,366	1,598	8.59%	8.48%	8.57%
FHLB stock	21,841	18,008	16,170	1,289	1,249	1,101	5.90%	6.94%	6.81%
Total investments	2,616,364	2,064,756	1,772,097	186,048	142,600	120,303	7.11%	6.91%	6.79%
Consumer loans	1,036,637	1,026,044	1,013,782	140,050	140,635	138,130	13.51%	13.71%	13.63%
Residential real estate loans	869,374	573,866	327,700	65,496	49,115	30,754	7.53%	8.56%	9.38%
Construction loans	219,890	169,257	94,940	17,323	18,251	9,216	7.88%	10.78%	9.71%
Commercial loans	1,584,910	1,210,783	847,917	119,867	110,808	75,879	7.56%	9.15%	8.95%
Finance leases	127,872	103,114	68,577	14,661	12,499	9,080	11.47%	12.12%	13.24%
Total loans **(2)**	3,838,683	3,083,064	2,352,916	357,397	331,308	263,059	9.31%	10.75%	11.18%
Total earning assets	$6,455,047	$5,147,820	$4,125,013	$543,445	$473,908	$383,362	8.42%	9.21%	9.29%
Interest bearing liabilities:									
Interest bearing checking accounts	$ 186,111	$ 162,456	$ 140,690	$ 5,926	$ 5,546	$ 4,931	3.18%	3.41%	3.50%
Savings accounts	436,595	433,937	413,662	12,954	12,792	12,381	2.97%	2.94%	2.99%
Certificate accounts	2,859,181	2,173,244	1,373,263	141,878	134,945	73,177	4.96%	6.20%	5.33%
Interest bearing deposits	3,481,887	2,769,637	1,927,615	160,758	153,283	90,489	4.62%	5.53%	4.69%
Other borrowed funds	2,125,022	1,851,524	1,728,913	106,858	116,130	92,370	5.03%	6.27%	5.34%
FHLB advances	256,354	51,053	8,451	12,585	3,201	471	4.91%	6.27%	5.57%
Total interest bearing liabilities	$5,863,263	$4,672,214	$3,664,979	$280,201	$272,614	$183,330	4.78%	5.83%	5.00%
Net interest income				$263,244	$201,294	$200,032			
Interest rate spread							3.64%	3.38%	4.29%
Net interest margin							4.08%	3.91%	4.85%

(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.

Part II	2001 compared to 2000 Increase (decrease) Due to:			2000 compared to 1999 Increase (decrease) Due to:		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Earning assets:						
Money market instruments	$ 1,646	$ (697)	$ 949	$ (661)	$ 738	$ 77
Government obligations	3,878	(3,966)	(88)	7,413	3,633	11,046
Mortgage backed securities	18,437	7,246	25,683	11,410	(3,152)	8,258
Corporate bonds	16,803	61	16,864	2,742	26	2,768
FHLB stock	246	(206)	40	128	20	148
Total investments	41,010	2,438	43,448	21,032	1,265	22,297
Consumer loans	1,505	(2,090)	(585)	1,678	827	2,505
Residential real estate loans	23,778	(7,397)	16,381	22,085	(3,724)	18,361
Construction loans	4,729	(5,657)	(928)	7,915	1,120	9,035
Commercial loans	30,796	(21,737)	9,059	33,172	1,757	34,929
Finance leases	2,920	(758)	2,162	4,380	(961)	3,419
Total loans	63,728	(37,639)	26,089	69,230	(981)	68,249
Total interest income	104,738	(35,201)	69,537	90,262	284	90,546
Interest bearing liabilities:						
Deposits	36,152	(28,677)	7,475	44,546	18,248	62,794
Other borrowed funds	15,454	(24,726)	(9,272)	6,881	16,879	23,760
FHLB advances	11,476	(2,092)	9,384	2,664	66	2,730
Total interest expense	63,082	(55,495)	7,587	54,091	35,193	89,284
Change in net interest income	$41,656	$20,294	$61,950	$36,171	$(34,909)	$ 1,262

Total interest income includes tax equivalent adjustments of $27 million, $11 million and $14 million for 2001, 2000, and 1999, respectively. On a tax equivalent basis, net interest income increased to $263 million for 2001 from $201 million for 2000, and $200 million for 1999. The interest rate spread and net interest margin amounted to 3.64% and 4.08%, respectively, for 2001, as compared to 3.38% and 3.91%, respectively, for 2000 and to 4.29% and 4.85%, respectively, for 1999.

2001 compared to 2000

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

For the loan portfolio, the growth in 2001 of $374 million in the average volume of commercial loans (including commercial real estate loans) represented an increase of $31 million in interest income due to volume, and a decrease of $22 million in interest income due to rate. The average portfolio of construction loans increased by $51 million for 2001, representing a positive volume variance of $5 million and a negative rate variance of $6 million. The average portfolio of residential mortgage loans increased by $296 million for 2001, representing a positive volume variance of $24 million and a negative rate variance of $7 million. The average finance lease portfolio (mostly composed of consumer loans) increased by $25 million in 2001, representing a positive volume variance of $3 million. The increase of $11 million in the average volume of consumer loans in 2001, represented a positive variance in interest income due to volume of $2 million

and a negative rate variance of $2 million. The increase in the commercial and construction loans portfolio resulted from the Corporation's strategy to diversify its asset base.

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

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

2000 compared to 1999

On a tax equivalent basis interest income increased by $91 million for 2000 as compared to 1999. On a tax equivalent basis the yield on earning assets was 9.21% for 2000 as compared to 9.29% for 1999. The increase in interest income results from the growth in the average volume of interest earning assets of $1,023 million in 2000. On a rate/volume basis, the increase of $1 million in net interest income (on a tax equivalent basis) is the result of a positive volume variance of $36 million, net of a negative rate variance of $35 million. During 2000 the Federal Reserve Bank tightened the monetary policy, raising the federal fund rate by approximately 100 basis points. At the same time, long term rates fell during the latter part of the year as markets began to anticipate a slowdown (the ten year note fell 104 basis points from December, 1999 to December, 2000). These trends inverted the yield curve during the latter part of 2000, reducing the Corporation's interest rate spread and net interest margin.

For the loan portfolio, the growth in 2000 of $363 million in the average volume of commercial loans (including commercial real estate loans) represented an increase of $33 million in interest income due to volume, and an increase of $2 million in interest income due to rate. The average portfolio of construction loans increased by $74 million for 2000, representing a positive volume variance of $8 million and a positive rate variance of $1 million. The average portfolio of residential mortgage loans increased by $246 million for 2000, representing a positive volume variance of $22 million. The average finance lease portfolio (mostly composed of consumer loans) increased by $35 million in 2000, representing a positive volume variance of $4 million. The increase of $12 million in the average volume of consumer loans in 2000, represented a positive variance in interest income due to volume of $2 million. The increase in the commercial real estate, construction and commercial loans portfolio resulted from the Corporation's strategy to diversify its asset base, which was concentrated in higher risk consumer loans.

For the investment portfolio, the average volume of mortgage backed securities increased by $163 million in 2000. The tax equivalent yield on mortgage backed securities was 6.89% in 2000 and 7.12% in 1999. The portfolio of mortgage backed securities contributed $11 million in interest income due to volume net of $3 million decrease in interest income due to rate. The average volume of government obligations increased by $113 million for 2000 as compared to 1999, causing a total increase in interest income of $11 million.

Interest expense increased by $89 million for 2000 as compared to 1999. This was the result of the increase in the average volume of interest bear-

ing liabilities of $1,007 million for 2000 as compared to 1999 which generated a volume variance of $54 million, together with an increase in the cost of interest bearing liabilities from 5.00% for 1999 to 5.83% for 2000 which caused a rate variance of $35 million for 2000 as compared to 1999.

>. Provision for Loan Losses

During 2001, the Corporation provided $61 million for loan losses, as compared to $46 million in 2000 and $48 million in 1999. The increase in the provision for loan losses was due to the growth of the total loan portfolio, to the increase in net charge offs of $5 million, and to current economic conditions. Net charge offs for 2001 amounted to $47 million, as compared to net charge offs for 2000 of $42 million, and of $45 million for 1999. The absolute dollar increase is attributable to a commercial loan written off during the first quarter of 2001. Net charge offs to average loans outstanding has improved to 1.22% as compared to 1.36% and 1.90% for 2000 and 1999, respectively.

The allowance activity for 2001, and previous four years was as follows:

Year ended December 31,	2001	2000	1999	1998	1997
	(Dollars in thousands)				
Allowance for loan losses, beginning of year	$76,919	$71,784	$67,854	$57,712	$55,254
Provision for loan losses	61,030	45,719	47,960	76,000	55,675
Loans charged off:					
Residential real state	(192)				
Commercial	(9,523)	(3,463)	(825)	(880)	(881)
Finance leases	(2,316)	(2,145)	(793)	(3,438)	(1,399)
Consumer	(42,349)	(46,223)	(52,047)	(67,906)	(57,311)
Recoveries	7,391	9,807	9,048	6,034	6,374
Net charge offs	(46,989)	(42,024)	(44,617)	(66,190)	(53,217)
Other adjustments	100	1,440	587	332	
Allowance for loan losses, end of year	$91,060	$76,919	$71,784	$67,854	$57,712
Allowance for loan losses to year end total loans and loans held for sale	2.11%	2.20%	2.61%	3.20%	2.95%
Net charge offs to average loans outstanding during the period	1.22%	1.36%	1.90%	3.31%	2.79%

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

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

>. Other Income

The following table presents the composition of other income.

Year ended December 31,	2001	2000	1999
		(In thousands)	
Other fees on loans	$19,632	$19,913	$ 12,887
Service charges on deposit accounts	9,213	8,898	8,540
Mortgage banking activities	1,585	521	870
Rental income	2,293	2,434	2,610
Other commissions	1,511	1,340	
Other operating income	8,471	7,959	6,584
Other income before gain on sale of investments, trading and dividend on equity securities	42,705	41,065	31,491
Gain on sale of investments	9,606	7,850	1,377
Trading income (loss)		419	(8)
Dividend on equity securities	669	698	2
Total	$52,980	$50,032	$32,862

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

Other fees on loans consist mainly of credit card fees and late charges collected on loans. The increase in this source of income to $20 million in 2001 and 2000, from $13 million in 1999 was mainly due to fees generated on the increased portfolio of loans, and to the elimination on the prohibition of late charges on credit card fees in Puerto Rico during 2000.

Service charges on deposit accounts represent an important and stable source of other income for the Corporation. This source of income has averaged $9 million for the last three years.

Mortgage banking activities income reflect the servicing fees on residential mortgage loans originated by the Corporation and subsequently securitized or sold, and gain on sale of loans. The increase for 2001 results from the gain of $1.3 million on the sale of $42.3 million of mortgage loans to Fannie Mae, with servicing retained. There were no sales of loans in 2000, and only $1.3 million sold in 1999.

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

As a result of an agreement with Goldman, Sachs, to participate in bond issues by the Government of Puerto Rico, and an agreement with a national brokerage house in Puerto Rico to offer brokerage services in selected branches, the Corporation earned $1.5 million and $1.3 million in other commissions in 2001 and 2000, respectively.

The other operating income category is composed of various types of service fee such as check fees and rental of safe deposit boxes. Other operating income also includes earned discounts on tax credits purchased and utilized against income tax payments, and other fees generated on the increased portfolio of commercial loans. In addition, other income includes the commissions earned by the new subsidiary FirstBank Insurance Agency, Inc., during 2001, which accounted for the increase in this caption from 2000 to 2001.

Gains on sale of investment securities amounted to $9.6 million in 2001, $7.9 million in 2000, and $1.4 million in 1999. These gains reflect market opportunities that arose and that are in consonance to the Corporation's investment policies.

>. Other Operating Expense

Other operating expenses amounted to $121 million for 2001 as compared to $113 million for 2000 and $101 million for 1999. The following table presents the components of other operating expenses.

Year ended December 31,	2001	2000	1999
		(In thousands)	
Salaries and benefits	$54,703	$ 50,014	$ 48,546
Occupancy and equipment	24,992	22,792	20,137
Deposit insurance premium	645	547	1,096
Other taxes and insurance	7,804	6,355	5,683
Professional and service fees	7,931	8,740	6,672
Business promotion	7,506	8,468	5,896
Communications	5,395	5,573	4,667
Real estate owned operations cost (gain)	352	79	(303)
Expense of rental equipment	1,578	1,525	1,478
Other	9,948	8,957	7,400
Total	$120,854	$113,050	$101,272

Management's goal is to limit expenditures to those that directly contribute to increase the efficiency and profitability of the Corporation. This control over other operating expenses has been an important factor contributing to the increase in earnings in recent years. The Corporation's efficiency ratio, which is the ratio of other operating expenses to the sum of net interest income and other income, improved to 41.81% for 2001 as compared to 46.95% and 46.33% for 2000 and 1999, respectively.

The increase in operating expenses for 2001 is mainly the result of the investments made in new technology and infrastructure to provide the latest in delivery channels for its commercial and consumer lending business, and to support the significant growth in earning assets. 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 results also from the enhancement of hardware and software through system conversions, which have enabled the Corporation to offer new products, and improve customer service and portfolio servicing.

The salary and benefits category was affected by annual increases in salary and fringe benefits and an increase of 3% in the number of employees.

>. Income Tax Expense

The provision for income tax amounted to $20 million (or 19% of pre-tax earnings) for 2001 as compared to $15 million (or 18% of pre-tax earnings) in 2000, and $7 million (or 11% of pre-tax earnings) in 1999. The increase in the effective tax rate results from the growth in the residential real estate and commercial line of business. The Corporation has maintained an effective tax rate lower than the statutory rate of 39% mainly by investing in obligations exempt from federal and Puerto Rico income tax. For additional information relating to income taxes, see Note 25 of the Corporation's financial statements - "Income Taxes."

FINANCIAL CONDITION

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

December 31,	2001	2000	1999
		(In thousands)	
Assets			
Interest earning assets:			
Money market instruments	$ 46,517	$ 9,293	$ 27,344
Government obligations	588,932	528,903	415,742
Mortgage backed securities	1,711,980	1,457,044	1,294,195
Corporate bonds	247,094	51,508	18,646
FHLB stock	21,841	18,008	16,170
Total investments	2,616,364	2,064,756	1,772,097
Commercial loans	1,584,910	1,210,783	847,917
Consumer loans	1,036,637	1,026,044	1,013,782
Residential real estate loans	869,374	573,866	327,700
Construction loans	219,890	169,257	94,940
Finance leases	127,872	103,114	68,577
Total loans	3,838,683	3,083,064	2,352,916
Total interest earning assets	6,455,047	5,147,820	4,125,013
Equity securities	48,122	29,254	702
Total non-earning assets **(1)**	198,233	62,302	47,066
Total assets	$6,701,402	$5,239,376	$4,172,781
Liabilities and stockholders' equity			
Interest bearing liabilities:			
Interest bearing checking accounts	$ 186,111	$ 162,456	$ 140,690
Savings accounts	436,595	433,937	413,662
Certificate accounts	2,859,181	2,173,244	1,373,263
Interest bearing deposits	3,481,887	2,769,637	1,927,615
Other borrowed funds	2,125,022	1,851,524	1,728,913
FHLB advances	256,354	51,053	8,451
Total interest bearing liabilities	5,863,263	4,672,214	3,664,979
Total non-interest bearing liabilities	307,237	250,135	212,993
Total liabilities	6,170,500	4,922,349	3,877,972
Stockholders' equity	530,902	317,027	294,809
Total liabilities and stockholders' equity	$6,701,402	$5,239,376	$4,172,781

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

>. Assets

The Corporation's total assets at December 31, 2001 amounted to $8,198 million, $2,278 million over the $5,920 million at December 31, 2000.

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

December 31,	2001	% of Total	2000	% of Total	1999	% of Total	1998	% of Total	1997	% of Total
	(Dollars in thousands)									
Residential real estate loans	$1,011,908	23	$ 746,792	21	$ 473,563	17	$ 303,011	14	$ 292,604	15
Commercial real estate loans	688,922	16	438,321	13	371,643	14	332,219	16	306,734	15
Construction loans	219,396	5	203,955	6	132,068	5	62,963	3	9,279	1
Commercial loans	1,238,173	29	947,709	27	655,417	24	368,549	17	235,571	12
Total commercial	2,146,491	50	1,589,985	46	1,159,128	43	763,731	36	551,584	28
Finance leases	127,935	3	122,883	3	85,692	3	52,214	3	42,500	2
Consumer loans	1,022,445	24	1,038,538	30	1,026,985	37	1,001,098	47	1,072,613	55
Total	$4,308,779	100	$3,498,198	100	$2,745,368	100	$2,120,054	100	$1,959,301	100

Total loans receivable increased by $811 million in 2001 when compared with 2000. During 2001 the Corporation continued its strategy of diversifying its loan portfolio composition through the origination and purchase of commercial loans and residential real estate loans, while maintaining its investment in consumer loans at approximately $1.0 billion. This resulted in a significant increase of $557 million in the commercial loan portfolio and of $265 million in residential real estate loans. Finance leases, which are mostly composed of loans to individuals to finance the acquisition of an auto, increased by $5 million, and consumer loans decreased by $16 million in 2001.

The Corporation's investment portfolio at December 31, 2001 amounted to $3,716 million, an increase of $1,483 million when compared with the investment portfolio of $2,233 million at December 31, 2000.

The composition and estimated tax equivalent weighted average interest and dividend yields of the Corporation's earning assets at December 31, 2001 were as follows:

	Amount (In thousands)	Weighted Average Rate
Money market instruments	$ 34,565	3.20%
Government obligations	732,679	4.29%
Mortgage backed securities	2,558,689	8.14%
FHLB of N.Y. stock	22,891	4.39%
Corporate bonds	333,348	7.92%
Equity securities	33,827	1.43%
Total investments	3,715,999	7.23%
Consumer loans	1,022,445	13.35%
Residential real estate loans	1,011,908	6.51%
Construction loans	219,396	5.94%
Commercial and commercial real estate loans	1,927,095	6.22%
Finance leases	127,935	11.15%
Total loans**(1)**	4,308,779	8.11%
Total earning assets	$ 8,024,778	7.70%

(1) Excludes the reserve for loan losses.

>. Non-performing Assets

Total non-performing assets are the sum of non-accruing loans, other real estate owned and other repossessed properties. 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, 2001, total non-performing assets amounted to $79 million (0.96% of total assets) as compared to $74 million (1.25% of total assets) at December 31, 2000 and $57 million (1.22% of total assets) at December 31, 1999. The Corporation's allowance for loan losses to non-performing loans was 124.7% at December 31, 2001 as compared to 113.6% and 133.4% at December 31, 2000 and 1999, respectively.

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

December 31,	2001	2000	1999	1998	1997
			(Dollars in thousands)		
Non-accruing loans:					
Residential real estate	$18,540	$15,977	$ 8,633	$ 9,151	$ 6,963
Commercial and commercial real estate	29,378	31,913	17,975	19,355	16,869
Finance leases	2,469	2,032	2,482	1,716	4,560
Consumer	22,611	17,794	24,726	26,736	24,547
	72,998	67,716	53,816	56,958	52,939
Other real estate owned	1,456	2,981	517	3,642	1,132
Other repossessed property	4,596	3,374	3,112	2,277	8,702
Total non-performing assets	$79,050	$74,071	$57,445	$62,877	$62,773
Past due loans	$27,497	$16,358	$13,781	$15,110	$11,544
Non-performing assets to total assets	0.96%	1.25%	1.22%	1.57%	1.89%
Non-performing loans to total loans	1.69%	1.94%	1.96%	2.69%	2.70%
Allowance for loan losses	$91,060	$76,919	$71,784	$67,854	$57,712
Allowance to total non-performing loans	124.74%	113.59%	133.39%	119.13%	109.02%

Non-accruing Loans

Residential Real Estate Loans - The Corporation classifies all real estate loans delinquent 90 days or more in non-accruing status. Even though these loans are in non-accruing status, Management considers based on the value of the underlying collateral and the loan to value ratios, that no material losses will be incurred in this portfolio. Management's estimate is based on the historical experience of the Corporation. Non-accruing real estate loans amounted to $19 million (1.83% of total residential real estate loans) at December 31, 2001, as compared to $16 million (2.14% of total residential real estate loans) and $9 million (1.82% of total residential real estate loans) at December 31, 2000 and 1999, respectively.

Commercial Loans - The Corporation places all commercial loans (including commercial real estate and construction loans) 90 days delinquent as to principal and interest in non-accruing status. The risk exposure of this portfolio is diversified. Non-accruing commercial loans amounted to $29 million (1.37% of total commercial loans) at December 31, 2001 as compared to $32 million (2.01% of total commercial loans) and $18 million (1.55% of total commercial loans) at December 31, 2000 and 1999, respectively. At December 31, 2001, there was only one non-accruing commercial loan of over $1 million (of $3.6 million).

Finance Leases - Finance leases are classified as non-accruing when they are delinquent 90 days or more. Non-accruing finance leases amounted to $2 million (1.93% of total finance leases) at December 31, 2001, compared to $2 million (1.65% of total finance leases) at December 31, 2000, and $2 million (2.90% of total finance leases) at December 31, 1999.

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 $23 million (2.21% of the total consumer loan portfolio) at December 31, 2001, $18 million (or 1.71% of the total consumer loan portfolio) at December 31, 2000 and $25 million (or 2.41% of the total consumer loan portfolio) at December 31, 1999.

Other Real Estate Owned

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

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. Repossessed autos are recorded at the principal balance of the loans less an estimated loss on the disposition.

Past Due Loans

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

Sources of Funds

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

>. Deposits

Total deposits amounted to $4,099 million at December 31, 2001, as compared to $3,346 million and $2,565 million at December 31, 2000 and 1999, respectively.

The following table presents the composition of total deposits.

December 31,	2001	2000	1999
		(Dollars in thousands)	
Savings accounts	$ 469,452	$ 430,298	$ 447,946
Interest bearing checking accounts	205,760	170,631	162,601
Certificates of deposit	3,183,491	2,512,891	1,742,978
Interest bearing deposits	3,858,703	3,113,820	2,353,525
Non-interest bearing deposits	239,851	232,164	211,896
Total	$4,098,554	$3,345,984	$2,565,421
Weighted average rate during the period on interest bearing deposit	4.62%	5.53%	4.69%
Interest bearing deposits:			
Average balance outstanding	$3,481,887	$2,769,637	$1,927,614
Non-interest bearing deposits:			
Average balance outstanding	233,254	213,728	179,478

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

Total interest bearing deposits increased by $745 million at December 31, 2001 when compared to December 31, 2000. This fluctuation was mainly due to: (1) an increase in branch-based deposits of $92 million; (2) an increase of $691 million in brokered certificates of deposits; net of (3) a decrease of $38 million in certificates issued to the agencies of the Government of Puerto Rico. Non-interest bearing deposits increased by $8 million in 2001.

>. Borrowings

At December 31, 2001 total borrowings amounted to $3,425 million as compared to $2,069 million and $1,804 million at December 31, 2000 and 1999, respectively. The increase in borrowings of $1,356 million was necessary to finance the growth in the investment portfolio of $1,483 million. The following table presents the composition of borrowings.

December 31,	2001	2000	1999
		(Dollars in thousands)	
Federal funds purchased and securities sold under agreements to repurchase	$2,997,174	$1,856,436	$1,452,151
Advances from FHLB	343,700	67,000	50,000
Subordinated notes	84,362	90,548	93,594
Notes payable		55,500	55,500
Other short term borrowings			152,484
Total	$3,425,236	$2,069,484	$1,803,729
Weighted average rate during the period	5.02%	6.27%	5.34%

The Corporation uses federal funds purchased, repurchase agreements, advances from FHLB and notes payable as additional funding sources. The borrowings of the Corporation consist primarily of federal funds purchased and securities sold under agreements to repurchase (repurchase agreements) which at December 31, 2001 amounted to $2,997 million or 88% of total borrowings. Repurchase agreements had a total weighted average cost of 4.90% during the year ended December 31, 2001. For more information on borrowings please refer to Notes 19 through 21 of the Corporation's financial statements.

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

	Amount (In thousands)	Weighted Average rate
Interest bearing deposits	$ 3,858,703	3.82%
Borrowed funds	3,425,236	4.23%
	$ 7,283,939	4.01%

>. Contractual Obligations and Commitments

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

	Payments Due/Commitments Expiration by Period (In thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual Obligations:					
Federal funds purchased and securities sold under agreements to repurchase	$2,986,174	$1,011,214	$156,500	$550,000	$1,268,460
Advances from FHLB	343,700	20,700	50,000		273,000
Subordinated Notes	84,362		84,362		
Operational Leases	19,069	4,414	7,999	2,804	3,852
Total Contractual Cash Obligations	$3,433,305	$1,036,328	$298,861	$552,804	$1,545,312
Other Commitments:					
Lines of Credit	$304,600	$304,600			
Standby Letters of Credit	24,172	24,172			
Other Commercial Commitments	436,251	436,251			
Total Commercial Commitments	$765,023	$765,023			

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

>. Capital

During 2001, the Corporation increased its total capital from $435 million at December 31, 2000 to $603 million at December 31, 2001. Total capital increased by $168 million due to earnings of $86 million, the issuance of 4,140,000 shares of preferred stock at $100 million, the issuance of 234,000 shares of common stock through the exercise of stock options with proceeds of $1 million, a positive fluctuation in the valuation of securities available for sale of $13 million, reduced by the repurchased shares of common stock at a total cost of $2 million, and cash dividends of $30 million.

The Corporation's objective is to maintain a solid capital position above the "well capitalized" classification under the federal banking regulations. The Corporation continues to exceed the well capitalized guidelines. To be in a "well capitalized" position, an institution should have: (i) a leverage ratio of 5% or greater; (ii) a total risk based capital ratio of 10% or greater; and (iii) a Tier 1 risk-based capital ratio of 6% or greater. At December 31, 2001 the Corporation had a leverage ratio of 7.49%; a total risk based capital ratio of 14.50%; and a Tier 1 risk-based capital ratio of 12.16%.

>. Dividends

In 2001, 2000 and 1999 the Corporation declared four quarterly cash dividends of $0.13, $0.11 and $0.09 per common share, respectively, for an annual dividend of $0.52, $0.44 and $0.36, respectively. Total cash dividends paid on common shares amounted to $14 million for 2001 (or a 19.91% dividend payout ratio), $12 million for 2000 (or a 19.72% dividend payout ratio) and $10 million for 1999 (or a 17.96% dividend payout ratio). Dividends declared on preferred stock amounted to $17 million in 2001 and $7 million in 2000, and $4 million in 1999.

>. Quantitative and Qualitative Disclosures about Market Risk

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

The day-to-day management of interest rate risk, as well as liquidity management and other related matters, is assigned to the Asset Liability Management and Investment Committee of FirstBank (ALCO). The ALCO is composed of the following officers: President and CEO, the Senior Executive Vice President and Chief Financial Officer, the Senior Executive Vice President and Chief Lending Officer, the Executive Vice Presidents, the Senior Vice President of Investments and Treasury, and the Economist. The ALCO meets on a weekly basis. The Economist also acts as secretary, keeping minutes of all meetings. An Investment Committee for First BanCorp also monitors the investment portfolio of the Holding Company, including a stock portfolio which amounted to $34 million at December 31, 2001. This Committee meets weekly and has the same membership as the ALCO Committee described previously.

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

The Corporation uses simulations to measure the effects of changing interest rates on net interest income. These measures are carried out over a

two year time horizon, assuming gradual upward and downward interest rate movements of 200 basis points in the first year, followed by constant rates (at the new higher or lower levels) in the second year. Simulations are carried out in two ways:

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

Assuming a no growth balance sheet as of December 31, 2001, tax equivalent net interest income for 2002, the first year of the projection, would decline by $6.2 million (1.7%) under a rising rate scenario and would increase by $1.9 million (0.5%) under falling rates. For 2003, the second year of the projection, the no growth balance sheet simulations showed that tax equivalent net interest income would have declined by $24.5 million (6.4%) under a rising rate scenario and would have increased by $6.2 million (1.6%) under falling rates, compared to a similar simulation with no change in rates.

The same simulations were also carried out assuming that the Corporation would grow. As of December 31, 2001 the growing balance sheet simulations indicate that tax equivalent net interest income for 2002, the first year of the projection, would fall by $8.8 million (2.4%) under a rising rate scenario and would increase by $3.8 million (1.0%) with falling rates. For 2003, the second year of the projection, the growing balance sheet simulations showed that tax equivalent net interest income would have declined by $20.6 million (5.1%) assuming rising rates and would have increased by $1.9 million (0.5%) with falling rates, compared to a similar simulation with no change in rates.

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

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

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 16% and a positive 16% of assets during 2001. Management considers that the ranges of the GAP ratio achieved during 2001 are adequate, considering the Corporation's net interest margin and capital ratios.

Use of Derivatives

As of December 31, 2001 the Corporation had borrowings totaling $2.5 billion which included embedded call options. The primary purpose of these transactions was to reduce the Corporation's exposure to interest rate risk by lengthening the maturities of its liabilities, while keeping its funding costs low.

In addition, the Corporation had, at year ended 2001, $600 million of interest rate caps. The Corporation also held $1,553 million of interest rate swap contracts, of which $1,495 million are used to convert wholesale funds obtained at fixed rates to low cost variable rate funding tied to LIBOR. This funding has repricing characteristics similar to various parts of the Corporation's loan portfolio, and therefore, tends to provide a closer match between the repricing of assets and liabilities.

>. Critical Accounting Policies and Practices

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

The Corporation classifies its investments in debt and equity securities into trading, held to maturity and available for sale securities. The available for sale securities are carried at fair value. The fair values of these securities were calculated based on quoted market prices and dealer quotes. Changes in the assumptions used in calculating the fair values, could affect the reported valuations.

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

The assumptions, judgments and estimates made by Management affect the reported amounts in the Corporation's financial statements. Different amounts may result if reported under different conditions or using different assumptions.

Liquidity

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

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

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, 2001, there were 683 holders of record of the Corporation's common stock.

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

Quarter ended	High	Low
2001:		
December	$30.00	$25.60
September	30.00	24.00
June	26.99	22.98
March	26.13	19.50
2000:		
December	$24.69	$20.50
September	24.50	18.00
June	18.75	16.69
March	21.00	16.25
1999:		
December	$22.81	$19.25
September	24.75	19.75
June	28.50	22.00
March	30.38	22.69

Financial Statements

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
PO Box 363566
San Juan PR 00936-3566
Telephone (787) 754 9090
Facsimile (787) 766 1094

Report of Independent Accountants

To the Board of Directors
and Stockholders of First BanCorp:

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows present fairly, in all material respects, the financial position of First BanCorp and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

February 15, 2002

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2004
Stamp 1767164 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

Consolidated Statements of Financial Condition

	December 31, 2001	December 31, 2000
Assets		
Cash and due from banks	$ 59,898,550	$ 63,372,591
Money market instruments	34,564,568	2,020,348
Investment securities available for sale, at market:		
Securities pledged that can be repledged	2,988,828,088	1,621,457,451
Other investment securities	385,419,989	280,205,723
Total investment securities available for sale	3,374,248,077	1,901,663,174
Investment securities held to maturity, at cost:		
Securities pledged that can be repledged	171,152,930	268,432,581
Other investment securities	113,142,662	42,562,921
Total investment securities held to maturity	284,295,592	310,995,502
Federal Home Loan Bank (FHLB) stock	22,890,600	18,536,500
Loans held for sale	4,629,562	
Loans receivable	4,304,150,143	3,498,198,207
Total loans	4,308,779,705	3,498,198,207
Allowance for loan losses	(91,060,307)	(76,918,973)
Total loans - net	4,217,719,398	3,421,279,234
Other real estate owned	1,455,577	2,981,472
Premises and equipment - net	76,155,620	72,087,346
Accrued interest receivable	37,630,883	27,969,551
Due from customers on acceptances	262,153	2,177,043
Other assets	88,396,770	96,573,820
Total assets	$8,197,517,788	$5,919,656,581
Liabilities and Stockholders' Equity		
Liabilities:		
Non-interest bearing deposits	$ 239,850,816	$ 232,164,469
Interest bearing deposits	3,858,703,322	3,113,819,927
Federal funds purchased and securities sold under agreements to repurchase	2,997,173,944	1,856,436,127
Advances from FHLB	343,700,000	67,000,000
Notes payable		55,500,000
Bank acceptances outstanding	262,153	2,177,043
Accounts payable and other liabilities	70,547,126	67,550,152
	7,510,237,361	5,394,647,718
Subordinated notes	84,361,525	90,548,314
Stockholders' equity:		
Preferred stock	268,500,000	165,000,000
Common stock	29,852,552	29,618,552
Less: Treasury stock (at par value)	(3,280,600)	(3,194,400)
Common stock outstanding	26,571,952	26,424,152
Additional paid-in capital	14,214,877	16,567,516
Capital reserve	60,000,000	50,000,000
Legal surplus	136,792,514	126,792,514
Retained earnings	103,132,913	69,275,152
Accumulated other comprehensive income - unrealized loss on securities available for sale, net of tax of $2,097,785 (2000-$6,532,928)	(6,293,354)	(19,598,785)
	602,918,902	434,460,549
Contingencies and commitments		
Total liabilities and stockholders' equity	$ 8,197,517,788	$ 5,919,656,581

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

	Year ended December 31, 2001	2000	1999
Interest income:			
Loans	$353,777,585	$329,007,974	$260,741,177
Investment securities	159,713,664	132,603,596	106,770,856
Short-term investments	1,475,521	527,155	450,248
Dividends on FHLB stock	1,289,125	1,248,755	1,100,823
Total interest income	516,255,895	463,387,480	369,063,104
Interest expense:			
Deposits	160,758,451	153,283,358	90,489,121
Short-term borrowings	97,952,979	105,326,693	79,455,499
Notes payable	8,904,611	10,803,634	12,914,538
Advances from FHLB	12,585,108	3,200,940	470,590
Total interest expense	280,201,149	272,614,625	183,329,748
Net interest income	236,054,746	190,772,855	185,733,356
Provision for loan losses	61,030,000	45,718,500	47,960,500
Net interest income after provision for loan losses	175,024,746	145,054,355	137,772,856
Other income:			
Other fees on loans	19,631,741	19,913,340	12,886,541
Service charges on deposit accounts	9,213,436	8,898,170	8,540,291
Trading income (loss)		419,367	(7,946)
Gain on sale of investments	9,606,314	7,850,472	1,376,672
Rental income	2,292,541	2,433,664	2,609,657
Other operating income	12,235,791	10,517,047	7,457,218
Total other income	52,979,823	50,032,060	32,862,433
Other operating expenses:			
Employees' compensation and benefits	54,702,977	50,014,110	48,545,839
Occupancy and equipment	24,991,540	22,791,863	20,137,354
Taxes	5,973,897	5,054,748	4,696,937
Insurance	2,475,411	1,846,984	2,081,417
Net cost (gain) of operations and disposition of other real estate owned	352,075	78,509	(303,359)
Amortization of debt issuance costs	107,354	319,899	612,404
Other	32,251,124	32,943,391	25,501,303
Total other operating expenses	120,854,378	113,049,504	101,271,895
Income before income tax provision and cumulative effect of accounting change	107,150,191	82,036,911	69,363,394
Income tax provision	20,133,858	14,761,302	7,288,445
Income before cumulative effect of accounting change	87,016,333	67,275,609	62,074,949
Cumulative effect of accounting change, net of tax	(1,014,889)		
Net income	$ 86,001,444	$ 67,275,609	$ 62,074,949
Net income available to common stockholders	$ 69,493,246	$ 59,868,067	$ 57,799,949
Net income per common share basic:			
Income before cumulative effect of accounting change	$ 2.65	$2.22	$2.00
Cumulative effect of accounting change	(0.04)		
Earnings per common share basic	$ 2.61	$2.22	$2.00
Net income per common share diluted:			
Income before cumulative effect of accounting change	$ 2.64	$2.21	$1.98
Cumulative effect of accounting change	(0.04)		
Earnings per common share diluted	$ 2.60	$2.21	$1.98
Dividends declared per common share	$ 0.52	$0.44	$0.36

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

	Year ended December 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income	$ 86,001,444	$ 67,275,609	$ 62,074,949
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,763,543	9,880,398	7,752,616
Provision for loan losses	61,030,000	45,718,500	47,960,500
Amortization of deferred loan costs (fees)	522,685	(144,768)	(680,735)
Net gain on sale of investments securities	(9,606,314)	(7,850,472)	(1,376,672)
Origination of loans held for sale	(4,629,562)		(18,222,990)
Net gain on sale of loans	(1,282,845)		(5,753)
Increase (decrease) in taxes payable	11,306,695	(19,474,679)	2,345,647
Increase in deferred tax asset	(5,840,872)	(3,917,506)	(6,702,849)
Increase in accrued interest receivable	(9,661,332)	(10,052,025)	(7,179,454)
Increase in accrued interest payable	4,841,187	11,677,924	10,056,988
Decrease in other assets	23,332,778	4,218,642	12,843,340
(Decrease) increase in other liabilities	(9,395,151)	20,740,407	5,012,928
Total adjustments	71,380,812	50,796,421	51,803,566
Net cash provided by operating activities	157,382,256	118,072,030	113,878,515
Cash flows for investing activities:			
Principal collected on loans	897,831,839	646,581,300	719,964,127
Loans originated	(1,334,581,873)	(1,222,590,263)	(1,270,442,873)
Purchase of loans	(481,200,701)	(238,055,000)	(118,603,000)
Proceeds from sales of loans	42,343,060		1,272,540
Proceeds from sales of investment securities	847,716,293	58,452,236	9,630,866
Purchase of securities held to maturity	(254,818,754)	(6,949,462)	(277,624,203)
Purchase of securities available for sale	(12,462,323,482)	(5,125,184,351)	(6,069,805,410)
Principal repayments and maturities of securities held to maturity	74,529,997		500,000
Principal repayments of securities available for sale	10,377,705,993	4,692,427,578	6,267,048,544
Additions to premises and equipment	(13,912,556)	(19,153,597)	(18,055,660)
Purchase of FHLB stock	(4,354,100)	(710,000)	(7,555,900)
Net cash used in investing activities	(2,311,064,284)	(1,215,181,559)	(763,670,969)
Cash flows from financing activities:			
Net increase in deposits	764,012,251	780,840,486	791,686,207
Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements	1,134,888,478	403,553,556	(172,898,023)
Net (decrease) increase in other short-term borrowings		(152,484,084)	65,889,375
FHLB advances taken	276,700,000	17,000,000	47,400,000
Payments of notes payable	(62,000,000)	(3,125,000)	(68,600,000)
Dividends	(30,343,298)	(19,212,141)	(14,657,797)
Issuance of preferred stock	100,069,250	72,437,500	86,850,217
Treasury stock acquired	(1,929,685)	(30,086,592)	(32,510,611)
Exercise of stock options	1,355,211	93,750	176,313
Net cash provided by financing activities	2,182,752,207	1,069,017,475	703,335,681
Net increase (decrease) in cash and cash equivalents	29,070,179	(28,092,054)	53,543,227
Cash and cash equivalents at beginning of year	65,392,939	93,484,993	39,941,766
Cash and cash equivalents at end of year	$ 94,463,118	$ 65,392,939	$ 93,484,993
Cash and cash equivalents include:			
Cash and due from banks	$ 59,898,550	$ 63,372,591	$ 58,267,929
Money market instruments	34,564,568	2,020,348	35,217,064
	$ 94,463,118	$ 65,392,939	$ 93,484,993

The accompanying notes are integral part of these statements.

Consolidated Statements of Changes in Stockholders' Equity

	Preferred stock	Common stock	Additional paid-in capital	Capital reserve	Legal surplus	Retained earnings	Unrealized gain (loss) on securities available for sale
December 31, 1998		$29,499,552	$23,575,936	$30,000,000	$53,454,469	$125,088,180	$8,749,931
Net income						62,074,949	
Other comprehensive income							(77,398,890)
Issuance of preferred stock	$90,000,000		(3,149,783)				
Addition to legal surplus					73,338,045	(73,338,045)	
Addition to capital reserve				10,000,000		(10,000,000)	
Treasury stock acquired		(1,452,000)	(726,000)			(30,332,611)	
Stock options exercised		13,000	163,313				
Cash dividends:							
Common stock						(10,382,797)	
Preferred stock						(4,275,000)	
December 31, 1999	90,000,000	28,060,552	19,863,466	40,000,000	126,792,514	58,834,676	(68,648,959)
Net income						67,275,609	
Other comprehensive income							49,050,174
Issuance of preferred stock	75,000,000		(2,562,500)				
Addition to capital reserve				10,000,000		(10,000,000)	
Treasury stock acquired		(1,642,400)	(821,200)			(27,622,992)	
Stock options exercised		6,000	87,750				
Cash dividends:							
Common stock						(11,804,599)	
Preferred stock						(7,407,542)	
December 31, 2000	165,000,000	26,424,152	16,567,516	50,000,000	126,792,514	69,275,152	(19,598,785)
Net income						86,001,444	
Other comprehensive income							13,305,431
Issuance of preferred stock	103,500,000		(3,430,750)				
Addition to legal surplus					10,000,000	(10,000,000)	
Addition to capital reserve				10,000,000		(10,000,000)	
Treasury stock acquired		(86,200)	(43,100)			(1,800,385)	
Stock options exercised		234,000	1,121,211				
Cash dividends:							
Common stock						(13,835,100)	
Preferred stock						(16,508,198)	
December 31, 2001	$268,500,000	$26,571,952	$14,214,877	$60,000,000	$136,792,514	$103,132,913	$(6,293,354)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

	Year ended December 31,		
	2001	2000	1999
Net income	$86,001,444	$67,275,609	$62,074,949
Other comprehensive income net of tax:			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	19,515,667	54,938,028	(76,366,386)
Less: Reclassification adjustment for gains included in net income net of tax benefit of $2,401,578 (2000-$1,962,618; 1999-$344,168)	(7,204,736)	(5,887,854)	(1,032,504)
Cumulative effect of accounting change, net of tax benefit of $331,500	994,500		
Total other comprehensive income (loss)	13,305,431	49,050,174	(77,398,890)
Comprehensive income (loss)	$99,306,875	$116,325,783	$(15,323,941)

The accompanying notes are an integral part of these statements.

>. Note 1 - Nature of Business

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

FirstBank Puerto Rico (FirstBank), the Corporation's wholly owned bank subsidiary, is a commercial bank chartered under the laws of the Commonwealth of Puerto Rico. Its main office is located in San Juan, Puerto Rico, and it has 44 full-service banking branches in Puerto Rico and four in the U.S. Virgin Islands. It also has loan origination offices in Puerto Rico focusing on consumer loans and residential mortgage loans. In addition, through its wholly-owned subsidiaries, FirstBank operates other offices in Puerto Rico specializing in small personal loans, finance leases and vehicle rental. Early in the year 2000, the Bank began offering brokerage services in selected branches through an alliance with a national brokerage house in Puerto Rico. The Bank is subject to the supervision, examination and regulation of the Office of the Commissioner of Financial Institutions of Puerto Rico and the Federal Deposit Insurance Corporation (FDIC), which insures its deposits through the Savings Association Insurance Fund (SAIF).

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

>. 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 and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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

Principles of consolidation

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

Statement of cash flows

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

Investment securities

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

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

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

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

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

Loans held for sale

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

Loans and allowance for loan losses

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

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

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

Loan fees and costs

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

Servicing assets

The Corporation recognizes as separate assets the rights to service loans for others, whether those servicing assets are originated or purchased. The total cost of the loans to be sold with servicing assets retained is allocated to the servicing assets and the loans (without the servicing asset), based

on their relative fair values. Servicing assets are amortized in proportion to and over the period of estimated net servicing income. Loan servicing fees, which are based on a percentage of the principal balances of the loans serviced, are credited to income as loan payments are collected.

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

Other real estate owned

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

Premises and equipment

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

Securities sold under agreements to repurchase

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

Accounting for income taxes

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

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 the 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 method or the intrinsic value method. The Corporation uses the intrinsic value method of accounting. Under the intrinsic value 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. Entities using the intrinsic value method on awards granted to employees must make pro forma disclosures of net income and earnings per share, as if the fair value method of accounting had been applied. Under the fair value method, compensation cost is measured at the grant date based on the fair 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, which assumes that proceeds for the exercise of options are used to repurchase common stock in the open market. Any stock splits or stock dividends are retroactively recognized in all periods presented in financial statements.

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

Recently issued accounting pronouncements
On January 1, 2001, the Corporation adopted the Statement of Financial Accounting Standards (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. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", amended SFAS No. 133.

SFAS No. 133, as amended, standardizes accounting for derivative instruments by requiring the recognition of all derivatives (both assets and liabilities) in the statement of financial position at fair value. Under SFAS No. 133, changes in the fair value of derivative instruments are accounted for as current income or other comprehensive income, depending on their intended use and designation. For transactions that qualify for hedge accounting, SFAS No. 133 provides for a matching of the timing of gain or loss recognition on the hedging instrument with the recognition in earnings of (a) the changes in the fair value of the hedged asset, liability, or a firm commitment that are attributable to the hedged risk or (b) the effect of the exposure to the variability of cash flows from the hedged asset, liability, or forecasted transaction. SFAS No. 133 also provided that at the date of the initial application, a corporation may transfer any held to maturity security into the available for sale category or the trading category.

The Corporation also adopted SFAS No. 140, "Accounting for Transfer and Servicing of Financial Assets and Liabilities - A Replacement of SFAS 125" which revises the standards of accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of the provisions of SFAS 125 without reconsideration. This statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. It was effective for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. This statement also required recognition and reclassification of collateral and disclosures relating to securitization transactions and collateral at December 31, 2000. The Corporation fully adopted this statement effective April 1, 2001. Effective December 31, 2000 the required disclosures for collateral and securitization transactions were incorporated in the financial statements.

During 2001 the Financial Accounting Standards Board issued the following statements:

SFAS No. 141, "Business Combinations" - This statement addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination at acquisition. This statement requires all business combinations to be accounted for using the purchase method of accounting. The provisions of this statement apply to all business combinations initiated after June 30, 2001. There have been no business combinations since that date.

SFAS No. 142, "Goodwill and Other Intangible Assets" - This statement addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) at acquisition or subsequent to their acquisition. Specifically, under this statement, goodwill and other indefinite life intangibles will no longer be amortized but will be periodically evaluated for impairment. The standard also provides a methodology for evaluating impairment of goodwill and other intangibles based on the fair value. The provisions of this statement apply to fiscal years beginning after December 15, 2001. Retroactive application is not permitted. Management has reviewed the core deposit intangible assets in order to recognize any impairment loss and/or changes in the useful lives. As of January 1, 2002, no impairment of the intangible assets is necessary and the useful life of ten years used to amortize them is the best estimate of the economic benefit period.

SFAS No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" - The objectives of this statement are to establish accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. The provisions of this statement will be effective for financial statements issued for fiscal years beginning after June 15, 2002. Earlier application is encouraged. Management expects that the adoption of SFAS No. 143 will not have a significant impact on the Corporation's financial position and the results of operations.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"- The scope of this statement is to develop a single accounting model for long-lived assets that are to be disposed of by sale, whether previously held and used or newly acquired. The provisions of this statement will be effective for financial statements issued for fiscal years beginning after December 15, 2001. Management expects that the adoption of SFAS No. 144 will not have a significant impact on the Corporation's financial position and the results of operations.

>. Note 3 - Stockholders' Equity

Common stock

The Corporation has 250,000,000 shares of authorized common stock with a par value of $1 per share. At December 31, 2001, there were

29,852,552 (2000 - 29,618,552) shares issued and 26,571,952 (2000 - 26,424,152) shares outstanding.

The Corporation issued 234,000, 6,000 and 13,000 shares of common stock during 2001, 2000 and 1999, respectively, as part of the exercise of stock options under the Corporation's stock option plan. During the year, the Corporation declared cash dividends on its common stock outstanding of $0.52 per share (2000 - $0.44; 1999 - $0.36) amounting to $13,835,100 (2000 - $11,804,599; 1999 - $10,382,797).

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. 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 28,067,652 issued and outstanding shares after all shares authorized under the 1996 Program were repurchased. Under these programs, the Corporation repurchased a total of 86,200 shares of common stock at a cost of $1,929,685 during 2001, 1,642,400 shares of common stock at a cost of $30,086,592 during 2000, and 1,452,000 shares of common stock at a cost of $32,510,611 during 1999. From the total amount of common stock repurchased, 3,280,600 shares were held as treasury stock at December 31, 2001 (2000 - 3,194,400 shares) and were available for general corporate purposes.

Preferred stock

The Corporation has 50,000,000 shares of authorized non-cumulative and non-convertible preferred stock with a par value of $1, redeemable at the Corporation's option subject to certain terms. This stock may be issued in series and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. During 2001, the Corporation issued 4,140,000 shares of preferred stock (3,000,000 shares-2000; 3,600,000 shares-1999). The liquidation value per share is $25. Annual dividends of $1.85 per share (issuance of 2001), $2.0875 per share (issuance of 2000) and of $1.78125 per share (issuance of 1999), are payable monthly, if declared by the Board of Directors. During the year, dividends declared on preferred stock amounted to $16,508,198 (2000 - $7,407,542; 1999 - $4,275,000).

Capital reserve

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

Legal surplus

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

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 Requirements

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

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

At December 31, 2001 and 2000, the most recent notification from FDIC, categorized the Corporation as a well capitalized institution under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Corporation must maintain minimum total risk based, Tier 1 risk based and Tier 1 leverage ratios as set forth in the following table. Management believes that there are no conditions or events since that date that have changed that classification.

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

			Regulatory requirements			
	Actual		For capital adequacy purposes		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
At December 31, 2001						
Total Capital (to Risk-Weighted Assets):						
First BanCorp	$678,679	14.50%	$374,498	8%	$468,123	10%
FirstBank	590,652	12.75%	370,472	8%	463,090	10%
Tier I Capital (to Risk-Weighted Assets):						
First BanCorp	$569,255	12.16%	$187,249	4%	$280,874	6%
FirstBank	481,850	10.41%	185,236	4%	277,854	6%
Tier I Capital (to Average Assets):						
First BanCorp	$569,255	7.49%	$228,074	3%	$380,124	5%
FirstBank	481,850	6.40%	225,738	3%	376,231	5%
At December 31, 2000						
Total Capital (to Risk-Weighted Assets):						
First BanCorp	$536,402	14.43%	$297,280	8%	$371,600	10%
FirstBank	469,774	12.76%	294,516	8%	368,145	10%
Tier I Capital (to Risk-Weighted Assets):						
First BanCorp	$417,203	11.23%	$148,640	4%	$222,960	6%
FirstBank	351,001	9.53%	147,258	4%	220,887	6%
Tier I Capital (to Average Assets):						
First BanCorp	$417,203	7.28%	$172,042	3%	$286,736	5%
FirstBank	351,001	6.18%	170,307	3%	283,846	5%

>. Note 5 - Stock Option Plan

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

Following is a summary of the activity related to stock options:

	Number of Options	Weighted Average Exercise Price per Option
At December 31, 1998	756,500	$16.16
Granted	223,000	$19.99
Exercised	(13,000)	$13.56
At December 31, 1999	966,500	$17.07
Granted	318,000	$22.31
Exercised	(6,000)	$15.63
Canceled	(7,000)	$26.00
At December 31, 2000	1,271,500	$18.36
Exercised	(234,000)	$ 5.79
Canceled	(2,000)	$28.38
At December 31, 2001	1,035,500	$21.18

The options outstanding at December 31, 2001 have an original expiration term of ten years and all of them are exercisable. The exercise price of the options outstanding at December 31, 2001 ranges from $15.63 to $28.38 and the weighted average remaining contractual life is approximately seven years.

Following is additional information concerning the stock options outstanding at December 31, 2001.

Number of Options	Exercise Price per Option	Contractual Maturity
207,500	$15.63	November 2007
60,000	$19.19	February 2008
5,000	$28.38	April 2008
40,000	$27.09	May 2008
12,000	$26.56	June 2008
175,000	$26.00	November 2008
2,000	$25.94	February 2009
3,500	$26.44	April 2009
10,000	$22.56	August 2009
202,500	$19.63	November 2009
318,000	$22.31	December 2010
1,035,500		

>. Note 6 - Earnings Per Common Share

The calculations of earnings per common share for the years ended December 31, 2001, 2000 and 1999 follow:

	Year ended December 31,		
	2001	2000	1999
	(In thousands, except per share data)		
Net income	$86,001	$67,276	$62,075
Less: Preferred stock dividend	(16,508)	(7,408)	(4,275)
Net income-attributable to common stockholders	$69,493	$59,868	$57,800
Earnings per common share-basic:			
Net income - available to common stockholders	$ 69,493	$59,868	$ 57,800
Weighted average common shares outstanding	26,567	26,943	28,941
Earnings per common share-basic	$ 2.61	$ 2.22	$ 2.00
Earnings per common share-diluted:			
Net income - available to common stockholders	$69,493	$59,868	$57,800
Weighted average common shares and share equivalents:			
Average common shares outstanding	26,567	26,943	28,941
Common stock equivalents - Options	195	202	258
Total	26,762	27,145	29,199
Earnings per common share-diluted	$ 2.60	$ 2.21	$ 1.98

Had compensation cost for the stock options granted during 2000 and 1999 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:

	Year ended December 31,	
Pro forma information:	2000	1999
	(In thousands, except per share data)	
Employees' compensation and benefits	$51,763	$50,005
Net income-available to common stockholders	$58,119	$56,341
Earnings per common share-basic	$ 2.16	$ 1.95
Earnings per common share-diluted	$ 2.14	$ 1.93

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 2000 and 1999 was estimated using the following assumptions: weighted dividend growth of 0% (2000) and 22.38% (1999); expected life of 3.11 years (2000) and 10 years (1999); weighted expected volatility of 31.74% (2000) and 29.46% (1999); and weighted risk-free interest rate of 5.36% (2000) and 6.04% (1999). The weighted estimated fair value of the options granted was $5.50 (2000) and $6.54 (1999) per option.

>. Note 7 - Cash and Due from Banks

The Corporation is required by law to maintain minimum average reserve balances. The amount of those reserve average balances was approximately $46,078,200 at December 31, 2001 (2000 - $45,107,600).

>. Note 8 - Investment Securities Held For Trading

At December 31, 2001 and 2000, there were no securities held for trading purposes or options on such securities.

All trading instruments are subject to market risk, the risk that future changes in market conditions, such as fluctuations in market prices or interest rates, may make an instrument less valuable or more onerous. The instruments are accounted for at market value, and their changes are reported directly in earnings. The Corporation may write options on trading securities as part of its trading activities. Also the Corporation may enter in transactions of securities sold not yet purchased for trading purposes. These transactions are carried at market value. Net gains and losses resulting from these transactions are recorded in the trading income or loss account. The net gain from the sale of trading securities amounted to $419,367 for the year ended December 31, 2000 (a loss of $7,946 for 1999), and were included in earnings as trading income. No net revenue from the sale of trading securities was recorded during the year 2001.

>. Note 9 - Investment Securities Held To Maturity

The amortized cost, gross unrealized gains and losses, approximate market value, weighted average yield and maturities of investment securities held to maturity at December 31, 2001 and 2000 were as follows:

	December 31, 2001					December 31, 2000				
	Amortized cost	Unrealized gains	Unrealized (losses)	Market value	Weighted average yield%	Amortized cost	Unrealized gains	Unrealized (losses)	Market value	Weighted average yield%
	(Dollars in thousands)									
Obligations of U.S. Government Agencies:										
After 1 to 5 years						$ 10,000		$ (12)	$ 9,988	7.04
After 10 years	$211,194	$ 3	$(6,466)	$204,731	7.39	90,176	$1,412	(5,191)	86,397	7.53
Puerto Rico Government Obligations:										
After 1 to 5 years	5,000			5,000	5.00					
After 10 years	4,084	228		4,312	6.50	3,831		(56)	3,775	6.50
United States and Puerto Rico Government obligations	$220,278	$231	$(6,466)	$214,043	7.32	$104,007	$1,412	$(5,259)	$100,160	7.44
Mortgage backed securities: GNMA certificates										
After 10 years						$206,989	$1,465	$ (139)	$208,315	6.94
Corporate bonds:										
After 1 to 5 years	$ 64,018		$ (277)	$ 63,741	3.49					
Total Investment Securities Held to Maturity	$284,296	$231	$(6,743)	$277,784	6.46	$310,996	$2,877	$(5,398)	$308,475	7.11

Expected maturities of mortgage backed securities and certain other securities might differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. At January 1, 2001, in connection with the adoption of SFAS No. 133, the Corporation transferred a portfolio of $207 million of GNMA certificates held to maturity into the available for sale category. The unrealized gain of $994,500, net of taxes, was reflected in other comprehensive income as a cumulative effect of the change in accounting principle. The Corporation does not expect reclassification of the transition adjustment included in other comprehensive income within the next twelve months.

>. Note 10 - Investment Securities Available For Sale

The amortized cost, gross unrealized gains and losses, approximate market value, weighted average yield and maturities of investment securities held for sale at December 31, 2001 and 2000 were as follows:

	December 31, 2001					December 31, 2000				
	Amortized cost	Unrealized gains	Unrealized (losses)	Market value	Weighted average yield%	Amortized cost	Unrealized gains	Unrealized (losses)	Market value	Weighted average yield%
	(Dollars in thousands)									
U.S. Treasury Securities:										
Within 1 year	$ 7,726	$ 30		$ 7,756	3.18	$ 499	$ 2		$ 501	6.04
After 1 to 5 years						2,630	33		2,663	6.49
After 5 to 10 years						39,624		$ (718)	38,906	4.89
After 10 years						67,555	1,124	(1,579)	67,100	5.50
Obligations of other U.S. Government Agencies:										
Within 1 year	407,324		$(32)	407,292	1.72	240,341	48	(2)	240,387	6.76
After 1 to 5 years						31,705	144		31,849	7.86
After 5 to 10 years	500	1		501	5.59	29,988	217		30,205	7.81
After 10 years	87,519	469	(1,805)	86,183	7.55	53,593	322	(3,302)	50,613	7.66
Puerto Rico Government Obligations:										
After 1 to 5 years						20,000			20,000	7.41
After 5 to 10 years	4,458	128		4,586	6.19	429	3	(14)	418	6.65
After 10 years	5,932	151		6,083	6.34	8,840	105	(320)	8,625	6.51
United States and Puerto Rico Government Obligations	$513,459	$779	$(1,837)	$512,401	2.83	$495,204	$ 1,998	$(5,935)	$ 491,267	6.69
Mortgage backed securities:										
FHLMC certificates:										
Within 1 year	$ 8			$ 8	5.85					
After 1 to 5 years	112	$ 4		116	7.63	$ 834	$ 7	$ (1)	$ 840	7.02
After 5 to 10 years	13,211	576		13,787	7.29	8,088	40	(13)	8,115	6.22
After 10 years	8,030	172	$ (6)	8,196	6.95	18,829	335	(53)	19,111	7.00
	21,361	752	(6)	22,107	7.16	27,751	382	(67)	28,066	6.77
GNMA certificates:										
After 5 to 10 years	4,605	101		4,706	6.39	4,484	37	(118)	4,403	6.22
After 10 years	2,515,953	12,672	(6,539)	2,522,086	6.52	1,291,460	8,713	(21,349)	1,278,824	6.50
	2,520,558	12,773	(6,539)	2,526,792	6.52	1,295,944	8,750	(21,467)	1,283,227	6.50
FNMA certificates:										
After 1 to 5 years	158	4		162	6.92	375	2		377	7.29
After 5 to 10 years	124	5		129	7.32	125	1		126	6.84
After 10 years	7,095	408		7,503	7.96	9,402	270	(14)	9,658	8.16
	7,377	417		7,794	7.93	9,902	273	(14)	10,161	8.11
Mortgage pass through certificates:										
After 10 years	1,958	38		1,996	8.70	2,286	66		2,352	8.96
Mortgage backed securities	$2,551,254	$13,980	$ (6,545)	$2,558,689	6.53	$1,335,883	$9,471	$(21,548)	$1,323,806	6.52
Corporate bonds:										
Within 1 year	$ 19,246	$ 410		$ 19,656	7.70	$ 19,645	$ 84		$ 19,729	7.29
After 1 to 5 years	118,919	1,770	$ (2,899)	117,790	6.68	27,416	295	$ (105)	27,606	7.97
After 5 to 10 years	114,855	77	(1,906)	113,026	7.34	10,522	98	(22)	10,598	7.21
After 10 years	18,531	328		18,859	7.35	3,211		(60)	3,151	6.31
Corporate bonds	$ 271,551	$ 2,585	$ (4,805)	$ 269,331	7.08	$ 60,794	$ 477	$ (187)	$ 61,084	7.53
Equity securities (without contractual maturity)	$ 45,115	$ 4,901	$(16,189)	$ 33,827	1.43	$ 35,914	$2,134	$(12,542)	$ 25,506	1.91
Total Investments Securities Available for Sale	$3,381,379	$22,245	$(29,376)	$3,374,248	5.95	$1,927,795	$14,080	$(40,212)	$1,901,663	6.51

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

At December 31, 2001, the net unrealized loss of $6,293,354 (2000 - net unrealized loss of $19,598,785) on securities available for sale, net of the deferred income tax of $2,097,785 (2000 - $6,532,928), was reported in accumulated other comprehensive income. For 2001, the change in the net unrealized holding gain on the available for sale securities amounted to $17,740,575 (2000 - a gain of $65,400,232) before deferred income taxes.

For 2001, proceeds from the sale of securities amounted to $847.7 million (2000 - $58.5 million, 1999 - $9.6 million) resulting in gross realized gains of $13.6 million (2000 - $7.9 million, 1999 -$1.4 million), and gross realized losses of $4.0 million (1999-$46,000). No losses were realized during 2000.

>. Note 11 - Federal Home Loan Bank (FHLB) Stock

At December 31, 2001 and 2000, there were investments in FHLB stock with book value of $22,890,600 and $18,536,500 respectively. The estimated market value of such investments is its redemption value.

>. Note 12 - Interest and Dividend on Investments

A detail of interest and dividend income on investments follows:

	Year ended December 31,		
	2001	2000	1999
		(In thousands)	
Mortgage-backed securities:			
Taxable	$ 2,666	$ 3,325	$ 4,137
Exempt	106,571	91,416	77,900
	$109,237	$94,741	$82,037
Other investment securities:			
Taxable	$ 2,639	$ 1,577	$ 1,528
Exempt	50,602	38,060	24,758
	$ 53,241	$39,637	$26,286

>. Note 13 - Loans Receivable

The following is a detail of the loan portfolio:

	December 31, 2001	December 31, 2000
	(In thousands)	
Residential real estate loans:		
Secured by first mortgages:		
Conventional	$ 955,573	$ 695,344
Insured by government agencies:		
Federal Housing Administration and Veterans Administration	25,211	20,004
Puerto Rico Housing Bank and Finance Agency	23,513	28,037
Secured by second mortgages	8,088	8,964
	1,012,385	752,349
Deferred net loan fees	(5,107)	(5,557)
Residential real estate loans	1,007,278	746,792
Commercial loans:		
Construction loans	219,396	203,955
Commercial loans	1,238,173	947,709
Commercial mortgage	688,922	438,321
Commercial loans	2,146,491	1,589,985
Finance leases	127,935	122,883
Consumer and other loans:		
Personal	362,490	388,696
Personal lines of credit	11,216	12,852
Auto	502,902	530,534
Boat	39,570	33,954
Credit card	176,226	174,797
Home equity reserve loans	1,851	2,134
Unearned interest	(71,810)	(104,429)
Consumer and other loans	1,022,445	1,038,538
Loans receivable	4,304,149	3,498,198
Loans held for sale	4,630	
Total loans	4,308,779	3,498,198
Allowance for loan losses	(91,060)	(76,919)
Total loans-net	$4,217,719	$3,421,279

The Corporation's primary lending area is Puerto Rico. At December 31, 2001 and 2000 there is no significant concentration of credit risk in any specific industry on the loan portfolio.

At December 31, 2001, loans in which the accrual of interest income had been discontinued amounted to $72,998,000 (2000 - $67,716,000; 1999 - $53,816,000). If these loans had been accruing interest, the additional interest income realized would have been approximately $5,735,000 (2000 - $5,937,000; 1999 - $4,544,000). There are no material commitments to lend additional funds to borrowers whose loans were in non-accruing status at these dates.

At December 31, 2001 mortgage loans held for sale amounted to $4.6 million. All mortgage loans were sold at market values, which exceeded the carrying value of the loans.

At December 31, 2001, the Corporation was servicing mortgage loans owned by others aggregating approximately $160,583,000 (2000 - $144,805,000; 1999 - $134,348,000).

Various loans secured by first mortgages were assigned as collateral for term notes, certificates of deposit, advances from the Federal Home Loan Bank, and unused lines of credit. The mortgage loans pledged as collateral amounted to $195,267,091 and $104,739,882 at December 31, 2001 and 2000, respectively.

Note 14 - Allowance for Loan Losses

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

	Year ended December 31,		
	2001	2000	1999
		(In thousands)	
Balance at beginning of period	$76,919	$71,784	$67,854
Provision charged to income	61,030	45,719	47,961
Losses charged against the allowance	(54,380)	(51,831)	(53,665)
Recoveries credited to the allowance	7,391	9,807	9,048
Other adjustments	100	1,440	586
Balance at end of period	$91,060	$76,919	$71,784

At December 31, 2001, $10.7 million ($13.1 million at December 31, 2000) in commercial and real estate loans over $1,000,000 was considered impaired with an allowance of $3.7 million ($7.8 million at December 31, 2000), of which $2 million was established based on the fair value of the collateral (2000-$392,000) and $1.7 million was established based on the present value of expected future cash flows (2000-$7.4 million). There were no consumer loans over $1,000,000 considered impaired at December 31, 2001 and 2000. The average recorded investment in impaired loans amounted to $11.9 million for 2001 (2000 - $8.8 million). Interest income in the amount of approximately $376,900 was recognized on impaired loans in 2001 (2000 - approximately $227,000; 1999 - approximately $428,000).

>. Note 15 - Related Party Transactions

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

	Amount (In thousands)
Balance at December 31, 1999	$ 23,093
New loans	279
Payments	(3,198)
Balance at December 31, 2000	20,174
New loans	14,659
Payments	(170)
Balance at December 31, 2001	$ 34,663

>. Note 16 - Premises and Equipment

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

	Useful life in years	December 31, 2001	December 31, 2000
		(In thousands)	
Land		$ 7,357	$ 7,378
Buildings and improvements	10-40	39,809	35,038
Leasehold improvements	1-15	14,753	12,344
Furniture and equipment	3-10	62,466	55,654
		124,385	110,414
Accumulated depreciation		(55,001)	(52,086)
		69,384	58,328
Projects in progress		6,772	13,759
Total premises and equipment - net		$76,156	$72,087

>. Note 17 - Other Assets

Following is a detail of other assets:

	December 31, 2001	December 31, 2000
	(In thousands)	
Deferred tax asset	$43,618	$42,651
Accounts receivable	4,844	9,531
Prepaid expenses	12,242	9,293
Revenue earning vehicles	6,526	6,572
Other	21,167	28,527
Total	$88,397	$96,574

>. Note 18 - Deposits and Related Interest

Deposits and related interest consist of the following:

	December 31, 2001	December 31, 2000
	(In thousands)	
Type of account and interest rate:		
Savings accounts - 2.25% to 3.50% (2000 - 2.75% to 4.00%)	$ 469,452	$ 430,298
Interest bearing checking accounts - 2.25% to 3.05% (2000 - 2.75% to 4.50%)	205,760	170,631
Non-interest bearing checking accounts	239,851	232,164
Certificate accounts - 2.00% to 7.50% (2000 - 4.15% to 7.60%)	3,183,491	2,512,891
	$4,098,554	$3,345,984

The weighted average interest rate on total deposits at December 31, 2001 and 2000 was 3.82% and 5.83%, respectively.

At December 31, 2001, the aggregate amount of overdraft in demand deposits that were reclassified as loans amounted to $7,807,724 (2000 - $4,106,412).

The following table presents a summary of certificates of deposits with remaining term of more than one year at December 31, 2001:

	Total (In thousands)
Over one year to two years	$207,402
Over two years to three years	211,183
Over three years to four years	128,122
Over four years to five years	356,040
Over five years	1,431,373
Total	$2,334,120

At December 31, 2001 certificates of deposit (CD's) in denominations of $100,000 or higher amounted to $2,669,536,603 (2000 - $1,995,730,680) including brokered certificates of deposit of $2,189,687,222 (2000 - $1,499,104,222) at a weighted average rate of 4.0% (2000 - 6.60%).

At December 31, 2001, deposit accounts issued to government agencies with a carrying value of $63,639,152 (2000 - $101,661,753) were collateralized by securities with a carrying value of $75,126,925 (2000 - $106,917,690) and estimated market value of $71,979,923 (2000 - $104,868,113) and by specific mortgage loans with a carrying value of $2,895,723 (2000 - $3,539,882) and estimated market value of $3,370,043 (2000 - $3,882,189).

A table showing interest expense on deposits follows:

	Year ended December 31, 2001	2000	1999
		(In thousands)	
Savings	$ 12,954	$ 12,792	$12,381
Interest bearing checking accounts	5,296	5,546	4,931
Certificates of deposit	142,508	134,945	73,177
Total	$160,758	$153,283	$90,489

>. Note 19 - Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

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

	December 31, 2001	2000
	(In thousands)	
Federal funds purchased, interest rate 1.80%	$ 10,000	
Repurchase agreements, interest ranging from 1.25% to 6.09% (2000 - 4.97% to 6.63%)	2,976,174	$1,851,286
Accrued interest payable	11,000	5,150
Total	$2,997,174	$1,856,436

Federal funds purchased and repurchase agreements mature as follows:

	December 31, 2001	2000
	(In thousands)	
One to thirty days	$ 723,010	$1,368,944
Over thirty to ninety days	14,062	
Over ninety days to one year	274,142	208,200
Over one year	1,974,960	274,142
Total	$2,986,174	$1,851,286

The following securities were sold under agreements to repurchase:

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

Underlying securities	December 31, 2000 Amortized cost of underlying securities	Balance of borrowing	Approximate market value of underlying securities	Weighted average interest rate
	(In thousands)			
U.S. Treasury Securities and obligations of other U.S. Government Agencies	$ 406,106	$ 395,027	$ 400,253	6.53%
Mortgage backed securities	1,497,102	1,456,259	1,485,816	6.35%
Total	$1,903,208	$1,851,286	$1,886,069	
Accrued interest receivable	$ 4,124			

The weighted average interest rates of federal funds purchased and repurchase agreements at December 31, 2001 and 2000 was 4.05% and 6.32%, respectively.

At December 31, 2001 and 2000, 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 2001 was $2,986,174,065 (2000 - $1,851,285,585). The average balance during 2001 was approximately $1,997,705,000 (2000 - $1,687,880,000).

>. Note 20 - Advances From The Federal Home Loan Bank (FHLB)

Following is a detail of the advances from the FHLB:

Maturity	Interest rate	December 31, 2001	December 31, 2000
		(In thousands)	
January 2, 2001	6.35%		$ 1,000
January 5, 2001	6.41%		16,000
January 2, 2002	1.85%	$ 20,700	
August 16, 2005	6.30%	50,000	50,000
October 9, 2008	5.10%	14,000	
October 16, 2008	5.09%	15,000	
February 28, 2011	4.50%	79,000	
March 21, 2011	4.42%	165,000	
		$343,700	$67,000

Advances are received from the FHLB under an Advances, Collateral Pledge and Security Agreement (the Collateral Agreement). Under the Collateral Agreement, the Corporation is required to maintain a minimum amount of qualifying mortgage collateral with a market value at least 110% of the outstanding advances. At December 31, 2001, specific mortgage loans with an estimated market value of $197,506,039 (2000 - $76,485,860) were pledged to the FHLB as part of the Collateral Agreement. The carrying value of such loans at December 31, 2001 amounted to $192,371,368 (2000 - $73,700,000). In addition, securities with an approximated market value of $145,140,574 (2000 - $5,704,606) and a carrying value of $158,117,351 (2000 - $5,675,689) were pledged to the FHLB.

>. Note 21- Subordinated Notes

On December 20, 1995, the Corporation issued 7.63% subordinated capital notes in the amount of $100,000,000 maturing in 2005. The notes were issued at a discount. At December 31, 2001 the outstanding balance net of the unamortized discount and notes repurchased was $84,361,525 (2000 - $90,548,314). Interest on the notes is payable semiannually and at maturity. The notes represent unsecured obligations of the Corporation ranking subordinate in right of payment to all existing and future senior debt including the claims of depositors and other general creditors. The notes may not be redeemed prior to their maturity. At December 31, 2001, the Corporation has transferred to capital reserves from the retained earnings account $60,000,000, as a result of the requirement explained in Note 3 - "Stockholders' Equity."

>. Note 22 - Unused Lines Of Credit

The Corporation maintains unsecured standby lines of credit with other banks. At December 31, 2001, the Corporation's total unused lines of credit with these banks amounted to approximately $180,000,000 (2000 - $133,500,000). At December 31, 2000, the Corporation has an available line of credit with the FHLB guaranteed with excess collateral, in the amount of $66,841,562.

>. Note 23- 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 are eligible to participate in the Plan after one year of service. Under the provisions of the Plan, the Bank contributes a quarter of the first 4% of each participant's compensation. Participants are permitted to contribute up to 10% of their annual compensation, limited to $8,000 per year. 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 $845,227, $699,060 and $625,375 during 2001, 2000 and 1999, respectively, to the Plan.

>. Note 24 - Other Expenses

A detail of other expenses follows:

	Year ended December 31,		
	2001	2000	1999
		(In thousands)	
Professional and service fees	$ 7,931	$ 8,740	$ 6,672
Advertising and business promotion	7,506	8,468	5,896
Communications	5,395	5,573	4,667
Revenue earning equipment	1,578	1,525	1,479
Supplies and printing	1,282	1,214	1,361
Other	8,559	7,423	5,426
Total	$32,251	$32,943	$25,501

>. Note 25 - Income Taxes

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

The provision for income taxes was as follows:

	Year ended December 31,		
	2001	2000	1999
		(In thousands)	
Current	$25,536	$19,117	$13,991
Deferred	(5,402)	(4,356)	(6,703)
Total	$20,134	$14,761	$ 7,288

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

	Year ended December 31,					
	2001		2000		1999	
	Amount	% of pre-tax income	Amount	% of pre-tax income	Amount	% of pre-tax income
			(Dollars in thousands)			
Computed income tax at statutory rate	$41,789	39	$31,994	39	$27,052	39
Benefit of net exempt income	(24,442)	(23)	(12,707)	(15)	(13,959)	(20)
Other-net	2,787	3	(4,526)	(6)	(5,805)	(8)
Total income tax provision	$20,134	19	$14,761	18	$ 7,288	11

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

	December 31, 2001	2000
	(In thousands)	
Deferred tax asset:		
Allowance for loan losses	$34,732	$29,998
Unrealized loss on available for sale securities	2,098	6,533
Other	7,110	6,445
Deferred tax asset	$43,940	$42,976
Deferred tax liability	$ (322)	$ (325)

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

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

>. Note 26 - Commitments

At December 31, 2001 certain premises are leased with terms expiring through the year 2021. 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, 2001, the obligation under various leases follows:

Year	Amount (In thousands)
2002	$ 4,414
2003	3,391
2004	2,645
2005	1,963
2006	1,539
2007 and later years	5,117
Total	$19,069

Rental expense included in occupancy and equipment expense was $4,240,437 in 2001 (2000 - $4,042,069; 1999 - $3,390,786).

>. Note 27 - Fair Value of Financial Instruments

The information about the estimated fair values of financial instruments as required by generally accepted accounting principles, is presented hereunder. The disclosure requirements exclude certain financial instruments and all non financial instruments. Accordingly, the aggregate fair value amounts presented do not represent Management's estimate of the underlying value of the Corporation. A summary table of estimated fair values and carrying values of financial instruments at December 31, 2001 and 2000 follows:

	December 31,			
	2001		2000	
	Estimated fair value	Carrying value	Estimated fair value	Carrying value
	(In thousands)			
Assets:				
Cash and due from banks and money market instruments	$ 94,463	$ 94,463	$ 65,393	$ 65,393
Investment securities	3,652,031	3,658,544	2,210,138	2,212,659
FHLB stock	22,891	22,891	18,537	18,537
Loans receivable, including loans held for sale - net	4,226,033	4,217,719	3,396,324	3,421,279
Liabilities:				
Deposits	4,121,145	4,098,554	3,351,069	3,345,984
Federal funds, securities sold under agreements to repurchase	3,005,466	2,997,174	1,857,651	1,856,436
Advances from FHLB	348,733	343,700	68,607	67,000
Notes payable and subordinated notes	83,729	84,362	144,853	146,048
Interest rate swaps	15,053	15,053		

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

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

Cash and due from banks and money market instruments

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

Investment securities

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

FHLB stock

Investments in FHLB stock are valued at their redemption values.

Loans receivable, including loans held for sale - net

The fair value of all loans was estimated by the discounted present values of loans with similar financial characteristics. Loans were classified by type such as commercial, residential mortgage, credit card and automobile. These asset categories were further segmented into fixed and adjustable rate categories and by accruing and non-accruing groups. Performing floating rate loans were valued at book if they reprice at least once every three months. 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, cred-

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

Deposits

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

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

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

Federal funds, securities sold under agreements to repurchase and other short-term borrowings

Federal funds purchased, repurchase agreements and other short-term borrowings are mostly borrowed funds, which reprice at least quarterly, and their outstanding balances are estimated to be their fair values. Where longer commitments are involved, fair values are estimated in the same way as fixed terms deposits.

Advances from FHLB, notes payable and subordinated notes

The fair value of notes payable and subordinated notes 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.

Interest rate swaps

The fair value of the interest rate swaps were provided by the brokers who created them.

Note 28 - Supplemental Cash Flow Information

Supplemental cash flow information follows:

	Year ended December 31,		
	2001	2000	1999
	(In thousands)		
Cash paid for:			
Interest	$275,360	$260,937	$173,273
Income tax	12,535	30,477	6,271
Non cash investing and financing activities:			
Additions to other real estate owned	1,797	3,121	639

Note 29 - Financial Instruments With Off-Balance Sheet Risk, Commitments to Extend Credit and Standby Letters of Credit

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

	December 31,	
	2001	2000
	(In thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
To originate loans	$194,363	$281,030
Unused credit card lines	291,120	267,104
Unused personal lines of credit	13,480	14,467
Commercial lines of credit	222,821	331,785
Commercial letters of credit	19,067	12,387
Standby letters of credit	24,172	22,914

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

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

In general, commercial and standby letters of credit are issued to facilitate foreign and domestic trade transactions. Normally, commercial and standby letters of credit are short-term commitments used to finance commercial contracts for the shipment of goods. The collateral for these letters of credit include cash or available commercial lines of credit. The fair value of commercial and standby letters of credit is based on the fees currently charged for such agreements, which at December 31, 2001 is not significant.

Interest rate risk management

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

The following table indicates the types of swaps used:

	Notional amount (In thousands)
Pay-fixed swaps:	
Balance at December 31, 1999	$ 50,000
Expired contracts	(50,000)
Balance at December 31, 2000	0
New contracts	58,165
Balance at December 31, 2001	$ 58,165
Receive-fixed swaps:	
Balance at December 31, 1999	$ 185,000
Expired contracts	(25,000)
New contracts	991,000
Balance at December 31, 2000	1,151,000
Expired contracts	(1,116,000)
New contracts	1,460,000
Balance at December 31, 2001	$1,495,000

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

Interest rate swap agreements under which the Corporation agrees to pay fixed-rates of interest are considered to be a hedge against changes in the fair value attributable to market interest rates of fixed rate available for sale corporate bonds. Accordingly, the interest rate swap agreements and the securities being hedged are reflected at fair value in the Corporation's consolidated statement of financial condition. The adjustment of the hedged item's carrying amount attributable to the hedged risk is recorded in earnings in order to offset the gain or loss on the hedging instrument. The change in the fair value of the security attributable to credit risk is recorded in other comprehensive income. The hedge relationship is estimated to be 100 percent effective; therefore, there is no impact on the statement of income, because the gain or loss on the interest rate swap reflects the full amount of the gain or loss on the hedged item attributable to the hedged risk. The net effect of this accounting is that the interest of the fixed-rate securities being hedged generally reflects variable interest rates.

Interest rate swaps with an aggregate notional principal balance of $1,553,665,000 ($58,165,000 fixed to floating and $1,495,000,000 floating to fixed), had an unrealized loss of approximately $15,053,000 at December 31, 2001.

Pay-fixed swaps at December 31, 2001 had a fixed weighted average rate payment of 7.14% and a floating weighted average rate receiving of 4.20%. At December 31, 2000, there are no pay-fixed swaps outstanding. Receive-fixed swaps at December 31, 2001, have a floating weighted average rate payment of 2.16% (2000 - 6.64%) and a fixed weighted average rate receiving of 6.32% (2000 - 7.54%). Floating rates are based on a 83% 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, 2001, the Corporation had total net receivable of $12,755,949 (2000 - $5,527,697) 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, 2001 was approximately $48.1 million and $47.9 million, respectively (2000 - $15.8 million and $15.9 million, respectively). The period to maturity of the swaps at December 31, 2001 ranged from one year through twenty years (2000 - from one year through fifteen years).

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 following table indicates the agreements outstanding at December 31, 2001 (dollars in thousands):

Cap agreements notional amount	Cap Rate	Current 90 day LIBOR	Maturity
(In thousands)			
$200,000	7.50%	1.88%	August 17, 2002
200,000	7.25%	1.88%	August 17, 2002
200,000	7.00%	1.88%	August 17, 2002

Management designated these caps as cash-flow hedges. For a qualifying cash flow hedge, an interest rate cap is carried on the statement of financial condition at fair value with the time value change reflected through the current statement of income. Any intrinsic value is reflected through comprehensive income and will be reflected in future statements of income when payments are received from the counter party. On January 1, 2001 a loss of approximately $1.3 million was recognized in the statement of income as a cumulative effect of the adoption of SFAS No. 133, as a result of unamortized premium paid for caps of $1.5 million less an estimated fair market value of $200,000. Prior to the implementation of SFAS No. 133, the premium was amortized as an adjustment to interest expense on borrowings. The amortization of premium in 2000 and 1999 amounted to approximately $352,000, and $252,000, respectively. The fair value of these caps at December 31, 2001 is zero.

>. Note 30 - Segment Information

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

The Retail business segment is composed of the Corporation's branches and loan centers together with the retail products of deposits and consumer loans. Consumer loans include loans such as personal, residential real estate, auto, credit card and small loans. Finance leases are also included in Retail business. The Commercial Corporate segment is composed of commercial loans including commercial real estate and construction loans. Certain small commercial loans originated by the branches are included in the Retail business for the years 1999 and 2000. 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 Treasury and Investment segment and other segments. The Treasury and Investment segment sells funds to the Retail and Commercial Corporate segments to finance their lending activities and purchases funds gathered by those segments. The interest rates charged or credited by Investment and Treasury is based on market rates.

The following table presents information about the reportable segments:

	Retail	Treasury and Investments	Commercial Corporate	Total
	(In thousands)			
For the year ended December 31, 2001:				
Interest income	$ 217,021	$ 162,478	$ 136,757	$ 516,256
Net (charge) credit for transfer of funds	(21,043)	102,123	(81,081)	
Interest expense	(71,410)	(208,791)		(280,201)
Net interest income	124,568	55,810	55,676	236,055
Provision for loan losses	(44,541)		(16,489)	(61,030)
Segment income	80,027	55,810	39,187	175,025
Average earning assets	$1,970,768	$2,627,205	$1,781,314	$6,379,287
For the year ended December 31, 2000:				
Interest income	$ 222,950	$ 134,328	$ 106,110	$ 463,388
Net (charge) credit for transfer of funds	(12,582)	85,013	(72,431)	
Interest expense	(74,093)	(198,522)		(272,615)
Net interest income	136,275	20,819	33,679	190,773
Provision for loan losses	(28,084)		(17,635)	(45,719)
Segment income	108,191	20,819	16,044	145,054
Average earning assets	$1,893,699	$1,985,580	$1,110,608	$4,989,887
For the year ended December 31, 1999:				
Interest income	$ 186,224	$ 108,332	$ 74,508	$ 369,063
Net (charge) credit for transfer of funds	(4,018)	48,737	(44,719)	
Interest expense	(58,665)	(124,665)		(183,330)
Net interest income	123,541	32,404	29,789	185,733
Provision for loan losses	(46,802)		(1,159)	(47,960)
Segment income	76,739	32,404	28,630	137,773
Average earning assets	$1,462,311	$1,726,719	$815,569	$4,004,599

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

	Year ended December 31,		
	2001	2000	1999
		(In thousands)	
Net income:			
Total income for segments	$ 175,025	$ 145,054	$ 137,773
Other income	52,980	50,032	32,862
Operating expenses	(120,855)	(113,049)	(101,272)
Income taxes	(20,134)	(14,761)	(7,288)
Income before cumulative effect of accounting change	87,016	67,276	62,075
Cumulative effect of accounting change	(1,015)		
Total consolidated net income	$ 86,001	$ 67,276	$ 62,075
Average assets:			
Total average earning assets for segments	$6,379,287	$4,989,887	$4,004,599
Average assets not assigned to segments	322,115	249,489	168,182
Total consolidated average assets	$6,701,402	$5,239,376	$4,172,781

>. Note 31 - Litigation

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

>. Note 32 - Selected Quarterly Financial Data (Unaudited)

Financial data showing results of the 2001 and 2000 quarters is presented below. These results are unaudited. In the opinion of Management, all adjustments necessary for a fair presentation have been included:

	2001			
	March 31	June 30	Sept. 30	Dec. 31
	(In thousands, except for per share results)			
Interest income	$128,750	$126,178	$127,527	$133,801
Net interest income	52,474	58,101	61,989	63,491
Provision for loan losses	15,000	17,800	12,790	15,440
Net income	18,786	20,172	23,019	24,024
Earnings per common share-basic	$0.59	$0.64	$0.67	$0.71
Earnings per common share-diluted	$0.59	$0.64	$0.67	$0.71

	2000			
	March 31	June 30	Sept. 30	Dec. 31
	(In thousands, except for per share results)			
Interest income	$105,181	$112,447	$120,384	$125,375
Net interest income	48,320	48,337	47,038	47,078
Provision for loan losses	12,020	11,158	11,566	10,975
Net income	16,351	16,477	16,699	17,748
Earnings per common share-basic	$0.53	$0.55	$0.56	$0.57
Earnings per common share-diluted	$0.53	$0.55	$0.56	$0.57

>. Note 33 - First BanCorp (Holding Company Only) Financial Information

The following condensed financial information presents the financial position of the Holding Company only at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years ended on December 31, 2001, 2000 and 1999.

Statements of Financial Condition

	December 31, 2001	December 31, 2000
	(In thousands)	
Assets:		
Cash and due from banks	$ 17,422	$ 17,026
Money market instruments	300	300
Investment securities available for sale, at market value:		
United States Government obligations	24,802	18,951
Other investments	35,507	27,347
Total investment securities available for sale	60,309	46,298
Loans receivable	5,682	
Investment in FirstBank Puerto Rico, at equity	515,623	368,338
Investment in FirstBank Insurance Agency, at equity	371	
Other assets	3,383	2,856
Total assets	$603,090	$434,818
Liabilities and Stockholders' Equity:		
Accounts payable and other liabilities	$ 171	$ 357
Stockholders' equity	602,919	434,461
Contingencies and commitments		
Total liabilities and stockholders' equity	$603,090	$434,818

Statements of Income

	Year ended December 31,		
	2001	2000	1999
	(In thousands)		
Income:			
Interest income on investment securities	$ 658	$ 776	$ 1,537
Interest income on other investments	250	289	1,141
Interest income on loans	306		
Dividend from FirstBank	24,000	24,000	10,000
Other income	1,761	8,251	61
	26,975	33,316	12,739
Expenses:			
Interest expense		25	
Other operating expenses	559	487	243
	559	512	243
Income before income taxes and equity in undistributed earnings of subsidiaries	26,416	32,804	12,496
Income taxes	170	209	374
Equity in undistributed earnings of subsidiaries	59,755	34,681	49,953
Net income	86,001	67,276	62,075
Other comprehensive income (loss), net of tax	13,306	49,050	(77,399)
Comprehensive income (loss)	$ 99,307	$116,326	$(15,324)

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

Statements of Cash Flows	Year ended December 31,		
	2001	2000	1999
		(In thousands)	
Cash flows from operating activities:			
Net income	$86,001	$67,276	$62,075
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(59,755)	(34,681)	(49,953)
Net gain on sale of investments securities	(1,093)	(7,134)	
Net (increase) decrease in other assets	(75)	120	(130)
Net (decrease) increase in other liabilities	(186)	(527)	883
Total adjustments	(61,109)	(42,222)	(49,200)
Net cash provided by operating activities	24,892	25,054	12,875
Cash flows from investing activities:			
Capital contribution to subsidiaries	(80,305)	(40,000)	
Loans originated	(5,682)		
Purchases of securities available for sale	(24,203)	(50,119)	(44,361)
Sales of securities available for sale	10,227	44,807	
Other investing activities	6,316	278	
Net cash used in investing activities	(93,647)	(45,034)	(44,361)
Cash flows from financing activities:			
Net (decrease) increase in other borrowings		(865)	865
Proceeds from issuance on preferred stock	100,069	72,438	86,850
Exercise of stock options	1,355	94	176
Cash dividends paid	(30,343)	(19,212)	(14,658)
Treasury stock acquired	(1,930)	(30,087)	(32,511)
Net cash provided by financing activities	69,151	22,368	40,722
Net increase in cash	396	2,388	9,236
Cash and cash equivalents at the beginning of the year	17,326	14,938	5,702
Cash and cash equivalents at the end of the year	$17,722	$17,326	$14,938
Cash and cash equivalents include:			
Cash and due from banks	$17,422	$17,026	$13,160
Money market instruments	300	300	1,778
	$17,722	$17,326	$14,938

Independent Certified Public Accountants >.	PricewaterhouseCoopers LLP
Annual Meeting >.	The annual meeting of stockholders will be held on April 30, 2002, at 2:00 p.m., at the main office of the Corporation located at 1519 Ponce de León Avenue, Santurce, Puerto Rico.
Telephone >.	787.729.8200
Internet >.	http://www.firstbankpr.com
Additional Information and Form 10-K >.	Additional financial information about First BanCorp may be requested to Mrs. Laura Villarino, Senior Vice President and Controller, PO Box 9146, Santurce, Puerto Rico 00908. Copies of First BanCorp's Form 10-K filed with the Securities and Exchange Commission (SEC) will be provided to stockholders upon written request to Mrs. Laura Villarino at the same mailing address. First BanCorp's filings may be accessed in the web site maintained by the SEC at http://www.sec.gov.
Transfer Agent and Registrar >.	The Bank of New York, 101 Barclay Street 12W, New York, NY 10286