

Annual Report 1999



Technology

and Innovation:

our Challenge

toward the

new century.

1 First BanCorp

Table of Contents

Financial Highlights	2
Business Profile	5
President's Letter	7
Achievements in 1999	10
Puerto Rico Economy	13
Board of Directors	14
Officers	15
Financial Review	17
Stockholders' Information	76



Financial Highlights

In Thousands (Except for per share results)

1999

1998

Operating Results:

Net interest income	\$ 185,733	\$ 166,168
Provision for loan losses	47,960	76,000
Other income	32,862	58,240
Other operating expenses	101,272	91,798
Income tax provision	7,288	4,798
Net income	62,075	51,812
Per common share:		
Net income - basic	2.00	1.75
Net income - diluted	1.98	1.74

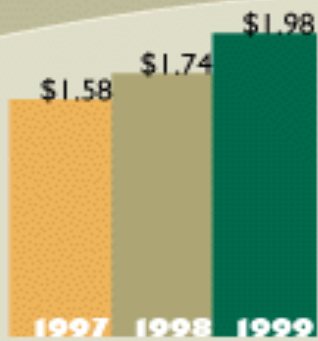
Weighted Average Shares:

Basic	28,941	29,586
Diluted	29,199	29,858

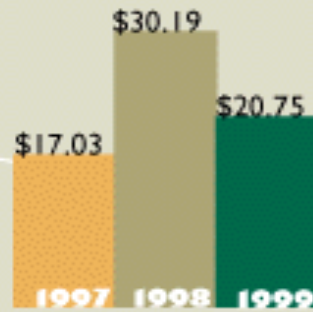
At Year End:

Assets	\$ 4,721,568	\$ 4,017,352
Loans	2,745,368	2,120,054
Allowance for loan losses	71,784	67,854
Investments	1,811,164	1,800,489
Deposits	2,565,422	1,775,045
Borrowings	1,803,729	1,930,488
Capital	294,902	270,368

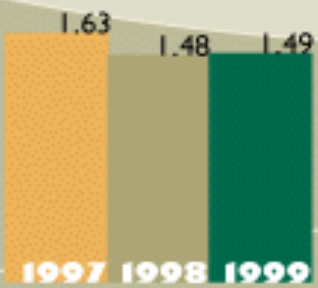
Diluted earnings per share



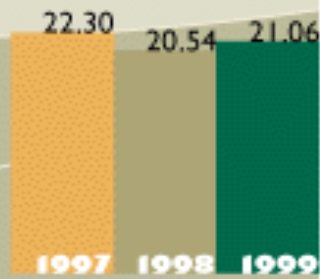
Market price per common share



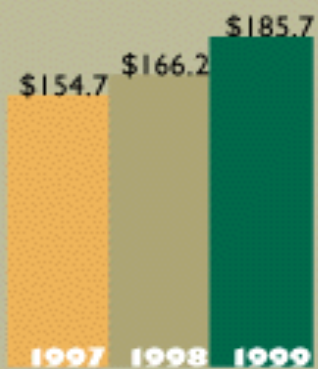
Return on assets
(In percent)



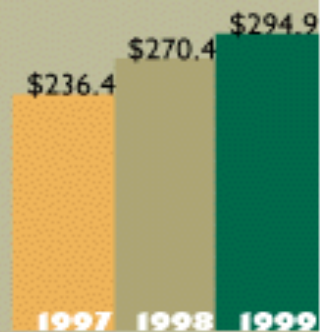
Return on equity
(In percent)



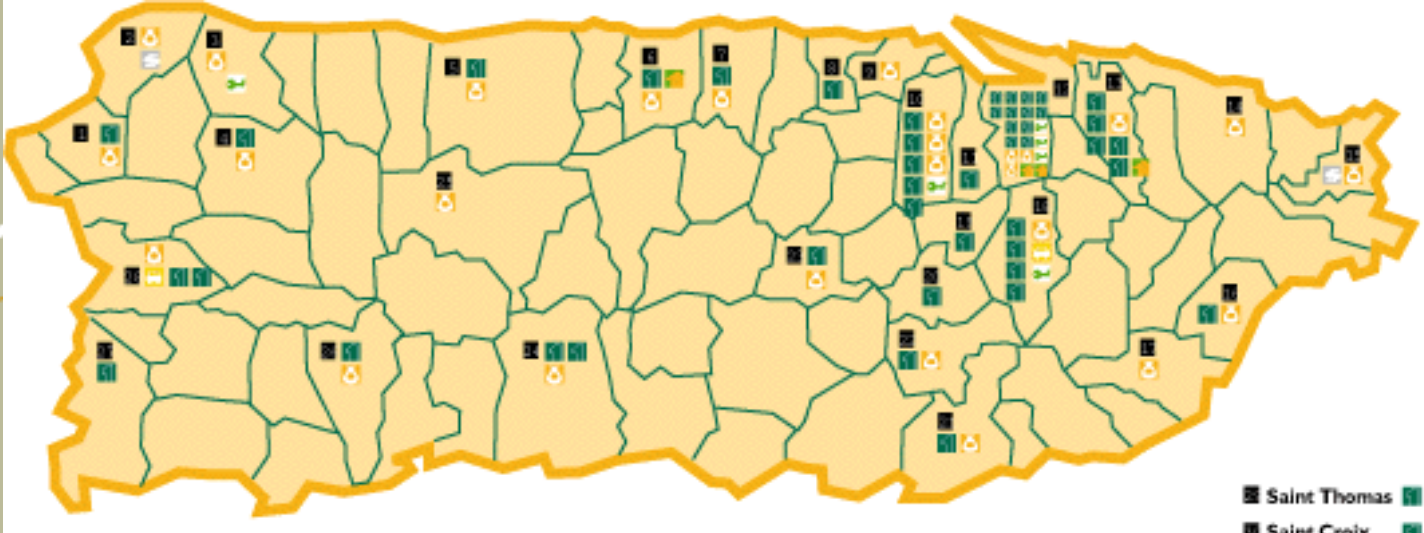
Net interest income
(In millions)



Common stockholders' equity (In millions)



Puerto Rico



- 1 Aguada
- 2 Aguadilla
- 3 Isabela
- 4 San Sebastián
- 5 Arecibo
- 6 Manatí
- 7 Vega Baja
- 8 Dorado
- 9 Toa Baja
- 10 Bayamón
- 11 Guaynabo
- 12 San Juan
- 13 Carolina
- 14 Río Grande
- 15 Fajardo
- 16 Humacao
- 17 Yabucoa
- 18 Caguas
- 19 Aguas Buenas
- 20 Cidra
- 21 Guayama
- 22 Cayey
- 23 Barranquitas
- 24 Ponce
- 25 Utuado
- 26 Yauco
- 27 Cabo Rojo
- 28 Mayagüez
- 29 Saint Thomas
- 30 Saint Croix



BRANCH

48 OFFICES



MONEY EXPRESS

27 OFFICES



FIRST LEASING & RENTAL CORP

6 OFFICES



AUTO LOAN CENTER

2 OFFICES



LOAN CENTER

2 OFFICES



MORTGAGE LOAN CENTER

4 OFFICES

TOTAL

89 OFFICES

Business Profile

First BanCorp (the Corporation), incorporated in Puerto Rico, is the holding company for FirstBank (the Bank), the second largest locally owned commercial bank in Puerto Rico. First BanCorp had total assets of \$4.722 billion as of December 31, 1999. The Corporation 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 business.

The Corporation has a \$1.2 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 \$474 million portfolio of residential mortgages. The institution has \$1.1 billion in consumer loans, concentrated in auto loans and leases, personal loans and credit cards. Its \$1.8 billion investment portfolio consists mostly of U.S. government securities and mortgage backed securities. Through a strategic alliance with Paine Webber, the Corporation offers full brokerage services in selected branches. Approximately 1,700 full time professionals and a sophisticated computer system support the business activities of the Corporation.

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

October 1, 1998 the Bank reorganized, making FirstBank a subsidiary of the holding company First BanCorp.

First BanCorp, which is a well-capitalized institution under federal standards, operates 48 full service branches including three offices in the U.S. Virgin Islands. The Corporation also has two auto loan centers, two personal loan centers and four mortgage loan centers in Puerto Rico. A second tier subsidiary, Money Express, operates 27 offices dedicated to small loans throughout Puerto Rico. First BanCorp also has a second tier subsidiary known as First Leasing and Rental Corp., which rents and leases motor vehicles from its six offices in Puerto Rico.

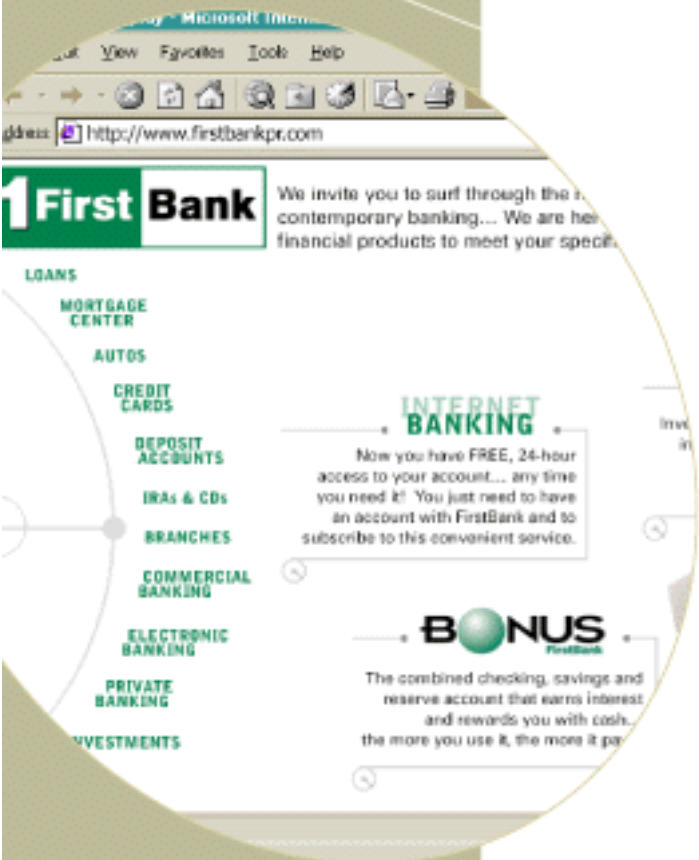


First BanCorp has distinguished itself by providing innovative marketing strategies and novel products to attract clients. Besides its main branches and specialized lending offices, the Corporation has offered a telephone information service called "Telebanco" since 1983. This was the first telebanking service offered in Puerto Rico. First BanCorp clients have access to an extensive ATM

network all over the world. The Corporation was the first in Puerto Rico to open on weekends and the first to offer in-store branches to its clients. First BanCorp was the first banking institution in Puerto Rico with a presence on the internet. During 2000, First BanCorp will launch a new, interactive web site where clients will be able to perform all types of banking transactions.

First BanCorp and its subsidiaries are subject to supervision, examination and regulation of the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Commissioner of Financial Institutions of Puerto Rico.

First BanCorp is committed to provide the most efficient and cost effective banking services possible. Management's goal is to be the premier financial institution in financial products and services in Puerto Rico. First BanCorp's Management will work constantly to exceed the expectations of our stockholders, clients and employees.



President's Letter



To our stockholders:

On behalf of the Board of Directors and staff of First BanCorp I am pleased to submit our annual report for 1999, another record year. In 1999 First BanCorp earned \$62.1 million, representing \$2.00 per share (basic) or \$1.98 per share (diluted). These earnings compared favorably with 1998, when the Corporation earned \$51.8 million, which came to \$1.75 per share (basic) or \$1.74 per share (diluted). Net income increased 19.8 percent and diluted earnings per share rose 13.8 percent in 1999. These achievements continue our record of consistent earnings growth.

During 1999 we concentrated on investing in new technology and diversifying our services. The pace of change in First BanCorp accelerated with a series of targeted purchases and strategic alliances that laid the foundation for future growth.

Growth and Diversification

Last year we worked hard to increase commercial and construction lending. In consumer lending the Corporation continued to improve the quality of the portfolio through improved underwriting processes.

At midyear we acquired the Puerto Rico operations of Royal Bank of Canada. This acquisition added \$90 million of high quality commercial loans, while giving us a well-located branch facility in the Hato Rey financial district. In August we acquired the \$42 million private label credit card business of Western Auto in

Puerto Rico. This acquisition substantially increased our important credit card business.

The largest acquisition occurred at year-end. We acquired four branches from Citibank's Caribbean operations. One of these branches in St. Thomas will strengthen our existing business in the U.S. Virgin Islands. The three Puerto Rico branches will add to our business in San Juan, Ponce and Mayaguez. This acquisition included \$83 million in retail deposits.

Aside from all these acquisitions, we have moved quickly to take advantage of the Gramm-Leach-Bliley Act, passed by Congress in November 1999. This legislation removed the barriers separating the banking, insurance and brokerage industries. We expect the Puerto Rico legislature will quickly enact legislation to harmonize local and Federal banking laws in this area. We have recruited an Executive Vice President with many years of experience in local securities markets to oversee our entry into brokerage and investment banking business.

Through an agreement with Goldman, Sachs & Co., First BanCorp

now participates in bond issues by the Government of Puerto Rico. The Corporation has also arranged a strategic alliance with Paine Webber of Puerto Rico, the largest brokerage firm in the Island with thirty five years of local experience. Early in the year 2000 Paine Webber opened offices in eleven of our branches. This arrangement gives the Corporation's clients the widest range of investment advice, brokerage services, and money management experience available in Puerto Rico, while our officers are also available to sell our products and services to Paine Webber's 32,000 clients in Puerto Rico.

New Investments in Technology, Facilities and Training

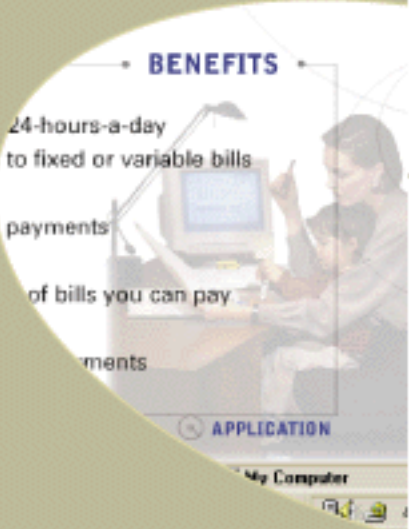
First BanCorp has been investing heavily in technology, particularly in the area of commercial banking services. During the first half of 2000 we are upgrading the computer systems in our branches. These changes will allow greater efficiency, while helping our employees develop and strengthen relationships with our clients. Also internet banking will be available by the midyear 2000.

First BanCorp will provide an internet service while maintaining all existing banking services available to our clients. For this reason we are continuing our plans to expand First BanCorp's branch network. During 1999 we added three new branches while acquiring five more from other institutions. We plan to open more branches this year.

Our employees are the key to our success. We have reorganized our sales and distribution system, adding a newly recruited Senior Vice President with vast experience in marketing and sales to help make our branches more sales-oriented. In addition, the larger branches in the metropolitan area have two managers: one for regular clients and the other for commercial relationships. We have recruited a Senior Vice President with a long track record in commercial lending to administer this middle market strategy.

We have completely restructured our branch-based deposits, introducing a new product which pays bonuses for clients with multiple relationships. We have created a corporate professional image by providing uniforms to all our branch employees and offered extended branch hours. To facilitate these changes we are expanding employee training in all areas of the Corporation.

We have planned and coordinated these changes under a special project designed to simplify operations while making our services more efficient, responsive and convenient. We named the project "The Next Fifty" because we launched it in 1998, the Corporation's 50th anniversary year, as a way to initiate our second fifty years of growth. Forty five employees participated full time in the project, generating more than 500 ideas for improvement. We expect "The Next Fifty" to add \$12 million in annualized earnings through cost reductions and revenue enhancements. We are reinvesting most of these earnings in new technology. "The Next Fifty" will continue through into 2001.



We expect these initiatives to favor continued low operating costs. During the past year our efficiency ratio averaged 46.6%, almost the same as the 46.5% of 1998.

Enhancing Shareholder Value

Our efforts have paid off in strong earnings growth for 1999, with a return on equity of 21.06%, compared with 20.54% in 1998. Our stock price has not reflected these strong results during 1999. Nevertheless, investors who held First BanCorp stock over the ten year period from year-end 1989 to year-end 1999 received a cumulative total return of 1,661%, for an average annual growth rate of 33.2% on their investment.

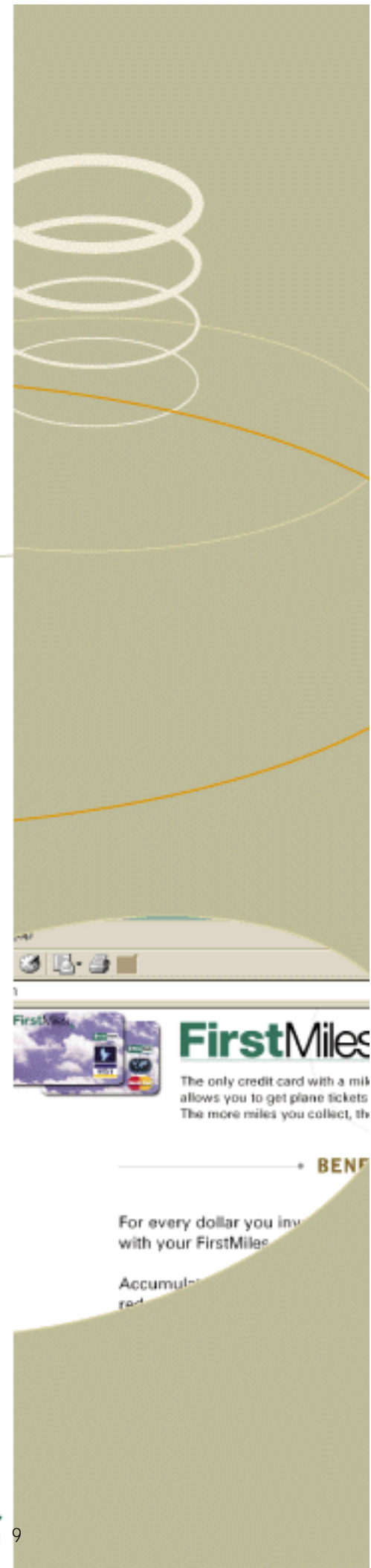
The Corporation began a stock repurchase program four years ago. During 1999 we repurchased 1,452,000 shares. This brought total activity over the course of our share repurchase program to 3,115,450 shares, adjusted for splits, representing a total investment of \$54.3 million. In addition, officers and directors of First BanCorp own approximately 19 percent of its shares. This shows their confidence in First BanCorp's future and their commitment to keep its fundamentals sound.

During 1999 the magazine U.S. Banker mentioned First BanCorp's outstanding performance in its annual survey of America's 100 largest banks. During 1998 First BanCorp ranked fourth among all U.S. banks in cost control and in return on equity First BanCorp ranked tenth. We are confident that in the course of time our stock price will reflect this outstanding performance.

As First BanCorp embarks on another year of growth and service to the Puerto Rican 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 continue to provide outstanding service to our clients, while benefiting employees and stockholders in the years to come.



Angel Alvarez-Pérez
Chairman
President
Chief Executive Officer



The advertisement features a computer monitor displaying the FirstMiles website. The website has a green and white color scheme. The text on the website includes: "FirstMiles", "The only credit card with a mile allows you to get plane tickets. The more miles you collect, the more you can do.", "BENEFITS", "For every dollar you invest with your FirstMiles", and "Accumulate miles". The background of the advertisement is a light green color with white and yellow curved lines.

Achievements in 1999

Record profits made 1999 a very successful year for First BanCorp. The company made exceptional progress. Besides making heavy investments in new computer systems, improving employee training and expanding commercial and construction loans, the Corporation launched several important strategic alliances.

Profits continued their healthy growth as First BanCorp earned \$62.1 million, which comes to \$2.00 per share (basic) or \$1.98 per share (diluted). In 1998 the Corporation earned \$51.8 million, the equivalent of \$1.75 (basic) or \$1.74 (diluted) in per share terms. Net income increased by 19.8%, or 13.8% per share on a diluted basis. Net interest income, the main source of the Corporation's earnings, grew by \$19.5 million from \$166.2 million in 1998 to \$185.7 million in 1999. Gains on sale of investments contributed \$1.4 million to net income in 1999, while in 1998 these sales contributed \$26.8 million.

First BanCorp's assets grew by \$705 million during 1999, ending the year at \$4.722 billion. Loans increased by \$625 million for the year, mainly from commercial loans growth of approximately \$400 million. The Corporation successfully issued \$90 million in preferred stock in April 1999.

First BanCorp made three important acquisitions last year. At midyear FirstBank, the Corporation's banking subsidiary, acquired the Puerto Rico operations of Royal Bank of Canada. This purchase included a \$90 million portfolio of high quality commercial loans and an attractive branch in the Hato Rey

financial district. In August, the Bank acquired the credit card business of Western Auto, the largest auto parts retailer in Puerto Rico with 38 stores. This transaction brought FirstBank a \$42 million credit card portfolio distributed among roughly 100,000 clients.

At year-end FirstBank also acquired four offices from Citibank. One of these branches is located in St. Thomas, U.S. Virgin Islands, and the other three are located in Puerto Rico. Besides the facilities and deposits, the Bank acquired approximately \$30 million in loans as a part of this transaction.

An Expanding Role for a Growing Branch Network

During 1999 deposits grew from \$1.775 billion to \$2.565 billion, an increase of \$790 million. Management worked intensively to lay the groundwork for future deposit growth by expanding the branch network and improving its products. Besides purchasing the five branches mentioned above, the Corporation also opened three new branches during the year. The Corporation plans to open more branches during the year 2000. As the Corporation moves increasingly toward relationship banking, Management is placing loan centers in selected branches to increase originations of mortgages and commercial loans.

Management restructured the Corporation's deposit products, introducing an innovative new product called the "Bonus Account". This account rewards clients who have multiple relationships

with FirstBank (e.g. a checking account, a mortgage and an auto loan). At the same time, Management is holding back or eliminating some older products which are less popular than they were in past years. These changes will complement the development of the branch network.

Management is also opening specialized offices in selected branches. Four branches now have mortgage loan centers, which will provide financing for new homes in the San Juan metropolitan area. In addition, several branches now include a commercial loan officer, aside from the traditional branch manager.

Early in the year 2000 First BanCorp began offering brokerage services in selected branches through a new alliance with Paine Webber. This arrangement will give the Corporation's clients the broadest range of brokerage and financial management services available in Puerto Rico. Previously First BanCorp formed an alliance with Goldman Sachs to participate in the underwriting of Puerto Rico government securities. During the year 2000, the Corporation will begin offering internet services for those clients who like the convenience of banking from their homes along with the security of having branch officers available.

Improvements in Efficiency

In 1998 Management began a comprehensive re-design plan to streamline all corporate operations. The Corporation named the project "The Next Fifty" because Management launched it in the Corporation's 50th anniversary year as a way to initiate the second fifty years of growth. Management has invested most

of the savings from this project in new technology. Largely because of this program First BanCorp was able to maintain an efficiency ratio of only 46.6% during 1999, almost equal to the 46.5% in 1998. Overall operating expenses were held to only \$101.3 million for 1999 compared with \$91.8 million in the previous year. Management achieved this in spite of significant increases in the size of the branch network and heavy investments in new computer systems. First BanCorp's efficiency ratio compares very favorably with that of other commercial banks throughout the U.S.

Improvements in the Balance Sheet

Contributing to higher profits in 1999 was a significant improvement in asset quality. Two years ago Management substantially improved its system of underwriting consumer loans, introduced tighter underwriting procedures and improved the Corporation's computer systems. As a result, the quality of the loan portfolio has improved. During 1999 First BanCorp provided \$48 million for loan losses as compared with \$76 million in 1998. This represents a reduction of 37 percent.

Loan quality has improved according to other measures as well. On December 31, 1999 non-performing loans totaled \$53.8 million, compared to \$57.0 million on the same date in 1998 and \$52.9 million on a smaller portfolio at the end of 1997. By the end of 1999, the ratio of non-performing loans to total loans had fallen to 1.96%, compared with 2.69% at the end of

get more miles faster you collect, the faster you

BENEFITS

- PURCHASES
- REWARDS LEVEL
- REWARDS REDEMPTION
- GENERAL

you invest in purchases, you earn one air mile.

100 miles and you may receive a ticket; other credit cards 100 miles.

Platinum or Gold

TERMS AND CONDITIONS

1998 and 2.70% at year-end 1997. The reserve coverage ratio (allowance for loan losses as a percentage of non-performing loans) reached 133.3% by the end of 1999, well above its earlier levels of 119.1% at year-end 1998 and 109.0% at the end of 1997. Management is committed to continuing these improvements in loan quality in coming years.

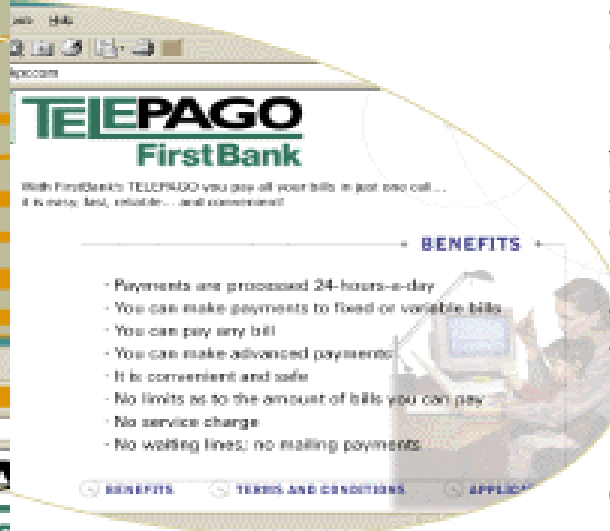
During the early part of 1999 Management strengthened the capital structure of First BanCorp by issuing \$90 million in preferred stock. This transaction will help the Corporation to maintain a solid capital structure. Although assets grew substantially during 1999, the Corporation's capital ratios remained strong. The core capital ratio was 7.5% and the risk based capital ratio was 16.2% as of December 31, 1999.

Increasing Shareholder Value

The financial results continue a trend of earnings growth that has produced excellent value for shareholders. First BanCorp's return on average equity was 21.06% in 1999, while average asset yield was 1.49%. Dividends increased in 1999, and reached a payout ratio of 17.96% compared with 17.12% in 1998. During 1999 the Corporation repurchased 1,452,000 common shares.

While the stock price has not reflected these strong results during 1999, investors who held First BanCorp stock over the ten year period from year-end 1989 to year-end 1999 received a cumulative total return of 1,661%. This is equivalent to an average annual growth rate of 33.2% on the original investment.

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 quality reputation with clients will all contribute to future earnings growth. Management will continue its efforts to improve First BanCorp's excellent performance in 2000 and in the years to come.



Puerto Rico Economy

The island of Puerto Rico is a U.S. Commonwealth with a population of 3.8 million, located in the Caribbean approximately 1,600 miles southeast of New York. Puerto Rico has been enjoying solid economic growth over most of the 1990's. Real GNP grew by over 4% in the 1999 fiscal year. Private economists are forecasting 2% to 3% real growth in the fiscal year 2000. Management expects recent growth patterns on the Island to continue, with some slowdown during the coming fiscal year.

Puerto Rico's economic performance is a natural result of its increasing integration into the U.S. economy. Puerto Ricans are U.S. citizens and serve in the United States armed forces. The Island uses U.S. currency and forms a part of the U.S. financial system. Federal courts enforce U.S. laws in Puerto Rico. 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. Because Puerto Rico has a fiscal system independent from that of the U.S., it can fashion local tax incentives to attract or retain industry. A new law broadening and strengthening local tax incentives went into effect on January 1, 1998.

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

INTERNET BANKING

Now you have FREE, 24-hour access to your account... any time and any place! You just need to have an account with FirstBank and to be able to use this convenient service.

BONUS

The combined checking, savings and reserve account that earns interest and rewards you with cash back. The more you use it, the more you earn.

Board of Directors



Angel Alvarez-Pérez, Esq.
Chairman



Annie Astor de Carbonell, C.P.A.
Angel L. Umpierre, C.P.A.
José Teixidor
Germán E. Malaret, M.D.



Antonio Pavía Villamil, M.D.
Francisco D. Fernández, Eng.
Rafael Bouet, Eng.



Armando López Ortiz, Eng.
Héctor M. Nevares, Esq.
José Julián Álvarez
Jorge Díaz



First BanCorp Officers

PRESIDENT

Angel Alvarez-Pérez
Chief Executive Officer
Chairman

SENIOR EXECUTIVE VICE PRESIDENTS

Annie Astor de Carbonell
Chief Financial Officer
Luis M. Beauchamp
Chief Lending Officer
Wholesale Banking

EXECUTIVE VICE PRESIDENTS

Aurelio Alemán
Consumer Banking
Fernando L. Batlle
Sales & Distribution,
Mortgage Banking
Francisco Cortés
Administrative Services
Ricardo Ramos
First Securities
Randolfo Rivera
Corporate Banking



SENIOR VICE PRESIDENTS

Miguel Babilonia
Consumer Credit Policy
& Portfolio Management
Luis Cabrera
Treasury & Investments
Eva Candelario
Corporate Business
Development
José Cerame
Middle Market &
Community Banking
Aida M. García
Human Resources
Michael García
Consumer Collection
Fernando Iglesias
Special Loans & Credit
Administration
Roger Lay
Internal Auditing
Miguel Mejías
Information Systems
John Ortiz
Consumer Lending,
Sales & Services
Haydeé Rivera
Branch Banking Operations
Julio Rivera
Construction Lending
Josianne M. Rosselló
Marketing & Public Relations
Demetrio Santiago
Auto Wholesale Business
Héctor Santiago
Auto Business
Denise Segarra
Sales & Distribution
Laura Villarino
Controller

VICE PRESIDENTS

William Alvarez
Indirect Business
Development
José H. Aponte
Commercial Mortgage
Beverly Bachetti
Private Banking
Juan E. Barnés
Branch Manager
Ana Colón
Centralized Accounting
David González
Corporate Business
Development
Nelson González
Corporate Business
Development
Eric López
Corporate Banking
Marcelo López
Regional Sales Manager
Juanita Marrero
Mortgage Banking
Iván Martínez
Project Manager
José Negrón
Auto Asset & Disposition
Luis Orengo
Commercial Loans
Eduardo Ortiz
Auto Wholesale
Oswaldo Padilla
Corporate Business
Reynaldo Padilla
Auto Finance

Miguel Pimentel
Corporate Business
Development
Carlos Power
Next Fifty Project
Rolando Quevedo
Legal Counsel
Jorge Rendón
Operational Support
Migdalia Rivera
Community Banking
Sandra Rivera
Auto Collection
Belinda Rodríguez
Consumer Sales
José L. Rodríguez
Information Systems
Elizabeth Sánchez
Marine Financing
Roberto Sánchez
Credit Risk
Miguel Santin
Corporate Banking
Carmen Torres
Capacity Planning Manager
Raphael Torres
Regional Sales Manager

Standing from left to right:
Aida García,
Francisco Cortés,
Aurelio Alemán,
Randolfo Rivera,
Fernando L. Batlle,
Luis Cabrera,
Josianne M. Rosselló.

Seated from left to right:
Luis Beauchamp,
Angel Alvarez-Pérez,
Annie Astor de Carbonell.

Not present:
Miguel Mejías
Ricardo Ramos
Laura Villarino

FIRST FEDERAL
FINANCE CORPORATION
DBA MONEY EXPRESS
"LA FINANCIERA"

Angel Alvarez-Pérez
Chief Executive Officer

Fernando L. Batlle
President and Chief Operating Officer

Orlando Vélez
Vice President and
Operations Manager

FIRST LEASING
AND RENTAL CORPORATION

Angel Alvarez-Pérez
Chief Executive Officer

Aurelio Alemán
President and Chief Operating Officer

William Vélez
Vice President and General Manager



SELECTED FINANCIAL DATA

Year ended December 31,	1999	1998	1997	1996	1995
(In thousands except for per share results)					
Condensed Income Statements:					
Total interest income	\$369,063	\$321,298	\$285,160	\$256,523	\$208,488
Total interest expense	183,330	155,130	130,429	113,027	96,838
Net interest income	185,733	166,168	154,731	143,496	111,650
Provision for loan losses	47,961	76,000	55,676	31,582	30,894
Other income	32,862	58,240	39,866	29,614	48,268
Other operating expenses	101,272	91,798	83,268	82,498	65,628
Unusual item - SAIF assessment				9,115	
Income before income tax provision	69,363	56,610	55,653	49,915	63,396
Provision for income tax	7,288	4,798	8,125	12,281	14,295
Net income	62,075	51,812	47,528	37,634	49,101
Per Common Share Results (1):					
Net income per common share - diluted	\$1.98	\$1.74	\$1.58	\$1.22	\$1.58
Cash dividends declared	\$0.36	\$0.30	\$0.24	\$0.20	\$0.08
Average shares outstanding	28,941	29,586	30,036	30,794	30,592
Average shares-diluted	29,199	29,858	30,204	30,952	31,118
Balance Sheet Data:					
Loans and loans held for sale	\$2,745,368	\$2,120,054	\$1,959,301	\$1,896,074	\$1,556,606
Allowance for possible loan losses	71,784	67,854	57,712	55,254	55,009
Investments	1,811,164	1,800,489	1,276,900	830,980	785,747
Total assets	4,721,568	4,017,352	3,327,436	2,822,147	2,432,816
Deposits	2,565,422	1,775,045	1,594,635	1,703,926	1,518,367
Borrowings	1,803,729	1,930,488	1,458,148	884,741	698,097
Total capital	294,902	270,368	236,379	191,142	171,202
Book value per common share, end of year (1)	7.30	9.17	7.93	6.32	5.51
Regulatory Capital Ratios (In Percent):					
Total capital to risk weighted assets	16.16	17.39	17.26	15.25	16.17
Tier 1 capital to risk weighted assets	11.64	11.55	11.07	9.32	9.93
Tier 1 capital to average assets	7.47	6.59	7.44	6.65	6.82
Selected Financial Ratios (In Percent):					
Net income to average total assets	1.49	1.48	1.63	1.48	2.22
Interest rate spread (2)	4.29	4.76	5.30	5.46	5.07
Net interest income to average earning assets (2)	4.85	5.27	5.83	6.03	5.59
Yield on average earning assets (2)	9.29	9.83	10.45	10.63	10.12
Cost on average interest bearing liabilities	5.00	5.07	5.15	5.17	5.05
Net income to average total equity	21.06	20.54	22.30	20.49	33.19
Net income to average common equity	24.68	20.54	22.30	20.49	33.19
Average total equity to average total assets	7.07	7.22	7.32	7.23	6.68
Dividend payout ratio	17.96	17.12	15.14	16.32	5.06
Efficiency ratio (3)	46.62	46.46	45.45	49.03	47.96
Offices:					
Number of full service branches	48	40	36	36	36
Loan origination offices	41	45	44	47	43

(1) Amounts presented were recalculated, when applicable, to retroactively consider the effect of common stock splits.

(2) Ratios were computed on a taxable equivalent basis.

(3) Other operating expenses to the sum of net interest income and other income (excluding gain on sale of investments).



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

FINANCIAL REVIEW SUMMARY

For the year 1999, First BanCorp (the Corporation) recorded earnings of \$62,074,949 or \$2.00 per common share (basic) and \$1.98 per common share (diluted), compared to \$51,812,387 or \$1.75 per common share (basic) and \$1.74 per common share (diluted) for 1998, and \$47,527,552 or \$1.58 per common share (basic and diluted) for 1997.

The Corporation's earnings are attributed to the net interest income earned on the growing portfolio of earning assets, improvements in asset quality resulting in a lower provision for loan losses, and controls over operating expenses. For 1999 as compared to 1998, net income increased by \$10,262,562 or \$0.24 per common share (diluted), and for 1998 as compared to 1997, by \$4,284,835 or \$0.16 per common share (diluted).

Return on average assets was 1.49% for 1999, 1.48% for 1998 and 1.63% for 1997. Return on average equity was 21.06% for 1999, 20.54% for 1998 and 22.30% for 1997.

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), and gains on sale of investments.

Net Interest Income

Net interest income increased to \$185.7 million for 1999 from \$166.2 million in 1998 and \$154.7 million in 1997. This improvement results from the continuous increase in the average volume of interest earning assets together with a higher available capital and non-interest bearing liabilities to fund those assets. This is reflected in an increase in the average volume of interest earning assets of \$721.2 million for 1999 as compared to 1998 and of \$582.7 million for 1998 as compared to 1997. Interest bearing liabilities increased by \$606 million for 1999 as compared to 1998 and by \$528 million for 1998 as compared to 1997.

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

Part I

Year ended December 31,	Average volume			Interest income (1) / expense			Average rate (1)		
	1999	1998	1997	1999	1998	1997	1999	1998	1997
(Dollars in thousands)									
Earning Assets:									
Deposits at banks and other									
short-term investments	\$ 27,344	\$ 40,766	\$ 67,969	\$ 450	\$ 2,028	\$ 3,708	1.65%	4.97%	5.45%
Government obligations	415,742	319,777	404,517	24,997	19,984	26,949	6.01%	6.25%	6.66%
Mortgage backed securities	1,294,195	1,032,632	428,804	92,157	77,463	34,942	7.12%	7.50%	8.15%
Other investment	18,646	1,150	519	1,598	186	21	8.57%	16.14%	4.24%
FHLB stock	16,170	10,252	10,150	1,101	743	670	6.81%	7.25%	6.60%
Total investments	<u>1,772,097</u>	<u>1,404,577</u>	<u>911,959</u>	<u>120,303</u>	<u>100,404</u>	<u>66,290</u>	6.79%	7.15%	7.27%
Consumer loans (2)	1,013,782	1,032,704	1,090,991	138,130	139,309	147,100	13.63%	13.49%	13.48%
Residential real estate loans (2)	327,700	290,564	283,799	30,754	30,807	29,485	9.38%	10.60%	10.39%
Construction loans (2)	94,940	19,169	10,488	9,216	1,852	1,004	9.71%	9.66%	9.57%
Commercial loans (2)	847,917	613,697	473,093	75,879	56,239	44,770	8.95%	9.16%	9.46%
Finance leases (2)	68,577	43,108	50,823	9,080	6,022	6,220	13.24%	13.97%	12.24%
Total loans	<u>2,352,916</u>	<u>1,999,242</u>	<u>1,909,194</u>	<u>263,059</u>	<u>234,229</u>	<u>228,579</u>	11.18%	11.72%	11.97%
Total earning assets	<u>\$4,125,013</u>	<u>\$3,403,819</u>	<u>\$2,821,153</u>	<u>\$383,362</u>	<u>\$334,633</u>	<u>\$294,869</u>	9.29%	9.83%	10.45%
Interest Bearing Liabilities:									
Interest bearing checking accounts	\$140,690	\$123,847	\$116,852	\$4,931	\$ 4,487	\$4,167	3.50%	3.62%	3.57%
Savings accounts	413,662	398,249	400,998	12,381	11,717	12,155	2.99%	2.94%	3.03%
Certificate accounts	1,373,263	972,433	985,124	73,177	54,214	55,827	5.33%	5.58%	5.67%
Interest bearing deposits	<u>1,927,615</u>	<u>1,494,529</u>	<u>1,502,974</u>	<u>90,489</u>	<u>70,418</u>	<u>72,149</u>	4.69%	4.71%	4.80%
Other borrowed funds	1,728,913	1,559,892	1,012,757	92,370	84,460	57,418	5.34%	5.41%	5.67%
FHLB advances	8,451	4,515	15,157	471	252	864	5.57%	5.58%	5.70%
Total interest bearing liabilities	<u>\$3,664,979</u>	<u>\$3,058,936</u>	<u>\$2,530,888</u>	<u>\$183,330</u>	<u>\$155,130</u>	<u>\$130,431</u>	5.00%	5.07%	5.15%
Net interest income (1)				<u>\$200,032</u>	<u>\$179,503</u>	<u>\$164,438</u>			
Interest rate spread (1)							4.29%	4.76%	5.30%
Net interest margin (1)							4.85%	5.27%	5.83%

(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

	1999 compared to 1998			1998 compared to 1997		
	Increase (decrease)			Increase (decrease)		
	Due to:			Due to:		
	Volume	Rate	Total	Volume	Rate	Total
(In thousands)						
Earning assets:						
Deposits at banks and other						
short-term investments	\$ (521)	\$ (1,057)	\$ (1,578)	\$ (1,377)	\$ (303)	\$ (1,680)
Government obligations	5,884	(871)	5,013	(5,375)	(1,589)	(6,964)
Mortgage backed securities	19,123	(4,429)	14,694	47,250	(4,729)	42,521
Other investment	2,143	(731)	1,412	50	114	164
FHLB stock	416	(58)	358	7	66	73
Total investments	<u>27,045</u>	<u>(7,146)</u>	<u>19,899</u>	<u>40,555</u>	<u>(6,441)</u>	<u>34,114</u>
Consumer loans	(2,565)	1,386	(1,179)	(7,861)	70	(7,791)
Residential real estate loans	3,711	(3,765)	(54)	711	612	1,323
Construction loans	7,355	9	7,364	839	9	848
Commercial loans	21,212	(1,572)	19,640	13,096	(1,628)	11,468
Finance leases	3,465	(406)	3,059	(1,011)	811	(200)
Total loans	<u>33,178</u>	<u>(4,348)</u>	<u>28,830</u>	<u>5,774</u>	<u>(126)</u>	<u>5,648</u>
Total interest income	<u>60,223</u>	<u>(11,494)</u>	<u>48,729</u>	<u>46,329</u>	<u>(6,567)</u>	<u>39,762</u>
Interest bearing liabilities:						
Deposits	20,368	(297)	20,071	(403)	(1,327)	(1,730)
Other borrowed funds	9,091	(1,181)	7,910	30,323	(3,282)	27,041
FHLB advances	219	0	219	(594)	(18)	(612)
Total interest expense	<u>29,678</u>	<u>(1,478)</u>	<u>28,200</u>	<u>29,326</u>	<u>(4,627)</u>	<u>24,699</u>
Change in net interest income	<u>\$ 30,545</u>	<u>\$(10,016)</u>	<u>\$ 20,529</u>	<u>\$ 17,003</u>	<u>\$ (1,940)</u>	<u>\$ 15,063</u>

Total interest income includes tax equivalent adjustments of \$14.3 million, \$13.3 million and \$9.7 million for 1999, 1998, and 1997, respectively. On a tax equivalent basis, net interest income increased to \$200 million for 1999 from \$179.5 million for 1998, and \$164.4 million for 1997. The interest rate spread and net interest margin amounted to 4.29% and 4.85%, respectively, for 1999, as compared to 4.76% and 5.27%, respectively, for 1998 and to 5.30% and 5.83%, respectively, for 1997. The reduction in the interest rate spread and net interest margin for 1999 is mainly due to the increase of \$367.5 million in the average volume of total investments when compared to the average volume recorded for 1998. These investments have a lower spread than loans without considering the effects of credit risk. In addition, there was a reduction of \$18.9 million in the average volume of consumer loans, which provide the highest spread, but have the highest credit risk in the portfolio.

1999 compared to 1998

On a tax equivalent basis interest income increased by \$48.6 million for 1999 as compared to 1998. On a tax equivalent basis the yield on earning assets was 9.29% for 1999 as compared to 9.83% for 1998. The increase in interest income results from the growth in the average of interest earning assets of \$721.2 million in 1999.

For the loan portfolio, the growth in 1999 of \$234.2 million in the average volume of commercial loans (including commercial real estate loans) represented an increase of \$21.2 million in income due to volume, partially offset by a reduction of \$1.6 million in interest income due to rate. The average portfolio of construction loans increased by \$75.8 million for 1999, representing a positive volume variance of \$7.4 million. The average portfolio of residential mortgage loans increased by \$37.1 million for 1999, representing a positive volume variance of \$3.7 million. The average finance lease portfolio (mostly composed of consumer loans) increased by \$25.5 million in 1999, representing a positive volume variance of \$3.5 million. The decrease of \$18.9 million

in the average volume of consumer loans in 1999 caused a negative variance in interest income due to volume of \$2.6 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 consumer loans. The consumer loan portfolio decreased as a result of the tighter underwriting policies implemented during 1997.

For the investment portfolio, the average volume of mortgage backed securities increased by \$261.6 million in 1999. The tax equivalent yield on mortgage backed securities was 7.12% in 1999 and 7.50% in 1998. The portfolio of mortgage backed securities contributed \$19.1 million in interest income due to volume net of \$4.4 million decrease in interest income due to rate. The average volume of government obligations increased by \$96 million for 1999 as compared to 1998, causing a total increase in interest income of \$5 million.

Interest expense increased by \$28.2 million for 1999 as compared to 1998. This was the result of the increase in the average volume of interest bearing liabilities of \$606 million for 1999 as compared to 1998 with a volume variance of \$29.7 million. However, the negative variance was partially offset by a decrease in the cost of interest bearing liabilities from 5.07% for 1998 to 5.00% for 1999 causing a positive rate variance of \$1.5 million for 1999 as compared to 1998.

1998 compared to 1997

On a tax equivalent basis interest income increased by \$39.8 million for 1998 as compared to 1997. On a tax equivalent basis the yield on earning assets was 9.83% for 1998 as compared to 10.45% for 1997. The improvement in interest income was due to the increase in the average volume of interest earning assets of \$582.7 million.

For the investment portfolio, the average volume of mortgage backed securities increased by \$603.8 million in 1998. The tax equivalent yield on mortgage backed securities was 7.50% in 1998 and 8.15% in 1997. The portfolio of mortgage backed securities contributed \$47.3 million in interest income due to volume net of a \$4.7 million decrease in interest income due to rate. The average volume of government obligations decreased by \$84.7 million for 1998 as compared to 1997, resulting in a total decrease in interest income of \$7 million.

For the loan portfolio, the growth in the average volume of commercial loans (including commercial real estate loans) of \$140.6 million in 1998 represented an increase of \$13.1 million in income due to volume, partially offset by a reduction of \$1.6 million in interest income due to rate. In 1998 the average volume of residential real estate and construction loans increased by \$6.8 million and \$8.7 million, respectively, representing an increase in interest income of \$1.3 million and \$.8 million, respectively. The decrease of \$58.3 million in the average volume of consumer loans caused a negative variance in interest income due to volume of \$7.9 million. The increase in the commercial real estate and commercial loans portfolio was the result of the Corporation's strategy of diversifying its asset base, which was concentrated in consumer loans. The consumer loan portfolio decreased as a result of the tighter underwriting policies implemented during 1997.

Interest expense increased by \$24.7 million for 1998 as compared to 1997. This results from the increase in the average volume of interest bearing liabilities of \$528 million for 1998 as compared to 1997 with a volume variance of \$29.3 million. However, interest expense was affected by a decrease of eight basis points in the cost of interest bearing liabilities from 5.15% for 1997 to 5.07% for 1998 causing a positive rate variance of \$4.6 million for 1998 as compared to 1997.

Provision for Loan Losses

During 1999, the Corporation provided \$48 million for loan losses, a significant decrease compared to \$76 million in 1998 and \$55.7 million in 1997. The provision for loan losses recorded in 1999 reflects the improvements in the credit quality of the loan portfolio. Net charge offs for 1999 amounted to \$44 million, a significant reduction compared to net charge offs for 1998 of \$65.9 million and of \$53.2 million for 1997. Net charge offs to average loans outstanding has significantly improved to 1.87% as compared to 3.29% and 2.79% for 1998 and 1997, respectively.

The allowance activity for 1999, and previous four years was as follows:

Year ended December 31,	1999	1998	1997	1996	1995
(Dollars in thousands)					
Allowance for loan losses, beginning of period	\$67,854	\$57,712	\$55,254	\$55,009	\$37,413
Provision for loan losses	<u>47,960</u>	<u>76,000</u>	<u>55,675</u>	<u>31,582</u>	<u>30,894</u>
Loans charged off:					
Commercial real estate	(51)	(168)	(284)	(492)	(403)
Commercial	(774)	(712)	(597)	(781)	(3,299)
Finance leases	(793)	(3,438)	(1,399)	(161)	
Consumer	(52,047)	(67,906)	(57,311)	(33,295)	(10,821)
Recoveries and other adjustments	<u>9,634</u>	<u>6,366</u>	<u>6,374</u>	<u>3,392</u>	<u>1,225</u>
Net charge offs	<u>(44,031)</u>	<u>(65,858)</u>	<u>(53,217)</u>	<u>(31,337)</u>	<u>(13,298)</u>
Allowance for loan losses, end of period	<u>\$71,784</u>	<u>\$67,854</u>	<u>\$57,712</u>	<u>\$55,254</u>	<u>\$55,009</u>
Allowance for loan losses to year end total					
loans and loans held for sale	2.61%	3.20%	2.95%	2.91%	3.53%
Net charge offs to average loans outstanding during the period	1.87%	3.29%	2.79%	1.80%	.93%

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

Other Income

The following table presents the composition of other income.

Year ended December 31,	1999	1998	1997
(In thousands)			
Other fees on loans	\$12,887	\$11,158	\$10,899
Service charges on deposit accounts	8,540	7,844	7,363
Fees on loans serviced for others	864	1,617	2,670
Rental income	2,610	2,292	1,935
Other operating income	<u>6,592</u>	<u>5,137</u>	<u>4,866</u>
Other income before gain on sale of investments and trading	31,493	28,048	27,733
Gain on sale of investments	1,377	26,827	11,388
Trading (loss) income	(8)	3,365	745
Total	<u>\$32,862</u>	<u>\$58,240</u>	<u>\$39,866</u>

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

Other fees on loans consist mainly of credit card fees and late charges collected on loans. The increase in this source of income to \$12.9 million in 1999 from \$11.2 million in 1998 and \$10.9 million in 1997 was due to fees generated on the increased portfolio of commercial loans.

Service charges on deposit accounts represent an important and stable source of other income for the Corporation. This source of income increased to \$8.5 million in 1999 from \$7.8 million in 1998 and \$7.4 million in 1997.

Fees on loans serviced for others primarily reflect the servicing fees for the auto loan securitizations closed in 1995. It also includes servicing fees on residential mortgage loans originated and subsequently securitized. The decrease in this account is due to the continued repayment of the auto loan portfolio.

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

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.

Gains on sale of investment securities amounted to \$1.4 million in 1999, \$26.8 million in 1998 and \$11.4 million in 1997. 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 \$101.3 million for 1999 as compared to \$91.8 million for 1998 and \$83.3 million for 1997. The following table presents the components of other operating expenses.

Year ended December 31,	1999	1998	1997
	(In thousands)		
Salaries and benefits	\$ 48,546	\$ 43,185	\$38,644
Occupancy and equipment	20,137	18,155	16,101
Deposit insurance premium	1,096	971	1,040
Other taxes and insurance	5,683	5,607	5,536
Professional and service fees	6,672	5,820	4,883
Business promotion	5,896	5,922	4,993
Communications	4,667	4,330	4,364
Real estate owned operations	(303)	42	(21)
Amortization of debt issue costs	612	691	788
Expense of rental equipment	1,478	1,226	1,184
Other	6,789	5,849	5,756
Total	<u>\$101,273</u>	<u>\$ 91,798</u>	<u>\$83,268</u>

Management's goal has been to make expenditures 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. In 1999, the Corporation started the implementation of a cost restructuring project, which has transformed the operations and processes toward a more cost efficient institution. The savings generated by this effort have been invested mainly in new technology. The Corporation's efficiency ratio, which is the ratio of other operating expenses to the sum of net interest income and other recurring income, was 46.62% for 1999 as compared to 46.46% and 45.45% for 1998 and 1997, respectively.

The increase in operating expenses for 1999 is mainly the result of the investments made in new technology, the expansion of the Corporation's branch network, the acquisition of new business and branches and the staffing of the commercial lending business to support the growth in the portfolio. During 1999 the Corporation opened a new full-service branch and two in-store branches. In July of 1999, the Corporation acquired the Royal Bank's operations in Puerto Rico including its full service branch in the financial district of Hato Rey. In August of 1999, the Corporation acquired the credit card portfolio of Western Auto. In December of 1999, the Corporation acquired four branches from CitiBank. To emphasize the commercial lending area, the Corporation recruited new officers for the origination of loans to the middle market throughout selected branches. The salary and benefits category was also affected by increases in salary and fringe benefits.

The occupancy and equipment category consists of expenses associated with premises, office and computer equipment, and other automated banking equipment. The increase in the past three years was the result of 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. Expenses related to the year 2000 issue also affected this category (see Year 2000 section).

The increase in the professional and service fee category for 1999 is primarily attributed to the credit card processing and assessment fees resulting from the increase in the credit card portfolio and the increase in the number of accounts managed due to the acquisition of the Western Auto portfolio. The increase in credit card fee income exceeded the related processing costs.

Business promotion costs amounted to \$5.9 million for 1999 as compared to \$5.9 million in 1998, and \$5 million for 1997. Business promotion expenses have been incurred to increase loan and deposit volumes. In addition, in 1999 the Corporation launched a distinct publicity campaign to promote its new "Bonus account" and a corporate image.

Income Tax Expense

The provision for income tax amounted to \$7.3 million (or 11% of pre-tax earnings) for 1999 as compared to \$4.8 million (or 8% of pre-tax earnings) in 1998, and \$8.1 million (or 15% of pre-tax earnings) in 1997. The Corporation has maintained an effective tax rate lower than the statutory rate of 39% mainly by investing in obligations and loans exempt from federal and Puerto Rico income tax. For additional information relating to taxes, see Note 28 of the Corporation's financial statements - "Income Taxes."

FINANCIAL CONDITION

The following table presents an average balance sheet as of the dates indicated:

December 31,	1999	1998	1997
(In thousands)			
Assets			
Interest earning assets:			
Deposits at banks and other			
short-term investments	\$ 27,344	\$ 40,766	\$ 67,969
Government obligations	415,742	319,777	404,517
Mortgage backed securities	1,294,195	1,032,632	428,804
Other investment	18,646	1,150	519
FHLB stock	16,170	10,252	10,150
Total investments	<u>1,772,097</u>	<u>1,404,577</u>	<u>911,959</u>
Consumer loans	1,013,782	1,032,704	1,090,991
Residential real estate loans	327,700	290,564	283,799
Construction loans	94,940	19,169	10,488
Commercial loans	847,917	613,697	473,093
Finance leases	68,577	43,108	50,823
Total loans	<u>2,352,916</u>	<u>1,999,242</u>	<u>1,909,194</u>
Total interest earning assets (1)	<u>4,125,013</u>	<u>3,403,819</u>	<u>2,821,153</u>
Total non-interest earning assets	<u>47,768</u>	<u>89,717</u>	<u>91,355</u>
Total assets	<u>\$ 4,172,781</u>	<u>\$ 3,493,536</u>	<u>\$ 2,912,508</u>
Liabilities and stockholders' equity			
Interest bearing liabilities:			
Interest bearing checking accounts	\$ 140,690	\$ 123,847	\$ 116,852
Savings accounts	413,662	398,249	400,998
Certificate accounts	1,373,263	972,433	985,124
Interest bearing deposits	<u>1,927,615</u>	<u>1,494,529</u>	<u>1,502,974</u>
Other borrowed funds	1,728,913	1,559,892	1,012,757
FHLB advances	8,451	4,515	15,157
Total interest bearing liabilities	<u>3,664,979</u>	<u>3,058,936</u>	<u>2,530,888</u>
Total non-interest bearing liabilities	<u>212,993</u>	<u>182,369</u>	<u>168,515</u>
Total liabilities	<u>3,877,972</u>	<u>3,241,305</u>	<u>2,699,403</u>
Stockholders' equity	<u>294,809</u>	<u>252,231</u>	<u>213,105</u>
Total liabilities and stockholders' equity	<u>\$ 4,172,781</u>	<u>\$ 3,493,536</u>	<u>\$ 2,912,508</u>

(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, 1999 amounted to \$4,722 million, \$704 million over the \$4,017 million at December 31, 1998. The increase in total assets results primarily from the growth in total loans receivable (net of the allowance for loan losses) of \$621 million.

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

December 31,	1999	% of Total	1998	% of Total	1997	% of Total	1996	% of Total	1995	% of Total
(Dollars in thousands)										
Residential real estate loans	\$ 473,563	17	\$ 303,011	14	\$ 292,604	15	\$ 297,246	16	\$ 319,758	21
Commercial real estate loans	371,643	14	332,219	16	306,734	15	256,227	14	210,645	13
Construction loans	132,068	5	62,963	3	9,279	1	10,209	1	9,233	1
Commercial loans	655,417	24	368,549	17	235,571	12	174,770	9	156,369	10
Total commercial	<u>1,159,128</u>	<u>43</u>	<u>763,731</u>	<u>36</u>	<u>551,584</u>	<u>28</u>	<u>441,206</u>	<u>24</u>	<u>376,247</u>	<u>24</u>
Finance leases	85,692	3	52,214	3	42,500	2	58,481	3	32,965	2
Consumer loans	1,026,985	37	1,001,098	47	1,072,613	55	1,099,141	57	827,636	53
Total	<u>\$ 2,745,368</u>	<u>100</u>	<u>\$ 2,120,054</u>	<u>100</u>	<u>\$ 1,959,301</u>	<u>100</u>	<u>\$ 1,896,074</u>	<u>100</u>	<u>\$ 1,556,606</u>	<u>100</u>

During 1999 the Corporation continued its strategy of diversifying its loan portfolio composition through the origination and purchase of commercial loans. This resulted in a significant increase of \$395.4 million in the commercial loan portfolio. This increase includes approximately \$90 million in commercial loans purchased from Royal Bank of Puerto Rico. Residential real estate loans increased in 1999 by \$170.6 million as a result of new resources added to this line of business. Finance leases, which are mostly composed of loans to individuals to finance the acquisition of an auto, increased by \$33.5 million. Consumer loans increased by \$25.9 million in 1999 as a result of the acquisition of a \$42 million credit card portfolio from Western Auto, offset by a decrease in the rest of the portfolio of \$16.1 million.

The Corporation's investment portfolio at December 31, 1999 amounted to \$1,811 million, in line with the investment portfolio of \$1,801 million at December 31, 1998.

The composition and tax equivalent weighted average interest rates of the Corporation's earning assets at December 31, 1999 were as follows:

	Amount (In thousands)	Weighted Average Rate
Money market instruments	\$ 35,217	4.64%
Government obligations	437,705	6.74%
Mortgage backed securities	1,223,873	7.20%
FHLB of N.Y. stock	17,827	6.81%
Other investment	96,541	7.33%
Total investments	<u>1,811,163</u>	7.04%
Consumer loans	1,026,985	15.02%
Residential real estate loans	473,563	8.94%
Construction loans	132,068	8.88%
Commercial and commercial real estate loans	1,027,060	8.15%
Finance leases	85,692	12.41%
Total loans(1)	<u>2,745,368</u>	11.02%
Total earning assets	<u>\$ 4,556,531</u>	9.44%

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

Non-performing Assets

Total non-performing assets are the sum of non-accruing loans, OREO's 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, 1999, total non-performing assets amounted to \$57 million (1.22% of total assets) as compared to \$63 million (1.57% of total assets) at December 31, 1998 and \$63 million (1.89% of total assets) at December 31, 1997. The Corporation's reserve to non-performing loans was 133.4% at December 31, 1999 as compared to 119.1% and 109.0% at December 31, 1998 and 1997, respectively.

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

The following table presents non-performing assets at the dates indicated. The presentation of non-performing assets was changed for 1999 and previous four years to exclude past due and still accruing loans to conform it to the industry practice.

December 31,	1999	1998	1997	1996	1995
(Dollars in thousands)					
Non-accruing loans:					
Residential real estate	\$ 8,633	\$ 9,151	\$ 6,963	\$ 8,814	\$ 9,309
Commercial and commercial real estate	17,975	19,355	16,869	11,568	18,979
Finance leases	2,482	1,716	4,560	5,125	297
Consumer	24,726	26,736	24,547	25,655	26,085
	<u>53,816</u>	<u>56,958</u>	<u>52,939</u>	<u>51,162</u>	<u>54,670</u>
Other real estate owned (OREO)	517	3,642	1,132	1,696	2,991
Other repossessed property	3,112	2,277	8,702	7,566	3,132
Total non-performing assets	<u>\$ 57,445</u>	<u>\$ 62,877</u>	<u>\$ 62,773</u>	<u>\$ 60,424</u>	<u>\$ 60,793</u>
Past due loans	\$ 13,781	\$ 15,110	\$ 11,544	\$ 9,752	\$ 5,544
Non-performing assets to total assets	1.22%	1.57%	1.89%	2.14%	2.50%
Non-performing loans to total loans	1.96%	2.69%	2.70%	2.70%	3.51%
Allowance for loan losses	\$ 71,784	\$ 67,854	\$ 57,712	\$ 55,254	\$ 55,009
Allowance to total non-performing loans	133.39%	119.13%	109.02%	108.00%	100.62%

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 understanding is based on the historical experience of the Corporation. Non-accruing real estate loans amounted to \$8.6 million (1.82% of total residential real estate loans) at December 31, 1999, as compared to \$9.2 million (3.02% of total residential real estate loans) and \$7 million (2.38% of total residential real estate loans) at December 31, 1998 and 1997, 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 \$18 million (1.55% of total commercial loans) at December 31, 1999 as compared to \$19.4 million (2.53% of total commercial loans) and \$16.9 million (3.06% of total commercial loans) at December 31, 1998 and 1997, respectively. At December 31, 1999, there was only one non-accruing commercial loan of over \$1 million, which is a \$2.6 million loan, partially secured by inventory, accounts receivable and real estate collateral.

Finance Leases - Finance leases are classified as non-accruing when they are delinquent 90 days or more. Non-accruing finance leases amounted to \$2.5 million (2.90% of total finance leases) at December 31, 1999, compared to \$1.7 million (3.29% of total finance leases) at December 31, 1998, and \$4.6 million (10.73% of total finance leases) at December 31, 1997.

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 \$24.7 million (2.41% of the total consumer loan portfolio) at December 31, 1999, \$26.7 million (or 2.67% of the total consumer loan portfolio) at December 31, 1998 and \$24.5 million (or 2.29% of the total consumer loan portfolio) at December 31, 1997. The decrease in the ratio and amount of non-accruing loans was the result of the improvement on the credit quality of the portfolio. This improvement resulted in a decrease in charge off of consumer loans to \$52 million in 1999 from \$67.9 million in 1998, and \$57.3 million in 1997.

Other Real Estate Owned (OREO)

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

Reposessed Property

The Reposessed Property category includes reposessed boats and autos acquired in settlement of loans. Reposessed boats are recorded at the lower of cost or estimated fair value. Reposessed autos are recorded at the principal balance of the loans less an estimated loss on the disposition of certain units.

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, institutional deposits, federal funds purchased, securities sold under agreements to repurchase, and notes.

Deposits

Total deposits amounted to \$2,565 million at December 31, 1999, as compared to \$1,775 million and \$1,595 million at December 31, 1998 and 1997, respectively.

Total deposits are composed of branch-based deposits and institutional deposits. The following table presents the composition of total deposits.

December 31,	1999	1998	1997
(Dollars in thousands)			
Savings accounts	\$ 447,946	\$ 416,424	\$ 403,129
Interest bearing checking accounts	162,601	130,883	121,452
Certificates of deposit	<u>1,742,978</u>	<u>1,054,634</u>	<u>929,955</u>
Interest bearing deposits	2,353,525	1,601,941	1,454,536
Non-interest bearing deposits	<u>211,896</u>	<u>173,104</u>	<u>140,099</u>
Total	<u>\$2,565,421</u>	<u>\$ 1,775,045</u>	<u>\$1,594,635</u>
Weighted average rate during the period on interest bearing deposit	4.69%	4.71%	4.80%
Interest bearing deposits:			
Average balance outstanding	\$1,927,614	\$ 1,494,529	\$1,502,975
Non-interest bearing deposits:			
Average balance outstanding	179,478	145,357	127,256

Institutional deposits include brokered certificates of deposits and certificates issued to agencies of the Government of Puerto Rico.

Total interest bearing deposits increased by \$751.6 million at December 31, 1999 when compared to December 31, 1998. This fluctuation was mainly due to: (1) an increase in branch-based deposits of \$206.7 million; (2) an increase of \$560 million in brokered certificates of deposits; net of (3) a decrease of \$10 million in certificates issued to corporations operating under Internal Revenue Code Section 936; and (4) a decrease of \$5.0 million in certificates issued to the agencies of the Government of Puerto Rico.

Non-interest bearing deposits increased by \$38.8 million in 1999. The increase in total branch based deposits includes the deposits of the five branches acquired from other financial institutions.

Borrowings

At December 31, 1999 total borrowings amounted to \$1,804 million as compared to \$1,931 million and \$1,458 million at December 31, 1998 and 1997, respectively. The following table presents the composition of borrowings.

December 31,	1999	1998	1997
(Dollars in thousands)			
Federal funds purchased and securities sold under agreements to repurchase	\$1,452,151	\$1,623,698	\$ 965,869
Other short term borrowings	152,484	86,595	231,505
Advances from FHLB	50,000	2,600	29,000
Notes payable	55,500	118,100	132,350
Subordinated notes	<u>93,594</u>	<u>99,496</u>	<u>99,423</u>
Total	<u>\$1,803,729</u>	<u>\$1,930,489</u>	<u>\$1,458,147</u>
Weighted average rate during the period	5.34%	5.41%	5.67%

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, 1999 amounted to \$1,452.2 million or 81% of total borrowings. Repurchase agreements had a total weighted average cost of 5.07%, during the year ended December 31, 1999. For more information on borrowings please refer to Notes 20 through 24 of the Corporation's financial statements.

The composition and weighted average interest rates of interest bearing liabilities at December 31, 1999, were as follows:

	Amount (In thousands)	Weighted Average rate
Interest bearing deposits	\$ 2,353,525	4.94%
Borrowed funds	1,803,729	5.60%

Capital

During 1999, the Corporation increased its total capital from \$270.4 million at December 31, 1998 to \$294.9 million at December 31, 1999. Total capital increased by \$24.5 million due to earnings of \$62.1 million, the issuance of 3,600,000 shares of preferred stock at \$86.9 million, the issuance of 13,000 shares of common stock through the exercise of stock options at a cost of \$176,313, reduced by the repurchased shares of common stock at a total cost of \$32.5 million, an unrealized loss on investment securities available for sale of \$77.4 million and cash dividends of \$14.7 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, 1999 the Corporation had a leverage ratio of 7.47%; a total risk based capital ratio of 16.16%; and a Tier 1 risk-based capital ratio of 11.64%.

Dividends

In 1999, 1998 and 1997 the Corporation declared four quarterly cash dividends of \$0.09, \$0.075 and \$0.06 per common share, respectively, for an annual dividend of \$0.36, \$0.30 and \$0.24, respectively. Total cash dividends paid on common shares amounted to \$10.4 million for 1999 (or a 17.96% dividend payout ratio), \$8.9 million for 1998 (or a 17.12% dividend payout ratio) and \$7.2 million for 1997 (or a 15.14% dividend payout ratio). Dividends declared on preferred stock amounted to \$4.3 million in 1999.

Year 2000

The transition to the year 2000 occurred as expected without any significant problems on the Corporation's computer systems or any other date sensitive operating equipment. The expenses incurred to comply with the year 2000 date change amounted to approximately \$1.4 million for the year 1999 and \$650,000 for the year 1998.

Asset/Liability Management

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

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

Management also uses one year GAP analysis as a secondary technique for evaluating interest rate risk. The Corporation's one year GAP fluctuated between a negative 2% and a negative 27% of assets during 1999. Management considers that the ranges of the GAP ratio achieved during 1999 are adequate, considering the Corporation's net interest margin and capital ratios.

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

Liquidity

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

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

Impact of Inflation and Changing Prices

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

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

Market Prices and Stock Data	Quarter ended	High	Low
		
	1999:		
The Corporation's common stock is traded in the New York Stock Exchange (NYSE) under the symbol FBP. On December 31, 1999, there were 641 holders of record of the Corporation's common stock.	December	\$22.81	\$19.25
	September	24.75	19.75
	June	28.50	22.00
	March	30.38	22.69
	1998:		
The following table sets forth the high and low prices of the Corporation's common stock for the periods indicated as reported by the NYSE. Common stock prices were adjusted to give retroactive effect to the stock split declared in May 1998.	December	\$30.50	\$21.38
	September	29.50	23.63
	June	29.63	22.72
	March	23.88	16.50
	1997:		
	December	\$18.82	\$15.13
	September	17.75	12.53
	June	13.63	11.69
	March	14.38	12.50
		



QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The day-to-day management of interest rate risk, as well as liquidity management and other related matters, is assigned to the Asset Liability Management and Investment Committee (ALCO). The ALCO is composed of the following officers: President and CEO, Senior Executive Vice President/Chief Financial Officer, Senior Executive Vice President/Chief Lending Officer, Executive Vice President and President of Money Express, Senior Vice President/Investments, and the Economist. The ALCO meets on a weekly basis. The Economist also acts as secretary, keeping minutes of all meetings.

Committee meetings focus on, among other things, current and expected conditions in world financial markets, competition and prevailing rates in the local deposit market, reviews of liquidity, unrealized gains and losses in securities, recent or proposed changes to the investment portfolio, alternative funding sources and their costs, hedging and the possible purchase of derivatives such as swaps and caps, and any tax or regulatory issues which may be pertinent to these areas. The ALCO approves pricing and funding decisions in the light of the Corporation's overall growth strategies and objectives. On a 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 in two ways, assuming upward and downward interest rate movements of 200 basis points:

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

Assuming a flat balance sheet, tax equivalent net interest income for the twelve months following December 31, 1999 and 1998 would be \$203.3 million and \$207.1 million, respectively, under flat rates, \$183.5 million and \$185.4 million, respectively, under rising rates, and \$222.3 million and \$211.0 million, respectively, under falling rates. Assuming a growing balance sheet, tax equivalent net interest income for 1999 would be \$213.5 million under flat rates (1998 - \$209.1 million), \$192.9 million under rising rates (1998 - \$188.3 million) and \$228.4 million under falling rates (1998 - \$212.5 million). These simulations do not represent what actual results would be, since interest rate risk management is dynamic, and can be adjusted depending on the committee's interest rate outlook.

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

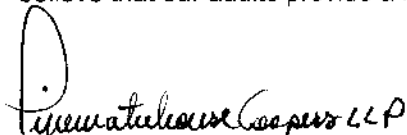


PricewaterhouseCoopers LLP
PO Box 363566
San Juan PR 00936-3566
Telephone (787) 754 9090

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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. 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, 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 the opinion expressed above.


February 25, 2000

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2001
Stamp 1603154 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

FIRST BANCORP CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	1999	1998
Assets		
Cash and due from banks	\$ 58,267,929	\$ 39,416,097
Money market instruments	<u>35,217,064</u>	<u>525,669</u>
Investment securities available for sale, at market:		
United States and Puerto Rico Government obligations	340,356,015	268,611,106
Mortgage backed securities	1,017,176,782	1,492,538,909
Other investments	<u>96,541,374</u>	<u>1,620,000</u>
Total investment securities available for sale	<u>1,454,074,171</u>	<u>1,762,770,015</u>
Investment securities held to maturity, at cost:		
United States and Puerto Rico Government obligations	97,349,381	26,921,836
Mortgage backed securities	<u>206,696,658</u>	
Total investment securities held to maturity	<u>304,046,039</u>	<u>26,921,836</u>
Federal Home Loan Bank (FHLB) stock	<u>17,826,500</u>	<u>10,270,600</u>
Loans held for sale	37,794,078	20,641,628
Loans receivable	<u>2,707,574,019</u>	<u>2,099,412,756</u>
Total loans	<u>2,745,368,097</u>	<u>2,120,054,384</u>
Allowance for loan losses	<u>(71,784,237)</u>	<u>(67,854,066)</u>
Total loans - net	<u>2,673,583,860</u>	<u>2,052,200,318</u>
Other real estate owned	517,405	3,642,525
Premises and equipment - net	61,947,817	51,537,192
Accrued interest receivable	17,917,526	10,738,072
Due from customers on acceptances	2,738,176	2,392,338
Other assets	95,431,678	56,937,413
Total assets	<u>\$ 4,721,568,165</u>	<u>\$ 4,017,352,075</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Non-interest bearing deposits	\$ 211,896,459	\$ 173,103,709
Interest bearing deposits	2,353,525,177	1,601,941,185
Federal funds purchased and securities sold under agreements to repurchase	1,452,151,222	1,623,697,988
Other short-term borrowings	152,484,084	86,594,710
Advances from FHLB	50,000,000	2,600,000
Notes payable	55,500,000	118,100,000
Bank acceptances outstanding	2,738,176	2,392,338
Accounts payable and other liabilities	<u>54,776,718</u>	<u>39,058,247</u>
	<u>4,333,071,836</u>	<u>3,647,488,177</u>
Subordinated notes	<u>93,594,080</u>	<u>99,495,830</u>
Stockholders' equity:		
Preferred Stock, authorized 50,000,000 shares: issued and outstanding 3,600,000 shares at \$25.00 liquidation value per share	<u>90,000,000</u>	
Common stock, \$1.00 par value, authorized 250,000,000 shares: issued 29,612,552 shares	29,612,552	29,599,552
Less: Treasury Stock (at par value)	<u>(1,552,000)</u>	<u>(100,000)</u>
Common stock outstanding	<u>28,060,552</u>	<u>29,499,552</u>
Additional paid-in capital	19,863,466	23,575,936
Capital reserve	40,000,000	30,000,000
Legal surplus	126,792,514	53,454,469
Retained earnings	58,834,676	125,088,180
Accumulated other comprehensive income - unrealized gain (loss) on securities available for sale, net of tax	<u>(68,648,959)</u>	<u>8,749,931</u>
	<u>294,902,249</u>	<u>270,368,068</u>
Contingencies and commitments		
Total liabilities and stockholders' equity	<u>\$ 4,721,568,165</u>	<u>\$ 4,017,352,075</u>

The accompanying notes are an integral part of these statements.

FIRST BANCORP CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	1999	1998	1997
Interest income:			
Loans	\$ 260,741,177	\$ 231,513,730	\$ 225,524,452
Investment securities	106,770,856	88,312,096	55,310,691
Short-term investments	450,248	729,417	3,654,806
Dividends on FHLB stock	1,100,823	743,161	670,156
Total interest income	<u>369,063,104</u>	<u>321,298,404</u>	<u>285,160,105</u>
Interest expense:			
Deposits	90,489,121	70,418,359	72,147,084
Short-term borrowings	79,455,499	69,494,151	39,460,518
Notes payable	12,914,538	14,965,751	17,958,092
Advances from FHLB	470,590	251,707	863,599
Total interest expense	<u>183,329,748</u>	<u>155,129,968</u>	<u>130,429,293</u>
Net interest income	185,733,356	166,168,436	154,730,812
Provision for loan losses	<u>47,960,500</u>	<u>76,000,000</u>	<u>55,675,500</u>
Net interest income after provision for loan losses	<u>137,772,856</u>	<u>90,168,436</u>	<u>99,055,312</u>
Other income:			
Other fees on loans	12,886,541	11,157,852	10,898,586
Service charges on deposit accounts	8,540,291	7,843,837	7,363,369
Trading (loss) income	(7,946)	3,364,843	744,789
Fees on loans serviced for others	864,278	1,617,292	2,669,673
Gain on sale of investments	1,376,672	26,827,417	11,388,137
Rental income	2,609,657	2,291,814	1,935,169
Other operating income	6,592,940	5,136,795	4,865,788
Total other income	<u>32,862,433</u>	<u>58,239,850</u>	<u>39,865,511</u>
Other operating expenses:			
Employees' compensation and benefits	48,545,839	43,185,324	38,644,042
Occupancy and equipment	20,137,354	18,154,663	16,101,054
Taxes and insurance	6,778,354	6,577,894	6,575,896
Net (gain) cost of operations and disposition of other real estate owned	(303,359)	42,359	(21,128)
Amortization of debt issuance costs	612,404	691,411	787,745
Other	25,501,303	23,146,048	21,180,662
Total other operating expenses	<u>101,271,895</u>	<u>91,797,699</u>	<u>83,268,271</u>
Income before income tax provision	69,363,394	56,610,587	55,652,552
Income tax provision	7,288,445	4,798,200	8,125,000
Net income	<u>\$ 62,074,949</u>	<u>\$ 51,812,387</u>	<u>\$ 47,527,552</u>
Earnings per common share - basic	\$ 2.00	\$ 1.75	\$ 1.58
Earnings per common share - diluted	\$ 1.98	\$ 1.74	\$ 1.58

The accompanying notes are an integral part of these statements.

FIRST BANCORP CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	1999	1998	1997
Cash flows from (for) operating activities:			
Net income	\$ 62,074,949	\$ 51,812,387	\$ 47,527,552
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	7,645,035	7,827,866	7,281,936
Provision for loan losses	47,960,500	76,000,000	55,675,500
Increase in taxes payable	2,345,647	3,454,049	1,464,869
Increase in deferred tax asset	(6,702,849)	(11,454,033)	(1,765,992)
(Increase) decrease in accrued interest receivable	(7,179,454)	2,297,862	(3,843,610)
Increase (decrease) in accrued interest payable	10,056,988	1,072,485	(2,371,552)
Amortization of deferred loan fees (costs)	(680,735)	881,411	(30,868)
Net gain on sale of investments securities	(1,376,673)	(26,827,417)	(11,388,137)
Originations of loans held for sale	(18,222,990)	(9,086,622)	(7,668,575)
Proceeds from sale of loans	1,266,787		1,249,543
Decrease in other assets	12,950,921	20,776,413	48,813,231
Increase (decrease) in other liabilities	5,012,929	1,718,242	(3,157,333)
Total adjustments	<u>53,076,106</u>	<u>66,660,256</u>	<u>84,259,012</u>
Net cash provided by operating activities	<u>115,151,055</u>	<u>118,472,643</u>	<u>131,786,564</u>
Cash flows from (for) investing activities:			
Principal collected on loans	719,964,127	559,726,839	661,129,038
Loans originated	(1,270,442,873)	(797,256,751)	(819,802,988)
Purchase of loans	(118,603,000)	(1,330,497)	
Sales of investment securities	9,630,866	302,128,585	118,004,497
Purchase of securities held-to-maturity	(277,624,203)		(18,837,919)
Purchases of securities available-for-sale	(6,069,805,410)	(6,899,653,771)	(8,185,668,960)
Principal repayments and maturities of securities held-to-maturity	500,000	34,782,596	27,591,758
Principal repayments of securities available-for-sale	6,267,048,544	6,061,838,410	7,518,487,101
Additions to premises and equipment	(18,055,660)	(10,917,891)	(6,739,859)
Purchase of FHLB stock	(7,555,900)	(120,300)	
Net cash used by investing activities	<u>(764,943,509)</u>	<u>(750,802,780)</u>	<u>(705,837,332)</u>
Cash flows from (for) financing activities:			
Net increase (decrease) in deposits	790,376,740	180,410,210	(109,290,923)
Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements	(172,898,023)	654,760,505	381,012,600
Net increase (decrease) in other short-term borrowings	65,889,375	(144,910,185)	231,504,896
FHLB-N.Y. advances taken/paid	47,400,000	(26,400,000)	14,900,000
Payments of notes payable	(68,501,750)	(14,177,660)	(54,010,993)
Decrease (increase) in debt securities issuance cost	1,211,219	(1,049,270)	957,972
Dividends	(14,657,799)	(8,870,832)	(7,197,417)
Repurchase of common stock		(3,656,420)	(6,899,822)
Issuance of preferred stock	86,850,217		
Treasury stock acquired	(32,510,611)	(2,211,250)	
Exercise of stock options	176,313	196,501	382,249
Net cash provided by financing activities	<u>703,335,681</u>	<u>634,091,599</u>	<u>451,358,562</u>
Net increase (decrease) in cash and cash equivalents	53,543,227	1,761,462	(122,692,206)
Cash and cash equivalents at beginning of year	39,941,766	38,180,304	160,872,510
Cash and cash equivalents at end of year	<u>\$ 93,484,993</u>	<u>\$ 39,941,766</u>	<u>\$ 38,180,304</u>
Cash and cash equivalents include:			
Cash and due from banks	\$ 58,267,929	\$ 39,416,097	\$ 37,666,068
Money market instruments	35,217,064	525,669	514,236
	<u>\$ 93,484,993</u>	<u>\$ 39,941,766</u>	<u>\$ 38,180,304</u>

The accompanying notes are integral part of these statements.

FIRST BANCORP

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, 1996	\$	\$15,116,651	\$38,599,962	\$10,000,000	\$49,106,995	\$77,711,586	\$607,119
Net income						47,527,552	
Change in valuation of securities available for sale							11,424,325
Addition to legal surplus					4,347,474	(4,347,474)	
Addition to capital reserve				10,000,000		(10,000,000)	
Repurchase of common stock		(247,825)	(495,650)			(6,156,347)	
Stock option exercised		33,000	349,249				
Cash dividends-common stock						(7,197,417)	
December 31, 1997		14,901,826	38,453,561	20,000,000	53,454,469	97,537,900	12,031,444
Net income						51,812,387	
Change in valuation of securities available for sale							(3,281,513)
Addition to capital reserve				10,000,000		(10,000,000)	
Repurchase of common stock		(108,800)	(217,600)			(3,330,024)	
Treasury stock		(100,000)	(50,000)			(2,061,250)	
Stock option exercised		10,000	186,501				
Cash dividends-common stock						(8,870,832)	
Common stock split on May 29, 1998		14,796,526	(14,796,526)				
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	
Change in valuation of securities available for sale							(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		(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	<u>\$90,000,000</u>	<u>\$28,060,552</u>	<u>\$19,863,466</u>	<u>\$40,000,000</u>	<u>\$126,792,514</u>	<u>\$58,834,676</u>	<u>\$(68,648,959)</u>

The accompanying notes are an integral part of these statements.



FIRST BANCORP CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	1999	1998	1997
Net income	<u>\$ 62,074,949</u>	<u>\$ 51,812,387</u>	<u>\$ 47,527,552</u>
Other comprehensive income net of tax:			
Unrealized (losses) gains on securities:			
Unrealized holding (losses) gains arising during the period	(76,501,672)	8,102,283	12,081,362
Less: reclassification adjustment for gains included in net income	<u>897,218</u>	<u>11,383,796</u>	<u>657,037</u>
Total other comprehensive (loss) income	<u>(77,398,890)</u>	<u>(3,281,513)</u>	<u>11,424,325</u>
Comprehensive (loss) income	<u>\$ (15,323,941)</u>	<u>\$ 48,530,874</u>	<u>\$ 58,951,877</u>

The accompanying notes are an integral part of these statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Nature of Business

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

FirstBank, the Corporation's subsidiary, is a commercial bank chartered under the laws of the Commonwealth of Puerto Rico. Its main office is located in San Juan, Puerto Rico, and has 45 full service banking branches in Puerto Rico and three in the U.S. Virgin Islands. It also has loan origination offices in Puerto Rico focusing on consumer loans and residential mortgage loans. In addition, through its wholly owned subsidiaries, FirstBank operates other offices in Puerto Rico specializing in small personal loans, finance leases and vehicle rental. The Bank 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).

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 of which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation.

Statement of cash flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and money market instruments.



Segments of the Corporation and related information

Operating segments are components of the Corporation about which separate financial information is available based on which Management makes operating decisions and assesses performance.

Securities purchased under agreements to resell

The Corporation enters into purchases of securities under agreements to resell the same securities. Amounts advanced under these agreements represent short-term loans and are reflected as assets in the statements of financial condition. The Corporation monitors the market value of the underlying securities as compared to the related receivable, including accrued interest, and requests additional collateral where deemed appropriate.

Investment securities

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

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

Trading - Securities that are bought and held principally for the purpose of selling them in the near term. These securities are carried at fair value, with 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 estimated tax effect, excluded from earnings and reported in other comprehensive income as a separate component of stockholders' equity.

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

Loans and allowance for loan losses

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

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

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

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

Loan origination fees and costs

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

Other real estate owned

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

Premises and equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the individual assets without exceeding 40 years. 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.

Intangible assets

Intangible assets consist of core deposits values which are amortized using straight line method over ten years.

Securities sold under agreements to repurchase

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

Amortization of debt issuance costs

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

Treasury stock

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

Stock option plan

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

Earnings per common share

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

Reporting comprehensive income

Comprehensive income includes net income and several other items that current accounting standards require to be recognized outside of net income. This statement was implemented in 1998 and affected only financial statements' presentation. Reclassification of financial statements for earlier periods was presented for comparative purposes.

Reclassifications

Certain amounts in the 1998 and 1997 financial statements have been reclassified to conform with the 1999 presentation.

Accounting for derivative instruments and hedging activities

In June 1998, the Financial Accounting Standards Board (FASB) issued 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. 133 standardizes accounting for derivative instruments, including those embedded in other contracts, by requiring the recognition of all derivatives (both assets and liabilities) in the statement of financial position at fair value. In accordance with SFAS No. 133, changes in the fair value of derivative instruments are generally accounted for as current income or other comprehensive income, depending on their designation.

SFAS No. 133 generally provides for the matching of the timing of gain or loss recognition on the hedging instruments with the recognition of either the changes in the fair value of the hedged asset or liability, or the earnings effect of the hedged forecasted transaction.

On July 7, 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133". SFAS No. 137 delays the effective date of SFAS No. 133. SFAS No. 133 would be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. Based on current volumes, Management expects that the adoption of SFAS No. 133 will not have a significant impact on the Corporation's financial position and results of operations.

Note 3 - Stockholders' Equity

Common stock

On April 30, 1998, the Corporation declared a two for one stock split on its then outstanding 14,796,526 shares of common stock. As a result, a total of 14,796,526 additional shares of common stock were issued on May 29, 1998. In addition, 10,000 and 13,000 shares of common stock were issued during 1998 and 1999 as part of the exercise of stock options under the Corporation's stock option plan.

The Corporation declared a cash dividend on its common stock of \$0.24 per share in 1997, of \$0.30 per share in 1998, and of \$0.36 per share in 1999.

Stock repurchase plan and treasury stock

In 1996 a stock repurchase program was established (the 1996 Program) where the Corporation is authorized to repurchase in the open market, and retire from circulation or hold as treasury stock, up to ten percent of the 31,083,502 issued and outstanding shares of common stock at the time the program was approved by the stockholders. Under this program the Corporation repurchased a total of 1,452,000 shares of common stock at a cost of \$32,510,611 during 1999, 317,600 shares of common stock at a cost of \$5,867,674 during 1998, and 495,650 shares of common stock at a cost of \$6,899,822 during 1997. The number of shares were adjusted to recognize the May 1998 stock split. From the total amount of stocks repurchased, 1,552,000 shares were held as treasury stock at December 31, 1999 (1998 - 100,000 shares) and were available for general corporate purposes.

In 1997 an additional stock repurchase program was established whereby the Corporation may repurchase in the open market shares of common stock, which amount represents 10% of the issued and outstanding shares after all shares authorized under the 1996 Program have been repurchased.

Preferred stock

The Corporation has 50,000,000 shares of authorized non-cumulative and non-convertible preferred stock with a par value of \$1. This stock may be issued in series and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. On April 30, 1999, the Corporation issued 3,600,000 shares of preferred stock. The liquidation value per share is \$25. Annual dividends of \$1.78125 per share, are payable monthly, if declared by the board of directors. At December 31, 1998, no shares of preferred stock were outstanding.

Capital reserve

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

Legal surplus

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

Dividend restrictions

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

Note 4 - Regulatory Capital Requirement

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

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

At December 31, 1999 and 1998, the Corporation exceeded the requirements for an adequately capitalized institution.

At December 31, 1999 and 1998, the Corporation also was a well capitalized institution under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Corporation must maintain minimum total risk based, Tier 1 risk based and Tier 1 leverage ratios as set forth in the following table. Management believes that there are no conditions or events that have changed that classification.

The Corporation's 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, 1999						
Total Capital (to Risk-Weighted Assets):						
First BanCorp	\$468,261	16.16%	\$231,758	8%	\$289,697	10%
FirstBank	409,173	14.26%	229,608	8%	287,010	10%
Tier I Capital (to Risk-Weighted Assets):						
First BanCorp	\$337,284	11.64%	\$115,879	4%	\$173,818	6%
FirstBank	279,383	9.73%	114,804	4%	172,206	6%
Tier I Capital (to Average Assets):						
First BanCorp	\$337,284	7.47%	\$135,473	3%	\$225,789	5%
FirstBank	279,383	6.26%	133,953	3%	223,255	5%

	Regulatory requirements					
	Actual		For capital adequacy purposes		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
At December 31, 1998						
Total Capital (to Risk-Weighted Assets):						
First BanCorp	\$377,939	17.39%	\$173,835	8%	\$217,294	10%
FirstBank	372,015	17.12%	173,817	8%	217,271	10%
Tier I Capital (to Risk-Weighted Assets):						
First BanCorp	\$250,910	11.55%	\$ 86,917	4%	\$130,376	6%
FirstBank	244,989	11.28%	86,909	4%	130,363	6%
Tier I Capital (to Average Assets):						
First BanCorp	\$250,910	6.59%	\$114,204	3%	\$190,340	5%
FirstBank	244,989	6.44%	114,204	3%	190,340	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. The maximum term to exercise the options is ten years. The stock option plan provides for a proportionate adjustment in the exercise price and the number of shares that can be purchased in the event of a stock dividend, stock split, reclassification of stock, merger or reorganization and certain other issuance and distributions.

Following is a summary of the activity related to stock options as adjusted retroactively for the May 1998 stock split:

	Number of Options	Weighted Average Exercise Price per Option
At December 31, 1996	325,714	\$ 6.15
Granted	240,000	15.45
Exercised	(66,000)	5.79
Expired or canceled	<u>(25,714)</u>	10.20
At December 31, 1997	474,000	10.68
Granted	296,000	24.85
Exercised	<u>(13,500)</u>	14.56
At December 31, 1998	756,500	16.16
Granted	223,000	19.99
Exercised	<u>(13,000)</u>	13.56
At December 31, 1999	<u>966,500</u>	17.07

The options outstanding at December 31, 1999 have an original expiration term of ten years and all of them are exercisable. The exercise price of the options outstanding at December 31, 1999 ranges from \$5.79 to \$28.38 and the weighted average remaining contractual life is approximately eight years.

Following is additional information concerning the stock options outstanding at December 31, 1999. The data included herein have been adjusted to reflect the May 1998 stock split.

Number of Options	Exercise Price per Option	Contractual Maturity
234,000	\$ 5.79	November 2004
213,500	15.63	November 2007
60,000	19.19	February 2008
7,000	28.38	April 2008
40,000	27.09	May 2008
12,000	26.56	June 2008
177,000	26.00	November 2008
2,000	25.94	February 2009
3,500	26.44	April 2009
15,000	22.56	August 2009
<u>202,500</u>	19.63	November 2009
<u>966,500</u>		

Note 6 - Earnings Per Common Share

The calculations of earnings per common share for the years ended December 31, 1999, 1998 and 1997 follow (in thousands, except per share data):

	Year ended December 31,		
	1999	1998	1997
Net income	\$62,075	\$51,812	\$47,528
Less: Preferred stock dividend	(4,275)		
Net income - attributable to common stockholders	<u>\$57,800</u>	<u>\$51,812</u>	<u>\$47,528</u>

	Year ended December 31,		
	1999	1998	1997
Earnings per common share-basic:			
Net income - available to common stockholders	\$57,800	\$51,812	\$47,528
Weighted average common shares outstanding	<u>28,941</u>	<u>29,586</u>	<u>30,036</u>
Earnings per common share-basic	<u>\$ 2.00</u>	<u>\$ 1.75</u>	<u>\$ 1.58</u>

Earnings per common share-diluted:			
Net income - available to common stockholders	\$57,800	\$51,812	\$47,528
Weighted average common shares and share equivalents:			
Average common shares outstanding	28,941	29,586	30,036
Common stock equivalents - Options	<u>258</u>	<u>272</u>	<u>168</u>
Total	<u>29,199</u>	<u>29,858</u>	<u>30,204</u>
Earnings per common share-diluted	<u>\$ 1.98</u>	<u>\$ 1.74</u>	<u>\$ 1.58</u>

Had compensation cost for the stock options granted been determined based on the fair value at the grant date (as a result of the requirement explained in Note 2 - Stock option plan), the Corporation's net income and earnings per common share would have been reduced to the pro forma amounts indicated, as follow (in thousands, except per share data):

	Year ended December 31,		
	1999	1998	1997
Pro forma earnings per common share:			
Net income - available to common stockholders	\$56,341	\$48,592	\$46,354
Earnings per common share-basic	\$1.95	\$1.64	\$1.55
Earnings per common share-diluted	\$1.93	\$1.63	\$1.54

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 1999, 1998 and 1997 was estimated using the following assumptions: weighted dividend growth of 22.38% (1999) and 21.97% (1998); expected life of 10 years; weighted expected volatility of 29.46% (1999), 36.08% (1998), and 29.8% (1997), and weighted risk-free interest rate of 6.04% (1999), 5.10% (1998) and 5.76% (1997). The weighted estimated fair value of the options granted was \$6.54 (1999), \$10.95 (1998) and \$4.89 (1997) per option.

Note 7 - Cash and Due from Banks

The Corporation is required by law to maintain average reserve balances. The amount of those reserve average balances was approximately \$40,975,700 at December 31, 1999 (1998 - \$34,867,200).

Note 8 - Securities Purchased Under Agreements To Resell

At December 31, 1999 and 1998, there were no securities purchased under agreements to resell. The maximum aggregate balance outstanding at any month-end during 1999 was approximately \$17,421,000 (1998 - \$209,232,000). The average aggregate balance during 1999 was \$1,577,504 (1998 - \$15,009,052). The securities underlying these agreements are kept under the Corporation's control or held by the dealers through which the agreements were transacted. These securities are not recorded as assets of the Corporation.

Note 9 - Investment Securities Held For Trading

At December 31, 1999 and 1998, 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 securities sold not yet purchased transactions 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 loss from the sale of trading securities amounted to \$7,946 for the year ended December 31, 1999 (a gain of \$3,364,843 for 1998 and a gain of \$744,789 for 1997), and were included in earnings as trading income.

Note 10 - Investment Securities Held To Maturity

The amortized cost, unrealized gains and losses, approximate market value, taxable equivalent weighted average yield and maturities of investment securities held to maturity at December 31, 1999 and 1998 were as follows (dollars in thousands):

	December 31, 1999				December 31, 1998			
	Amortized cost	Unrealized gains (losses)	Market value	Weighted average yield%	Amortized cost	Unrealized gains (losses)	Market value	Weighted average yield%
Obligations of U.S. Government Agencies:								
Within 1 year					\$ 500	\$ (2)	\$ 498	3.37
After 5 to 10 years	\$10,000	\$ (166)	\$9,834	8.34				
After 10 years	83,756	(9,255)	74,501	9.15	23,051	\$569	23,620	10.20
Puerto Rico Government Obligations:								
After 10 years	3,593	\$57	3,650	7.46	3,371	204	3,575	7.41
Total	<u>\$97,349</u>	<u>\$57</u> <u>\$(9,421)</u>	<u>\$87,985</u>	9.00	<u>\$26,922</u>	<u>\$ 773</u> <u>\$(2)</u>	<u>\$27,693</u>	9.73
Mortgage backed securities:								
Government National Mortgage Association (GNMA) certificates								
After 10 years	<u>\$206,697</u>	<u>\$(7,851)</u>	<u>\$198,845</u>	8.18				

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.

Note 11 - Investment Securities Held For Sale

The amortized cost, gross unrealized gains and losses, approximate market value, taxable equivalent weighted average yield and maturities of investment securities held for sale at December 31, 1999 and 1998 were as follows (dollars in thousands):

	December 31, 1999					December 31, 1998				
	Amortized cost	Unrealized gains	Unrealized (losses)	Market value	Weighted average yield%	Amortized cost	Unrealized gains	Unrealized (losses)	Market value	Weighted average yield%
U.S. Treasury Securities:										
After 5 to 10 years	\$ 39,577		\$ (4,302)	\$ 35,275	4.90					
After 10 years	67,468		(9,621)	57,847	5.84					
Obligations of other U.S. Government Agencies:										
Within 1 year	219,065	\$ 53	(58)	219,060	6.11	\$ 240,040	\$ 51		\$ 240,091	5.00
After 10 years	27,457		(5,127)	22,330	8.36	25,619		\$ (159)	25,460	8.32
Puerto Rico Government Obligations:										
After 10 years	5,880		(36)	5,844	8.00	2,964	96		3,060	7.18
Total	<u>\$ 359,447</u>	<u>\$ 53</u>	<u>\$(19,144)</u>	<u>\$ 340,356</u>	6.13	<u>\$ 268,623</u>	<u>\$ 147</u>	<u>\$(159)</u>	<u>\$ 268,611</u>	5.35
Mortgage backed securities- Federal Home Loan Mortgage Corporation (FHLMC) certificates:										
Within 1 year						\$ 4,564	\$ 19		\$ 4,583	7.84
After 1 to 5 years	\$ 997		\$ (25)	\$ 972	8.07	1,001	9		1,010	8.14
After 5 to 10 years	9,905		(255)	9,650	7.02	10,169	149		10,318	7.68
After 10 years	22,872	\$ 11	(155)	22,728	7.26	32,363	802		33,166	9.07
	<u>33,774</u>	<u>11</u>	<u>(435)</u>	<u>33,350</u>	7.21	<u>48,097</u>	<u>979</u>		<u>49,077</u>	8.64
Government National Mortgage Association (GNMA) certificates:										
After 5 to 10 years	3,674		(46)	3,628	6.39					
After 10 years	1,039,069	1,410	(76,054)	964,425	6.95	1,411,369	9,936	\$(357)	1,420,947	6.91
	<u>1,042,743</u>	<u>1,410</u>	<u>(76,100)</u>	<u>968,053</u>	6.95	<u>1,411,369</u>	<u>9,936</u>	<u>(357)</u>	<u>1,420,947</u>	6.91
Federal National Mortgage Association (FNMA) certificates:										
Within 1 year						157	1		158	8.23
After 1 to 5 years	644		(7)	637	8.75	2,691	30		2,721	8.40
After 5 to 10 years	188		(6)	182	8.08	274	11		285	10.28
After 10 years	11,109	299	(46)	11,362	10.34	14,299	605	(10)	14,894	10.35
	<u>11,941</u>	<u>299</u>	<u>(59)</u>	<u>12,181</u>	10.22	<u>17,421</u>	<u>647</u>	<u>(10)</u>	<u>18,058</u>	10.02
Mortgage pass through certificates:										
After 10 years	2,463	757		3,220	11.70	2,764	767		3,530	9.33
Real Estate Mortgage Interest Conduit:										
Within 1 year	361	12		373	17.33					
After 1 to 5 years						865	62		927	11.63
Total	<u>\$1,091,282</u>	<u>\$2,489</u>	<u>\$(76,594)</u>	<u>\$1,017,177</u>	7.01	<u>\$1,480,516</u>	<u>\$12,391</u>	<u>\$(367)</u>	<u>\$1,492,539</u>	7.02
Other investment:										
Within 1 year	\$ 67,359	\$1,914		\$ 69,273	6.73					
After 1 to 5 years	14,750		(88)	14,662	8.91					
After 5 to 10 years	11,779		(162)	11,617	8.69	1,964		\$(344)	1,620	15.76
After 10 years	990			990	8.38					
Total	<u>\$ 94,878</u>	<u>\$1,914</u>	<u>\$(250)</u>	<u>\$ 96,542</u>	7.33	<u>\$ 1,964</u>		<u>\$(344)</u>	<u>\$ 1,620</u>	15.76

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, 1999, the net unrealized loss of \$68,648,959 (1998 - net unrealized gain of \$8,749,931) on securities available for sale after the estimated income tax of \$22,882,986 (1998 - \$2,916,644) was reported as a separate component of stockholders' equity. For 1999, the change in the net unrealized holding gain/loss on the available for sale securities amounted to a loss of \$103,198,520 (1998 - a loss of \$4,375,351) before estimated income taxes.

For 1999, proceeds from the sale of securities amounted to \$9.6 million (1998 - \$302.1 million, 1997 - \$118.0 million) resulting in a realized gain of \$1.4 million (1998 - \$26.8 million, 1997 - \$11.4 million). No losses were recognized on those sales.

Note 12 - Federal Home Loan Bank (FHLB) Stock

At December 31, 1999 and 1998, there were investments in FHLB stock with book value of \$17,826,500 and \$10,270,600, respectively. The estimated market value of such investments is its redemption value.

Note 13 - Interest and Dividend on Investments

A detail of interest and dividend income on investments follows (in thousands):

	Year ended December 31,		
	1999	1998	1997
Mortgage-backed securities:			
Taxable	\$ 4,137	\$ 5,230	\$ 6,239
Exempt	<u>77,900</u>	<u>63,131</u>	<u>24,481</u>
	<u>\$82,037</u>	<u>\$68,361</u>	<u>\$30,720</u>
Other investment securities:			
Taxable	\$ 1,528	\$ 801	\$ 1,372
Exempt	<u>24,758</u>	<u>20,621</u>	<u>27,544</u>
	<u>\$26,286</u>	<u>\$21,422</u>	<u>\$28,916</u>

Note 14 - Loans Receivable

The following is a detail of the loan portfolio:

	December 31, 1999	December 31, 1998
.....		
Residential real estate loans:		
Secured by first mortgages:		
Conventional	\$395,884,613	\$237,560,711
Insured by government agencies:		
Federal Housing Administration and Veterans Administration	6,543,487	8,185,232
Puerto Rico Housing Bank and Finance Agency	32,928,102	38,515,744
Secured by second mortgages	5,706,225	4,956,196
	<u>441,062,427</u>	<u>289,217,883</u>
Deferred loan and commitment fees - net	(5,293,370)	(6,848,311)
Residential real estate loans	<u>435,769,057</u>	<u>282,369,572</u>
Construction, land acquisition and land improvements	288,301,904	161,498,219
Undisbursed portion of loans in process	<u>(156,233,791)</u>	<u>(98,535,025)</u>
Construction loans	<u>132,068,113</u>	<u>62,963,194</u>
Commercial loans:		
Commercial loans	655,417,037	368,548,532
Commercial mortgage	<u>371,642,698</u>	<u>332,219,186</u>
Commercial loans	<u>1,027,059,735</u>	<u>700,767,718</u>
Finance leases	<u>85,692,482</u>	<u>52,214,184</u>
Consumer and other loans:		
Personal	422,722,624	463,052,946
Personal lines of credit	13,029,258	9,535,354
Auto	532,242,160	512,116,471
Boat	37,018,313	32,208,879
Credit card	168,045,087	125,955,592
Home equity reserve loans	2,656,713	3,385,220
Unearned interest	<u>(148,835,815)</u>	<u>(145,284,440)</u>
	<u>1,026,878,340</u>	<u>1,000,970,022</u>
Other	106,292	128,066
Consumer and other loans	<u>1,026,984,632</u>	<u>1,001,098,088</u>
Loans receivable	<u>2,707,574,019</u>	<u>2,099,412,756</u>
Loans held for sale	<u>37,794,078</u>	<u>20,641,628</u>
Total loans	<u>2,745,368,097</u>	<u>2,120,054,384</u>
Allowance for loan losses	<u>(71,784,237)</u>	<u>(67,854,066)</u>
Total loans-net	<u>\$2,673,583,860</u>	<u>\$2,052,200,318</u>
.....		

The Corporation's primary lending area is Puerto Rico. At December 31, 1999 and 1998 there is no significant concentration of credit risk in any specific industry on the loan portfolio.

At December 31, 1999, loans in which the accrual of interest income had been discontinued amounted to \$53,816,000 (1998 - \$56,958,000; 1997 - \$52,939,000). If these loans had been accruing interest, the additional interest income realized would have been approximately \$4,544,000 (1998 - \$4,970,000; 1997 - \$5,246,000). There are no material commitments to lend additional funds to borrowers whose loans were in non-accruing status at these dates.

At December 31, 1999 and 1998 mortgage loans held for sale amounted to \$37,794,078 and \$20,641,628, respectively. All mortgage loans originated and sold during 1999 and 1998 were sold based on pre-established commitments or at market values, which in both situations were equal or exceeded the carrying value of the loans.

At December 31, 1999, the Corporation was servicing mortgage loans owned by others aggregating approximately \$134,348,000 (1998 - \$147,439,000; 1997 - \$168,416,000). As a result of the securitization of auto loans, at December 31, 1998 the Corporation was servicing auto loans aggregating approximately \$19,567,000 (1997 - \$59,049,000). During 1999 the auto loans securitized were paid off.

Various loans secured by first mortgages were assigned as collateral for term notes, certificates of deposit, advances from the Federal Home Loan Bank of New York, and unused lines of credit. The mortgage loans pledged as collateral amounted to \$157,612,921 and \$222,732,275 at December 31, 1999 and 1998, respectively. A portfolio of personal loans was assigned as collateral for short-term borrowings as explained in Note 21 - "Other Short-Term Borrowings." The personal loans pledged as collateral amounted to \$186,417,700 and \$220,443,511 at December 31, 1999 and 1998, respectively.

Note 15 - Allowance for Loan Losses

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

	Year ended December 31,		
	1999	1998	1997
Balance at beginning of period	\$67,854,066	\$ 57,711,927	\$55,253,546
Provision charged to income	47,960,500	76,000,000	55,675,500
Losses charged against the allowance	(53,664,742)	(72,223,389)	(59,590,916)
Recoveries credited to the allowance	9,047,548	6,033,922	6,373,797
Other adjustments	586,865	331,606	
Balance at end of period	<u>\$71,784,237</u>	<u>\$ 67,854,066</u>	<u>\$57,711,927</u>

At December 31, 1999, \$4.4 million (\$14.3 million at December 31, 1998) in commercial and real estate loans over \$1,000,000 was considered impaired with an allowance of \$1.3 million (\$3.8 million at December 31, 1998). As of both periods, no increases in the provision for loan losses were necessary, since the allowance provided already covered the estimated impairment. There were no consumer loans over \$1,000,000 considered impaired at December 31, 1999 and 1998. The average recorded investment in impaired loans amounted to \$9.4 million for 1999 (1998 - \$10.8 million). Interest income in the amount of approximately \$428,470 was recognized on impaired loans for 1999 (1998 - approximately \$736,000). No interest income was recognized in 1997 on the portfolio of impaired loans during the period they were impaired.

Note 16 - Related Party Transactions

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

	Amount
Balance at December 31, 1997	\$ 8,902,326
New loans	21,006,257
Payments	<u>(8,379,759)</u>
Balance at December 31, 1998	21,528,824
New loans	2,105,812
Payments	<u>(541,851)</u>
Balance at December 31, 1999	<u>\$ 23,092,785</u>

Note 17 - Premises and Equipment

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

	December 31,	
	1999	1998
Land	\$ 6,853,249	\$ 5,825,249
Buildings and improvements	33,433,031	30,976,673
Leasehold improvements	14,222,676	10,807,734
Furniture and equipment	<u>50,531,481</u>	<u>41,330,835</u>
	105,040,437	88,940,491
Accumulated depreciation	<u>(48,232,875)</u>	<u>(42,167,391)</u>
	56,807,562	46,773,100
Projects in progress	<u>5,140,255</u>	<u>4,764,092</u>
Total premises and equipment - net	<u>\$61,947,817</u>	<u>\$51,537,192</u>

Note 18 - Other Assets

Following is a detail of other assets:

	December 31,	
	1999	1998
Deferred tax asset	\$54,645,143	\$22,142,665
Accounts receivable	8,202,865	10,023,555
Prepaid expenses	9,243,210	10,219,939
Revenue earning vehicles	5,679,920	4,465,609
Other repossessed property	2,709,258	2,276,766
Insurance claims	1,618,037	1,778,133
Other	<u>13,333,245</u>	<u>6,030,746</u>
Total	<u>\$95,431,678</u>	<u>\$56,937,413</u>

Note 19 - Deposits and Related Interest

Deposits and related interest consist of the following:

	December 31,	
	1999	1998
Type of account and interest rate at:		
Savings accounts - 2.75% to 4.00%		
(1998 - 2.75% to 4.00%)	\$ 447,945,723	\$ 416,423,889
Interest bearing checking accounts -		
2.75% to 4.50% (1998 - 2.90% to 4.50%)	162,601,169	130,883,438
Non-interest bearing checking accounts	211,896,459	173,103,709
Certificate accounts - 3.80% to 8.00%		
(1998 - 3.80% to 7.15%)	<u>1,742,978,285</u>	<u>1,054,633,858</u>
	<u>\$2,565,421,636</u>	<u>\$1,775,044,894</u>

The weighted average interest rate on total deposits at December 31, 1999 and 1998 was 4.94% and 4.57%, respectively.

At December 31, 1999, the aggregate amount of demand deposits that were reclassified as loan amounted to \$6,939,685 (1998 - \$8,180,802).

The following table presents a summary of certificates of deposits with remaining term of more than one year at December 31, 1999 (in thousands):

	Total
Over one year to two years	\$ 75,329
Over two years to three years	58,647
Over three years to four years	94,766
Over four years to five years	50,702
Over five years	153,346
Total	<u>\$432,790</u>

At December 31, 1999 time deposits in denominations of \$100,000 or higher amounted to \$1,283,083,091 (1998 - \$667,373,511) including brokered certificates of deposit of \$843,217,222 (1998 - \$283,249,222) at a weighted average rate of 5.84% (1998 - 5.63%).

At December 31, 1999, certificates of deposits aggregating \$49,000,000 (1998 - \$59,000,000) were guaranteed by irrevocable standby letters of credit issued by the Federal Home Loan Bank of New York and other banks. At December 31, 1999 specific mortgage loans with a carrying value of \$71,165,714 (1998 - \$137,483,494) and estimated market value of \$58,992,705 (1998 - \$141,951,708) and securities with a book value of \$5,401,047 (1998 - \$6,877,563) and approximate market value of \$5,351,690 (1998 - \$7,041,301) were pledged to the Federal Home Loan Bank of New York as part of the agreements covering the letters of credit.

At December 31, 1999, deposit accounts issued to government agencies with a carrying value of \$62,378,476 (1998 - \$67,306,284) were collateralized by securities with a carrying value of \$78,782,695 (1998 - \$70,892,236) and estimated market value of \$75,677,459 (1998 - \$72,177,444) and specific mortgage loans with a carrying value of \$3,947,207 (1998 - \$4,838,781) and estimated market value of \$3,758,925 (1998 - \$5,684,600).

A table showing interest expense on deposits follows:

	Year ended December 31,		
	1999	1998	1997
Savings	\$12,380,515	\$11,716,764	\$12,155,192
Interest bearing checking accounts	4,931,452	4,486,582	4,167,371
Certificates	73,177,154	54,215,013	55,824,521
Total	<u>\$90,489,121</u>	<u>\$70,418,359</u>	<u>\$72,147,084</u>

Note 20 - Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

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

	December 31,	
	1999	1998
Federal funds purchased, interest rate (1998 - 5.32%)		\$ 15,000,000
Repurchase agreements, interest ranging from 4.50% to 6.35% (1998 - 4.65% to 5.80%)	\$1,447,732,029	1,605,630,051
	<u>1,447,732,029</u>	<u>1,620,630,051</u>
Accrued interest payable	4,419,193	3,067,937
Total	<u>\$1,452,151,222</u>	<u>\$1,623,697,988</u>

Federal funds purchased and repurchase agreements mature as follows:

	December 31,	
	1999	1998
Federal funds purchased:		
One to thirty days		\$ 15,000,000
Repurchase agreements:		
One to thirty days	\$1,229,448,029	1,158,520,676
Over thirty to ninety days	8,450,000	247,109,375
Over ninety days	209,834,000	200,000,000
	<u>1,447,732,029</u>	<u>1,605,630,051</u>
Total	<u>\$1,447,732,029</u>	<u>\$1,620,630,051</u>

The following securities were sold under agreements to repurchase:

December 31, 1999

	Amortized cost of underlying securities	Balance of borrowing	Approximate market value of underlying securities	Weighted average interest rate
Underlying securities				
U.S. Treasury Securities and obligations of other U.S. Government Agencies	\$ 325,528,692	\$ 296,719,958	\$ 303,107,211	5.77%
Mortgage backed securities	1,233,633,232	1,151,012,071	1,150,557,955	6.16%
Total	<u>\$1,559,161,924</u>	<u>\$1,447,732,029</u>	<u>\$1,453,665,166</u>	
Accrued interest receivable	\$ 3,152,900			

December 31, 1998

	Amortized cost of underlying securities	Balance of borrowing	Approximate market value of underlying securities	Weighted average interest rate
Underlying securities				
U.S. Treasury Securities and obligations of other U.S. Government Agencies	\$ 216,073,870	\$ 214,716,114	\$ 216,111,108	5.13%
Mortgage backed securities	1,393,322,895	1,390,913,937	1,403,729,265	6.08%
Total	<u>\$1,609,396,765</u>	<u>\$1,605,630,051</u>	<u>\$1,619,840,373</u>	
Accrued interest receivable	\$ 4,321,371			

The weighted average interest rates of federal funds purchased and repurchase agreements at December 31, 1999 and 1998 was 5.38% and 5.03%, respectively.

At December 31, 1999, 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 1999 was \$1,631,913,357 (1998 - \$1,648,513,898). The average balance during 1999 was approximately \$1,441,486,000 (1998 - \$1,225,726,000).

Note 21 - Other Short-Term Borrowings

On March 31, 1997, the Corporation entered into a \$250,000,000 financing arrangement administered by Credit Suisse First Boston to be renewed annually within a term of three years. At December 31, 1999 borrowings through this arrangement amounted to \$152,484,084 (1998 - \$86,594,710). Interest periods under the financing agreement cannot exceed 100 days. The rate of interest for this type of financing, in which advances may be repaid or reborrowed at the option of the Corporation, is equivalent to A-1 +/P-1 rated commercial paper. The weighted average maturity at December 31, 1999 was 36 days (1998 - 21 days).

The weighted average interest rate of these borrowings at December 31, 1999 and 1998 was 6.20% and 6.38%, respectively. The maximum aggregate balance outstanding at any month-end was approximately \$152,484,084 (1998 - \$224,780,000). The average aggregate balance outstanding during the year was approximately \$97,373,301 (1998 - \$111,236,888).

Under this arrangement, the Corporation is required to maintain eligible collateral consisting of personal loans owned by the Corporation to secure this borrowing. The Corporation has to maintain at all times the aggregate outstanding balance of the borrowing at a maximum of 85% of the aggregate book value of the personal loans placed as collateral. The aggregate book value of the loans pledged as collateral at December 31, 1999 amounted to \$186,417,700 (1998 - \$220,443,511).

Note 22 - Advances From The Federal Home Loan Bank of New York (FHLB-N.Y.)

Following is a detail of the advances from the FHLB-NY:

Maturity	Interest rate	December 31,	
		1999	1998
February 3, 2000	5.86%	\$20,000,000	
February 28, 2000	6.03%	30,000,000	
January 4, 1999	5.13%		\$2,600,000
Total		<u>\$50,000,000</u>	<u>\$2,600,000</u>

Advances are received from the FHLB-N.Y. under an Advances, Collateral Pledge and Security Agreement (the Collateral Agreement). Under the Collateral Agreement, the Corporation is required to maintain a minimum amount of qualifying mortgage collateral with a market value at least 110% of the outstanding advances. At December 31, 1999, specific mortgage loans with an estimated market value of \$56,303,500 (1998 - \$3,155,152) were pledged to the FHLB-N.Y. as part of the Collateral Agreement. The carrying value of such loans at December 31, 1999 amounted to \$55,000,000 (1998 - \$2,860,000).

Note 23 - Notes Payable

Following is a detail of notes payable outstanding:

Issue date (footnote)	Maturity	Interest rate	December 31,	
			1999	1998
February 11, 1994 (b)	1999	5.44%		\$ 2,100,000
May 13, 1994 (b)	1999	6.19%		10,000,000
May 26, 1994 (b)	1999	6.09%		5,000,000
September 7, 1994 (a)	1999	4.33%		15,500,000
September 29, 1994 (a)	1999	6.40%		30,000,000
September 12, 1996 (b)	2001	5.82%	\$10,000,000	10,000,000
September 20, 1996 (b)	2001	5.61%	20,500,000	20,500,000
September 20, 1996 (a)	2001	5.49%	25,000,000	25,000,000
Total			<u>\$55,500,000</u>	<u>\$118,100,000</u>

Footnotes:

a. These notes have the benefit of a firm commitment issued by the FHLB-N.Y. whereby it will make advances to pay the principal and interest on the notes as they become due if the Corporation fails to do so. The Corporation is required to maintain as collateral with the FHLB-N.Y. securities having an aggregate market value, determined monthly, equal to 110% of the aggregate outstanding principal amount of the notes plus interest. The collateral securities may consist of a combination of all or some of the following: (i) home mortgage loans owned by the Corporation and secured by first mortgages on real properties in Puerto Rico; (ii) obligations of, or guaranteed by, the United States Government or certain agencies; (iii) fully-modified pass-through mortgage backed certificates guaranteed by GNMA; (iv) mortgage participation certificates issued by FHLMC; (v) guaranteed mortgage pass-through certificates issued by FNMA; and (vi) certain certificates of deposit issued by banks approved by the FHLB-N.Y.

At December 31, 1999, specific mortgage loans with a book value of \$27,500,000 (1998 - \$77,550,000) and an estimated market value of \$28,459,750 (1998 - \$88,887,810) were pledged to the FHLB-N.Y. as part of the agreement covering the above mentioned firm commitment. The estimated market value was computed based on parameters given by the Federal Home Loan Bank.

b. The Corporation is required to maintain with the holder of these notes, cash or securities with a market value of at least 105% of the aggregate amount of the notes. The aggregate estimated market value and carrying value of the eligible collateral at December 31, 1999 amounted to \$30,152,980 (1998 - \$46,162,955) and \$29,793,954 (1998 - \$45,328,289), respectively.

Note 24 - Subordinated Notes

On December 20, 1995, the Bank issued 7.63% subordinated capital notes in the amount of \$100,000,000 maturing in 2005. The notes were issued at a discount. At December 31, 1999 the outstanding balance net of the unamortized discount and notes repurchased in 1999 was \$93,594,080 (1998 - \$99,495,830). Interest on the notes is payable semiannually and at maturity. The notes represent unsecured obligations of the Bank ranking subordinate in right of payment to all existing and future senior debt including the claims of depositors and other general creditors. The notes may not be redeemed prior to their maturity. At December 31, 1999, the Bank has transferred to capital reserves from the retained earnings account \$40,000,000, as a result of the requirement explained in Note 3 - "Stockholders' Equity."

Note 25 - Unused Lines Of Credit

The Corporation maintains unsecured standby lines of credit with other banks. At December 31, 1999, the Corporation's total unused lines of credit with these banks amounted to approximately \$123,500,000 (1998 - \$69,500,000). At December 31, 1999, the Corporation has an available line of credit with the FHLB guaranteed with excess collateral, in the amount of \$2,812,126 (1998 - \$20,808,133).

Note 26 - Employees' Benefit Plan

FirstBank has a defined contribution retirement plan (the Plan) qualified under the provisions of the Puerto Rico Internal Revenue Code Section 1165(e). All employees (excluding the Bank's subsidiaries) are eligible to participate in the Plan after one year of service. Under the provisions of the Plan, the Bank is required to make a contribution of a quarter of the first 4% 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 \$625,375, \$575,000 and \$540,000 during 1999, 1998 and 1997, respectively, to the Plan.

Note 27 - Other Expenses

A detail of other expenses follows:

	Year ended December 31,		
	1999	1998	1997
Professional and service fees	\$ 6,672,254	\$ 5,819,978	\$ 4,883,088
Advertising and business promotion	5,896,265	5,922,039	4,993,392
Communications	4,666,698	4,330,023	4,363,802
Revenue earning equipment	1,478,492	1,225,689	1,183,557
Supplies and printing	1,361,374	1,314,131	1,128,672
Other	5,426,220	4,534,188	4,628,151
Total	<u>\$25,501,303</u>	<u>\$23,146,048</u>	<u>\$21,180,662</u>

Note 28 - Income Taxes

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

The provision for income taxes was as follows (in thousands):

	Year ended December 31,		
	1999	1998	1997
Current	\$13,991	\$17,845	\$16,364
Deferred	(6,703)	(13,047)	(8,239)
Total	<u>\$ 7,288</u>	<u>\$ 4,798</u>	<u>\$ 8,125</u>

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

	Year ended December 31,					
	1999		1998		1997	
	Amount	% of pre-tax income	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rate	\$27,052	39	\$22,078	39	\$21,705	39
Benefit of net exempt income	(13,959)	(20)	(22,078)	(39)	(13,137)	(24)
Other-net	(5,805)	(8)	4,798	8	(443)	
Total income tax provision	<u>\$ 7,288</u>	<u>11</u>	<u>\$ 4,798</u>	<u>8</u>	<u>\$ 8,125</u>	<u>15</u>

Accounting for income taxes

Deferred taxes arise because certain transactions affect the determination of taxable income for financial reporting purposes in periods different from the period in which the transactions affect taxable income for tax return purposes. Deferred taxes have been recorded based upon the Puerto Rico enacted tax rate of 39%. Current tax expense has been provided based upon the estimated tax liability to be incurred for tax return purposes.

The components of the deferred tax asset and liability were as follows (in thousands):

	December 31,	
	1999	1998
Deferred tax asset:		
Adjustment to charge-off method	\$27,995	\$25,460
Unrealized loss on available for sale securities	22,883	
Other	4,114	1,232
Deferred tax asset	<u>\$54,992</u>	<u>\$26,692</u>
Deferred tax liability:		
Unrealized gain on available for sale securities		\$ (2,917)
Other	\$ (347)	(1,633)
Deferred tax liability	<u>\$ (347)</u>	<u>\$ (4,550)</u>

Due to the above temporary differences, a net deferred tax asset resulted amounting to \$54.6 million at December 31, 1999 (1998 - \$22.1 million). The primary timing difference was the effect of future deductions under the charge-offs method for deducting bad debt losses. No valuation allowance was considered necessary.

The tax effect of the unrealized holding gain or loss for securities available for sale is included as a part of stockholders' equity in other comprehensive income.

Note 29 - Commitments

At December 31, 1999 certain premises are leased with terms expiring through the year 2011. The Corporation has the option to renew or extend certain leases from two to ten years beyond the original term. Some of these leases require the payment of insurance, increases in property taxes and other incidental costs. At December 31, 1999, the obligation under various leases was follows:

Year	Amount
2000	\$3,012,850
2001	2,403,792
2002	1,964,048
2003	1,176,557
2004 and later years	4,631,265
Total	<u>\$13,188,512</u>

Rental expense included in occupancy and equipment expense was \$3,390,786 in 1999 (1998 - \$3,158,156; 1997 - \$2,933,798).

Note 30 - 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 including some items not recognized in the statement of financial condition. The disclosure requirements exclude certain financial instruments and all non financial instruments. Accordingly, the aggregate fair value amounts presented do not represent Management's estimation of the underlying value of the Corporation. A summary table of estimated fair values and carrying values of financial instruments at December 31, 1999 and 1998 follows (in thousands):

	December 31,			
	1999		1998	
	Estimated fair value	Carrying value	Estimated fair value	Carrying value
Assets:				
Money market instruments	\$ 35,217	\$ 35,217	\$ 526	\$ 526
Investment securities	1,740,905	1,758,120	1,790,463	1,789,692
FHLB stock	17,827	17,827	10,271	10,271
Loans receivable - net	2,753,597	2,673,584	2,146,003	2,052,200
Liabilities:				
Deposits	2,554,429	2,565,422	1,776,811	1,775,045
Federal funds, securities sold under agreements to repurchase and other short-term borrowings	1,604,635	1,604,635	1,710,293	1,710,293
Advances from FHLB	50,000	50,000	2,600	2,600
Debt security borrowings	145,994	149,094	231,923	217,596

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

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

Money market instruments

The carrying amounts of money market instruments are reasonable estimates of their fair values.

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 - net

The fair value of all loans was estimated by discounting 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, credit cards, auto loans and personal loans. Other loans assumed little or no prepayment. Prepayment estimates were based on the Corporation's historical data for similar loans. Discount rates were based on the Treasury Yield Curve at the date of the analysis, with an offset which reflects the risk and other costs inherent in the loan category. In certain cases, where recent experience was available regarding the sale of loans, this information was also incorporated into the fair value estimates.

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

Deposits

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

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

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

Federal funds purchased, repurchase agreements and other short-term borrowings are commitments to borrow funds which reprice at least quarterly. Therefore, their outstanding balances are estimated to be their fair values.

Advances from FHLB

The fair value of advances was determined using book value, due to its short time to maturity.

Debt security borrowings

The fair value of debt security borrowings with fixed maturities was determined using discounted cash flow analysis over the full term of the borrowings. The cash flows assumed no early repayment of the borrowings. Discount rates were based on the broker CD yield curve. Variable rate debt securities reprice at intervals of three months or less, therefore, their outstanding balances are estimated to be their fair values.

Note 31 - Supplemental Cash Flow Information

Supplemental cash flow information follows (in thousands):

	Year ended December 31,		
	1999	1998	1997
.....			
Cash paid for:			
Interest	\$173,273	\$153,645	\$132,801
Income tax	6,271	1,494	1,089
Non cash investing and financing activities:			
Mortgage loans exchanged for mortgage backed securities			4,046
Additions to other real estate owned	639	2,975	541
.....			

Note 32 - 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 (in thousands):

	December 31,	
	1999	1998
.....		
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
To originate loans	\$465,902	\$245,257
Unused credit card lines	253,463	132,867
Unused personal lines of credit	10,362	10,536
Commercial lines of credit	244,135	96,874
Commercial letters of credit	12,345	19,101
Standby letters of credit	13,754	1,575
.....		

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, 1999 is not significant.

Interest rate risk management

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

The following table indicates the types of swaps used (in thousands):

	Notional amount
.....	
Pay-fixed swaps:	
Balance at December 31, 1997, 1998 and 1999	\$ <u>50,000</u>
Receive-fixed swaps:	
Balance at December 31, 1997	\$ 80,000
Expired contracts	<u>40,000</u>
Balance at December 31, 1998	40,000
Expired contracts	40,000
New contracts	<u>185,000</u>
Balance at December 31, 1999	\$ <u>185,000</u>
.....	

Pay-fixed swaps at December 31, 1999, have a fixed weighted average rate payment of 6.48% (1998 - 5.41%) and a floating weighted average rate receiving of 6.07% (1998 - 6.48%). Receive-fixed swaps at December 31, 1999, have a floating weighted average rate payment of 6.09% (1998 - 5.13%) and a fixed weighted average rate receiving of 7.05% (1998 - 7.15%). Floating rates are based on an 85% to 100% of the average of the last three months LIBOR rate.

For swap transactions, the amounts potentially subject to credit loss are the net streams of payments under the agreements and not the notional principal amounts used to express the volume of the swaps. At December 31, 1999 the Corporation had total net receivable of \$1,286,445 (1998 - \$876,949) 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, 1999 was approximately \$6.6

million and \$6.7 million, respectively (1998 - \$1.8 million and \$1.9 million, respectively). The period to maturity of the swaps at December 31, 1999 ranged from five months through fifteen years (1998 - from one year and four months through eight years and two months).

At December 31, 1999, the estimated fair value to liquidate the Corporation's interest rate swaps was approximately \$192,000 (1998 - \$2,760,000).

Options

From time to time the Corporation may enter into put and call options with the intention of enhancing the yield of its investment portfolio. The aggregate amount permitted to be outstanding under this program is limited by resolution of the Board of Directors. During 1999 and 1998 there was no activity under the program.

Interest Rate Protection Agreements (Caps)

The Corporation also issues interest rate protection agreements (Caps) to limit its exposure to rising interest rates on its deposits. Under these agreements, the Corporation pays an up front premium or fee for the right to receive cash flow payments in excess of the predetermined cap rate; thus, effectively capping its interest rate cost for the duration of the agreement. The premium is amortized as an adjustment to interest expense on deposits. The following table indicates the agreements outstanding at December 31, 1999 (dollars in thousands):

Cap agreements notional amount	Cap Rate	Current 90 day LIBOR	Maturity
\$50,000	6.00%	6.00%	March 27, 2000
200,000	6.50%	6.00%	June 4, 2000
200,000	6.50%	6.00%	October 2, 2000

Note 33 - Segment Information

In 1998, the Corporation implemented SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information". The Corporation has three reportable segments: Retail business, Treasury and Investments, and Commercial Corporate business. Management determined the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Corporation's organizational chart, nature of the products, distribution channels and the economic characteristics of the products were also considered in the determination of the reportable segments.

The Retail business segment is composed of the Corporation's branches and loan centers together with the retail products of deposits and consumer loans. Certain small commercial loans originated by the branches are included in the Retail business. Consumer loans include loans such as personal, residential real estate, auto, credit card and small loans. Finance leases are also included in Retail business. The Commercial Corporate segment is composed of commercial loans and corporate services such as letters of credit and cash management. The Treasury and Investment segment is responsible for the Corporation investment portfolio and treasury functions.

The accounting policies of the segments are the same as those described in Note 2 - "Summary of Significant Accounting Policies."

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

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

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

	Retail	Treasury and Investments	Commercial Corporate	Total
For the year ended December 31, 1999:				
Interest income	\$ 186,224	\$ 108,332	\$ 74,508	\$ 369,064
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	185,734
Provision for loan losses	(46,802)		(1,159)	(47,961)
Segment income	76,739	32,404	28,630	137,773
Average earning assets	1,462,311	1,726,719	815,569	4,004,599
For the year ended December 31, 1998:				
Interest income	\$ 178,251	\$ 89,785	\$ 52,499	\$ 320,535
Net (charge) credit for transfer of funds	7,683	20,698	(28,381)	
Interest expense	(60,003)	(95,127)		(155,130)
Net interest income	125,931	15,356	24,118	165,405
Provision for loan losses	(74,837)		(1,163)	(76,000)
Segment income	51,094	15,356	22,955	89,405
Average earning assets	1,364,803	1,418,791	561,612	3,345,206
For the year ended December 31, 1997:				
Interest income	\$ 184,761	\$ 59,263	\$ 40,246	\$ 284,270
Net (charge) credit for transfer of funds	(4,396)	27,534	(23,138)	
Interest expense	(58,553)	(71,876)		(130,429)
Net interest income	121,812	14,921	17,108	153,841
Provision for loan losses	(52,343)		(3,332)	(55,675)
Segment income	69,469	14,921	13,776	98,166
Average earning assets	1,443,982	909,457	415,427	2,768,866

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

	Year ended December 31,		
	1999	1998	1997
Interest income:			
Total interest income for segments	\$ 369,064	\$ 320,535	\$ 284,270
Interest income credited to expense accounts		763	890
Total consolidated interest income	<u>\$ 369,064</u>	<u>\$ 321,298</u>	<u>\$ 285,160</u>
Net income:			
Total income for segments	\$ 137,773	\$ 89,405	\$ 98,166
Other income	32,862	58,240	39,866
Operating expenses	(101,272)	(91,035)	(82,379)
Income taxes	(7,288)	(4,798)	(8,125)
Total consolidated net income	<u>\$ 62,075</u>	<u>\$ 51,812</u>	<u>\$ 47,528</u>
Average assets:			
Total average earning assets for segments	\$4,004,599	\$3,345,206	\$2,768,866
Average non earning assets	168,182	148,331	143,643
Total consolidated average assets	<u>\$4,172,781</u>	<u>\$3,493,537</u>	<u>\$2,912,509</u>

Note 34 - 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 35 - Selected Quarterly Financial Data (Unaudited)

Financial data showing results of the 1999 and 1998 quarters is presented below. These results are unaudited. In the opinion of Management, all adjustments necessary for a fair presentation have been included:

	1999			
	March 31	June 30	Sept. 30	Dec. 31
Interest income	\$87,142,829	\$87,255,568	\$94,475,146	\$100,189,561
Net interest income	44,597,465	46,340,663	46,789,092	48,006,136
Provision for loan losses	13,800,000	12,949,500	11,016,500	10,194,500
Net income	14,141,215	15,393,514	16,208,146	16,332,074
Earnings per common share-basic	\$0.48	\$0.49	\$0.50	\$0.52
Earnings per common share-diluted	\$0.48	\$0.49	\$0.50	\$0.51

	1998			
	March 31	June 30	Sept. 30	Dec. 31
Interest income	\$77,397,641	\$77,731,354	\$79,846,911	\$ 86,322,498
Net interest income	40,607,988	41,193,889	39,812,331	44,554,228
Provision for loan losses	21,738,000	13,929,000	21,420,000	18,913,000
Net income	12,360,681	12,700,723	13,064,618	13,686,365
Earnings per common share-basic	\$0.42	\$0.43	\$0.44	\$0.46
Earnings per common share-diluted	\$0.42	\$0.43	\$0.43	\$0.46

Note 36 - First BanCorp (Holding Company Only) Financial Information

The following condensed financial information presents the financial position of the Holding Company only at December 31, 1999 and 1998 and the results of its operations and its cash flows for the period ended on December 31, 1999 and from October 1st, 1998 through December 31, 1998.

Statements of Financial Condition

	December 31, 1999	December 31, 1998
Assets:		
Cash and due from depository institutions	\$ 13,159,737	\$ 5,702,362
Money market instruments	<u>1,777,750</u>	
Investment securities available for sale, at market value:		
United States Government obligations	24,890,139	
Other investments	<u>21,291,774</u>	
Total investment securities available for sale	<u>46,181,913</u>	
Investment in FirstBank Puerto Rico, at equity	235,637,500	264,447,053
Other assets	<u>348,337</u>	<u>218,653</u>
Total assets	<u>\$297,105,237</u>	<u>\$ 270,368,068</u>
Liabilities & Stockholders' Equity:		
Other borrowings	\$ 865,360	
Accounts payable and other liabilities	<u>1,337,628</u>	
Total liabilities	<u>2,202,988</u>	
Stockholders' equity	<u>294,902,249</u>	<u>\$ 270,368,068</u>
Contingencies and commitments		
Total liabilities and stockholders' equity	<u>\$297,105,237</u>	<u>\$ 270,368,068</u>

Statements of Income and of Comprehensive Income

	Year ended December 31, 1999	Period from October 1, 1998 through December 31, 1998
Income:		
Interest income on investment securities	\$ 1,536,930	
Interest income on other investments	1,140,656	
Dividend from subsidiary	10,000,000	\$10,359,843
Other income	<u>61,161</u>	
	<u>12,738,747</u>	<u>10,359,843</u>
Expenses:		
Other operating expenses	<u>242,178</u>	<u>15,110</u>
Income before income taxes and equity in undistributed earnings of subsidiary	12,496,569	10,344,733
Income taxes	374,245	
Equity in undistributed earnings of subsidiary	<u>49,952,625</u>	<u>3,341,632</u>
Net income	<u>62,074,949</u>	<u>13,686,365</u>
Other comprehensive (loss) income, net of tax	<u>(77,398,890)</u>	<u>8,749,931</u>
Comprehensive (loss) income	<u>\$(15,323,941)</u>	<u>\$22,436,296</u>

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

Statements of Cash Flows

	Year ended December 31, 1999	Period from October 1, 1998 through December 31, 1998
.....		
Cash flows from operating activities:		
Net income	\$ 62,074,949	\$ 13,686,365
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	(49,952,625)	(3,341,632)
Net increase in other assets	(129,686)	(218,654)
Net increase in other liabilities	883,201	
Total adjustments	<u>(49,199,110)</u>	<u>(3,560,286)</u>
Net cash provided by operating activities	<u>12,875,839</u>	<u>10,126,079</u>
Cash flows from investing activities:		
Purchases of securities available for sale	<u>(44,364,194)</u>	
Net cash used by investing activities	<u>(44,364,194)</u>	
Cash flows from financing activities:		
Proceeds from other borrowings	865,360	
Proceeds from issuance on preferred stock	86,850,217	
Exercise of stock options	176,313	
Cash dividends paid	(14,657,799)	(2,212,467)
Treasury stock acquired	<u>(32,510,611)</u>	<u>(2,211,250)</u>
Net cash provided by financing activities	<u>40,723,480</u>	<u>(4,423,717)</u>
Net increase in cash	<u>9,235,125</u>	<u>5,702,362</u>
Cash and cash equivalents the beginning of period	<u>5,702,362</u>	<u>5,702,362</u>
Cash and cash equivalents at the end of period	<u>\$ 14,937,487</u>	<u>\$ 5,702,362</u>
.....		
Cash and cash equivalents include:		
Cash and due from banks	\$ 13,159,737	\$ 5,702,362
Money market instruments	<u>1,777,750</u>	<u>5,702,362</u>
	<u>\$ 14,937,487</u>	<u>\$ 5,702,362</u>
.....		



Stockholders' Information

Independent Certified Public Accountants

PricewaterhouseCoopers LLP

Annual Meeting:

The annual meeting of stockholders will be held on April 27, 2000, 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.1bankpr.com>

Additional Information and Form 10-K:

Additional financial information about First BanCorp may be requested to Mrs. Laura Villarino, Senior Vice President and Controller, PO Box 9146, Santurce, Puerto Rico 00908. Copies of First BanCorp's Form 10K filed with the SEC, will be provided to stockholders upon written request to Mrs. Laura Villarino at the same mailing address.

Transfer Agent and Registrar:

The Bank of New York, 101 Barclay Street 12W,
New York, NY 10286

General Counsels:

Fiddler, González & Rodríguez, LLP
Látimer, Biaggi, Rachid & Godreau
Meléndez Pérez, Morán & Santiago