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March 9, 2009

Neil M. Barofsky
Special Inspector General – TARP
1500 Pennsylvania Avenue NW
Suite 1064
Washington, D.C. 20220

Dear Mr. Barofsky:

Reference is made to your letter dated February 6, 2009 where it is requested that First BanCorp submits certain information with respect to the use of TARP funds. First BanCorp submits herewith a report with the requested information and the related pertinent supporting documentation.

First BanCorp desires confidential treatment to the aforementioned report and supporting documentation due to competitive reasons in the market it serves.

Should you have any questions with respect to the report or should you need any further information do not hesitate to contact me at (b) (6)

Very truly yours,


Lawrence Odell

Enclosures

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TARP

Progress Report as of March 9, 2009

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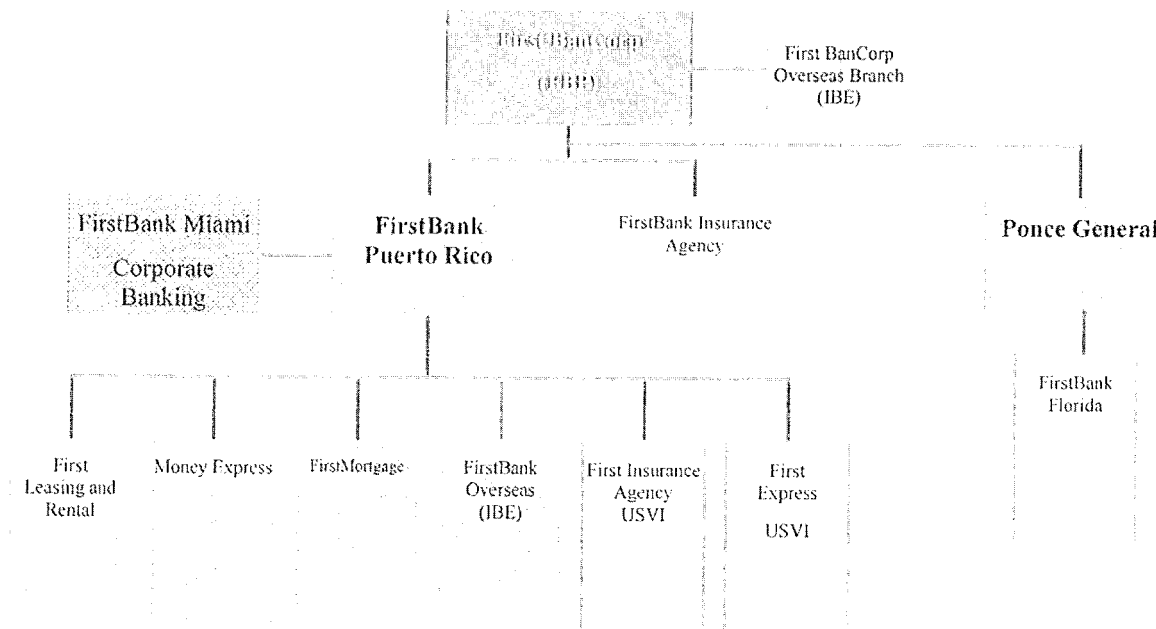
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Overview

The First BanCorp's TARP Progress Report details the plans for the use of TARP funds and the procedures being followed by the Corporation to ensure compliance with the requirements set forth by the Emergency Economic Stabilization Act of 2008 ("EESA"), as amended by the American Recovery Act of 2009, that establishes the Troubled Asset Relief Program (TARP).

First BanCorp and its subsidiaries

First BanCorp (the "Corporation") is a publicly-owned financial holding company that is subject to regulation, supervision and examination by the Federal Reserve Board (the "FED"). The Corporation is a full service provider of financial services and products with operations in Puerto Rico, the United States and the US and British Virgin Islands.



The Corporation provides a wide range of financial services for retail, commercial and institutional clients. The Corporation controls four wholly-owned subsidiaries:

- **First Bank Puerto Rico ("FirstBank" or the "Bank")**, a Puerto Rico-chartered commercial bank. FirstBank conducts its business through its main office located in San Juan, Puerto Rico, forty-eight full service banking branches in Puerto Rico, twenty-two branches in the United States Virgin Islands (USVI) and British Virgin Islands (BVI) and a loan production office in Miami, Florida (USA). FirstBank had four wholly-owned subsidiaries with operations in Puerto Rico:
 - **First Leasing and Rental Corporation**, a vehicle leasing and daily rental company with seven offices in Puerto Rico;
 - **First Federal Finance Corp. (d/b/a Money Express La Financiera)**, a finance company with thirty-nine offices in Puerto Rico;
 - **First Mortgage, Inc. ("First Mortgage")**, a residential mortgage loan origination company with twenty-six offices in FirstBank branches and at stand alone sites; and
 - **FirstBank Overseas Corporation**, an international banking entity organized under the International Banking Entity Act of Puerto Rico.

FirstBank had three subsidiaries with operations outside of Puerto Rico:

- **First Insurance Agency VI, Inc.**, an insurance agency with four offices that sells insurance products in the USVI;
 - **First Express**, a finance company specializing in the origination of small loans with four offices in the USVI; and
 - **First Trade, Inc.**, which is inactive.
- **FirstBank Insurance Agency, Inc. ("FirstBank Insurance Agency")**, a Puerto Rico-chartered insurance agency.
 - **Grupo Empresas de Servicios Financieros (d/b/a "PR Finance Group")**, a domestic corporation engaged in the origination of used car loans.
 - **Ponce General Corporation ("Ponce General")**: Ponce General is the holding company of a federally chartered stock savings and loan association, FirstBank Florida. **FirstBank Florida** provides a wide range of banking services to individual and corporate customers through its ten branches in the U.S. mainland.

As of December 31, 2008, the Corporation had total assets of \$19.5 billion, total deposits of \$13.1 billion and total stockholders' equity of \$1.5 billion.

TARP fund assigned to First BanCorp

On January 16, 2009, the Corporation entered into a Letter Agreement with the United States Department of the Treasury ("Treasury") pursuant to which Treasury invested \$400,000,000 in preferred stock of the Corporation under the Treasury's TARP Capital Purchase Program. Under the Letter Agreement, which incorporates the Securities Purchase Agreement — Standard Terms (the "Purchase Agreement"), the Corporation agreed to issue and sell to Treasury (1) 400,000 shares of the Corporation's Fixed Rate Cumulative Perpetual Preferred Stock, Series F, \$1,000 liquidation preference per share (the "Series F Preferred Stock"), and (2) a warrant dated January 16, 2009 (the "Warrant") to purchase 5,842,259 shares of the Corporation's common stock (the "Warrant shares") at an exercise price of \$10.27 per share.

How funds will be deployed?

(a) Anticipated use of TARP funds

In connection with the capital received from the investment made by Treasury, the Corporation, in general, intends to use this capital to serve as a source of financial strength to its subsidiary banks. This would entail further capitalizing the subsidiary banks for purposes of their continued business growth in Puerto Rico, the U.S. Virgin Islands and Florida, all in accordance with their respective business and capital plans. The growth of the subsidiaries will mainly be achieved by increasing their loan portfolios through extensions of credit and purchase of loan participations from other financial institutions.

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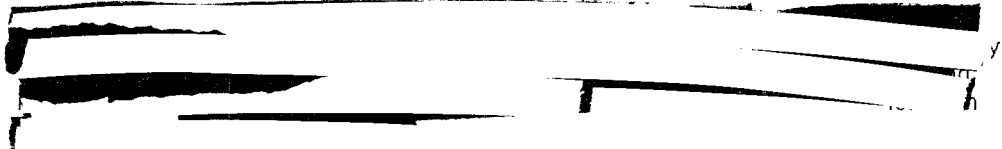
(b) Actual use of funds

As of the date of this report, the Corporation has downstreamed \$50 million of the TARP funds to its subsidiary bank, FirstBank Puerto Rico. The Corporation maintains the remaining \$350 million of the TARP funds segregated in an account with the FED at the holding company level.

The funds downstreamed to FirstBank Puerto Rico (\$50 million) as capital have been leveraged to extend a credit facility in the amount of \$500 million to the Government of Puerto Rico to assist in the recovery of the economy of the island. The Government will use the proceeds to pay debts to its suppliers, which in turn will stimulate the economy. This credit facility was closed on March 3, 2009. See Annex D for supporting documentation related to the \$500 million credit facility to the Government of Puerto Rico.

(c) Expected use of unspent TARP funds

Below we describe in preliminary form how we expect to deploy the TARP funds. Specific targets to expand the flow of credit through lending activities are detailed in the Lending Activities section on page 9.

- **Lending Activities:**
 - **Residential mortgage lending:** consist of the origination of residential mortgage loans and the purchase of mortgages from other financial institutions and/or smaller mortgage bankers and mortgage brokers.
 - **Consumer lending:** consist of personal loans and automobile and other vehicle financing.
 - **Middle market business loans:** consist of business loans in the Puerto Rico middle market. These loans range from \$250,000 to \$5 million and its purpose is to assist the small business person in Puerto Rico with its financing needs.
 - **Wholesale banking:** consist of providing loans in the areas of construction and development, commercial real estate, and corporate business. These will include financing the development and construction of new hotels in Puerto Rico, loans for the development and expansion of shopping centers, hospitals, franchises and other businesses on the Island and in Florida.
 - **Government loans:** consist of providing financing to governmental bodies of the Puerto Rico government such as the power authority, the water authority, the municipal governments and the Government Development Bank for Puerto Rico. The deployment of the funds may be used as direct loans or the purchase of securities issued by the governmental bodies.
- **Loan Modification Programs:** The subsidiary banks of the Corporation are actively involved in their respective markets in providing modifications of residential mortgage loans to its borrowers that are willing to enter into the structured programs. The programs involve a review of the personal financial circumstances of the borrower to determine if the loan modifications will effectively assist the borrower in meeting the mortgage payments. The program includes the extension of the mortgage up to a term to 40 years; the adjustment of the monthly payments based on a new extended amortization period and, in some cases, the downward adjustment of the interest rate on the mortgage note.
- **Secondary Market/Mortgage-backed securities:** From time to time the Corporation may purchase mortgages in bulk from financial institutions and other residential mortgage originators in the markets served by its subsidiary banks. This activity will help provide liquidity in these markets for further mortgage lending.
- 
- **Allocation to enhance capital position of the bank subsidiaries for unforeseen economic distress:** Considering the instability of the credit markets in all of its sectors, the Corporation deems it prudent to set aside a portion of the TARP funds to cover for any additional reserve requirements that may result from unforeseen economic circumstances that may cause an unanticipated downturn in the quality of its loan portfolios.

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TARP Guidelines

Permitted Uses

The use of TARP will be used for purposes detailed in the Purchase Agreement, which stipulates that the objective of the Treasury's investment is to cause the Corporation to expand the flow of credit to the U.S. consumer and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy; and to provide financial assistance with respect to the loan mitigation or modification programs of its subsidiary banks.

Prohibited Uses

TARP capital may not be used for any of the following purposes:

- **Dividend payments** – The Corporation has modified its dividends policy to ensure the preservation of its capital and lending capacity, and to ensure the avoidance of TARP funds for the payment of dividends.
- **Lobbying or government relations activities** – The Corporation has not lobbied and will not lobby on TARP-related issues, nor shall it use TARP funds to fund to engage in any type of government lobbying activities.
- **Compensation, bonuses, marketing, advertising or corporate sponsorship activities** – the Corporation will not use TARP funds with respect to any of the foregoing related expenditures.

Regulatory Reporting Requirements

The Corporation will meet the regulatory reporting requirements associated with TARP. The Corporation shall develop a procedure to effectively track the deployment of the TARP funds for the permitted uses provided in the securities purchase agreement executed by the Corporation on January 16, 2009. Each lending or investment division of the Corporation that is expected to benefit from the TARP funds shall render a quarterly report to the TARP Working Team that shall provide details with respect to number of loans granted or investments made by the Bank, as the case may be, the total amount of these activities, a comparable table showing the amounts in excess of the pro-forma pre-TARP budget, a pre-defined performance metrics, and an updated status of the industry sector the unit serves.

Oversight of TARP Funds – Roles and Responsibilities

The General Counsel and the Chief Risk Officer will be responsible for ensuring the compliance of applicable guidelines and rules for the proper and permissible use of the TARP Funds. These executives will also be charged with overseeing the internal reporting process required of each division of the Corporation benefiting from the TARP fund. Either of these executives will execute the certification required by the Special Inspector General. Additionally, the Corporation has established the following procedures:

- **Board of Directors** – receives periodic reports on use of TARP funds and approves TARP investment strategies.
- **Compensation and Benefits Committee of the Board of Directors** – with the assistance of the General Counsel, Chief Risk Officer, Corporate Affairs Officer and the Human Resources Director, ensures compliance with the executive compensation requirements of the security purchase agreement and the requirements of Section 111(b) of the EESA, as amended.
- **TARP Working Team** – composed of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Treasurer and Chief Risk Officer. Manages TARP work streams, reviews and recommends TARP investment strategies for the Board's consideration and approval. In addition, prepares reviews and submits any regulatory reports with respect to TARP. Monitors compliance with the requirements of the security purchase agreement, including dividend payments.

Communicates strategies for the use of TARP funds to Business Units to be incorporated in the individual unit's strategic plans.

- **Business Units** – submit proposals and detailed information of programs and lending activities to be funded with TARP funds for the TARP Working Team's consideration. In addition, submit any specific information with respect to the activities for which TARP capital was deployed, as well as the performance of those investments, as deemed necessary to maintain a closely monitoring of the use of TARP funds.

Lending Activities

Lending environment in the communities and market we serve

Puerto Rico

The Corporation conducts its operations in a geographically concentrated area, as its main market is Puerto Rico. Beginning in March 2006 and continuing through 2008, a number of key economic indicators showed that the economy of Puerto Rico has been under a recession during that period of time. Construction remained weak during 2009, as the combination of rising interest rates, the Commonwealth's fiscal situation and decreasing public investment in construction projects affected the sector. During the period from January to December 2008, cement sales, an indicator of construction activity, declined by 16% as compared to 2007. As of September 2008, exports decreased by 11.7%, while imports decreased by 8.9%, a negative trade, which continues since the first negative trade balance of the last decade was registered in November 2006. Tourism activity has also declined during 2008. Total hotel registrations for January to October 2008 declined 2% as compared to the same period for 2007. During 2008 new vehicle sales decreased by 13%, the lowest since 1993. In December 2008, unemployment in Puerto Rico reached 13.1%, up 2.6% compared with the same period in 2007.

On February 9, 2009 the Puerto Rico Planning Board announced the release of Puerto Rico's macroeconomic data for fiscal year 2008, as well as projected figures for fiscal years 2009 and 2010. The Planning Board's revision for fiscal year 2008 shows the growth of the Puerto Rico economy slowing down by 2.5%. The Planning Board's projections point toward an economy that will have contracted by 3.4% during the current fiscal year of 2009 (ending on June 30, 2009) and that will suffer an estimated reduction of 2.0% during fiscal year 2010. In general, the Puerto Rico economy continues its trend of decreasing growth, primarily due to weaker manufacturing, softer consumption and decreased government investment in construction. The above economic concerns and uncertainty in the private and public sectors may also have an adverse effect on the lending environment until the economy stabilizes. Also, a potential reduction in consumer spending may also impact growth in other interest and non-interest revenue sources of the Corporation.

Florida

2008 was a year in which the U.S. economy as well as Florida's moved into an economic recession that deepened severely in the fourth quarter, triggered in part by the intensifying financial crisis. Housing activity and prices declined sharply throughout the year. Consumer spending in inflation adjusted terms softened in the first half of 2008, and then declined in the second half, weighed down by the spike in energy prices that reduced real purchasing power, weaker trends in employment and personal income and the loss of household wealth resulting from sharp declines in home prices and stock market valuations. Sales of automobiles, household durables and consumer discretionary items were hit the hardest. The stress consumers experienced from depreciating home prices, rising unemployment and tighter credit conditions resulted in a higher level of bankruptcy filings during the year as well as higher levels of delinquencies and losses in our consumer and small business portfolios. Housing values have declined and the consumer spending has experienced a slowdown.

Mortgage rates to consumers dropped substantially in this market in December 2008 leading to increased application volume. The majority of the recent application volume has been refinance activity. Just a small portion of lending activity pertained to new acquisitions. Home equity demand remains sluggish. Overall new loan demand for commercial real estate is down due to the lack of new construction activity and the

overall condition of the real estate market. Large corporate activity demand is stable; however, there is limited demand for acquisition financing and capital expenditure activity. Middle market demand remains stable.

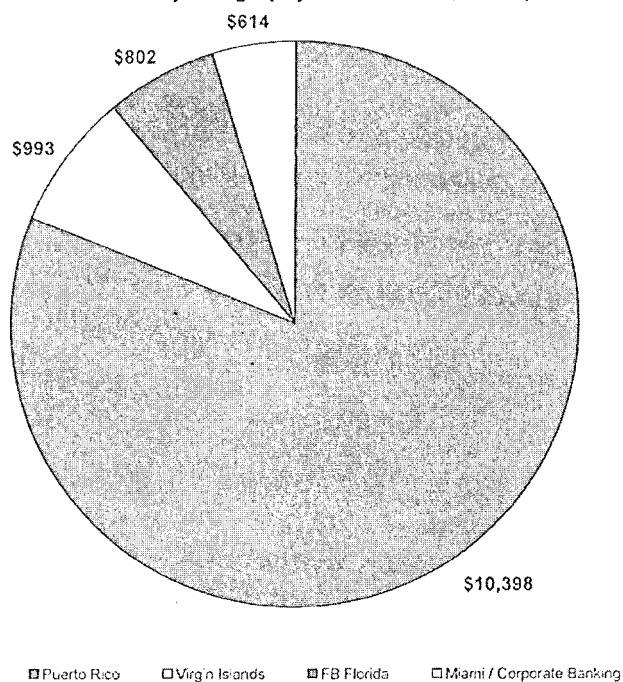
U.S. Virgin Islands

During the fiscal year 2009 (ending June 30, 2009) revenues through November 2008 were down 8%, gross receipt tax collections in January were down 20%, tourist arrivals through November 2008 were down 7 % and hotel occupancy rates were down a minimum of 10%. Loan demand in consumer, auto, and mortgages moderated slightly. Commercial loan demand remained strong. There was some thinking that the Virgin Islands markets would not encounter recessionary pressures and the loan environment would return to normal with some additional focus. The situation really crystallized in the third quarter of 2008 and first quarter of 2009 when it became clear that the recession had also traveled to the Virgin Islands with a steep reduction in tourism.

Loan demand has further weakened and so has credit worthiness particularly among individuals. There are still a few positives – property values have not suffered any significant decline though sales have slowed considerably; commercial asset quality has remained acceptable.

Outlook for 2009 is fairly weak loan demand, a heightened by the need to restructure and modify individual and commercial debt to avert foreclosures and business stress.

Loan Portfolio by Geography as of Dec. 31, 2008 (\$ millions)



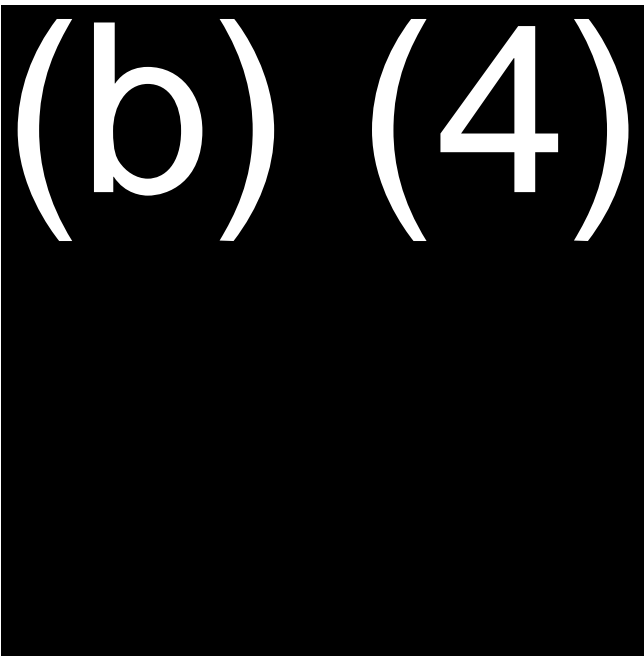
New lending (budget before TARP vs. approved budget for 2009)

In order to monitor the use of funds, the Corporation is using a comparison of actual lending against our pre-TARP baseline budget. The following were the assumptions for the baseline pre-TARP budget for year 2009:

- De-leverage of loan portfolios – Puerto Rico has been in recession for more than three years, loan demand has declined substantially and economy remains weak
- Initiatives and lending product programs take time to roll out and depend on factors that include loan demand
- Corporation’s intent to continue paying dividends on both the preferred and common stock outstanding

Loan Originations and Purchases

2008 Actual



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Total Originations	\$ 3,511,703

For purposes of originations, we are not including the uses of floor plan renewals since these mostly become auto loans.

Monitoring reports

The Corporation will monitor the use of TARP funds on a monthly basis. The monthly monitoring report will include a comparison of the pro-forma budget with actual originations and approved budget for year 2009 by type of portfolio. This report will also include key metrics showing the impact of the Loan Modifications and Loss Mitigation Programs and other workout initiatives detailed below.

Loan Modifications and Loss Mitigation Initiatives

FirstBank Loss Mitigation Mortgage Refinance Program

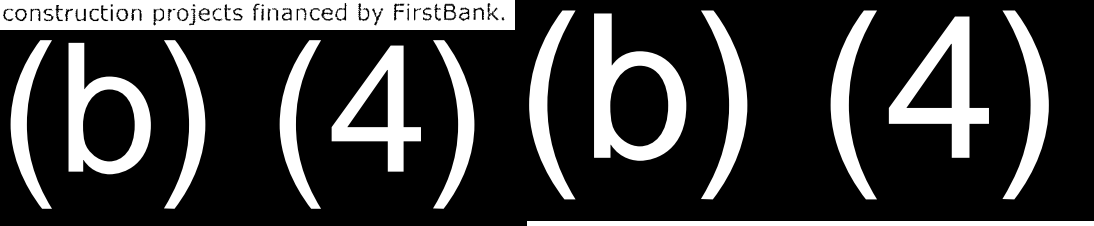
Responding to the economic changes and tendencies in the mortgage industry in the markets we serve, in August 2007 FirstBank implemented a loss mitigation mortgage refinance program ("Loss Mitigation Program"). With the Loss Mitigation Program, FirstBank and its subsidiary FirstMortgage have helped over 1,200 borrowers avoid foreseeable foreclosures of their properties. See Annex A for a summary of the achievements and results of the Loss Mitigation Program to date.

In addition to the Loss Mitigation Program, FirstBank has several loss mitigation options under the different investors programs, including FHA, VA, Farmer Loan, Fannie Mae, Freddie Mac and MGIC. See Annex B for a summary of loss mitigation options by investor.

FirstBank is currently reviewing the Loss Mitigation Program to build flexibility and expand the options under the program to enable loan modification for a greater number of distressed borrowers and streamline even more the paper and income verification process to provide modification offers in an expedite mode.

FirstBank New Program to Stimulate Sales of Property Inventory on New Construction Projects

The Puerto Rico recession has presented a significant challenge for the developers and contractors. Absorption rates have continued to deteriorate despite the several initiatives implemented by the government and seller, including monetary credits to borrowers. In an effort to stimulate the absorption rate of construction projects financed by FirstBank and the sale of units in the inventory, in August 2008 FirstBank launched a program that builds flexibility in the credit policy parameters for the financing sale of individual units on selected construction projects financed by FirstBank.



Workout initiatives

The following arrangements are being negotiated by the Corporation's Workout Division so as to help our corporate and commercial mortgage customers:

- the restructuring of original terms, including longer repayment terms, combined with moratoriums for principal payments;
- consolidation of several loan facilities into just one loan facility, with more affordable payment terms; and
- Implementation of several loss mitigations, under the established Loss Mitigation Program.

FirstBank in the community

For the last 60 years FirstBank has developed different Community Service Programs and has collaborated with non-for-profit and for profit organizations and other financial institutions in the market it serves to support Low to Moderate Income (LMI) individuals and communities. The Bank also sponsors community development events and host educational seminars on financial services, personal financial management, lending products and loss mitigation assistance programs, savings accounts, provide technical assistance by working with community-based organizations. The Bank takes the services directly to the communities, addressing specific needs of the LMI market with products and services and increasing the direct contact of our relationship officers with the communities.

Small Business and Community Lending Initiatives

Current economic portrait resembles a true need for prudent lending practices. The SBA guaranteed and/or participation programs provide the Bank the ability to serve the middle market while having an enhanced guaranty position with respect to the credits.

FirstBank's SBA-Unit provides support to commercial regions, branches and departments in Puerto Rico and U.S. Virgin Islands through the following SBA guaranty or participation programs:

- PLP – Preferred Lender
- Patriot Express
- SBA Express
- 504

The charts in Annex C show the actual basic parameters per program.

On February 18, 2009, the Bank received a new release from SBA about the American Recovery and Reinvestment Act, which contains a package of loan fee reductions, higher guarantees, new SBA programs, secondary market incentives, and enhancements to current SBA programs that will help unlock credit markets and begin economic growth. It is important to mention that the Bank expects to get the guidelines that will be imposed by SBA. Therefore, once they are defined, the SBA-Unit will provide guidance to the commercial regions, in order to start participating in the benefits of the program.

Job Creation

In order to help meet the community development needs that global economic situation have brought about, FirstBank has taken a proactive approach providing financing to corporations, individuals and institutions that are establishing or expanding their business operations, having this a positive impact on the creation or retention of jobs. The Bank has also financed projects sponsored by for-profit developers that impact LMI communities and that provide access to jobs and services for LMI individuals. FirstBank has also developed relationship with key non-profit strategic partners and various municipalities that are working with the State government agencies to ensure that projects that benefit LMI communities remain feasible and are carried out successfully, which will also produce new jobs. Additionally, the Bank has been helping organizations that hold micro-entrepreneur programs to develop the organizational and programmatic structures needed to undertake business and economic development projects.

FirstBank has initiated a program to support the creation of micro-entrepreneurs with the non-for profit organizations serving as the anchor for business incubators in the communities. In addition, this year the Bank is launching and sponsoring the Puerto Rico Business Incubator Association, first of its kind in the Island. FirstBank is a founding member of "Alianza Multisectorial de Desarrollo Económico Comunitario de PR". The organization was founded in

2007 for the purpose of strengthening the relationship between the private, public, and community in an effort to improve the quality of life of its residents. This group has taken a leadership role in public policy and is developing an innovative Community Loan Fund project to serve the non-for profit organizations and its residents.

FirstBank has taken a leadership role in supporting small businesses in collaboration with the USVI Small Business Development Center. They have sponsored seminars and business activities for small business owners and students, with more than 535 participants.

Financial Education

FirstBank has responded to financial literacy needs by offering first-time homebuyer seminars, supporting community development organizations that provide counseling for borrowers, such as San Juan and Ponce NHSs sponsoring the Economic Education Program, seminars on financial education for public school students across our assessment areas and financial education seminars for micro-entrepreneurs.

During 2008, FirstBank PR and USVI performed and sponsored over 167 activities, servicing 4,932 individuals across the assessment areas. In addition, the Bank has developed a two year public education campaign that focused on financial education, saving and budgeting in the larger TV station in PR, Univision, which reached thousands of individuals on a weekly basis.

Currently, FirstBank is the institution leader in the Economic and Education Alliance of Puerto Rico an educational program targeted to students in public and private schools through the Islands. This program works with over 350 schools and the purpose is to promote greater understanding of economics and finance in people every day lives. In addition, the Bank has invested in educational campaign focused on the importance of saving, budgeting and personal finance.

Housing

The development of quality and affordable housing units for LMI individuals and communities is an activity that FirstBank has been supporting since the inception of the program. Due to high cost of housing within our assessment areas and the short supply of quality affordable housing, the Bank partners with groups such as CHDO I, Peninsula de Cantera, San Juan NHS, INCORE, Ponce NHS, CODERI, USVI Housing Finance Authority among others, in order to help them develop comprehensive strategies to revitalize LMI neighborhoods.

Home mortgage lending plays a large role in our efforts to respond to the credit needs of LMI households and communities. FirstBank works to increase homeownership in under-served communities by offering both traditional and non-traditional mortgage products, developing non-profit partnerships, and sponsoring community educational services in FirstBank markets. Our objective is to make mortgage financing more easily obtainable for LMI homebuyers, by offering innovative products, permitting flexibility in underwriting guidelines.

FirstBank has made investments that support the construction of affordable housing units as part of the government public policy strategy to mitigate this problem. In addition, the Bank participates in government programs to support the creation of affordable housing for the LMI communities.

In the area of homeownership and foreclosure prevention FirstBank collaborates with several Community Housing Development Organizations that provide direct services to families in need of affordable housing. In addition, FirstBank partners with organizations such as Ponce and San Juan NHS, members of NeighborhoodWorks America, and Fundesco in providing direct service to families and individuals in the area of foreclosure prevention counseling program.

In addition, our mortgage company, FirstMortgage, as mentioned above, has a Loss Mitigation Program which provides its clients with a refinancing of their mortgage to help them not only reduce their monthly payment but also to consolidate other debt that will have a greater impact in the monthly cash flow of the family. Also the program provides extension opportunities for the client as a mechanism to reduce their monthly payments.

Executive Compensation

Compensation Philosophy

The Executive Compensation Program is administered by the Compensation and Benefits Committee (the "Compensation Committee"), composed of three independent directors. The Corporation's compensation philosophy considers:

- **Pay for Performance** - The Corporation's compensation structure reflects the belief that executive compensation must, to a large extent, be at risk where the amount earned depends on achieving rigorous corporate, business unit and individual performance objectives designed to enhance stockholder value. Performance metrics include a balanced scorecard to ensure that compensation do not encourage management to take unnecessary and excessive risks.
- **Market Competitiveness** - The Corporation targets total compensation, including salaries, annual target incentive compensation, long-term target incentive opportunities including equity-based incentives, at the 75th percentile of compensation paid by similarly-sized companies in the banking sector.
- **Benchmarking and Competitive Compensation Analysis** - The Corporation will periodically assess the competitiveness of its executive compensation structure through internal research and external studies conducted by its outside compensation consultant. Compensation analysis was performed during 2007 and 2008 with the assistance of Mercer, the outside consultant.

Elements of Executive Compensation

- **Base Salary** - Base salary is the basis element of direct cash compensation, designed to reward individual performance and level of experience. The base salary of the Corporation's executives has not been adjusted since year 2005.
- **Short-term annual incentive** - Generally, the annual cash bonus element of the Corporation's Executive Compensation Program is designed to provide incentives for executive officers on generating strong corporate financial performance and therefore seeks to link the payment of cash bonuses to the achievement of key strategic, operational and financial performance objective. The performance criteria for the 2008 short-term annual incentive program included: Financial Measure, Risk Management and Business Unit and Strategic Goals. The weights of the measures established for 2008 vary depending on the executive's position. The incentive metrics are established for three different possible payouts levels (target, threshold and maximum). This short-term annual incentive provides the opportunity to the executives to receive a cash award ranging from 0 to 200% of his/her base pay based on the achievement of the aforementioned criteria. The final amounts awarded by the senior executives for 2008 fell slightly below target levels which represented approximately 95% of target payout.
- **Long-term equity incentive** - Long-term equity incentive compensation provides a variable pay opportunity for long-term performance through a combination of restricted stock and stock option grants designed to reward corporate performance allocated as follows: 50% in stock option and 50% in performance-accelerated restricted stock. Considering current economic conditions, senior management of the Corporation recommended to the Compensation Committee that no incentives under the long-term incentive plan be awarded at this time. The Corporation's executive officers, having met the performance metrics established for the award of long-term equity incentives, were entitled to an award thereunder which in the aggregate would have cost the Corporation a total of approximately \$4.4 million. As a result, the 2008 total compensation of the executive officers decreased significantly when compared to the previous year, with respect to the CEO the decrease was 29% and with respect to the other four most highly paid executives decreases ranged from 15% to 19%.

- **Other compensation** – The use of personal benefits and perquisites as an element of compensation in the executive’s compensation is extremely limited. Other type of compensation includes: corporate-owned automobile for business use, club memberships, life insurance policy of \$1 million (\$500,000 in excess of other employees) and participation in the same corporate wide programs such as 401(k) plan, group medical and dental plans, health care, long-term and short-term disability and group life insurance. The CEO is provided with personal security solely for business purposes.

Risk avoidance analysis

During the month of February and first week of March 2009, the Compensation Committee reviewed the senior executive officers incentive compensation arrangements with the Corporation’s Chief Risk Officer to ensure that senior executive officers are not encouraged to take unnecessary and excessive risks that threaten the value of the financial institution. The Compensation Committee met during this period a total of two times to discuss and review the relationship between the Corporation’s risk management policies and practices and the senior executive officers incentive compensation arrangements. It was concluded that the Corporation’s incentive compensation arrangements do not encourage the senior executive officers to take unnecessary and excessive risks that threaten the value of the financial institution in part because:

- The Corporation periodically assesses the competitiveness of its executive compensation structure through internal research and external studies conducted by independent compensation consultants taking in consideration survey and proxy data.
- The compensation structure based on pay for performance methodology. The compensation depends on the Corporation, business unit and individual achieving performance objectives designed to enhance stockholder value. Actual incentive payouts are larger if superior target performance is achieved and smaller if target performance is not achieved.
- The compensation structure has a balance between performance objectives and risk management measures to prevent the taking of excessive risks.
- The Corporation’s risk management structure, including policies and procedures, that provides for the ability to anticipate, identify, measure, monitor and control risks faced by the Bank. The adequacy of the internal controls and risk management structure are continuously evaluated by internal and external examiners.
- The cash incentive plan imposes a specific target dollar maximum amount to each CEO. The equity incentive plan imposes grant limits that apply on an individual basis.
- Equity incentive plan by itself provides for downside leverage if the stock does not perform well.
- Shares granted under the stock award program vest ratably over a 4-year period following year 3 for a total vesting period of 7 years. Vesting acceleration provisions impose target performance goals tied to the earning per share that needs to be met.

2009 Executive Compensation Structure

The Corporation, together with Mercer, its outside compensation consultant, is currently reviewing the Corporations executive compensation structure for the 2009 merit period. As part of the executive compensation review the Corporation will perform an updated market competitiveness study, a pay for performance assessment, and a continued assessment of the limitations imposed by Emergency Economic Stabilization Act of 2008 (the “EESA”), the America Reinvestment and Recovery Act of 2009 (the “ARRA”), and the regulations imposed thereunder.

Certification

The undersigned hereby certifies, subject to the provisions set forth in Title 18, United States Code, Section 1001, that all statements and representations made in this document are, to the best of the undersigned's knowledge, true, correct and accurate.



Lawrence Odell, Esq.
EVP and General Counsel and
Secretary of the Board of Directors



Date

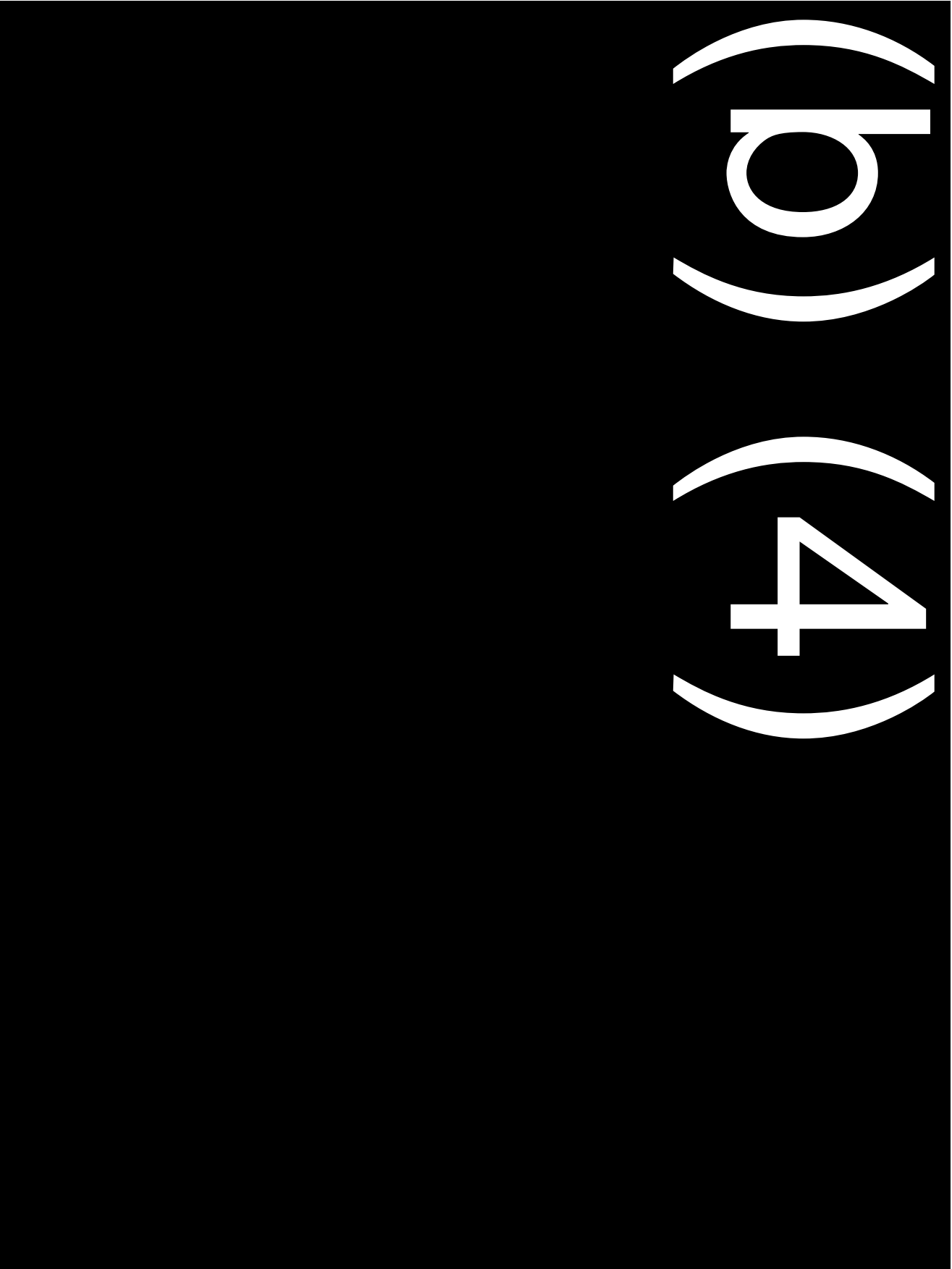
FIRSTBANK PUERTO RICO
LOSS MIIGATION
FirstBank Loan Portfolio - Loan Cured by Period

(b) (4)

FIRSTBANK PUERTO RICO
LOSS MIGRATION OPTIONS BY INVESTOR

Annex B

(b) (4)



SBA Guaranteed Loan Programs

Program:	Preferred Lender	Patriot Express	SBAExpress
Maximum Loan Amount:	\$2,000,000	\$500,000	\$350,000
Maximum SBA Guaranty %:	85% up to \$150,000, 75% from \$150,001 and up	85% up to \$150,000, 75% from \$150,001 up to \$500,000	50%

SBA 504 Loan Program

Program:	504
Maximum Loan Amount:	Retail & Wholesale: \$2,000,000 Manufacture: \$4,000,000
Program Distribution:	50% Bank Participation * 40% Certified Development Company (CDC) * 10% Client Injection * * This distribution can change

CREDIT APPROVAL MEMORANDUM

(b) (4)

