

> **Other Operating Expense**

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

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

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

The increase in operating expenses for 2001 is mainly the result of the investments made in new technology and infrastructure to provide the latest in delivery channels for its commercial and consumer lending business, and to support the significant growth in earning assets. The occupancy and equipment category consists of expenses associated with premises, office and computer equipment, and other automated banking equipment. The increase in the past three years results also from the enhancement of hardware and software through system conversions, which have enabled the Corporation to offer new products, and improve customer service and portfolio servicing.

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

> **Income Tax Expense**

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