

ORIENTAL FINANCIAL GROUP INC

Form 424B2

March 16, 2010

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**Filed Pursuant to Rule 424(b)(2)
Registration No. 333-155452**

**Prospectus Supplement
to Prospectus dated July 31, 2009**

7,600,000 Shares

Common Stock

We are offering 7,600,000 shares of our common stock, par value \$1.00 per share. Our common stock is listed for trading on the New York Stock Exchange (NYSE) under the symbol OFG. On March 15, 2010, the last reported sale price of our common stock on NYSE was \$11.58 per share.

The shares of common stock are not savings accounts, deposits or other obligations of any of our bank or non-bank subsidiaries and are not insured by the Federal Deposit Insurance Corporation (FDIC) or any other governmental agency.

Investing in our common stock involves risks. See Risk Factors beginning on page S-9 to read about factors you should consider before buying our common stock.

Neither the Securities and Exchange Commission nor any state or Commonwealth of Puerto Rico securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	\$ 11.40	\$ 86,640,000
Underwriting discounts and commissions	\$ 0.627	\$ 4,765,200
Proceeds to Oriental Financial Group Inc. (before expenses)	\$ 10.773	\$ 81,874,800

The underwriters also may purchase up to an additional 1,140,000 shares of our common stock within 30 days of the date of this prospectus supplement to cover over-allotments, if any.

The underwriters expect to deliver the common stock in book-entry form only, through the facilities of The Depository Trust Company, against payment on or about March 19, 2010.

Keefe, Bruyette & Woods
Book Running Manager

Oriental Financial Services

Prospectus Supplement dated March 16, 2010

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ABOUT THIS PROSPECTUS SUPPLEMENT

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any person to provide you with different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since such dates.

If there is any inconsistency between the information in this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus supplement to Oriental Financial Group, we, us, our or similar references mean Oriental Financial Group Inc.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). You may read and copy any document we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, our SEC filings are available to the public at the SEC's Internet site at <http://www.sec.gov> and on our website at <http://www.orientalfg.com>.

In this prospectus supplement, as permitted by law, we incorporate by reference information from other documents that we file with the SEC. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus supplement and should be read with the same care. When we update the information contained in documents that have been incorporated by reference by making future filings with the SEC, the information incorporated by reference in this prospectus supplement is considered to be automatically updated and superseded. In other words, in case of a conflict or inconsistency between information contained in this prospectus supplement and information incorporated by reference into this prospectus supplement, you should rely on the information contained in the document that was filed later.

We incorporate by reference the documents listed below and any documents we file with the SEC in the future under Section 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), until our offering is completed:

our Annual Report on Form 10-K for the year ended December 31, 2009 filed March 11, 2010;

our Preliminary Proxy Statement on Schedule 14A filed with the SEC on March 5, 2010;

our Current Reports on Form 8-K filed with the SEC on March 15, 2010 and March 16, 2010; and

the description of our common stock contained in our registration statement on Form 8-B, filed with the SEC on January 10, 1997, including any amendment or report filed for the purpose of updating such description.

Unless stated otherwise in the applicable report, information furnished under Item 2.02 or 7.01 of our Current Reports on Form 8-K is not incorporated by reference.

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You may request a copy of any of these filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, at no cost, by writing to or telephoning us at the following address:

Oriental Financial Group Inc.
Investor Relations c/o Anreder & Company
10 E. 40th Street, Suite 1308
New York, NY 10016
Telephone: (212) 532-3232 or (800) 421-1003
Fax: (212) 679-7999
E-mail: ofg@anreder.com

The information on our website and any other website that is referred to in this prospectus supplement is not part of this prospectus supplement.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the information incorporated by reference in this prospectus supplement and the accompanying prospectus may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Private Securities Litigation Reform Act). We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements of the Private Securities Litigation Reform Act. In some cases, you can identify these statements by our use of forward-looking words such as may, will, should, anticipate, estimate, expect, plan, believe, predict, project, forecasts, goals, could have, may have and similar expressions. You should be aware that these statements, any other forward-looking statements in these documents only reflect our expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions, which we describe in more detail elsewhere herein and in other documents filed by us with the SEC.

Various factors could cause actual results or outcomes to differ materially from our expectations. We wish to caution readers not to place undue reliance on any such forward-looking statements and to advise readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities, competitive, and regulatory factors, legislative changes and accounting pronouncements, could affect our financial performance and could cause our actual results for future periods to differ materially from those anticipated or projected. Further, any forward-looking statement speaks only as of the date on which it is made and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors, if any, will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by this cautionary note.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus supplement and may not contain all the information that you need to consider in making your investment decision. You should carefully read this entire prospectus supplement and the accompanying prospectus, as well as the information to which we refer you and the information incorporated by reference herein, before deciding whether to invest in the common stock. You should pay special attention to the Risk Factors section of this prospectus supplement to determine whether an investment in the common stock is appropriate for you.

About Oriental Financial Group Inc.

Oriental Financial Group Inc. is a diversified financial holding company headquartered in San Juan, Puerto Rico, offering a full range of financial services through its wholly owned subsidiaries Oriental Bank and Trust, Oriental Financial Services Corp., Oriental Insurance, Inc. and Caribbean Pension Consultants, Inc. As of December 31, 2009, we had total assets of \$6.6 billion, total loans of \$1.1 billion, total deposits of \$1.7 billion, and stockholders' equity of \$330.2 million. We also had \$1.8 billion of trust assets managed and \$1.3 billion of customer investment assets gathered, each as of December 31, 2009. We currently operate through a network of 21 financial centers located throughout Puerto Rico and one location in Boca Raton, Florida, which serves as the headquarters of our wholly owned subsidiary Caribbean Pension Consultants, Inc.

We have developed a financial services platform that provides a comprehensive suite of financial products and services for our retail and institutional customers. We have organized our operations under three business lines: Banking, Financial Services and Treasury. Our core businesses are mortgage banking, trust and money management services, financial planning, securities brokerage, investment banking, commercial banking, consumer banking and insurance brokerage. In order to more effectively compete, we have focused our retail and commercial banking and financial planning efforts on professionals and owners of small and mid-size businesses and on the mid and high net worth individuals and families in Puerto Rico. We believe these segments of the market have been largely underserved.

We have maintained our conservative underwriting culture, strong asset quality, and core profitability through the difficult economic cycle in Puerto Rico. We also significantly reduced the risk in our balance sheet by selling \$490 million of non-agency securities. We believe we are well positioned to capitalize on the market dislocation caused by the prolonged economic downturn in our market.

We have consistently been a leader in providing innovative banking products and services to the Puerto Rico market. In the 1990s, we were the first bank in Puerto Rico to establish a full service broker-dealer. We were also the first bank in Puerto Rico to offer Standard & Poor's indexed certificates of deposit, individual retirement accounts structured as a mutual fund, and checking accounts with overdraft privileges. Our long-term goal is to strengthen our banking and financial services franchise by expanding our lending business, increasing the level of integration in the marketing and delivery of banking and financial services, continuing to maintain effective asset-liability management, growing non-interest revenues from banking and financial services, and improving operating efficiencies.

Our strategy includes:

Capitalizing on the market dislocation in Puerto Rico to add core banking assets through acquisitions and organic growth;

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Strengthening our banking and financial services franchise by expanding our ability to attract deposits and build relationships with mid and high net worth individual customers and professionals, and mid-market commercial businesses through aggressive marketing and expansion of our sales force;

Focusing on greater growth in mortgage, commercial and consumer lending, trust and wealth management services, insurance products, and increasing the level of integration in the marketing and delivery of banking and financial services;

Participating in potential FDIC resolutions;

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Matching our portfolio of investment securities with the related funding to better lock-in favorable spreads, and primarily investing in U.S. government agency obligations;

Improving operating efficiencies, and continuing to maintain effective asset-liability management; and

Implementing a broad ranging effort to instill in employees and make customers aware of our determination to effectively serve and advise our customers in a responsive and professional manner.

Together with a highly experienced group of senior and mid level executives, this strategy has generally resulted in sustained growth in our mortgage, commercial, consumer lending and wealth-management activities, allowing us to distinguish ourselves in a highly competitive industry. We are not immune from general and local financial and economic conditions. Past experience is not necessarily indicative of future performance, especially given market uncertainties, but based on a reasonable time horizon of three to five years, we believe our strategy is expected to maintain its steady progress towards our long-term goal.

Oriental Bank and Trust

Our main operating subsidiary is Oriental Bank and Trust, a Puerto Rico full service commercial bank insured by the FDIC and a member of the Federal Home Loan Bank of New York.

Oriental Bank and Trust offers mortgage, commercial and consumer lending, demand, savings and time deposits, financial planning, and corporate and individual trust services in Puerto Rico. Through its trust department, Oriental Bank and Trust provides a complete range of fiduciary and custodial services to individuals, families and businesses. It has an international banking entity subsidiary, Oriental International Bank Inc., which offers Oriental Bank and Trust certain Puerto Rico tax advantages and its services are limited under Puerto Rico law to persons and assets/liabilities located outside of Puerto Rico. It also has a mortgage banking subsidiary, Oriental Mortgage Corporation, that offers mortgage loans in Puerto Rico.

Borrowings are Oriental Bank and Trust's largest interest-bearing liability component. Borrowings consist mainly of diversified funding sources including repurchase agreements, advances from the Federal Home Loan Bank of New York, and short-term borrowings. As of December 31, 2009, total borrowings amounted to \$4.0 billion. Deposits are the bank's second largest category of interest-bearing liabilities. At December 31, 2009, total deposits amounted to \$1.7 billion. Of the bank's total deposits, 80.5% are retail deposits, 7.8% are institutional deposits, and 11.7% are brokered deposits.

Residential mortgage loans (including mortgage loans held for sale) comprise the largest component of Oriental Bank and Trust's loan portfolio. Such loans represent 81% of the loan portfolio at December 31, 2009. The second largest component is commercial loans, which represent 17% of the portfolio. The third component is consumer loans, which represent 2% of the portfolio.

Oriental Trust, the bank's trust department, is a leader in retirement planning in Puerto Rico and is a significant player in Puerto Rico's financial planning market. We were the first bank in Puerto Rico to offer fixed and variable annuities and individual retirement accounts. We also offer Keogh and 401(k) retirement plans, deferred compensation plans, asset protection trusts, custodial services and other trust services. Our trust department had \$1.8 billion of trust assets managed as of December 31, 2009.

Oriental Financial Services

Oriental Financial Services Corp. is our securities brokerage and investment banking subsidiary. Through a highly trained and customer service focused employee base, Oriental Financial Services provides financial planning services to individuals and investment banking services, encompassing both public and corporate finance, to corporations and the Puerto Rico government. Oriental Financial Services offers its customers a wide array of investment alternatives such as tax-advantaged fixed income securities, mutual funds, and various other equity and fixed income securities. It also manages and participates in public offerings and private placements of debt and equity securities in Puerto Rico. Oriental Financial Services is a Puerto Rico corporation and a full service, registered broker-dealer.

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Oriental Insurance

Oriental Insurance, Inc. is a Puerto Rico corporation and a licensed insurance producer that offers, as agent for unaffiliated insurance companies, annuities and life insurance products, property and casualty insurance, and title insurance for individual and commercial clients. Oriental Insurance's licensed personnel has increasingly partnered with various business groups within the company to develop new insurance business opportunities and to better serve our clients.

Caribbean Pension Consultants

Caribbean Pension Consultants, Inc. is a Florida corporation headquartered in Boca Raton, Florida. It is engaged in the business of pension and retirement plan administration, focused on 401(k) and Keogh retirement plans in Puerto Rico, the United States, and the Bahamas. Caribbean Pension Consultants, Inc. is the largest third party administrator of pension and retirement accounts in Puerto Rico.

Our principal executive offices are located at Professional Offices Park, 997 San Roberto Street, San Juan, Puerto Rico, and our telephone number is (787) 771-6800. We maintain a website at <http://www.orientalfg.com>.

Recent Developments

Two-month Period Ended February 28, 2010

The following is a discussion of certain unaudited financial information as of and for the two-month period ended February 28, 2010. Our first quarter of 2010 has not yet concluded. Accordingly, all of the foregoing results are preliminary in nature and are based upon currently available information.

The foregoing results are also subject to further revision based upon final actual results for the entire quarter ending March 31, 2010 and upon our review and the review of our independent auditors of such quarterly results and an audit by our independent auditors of our annual results for the year ended December 31, 2010. Accordingly, no assurance can be given that, upon completion of our review and the review of our independent auditors, we will not report materially different financial results than those set forth below. In addition, we cannot assure you that our results for this period will be indicative of our results for the entire quarter ending March 31, 2010, or for the entire year ending December 31, 2010.

Results during the two-month period ended February 28, 2010 reflect similar trends as those experienced during the year ended December 31, 2009. As of February 28, 2010, we had total assets of approximately \$6.2 billion, total loans of approximately \$1.1 billion, total deposits of approximately \$1.8 billion, and stockholders' equity of approximately \$383.4 million. We also had, as of February 28, 2010, approximately \$1.7 billion of trust assets managed and approximately \$1.3 billion of customer investment assets gathered.

As of February 28, 2010, book value per share was \$13.05 and tangible common equity to tangible assets was 5.02%.

Financial highlights for the two-month period ended February 28, 2010 also include the following:

Net interest income for the two-month period ended February 28, 2010, increased 4.5% or approximately \$878,000, to approximately \$20.4 million compared to the same period in 2009. Total interest income for the two-month period ended February 28, 2010 decreased 16.9% or approximately \$9.6 million, to approximately \$47.1 million, primarily reflecting the sale of certain higher yielding securities as part of the

restructuring of our investment portfolio and holding higher levels of cash during the period. Total interest expense for the two-month period ended February 28, 2010 decreased 28.2% or approximately \$10.5 million, to \$26.7 million when compared to the same period in 2009, primarily as a result of a lower average cost on repurchase agreements.

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Core banking and financial service revenue for the two-month period ended February 28, 2010, increased 8.7% or approximately \$382,000, to approximately \$4.8 million compared to the same period in 2009, primarily reflecting increases in financial services and banking services offset by decreases in investment banking services and mortgage banking activities.

Non-interest expenses for the two-month period ended February 28, 2010, increased 7.3% or approximately \$916,000, to approximately \$13.5 million compared to the same period in 2009, largely the result of the industry-wide increase in FDIC insurance assessments.

Retail deposits as of February 28, 2010, increased 27.5% or approximately \$314.6 million, to approximately \$1.5 billion compared to the same period in 2009, benefiting from expanded market share which enabled us to reduce higher cost brokered and institutional deposits.

Brokered deposits as of February 28, 2010, decreased 62.4% or approximately \$264.2 million, to approximately \$159.4 million, and other wholesale institutional deposits as of February 28, 2010, decreased 12.3% or approximately \$21.3 million, to approximately \$152.5 million, in each case compared to February 28, 2009.

Mortgage production and purchases for the two-month period ended February 28, 2010 decreased 20.0% or approximately \$8.2 million, to approximately \$32.8 million, and commercial loan production for the two-month period ended February 28, 2010, decreased 24.2% or approximately \$1.3 million, to approximately \$4.0 million, in each case compared to the two-month period ended February 28, 2009. We sell most of our conforming mortgages, which represented approximately 90% of our production during the two-month period, into the secondary market, retaining servicing rights. As a result, mortgage banking activities reflect originations as well as a growing servicing portfolio.

Net credit losses for the two-month period ended February 28, 2010, decreased 11.4% or approximately \$117,000, to approximately \$909,000, representing 0.48% of average loans outstanding versus 0.51% for the same period in 2009. The allowance for loan losses stood at approximately \$25.0 million (2.18% of total loans) as of February 28, 2010, compared to approximately \$14.8 million (1.22% of total loans) as of February 28, 2009.

We maintain regulatory capital ratios well above the requirements for a well-capitalized institution. At February 28, 2010, the Leverage Capital Ratio was 6.45%, Tier-1 Risk-Based Capital Ratio was 19.96%, and Total Risk-Based Capital Ratio was 21.13%.

STATEMENT OF OPERATIONS DATA	Two-Month Period Ended February 28,	
	2010	2009
		(unaudited)
		(In thousands)
Net interest income	\$ 20,366	\$ 19,488
Provision for loan losses	2,662	1,500
Net interest income after provision for loan losses	17,704	17,988
Total non-interest income	4,792	4,764
Total non-interest expense	13,543	12,627
Income before income taxes	8,953	10,125

Income tax expense	1,013	647
Net income	7,940	9,478

Increase in Authorized Shares

Our Board of Directors has approved an amendment of our Certificate of Incorporation that increases the number of authorized shares of common stock from 40,000,000 to 100,000,000 and the number of authorized shares of preferred stock from 5,000,000 to 10,000,000. This amendment of our Certificate of Incorporation is subject to the approval of the stockholders of record on March 5, 2010 and will be voted on at our annual meeting of stockholders on April 30, 2010.

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Risk Factors

An investment in our common stock involves certain risks. You should carefully consider the risks described under **Risk Factors** beginning on page S-9 of this prospectus supplement and in the **Risk Factors** section included in our Annual Report on Form 10-K for the year ended December 31, 2009, as well as other information included or incorporated by reference into this prospectus supplement and the accompanying prospectus, including our financial statements and the notes thereto, before making an investment decision.

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The following summary contains basic information about the offering and our common stock and is not intended to be complete. It does not contain all the information that is important to you. For a more complete description of our common stock, please refer to the section of this prospectus supplement entitled "Description of Capital Stock."

Common stock offered	7,600,000 shares
Common stock outstanding after this offering	31,841,239 shares ⁽¹⁾⁽²⁾
Over-allotment option	We have granted the underwriters an option to purchase up to an additional 1,140,000 shares of common stock within 30 days of the date of this prospectus supplement to cover over-allotments, if any.
Use of proceeds	We expect to receive net proceeds from this offering of approximately \$81.5 million (or \$93.8 million if the underwriters exercise their over-allotment option in full) after deducting underwriting discounts and commissions and estimated expenses payable by us. We intend to use the net proceeds of this offering for general corporate purposes, which may include funding organic and acquisition growth opportunities, including possible participation in government assisted transactions in Puerto Rico. We may also contribute a portion of the net proceeds in the form of capital to Oriental Bank and Trust, which will use such amounts to bolster its regulatory capital needs and for general corporate purposes. For a more complete description, see "Use of Proceeds."
Dividends	Holders of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on the common stock, we are not required to do so. We expect to continue to pay dividends but our ability to pay future dividends at current levels will necessarily depend upon our earnings, financial condition, and market conditions. On March 2, 2010, we declared a quarterly cash dividend of \$0.04 per share of common stock for the first quarter ending March 31, 2010, payable on April 15, 2010 to the holders of record on March 31, 2010.
Conflict of interest	Oriental Financial Services Corp. has a conflict of interest as defined in Rule 2720(f)(5)(B) of the Financial Industry Regulatory Authority (FINRA). Accordingly, this offering will be made in compliance with FINRA Rule 2720. No underwriter having a FINRA Rule 2720 conflict of interest will confirm sales to any account over which the underwriter exercises discretionary authority without the specific written approval of the accountholder. Neither Keefe, Bruyette & Woods, Inc., who will act as sole book-running underwriter, nor any affiliates of Keefe, Bruyette & Woods, Inc., has a conflict of interest as defined in Rule 2720. Therefore, a qualified independent underwriter will not be necessary for this offering.
Market and trading symbol	Our common stock is listed and traded on the NYSE under the symbol OFG.
Settlement date	Delivery of shares of our common stock will be made against payment therefor on or about March 19, 2010.

(1) The number of shares of common stock outstanding immediately after the closing of this offering is based on 24,241,239 shares of common stock outstanding as of March 12, 2010.

- (2) Unless otherwise indicated, the number of shares of common stock presented in this prospectus supplement excludes shares issuable pursuant to the exercise of the underwriters' over-allotment option and 129,193 shares of common stock issuable under our 2007 Omnibus Performance Incentive Plan (the Omnibus Plan).

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The following tables set forth selected consolidated financial data for us as of and for each of the years in the five-year period ended December 31, 2009. The following tables also set forth selected financial ratios and other information as to each of the years in the five-year period ended December 31, 2009. The selected statement of operations data for the years ended December 31, 2009, 2008 and 2007, and the selected statement of financial condition data as of December 31, 2009 and 2008, have been derived from our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which is incorporated by reference in this prospectus supplement. The selected statement of operations data for the year ended December 31, 2006 and the selected statement of financial condition data as of December 31, 2007 and 2006 have been derived from our audited financial statements that are not included in this prospectus supplement. In 2005, we changed our fiscal year-end from June 30 to December 31. Our predecessor auditor audited the twelve months ended June 30, 2005 and our current auditor audited the six months ended December 31, 2005. As a result the selected statement of operations data for the year ended December 31, 2005 and the selected statement of financial condition data as of December 31, 2005 have been derived from combining these two periods and have not been audited.

You should read the summary selected consolidated financial data presented below in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the notes to those financial statements appearing in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which is incorporated by reference in this prospectus supplement.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(In thousands, except share, per share data and percentage)				
	(unaudited)				
STATEMENT OF OPERATIONS DATA:					
Earnings					
Interest income	\$ 319,401	\$ 339,039	\$ 289,364	\$ 232,311	\$ 201,534
Interest expense	188,468	227,728	215,634	188,185	127,456
Net interest income	130,933	111,311	73,730	44,126	74,078
Provision for loan losses	15,650	8,860	6,550	4,388	3,412
Net interest income after provision for loan losses	115,283	102,451	67,180	39,738	70,666
Non-interest income (loss)	(1,988)	(12,242)	42,502	17,238	28,920
Non-interest expenses	83,378	72,742	66,859	63,713	57,856
Income (loss) before taxes	29,917	17,467	42,823	(6,737)	41,730
Income tax (benefit) expense	6,972	(9,323)	1,558	(1,631)	(2,168)
Net Income (loss)	22,945	26,790	41,265	(5,106)	43,898
Less: dividends on preferred stock	(4,802)	(4,802)	(4,802)	(4,802)	(4,802)
Income available (loss) to common shareholders	\$ 18,143	\$ 21,988	\$ 36,463	\$ (9,908)	\$ 39,096

Per Share and Dividends Data⁽¹⁾

Earnings (loss) per common shares (diluted)	\$ 0.75	\$ 0.90	\$ 1.50	\$ (0.40)	\$ 1.56
Diluted weighted average common shares outstanding	24,306	24,327	24,367	24,663	25,083
Book value per common share	\$ 10.82	\$ 7.96	\$ 12.08	\$ 10.98	\$ 11.13
Tangible book value per common share	\$ 10.74	\$ 7.88	\$ 12.00	\$ 10.90	\$ 11.05
Market price at end of period	\$ 10.80	\$ 6.05	\$ 13.41	\$ 12.95	\$ 12.36
Cash dividends declared per common share	\$ 0.16	\$ 0.56	\$ 0.56	\$ 0.56	\$ 0.56

STATEMENT OF FINANCIAL CONDITION DATA:**Investments and Loans**

Investment securities	\$ 4,974,269	\$ 3,945,626	\$ 4,585,610	\$ 2,992,236	\$ 3,476,767
Loans and leases (including loans held-for-sale), net	1,140,069	1,219,112	1,179,566	1,212,370	903,308
Securities sold but not yet delivered		834,976		6,430	44,009

Deposits and Borrowings

Deposits	\$ 1,745,501	\$ 1,785,300	\$ 1,246,420	\$ 1,232,988	\$ 1,298,568
Repurchase agreements	3,557,308	3,761,121	3,861,411	2,535,923	2,427,880
Other borrowings	472,849	373,718	395,441	247,140	404,921
Securities purchased but not yet received	413,359	398	111,431		43,354

Stockholders Equity

Preferred equity	\$ 68,000	\$ 68,000	\$ 68,000	\$ 68,000	\$ 68,000
Common equity	262,166	193,317	291,461	268,426	273,791

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	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(In thousands, except share, per share data and percentage)				
	(unaudited)				
Asset Quality					
Allowance for loan losses to period-end loans	2.00%	1.16%	0.85%	0.66%	0.73%
Allowance for loan losses to period-end non-performing loans	22.3%	18.5%	15.4%	20.9%	23.3%
Non-performing assets to period-end loans and OREO ⁽²⁾	9.70%	6.97%	5.89%	3.52%	3.63%
Net charge-offs to average loans	0.57%	0.39%	0.37%	0.28%	0.49%
Capital Ratios					
Tangible common equity to tangible assets ⁽³⁾	3.97%	3.08%	4.82%	6.09%	5.98%
Leverage capital	6.52%	6.38%	6.69%	8.42%	10.13%
Tier 1 risk-based capital	18.79%	17.11%	18.59%	21.57%	34.70%
Total risk-based capital	19.84%	17.73%	19.06%	22.04%	35.22%
SELECTED FINANCIAL RATIOS AND OTHER INFORMATION:					
Return on average assets	0.35%	0.43%	0.76%	(0.11)%	0.77%
Return on average common equity	7.16%	9.51%	13.52%	(3.59)%	11.54%
Efficiency ratio	51.74%	52.65%	65.93%	84.69%	66.12%
Net interest margin	2.14%	1.86%	1.44%	0.98%	1.78%
Number of financial centers	21	23	25	25	24
Trust assets managed	\$ 1,818,498	\$ 1,706,286	\$ 1,962,226	\$ 1,848,596	\$ 1,875,300
Broker-dealer assets gathered	1,269,284	1,195,739	1,281,168	1,143,668	1,132,286
Assets managed	3,087,782	2,902,025	3,243,394	2,992,264	3,007,586
Assets owned	6,550,833	6,205,536	5,999,855	4,371,986	4,546,949
Total financial assets managed and owned	\$ 9,638,615	\$ 9,107,561	\$ 9,243,249	\$ 7,364,250	\$ 7,554,535

(1) Per share related information has been retroactively adjusted to reflect stock splits and stock dividends, when applicable.

- (2) Non-performing assets include loans 90 days past due.
- (3) Tangible common equity to tangible assets is calculated by dividing period-end common equity less period-end intangibles by period-end assets less period-end intangibles.

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RISK FACTORS

An investment in our common stock involves certain risks. Before making an investment decision, you should read carefully and consider the risk factors below relating to this offering. You should also refer to other information contained in or incorporated by reference in this prospectus supplement and accompanying prospectus, including the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2009 and our financial statements and related notes incorporated by reference herein. Additional risks and uncertainties not presently known to us at this time or that we currently deem immaterial may also materially and adversely affect our business, financial condition and results of operations.

Risks Related to Business

We may incur a significant impairment charge in connection with a decline in the market value of our investment securities portfolio, including our non-agency collateralized mortgage obligations and structured credit investments.

The majority of our earnings come from our Treasury business segment, which encompasses our investment securities portfolio. The determination of fair value for investment securities involves significant judgment due to the complexity of factors contributing to the valuation, many of which are not readily observable in the market. In addition, we utilize and review information obtained from third-party sources to measure fair values. Third-party sources also use assumptions, judgments and estimates in determining securities values, and different third parties may provide different prices for securities. Moreover, depending upon, among other things, the measurement date of the security, the subsequent sale price of the security may be different from its recorded fair value. These differences may be significant, especially if the security is sold during a period of illiquidity or market disruption.

When the fair value of a security declines, management must assess whether the decline is other-than-temporary. When the decline in fair value is deemed other-than-temporary, the amortized cost basis of the investment security is reduced to its then current fair value. On April 1, 2009, we adopted FASB Accounting Standard Codification (ASC) 320-10-65-1, which changed the accounting requirements for other than temporary impairments for debt securities and, in certain circumstances, separates the amount of total impairment into credit and noncredit-related amounts. The review takes into consideration current market conditions, issuer rating changes and trends, the credit worthiness of the obligator of the security, current analysts' evaluations, failure of the issuer to make scheduled interest or principal payments, our intent to not sell the security or whether it is more-likely-than-not that we will be required to sell the debt security before its anticipated recovery, as well as other qualitative factors. The term other than temporary impairments is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Any portion of a decline in value associated with credit loss is recognized in income with the remaining noncredit-related component being recognized in other comprehensive income. A credit loss is determined by assessing whether the amortized cost basis of the security will be recovered, by comparing the present value of cash flows expected to be collected from the security, computed using original yield as the discount rate, to the amortized cost basis of the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered to be the credit loss. Such impairment charges reflect non-cash losses at the time of recognition. Subsequent disposition or sale of such assets could further affect our future results of operations, as they are based on the difference between the sale prices received and adjusted amortized cost of such assets at the time of sale. The review of whether a decline in fair value is other-than-temporary considers numerous factors and many of these factors involve significant judgment.

Changes in interest rates may hurt our business.

Changes in interest rates is one of the principal market risks affecting us. Our income and cash flows depend to a great extent on the difference between the interest rates earned on interest-earning assets such as loans and investment securities, and the interest rates paid on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors that are beyond our control, including general economic conditions and the policies of various governmental and regulatory agencies (in particular, the Federal Reserve). Changes in

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monetary policy, including changes in interest rates, will influence the origination of loans, the prepayment speed of loans, the value of loans and investment securities, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits or other sources of funding.

We are at risk because most of our business is conducted in Puerto Rico, which is experiencing a downturn in the economy and in the real estate market.

Because most of our business activities are conducted in Puerto Rico and a substantial portion of our credit exposure is in Puerto Rico, we are at risk from adverse economic, political or business developments and natural hazards that affect Puerto Rico. Since 2006, the Puerto Rico economy has been experiencing recessionary conditions. Based on information published by the Puerto Rico Planning Board, the Puerto Rico real gross national product decreased 3.7% during the fiscal year ended June 30, 2009.

The Commonwealth of Puerto Rico government is currently addressing a fiscal deficit. It is implementing a multi-year budget plan for reducing the deficit, as its access to the municipal bond market and its credit ratings depend, in part, on achieving a balanced budget. Some of the measures implemented by the government included reducing expenses, including public-sector employment through employee layoffs. Since the government is an important source of employment on the Island, these measures could have the effect of intensifying the current recessionary cycle. The Puerto Rico Labor Department reported an unemployment rate of 14.3% for December 2009, compared with an unemployment rate of 13.1% for December 2008.

Pursuant to the Declaration of Fiscal Emergency and Omnibus Plan for Economic Stabilization and Restoration of the Puerto Rican Credit Act of March 2, 2009, for tax years beginning after December 31, 2008, and ending before January 1, 2012, every corporation engaged in trade or business in Puerto Rico, including banks, insurance companies, and international banking entities, will be subject to an additional 5% surcharge on corporate income tax. This temporary tax was enacted as a measure to generate additional revenues to address the fiscal crisis that the government of Puerto Rico is currently facing.

A period of reduced economic growth or a recession has historically resulted in a reduction in lending activity and an increase in the rate of defaults in commercial loans, consumer loans and residential mortgages. A recession may have a significant adverse impact on our net interest income and fee income. We may also experience significant losses on the loan portfolio due to a higher level of defaults on commercial loans, consumer loans and residential mortgages.

The decline in Puerto Rico's economy has had an adverse effect in the credit quality of our loan portfolios as delinquency rates have increased in the short-term and may continue to increase until the economy stabilizes. Among other things, we have experienced an increase in the level of our non-performing assets and loan loss provision, which adversely affects our profitability. If the decline in economic activity continues, additional increases in the allowance for loan losses could be necessary and there could be further adverse effects on our profitability. The reduction in consumer spending may also continue to impact growth in our other interest and non-interest revenue sources.

The level of real estate prices in Puerto Rico had been more stable than in other U.S. markets, but the current economic environment has accelerated the devaluation of properties and has increased portfolio delinquency when compared with previous periods. Additional economic weakness in Puerto Rico and the U.S. mainland could further pressure residential property values, loan delinquencies, foreclosures and the cost of repossessing and disposing of real estate collateral. The housing market has suffered a substantial slowdown in sales activity in recent quarters.

Financial results are constantly exposed to market risk.

Market risk refers to the probability of variations in the net interest income or the fair value of assets and liabilities due to changes in interest rates, currency exchange rates or equity prices. Despite the varied nature of market risks, the primary source of this risk to us is the impact of changes in interest rates on net interest income.

Net interest income is the difference between the revenue generated on earning assets and the interest cost of funding those assets. Depending on the duration and repricing characteristics of the assets, liabilities and off-balance sheet items, changes in interest rates could either increase or decrease the level of net interest income. For

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any given period, the pricing structure of the assets and liabilities is matched when an equal amount of such assets and liabilities mature or reprice in that period.

We use an asset-liability management software to project future movements in our balance sheet and income statement. The starting point of the projections generally corresponds to the actual values of the balance sheet on the date of the simulations. These simulations are highly complex, and use many simplifying assumptions.

We are subject to interest rate risk because of the following factors:

Assets and liabilities may mature or reprice at different times. For example, if assets reprice slower than liabilities and interest rates are generally rising, earnings may initially decline.

Assets and liabilities may reprice at the same time but by different amounts. For example, when the general level of interest rates is rising, we may increase rates charged on loans by an amount that is less than the general increase in market interest rates because of intense pricing competition. Also, basis risk occurs when assets and liabilities have similar repricing frequencies but are tied to different market interest rate indices that may not move in tandem.

Short-term and long-term market interest rates may change by different amounts, i.e., the shape of the yield curve may affect new loan yields and funding costs differently.

The remaining maturity of various assets and liabilities may shorten or lengthen as interest rates change. For example, if long-term mortgage interest rates decline sharply, mortgage-backed securities held in the securities available-for-sale portfolio may prepay significantly earlier than anticipated, which could reduce portfolio income. If prepayment rates increase, we would be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also has a significant impact on mortgage-backed securities and collateralized mortgage obligations, since prepayments could shorten the weighted average life of these portfolios.

Interest rates may have an indirect impact on loan demand, credit losses, loan origination volume, the value of financial assets and financial liabilities, gains and losses on sales of securities and loans, the value of mortgage servicing rights and other sources of earnings.

In limiting interest rate risk to an acceptable level, management may alter the mix of floating and fixed rate assets and liabilities, change pricing schedules, adjust maturities through sales and purchases of investment securities, and enter into derivative contracts, among other alternatives. We may suffer losses or experience lower spreads than anticipated in initial projections as management implement strategies to reduce future interest rate exposure.

The hedging transactions we enter into may not be effective in managing the exposure to market risk, including interest rate risk.

We offer certificates of deposit with an option tied to the performance of the Standard & Poor's 500 stock market index and we use derivatives, such as option agreements with major broker-dealer companies, to manage our exposure to changes in the value of the index. We may also use derivatives, such as interest rate swaps, to manage part of our exposure to market risk caused by changes in interest rates. The derivative instruments that we may utilize also have their own risks, which include: (1) basis risk, which is the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost; (2) credit or default risk, which is the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder; and (3) legal risk, which is the risk that we are unable to enforce certain terms of such instruments. All or any of such risks could expose us to

losses.

If a counterparty to a derivative contract fails to perform, our credit risk is equal to the net fair value of the contract. Although we deal with counterparties that have high quality credit ratings at the time we enter into the counterparty relationships, there can be no assurances that our counterparties will have the ability to perform under their contracts. If a counterparty fails to perform, including as a result of the bankruptcy or insolvency of a counterparty, we would incur losses as a result.

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Our risk management policies, procedures and systems may be inadequate to mitigate all risks inherent in our various businesses

A comprehensive risk management function is essential to the financial and operational success of our business. The types of risk we monitor and seek to manage include, but are not limited to, operational risk, market risk, fiduciary risk, legal and compliance risk, liquidity risk and credit risk. We have adopted various policies, procedures and systems to monitor and manage risk. There can be no assurance that those policies, procedures and systems are adequate to identify and mitigate all risks inherent in our various businesses. In addition, our businesses and the markets in which we operate are continuously evolving. If we fail to fully understand the implications of changes in our business or the financial markets and to adequately or timely enhance our risk framework to address those changes, we could incur losses.

A prolonged economic downturn or recession or a continuing decline in the real estate market would likely result in an increase in delinquencies, defaults and foreclosures and in a reduction in loan origination activity which would adversely affect our financial results

The residential mortgage loan origination business has historically been cyclical, enjoying periods of strong growth and profitability followed by periods of lower volumes and industry-wide losses. The market for residential mortgage loan originations is currently in decline, and this trend could also reduce the level of mortgage loans that we may originate in the future and may adversely impact our business. During periods of rising interest rates, refinancing originations for many mortgage products tend to decrease as the economic incentives for borrowers to refinance their existing mortgage loans are reduced. In addition, the residential mortgage loan origination business is impacted by home values. A recent trend of decreasing values in certain housing segments has also been noted. There is a risk that a reduction in housing values could negatively impact our loss levels on the mortgage portfolio because the value of the homes underlying the loans is a primary source of repayment in the event of foreclosure.

Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to sell loans, the price we receive on the sale of such loans, and the value of our mortgage loan portfolio, all of which could have a negative impact on our results of operations and financial condition. In addition, any material decline in real estate values would weaken our collateral loan-to-value ratios and increase the possibility of loss if a borrower defaults.

A continuing decline in the real estate market in the U.S. mainland and ongoing disruptions in the capital markets may harm our investment securities and wholesale funding portfolios

The housing market in the U.S. is undergoing a correction of historic proportions. After a period of several years of booming housing markets, fueled by liberal credit conditions and rapidly rising property values, the sector has been in the midst of a substantial correction since early 2007. The general level of property values in the U.S., as measured by several indices widely followed by the market, has declined. These declines are the result of ongoing market adjustments that are aligning property values with income levels and home inventories. The supply of homes in the market has increased substantially, and additional property value decreases may be required to clear the overhang of excess inventory in the U.S. market.

Our business could be adversely affected if we cannot maintain access to stable funding sources

Our business requires continuous access to various funding sources. While we are able to fund our operations through deposits as well as through advances from the Federal Home Loan Bank of New York and other alternative sources, our business is significantly dependent upon other wholesale funding sources, such as repurchase agreements and brokered deposits. While most of our repurchase agreements have been structured with initial terms to maturity of between three and ten years, the counterparties have the right to exercise put options before the contractual maturities.

Brokered deposits are typically sold through an intermediary to small retail investors. Our ability to continue to attract brokered deposits is subject to variability based upon a number of factors, including volume and volatility in the global securities markets, our credit rating and the relative interest rates that we are prepared to pay for these liabilities. Brokered deposits are generally considered a less stable source of funding than core deposits obtained through retail bank branches. Investors in brokered deposits are generally more sensitive to interest rates and will

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generally move funds from one depository institution to another based on small differences in interest rates offered on deposits.

Although we expect to have continued access to credit from the foregoing sources of funds, there can be no assurance that such financing sources will continue to be available or will be available on favorable terms. In a period of financial disruption such as the one currently being experienced in the U.S. financial system, or if negative developments occur with respect to us, the availability and cost of our funding sources could be adversely affected. In that event, our cost of funds may increase, thereby reducing our net interest income, or we may need to dispose of a portion of our investment portfolio, which, depending upon market conditions, could result in realizing a loss or experiencing other adverse accounting consequences upon the dispositions. Our efforts to monitor and manage liquidity risk may not be successful to deal with dramatic or unanticipated changes in the global securities markets or other reductions in liquidity driven by us or market related events. In the event that such sources of funds are reduced or eliminated and we are not able to replace them on a cost-effective basis, we may be forced to curtail or cease our loan origination business and treasury activities, which would have a material adverse effect on our operations and financial condition.

Our decisions regarding credit risk and the allowance for loan losses may materially and adversely affect our business and results of operations

Making loans is an essential element of our business and there is a risk that our loans will not be repaid. This default risk is affected by a number of factors, including:

the duration of the loan;

credit risks of a particular borrower;

changes in economic or industry conditions; and

in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

We strive to maintain an appropriate allowance for loan losses to provide for probable losses inherent in our loan portfolio. We periodically determine the amount of the allowance based on consideration of several factors such as default frequency, internal risk ratings, expected future cash collections, loss recovery rates and general economic factors, among others, as are the size and diversity of individual credits. Our methodology for measuring the adequacy of the allowance relies on several key elements which include a specific allowance for identified problem loans, a general systematic allowance, and an unallocated allowance.

Although we believe that our allowance for loan losses is currently sufficient given the constant monitoring of the risk inherent in our loan portfolio, there is no precise method of predicting loan losses and therefore we always face the risk that charge-offs in future periods will exceed our allowance for loan losses and that additional increases in the allowance for loan losses will be required. In addition, the FDIC as well as the Office of the Commissioner of Financial Institutions of Puerto Rico may require us to establish additional reserves. Additions to the allowance for loan losses would result in a decrease of our net earnings and capital and could hinder our ability to pay dividends.

We are subject to default and other risks in connection with our mortgage loan originations

From the time that we fund the mortgage loans we originate to the time we sell them, we are generally at risk for any mortgage loan defaults. Once we sell the mortgage loans, the risk of loss from mortgage loan defaults and foreclosures passes to the purchaser or insurer of the mortgage loans. However, in the ordinary course of business, we make

representations and warranties to the purchasers and insurers of mortgage loans relating to the validity of such loans. If there is a breach of any of these representations or warranties, we may be required to repurchase the mortgage loan and bear any subsequent loss on the mortgage loan. In addition, we incur higher liquidity risk with respect to the nonconforming mortgage loans originated by us, because of the lack of a favorable secondary market in which to sell them.

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Competition with other financial institutions could adversely affect our profitability

We face substantial competition in originating loans and in attracting deposits and assets to manage. The competition in originating loans and attracting assets comes principally from other U.S., Puerto Rico and foreign banks, investment advisors, broker/dealers, mortgage banking companies, consumer finance companies, credit unions, insurance companies, and other institutional lenders and purchasers of loans. We will encounter greater competition as we expand our operations. Increased competition may require us to increase the rates we pay on deposits or lower the rates we charge on loans which could adversely affect our profitability.

Legislative and other measures that may be taken by Puerto Rico governmental authorities could materially increase our tax burden or otherwise adversely affect our financial condition, results of operations or cash flows

We operate an international banking entity pursuant to the International Banking Center Regulatory Act of Puerto Rico that provides us with significant tax advantages. Our international banking entity has the benefits of exemptions from Puerto Rico income taxes on interest earned on, or gain realized from the sale of, non-Puerto Rico assets, including U.S. government obligations and certain mortgage backed securities. This exemption has allowed us to have effective tax rates significantly below the maximum statutory tax rates. In the past, the legislature of Puerto Rico has considered proposals to curb the tax benefits afforded to international banking entities. In the event legislation passed in Puerto Rico to eliminate or modify the tax exemption enjoyed by international banking entities, the consequences could have a materially adverse impact on us, including increasing our tax burden or otherwise adversely affecting our financial condition, results of operations or cash flows.

Competition in attracting talented people could adversely affect our operations

We depend on our ability to attract and retain key personnel and we rely heavily on our management team. The inability to recruit and retain key personnel or the unexpected loss of key managers may adversely affect our operations. Our success to date has been influenced strongly by our ability to attract and retain senior management experienced in banking and financial services. Retention of senior managers and appropriate succession planning will continue to be critical to the successful implementation of our strategies.

We may engage in FDIC-assisted transactions, which could present risk to our business

We may have opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions. Although these transactions typically provide for FDIC assistance to an acquirer to mitigate certain risks, such as sharing exposure to loan losses and providing indemnification against certain liabilities of the failed institution, we would still be subject to many of the same risks we would face in acquiring another bank in a negotiated transaction, including risks associated with maintaining customer relationships and failure to realize the anticipated acquisition benefits in the amounts and within the timeframes we expect. In addition, because these transactions are structured in a manner that would not allow us the time and access to information normally associated with preparing for and evaluating a negotiated transaction, we may face additional risk in FDIC-assisted transactions, including additional strain on management resources, management of problem loans, problems related to integration of personnel and operating systems and impact to our capital resources requiring us to raise additional capital. We may not be successful in overcoming these risks or any other problems encountered in connection with FDIC-assisted transactions. Our inability to overcome these risks could have a material effect on our business, financial condition and results of operations.

Changes in accounting standards issued by the Financial Accounting Standards Board (FASB) or other standard-setting bodies may adversely affect our financial statements

Our financial statements are subject to the application of our accounting principles generally accepted in the United States (GAAP), which are periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by FASB. Market conditions have prompted accounting standard setters to promulgate new guidance which further interprets or seeks to revise accounting pronouncements related to financial instruments, structures or transactions as well as to issue new standards

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expanding disclosures. The impact of accounting developments that have been issued but not yet implemented is disclosed in our annual reports on Form 10-K and our quarterly reports on Form 10-Q. An assessment of proposed standards is not provided as such proposals are subject to change through the exposure process and, therefore, the effects on our financial statements cannot be meaningfully assessed. It is possible that future accounting standards that we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material effect on our financial condition and results of operations.

The Company will likely be classified as a passive foreign investment company for United States federal income tax purposes, which would subject United States investors in the shares of common stock to adverse tax consequences.

In light of our significant portfolio of investment securities and taking into account the proceeds from this offering, the Company will likely be classified as a passive foreign investment company (a PFIC) for United States federal income tax purposes for the current taxable year and may be a PFIC in subsequent taxable years. PFIC status is a factual determination made annually after the close of each taxable year on the basis of the composition of the Company's income and the value of the Company's active versus passive assets. The overall level of the Company's passive assets will be significantly affected by changes in the amount of the Company's cash, cash equivalents and, securities held for investment, each of which may be classified as passive assets under the PFIC rules. If the Company were to be or become classified as a PFIC, a U.S. Holder (as defined in Material United States Federal Income Tax Considerations) may incur significantly increased United States income tax on gain recognized on the sale or other disposition of shares of common stock and on the receipt of distributions on the shares of common stock to the extent such gain or distribution is treated as an excess distribution under the United States federal income tax rules. See the section entitled Material United States Federal Income Tax Considerations Passive Foreign Investment Company Rules.

You are urged to consult your tax advisor concerning the United States federal income tax consequences of acquiring, holding, and disposing of shares of common stock if we are classified as a PFIC, including the possibility of making a mark-to-market election.

Risks Related to the Bank Regulatory Matters

We are subject to extensive regulation, examination, supervision, and potential enforcement actions by bank regulatory authorities.

As a bank holding company, we are subject to extensive regulation, examination, and potential enforcement actions by the Federal Reserve and Puerto Rico banking authorities. Our depository institution subsidiaries are also be subject to extensive regulations, examination and potential enforcement actions by applicable regulators. This regulation affects our operations and our subsidiaries. Potential investors should understand that the primary objective of the bank regulatory regime is the protection of depositors, not the protection of stockholders and investors. Any change in applicable federal or Puerto Rico laws or regulations could significantly affect our powers, authority and operations, and could have a material adverse effect on our financial condition and results of operations.

The banking regulators have broad and largely discretionary powers, which include prohibiting unsafe or unsound practices; requiring affirmative actions to correct any violation or practice; issuing administrative orders that can be judicially enforced; directing increases in capital; directing the sale of subsidiaries or other assets; limiting dividends and distributions; restricting growth; assessing civil monetary penalties; removing officers and directors; terminating deposit insurance; and granting or withholding required approvals for a wide range of corporate and operational matters. These actions and other regulatory requirements could have a material adverse effect on an investment in us.

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Banking laws require regulatory approvals and impose other requirements on any investor that is deemed to control us.

Any party that is deemed to control us for bank regulatory purposes would become subject to prior approval requirements and/or ongoing regulation and supervision. Applicable laws include the Bank Holding Company Act of 1956 and the Change in Bank Control Act. As a general matter, any investment in 10% or more of any class of our voting securities would require prior approval of the regulators. However, regulatory determinations of control are based on all of the relevant facts and circumstances and could occur at ownership levels less than 10%. For purposes of these laws, the regulators will aggregate ownership interests held by affiliated parties or parties deemed acting in concert.

The FDIC could condition our ability to acquire a failed depository institution on compliance by us and certain of our investors with additional requirements.

We may seek to acquire one or more failed depository institutions from the FDIC. As the agency responsible for resolving failed depository institutions, the FDIC has the discretion to determine whether a party is qualified to bid on a failed institution. On August 26, 2009, the FDIC adopted a Statement of Policy on Qualifications for Failed Bank Acquisitions (the Statement of Policy). The Statement of Policy sets forth a number of significant restrictions and requirements as a condition to the participation by certain private investors and institutions in the acquisition of failed depository institutions from the FDIC. If the Statement of Policy were deemed to apply to us, and we or our investors were unwilling to comply with conditions imposed by the FDIC, then we would not be permitted to acquire failed institutions from the FDIC.

As a bank holding company, we may be liable for an undercapitalized depository institution subsidiary.

Under federal law, any depository institution that becomes less than adequately capitalized must file an acceptable capital plan with its regulators. A bank holding company will be required to guarantee the capital plan filed by its subsidiary depository institution. If the subsidiary defaults under the plan, then the bank holding company may be required to contribute to the capital of the subsidiary an amount equal to the lesser of 5% of the bank's assets at the time it became undercapitalized or the amount necessary to bring the subsidiary into compliance with applicable capital standards.

Because of stresses on the Deposit Insurance Fund, the FDIC has recently imposed, and could impose in the future, additional assessments on the banking industry.

The current financial crisis has caused the Deposit Insurance Fund administered by the FDIC to fall below required minimum levels. Because the FDIC replenishes the Deposit Insurance Fund through assessments on the banking industry, we anticipate that the FDIC will likely maintain relatively high deposit insurance premiums for the foreseeable future. The FDIC has recently imposed a special deposit insurance assessment on the banking industry, and there can be no assurance that it will not do so again. It has also required banking organizations to pre-pay deposit insurance premiums in order to replenish the liquid assets of the Deposit Insurance Fund, and may impose similar requirements in the future. High insurance premiums and special assessments will adversely affect our profitability.

Changes in laws, regulations or policies could adversely affect us and our investors.

Federal, state, and local legislators and regulators regularly introduce measures or take actions that would modify the regulatory requirements applicable to banks, thrifts, their holding companies, and other financial institutions. For example, the U.S. Congress is currently considering various proposals that would involve broad changes in the structure of the federal financial regulatory system. Changes in laws, regulations, or regulatory policies could change

the operating environment for us in substantial and unpredictable ways.

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Risks Related to Our Common Stock and this Offering

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive.

The price of our common stock on NYSE constantly changes. We expect that the market price of our common stock will continue to fluctuate and there can be no assurances about the market prices for our common stock.

Our stock price may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

our past and future dividend practice;

our financial condition, performance, creditworthiness and prospects;

quarterly variations in our operating results or the quality of our assets;

operating results that vary from the expectations of management, securities analysts and investors;

changes in expectations as to our future financial performance;

announcements of innovations, new products, strategic developments, significant contracts, acquisitions and other material events by us or our competitors;

the operating and securities price performance of other companies that investors believe are comparable to us;

future sales of our equity or equity-related securities;

the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally; and

changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity or real estate valuations or volatility and other geopolitical, regulatory or judicial events.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

Except as described under "Underwriting," we are not restricted from issuing additional common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The issuance of any additional shares of common stock or preferred stock or securities convertible into, exchangeable for or that represent the right to receive common stock or the exercise of such securities could be substantially dilutive to stockholders of our common stock. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series.

The market price of our common stock could decline as a result of this offering as well as sales of shares of our common stock made after this offering. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of

our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

Offerings of debt, which would be senior to our common stock upon liquidation, and/or preferred equity securities which may be senior to our common stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of our common stock.

We may attempt to increase our capital resources or, if Oriental Bank and Trust's capital ratios fall below the required minimums, we or Oriental Bank and Trust could be forced to raise additional capital by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred

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stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

Our Board of Directors is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the stockholders. Our Board of Directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our common stock with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. If we issue preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

You may not receive dividends on the common stock.

Holders of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock.

Anti-takeover provisions could negatively impact our stockholders.

Provisions of the law of the Commonwealth of Puerto Rico and provisions of our amended and restated articles of incorporation and amended and restated by-laws could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. Additionally, our amended and restated articles of incorporation authorizes our Board of Directors to issue additional series of preferred stock and such preferred stock could be issued as a defensive measure in response to a takeover proposal. These provisions could make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our stockholders.

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USE OF PROCEEDS

We expect to receive net proceeds from this offering of approximately \$81.5 million (or \$93.8 million if the underwriters exercise their over-allotment option in full) after deducting underwriting discounts and commissions and estimated expenses payable by us. We intend to use the net proceeds of this offering for general corporate purposes, which may include funding organic and acquisition growth opportunities, including possible participation in government assisted transactions in Puerto Rico. We may also contribute a portion of the net proceeds in the form of capital to Oriental Bank and Trust, which will use such amounts to bolster its regulatory capital needs and for general corporate purposes.

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Table of Contents**CAPITALIZATION**

The following table sets forth our consolidated capitalization, per share common stock book value and regulatory capital ratios, each as of December 31, 2009 and as adjusted to give effect to the issuance of the common stock offered hereby.

	As of December 31, 2009	
	Actual	As Adjusted⁽¹⁾
	(In thousands, except share and per share data)	
Total debt and borrowings	\$ 4,030,157	\$ 4,030,157
Stockholders' equity		
Preferred stock, par value \$1.00 per share; 5,000,000 shares authorized ⁽²⁾ ; 1,340,000 shares of Noncumulative Monthly Income Preferred Stock, Series A issued and outstanding; 1,380,000 shares of Noncumulative Monthly Income Preferred Stock, Series B issued and outstanding	68,000	68,000
Common stock, par value \$1.00 per share; 40,000,000 shares authorized ⁽²⁾ ; 25,739,397 shares issued and 24,235,088 shares outstanding, actual; 33,339,397 shares issued and 31,835,088 shares outstanding, as adjusted	25,739	33,339
Additional paid-in capital	213,445	287,320
Retained earnings (deficit)	77,584	77,584
Legal surplus	45,279	45,279
Treasury stock, at cost 1,504,309 shares	(17,142)	(17,142)
Accumulated other comprehensive loss	(82,739)	(82,739)
Total stockholders' equity	330,166	411,641
Total capitalization	\$ 4,360,323	\$ 4,441,798
Per share of common stock		
Book value per share	\$ 10.82	\$ 10.79
Tangible book value per share	\$ 10.74	\$ 10.73
Capital ratios		
Tangible common equity to tangible assets	3.97%	5.15%
Leverage capital	6.52%	7.80%
Tier 1 risk-based ratio	18.79%	22.31%
Total risk-based capital ratio	19.84%	23.36%

- (1) Assumes that 7,600,000 shares of our common stock are sold in this offering at \$11.40 per share and that the net proceeds thereof are approximately \$81.5 million after deducting underwriting discounts and commissions and our estimated expenses. If the underwriters' over-allotment option is exercised in full, common stock and additional paid-in capital will increase to \$34.5 million and \$298.5 million, respectively.
- (2) Our Board of Directors has approved an amendment of our Certificate of Incorporation that increases the number of authorized shares of common stock from 40,000,000 to 100,000,000 and the number of authorized shares of preferred stock from 5,000,000 to 10,000,000. This amendment of our Certificate of Incorporation is subject to the approval of the stockholders of record on March 5, 2010 and will be voted on at our annual meeting of stockholders on April 30, 2010.

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PRICE RANGE OF COMMON STOCK

Our common stock is listed and traded on NYSE under the symbol OFG. As of March 15, 2010, the last reported sale price of our common stock on NYSE was \$11.58. As of March 12, 2010, there were approximately 116 stockholders of record.

The following table presents the high and low closing sales price per share of our common stock during certain periods, as reported on NYSE, and the cash dividends declared on the common stock.