ORIENTAL FINANCIAL GROUP INC
Form 10-Q/A
August 08, 2003

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q/A

(Amendment No. 1)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarter Ended December 31, 2002

Commission File No. 001-12647

Oriental Financial Group Inc.

Incorporated in the Commonwealth of Puerto Rico

IRS Employer Identification No. 66-0538893

Principal Executive Offices:

1000 San Roberto Street
Professional Office Park, S.E.
Río Piedras, Puerto Rico 00926
Telephone Number: (787) 771-6800

Number of shares outstanding of the registrant s common stock, as of the latest practicable date:

17,352,236 common shares ($1.00 par value per share) outstanding as of December 31, 2002

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ý No o.

PART I FINANCIAL INFORMATION

Item 2 - Management s Discussion and Analysis of

Financial Condition and Results of Operations

TABLES INDEX:

SELECTED FINANCIAL DATA

FOR THE QUARTERS AND SIX-MONTH ENDED DECEMBER 31, 2002 AND 2001

(In thousands, except for per share information)

	Quarter Period			Six-Month Period		
	2002	**2001***	**Variance %**	**2002**	**2001***	**Variance %**
EARNINGS, PER SHARE AND DIVIDENDS DATA:						
Interest income	$ 37,851	$ 34,829	8.7%	$ 75,566	$ 67,774	11.5%
Interest expense	19,414	20,586	-5.7%	38,962	42,526	-8.4%
Net interest income	**18,437**	**14,243**	**29.4%**	**36,604**	**25,248**	**45.0%**
Provision for loan losses	1,100	525	109.5%	1,940	1,167	66.2%
Net interest income after provision for loan losses	**17,337**	**13,718**	**26.4%**	**34,664**	**24,081**	**43.9%**
Non-interest income	8,592	8,235	4.3%	16,160	15,373	5.1%
Non-interest expenses	(12,471)	(11,048)	12.9%	(25,309)	(21,902)	15.6%
Income before taxes	**13,458**	**10,905**	**23.4%**	**25,515**	**17,552**	**45.4%**
Income tax expense	(943)	(532)	77.3%	(1,426)	(571)	149.7%
Net income	**12,515**	**10,373**	**20.6%**	**24,089**	**16,981**	**41.9%**
Less: dividends on preferred stock	(597)	(597)		(1,193)	(1,193)	
Net income available to common shareholders	**$ 11,918**	**$ 9,776**	**21.9%**	**$ 22,896**	**$ 15,788**	**45.0%**
Income per common share (1):						
Basic	**$ 0.69**	**$ 0.57**	**20.1%**	**$ 1.33**	**$ 0.92**	**43.9%**
Diluted	**$ 0.65**	**$ 0.55**	**18.3%**	**$ 1.25**	**$ 0.88**	**41.4%**
Average shares and potential shares (1)	**18,430**	**17,881**	**3.1%**	**18,360**	**17,903**	**2.6%**
Book value per common share (1)				**$ 9.23**	**$ 5.69**	**62.0%**
Market price at end of period (1)				**$ 19.664**	**$ 13.527**	**45.4%**
Cash dividends declared per common share (1)	**$ 0.140**	**$ 0.109**	**28.5%**	**$ 0.260**	**$ 0.218**	**19.2%**
Cash dividends declared on common shares	**$ 2,430**	**$ 1,861**	**30.6%**	**$ 4,500**	**$ 3,730**	**20.6%**
PERIOD END BALANCES AND CAPITAL RATIOS:						
Total financial assets						
Trust assets managed				$ 1,284,254	$ 1,455,466	-11.8%
Broker-dealer assets gathered				894,270	1,043,254	-14.3%

Assets managed				**2,178,524**		**2,498,720**	**-12.8%**
Group total assets				2,805,611		2,328,369	20.5%
			$	**4,984,135**	**$**	**4,827,089**	**3.3%**
Interest-earning assets							
Investments and securities			$	2,049,220	$	1,672,391	22.5%
Loans (including loans held-for-sale), net				666,390		561,882	18.6%
			$	**2,715,610**	**$**	**2,234,273**	**21.4%**
Interest-bearing liabilities							
Deposits			$	951,331	$	875,405	8.7%
Repurchase agreements				1,247,288		988,176	26.2%
Other borrowings				261,000		205,000	27.3%
			$	**2,459,619**	**$**	**2,068,581**	**18.9%**
Stockholders equity							
Preferred equity			$	33,500	$	33,500	
Common equity				160,076		98,218	63.0%
			$	**193,576**	**$**	**131,718**	**47.0%**
Capital Ratios:							
Leverage capital				**7.96%**		**7.92%**	
Total risk-based capital				**23.74%**		**22.72%**	
Tier 1 risk-based capital				**23.32%**		**22.34%**	
<u>SELECTED FINANCIAL RATIOS AND OTHER INFORMATION:</u>							
Return on average assets (ROA)	**1.87%**	**1.85%**		**1.86%**		**1.57%**	
Return on average common equity (ROE)	**31.25%**	**38.77%**		**31.19%**		**33.82%**	
Efficiency ratio	**48.76%**	**50.52%**		**50.57%**		**57.32%**	
Expense ratio	**0.82%**	**0.80%**		**0.97%**		**0.91%**	
Interest rate spread	**2.97%**	**2.70%**		**3.02%**		**2.46%**	
Number of financial centers				**23**		**21**	

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(1) Data adjusted to give retroactive effect to the stock dividend declared on the Group s common stock.

**** Certain reclassifications were made to conform figures to current period presentation.***

SELECTED FINANCIAL DATA

FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2002 AND 2001

(Dollars in thousands)

TABLE 1 - FISCAL YEAR-TO-DATE ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE:

	Interest		Variance	Average rate		Variance	Average balance		Variance
	2002	2001*	in %	2002	2001*	in BP	2002	2001*	in %
A TAX EQUIVALENT SPREAD									
Interest-earning assets	$ 75,566	$ 67,774	11.50%	6.41%	6.73%	-32	$ 2,358,551	$ 2,014,300	17.09%
Tax equivalent adjustment	26,764	13,661	95.92%	2.27%	1.36%	91			0.00%
Interest-earning assets tax equivalent	**102,330**	**81,435**	**25.66%**	**8.68%**	**8.09%**	**59**	**2,358,551**	**2,014,300**	**17.09%**
Interest-bearing liabilities	38,962	42,526	-8.38%	3.39%	4.27%	-88	2,299,736	1,994,138	15.32%
Net interest income / spread	**$ 63,368**	**$ 38,909**	**62.86%**	**5.29%**	**3.82%**	**147**	**$ 58,815**	**$ 20,162**	**191.71%**
B - NORMAL SPREAD									
Interest-earning assets:									
Investments:									
Investment securities	$ 50,114	$ 44,152	13.5%	5.95%	6.25%	-30	1,684,227	$ 1,412,504	19.24%
Investment management fees	(696)	(668)	4.2%	-0.08%	-0.09%	-1			0.00%
Total investment securities	49,418	43,484	13.6%	5.87%	6.16%	-29	1,684,227	1,412,504	19.24%
Trading securities	483	1,635	-70.5%	5.06%	6.85%	-179	19,095	47,768	-60.03%
Money market investments	218	687	-68.3%	1.94%	3.78%	-184	22,531	36,367	-38.05%
	50,119	**45,806**	**9.4%**	**5.81%**	**6.12%**	**-31**	**1,725,853**	**1,496,639**	**15.32%**
Loans:									
Real estate (1)	22,406	18,906	18.5%	7.85%	8.11%	-26	570,673	466,297	22.38%
Consumer	1,452	1,608	-9.7%	14.44%	14.70%	-26	20,114	21,873	-8.04%
Commercial	1,591	1,446	10.0%	7.63%	10.05%	-242	41,679	28,766	44.89%
Financing leases (2)	(2)	8	-125.0%	-1.72%	2.21%	-393	232	725	-68.00%
	25,447	**21,968**	**15.8%**	**8.04%**	**8.49%**	**-45**	**632,698**	**517,661**	**22.22%**

	75,566	**67,774**	**11.5%**	**6.41%**	**6.73%**	**-32**	**2,358,551**	**2,014,300**	**17.09%**
Interest-bearing liabilities:									
Deposits:									
Non-interest bearing deposits						0	52,206	46,951	11.19%
Now Accounts	613	766	-20.0%	2.04%	3.93%	-189	60,245	38,946	54.69%
Savings	751	1,060	-29.2%	1.82%	2.64%	-82	82,553	80,335	2.76%
Time and IRA accounts	15,969	16,246	-1.7%	4.01%	4.70%	-69	797,019	690,867	15.37%
	17,333	**18,072**	**-4.1%**	**3.49%**	**4.22%**	**-73**	**992,023**	**857,099**	**15.74%**
Borrowings:									
Repurchase agreements	9,099	14,083	-35.4%	1.73%	2.99%	-126	1,051,081	942,927	11.47%
Interest rate risk management	7,185	6,078	18.2%	1.37%	1.29%	8			0.00%
Financing fees	151	112	34.8%	0.03%	0.02%	1			0.00%
Total repurchase agreements	**16,435**	**20,273**	**-18.9%**	3.13%	4.30%	-117	**1,051,081**	**942,927**	**11.47%**
FHLB funds and term notes	4,179	4,116	1.5%	3.77%	4.30%	-53	221,632	191,447	15.77%
Subordinated Capital Notes	1,015	65	1461.5%	5.80%	4.88%	92	35,000	2,665	1213.32%
	21,629	**24,454**	**-11.6%**	**3.31%**	**4.30%**	**-99**	**1,307,713**	**1,137,039**	**15.01%**
	38,962	**42,526**	**-8.4%**	**3.39%**	**4.27%**	**-88**	**2,299,736**	**1,994,138**	**15.32%**
Net interest income / spread	**$ 36,604**	**$ 25,248**	**45.0%**	**3.02%**	**2.46%**	**56**			
Interest rate margin				**3.11%**	**2.51%**	**60**			
Excess of interest-earning assets over interest-bearing liabilities							**$ 58,815**	**$ 20,162**	**191.71%**
Interest-earning assets over interest-bearing liabilities ratio							**102.56%**	**101.01%**	

	Volume	**Rate**	**Total**
C. Changes in net interest income due to:			
Interest Income:			
Loans (1)	$ 4,883	$ (1,404)	$ 3,479
Investments	7,014	(2,701)	4,313
	11,897	**(4,105)**	**7,792**
Interest Expense:			
Deposits	2,847	(3,586)	(739)
Borrowings	3,669	(6,494)	(2,825)
	6,516	**(10,080)**	**(3,564)**

Net Interest Income	**$**	**5,381**	**$**	**5,975**	**$**	**11,356**

*** Certain reclassifications were made to conform figures to current period presentation.**

(1) - Real estate averages include loans held-for-sale.

(2) - Discontinued in June 2000.

SELECTED FINANCIAL DATA

FOR THE QUARTERS ENDED DECEMBER 31, 2002 AND 2001

(Dollars in thousands)

TABLE 1A - QUARTERLY ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE:

	Interest			Average rate			Average balance		
	2002	**2001***	**Variance in %**	**2002**	**2001***	**Variance in BP**	**2002**	**2001***	**Variance in %**
A TAX EQUIVALENT SPREAD									
Interest-earning assets	$ 37,851	$ 34,829	8.68%	6.27%	6.69%	-42	$ 2,416,028	$ 2,081,000	16.10%
Tax equivalent adjustment	13,389	7,124	87.94%	2.22%	1.37%	85			0.00%
Interest-earning assets tax equivalent	**51,240**	**41,953**	**22.14%**	**8.49%**	**8.06%**	**43**	**2,416,028**	**2,081,000**	**16.10%**
Interest-bearing liabilities	19,414	20,586	-5.69%	3.30%	3.99%	-69	2,354,481	2,063,650	14.09%
Net interest income / spread	**$ 31,826**	**$ 21,367**	**48.95%**	**5.19%**	**4.07%**	**112**	**$ 61,547**	**$ 17,350**	**254.74%**
B NORMAL SPREAD									
Interest-earning assets:									
Investments:									
Investment securities	$ 24,985	$ 22,933	8.9%	5.86%	6.17%	-31	$ 1,706,643	$ 1,485,697	14.87%
Investment management fees	(287)	(354)	-18.9%	-0.07%	-0.10%	-3			0.00%
Total investment securities	24,698	22,579	9.4%	5.79%	6.08%	-29	1,706,643	1,485,697	14.87%
Trading securities	177	344	-48.5%	3.87%	6.59%	-272	18,283	20,895	-12.50%
Money market investments	164	232	-29.3%	1.90%	3.19%	-129	34,474	29,094	18.49%
	25,039	**23,155**	**8.1%**	**5.69%**	**6.03%**	**-34**	**1,759,400**	**1,535,686**	**14.57%**
Loans:									
Real estate (1)	11,303	9,998	13.1%	7.59%	8.14%	-55	595,325	491,338	21.16%
Consumer	702	802	-12.5%	14.26%	14.68%	-42	19,689	21,848	-9.88%
Commercial	807	870	-7.2%	7.80%	11.06%	-326	41,408	31,455	31.64%
Financing leases (2)		4	-100.0%	0.00%	2.38%	-238	206	673	-69.39%
	12,812	**11,674**	**9.7%**	**7.80%**	**8.56%**	**-76**	**656,628**	**545,314**	**20.41%**

	37,851	**34,829**	**8.7%**	**6.27%**	**6.69%**	**-42**	**2,416,028**	**2,081,000**	**16.10%**
Interest-bearing liabilities:									
Deposits:									
Non-interest bearing deposits						0	53,896	47,729	12.92%
Now Accounts	292	479	-39.0%	1.85%	3.79%	-194	62,979	50,546	24.60%
Savings	352	479	-26.5%	1.68%	2.41%	-73	83,590	79,639	4.96%
Time and IRA accounts	7,868	7,873	-0.1%	3.99%	4.43%	-44	788,954	710,677	11.01%
	8,512	**8,831**	**-3.6%**	**3.44%**	**3.98%**	**-54**	**989,419**	**888,591**	**11.35%**
Borrowings:									
Repurchase agreements	4,494	5,903	-23.9%	1.62%	2.38%	-76	1,108,678	993,126	11.64%
Interest rate risk management	3,742	3,840	-2.6%	1.35%	1.55%	-20			0.00%
Financing fees	75	56	33.9%	0.03%	0.02%	1			0.00%
Total repurchase agreements	**8,311**	**9,799**	**-15.2%**	3.00%	3.95%	-95	**1,108,678**	**993,126**	**11.64%**
FHLB funds and term notes	2,088	1,891	10.4%	3.77%	4.28%	-51	221,384	176,602	25.36%
Subordinated Capital Notes	503	65	673.8%	5.75%	4.88%	87	35,000	5,331	556.54%
	10,902	**11,755**	**-7.3%**	**3.19%**	**4.00%**	**-81**	**1,365,062**	**1,175,059**	**16.17%**
	19,414	**20,586**	**-5.7%**	**3.30%**	**3.99%**	**-69**	**2,354,481**	**2,063,650**	**14.09%**
Net interest income / spread	**$ 18,437**	**$ 14,243**	**29.4%**	**2.97%**	**2.70%**	**27**			
Interest rate margin				**3.06%**	**2.73%**	**33**			
Excess of interest-earning assets over interest-bearing liabilities							**$ 61,547**	**$ 17,350**	**254.74%**
Interest-earning assets over interest-bearing liabilities ratio							**102.61%**	**100.84%**	

	Volume	Rate	Total
C. Changes in net interest income due to:			
Interest Income:			
Loans (1)	$ 2,382	$ (1,244)	$ 1,138
Investments	3,372	(1,488)	1,884
	5,754	**(2,732)**	**3,022**
Interest Expense:			
Deposits	1,003	(1,322)	(319)
Borrowings	1,900	(2,753)	(853)
	2,903	**(4,075)**	**(1,172)**

Net Interest Income	**$**	**2,851**	**$**	**1,343**	**$**	**4,194**

*** Certain reclassifications were made to conform figures to current period presentation.**

(1) - Real estate averages include loans held-for-sale.

(2) - Discontinued in June 2000.

SELECTED FINANCIAL DATA

FOR THE QUARTERS AND SIX-MONTHS ENDED DECEMBER 31, 2002 AND 2001

(Dollars in thousands)

	Quarter Period			Six-Month Period		
	2002	2001*	Variance %	2002	2001*	Variance %
TABLE 2 - NON-INTEREST INCOME SUMMARY						
Trust, money management, brokerage and insurance fees	$ 3,974	$ 4,014	-1.0%	$ 6,813	$ 7,190	-5.2%
Mortgage banking activities	1,709	1,775	-3.7%	3,651	3,518	3.8%
Non-banking service revenues	5,683	5,789	-1.8%	10,464	10,708	-2.3%
Fees on deposit accounts	1,037	533	94.6%	2,066	1,066	93.8%
Bank service charges and commissions	381	441	-13.6%	772	849	-9.1%
Other operating revenues	40	11	263.6%	140	17	723.5%
Bank service revenues	1,458	985	48.0%	2,978	1,932	54.1%
Securities net activity	2,056	2,401	-14.4%	6,388	2,731	133.9%
Trading net activity	120	(278)	143.2%	540	828	-34.8%
Derivatives activity	(725)	(766)	-5.4%	(3,990)	(930)	329.0%
Securities, derivatives and trading activities	1,451	1,357	6.9%	2,938	2,629	11.8%
Leasing revenues (discontinued June 2000)			0.0%			0.0%
Loss on sale of premises and equipment			0.0%	(220)		-100.0%
Gain on sale of loans		104	-100.0%		104	-100.0%
Other non-interest income		104	-100.0%	(220)	104	-311.5%
Total non-interest income	**$ 8,592**	**$ 8,235**	**4.3%**	**$ 16,160**	**$ 15,373**	**5.1%**
TABLE 3 - NON-INTEREST EXPENSES SUMMARY						
Fixed compensation	$ 3,851	$ 3,208	20.0%	$ 7,670	$ 6,401	19.8%
Variable compensation	675	574	17.6%	1,498	1,053	42.3%
Compensation and benefits (1)	4,526	3,782	19.7%	9,168	7,454	23.0%
Stock option cancellation			0.0%		800	-100.0%
Total compensation and benefits	4,526	3,782	19.7%	9,168	8,254	11.1%

Occupancy and equipment		2,193		2,024	8.3%		4,353		3,987	9.2%
Advertising and business promotion		1,783		1,765	1.0%		3,583		2,853	25.6%
Professional and service fees		1,517		975	55.6%		3,344		2,007	66.6%
Communications		397		340	16.8%		821		734	11.9%
Municipal and other general taxes		388		432	-10.2%		776		866	-10.4%
Insurance, including deposits insurance		205		154	33.1%		347		278	24.8%
Printing, postage, stationery and supplies		236		184	28.3%		510		392	30.1%
Other operating expenses (1)		1,226		1,392	-11.9%		2,407		2,531	-4.9%
Other non-interest expenses		7,945		7,266	9.3%		16,141		13,648	18.3%
Total non-interest expenses	**$**	**12,471**	**$**	**11,048**	**12.9%**	**$**	**25,309**	**$**	**21,902**	**15.6%**
Relevant ratios and data:										
Compensation and benefits to non-interest expenses (1)		**36.3%**		**34.2%**			**36.2%**		**34.0%**	
Variable compensation to total compensation (1)		**14.9%**		**15.2%**			**16.3%**		**14.1%**	
Compensation to total assets (1)		**0.65%**		**0.65%**			**0.65%**		**0.64%**	
Average compensation per employee (annualized) (1)	**$**	**40.5**	**$**	**36.6**		**$**	**42.0**	**$**	**36.6**	
Average number of employees (2)		**447**		**413**			**437**		**407**	
Bank assets per employee	**$**	**6,277**	**$**	**5,638**		**$**	**6,420**	**$**	**5,721**	
Total work force (2):										
Banking operations							417		352	
Trust operations							22		26	
Brokerage and Insurance operations							52		59	
							491		**437**	

*** Certain reclassifications were made to conform figures to current period presentation.**

(1) Excludes non-cash stock options cancellation charges.

(2) Includes contracted services.

SELECTED FINANCIAL DATA

FOR THE QUARTERS AND SIX-MONTHS ENDED DECEMBER 31, 2002 AND 2001

(Dollars in thousands)

	Quarter Period				Change in	Six-Month Period				Change in
	2002		2001		%	2002		2001		%
TABLE 4 - ALLOWANCE FOR LOAN LOSSES SUMMARY										
Beginning balance	$	3,300	$	2,920	13.0%	$ 3,039	$	2,856		6.4%
Provision for loan losses		1,100		525	109.5%	1,940		1,167		66.2%
Net credit losses see Table 5		(499)		(408)	22.3%	(1,078)		(986)		9.3%
Ending balance	**$**	**3,901**	**$**	**3,037**	**28.4%**	**$ 3,901**	**$**	**3,037**		**28.4%**
Selected Data and Ratios:										
Outstanding gross loans at December 31,	$	670,291	$	564,919	18.7%	$ 670,291	$	564,919		18.7%
Recoveries to net charge-off s		**33.6%**		**35.8%**	**-6.4%**	**30.4%**		**30.4%**		**-0.2%**
Allowance coverage ratio										
Total loans						**0.58%**		**0.54%**		**8.3%**
Non-performing loans						**14.35%**		**16.26%**		**-11.8%**
Non-real estate non-performing loans						**233.73%**		**195.05%**		**19.8%**
TABLE 5 - NET CREDIT LOSSES STATISTICS										
Real estate										
Charge-offs	$		$		0.0%	$	$	(14)		-100.0%
Recoveries										0.0%
					0.0%			**(14)**		**-100.0%**
Consumer										
Charge-offs		(349)		(370)	-5.7%	(758)		(693)		9.4%
Recoveries		95		88	8.0%	218		178		22.5%
		(254)		**(282)**	**-9.9%**	**(540)**		**(515)**		**4.9%**
Commercial										
Charge-offs					0.0%					0.0%
Recoveries		10		10	0.0%	36		20		80.0%
		10		**10**	**0.0%**	**36**		**20**		**80.0%**
Leasing (1)										
Charge-offs		(28)		(127)	-78.0%	(58)		(236)		-75.4%
Recoveries		75		68	10.3%	137		159		-13.8%
		47		**(59)**	**-179.7%**	**79**		**(77)**		**202.6%**

Overdraft									
Charge-offs		(374)		(139)	169.1%		(732)		(474)	54.4%
Recoveries		72		62	16.1%		79		74	6.8%
		(302)		**(77)**	**292.2%**		**(653)**		**(400)**	**63.3%**
Net credit losses										
Total charge-offs		(751)		(636)	18.1%		(1,548)		(1,417)	9.2%
Total recoveries		252		228	10.5%		470		431	9.0%
	$	**(499)**	**$**	**(408)**	**22.3%**	**$**	**(1,078)**	**$**	**(986)**	**9.3%**
Net credit losses (recoveries) average ratio:										
Real estate		0.00%		0.00%			0.00%		0.01%	
Consumer		5.16%		5.16%			5.37%		4.71%	
Commercial		-0.10%		-0.12%			-0.17%		-0.13%	
Leasing		-91.26%		35.07%			-68.10%		21.24%	
Total		**0.30%**		**0.29%**			**0.34%**		**0.38%**	
Average loans:										
Real estate	$	595,325	$	491,338	21.2%	$	570,673	$	466,297	22.4%
Consumer		19,689		21,848	-9.9%		20,114		21,873	-8.0%
Commercial		41,408		31,455	31.6%		41,679		28,766	44.9%
Leasing		206		673	-69.4%		232		725	-68.0%
Total	**$**	**656,628**	**$**	**545,314**	**20.4%**	**$**	**632,698**	**$**	**517,661**	**22.2%**

(1) Discontinued in June 2000.

SELECTED FINANCIAL DATA

FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2002 AND 2001

(Dollars in thousands)

	Six-Month Period				Change in
		2002		2001	%
TABLE 6 - ALLOWANCE FOR LOSSES BREAKDOWN:					
Consumer (including overdrafts)	$	1,760	$	1,249	40.9%
Commercial		351		427	-17.8%
Financing leases (1)		33		197	-83.2%
Non-real estate		**2,144**		**1,873**	**14.5%**
Real estate		1,757		1,164	50.9%
	$	**3,901**	**$**	**3,037**	**28.4%**
Allowance composition:					
Consumer (including overdrafts)		45.1%		41.1%	
Commercial		9.0%		14.1%	
Financing leases (1)		0.9%		6.5%	
Non-real estate		**55.0%**		**61.7%**	
Real estate		45.0%		38.3%	
		100.0%		**100.0%**	
TABLE 7 - NON-PERFORMING ASSETS:					
Non-performing assets:					
Non-performing loans	$	27,188	$	18,674	45.6%
Foreclosed real estate		410		727	-43.6%
Repossessed autos		12			100.0%
	$	**27,610**	**$**	**19,401**	**42.3%**
Non-performing assets to total assets		**0.98%**		**0.83%**	**18.1%**
TABLE 8 - NON-PERFORMING LOANS:					
Non-performing loans:					
Consumer (including overdrafts)	$	520	$	571	-8.9%
Financing leases (1)		63		367	-82.8%
Commercial		1,074		564	90.4%
Other		12		55	-78.2%
Non-real estate		**1,669**		**1,557**	**7.2%**
Real estate		25,519		17,117	49.1%
Total	**$**	**27,188**	**$**	**18,674**	**45.6%**

Non-performing loans composition:			
Consumer (including overdrafts)	1.9%	3.1%	-37.4%
Financing leases (1)	0.2%	2.0%	-88.2%
Commercial	4.0%	3.0%	30.8%
Other	0.0%	0.3%	-85.0%
Non-real estate	**6.1%**	**8.0%**	**-23.7%**
Real estate	93.9%	91.7%	2.4%
Total	**100.0%**	**100.0%**	**0.0%**
Non-performing loans to:			
Total loans	**4.06%**	**3.31%**	**22.7%**
Total assets	**0.97%**	**0.80%**	**20.8%**
Total capital	**14.05%**	**14.18%**	**-0.9%**

(1) Discontinued in June 2000.

SELECTED FINANCIAL DATA

AS OF DECEMBER 31, 2002, 2001 and JUNE 30, 2002

(Dollars in thousands)

	December 31, 2002	December 31, 2001	Variance %	June 30, 2002
TABLE 9 - BANK ASSETS SUMMARY AND COMPOSITION				
Investments:				
Mortgage-backed securities	$ 1,969,728	$ 1,540,979	27.8%	$ 1,673,131
U.S. Government and agency obligations	3,501	46,812	-92.5%	3,481
P.R. Government and agency obligations	47,714	42,509	12.2%	52,706
Other debt Securities	10,079	9,200	9.6%	9,765
Short-term investments	878	15,683	-94.4%	1,032
FHLB stock	17,320	17,208	0.7%	17,320
	2,049,220	**1,672,391**	**22.5%**	**1,757,435**
Loans:				
Real estate, mainly residential	621,518	495,781	25.4%	511,633
Consumer	19,750	21,692	-9.0%	22,077
Commercial	15,355	10,296	49.1%	41,205
Financing leases (1)	152	592	-74.3%	295
Loans receivable	**656,775**	**528,361**	**24.3%**	**575,210**
Allowance for loan losses	(3,901)	(3,037)	28.4%	(3,039)
Loans receivable, net	**652,874**	**525,324**	**24.3%**	**572,171**
Loans held for sale	13,516	36,558	-63.0%	9,360
Total loans receivable, net	**666,390**	**561,882**	**18.6%**	**581,531**
Securities and loans sold but not yet delivered	16,884		100.00%	71,750
Total securities and loans	**2,732,494**	**2,234,273**	22.3%	**2,410,716**
Other assets	73,117	94,096	-22.3%	78,425
Total assets	**$ 2,805,611**	**$ 2,328,369**	**20.5%**	**$ 2,489,141**
Investments portfolio composition:				
Mortgage-backed securities	96.1%	92.1%		95.2%
U.S. and P.R. Government securities	2.5%	5.3%		3.2%
FHLB stock and other investments	1.4%	2.6%		1.6%
	100.0%	**100.0%**		**100.0%**
Loan portfolio composition:				
Real estate, mainly residential	94.7%	94.2%		89.1%
Consumer	2.9%	3.8%		3.8%
Commercial	2.3%	1.8%		7.0%

Financing leases (1)	0.1%	0.2%	0.1%
	100.0%	**100.0%**	**100.0%**

(1) Discontinued in June 2000

SELECTED FINANCIAL DATA

AS OF DECEMBER 31, 2002, 2001 and JUNE 30, 2002

(Dollars in thousands)

	December 31, 2002	December 31, 2001	Variance %	June 30, 2002
TABLE 10 - LIABILITIES SUMMARY AND COMPOSITION				
Deposits:				
Non-interest bearing deposits	55,995	49,870	12.3%	$ 67,142
Now Accounts	64,643	60,609	6.7%	43,738
Savings Accounts	82,410	82,216	0.2%	79,269
Time deposits and IRA accounts	746,206	680,577	9.6%	777,083
	949,254	**873,272**	**8.7%**	**967,232**
Accrued interest	2,077	2,132	-2.6%	1,618
	951,331	**875,404**	**8.7%**	**968,850**
Borrowings:				
Repurchase agreements	1,247,288	988,177	26.2%	996,869
FHLB funds	211,000	155,000	36.1%	208,200
Subordinated Capital Notes	35,000	35,000	0.0%	35,000
Term notes	15,000	15,000	0.0%	15,000
	1,508,288	**1,193,177**	**26.4%**	**1,255,069**
Securities purchased but not yet received	**90,550**	**89,507**	**1.2%**	**56,195**
Total deposits and borrowings	**2,550,169**	**2,158,088**	**18.2%**	**2,280,114**
Other liabilities	61,866	38,563	60.4%	42,598
Total liabilities	**$ 2,612,035**	**$ 2,196,651**	**18.9%**	**$ 2,322,712**
Deposits portfolio composition:				
Savings and demand deposits	5.9%	5.7%		6.9%
Time deposits and IRA accounts	78.4%	77.7%		80.2%
Accrued Interest	15.7%	16.6%		12.9%
	100.0%	**100.0%**		**100.0%**
Borrowings portfolio composition:				
Repurchase agreements	82.7%	82.8%		79.4%
FHLB funds	14.0%	13.0%		16.6%
Subordinated Capital Notes	2.3%	2.9%		2.8%
Term notes and other sources of funds	1.0%	1.3%		1.2%
	100.0%	**100.0%**		**100.0%**

SELECTED FINANCIAL DATA

AS OF DECEMBER 31, 2002, 2001 and JUNE 30, 2002

(Dollars in thousands, except for per share data)

		December 31, 2002		December 31, 2001	Variance %		June 30, 2002
TABLE 11 - CAPITAL, DIVIDENDS AND STOCK DATA							
Capital data:							
Stockholders equity	$	193,576	$	131,718	47.0%	$	166,429
Leverage Capital (minimum required - 4.00%)		7.96%		7.92%	0.4%		7.80%
Total Risk-Based Capital (minimum required - 8.00%)		23.74%		22.72%	4.5%		22.10%
Tier 1 Risk-Based capital (minimum required - 4.00%)		23.32%		22.34%	4.4%		21.76%
Stock data:							
Outstanding common shares, net of treasury (1)		17,352		17,059	1.7%		17,208
Book value (1)	$	9.23	$	5.76	60.2%	$	7.72
Market Price at end of period (1)	$	19.664	$	13.528	45.4%	$	20.288
Market capitalization	$	341,210	$	230,767	47.9%	$	349,106
Common dividend data:							
Cash dividends declared	$	4,500	$	3,730	20.6%	$	7,842
Cash dividends declared per share	$	0.260	$	0.218	19.2%	$	0.458
Payout ratio		19.65%		23.63%	-16.8%		21.74%
Dividend yield		1.34%		1.62%	-17.4%		2.93%

The following provides the high and low prices and dividend per share of the Group s stock for each quarter of the last three fiscal periods. Common stock prices and cash dividend per share were adjusted to give retroactive effect to the stock dividends declared on the Group s common stock.

	Price					Cash Dividend Per share
		High		Low		
Fiscal 2003						
December 31, 2002	$	20.61	$	15.88	$	0.1400
September 30, 2002 (1)	$	20.19	$	16.60	$	0.1200
Fiscal 2002 (1):						
June 30, 2002	$	20.29	$	16.04	$	0.1200

March 31, 2002	$	17.40	$	13.33	$	0.1200
December 31, 2001	$	15.13	$	13.02	$	0.1091
September 30, 2001	$	15.89	$	12.22	$	0.1091
Fiscal 2001 (1):						
June 30, 2001	$	13.82	$	9.38	$	0.1091
March 31, 2001	$	10.77	$	9.27	$	0.1091
December 31, 2000	$	10.96	$	8.00	$	0.1091
September 30, 2000	$	11.27	$	8.55	$	0.1091

		December 31, 2002		December 31, 2001	Variance %		June 30, 2002
TABLE 12 - FINANCIAL ASSETS SUMMARY							
Financial assets:							
Trust assets managed	$	1,284,254	$	1,455,466	-11.8%	$	1,382,268
Assets gathered by broker-dealer		894,270		1,043,254	-14.3%		1,118,181
Managed assets		**2,178,524**		**2,498,720**	**-12.8%**		**2,500,449**
Group assets		2,805,611		2,328,369	20.5%		2,489,141
	$	**4,984,135**	**$**	**4,827,089**	**3.3%**	**$**	**4,989,590**

(1) Adjusted to give retroactive effect to the stock dividends declared on the Group s common stock.

OVERVIEW OF FINANCIAL PERFORMANCE

Net income for the quarter ended December 31, 2002, was $12.5 million ($0.65 diluted per share), an increase of 20.6 percent from the $10.4 million ($0.55 diluted per share) reported in the quarter ended December 31, 2001. For the first six months of fiscal 2003 ended on December 31, 2002, net income was $24.1 million, a robust increase of 41.9 percent compared with the $17.0 million reported for the same period of previous fiscal year 2002.

The return on assets (ROA) grew to 1.86 percent for the six months period ended December 31, 2002, compared to 1.57 percent for the same period of fiscal 2002. Likewise, ROA for the quarter ended December 31, 2002 grew to 1.87 percent from 1.85 percent the prior year comparable quarter. Return on equity (ROE) slipped to 31.19 percent from 33.82 percent for the six month period, and to 31.25 percent from 38.77 percent, for the quarterly period.

Interest income increased 8.7 percent, from $34.8 million in the quarter ended December 31, 2001, to $37.9 million in the quarter ended December 31, 2002. On the other hand, interest expense declined 5.7 percent, from $20.6 million for the quarter ended December 31, 2001, to $19.4 million for the quarter ended December 31, 2002, as a result of lower cost of funds. The quarterly provision for loan losses increased 109.5 percent, from $525,000 for the December 2001 quarter to $1.1 million for the December 2002 quarter, reflecting the impact of the loan portfolio growth.

Favorable interest rate levels during fiscal year 2003, plus management s emphasis on secured lending, facilitated improvements in the Group s performance and earnings forecast. Quarterly net interest income, after provision for loan losses, increased 26.4% to reach $17.3 million, compared to $13.7 million in the quarter ended December 31, 2001. For the six months ended December 31, 2002, net interest increased by 43.9 percent to $34.7 million from $24.1 million.

Brokerage, trust and insurance revenues remain flat at $4.0 million reported in the December 2001 and 2002 quarters. For the six month period ended December 31, 2002 brokerage, trust and insurance revenues decreased 5.2 percent, from $7.2 million reported for the same period of prior fiscal 2002, to $6.8 million, also driven by a 5.4% decrease on our brokerage activity reflecting the decline of the equity markets.

Revenues from mortgage-banking activities decreased 3.7 percent, from $1.8 million for the December 2001 quarter, to $1.7 million for the December 2002 quarter, even though mortgage production increased 1.6 percent, from $89.9 million for the quarter ended December 31, 2001, to $91.4 million for the quarter ended December 31, 2002. Revenues decreased because of management s current strategy to maintain a larger portion of its production in portfolio instead of selling it on the secondary market, consequently deferring the recognition of the amount of fees derived from the sale of loans.

Non-interest expenses increased 12.9 percent from $11.0 million for the quarter ended December 31, 2001, to $12.5 million for the quarter ended December 31, 2002. The increase is attributable to the Group s new strategic positioning during the past year, which has included the opening of new and the remodeling of financial centers, aggressive advertising, investments in technology, professional fees for consulting engagements related to new services, and increased variable compensation to encourage insurance and financial product sales and mortgage loan originations.

Total financial assets (which includes assets managed by the trust department and broker-dealer subsidiary) increased 3.3 percent to $4.984 billion as of December 31, 2002, compared to $4.827 billion as of December 30, 2001. Assets managed by the Group s trust department and broker-dealer subsidiary decreased 12.8 percent year-to-year to $2.179 billion from $2.499 billion reflecting the impact of the overall equity market downturn. In contrast, the Group s bank assets increased a 20.5 percent, reaching $2.806 billion as of December 31, 2002, versus $2.328 billion as of December 30, 2001.

The Group s strategy to re-align the asset mix, giving greater emphasis to the loan portfolio over the investment portfolio, was started to materialize. The loan portfolio grew by 18.6 percent to $666.4 million as of December 31, 2002, compared to $561.9 million for the same period of fiscal 2002. Most of the growth came from residential mortgage loans and commercial loans which increased by 25.4% and 49.1%, respectively.

On the liability side, deposits increased 8.7 percent from $875.4 million as of December 31, 2001 to $951.3 million as of December 31, 2002, as the Group aggressively continues to expand its banking business within its ongoing strategy to position itself as a financial planning service provider.

Finally, stockholders equity as of December 31, 2002, was $193.6 million, increasing 47.0 percent from $131.7 million as of December 31, 2001. This increase mainly reflects the impacts of net income, net of dividend declared, and of the mark-to-market valuation related to investments available-for-sale and cash flow hedge derivative activities.

Net Interest Income

Net interest income is affected by the difference between rates earned on the Group s interest-earning assets and rates paid on its interest-bearing liabilities (interest rate spread) and the relative amounts of its interest-earning assets and interest-bearing liabilities (interest rate margin). As further discussed in the Risk Management section of this report, the Group constantly monitors the composition and reprising of its assets and liabilities to maintain its net interest income at adequate levels.

For the second quarter of fiscal 2003, the Group s net interest income amounted to $18.4 million, up 29.4% from $14.2 million in the same period of fiscal 2002. This increase in net interest income was due to a positive rate variance of $1.3 million that stems from the impact of low interest rate levels resulting in a lower average cost of funds (3.30% in fiscal 2003 versus 3.99% in fiscal 2002), combined with a positive volume variance of $2.9 million. For the six-month period ended December 31, 2002, net interest income amounted to $36.6 million, up 45% from $25.2 million for the six-month period ended December 31, 2001. This increase was due to a positive rate variance of $6.0 million that also resulted from the impact of the Federal Reserve Board s interest rate cuts resulting in a lower average cost of funds (3.39% for the six-month period ended December 31, 2002, versus 4.27% in the same period of fiscal 2002), combined also with a positive volume variance of $5.4 million.

Interest rate spread rose 27 basis points during the second quarter of fiscal 2003, to 2.97% from 2.70% in the second quarter of fiscal 2002. For the six-month period ended December 31, 2002, the interest rate spread rose 56 basis points (to 3.02%) when compared with the same period of fiscal 2002 (2.46%). This was mainly due to: (1) a decrease in the average cost of funds; and (2) a change in the mix of interest-earning assets toward a higher volume of secured mortgage loans. Tables 1 and 1A provide information on the major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates.

The Group s interest income for the second quarter of fiscal 2003 totaled $37.9 million, up 8.7% from $34.8 million posted in the same period of fiscal 2002. The increase in interest income results from a larger volume of average interest-earning assets ($2.416 billion in fiscal 2003 versus $2.081 billion in fiscal 2002) tempered by a decline in their yield performance (6.27% in fiscal 2003 versus 6.69% in fiscal 2002). For the six-month periods ended December 31, interest income increased 11.5% from $67.8 million reported in fiscal 2002, to $75.6 million reported in fiscal 2003. The increase in interest income results from a larger volume of average interest-earning assets ($2.359 billion in fiscal 2003 versus $2.014 billion in fiscal 2002), tempered by a decline in their yield performance (6.41% in fiscal 2003 versus 6.73% in fiscal 2002).

For the second quarter of fiscal 2003, the average volume of total investments grew by 14.57% ($1.759 billion in fiscal 2003 versus $1.536 billion in fiscal 2002) when compared to the same period a year earlier. This increase was concentrated in mortgage-backed securities. The average volume of total loans grew by 20.41% ($656.6 million in fiscal 2003 versus $545.3 million in fiscal 2002) when compared to the same period a year earlier. This increase was concentrated in residential loans as the Group continued to take advantage of favorable market conditions. The average volume of real estate loans grew by 21.16% from $491.3 million in fiscal 2002 to $595.3 million in fiscal 2003.

For the second quarter of fiscal 2003, the average yield on interest-earning assets was 6.27%, 42 basis points lower than the 6.69% reported a year ago. Likewise, the average yield on interest-earning assets was 6.41%, 32 basis points lower than the 6.73% reported in fiscal 2002 when comparing both six-month periods ended on December 31. The quarterly and six-month period yield dilution experienced was mainly related to: (i) the expansion of Group s investment portfolio, which carries a lower yield than the loan portfolio but provides less risk and generates a significant amount of tax-exempt interest; and (ii) a decrease on the yield of the loan portfolio; reflecting the decrease in market rates (7.80%

and 8.04% for the second quarter and the six month periods ended December 31, 2002, versus 8.56% and 8.49%, respectively, for the same periods of fiscal 2002).

Interest expense for the second quarter and six-month periods of fiscal 2003 narrowed 5.7% and 8.4%, respectively (to $19.4 million and $39.0 million in fiscal 2003, from $20.6 million and $42.5 million in fiscal 2002). A lower average cost of funds of 3.30% and 3.39% for the second quarter and six-month periods ended December 31, 2002 versus 3.99% and 4.27% for the same periods in fiscal 2002, respectively), drove the decreases. Larger volumes of repurchase agreements and deposits, which were necessary to fund the growth of the Group s loan and investment portfolios, drove an increase in average interest-bearing liabilities. See Tables 1 and 1A for the impact in interest expense due to changes in volume and rate.

The cost of short-term financing has substantially decreased, reflecting the decline on market rates. For the quarter ended December 31, 2002, the cost of borrowings decreased 81 basis points (3.19% in fiscal 2003 versus 4.00% in fiscal 2002). This funding category experienced its larger cost reduction of 95 basis point in repurchase agreements, 3.00% for the quarter ended December 2002 versus 3.95% for the same quarter of fiscal 2002. Equally, the year to date cost decreased 99 basis points, (from 4.30% to 3.31%) mainly due to a lower average cost of repurchase agreements, which dropped 117 basis points, from 4.30% for the six-month period of fiscal 2002, to 3.13% for the same period of fiscal 2003.

Non-Interest Income

As a diversified financial services provider (see Table 2), the Group s earnings depend not only on the net interest income generated from its banking activity, but also from fees and other non-interest income generated from the wide array of financial services offered. Non-interest income, the second largest source of earnings, is affected by the level of trust assets under management, transactions generated by gathering of financial assets by the broker-dealer subsidiary, investment banking, and the level of mortgage banking activities, fees generated from loans and deposit accounts and insurance.

Non-interest income rose to $8.6 million or 4.3% in the second quarter of fiscal 2003, compared to $8.2 million in the second quarter of fiscal 2002. For the six-month period ended December 31, 2002, the increase was 5.1% (to $16.1 million in fiscal 2003, from $15.4 million in fiscal 2002) when compared to the six-month period ended December 31, 2001.

Trust, money management, brokerage and insurance fees, one of the principal components of non-interest income, remained flat during the second quarters of fiscal 2003 and 2002. When comparing both six-month periods, they decreased by 5.2%, declining from $7.2 million in fiscal 2002, to $6.8 million in fiscal 2003,reflecting the impact of the overall equity market downturn.

For the second quarter of fiscal 2003, gains generated by mortgage banking activities slightly decreased to $1.7 million, a 3.7% lower than the $1.8 million reported for the second quarter of fiscal 2002. During this period the Group adopted a new strategy to hold mortgage loans instead of converting them into securities to re-align the asset mix, giving greater emphasis to the loan portfolio growth, consequently deferring the recognition of the amount of fees derived from the sale or conversion of these loans. In contrast to the six month period ended December 31, 2002, mortgage banking activities revenues reflects a slight increase of 3.8% ($3.6 million in fiscal 2003 compared to $3.5 million in fiscal 2002) reflecting the impact of the strategy in place before the recently adopted strategy mentioned above.

Bank service fees and other operating revenues consist primarily of fees generated by deposit accounts, electronic banking and customer services. These revenues totaled $1.5 million in the second quarter of fiscal 2003, a 48.0% increase versus $985,000 reported in the same period of fiscal 2002. This increase is mainly due to fees on deposits accounts which almost doubled from $533,000 to $1.0 million in the second quarter of fiscal 2003, reflecting the expansion of the deposits base (see Liabilities and Funding Sources). For the six month period of fiscal 2003, bank service revenues increased a robust 54.1%, from $1.9 million in fiscal 2002, to $3.0 million in the same period of fiscal 2003.

As shown in Table 2, revenues on securities, derivatives and trading activities for the second quarter and six month periods ended on December 31, 2002 and 2001, reflects a moderate fluctuation. The net revenue for the second quarter was $1.5 million for fiscal 2003, compared to $1.4 million for the same period of fiscal 2002. For the six month period the net activity was $2.9 million for fiscal 2003 versus $2.7 million for the comparable period of fiscal 2002. The most significant fluctuation related to a loss of $4.0 million on derivatives activities for the six month period of fiscal 2003, a considerable increase from a loss of $930,000 for the same period of fiscal 2002 as the expectation is that interest rates will not rise in the near future, causing the market value of derivatives (primarily interest rate caps) to decrease. For more information see Derivatives and Hedging Activities on note 5 to the unaudited Consolidated Financial Statements.

Non-Interest Expenses

As shown in Table 3, non-interest expenses for the second quarter of fiscal 2003 increased 12.9% to $12.5 million, from $11.0 million in the comparable period of fiscal 2002. For the six-month period, the increase was 15.6%, this is $25.3 million for fiscal 2003, compared to $21.9 million for the same period of fiscal 2002. The increase is attributable to the Group s new strategic positioning during the past year, which has included the opening of new and the remodeling of financial centers, aggressive advertising, investment in technology, professional fees for consulting engagements related to new services and the outsourcing of certain internal procedures, and increase in variable compensation to encourage insurance and financial products sales and mortgage loan originations.

Employee compensation and benefits is the Group s largest non-interest expense category. For the second quarter and six month period of fiscal 2003, the increase was 19.7% and 23.0% respectively, to $4.5 million and $9.2 million versus $3.8 million and $7.5 million for the same period of fiscal 2002. Refer to Table 3 for more selected data regarding employee compensation and benefits reflecting an expansion of the work force and increasing variable compensation (commissions) to encourage higher volume of business.

Provision for Loan Losses

The provision for loan losses for the second quarter and six-month period of fiscal 2003 totaled $1.1 million and $1.9 million respectively, up 109.5% and 66.2% from the $525,000 and $1.2 million reported for the same periods of fiscal 2002. The increase is in direct relationship with the growth of the loan portfolio that had augmented 18.6% when compared to the same period of previous fiscal year, combined with an increase of 45.6% in non-performing loans, mainly real estate loans (see Table 8). However, the net credit loss ratio remained at 0.30% for the quarters ended on December of fiscal 2003 and 2002, and decreased from .38% to .34% for the six month period of fiscal 2002 and 2003, respectively.

During the second quarter of fiscal 2000, the Group re-defined its lending strategy towards lower credit risk loans collateralized by real estate, while de-emphasizing unsecured personal loans and financing leases. Such strategy responded to the level of credit losses being experienced on personal loans and financing leases that significantly reduced the net margin (after credit losses) generated by such portfolio. Such strategy was further complemented with the sale of approximately $169 million of unsecured personal loans and financing leases on July 7, 2000, maintaining only a marginal amount of such loans and leases in its portfolio. After the sale, the Group discontinued its leasing operation. The positive effect of this strategy was reflected in a substantial reduction in consumer loans and financing leases net credit losses. Financing leases credit losses after fiscal 2000, relates to a small portion of leases in severe delinquency that were retained by the Group after the sale of such portfolio. As previously mentioned, thereafter the Group discontinued originating financial leases and let the remaining portfolio to run-off. Charge-off of those leases took place when all collection efforts were exhausted and the underlying collateral became worthless.

Please refer to the allowance for loan losses and non-performing assets section on Table 4 to Table 8 for a more detailed analysis of the allowance for loan losses, net credit losses and credit quality statistics. Also refer to section Allowance for Loan Losses and Non-performing Assets .

Provision for Income Taxes

The Group recognized a provision for income tax of $943,000 and $1.4 million for the second quarter and six-month periods of fiscal 2003 compared with a provision of $532,000 and $571,000 for the same periods of fiscal 2002. This is in direct relationship with an increase of 23.4% and 45.4% in income before taxes for, the second quarter and six month periods of fiscal 2003, respectively. The current income tax provision is lower than the provision based on the statutory tax rate for the Group, which is 39%, due to the high level of tax-advantage interest income earned on certain investments and loans, net of the disallowance of related expenses attributable to the exempt income.

FINANCIAL CONDITION

Group s Assets

At December 31, 2002, the Bank s total assets (including holding company) amounted to $2.806 billion, an increase of 20.5% and 12.7%, when compared to $2.328 billion a year ago and $2.489 at June 30, 2002. At the same date, interest-earning assets reached $2.716 billion, up 21.4% versus $2.234 billion a year earlier. The Group s strategy to re-align the asset mix, giving greater emphasis to the loan portfolio over the investment portfolio, is in process. The loan portfolio grew by 18.6 percent to $666.4 million as of December 31, 2002, compared to $561.9 million for the same period in the previous year. Most of the growth came from real estate, mainly residential mortgage loans held to maturity and for sale, which grew 19.3% (See Table 9).

Investments are the Group s largest interest-earning assets component. It mainly consists of money market investments, U.S. Treasury notes, U.S. Government agencies bonds, mortgage-backed securities, CMO s and P. R. Government municipal bonds. At December 31, 2002, the Group s investment portfolio was of high quality. Approximately 98% was rated AAA and it generated a significant amount of tax-exempt interest, which substantially lowered the Group s effective tax rate (see Table 9 and Note 2 to the unaudited Consolidated Financial Statements).

A sustained growth in mortgage-backed securities and P.R. Government and agency securities drove the investment portfolio expansion. They increased 27.4% to $2.017 billion (98.4% of the total portfolio) from $1.583 billion (94.7% of the total portfolio) the year before.

At December 31, 2002, the Group s loan portfolio, the second largest category of the Group s interest-earning assets, amounted to $666.4 million, 18.6% higher than the $561.9 million a year ago. Late in the second quarter of fiscal 2001, the Group s loan originations changed toward collateralized loans, primarily mortgage loans and personal loans with mortgage collateral, while de-emphasizing unsecured personal loans. In addition, on June 30, 2000, the Group sold over $160 million of leases and unsecured personal loans. These strategies significantly reduced credit losses and enhanced the portfolio quality. Table 9 and Note 3 of the unaudited Consolidated Financial Statements presents the Group s loan portfolio composition and mix at the end of the periods analyzed.

The Group s real estate loan portfolio is mainly comprised of residential loans, home equity loans and personal loans collateralized by real estate. At December 31, 2002, the real estate loans portfolio, which includes loans held for sale, amounted to $635.0 million (94.7% of total loan portfolio) a 19.3% increase when compared to $532.3 million the year before.

The second largest component of the Group s loan portfolio is consumer loans. At December 31, 2002 and 2001, the consumer loan portfolio totaled $19.8 million and $21.7 million, respectively (2.9% and 3.8% of the Group s loan portfolio). Commercial loans for December 31, 2002 and 2001 totaled $15.4 million and $10.3 million, respectively (2.3% and 1.8% of total loan portfolio, respectively). The Group discontinued lease originations on June 30, 2000 and sold its portfolio, as previously reported.

Liabilities and Funding Sources

As shown in Table 10, at December 31, 2002, the Group s total liabilities reached $2.612 billion, 18.9% higher than the $2.197 billion reported a year earlier. When comparing December 31, 2002, against June 30, 2002, the increased was 12.5%, from $2.323 million. Deposits and borrowings, the Group s funding sources, amounted to $2.550 billion at the end of the second quarter of fiscal 2003 versus $2.158 billion the year before, a 18.2% increase. When compared to June 30, 2002, the increase was 11.8% against $2.280 million at the end of that period. The rise in repurchase agreements and FHLB funds to fund the expansion of the loan and investment portfolios drove this growth.

At December 31, 2002, deposits, the second largest category of the Group s interest-bearing liabilities and a cost-effective source of funding, reached $951.3 million, up 8.7% versus the $875.4 million a year ago. A $65.6 million increase or 9.6% in time deposits and IRA accounts combined with a $10.3 million or 5.4% increase in demand and savings deposits contributed to this growth. When compared to June 30, 2002, deposits decreased 1.8% from $968.9 millions. Table 10 presents the composition of the Group s deposits at the end of the periods analyzed.

The FHLB system functions as a source of credit to financial institutions that are members of a regional Federal Home Loan Bank. As a member of the of the FHLB, the Group can obtain advances from the FHLB, secured by the FHLB stock owned by the Group, as well as by certain of the Group s mortgages and investment securities. Table 10 presents the composition of the Group s other borrowings at the end of the periods analyzed.

Stockholders Equity

At December 31, 2002, the Group s total stockholders equity was $193.6 million, a 47.0% and 16.3% increase, when compared to $131.7 million a year ago, and to $166.4 at the end of fiscal year 2002. In addition to earnings from operations, this rise reflects an increase on the unrealized gain of investment securities available for sale partially offset by the impact of FAS 133 derivatives activities. For more of the Group s stockholders equity activity, refer to the Unaudited Consolidated Statement of Changes in Stockholders Equity and of Comprehensive Income (loss).

During the first quarter of fiscal year 2003, the Group repurchased 42,500 common shares bringing to 1,576,691 shares (1,970,863 after a 25% stock split, with a cost of $34.6 million) the number of shares held by the Group s treasury. The Group s common stock is traded in the New York Stock Exchange (NYSE) under the symbol OFG. At December 31, 2002, the Group s market capitalization for its outstanding stock was $341.2 million ($19.66 per share) see Table 11.

During the second quarter and six month periods of fiscal years 2003 and 2002, the Group declared cash dividends, on its common stock amounting to $2.4 million ($0.14 per share) and $1.9 million ($0.11 per share) for the quarter and $4.5 million ($0.26 per share) and $3.7 million ($0.218 per share) for the six month periods of fiscal 2003 and 2002, respectively. Dividend yield for the second quarter of fiscal 2003 and 2002 was 0.73% and 0.81%. For the six month periods of fiscal year 2003 and 2002 was 1.34% and 1.62% respectively.

Under the regulatory framework for prompt corrective action, banks which meet or exceed a Tier I risk-based ratio of 6%, a total capital risk-based ratio of 10% and a leverage ratio of 5% are considered well capitalized. The Bank exceeds those regulatory capital requirements. See

Table 11 for the Group s regulatory capital ratios.

Group s Financial Assets

As shown on Table 12, the Group s total financial assets include the Bank s assets and assets managed by the trust and brokerage business. At December 31, 2002, they reached $4.984 billion - up 3.3% from $4.827 billion a year ago, and remained in line when compared to $4.990 million at June 30, 2002. The Group s financial assets main component is the assets owned by the Group, of which about 99% are owned by the Group s banking subsidiary. For more on this financial asset component, refer to Group s Assets under Financial Condition.

The Group s second largest financial assets component is assets managed by the trust department. The Group s trust department offers various different types of IRA products and manages 401(K) and Keogh retirement plans, custodian and corporate trust accounts. At December 31, 2002, total assets managed by the Group s trust department amounted $1.284 billion, 11.8% lower than the $1.455 billion a year ago, and 7.1% less than the $1.382 at June 30, 2002. This decrease was mainly due to asset valuations in line with the equity market downturn.

The other financial asset component is assets gathered by the broker-dealer. The Group s broker-dealer subsidiary offers a wide array of investment alternatives to its client s base such as fixed and variable annuities, tax-advantaged fixed income securities, mutual funds, stocks and bonds. At December 31, 2002, total assets gathered by the broker-dealer from its customer investment accounts reached $894.3 million, down 14.3% and 20.0%, from $1.043 billion a year ago and $1.118 billion for June 30, 2002, respectively, also as a result of the equity market downturn.

ALLOWANCE FOR LOAN LOSSES AND NON-PERFORMING ASSETS:

The Group maintains an allowance for loan losses at a level that management considers adequate to provide potential losses based upon an evaluation of known and inherent risks. The Group s allowance for loan losses policy provides for a detailed quarterly analysis of possible losses. Refer to details of the methodology in this section. Tables 4 through 6 set forth an analysis of activity in the allowance for loan losses and presents selected loan loss statistics.

During the second quarter of fiscal 2000, the Group re-defined its lending strategy towards lower credit risk loans collateralized by real estate, while de-emphasizing unsecured personal loans and financing leases. Such strategy responded to the level of credit losses being experienced on personal loans and financing leases that significantly reduced the net margin (after credit losses) generated by such portfolio. Such strategy was further complemented with the sale of approximately $169 million of unsecured personal loans and financing leases on July 7, 2000, maintaining only a marginal amount of such loans and leases in its portfolio. After the sale, the Group discontinued its leasing operation. The positive effect of this strategy was reflected in a substantial reduction in consumer loans and financing leases net credit losses, while shifting the loan portfolio mix and the allowance for loan losses toward the lower credit risk portfolio of real estate loans (mostly residential loans). Financing leases credit losses after fiscal 2000, relates to a small portion of leases in severe delinquency that were retained by the Group after the sale of such portfolio. As previously mentioned, thereafter the Group discontinued originating financial leases and let the remaining portfolio to run-off. Charge-off of those leases took place when all collection efforts were exhausted and the underlying collateral became worthless.

At December 31, 2002, the Group s allowance for loan losses amounted to $3.9 million (0.58% of total loans) a 28.4% increase from the $3.0 million (0.54% of total loans) reported a year earlier. This increase is mainly due to the loan portfolio growth, combined with an increase in non-performing loans, mainly real estate, see Table 7. The Group maintains an allowance for loan losses at a level that management considers adequate to provide for potential losses based upon an evaluation of known and inherent risks. The Group s allowance for loan losses policy provides for a detailed quarterly analysis of possible losses.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The Group follows a systematic methodology to establish and evaluate the adequacy of the allowance for loan losses. This methodology consists of several key elements.

Larger commercial loans that exhibit potential or observed credit weaknesses are subject to individual review and grading. Where appropriate, allowances are allocated to individual loans based on management s estimate of the borrower s ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to the Group.

Included in the review of individual loans are those that are impaired. A loan is considered impaired when, based on current information and events, it is probable that the Group will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate, or as a practical expedient, at the observable market price of the loan or the fair value of the collateral, if the loan is collateral dependent. Loans are individually evaluated for impairment, except large groups of small balance, homogeneous loans that are collectively evaluated for impairment and for leases and loans that are recorded at fair value or at the lower of cost or market. The Group measures for impairment all commercial loans over $250,000. The portfolios of mortgages, consumer loans, and leases are considered homogeneous and are evaluated collectively for impairment.

For loans that are not individually graded, the Group uses a methodology that follows a loan credit risk rating process that involves dividing loans into risk categories. The following are the credit risk categories (established by the FDIC Interagency Policy Statement of 1993) used:

1. **Pass** - loans considered highly collectible due to their repayment history or current status (to be in this category a loan cannot be more than 90 days past due).

2. **Special Mention** - loans with potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects of the loan.

3. **Substandard** - loans inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

4. **Doubtful** - loans that have all the weaknesses inherent in substandard, with the added characteristic that collection or liquidation in full is highly questionable and improbable.

5. **<u>Loss</u>** - loans considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

The Group, using an aged-based rating system, applies an overall allowance percentage to each loan portfolio category based on historical credit losses adjusted for current conditions and trends. This delinquency-based calculation is the starting point for management s determination of the required level of the allowance for loan losses. Other data considered in this determination includes:

1. Overall historical loss trends (one year and three years); and
2. Other information including underwriting standards, economic trends and unusual events such as hurricanes.

Loan loss ratios and credit risk categories, are updated quarterly and are applied in the context of GAAP and the Joint Interagency Guidance on the importance of depository institutions having prudent, conservative, but not excessive loan loss allowances that fall within an acceptable range of estimated losses. While management uses available information in estimating possible loan losses, future changes to the allowance may be necessary based on factors beyond the Group s control, such as factors affecting general economic conditions.

Net credit losses for the second quarter and six month periods of fiscal 2003, totaled $499,000 (0.30% of average loans) and $1.1 million (0.34% of average loans), a increase of 22.3% and 9.3% respectively when compared to $408,000 (0.29% of average loans) and $986,000 (0.38% of average loans) for the same periods of fiscal 2002. Tables 4 through 6 set forth an analysis of activity in the allowance for loan losses and presents selected loan loss statistics.

The Group s non-performing assets include non-performing loans, foreclosed real estate owned and other repossessed assets (see Table 7). At December 31, 2002, the Group s non-performing assets totaled $27.6 million (0.98% of total assets) versus $19.4 million (0.83% of total assets) at the same date of the previous fiscal year. The increase was principally due to a higher level of non-performing loans; mainly low credit risk non-performing mortgage loans.

At December 31, 2002, the allowance for loan losses to non-performing loans coverage ratio was 14.35%. Excluding the lesser-risk real estate loans, the ratio is much higher, 233.73%. Detailed information concerning each of the items that comprise non-performing assets follows:

<u>Real estate loans</u> - are placed on a non-accrual basis when they become 90 days or more past due, except for well-secured residential loans, and are charged-off based on the specific evaluation of the collateral underlying the loan. At December 31, 2002, the Group s non-performing real estate loans totaled $25.5 million (93.9% of the Group s non-performing loans) a 49.1% increase from the $17.1 million (91.7% of the Group s non-performing loans) reported a year earlier. Non-performing loans in this category are primarily residential mortgage loans. Based on the value of the underlying collateral, the loan-to-value ratios and credit loss experienced, management considers that no significant losses will be incurred on this portfolio.

Commercial business loans - are placed on non-accrual basis when they become 90 days or more past due and are charged-off based on the specific evaluation of the underlying collateral. At December 31, 2002, the Group s non-performing commercial business loans amounted to $1.1 million (4.0% of the Group s non-performing loans) a 90.4% increase from $564,000 reported a year before (3.0% of the Group s non-performing loans). Most of this portfolio is also collateralized by real estate and no significant losses are expected.

Finance leases - are placed on non-accrual status when they become 90 days past due. At December 31, 2002, the Group s non-performing financing leases portfolio amounted to $63,000 (0.2% of the Group s total non-performing loans) a 82.8% decrease from the $367,000 reported for the same period of fiscal 2002 (2.0% of total non-performing loans). The underlying collateral secures these financing leases. As reported, the Group discontinued leasing operations on June 30, 2000.

Consumer loans - are placed on non-accrual status when they become 90 days past due and charged-off when payments are delinquent 120 days. At December 31, 2002, the Group s non-performing consumer loans amounted to $520,000 (1.9% of the Group s total non-performing loans) a 8.9% decrease from the $571,000 reported a year ago (3.1% of total non-performing loans).

Foreclosed real estate - is initially recorded at the lower of the related loan balance or fair value at the date of foreclosure, any excess of the loan balance over the fair market value of the property is charged against the allowance for loan losses. Subsequently, any excess of the carrying value over the estimated fair market value less disposition cost is charged to operations. Management is actively seeking prospective buyers for these foreclosed real estate properties. At December 31, 2002, foreclosed real estate balance was $410,000 a 43.6% decrease from the $727,000 reported for the same period of fiscal year 2002..

Other repossessed assets - are initially recorded at estimated net realizable value. At the time of disposition, any additional losses incurred are charged against the allowance for loan losses. At December 31, 2002, the inventory of repossessed automobiles consisted of two units amounting to $12,000. No other repossessed assets were registered for the comparable period of fiscal 2002.

Item - 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk and Asset/Liability Management

The Group s interest rate risk and asset/liability management is the responsibility of the Asset and Liability Management Committee (ALCO), which reports to the Board of Directors and is composed of members of the Group s senior management. The principal objective of ALCO is to enhance profitability while maintaining an appropriate level of interest rate and liquidity risks. ALCO is also involved in formulating economic projections and strategies used by the Group in its planning and budgeting process; and oversees the Group s sources, uses and pricing of funds.

Interest rate risk can be defined as the exposure of the Group s operating results or financial position to adverse movements in market interest rates which mainly occurs when assets and liabilities reprice at different times and at different rates. This difference is commonly referred to as a maturity mismatch or gap . The Group employs various techniques to assess the degree of interest rate risk.

The Group is liability sensitive due to its fixed rate and medium to long-term asset composition being funded with shorter-term reprising liabilities. As a result, the Group utilizes various derivatives instruments for hedging purposes, such as asset/liability management, and for other purposes. These transactions involve both credit and market risk. The notional amounts are amounts of which calculations and payments are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amount to be received and paid, if any. The actual risk of loss is the cost of replacing, at market, these contracts in the event of default by the counterparties. The Group controls the credit risk of its derivatives financial instrument agreements through credit approvals, limits, monitoring procedures and collateral, when considered necessary.

The Group generally uses interest rate swaps and interest rate options, such as caps and options, in managing its interest rate risk exposure. The swaps were entered into to convert short-term borrowings into fixed rate liabilities for longer periods and provide protection against increases in short-term interest rates. Under these swaps, the Group pays a fixed monthly or quarterly cost and receives a floating thirty or ninety-day payment based on LIBOR. Floating rate payments received from the swap counterparties correspond to the floating rate payments made on the short-term borrowings thus resulting in a net fixed rate cost to the Group (cash flow hedging instruments used to hedge a forecasted transaction). Under the caps, the Group pays an up front premium or fee for the right to receive cash flow payments in excess of the predetermined cap rate; thus, effectively capping its interest rate cost for the duration of the agreement.

The Group s swaps, excluding those used to manage exposure to the stock market, and caps outstanding and their terms at December 31, 2002 and June 30, 2002 are set forth in the table below:

	(Dollars in thousands)	
	December 31, 2002	**June 30, 2002**
Swaps:		
Pay fixed swaps notional amount	$ 550,000	$ 500,000
Weighted average pay rate - fixed	4.47%	4.77%
Weighted average receive rate - floating	1.43%	1.84%
Maturity in months	4 to 95	1 to 100
Floating rate as a percent of LIBOR	100%	100%
Caps:		
Cap agreements notional amount	$ 75,000	$ 200,000
Cap rate	4.50%	4.81%
Current 90 day LIBOR	1.38%	1.86%
Maturity in months	16	21 to 59

The Group offers its customers certificates of deposit with an option tied to the performance of one of the following stock market indexes, Standard & Poor s 500, Dow Jones Industrial Average and Russell 2000. At the end of five years, the depositor will receive a specified percentage of the average increase of the month-end value of the corresponding stock index. If such index decreases, the depositor receives the principal without any interest. The Group uses swap and option agreements with major money center banks and major broker dealer companies to manage its exposure to changes in those indexes. Under the terms of the option agreements, the Group will receive the average increase in the month-end value of the corresponding index in exchange for a fixed premium. Under the term of the swap agreements, the Group will receive the average increase in the month-end value of the corresponding index in exchange for a quarterly fixed interest cost. The changes in fair value of the options purchased, the swap agreements and the options embedded in the certificates of deposits are recorded in earnings.

Derivatives instruments are generally negotiated over-the-counter (OTC) contracts. Negotiated OTC derivatives are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, amount, exercise price and maturity.

Information pertaining to the notional amounts of the Group s derivative financial instruments as of December 31, 2002 and June 30, 2002 is as follows:

	Notional Amount (In thousands)	
	December 31, 2002	**June 30, 2002**
Type of Contract:		
Cash Flows Hedging Activities - Interest rate swaps used to hedge a forecasted transaction - short-term borrowings	**$ 550,000**	**$ 500,000**
Derivatives Not Designated as Hedge:		
Interest rate swaps used to manage exposure to the stock market on stock indexed deposits	$ 27,650	$ 29,200
Purchased options used to manage exposure to the stock market on stock indexed deposits	205,750	196,940
Embedded options on stockindexed deposits	227,511	222,560
Caps	75,000	200,000
	$ 535,911	**$ 648,700**

During the six-month period of fiscal years 2003 and 2002, $4.0 million and $930,000, respectively, of unrealized losses were charged to earnings and reflected as Derivatives Activities in the Consolidated Statements of Income. Unrealized losses of $15.9 million and $7.2 million, respectively, on derivatives designated as cash flow hedges were charged to other comprehensive income during the same periods. Unrealized loss, on derivatives designated as cash flow hedge for the second quarter ended on December 31, 2002, was $3.1 million, a 135% decrease from an unrealized gain of $8.9 million for the same quarter of fiscal 2002. For the six-month period ended December 31, 2002, the Group recognized a revenue of $36,000 for ineffectiveness in cash flow hedging activity transactions. No ineffectiveness was charged to earnings during the six-month period ended December 31, 2001.

At December 31, 2002 and June 30, 2002, the fair value of derivatives was recognized as either assets or liabilities in the Consolidated Statements of Financial Condition as follows: the purchased options used to manage the exposure to the stock market on stock indexed deposits represented an other asset of $6.6 million ($10.3 million, June 2002); and the options sold to customers embedded in the certificates of deposits represented a liability of $6.6 million ($10.5 million, June 2002) recorded in deposits; the fair value of the interest rate swaps represented a liability of $38.6 million ($22.6 million, June 2002) presented in Accrued Expenses and Other Liabilities ; the fair value of the Caps represented an other asset of $6.9 thousand ($4.3 million as of June 30, 2002).

Rate changes expose the Group to changes in net interest income (NII). The result of the sensitivity analysis on NII of $80.6 million as of December 31, 2002, for the next twelve months is a $6.7 million decrease, or -8.36% change on a hypothetical 200 basis points rate increase. On the other hand, the change for the same period, utilizing a hypothetical declining rate scenario of 200 basis points, is an increase of $1.7 million or 2.15%. Both hypothetical rate scenarios consider a gradual change of 200 basis points during the twelve-month period. The decreasing rate scenario has a floor of 1%. This floor causes liabilities (already around 1%) to have little cost reduction, while the assets do have a decrease in yields, causing a small loss in declining rate simulations. These estimated changes are within the policy guidelines established by the Board of Directors.

Liquidity Risk Management

The objective of the Group s asset/liability management function is to maintain consistent growth in net interest income within the Group s policy limits. This objective is accomplished through management of the Group s Statement of Financial Condition composition, liquidity, and interest rate risk exposure arising from changing economic conditions, interest rates and customer preferences.

The goal of liquidity management is to provide adequate funds to meet changes in loan and lease demand or unexpected deposit withdrawals. This is accomplished by maintaining liquid assets in the form of investment securities, maintaining sufficient unused borrowing capacity in the national money markets and delivering consistent growth in core deposits. As of December 31, 2002, the Group had approximately $1.870 billion in securities and other short-term investments available to cover liquidity needs. Additional asset-driven liquidity is provided by securitizable loan assets. These sources, in addition to the Group s 7.96% average equity capital base, provide astable funding base.

In addition to core deposit funding, the Group also accesses a variety of other short-term and long-term funding sources. Short-term funding sources mainly include securities sold under agreements to repurchase. Borrowing funding source limits are determined annually by each counter-party and depend on the Bank s financial condition and delivery of acceptable collateral securities. The Bank may be required to provide additional collateral based on the fair value of the underlying securities. The Group also uses the Federal Home Loan Bank (FHLB) as a funding source, issuing notes payable, such as advances, through its FHLB member subsidiary, to the Bank. This funding source requires the Bank to maintain a minimum amount of qualifying collateral with a fair value of at least 110% of the outstanding advances. At December 31, 2002, the Group has an additional borrowing capacity with the FHLB of $136.5 million.

In addition, the Bank utilizes the National Certificate of Deposit (CD) Market as a source of cost effective deposit funding in addition to local market deposit inflows. Depositors in this market consist of credit unions, banking institutions, CD brokers and some private corporations or non-profit organizations. The Bank s ability to acquire brokered deposits can be restricted if it becomes in the future less than well-capitalized. An adequately-capitalized bank, by regulation, may not accept deposits from brokers unless it applies for and receives a waiver from the FDIC.

As of December 31, 2002, the Bank had line of credit agreements with other financial institutions permitting the Bank to borrow a maximum aggregate amount of $24.4 million (no borrowings were made during the nine-month period ended December 31, 2002, under such lines of credit). The agreements provide for unsecured advances to be used by the Group on an overnight basis. Interest rate is negotiated at the time of the transaction. The credit agreements are renewable annually.

The Group s liquidity targets are reviewed monthly by the ALCO Committee and are based on the Group s commitment to make loans and investments and its ability to generate funds.

The Group s investment portfolio at December 31, 2002, had an average maturity of 2.5 years. However, no assurance can be given that such levels will be maintained in future periods.

The principal source of funds for the Group is dividends from the Bank. The ability of the Bank to pay dividends is restricted by regulatory authorities. Primarily, through such dividends the Group meets its cash obligations and pays dividends to its common and preferred stockholders. Management believes that the Group will continue to meet its cash obligations as they become due and pay dividends as they are declared.

PART 2 OTHER INFORMATION

Item - 6

EXHIBITS AND REPORTS ON FORM 8-K

A- Exhibits

99.1 - Chief Executive Officer s Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

99.2 - Chief Financial Officer s Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORIENTAL FINANCIAL GROUP INC.
(Registrant)

By: /S/ JOSE E. FERNANDEZ
José E. Fernández
Chairman of the Board, President and Chief Executive Officer — Dated: August 8, 2003

By: /S/ NORBERTO GONZALEZ
Norberto González
Executive Vice President and Acting Principal Financial Officer — Dated: August 8, 2003

MANAGEMENT CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, José Enrique Fernández, Chairman of the Board of Directors, President and Chief Executive Officer of Oriental Financial Group Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q/A (Amendment No. 1) of Oriental Financial Group Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

August 8, 2003

By: /S/ JOSE ENRIQUE FERNANDEZ
José Enrique Fernández
Chairman of the Board, President,
Chief Executive Officer

MANAGEMENT CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Norberto González, Executive Vice President and Acting Principal Financial Officer of Oriental Financial Group Inc, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A (Amendment No. 1) of Oriental Financial Group Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

August 8, 2003

By: /S/ NORBERTO GONZALEZ
Norberto González
Executive Vice President and
Acting Principal Financial Officer