ORIENTAL FINANCIAL GROUP INC
Form S-3/A
February 27, 2004

Table of Contents

As filed with the Securities and Exchange Commission on February 27, 2004

Registration No. 333-112776

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 1
TO

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

ORIENTAL FINANCIAL GROUP INC.

(Exact name of Registrant as specified in its charter)

Commonwealth of Puerto Rico	**66-0538893**
(State or other jurisdiction of Incorporation or organization)	*(I.R.S. Employer Identification No.)*

Professional Offices Park
998 San Roberto Street
San Juan, Puerto Rico 00926
(787) 771-6800
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

José Enrique Fernández
Chairman of the Board of Directors,
President and Chief Executive Officer
Professional Offices Park
998 San Roberto Street
San Juan, Puerto Rico 00926
(787) 771-6800
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Iván G. Marrero **Carlos O. Souffront** **McConnell Valdés** **270 Muñoz Rivera Avenue** **San Juan, Puerto Rico 00918** **(787) 250-2606**	**Peter G. Weinstock** **Ronald J. Frappier** **Jenkens & Gilchrist, P.C.** **1445 Ross Avenue** **Suite 3200** **Dallas, Texas 75202** **(214) 855-4746**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of securities to be registered	Proposed maximum aggregate offering price[1]	Amount of registration fee
Common Stock, $1.00 par value per share	$82,091,542.50	$10,401.00

1. Pursuant to Rule 457(c) under the Securities Act of 1933, the proposed maximum aggregate offering price is estimated solely for purposes of calculating the registration fee and is based on the average of the high and low prices of the common stock on the New York Stock Exchange on February 23, 2004.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

SUBJECT TO COMPLETION, DATED FEBRUARY 27, 2004

PROSPECTUS

2,565,000 Shares

Common Stock

Oriental Financial Group Inc. is a Puerto Rico chartered financial holding company headquartered in San Juan, Puerto Rico. We are offering to the public 1,700,000 shares of our common stock and three of our stockholders identified under the heading Selling Stockholders are offering 865,000 shares of our common stock. We will not receive any proceeds from the sale of the shares by the selling stockholders.

Our common stock is traded on the New York Stock Exchange under the symbol OFG. The last reported sale price of our common stock on February , 2004 was .

Investing in our common stock involves risks. See Risk Factors beginning on page 6 of this prospectus.

Neither the Securities and Exchange Commission nor any state or Commonwealth of Puerto Rico securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

These securities are not savings accounts, deposits or obligations of Oriental Bank and Trust or any of our non-banking subsidiaries, and are not insured by the FDIC or any other governmental agency and may lose value.

	Per share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$
Proceeds, before expenses, to the selling stockholders	$	$

We and the selling stockholders have also granted the underwriters 30-day options to purchase up to an aggregate of an additional 384,750 shares to cover over-allotments at the public offering price per share less the underwriting discounts and commissions.

The underwriters are offering the shares of our common stock as described in the Underwriting section of this prospectus. Delivery of the shares will be made on or about , 2004.

Keefe, Bruyette & Woods **Oriental Financial Services**

The date of this prospectus is , 2004

As a prospective investor, you should rely only on the information incorporated by reference or contained in this prospectus. Neither we nor any underwriter has authorized anyone to provide prospective investors with information different from that incorporated by reference or contained in this prospectus. If anyone provides you with additional, different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell nor is it seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information included in this prospectus is accurate as of any date other than the date of this prospectus or that any information incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since that date.

TABLE OF CONTENTS

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus or incorporated by reference. You should read the entire prospectus, including the information incorporated by reference into this prospectus and the Risk Factors section beginning on page 6.

Unless otherwise stated, all information in this prospectus (i) assumes that the underwriters will not exercise their over-allotment options to purchase any of the 384,750 shares subject to such options and (ii) gives retroactive effect to the 10% stock dividend on common stock paid on January 16, 2004 to stockholders of record as of December 31, 2003.

The Company

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, 2003, we had total assets of $3.3 billion, total loans of $711.4 million, total deposits of $1.1 billion, and stockholders equity of $223.5 million. We also had $1.7 billion of trust assets managed and $1.1 billion of customer investment assets gathered, each as of December 31, 2003. We currently operate through a network of 23 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 are currently in our 40th year of operations and have developed a financial services platform that provides a broad array 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 planing, 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 on the middle market in Puerto Rico. We believe these segments of the market have been largely underserved. In addition, we are in the process of expanding our core banking franchise by emphasizing middle market commercial lending and by expanding our branch network.

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 to establish a trust division and the first to establish a full service broker-dealer and recently entered the third party retirement plan administration business through the acquisition of Caribbean Pension Consultants, Inc. We were also the first bank to offer S&P indexed certificates of deposit, individual retirement accounts structured as a mutual fund, and checking accounts with overdraft privileges. Today we seek to differentiate ourselves by focusing on a strategy of providing strong personalized service and relationship banking. We call this strategy the Oriental Way which emphasizes stream-lined decision making, increased employee involvement, customer service excellence, a continuing investment in technology to improve service, continued product innovation and new and improved banking locations. We believe our broad product offering and our business focus differentiates us from our peers and positions us for continued growth. Since the inception of our Oriental Way strategy in January 2003, our revenues have increased 10.9% and our net income has increased 21.4%.

Oriental Bank and Trust was organized in 1964 as a federal mutual savings and loan association, became a federal mutual savings bank in 1983 and converted to a federal stock savings bank in 1987. In 1994, Oriental Bank and Trust converted to a commercial bank chartered under Puerto Rico law. In June 1996, we reorganized the bank into a bank holding company structure. In May 2000, we elected to be treated as a financial holding company under the Bank Holding Company Act, as amended by the Gramm-Leach-Bliley Act.

Our senior management team is comprised of seven executives with an average of 20 years in the financial services industry. José E. Fernández is our Chairman of the Board, President and Chief

Executive Officer, positions he has held since he joined us in 1988. In January 2003, José Rafael Fernández was promoted to Chief Operating Officer. Mr. Fernández joined us in 1991 and has served as our Senior Executive Vice President and President of Oriental Financial Services Corp. In an effort to strengthen our management depth, we have actively sought out and hired experienced executives. In 2003, we significantly augmented our management team through the addition of three senior executives: Néstor Vale as Executive Vice President of Banking Services, Norberto González, C.P.A. as Executive Vice President and Acting Chief Financial Officer, and Carlos Nieves, C.P.A. as Executive Vice President of Financial Services. Prior to joining us, Mr. Vale spent 14 years at Scotiabank de Puerto Rico where he was a member of the Board of Directors and Senior Vice President in charge of commercial and retail banking. Prior to joining us, Mr. González spent 11 years with Banco Bilbao Vizcaya Argentaria Puerto Rico (and its predecessor PonceBank) where he was Executive Vice President and Risk Management Director. Prior to joining us, Mr. Nieves was Executive Vice President and Chief Operating Officer of PaineWebber Trust Company of Puerto Rico. In January 2004, we further bolstered our team by hiring Ganesh Kumar as Executive Vice President of Strategic Planning. Mr. Kumar has extensive experience in strategic planning, having spent 14 years as a consultant to financial services clients worldwide.

Our principal executive offices are located at Professional Offices Park, 998 San Roberto Street, San Juan, Puerto Rico, and our telephone number is (787) 771-6800. We maintain a website at http://www.orientalonline.com.

Oriental Bank and Trust

Our main operating subsidiary is Oriental Bank and Trust, a Puerto Rico full service commercial bank insured by the Federal Deposit Insurance Corporation 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 also has an international banking entity, which is a unit of the bank named O.B.T. International Bank, whose services are limited under Puerto Rico law to persons and assets located outside of Puerto Rico. The international banking entity offers the bank certain Puerto Rico tax advantages. In November 2003, we organized a new international banking entity named Oriental International Bank Inc. as a wholly owned subsidiary of Oriental Bank and Trust. We transferred as of January 1, 2004, substantially all the assets of O.B.T. International Bank to the new subsidiary.

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 term notes. As of December 31, 2003, total borrowings amounted to $2.0 billion. Deposits are the bank s second largest category of interest-bearing liabilities. At December 31, 2003, total deposits amounted to $1.1 billion, excluding intercompany balances. Of the bank s total deposits, 10.8% are demand deposits, 8.1% are savings accounts, 33.5% are individual retirement accounts, and 47.6% are certificates of deposit.

Residential mortgage loans (including mortgage loans held for sale) comprise the largest component of Oriental Bank and Trust s loan portfolio. Such loans represent 90% of the loan portfolio at December 31, 2003. The second largest component is commercial loans, which represent 7.5% of the portfolio. The third component is consumer loans, which represent 2.5% of the portfolio. In 2003, we hired a well seasoned commercial banking team from other banking institutions in Puerto Rico and appointed Néstor Vale as head of the group. This team has an average of 14.7 years of commercial banking experience and strong ties to the Puerto Rico business community. We believe this team will play an integral role in expanding our commercial lending business.

Oriental Trust, the bank s trust department, is a leader in the Puerto Rico financial planning market and is a significant player in the retirement planning industry. We were the first bank to offer fixed and variable annuities and individual retirement accounts in Puerto Rico. We also offer Keogh and 401(k) retirement plans, IRAs, deferred compensation plans, asset protection trusts, custodial services and other trust services. The trust department had $1.7 billion of trust assets as of December 31, 2003.

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 fixed and variable annuities, tax-advantaged fixed income securities, mutual funds, and various other equity and fixed income securities. Oriental Financial Services is a Puerto Rico corporation, a full service, registered broker-dealer and is a member of the National Association of Securities Dealers, Inc. and the Securities Investor Protection Corporation.

Oriental Financial Services investment banking division specializes in structuring and underwriting equity and fixed income securities. In January 2001, it formed a strategic alliance with Banc of America Securities LLC to participate in the Commonwealth of Puerto Rico s bond syndicate. In January 2003, it was selected for the second time to serve as senior manager for Puerto Rico s bond syndicate in partnership with Banc of America Securities LLC. Oriental Financial Services has participated in over $18 billion of Puerto Rico public finance bond issues since the establishment of its investment banking division in October 2000. Oriental Financial Services has also acted as manager or co-manager in over $600 million of preferred stock and industrial development bond issues in Puerto Rico. Recently, Oriental Financial Services served as book-running lead manager for the $162 million Puerto Rico Industrial Development Company bond issue, and as a consultant for Banc of America Securities LLC in the $663 million Puerto Rico Housing Finance Authority bond issue.

Oriental Insurance

Oriental Insurance, Inc. is a Puerto Rico corporation and a licensed insurance agency organized in 1995 to offer annuities and life insurance products. Since its inception, Oriental Insurance has successfully expanded in Puerto Rico to include the sale and distribution of property and casualty insurance and title insurance for individual and commercial clients. Oriental Insurance s licensed insurance agents have 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, which has been in business for over 25 years. Caribbean Pension Consultants was acquired by us in January 2003. 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 is the largest third party administrator in the Southeastern United States with over $400 million in assets under management. Approximately 75% of Caribbean Pension Consultants customers reside in Puerto Rico with the remaining 25% residing in Florida and the Caribbean. Caribbean Pension Consultants markets its services through a highly experienced staff of 100 independent insurance agents with strong established customer relationships. This acquisition represents our first major expansion into the United States and provides a platform for possible expansion in the U.S. mainland. It also adds to the expansion of our trust and other related businesses in Puerto Rico and elsewhere.

Table of Contents

The Offering

Common stock offered	An aggregate of 2,565,000 shares of common stock: 1,700,000 shares by us and 865,000 shares by the selling stockholders (an aggregate of 2,949,750 shares if the underwriters exercise their over-allotment options in full).
Common stock outstanding after the offering	21,508,824 shares (21,763,824 shares if the underwriters exercise their over-allotment options in full).
New York Stock Exchange symbol	OFG
Use of proceeds	We are raising funds in this offering for general corporate purposes as described in the Use of Proceeds section of this prospectus. We will not receive any of the proceeds from the sale of common stock by the selling stockholders.
Dividends	We currently pay a cash dividend of $0.14 per share of common stock per quarter, or $0.56 per share per year. The dividends will depend on a number of factors. We cannot give you any assurance that we will continue to pay dividends or that their amount will not be reduced in the future.
Voting rights	The holders of our common stock are entitled to one vote per share. Following the offering, José E. Fernández, our Chairman of the Board, President and Chief Executive Officer, will own 13.30% of the outstanding common stock (or 12.19% if the underwriters exercise their over-allotment options in full).
Risk factors	Investing in our common stock involves certain risks, which are described under Risk factors beginning on page 6.

Table of Contents

Summary Financial and Operating Data

You should read the summary financial information presented below together with our consolidated financial statements and notes which are incorporated by reference into this prospectus and with the historical financial information included under Selected Financial Data beginning on page 13 of this prospectus.

Average balances have been computed using daily averages, except for average total assets which was computed using beginning and end of month average balances. The ratios for the six-month periods ended December 31, 2003 and 2002, have been presented on an annualized basis.

	As of or for the six-month period ended December 31,		As of or for the year ended June 30,				
	2003	2002	2003	2002	2001	2000	1999
	(In thousands, except per share data)						
Period end balances:							
Total gross loans(1)	$ 717,447	$ 664,402	$ 733,493	$ 579,809	$ 465,435	$ 604,110	$ 574,727
Allowances for loan losses	6,020	3,901	5,031	3,039	2,856	6,837	9,002
Bank assets owned	3,344,243	2,800,697	3,040,551	2,485,393	2,033,706	1,847,564	1,577,767
Trust assets managed	1,661,598	1,284,254	1,670,437	1,382,268	1,444,534	1,456,500	1,380,200
Broker-dealer assets gathered	1,101,455	894,270	962,919	1,118,181	1,002,253	914,900	885,800
Deposits	1,077,751	951,331	1,044,265	968,850	815,538	735,041	672,258
Stockholders equity	223,517	193,576	201,680	166,429	113,490	117,869	116,298
Book value per common share	7.86	8.39	8.65	7.02	4.24	4.39	4.26
Income statement data:							
Net interest income after provision for loan losses	$ 39,491	$ 34,664	$ 70,280	$ 56,883	$ 26,160	$ 36,348	$ 28,561
Non-interest expenses net of non-interest income	(7,686)	(9,149)	(14,676)	(17,712)	(18,845)	(16,674)	(1,657)
Net income	29,247	24,089	51,320	38,451	8,469	19,566	26,704
Diluted earnings per share	1.33	1.13	2.41	1.82	0.31	0.86	1.28
Cash dividends paid per common share	0.27	0.24	0.49	0.42	0.40	0.40	0.37
Average diluted shares outstanding	20,626	20,196	20,336	19,803	19,314	19,909	20,620
Performance ratios:							
Return on average assets	1.84%	1.86%	1.88%	1.67%	0.49%	1.15%	1.84%
Return on average common equity	35.27%	31.19%	31.33%	32.47%	7.85%	18.73%	24.41%
Efficiency ratio	51.17%	50.57%	51.35%	57.22%	72.06%	58.56%	53.38%
Net interest margin	2.79%	3.11%	2.99%	2.72%	1.73%	2.72%	3.16%
Capital ratios:							
Leverage ratio	10.50%	7.96%	8.19%	7.80%	6.68%	7.49%	8.30%
Tier 1 risk-based capital	32.66%	23.32%	24.48%	21.76%	19.53%	30.54%	22.95%
Total risk-based capital	33.26%	23.74%	25.00%	22.10%	19.96%	29.29%	24.21%
Tangible common equity to tangible assets (at the end of period)	4.59%	5.71%	5.47%	5.34%	3.92%	4.57%	5.25%
Asset quality ratios:							
Non-performing assets to total assets at end of	0.98%	0.99%	0.97%	0.83%	0.88%	0.96%	1.29%

period							
Non-performing loans to total loans at end of period	4.50%	4.09%	3.94%	3.47%	3.63%	2.79%	3.40%
Allowance for loan losses to total loans at end of period	0.84%	0.59%	0.69%	0.52%	0.61%	1.13%	1.57%
Allowance for loan losses to total non-performing loans at end of period	18.64%	14.35%	17.42%	15.11%	16.90%	40.52%	46.06%
Net charge-offs to average loans	0.37%	0.34%	0.33%	0.35%	1.55%	1.79%	1.94%

(1) Includes loans held for sale.

Table of Contents

RISK FACTORS

You should carefully consider the following factors and other information in this prospectus, including the information incorporated by reference in this prospectus, before deciding to invest in our common stock.

Fluctuations in interest rates may hurt our business

Interest rate fluctuations is the primary market risk affecting us. Changes in interest rates affect the following areas, among others, of our business:

- the number of mortgage loans originated;
- the interest income earned on loans and securities;
- the value of securities holdings; and
- gain from sales of loans and securities.

Increases in interest rates reduce demand for new mortgage loan originations and refinancings

Higher interest rates increase the cost of mortgage loans to consumers and reduce demand for mortgage loans, which negatively impacts our profits. Reduced demand for mortgage loans results in reduced loan originations by us, lower mortgage origination income and lower gain on sale of loans. Demand for refinancings is particularly sensitive to increases in interest rates.

Increases in interest rates reduce net interest income

Increases in short-term interest rates reduce net interest income, which is an important part of our earnings. Net interest income is the difference between the interest received by us on our assets and the interest paid on our borrowings. Most of our assets, like mortgage loans and mortgage-backed securities, are long-term assets. In contrast, most of our borrowings are short-term. When interest rate rise, we must pay more in interest on our borrowings while interest earned on our assets does not rise as quickly, which causes profits to decrease.

Increases in interest rates may reduce the value of mortgage loans and securities holdings

Increases in interest rates may reduce the value of our financial assets and have an adverse impact on our earnings and financial condition. We own a substantial portfolio of mortgage loans, mortgage-backed securities and other debt securities which have both fixed and adjustable interest rates. The market value of an obligation with a fixed interest rate generally decreases when prevailing interest rates rise, which may have an adverse effect on our earnings and financial condition. In addition, we may suffer losses as we sell loans to reduce future interest rate exposure. The market value of an obligation with an adjustable interest rate can be adversely affected when interest rates increase due to a lag in the implementation of repricing terms as well as due to interest rate caps, which may limit the amount of increase in the obligation s interest rate.

Declining interest rates would reduce interest income on cash and investments

We make loans and invest in debt. If interest rates decrease, the interest income derived from any new loans or investments which have fixed or variable rates will be less than interest income previously derived when rates were higher. Additionally, if interest rates decrease, our interest income will also decrease during the term of a loan or investment that bears interest at a variable rate. Furthermore, reduced interest rates will result in a decrease in income on our cash and short-term investments. Therefore, a decrease in interest rates may have an adverse effect on our business, results of operations and financial condition.

Table of Contents

During periods of declining interest rates, prepayment of debt underlying asset-backed securities can be expected to accelerate. Accordingly, our ability to maintain the yield anticipated from investments in asset-backed securities will be affected by reductions in the principal amount of such securities resulting from such prepayments, and our ability to reinvest the returns of principal at comparable rates is subject to general prevailing interest rates at that time. Prepayments may also result in the realization of capital losses with respect to higher yielding securities that had been bought at a premium or the loss of opportunity to realize capital gains in the future from possible appreciation.

Our decisions regarding credit risk and reserves 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. The risk of nonpayment 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 attempt to maintain an appropriate allowance for loan losses to provide for losses inherent in our loan portfolio. We periodically determine the amount of the allowance based on consideration of several factors. Default frequency, internal risk ratings, expected future cash collections, loss recovery rates and general economic factors, among other things, are considered in this evaluation, 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 specific allowances for identified problem loans, allowance by formula and an unallocated allowance.

In the second quarter of fiscal 2004, we recorded a provision for loan losses of $1.0 million based on our overall evaluation of the risks of our loan portfolio. Although we believe that our allowance for loan losses is currently sufficient given 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 in our net earnings and capital and hinder our ability to pay dividends.

We are subject to default and recourse risk in connection with our mortgage loan originations

From the time that we fund the mortgage loans we originate for third parties 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. If a borrower defaults on a mortgage loan and there has been a breach of any of these representations or warranties, we may become liable for the unpaid principal and interest on the defaulted mortgage loan and 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 non-conventional mortgage loans originated by us, because of their longer maturities and lack of a favorable secondary market.

Our exposure to overall credit risk will increase as a consequence of the increase in our commercial lending activities

We have increased our emphasis on commercial real estate and commercial business lending, which is likely to increase overall credit risk. We are in the process of changing our policies and procedures to support our increased emphasis on commercial real estate and commercial business lending. Banks generally charge higher interest rates on commercial loans than on residential mortgage loans, because larger loan losses are expected in this business line. Generally, commercial loans are considered to be riskier than residential mortgage loans because they have larger balances to a single borrower or group of related borrowers. In addition, the borrower s ability to repay a commercial loan depends, in the case of a commercial loan, on the successful operation of the business or the property securing the loan. We expect to increase our allowance for loan losses in anticipation of this higher credit risk. Increases in the allowance for loan losses reduce our earnings. If we experience loan losses that are higher than our allowance for loan losses, our profits and financial condition would be adversely affected.

We are at risk because most of our business is conducted in Puerto Rico

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, including a downturn in real estate values, and natural hazards that affect Puerto Rico. If Puerto Rico s economy experiences an overall decline as a result of these adverse developments or natural hazards, the rates of delinquencies, foreclosures, bankruptcies and losses on loan portfolios would probably increase substantially. This would cause our profitability to decrease.

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 borrowings from the Federal Home Loan Bank of New York, and other alternative sources, our business may be significantly dependent upon shorter-term borrowings, such as repurchase agreements.

While 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 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, which would have a material adverse effect on our operations and financial condition.

Competition with other financial institutions could adversely affect our profitability

We face substantial competition in originating loans and in attracting deposits. The competition in originating loans comes principally from other U.S., Puerto Rico and foreign banks, mortgage banking companies, consumer finance companies, insurance companies and other institutional lenders and purchasers of loans. We will encounter greater competition as we expand our operations. A number of institutions with which we compete have significantly greater assets, capital and other resources. Increased competition could require us to increase the rates we pay on deposits or lower the rates we offer on loans, which could adversely affect our profitability.

Changes in statutes and regulations could adversely affect us

We, as a Puerto Rico chartered financial holding company, and our various subsidiaries, are each subject to federal and Puerto Rico governmental supervision and regulation. There are laws and regulations which restrict transactions between us and our various subsidiaries. Any change in such regulations, whether by applicable regulators or as a result of legislation subsequently enacted by the Congress of the United States or the Legislature of Puerto Rico, could have a substantial impact on our operations.

Table of Contents

Taxation of our international banking entity may reduce our earnings

Puerto Rico international banking entities, or IBEs, are currently exempt from taxation under Puerto Rico law. Recently, the Legislature of Puerto Rico and the Governor of Puerto Rico approved a law amending the IBE Act. This law imposes income taxes at normal statutory rates on each IBE that operates as a unit of a bank, if the IBE s net income generated after December 31, 2003 exceeds 40% of the bank s net income in the taxable year commenced on July 1, 2003, 30% of the bank s net income in the taxable year commencing on July 1, 2004, and 20% of the bank s net income in the taxable year commencing on July 1, 2005, and thereafter. It does not impose income taxation on an IBE that operates as a subsidiary of a bank.

We have an IBE that operates as a unit of our bank. We recently organized a new IBE that operates as a subsidiary of our bank. We transferred as of January 1, 2004, substantially all of the bank s IBE assets to the new IBE subsidiary. Although this transfer of IBE assets will allow us to continue enjoying tax benefits, we cannot give you any assurance that the IBE Act will not be modified in the future in a manner to reduce the tax benefits available to our new IBE subsidiary. A reduction of such tax benefits may reduce our earnings.

Our rapid growth requires changes to personnel, systems, procedures and policies

We are experiencing rapid growth, and expect to continue to do so. As a result, we have hired additional personnel, modified and implemented systems, procedures and policies, and refined the roles of existing personnel. We expect to continue to take such steps as our growth continues. There are risks associated with our ability to successfully implement such changes.

Dividends will not be paid unless declared by our board of directors

Quarterly dividends will only be paid if declared by our board of directors. Our board of directors is not obligated or required to declare quarterly dividends.

Missed dividends never have to be paid

If our board of directors does not declare a dividend for a particular quarter, those dividends never have to be paid.

Banking regulations may restrict our ability to pay dividends

We may not be able to pay dividends in the future if we do not earn sufficient net income. Federal Reserve Board policy is that a bank holding company should pay dividends only out of its current net income. Federal and Puerto Rico banking regulations may also restrict the ability of Oriental Bank and Trust to make distributions to us. These distributions may be necessary for us to pay dividends on our common stock.

Certain provisions in our certificate of incorporation and bylaws could discourage an acquisition of the company

In addition to the amount of common stock controlled by our Chairman of the Board, President, and Chief Executive Officer described below under Selling Stockholders, certain provisions of our certificate of incorporation and bylaws could have the effect of discouraging non-negotiated takeover attempts as described in the Description of Capital Stock Restrictions on Acquisition of Oriental Financial Group section of this prospectus.

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

Table of Contents

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.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference in this prospectus may contain forward-looking statements within the meaning of the federal securities laws. 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 of 1995. 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, potential, intend, pro could have, may have and similar expressions. You should be aware that these statements and 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.

These factors and the risk factors and forward-looking statements referred to under Risk Factors in this prospectus could cause actual results or outcomes to differ materially from our expectations. You should not place undue reliance on any such forward-looking statements. 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.

USE OF PROCEEDS

Our net proceeds after deducting expenses from the sale of shares of common stock are estimated at approximately $. If the underwriters over-allotment options are exercised in full, the net proceeds are estimated at $. We intend to use the net proceeds for general corporate purposes, which may include:

- making capital contributions and loans to our banking and non-banking subsidiaries;
- increasing capital ratios to support our asset growth;
- establishing new financial centers;
- increasing working capital; and
- making acquisitions.

We will not receive any proceeds from the sale of the shares by the selling stockholders.

Table of Contents

PRICE RANGE OF COMMON STOCK

Our common stock was initially listed on the American Stock Exchange in March 1987 at a price of $1.20. In July 1994, we listed the stock on the New York Stock Exchange. The following table shows the high and low sales prices of our common stock, as reported by the New York Stock Exchange, and the dividends paid by us in each case, during the last two fiscal years and through February , 2004.

	Price		
	High	**Low**	**Dividend**
Fiscal 2002(1)			
First Quarter	$14.45	$11.11	$0.099
Second Quarter	13.75	11.83	0.099
Third Quarter	15.82	12.12	0.109
Fourth Quarter	18.44	14.58	0.109
Fiscal 2003(1)			
First Quarter	$18.36	$15.09	$0.109
Second Quarter	18.73	14.44	0.127
Third Quarter	19.75	18.24	0.127
Fourth Quarter	23.95	19.69	0.127
Fiscal 2004(1)			
First Quarter	$24.53	$21.21	$0.127
Second Quarter	26.15	21.86	0.140
Third Quarter (through February)			0.140

(1) Our fiscal year ends on June 30.

On February , 2004, the last reported sale price of our common stock on the New York Stock Exchange was $. As of January 31, 2004, we had 19,808,824 shares of common stock outstanding.

DIVIDEND POLICY

We currently pay a cash dividend of $0.14 per share of common stock per quarter, or $0.56 per share per year. In fiscal 2004, we increased our quarterly cash dividend per common share from $0.1273 to $0.1400. We paid this cash dividend on January 15, 2004 to stockholders of record as of December 30, 2003. In fiscal 2004, we also declared a 10% common stock dividend to stockholders of record as of December 31, 2003. We paid this stock dividend on January 16, 2004.

Table of Contents

CAPITALIZATION

The following table shows our unaudited indebtedness and capitalization at December 31, 2003, on an actual basis and as adjusted to give effect to the issuance of the shares of common stock offered by this prospectus. This table should be read together with our consolidated financial statements and related notes incorporated by reference into this prospectus.

	Actual	As Adjusted
	(Dollars in thousands, except share data)	
Long term debt:(1)		
Subordinated capital notes	$ 72,166	$ 72,166
Term notes	15,000	15,000
Total long term debt	$ 87,166	$ 87,166
Stockholders equity:		
Preferred sock, $1.00 par value; 5,000,000 shares authorized;		
1,340,000 shares of Series A Preferred Stock, issued and outstanding at December 31, 2003, $25 liquidation value	$ 33,500	$ 33,500
1,380,000 shares of Series B Preferred Stock issued and outstanding at December 31, 2003, $25 liquidation value	34,500	34,500
Common stock, $1.00 par value; 40,000,000 shares authorized; 20,028,383 shares issued at December 31, 2003 and as adjusted	20,028	
Additional paid-in capital	73,035	
Legal surplus	23,371	23,371
Retained earnings	79,926	79,926
Treasury stock, at cost, 242,441 shares at December 31, 2003	(4,473)	(4,473)
Accumulated other comprehensive loss, net of tax effect(2)	(36,370)	(36,370)
Total stockholders equity	$223,517	$
Book value per common share	$ 7.86	$

(1) Excluding advances from the Federal Home Loan Bank of New York which amount to $301 million.

(2) Consists of unrealized losses on securities available for sale and on derivatives designated as cash flow hedges, net of deferred tax.

Table of Contents

SELECTED FINANCIAL DATA

The following table shows certain selected consolidated financial and operating data of our company on a historical basis as of and for the six-month periods ended December 31, 2003 and 2002, and for each of the five years in the period ended June 30, 2003. Except for the information appearing under the captions Capital Ratios, Asset Quality Ratios, and Performance Ratios and Other Information, the financial data shown below for the five years ended June 30, 2003, is derived from our audited consolidated financial statements. This information should be read together with our consolidated financial statements and the related notes incorporated by reference into this prospectus. Financial information for the six-month periods ended December 31, 2003 and 2002, is derived from unaudited consolidated financial statements, which, in our opinion, includes all adjustments necessary for a fair presentation of the results for those periods. These adjustments consist only of normal recurring accruals. Results for the six-month period ended December 31, 2003, are not necessarily indicative of results for any future period.

Average balances have been computed using daily averages, except for average total assets which was computed using beginning and end of month average balances. The ratios for the six-month periods ended December 31, 2003 and 2002, have been presented on an annualized basis.

	As of or for the six-month period ended December 31,		As of or for the year ended June 30,				
	2003	2002	2003	2002	2001	2000	1999
	(In thousands, except per share data)						
Period end balances:							
Bank assets owned	$3,344,243	$2,800,697	$3,040,551	$2,485,393	$2,033,706	$1,847,564	$1,577,767
Trust assets managed	1,661,598	1,284,254	1,670,437	1,382,268	1,444,534	1,456,500	1,380,200
Broker-dealer assets gathered	1,101,455	894,270	962,919	1,118,181	1,002,253	914,900	885,800
Total financial assets managed and owned	$6,107,296	$4,979,221	$5,673,907	$4,985,842	$4,480,493	$4,218,964	$3,843,767
Investments and loans:							
Investments securities	$2,539,633	$2,049,220	$2,232,330	$1,757,435	$1,459,991	$1,179,484	$ 946,411
Loans and leases (including held-for-sale), net	711,427	660,501	728,462	576,770	462,579	597,273	565,725
Securities and loans sold but not yet delivered	7,304	16,884	1,894	71,750	14,108		
Total investments and loans	$3,258,364	$2,726,605	$2,962,686	$2,405,955	$1,936,678	$1,776,757	$1,512,136
Deposits and borrowings:							
Deposits	$1,077,751	$ 951,331	$1,044,265	$ 968,850	$ 815,538	$ 735,041	$ 672,258
Repurchase agreements	1,605,647	1,247,288	1,400,598	996,869	915,471	816,493	596,226
Other borrowings	388,166	262,083	180,000	258,200	165,000	156,500	174,900
Securities purchased but not yet received	317	90,550	152,219	56,195			
Total deposits and borrowings	$3,071,881	$2,551,252	$2,777,082	$2,280,114	$1,896,009	$1,708,034	$1,443,384
Stockholders equity:							
Preferred equity	$ 68,000	$ 33,500	$ 33,500	$ 33,500	$ 33,500	$ 33,500	$ 33,500
Common equity	155,517	160,076	168,180	132,929	79,990	84,369	82,798
Total stockholders equity	$ 223,517	$ 193,576	$ 201,680	$ 166,429	$ 113,490	$ 117,869	$ 116,298
Earnings:							
Interest income	$ 79,451	$ 75,566	$ 151,746	$ 141,695	$ 120,344	$ 126,226	$ 107,809
Interest expense	(37,606)	(38,962)	(77,276)	(82,695)	(91,281)	(81,728)	(64,775)
Net interest income	41,845	36,604	74,770	59,000	29,063	44,498	43,034
Provision for loan losses	(2,354)	(1,940)	(4,190)	(2,117)	(2,903)	(8,150)	(14,473)
Net interest income after provision for loan losses	39,491	34,664	70,280	56,883	26,160	36,348	28,561
Non-interest income	22,297	16,160	38,980	31,250	20,383	23,674	33,953
Non-interest expenses	(29,983)	(25,309)	(53,656)	(48,962)	(39,228)	(40,348)	(35,610)
Income before taxes	31,805	25,515	55,604	39,171	7,315	19,674	26,904
Income tax benefit (expense)	(2,558)	(1,426)	(4,284)	(720)	1,318	(108)	(200)
Income before cumulative effect of change in accounting principles	29,247	24,089	51,320	38,451	8,633	19,566	26,704
Cumulative effect of change in accounting principle, net tax					(164)		

Net income	29,247	24,089	51,320	38,451	8,469	19,566	26,704
Less: dividends on preferred stock	(1,797)	(1,193)	(2,387)	(2,387)	(2,387)	(2,387)	(350)
Net income available to common shareholders	$ 27,450	$ 22,896	$ 48,933	$ 36,064	$ 6,082	$ 17,179	$ 26,354

Table of Contents

	As of or for the six-month period ended December 31,		As of or for the year ended June 30,				
	2003	2002	2003	2002	2001	2000	1999
	(In thousands, except per share data)						
Per share and dividends data:							
Basic EPS before cumulative effect of change in accounting principles	$1.40	$1.21	$2.56	$1.91	$0.32	$0.89	$1.34
Basic EPS after cumulative effect of change in accounting principles	$1.40	$1.21	$2.56	$1.91	$0.32	$0.89	$1.34
Average diluted EPS before cumulative effect of change in accounting principles	$1.33	$1.13	$2.41	$1.82	$0.31	$0.86	$1.28
Average diluted EPS after cumulative effect of change in accounting principles	$1.33	$1.13	$2.41	$1.82	$0.31	$0.86	$