

ORIENTAL FINANCIAL GROUP INC

Form S-1/A

October 10, 2012

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As filed with the Securities and Exchange Commission on October 9, 2012

Registration No. 333-183890

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**AMENDMENT NO. 1 TO**

**FORM S-1**

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**

(State or other jurisdiction of

incorporation or organization

**6022**

(Primary Standard Industrial Classification

Code Number)

**Oriental Center**

**Professional Office Park**

**997 San Roberto Street, 10<sup>th</sup> Floor**

**66-0538893**

(I.R.S. Employer

Identification Number)

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San Juan, Puerto Rico 00926

(787) 771-6800

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Carlos O. Souffront**

**General Counsel**

**Oriental Center**

**Professional Office Park**

**997 San Roberto Street, 10th Floor**

**San Juan, Puerto Rico 00926**

**(787) 771-6800**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**Approximate date of commencement of proposed sale to the public:**

**As soon as practicable after this registration statement becomes effective.**

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, check the following box: "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) 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: "

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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: "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) 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: "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer "

Accelerated filer

Non-accelerated filer "

Smaller reporting company "

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price (1)(2)	Amount of Registration Fee (3)
Common Stock, \$1.00 par value per share			\$36,000,000	\$4,126

(1) Includes shares of Common Stock that the underwriter may purchase from us upon exercise of the overallotment option.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) of the Securities Act of 1933, as amended.

(3) Previously paid.

**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.**

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**The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

SUBJECT TO COMPLETION, DATED OCTOBER 9, 2012

**PRELIMINARY PROSPECTUS**

**Shares**

**ORIENTAL FINANCIAL GROUP INC.**

**Common Stock**

We are offering \_\_\_\_\_ shares of our common stock. Our common stock is listed on the New York Stock Exchange ( NYSE ) under the symbol OFG. The last reported sale price of our common stock on the NYSE on October 8, 2012 was \$10.90 per share.

**Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 9 of this prospectus and similar sections in our filings with the Securities and Exchange Commission ( SEC ) incorporated by reference herein.**

**The securities offered hereby are not savings accounts, deposits, or other obligations of any bank or non-bank subsidiary of ours and are not insured by the Federal Deposit Insurance Corporation (the FDIC ) or any other governmental agency.**

**Neither the SEC, any state securities commission, the FDIC, the Board of Governors of the Federal Reserve System (the Federal Reserve Board ), nor any other regulatory body, has approved or disapproved the issuance of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	<b>PER SHARE</b>	<b>TOTAL</b>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to us (before expenses)	\$	\$

Delivery of the shares of common stock is expected to be made on or about \_\_\_\_\_, 2012. We have granted the underwriter an option for a period of 30 days to purchase an additional \_\_\_\_\_ shares of our common stock solely to cover over-allotments. If the underwriter exercises the option in full, the total underwriting discounts and commissions payable by us will be \$ \_\_\_\_\_, and the total proceeds to us, before expenses, will

be \$ .

# Jefferies

Prospectus dated , 2012

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We are responsible for the information contained in this prospectus and in any related free writing prospectus we may prepare or authorize to be delivered to you. We have not authorized anyone to give you any other information, and we take no responsibility for any other information that others may give you. We are not, and the underwriter is not, making an offer of our common stock, par value \$1.00 per share (the Common Stock ) in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

*For investors outside the United States:* Neither we nor the underwriter have taken any action that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

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**PROSPECTUS SUMMARY**

*The following summary highlights certain information contained elsewhere in this prospectus or in the documents incorporated by reference herein. It may not contain all of the information that is important to you or that you should consider before investing in the Common Stock. For a more complete discussion of the information you should consider before investing in the Common Stock, you should carefully read this entire prospectus and the incorporated documents.*

*Unless the context suggests otherwise, references in this prospectus to Oriental, the Company, we, us, and our refer to Oriental Financial Group Inc. and its consolidated subsidiaries. References in this prospectus to BBVAPR and the BBVAPR Companies refer collectively to BBVAPR Holding Corporation, its wholly-owned subsidiaries, Banco Bilbao Vizcaya Argentaria Puerto Rico and BBVA Seguros, Inc., and to BBVA Securities of Puerto Rico, Inc. (see Recent Developments). Certain capitalized terms used elsewhere in this prospectus are defined in this summary.*

**About Oriental Financial Group Inc.**

Oriental Financial Group Inc. is a diversified financial holding company headquartered in San Juan, Puerto Rico, offering a full range of financial services through its wholly-owned subsidiaries Oriental Bank and Trust (Oriental Bank or the Bank), Oriental Financial Services Corp. (Oriental Financial Services), Oriental Insurance, Inc. (Oriental Insurance) and Caribbean Pension Consultants, Inc. As of June 30, 2012, we had total assets of \$6.4 billion, total loans (net of allowance for loan and lease losses) of \$1.6 billion, total investment securities of \$3.5 billion, total deposits of \$2.2 billion, and stockholders' equity of \$692 million. We also had \$4.5 billion of trust and brokerage assets managed as of June 30, 2012. We currently operate through a network of 28 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., a pension and retirement plan administrator.

Oriental provides comprehensive banking and wealth management services to its clients through a complete range of banking and financial solutions, including commercial, consumer and mortgage lending; auto leasing; checking and savings accounts; financial planning, insurance, wealth management, and investment brokerage; and corporate and individual trust and retirement services. Oriental operates through three major business segments: Banking, Wealth Management, and Treasury, and seeks to distinguish itself based on quality service and marketing efforts focused on mid and high net worth individuals and families, including professionals and owners of small and mid-sized businesses, primarily in Puerto Rico. Oriental's long-term goal is to strengthen its banking and wealth management franchise by expanding its lending businesses, increasing the level of integration in the marketing and delivery of banking and wealth management services, maintaining effective asset-liability management, growing non-interest revenues from banking and wealth management services, and improving operating efficiencies.

Oriental's strategy includes:

- n Strengthening its banking and wealth management franchise by expanding its ability to attract deposits and build relationships with individual customers and professionals and mid-market commercial businesses through aggressive marketing and expansion of its sales force;
- n Focusing on greater growth in commercial, consumer and mortgage lending; trust and wealth management services, insurance products; and increasing the level of integration in the marketing and delivery of banking and wealth management services;
- n Matching its portfolio of investment securities with the related funding to achieve favorable spreads, primarily investing in U.S. government agency obligations;
- n Improving operating efficiencies, and continuing to maintain effective asset-liability management; and
- n Implementing a broad ranging effort to instill in employees and make customers aware of Oriental's determination to effectively serve and advise its customer base in a responsive and professional manner.





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Together with a highly experienced group of senior and mid-level executives and the FDIC-assisted acquisition of Eurobank in April 2010, this strategy has resulted in growth in Oriental's commercial, consumer and mortgage lending and wealth management activities over the past seven years, allowing Oriental to distinguish itself in a highly competitive industry.

### **Oriental Bank and Trust**

Our main operating subsidiary is Oriental Bank, a Puerto Rico chartered commercial bank subject to examination by the FDIC and the Office of the Commissioner of Financial Institutions of Puerto Rico (the OCFI).

The Bank offers banking services such as commercial, consumer and mortgage lending, auto leasing, savings and time deposit products, financial planning, and corporate and individual trust services, and capitalizes on its branch network to serve its clients. The Bank also operates an international banking entity subsidiary, Oriental International Bank Inc., which offers the Bank certain Puerto Rico tax advantages, and its services are limited under Puerto Rico law to persons and assets/liabilities located outside Puerto Rico.

Borrowings are the Bank's largest interest-bearing liability component. Borrowings consist mainly of diversified funding sources including repurchase agreements, and advances from the Federal Home Loan Bank of New York. As of June 30, 2012, total borrowings amounted to \$3.4 billion. Deposits are the Bank's second largest category of interest-bearing liabilities. At June 30, 2012, total deposits amounted to \$2.2 billion. Of the Bank's total deposits, approximately 89.6% are retail deposits, approximately 3.8% are institutional deposits, and approximately 6.6% are brokered deposits.

The Bank's lending activities are primarily with clients located in Puerto Rico. The Bank's loan and lease transactions include a diversified number of industries and activities, all of which are encompassed within four main categories: commercial, consumer, mortgage and auto leasing.

Residential mortgage loans comprise the largest component of the Bank's loan portfolio. Such loans represent approximately 66.8% of the gross loan portfolio that was not covered by the FDIC loss sharing arrangements described below at June 30, 2012 (such loan portfolio, the non-covered loan portfolio). The second largest component is commercial loans, which represent approximately 27.3% of the gross non-covered loan portfolio. The remaining components are consumer loans, which represent approximately 3.3% of the gross non-covered loan portfolio, and leasing, which represents approximately 2.5% of the gross non-covered loan portfolio.

Effective April 30, 2010, the Bank assumed all of the retail deposits and other liabilities, and acquired certain assets and substantially all of the operations, of Eurobank from the FDIC, as receiver for Eurobank, pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC on April 30, 2010. Certain acquired loans are subject to loss sharing arrangements (each, a shared-loss agreement and collectively, the shared-loss agreements), pursuant to which the FDIC will bear 80% of qualifying losses, beginning with the first dollar amount of qualifying losses. The shared-loss agreement applicable to single-family residential mortgage loans provides for FDIC loss sharing to last for ten years, and the shared-loss agreement applicable to commercial and other assets provides for FDIC loss sharing to last for five years, with additional recovery sharing for three years thereafter. The present value of the anticipated future payments by the FDIC pursuant to the loss sharing arrangements, also referred to as the FDIC shared-loss indemnification asset, amounted to \$359.8 million as of June 30, 2012.

Oriental Trust, the Bank's trust department, is a leader in Puerto Rico's retirement planning market. We offer Keogh and 401(k) retirement plans, deferred compensation plans, asset protection trusts, custodial services and other trust services. Our trust department had \$2.4 billion of trust assets managed as of June 30, 2012.

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### **Oriental Financial Services**

Oriental Financial Services is our securities brokerage and investment banking subsidiary with approximately \$2.1 billion of total assets under management as of June 30, 2012. Oriental Financial Services offers its customers a wide array of investment alternatives such as tax-advantaged fixed income securities, mutual funds, and various other equity and fixed income securities. In addition, Oriental Financial Services provides financial planning services to individuals and investment banking services, encompassing both public and corporate finance, to the Puerto Rico government and corporations. It also manages and participates in public offerings of debt and equity securities in Puerto Rico. Oriental Financial Services has a clearing agreement with Pershing LLC pursuant to which Pershing LLC clears and executes the brokerage transactions of Oriental Financial Services' customers on a fully disclosed basis with Oriental Financial Services assuming the obligations of any defaulting customer. Oriental Financial Services is a Puerto Rico corporation and a full service broker-dealer registered with the SEC, the Financial Industry Regulatory Authority (FINRA) and the Commonwealth of Puerto Rico and six other U.S. states and territories.

### **Oriental Insurance**

Oriental Insurance, Inc. is a Puerto Rico corporation and a licensed insurance producer that offers, as agent for unaffiliated insurance companies, annuities and life insurance products, property and casualty insurance, and title insurance for individual and commercial clients. Oriental Insurance's licensed personnel 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. It is engaged in the business of pension and retirement plan administration, focused on 401(k) and Keogh retirement plans in Puerto Rico, the United States, and the Bahamas. Caribbean Pension Consultants, Inc. is one of the largest independent third-party administrators of pension and retirement accounts in Puerto Rico.

## **Recent Developments**

### **Pending Acquisition of BBVAPR**

On June 28, 2012, Oriental and Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) entered into a definitive acquisition agreement (the BBVAPR Acquisition Agreement), pursuant to which BBVA agreed to sell to Oriental, and Oriental agreed to purchase from BBVA, all of the outstanding common stock of each of BBVAPR Holding Corporation (the sole shareholder of Banco Bilbao Vizcaya Argentaria Puerto Rico (BBVAPR Bank)), a Puerto Rico chartered commercial bank, and BBVA Seguros, Inc. (BBVA Seguros), a subsidiary offering insurance services) and BBVA Securities of Puerto Rico, Inc. (BBVA Securities), a registered broker-dealer (the BBVAPR Acquisition). The BBVAPR Companies are privately held companies wholly owned by BBVA. Oriental has no affiliation with the BBVAPR Companies, BBVA or any of its other subsidiaries.

In the BBVAPR Acquisition, Oriental will acquire all of the outstanding common stock of each of BBVAPR Holding Corporation and BBVA Securities for an aggregate purchase price of \$500 million, payable in cash. Oriental intends to use the net proceeds from this offering to fund a portion of the purchase price. Following the BBVAPR Acquisition, Oriental will continue to operate under the Oriental Financial Group name and the acquired branches will be rebranded.

Immediately following the closing of the BBVAPR Acquisition (the Closing), Oriental will merge BBVAPR Bank with and into Oriental Bank, with Oriental Bank continuing as the surviving entity. Oriental also intends to merge BBVA Securities with and into Oriental Financial Services, with Oriental Financial Services as the surviving broker-dealer, and to combine the business of BBVA Seguros and Oriental Insurance.

Oriental expects to retain most of the officers and employees of BBVAPR. In connection with the BBVAPR Acquisition, BBVAPR has offered bonuses to certain of its executives if they remain with BBVAPR through the Closing.



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On July 3, 2012, Oriental closed a private placement of \$84 million of its 8.75% Non-Cumulative Convertible Perpetual Preferred Stock (the Series C Preferred Stock), the proceeds of which Oriental intends to use to finance, in part, the BBVAPR Acquisition. In addition to the foregoing, Oriental agreed in the BBVAPR Acquisition Agreement to use its reasonable best efforts to raise at least an additional \$66 million through the sale of additional equity (the Buyer Capital Raise).

Oriental plans to finance the BBVAPR Acquisition through:

- n the consummation of this offering;
- n a separate public offering of non-convertible non-cumulative perpetual preferred stock that it expects to commence concurrently with, or shortly after, this offering;
- n the net proceeds of the Series C Preferred Stock; and
- n the remaining amount from cash on its balance sheet.

Oriental may issue additional Common Stock in lieu of the issuance of all or a portion of the non-convertible non-cumulative perpetual preferred stock it currently intends to offer. See The BBVAPR Acquisition Additional Financing.

Consummation of the BBVAPR Acquisition is subject to the satisfaction of certain customary conditions, including the receipt of all required regulatory approvals without the imposition of a materially burdensome regulatory condition, as described in the BBVAPR Acquisition Agreement. See The BBVA Acquisition Regulatory Considerations. The consummation of this offering is not contingent on the closing of the BBVAPR Acquisition.

## **Related Transactions**

In connection with the Buyer Capital Raise, Oriental expects to commence concurrently with, or shortly after, this offering a separate public offering of non-convertible non-cumulative perpetual preferred stock. That offering, if made, will be pursuant to a separate prospectus and its expected timing and manner are subject to market and other conditions. The closing of this offering of Common Stock is not conditioned upon the closing of Oriental's offering of the non-convertible non-cumulative perpetual preferred stock.

In addition, in connection with the BBVAPR Acquisition, Oriental plans to dispose of approximately \$1.8 billion of its and BBVAPR's investment securities and repay the corresponding wholesale funding of the portfolio. The planned deleveraging is expected to reduce the sensitivity of Oriental's balance sheet to interest rates and improve Oriental's capital ratios by reducing the size of its balance sheet. See The BBVAPR Acquisition and Capitalization for more information on the expected deleveraging transactions.

## **Risk Factors**

An investment in the Common Stock involves risks. You should carefully consider the information set forth in the section of this prospectus entitled Risk Factors beginning on page 9, as well as other information included or incorporated by reference in this prospectus, before deciding whether to invest in the Common Stock.

## **Other Information**

We were incorporated in Puerto Rico on June 14, 1996. Our principal executive offices are located at Oriental Center, Professional Office Park, 997 San Roberto Street, 10<sup>th</sup> Floor, San Juan, Puerto Rico 00926. Our telephone number is (787) 771-6800. We maintain a website at [www.orientalfg.com](http://www.orientalfg.com) where general information about us is available. Investors can obtain copies of our filings with the SEC from this website free of charge, as well as from the SEC website at [www.sec.gov](http://www.sec.gov). We are not incorporating the contents of our website into this prospectus.



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**The Offering**

The following summary contains basic information about the offering and our Common Stock and is not intended to be complete. It does not contain all the information that is important to you. For a more complete description of our Common Stock, please refer to the section of this prospectus entitled Description of Capital Stock. Unless expressly provided, the information contained in this prospectus assumes no exercise of the underwriter's option to purchase additional shares.

Issuer	Oriental Financial Group Inc., a Puerto Rico corporation.
Shares we are offering	shares of Common Stock.
Option to purchase additional shares of Common Stock	We have granted the underwriter an option to purchase up to an additional shares of Common Stock.
Common Stock to be issued and outstanding after this offering	shares. <sup>(1)</sup>
Use of Proceeds	We intend to use the net proceeds from this offering to fund a portion of the purchase price for the pending BBVAPR Acquisition. If there is any excess of net proceeds over the amount of Buyer Capital Raise, we intend to use any such excess net proceeds for general corporate purposes. If the Closing does not occur, the net proceeds will be applied for general corporate purposes. See Use of Proceeds.
Dividend policy	Holders of our Common Stock are only entitled to receive dividends as our board of directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our Common Stock, we are not required to do so. We expect to continue to pay dividends, but our ability to pay future dividends at current levels will necessarily depend upon our earnings and financial condition, general market conditions, and restrictions that may be imposed by law and the certificate of designations governing our various series of preferred stock. See Dividend Policy and Description of Capital Stock.
Book-entry form	The Common Stock will be issued in book-entry form and will be represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company ( DTC ) and registered in the name of a nominee of DTC. Beneficial interests in any of the

<sup>(1)</sup> The number of shares of Common Stock outstanding immediately after the closing of this offering is based on 40,730,831 shares of Common Stock outstanding as of June 30, 2012. Unless otherwise indicated, the number of shares of Common Stock presented in this prospectus excludes 44,435 shares reserved for issuance under our 2007 Omnibus Performance Incentive Plan, as amended and restated (the Omnibus Plan ), and not subject to any outstanding awards. The number of shares of Common Stock presented in this prospectus also excludes the following shares, which are subject to equity awards granted under our 1996, 1998 or 2000 Incentive Stock Option Plans or our Omnibus Plan:

n 511,615 shares are issuable upon the exercise of options that remain unvested;

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n 216,736 shares are issuable upon the lapse of the restricted period of restricted stock units; and

n 423,178 shares are issuable upon the exercise of options that have vested.

Furthermore, unless expressly provided, the number of shares of Common Stock presented in this prospectus excludes any shares of Common Stock issuable on conversion of the Series C Preferred Stock.



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Common Stock will be shown on, and transfers will be effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities, except in limited circumstances.

Puerto Rico Income Tax and U.S. Federal Income Tax Consequences For a description of the Puerto Rico income tax and U.S. federal income tax consequences of the holding and disposition of shares of our Common Stock, see Certain Puerto Rico Income Tax Considerations and Certain U.S. Federal Income Tax Considerations, respectively.

NYSE Symbol for our Common Stock Our Common Stock is listed on the New York Stock Exchange under the symbol OFG.

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**Summary Selected Consolidated Historical Financial Information**

The table below sets forth a summary of our historical financial and other information for the periods presented. We derived the financial information as of and for each of the years in the three-year period ended December 31, 2011 from our audited consolidated financial statements incorporated by reference in this prospectus. We derived the financial information as of and for the six-month periods ended June 30, 2012 and 2011 from our unaudited consolidated financial statements incorporated by reference in this prospectus. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods have been made. The selected operating data presented below for the six months ended June 30, 2012 are not necessarily indicative of a full year's operations.

The selected consolidated historical financial information should be read in conjunction with:

- n Our audited consolidated financial statements as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 and our unaudited consolidated financial statements as of June 30, 2012 and for the six-month periods ended June 30, 2012 and 2011 and related notes incorporated by reference in this prospectus and the Management's Discussion and Analysis of Financial Conditions and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, which are incorporated by reference in this prospectus; and
  
- n The section entitled "Risk Factors" in this prospectus.

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	AS OF AND FOR THE YEAR ENDED DECEMBER 31,			AS OF AND FOR THE SIX MONTHS ENDED	
	2011	2010	2009	JUNE 30, 2012	JUNE 30, 2011
	(in thousands except per share data)			(Unaudited)	
<b>Selected financial condition data:</b>					
Total assets	6,693,675	7,311,006	6,550,833	6,375,648	7,082,547
Total loans, net	1,669,953	1,772,579	1,140,069	1,620,356	1,707,249
Investment securities	3,867,970	4,413,957	4,974,269	3,531,490	4,469,659
Available for sale	2,959,912	3,700,064	4,953,659	2,612,839	3,581,087
Held to maturity	884,026	689,917		895,500	863,779
Deposits	2,395,267	2,588,888	1,745,501	2,222,942	2,385,231
Securities sold under agreement to repurchase and federal funds repurchased	3,056,238	3,456,781	3,557,308	3,053,865	3,459,135
<b>Selected operations data:</b>					
Interest income	297,028	303,801	319,480	130,708	160,236
Interest expense	156,586	168,669	188,722	58,769	80,147
Net interest income	140,442	135,132	130,758	71,939	80,089
Provision for loan and lease losses, net	13,813	22,196	15,650	15,424	8,149
Net interest income after provision for loan and lease losses	126,629	112,936	115,108	56,515	71,940
Non-interest income	30,989	5,198	(1,813)	30,181	24,164
Total non-interest expense	122,302	112,598	83,378	58,092	61,475
Income before income taxes	35,316	5,536	29,917	28,604	34,629
Income tax expense	866	(4,298)	6,972	2,994	5,081
Net income	34,450	9,834	22,945	25,610	29,548
Preferred stock dividends	(4,802)	(5,335)	(4,802)	(2,401)	(2,401)
Deemed dividend on preferred stock beneficial conversion feature		(22,711)			
Income available to common shareholders	29,648	(18,212)	18,143	23,209	27,147
<b>Stock and related per share data:</b>					
Total stockholders' equity	695,555	732,331	330,166	692,202	724,357
Common stock outstanding	41,245	46,349	24,235	40,731	44,009
Preferred stock outstanding	68,000	68,000	68,000	68,000	68,000
Income per common share:					
Basic	0.67	(0.50)	0.75	0.57	0.60
Diluted	0.67	(0.50)	0.75	0.57	0.59
Cash dividends per common share	0.21	0.17	0.16	0.12	0.10
Book value per common share	15.22	14.33	10.82	15.32	14.91

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**RISK FACTORS**

An investment in our Common Stock involves certain risks. Before making an investment decision, you should read carefully and consider all of the information contained in, or incorporated by reference into, this prospectus, as well as the following risk factors. Those risks are not the only risks we face. Additional risks and uncertainties we do not yet know of or we currently judge to be immaterial may also impair our business, financial condition or results of operations. If any of the events or circumstances described in these risk factors or otherwise actually occurs, our business, financial condition or results of operations could be materially and adversely affected.

**Risks Related to Our Business**

*Most of our business is conducted in Puerto Rico, which in recent years has experienced a downturn in the economy and in the real estate market.*

Because most of our business activities are conducted in Puerto Rico and a significant portion of our credit exposure is concentrated in Puerto Rico, our profitability and financial condition may be adversely affected by an extended economic slowdown, adverse political or economic developments in Puerto Rico or the effects of a natural disaster, all of which could result in a reduction in loan originations, an increase in non-performing assets, an increase in foreclosure losses on mortgage loans, and a reduction in the value of our loans and loan servicing portfolio.

The economy of Puerto Rico entered into a recession in the fourth quarter of the government's fiscal year ended June 30, 2006. For fiscal years 2007, 2008, 2009, 2010 and 2011, Puerto Rico's real gross national product decreased by 1.2%, 2.9%, 3.8%, 3.4% and 1.5%, respectively. According to the projections of the Puerto Rico Planning Board, a government agency, made in April 2012, real gross national product for fiscal years 2012 and 2013 is expected to increase by 0.9% and 1.1%, respectively, although there can be no assurance this will prove accurate.

On June 5, 2012, Moody's Investors Service (Moody's) reaffirmed its rating and negative outlook on Puerto Rico's general obligation debt. In taking such action, Moody's stated that such outlook reflects the stress that the Puerto Rico government will face in the next few years as it continues to attempt to address the underfunding of the government's retirement system from an already weak financial and economic position. It also stated that while the Puerto Rico economy has shown some preliminary signs of stabilizing, the government's rising debt levels and continued reliance on deficit financing to fund budget gaps continue to pressure the rating. On June 6, 2012, Standard & Poor's Rating Services (S&P) revised its outlook on Puerto Rico's general obligation debt ratings from stable to negative. In taking such action, S&P stated that the negative outlook reflects its belief that Puerto Rico faces a challenging economic and fiscal environment, which has the potential to delay structurally balanced government budgets beyond fiscal year 2013. It also stated that a steady economic recovery has failed to take hold in Puerto Rico, which limits the government's ability to implement additional expenditure cuts and revenue enhancement measures in the near term. According to S&P, given the disproportionate reliance of Puerto Rico's economy on federal transfers, a significant reduction in such transfers as a result of the Budget Control Act of 2011 could result in additional challenges for Puerto Rico's economy. It further stated that the upcoming legislative and gubernatorial elections could forestall progress on the adoption and implementation of a meaningful solution to the government's unfunded pension and retirement obligations, which could further complicate the achievement of structurally balanced government budgets.

A period of reduced economic growth or a recession has historically resulted in a reduction in lending activity and an increase in the rate of default in commercial loans, consumer loans and residential mortgages. A recession may have a significant adverse impact on our net interest income and fee income. We may also experience significant losses on the loan portfolio due to a higher level of defaults on commercial loans, consumer loans and residential mortgages. For a discussion of the impact of the economy on our loan portfolios, see . A prolonged economic downturn or recession or a continuing decline in the real estate market would likely result in an increase in delinquencies, defaults and foreclosures and in a reduction in loan origination activity, which would adversely affect our financial results.

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The prolonged recessionary economic environment accelerated the devaluation of properties and increased portfolio delinquency when compared with previous periods. Additional economic weakness in Puerto Rico and the U.S. mainland could further pressure residential property values, loan delinquencies, foreclosures and the cost of repossessing and disposing of real estate collateral.

The business activities of BBVAPR are similarly concentrated in the Puerto Rico market. Moreover, as a result of the BBVAPR Acquisition and the planned deleveraging of our balance sheet (as described under *The BBVAPR Acquisition Background* or the *BBVAPR Acquisition* ), our loan portfolio will become the largest component of our interest-earning assets. Consequently, the BBVAPR Acquisition will increase the risk we face in the event of a continued down turn in the Puerto Rico economy.

### ***Our financial results are constantly exposed to market risk, in particular to changes in interest rates.***

Market risk refers to the probability of variations in the net interest income or the fair value of assets and liabilities due to changes in interest rates, currency exchange rates or equity prices.

Changes in interest rates are one of the principal market risks affecting us. Our income and cash flows depend to a great extent on the difference between the interest rates earned on interest-earning assets such as loans and investment securities and the interest rates paid on interest-bearing liabilities such as deposits and borrowings. Net interest income is the difference between the revenue generated on interest-earning assets and the interest cost of funding those assets. Depending on the duration and repricing characteristics of the assets, liabilities and off-balance sheet items, changes in interest rates could either increase or decrease the level of net interest income. For any given period, the pricing structure of the assets and liabilities is matched when an equal amount of such assets and liabilities mature or reprice in that period.

We use an asset-liability management software program to project future movements in the balance sheet and income statement. The starting point of the projections generally corresponds to the actual values of the balance sheet on the date of the simulations. These simulations are highly complex and use many simplifying assumptions. In addition, the interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the prepayment speed of loans, the value of loans and investment securities, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits or other sources of funding.

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

- n Assets and liabilities may mature or reprice at different times. For example, if assets reprice slower than liabilities and interest rates are generally rising, earnings may initially decline.
- n Assets and liabilities may reprice at the same time but by different amounts. For example, when the general level of interest rates is rising, we may increase rates charged on loans by an amount that is less than the general increase in market interest rates because of intense pricing competition. Also, basis risk occurs when assets and liabilities have similar repricing frequencies but are tied to different market interest rate indices that may not move in tandem.
- n Short-term and long-term market interest rates may change by different amounts, *i.e.*, the shape of the yield curve may affect new loan yields and funding costs differently.
- n The remaining maturity of various assets and liabilities may shorten or lengthen as interest rates change. For example, if long-term mortgage interest rates decline sharply, our mortgage-backed securities portfolios may prepay significantly earlier than anticipated, which could reduce portfolio income. If prepayment rates increase, we would be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also has a significant impact on mortgage-backed securities and collateralized mortgage obligations since prepayments could shorten the weighted average life of these portfolios.



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

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

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

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

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

***We may incur a significant impairment charge in connection with a decline in the market value of our investment securities portfolio.***

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

When the fair value of a security declines, management must assess whether the decline is other-than-temporary. When the decline in fair value is deemed other-than-temporary, the amortized cost basis of the investment security is reduced to its then current fair value. The term other-than-temporary impairment is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Any portion of a decline in value associated with credit loss is recognized in income with the remaining noncredit-related component being recognized in other comprehensive income. A credit loss is determined by assessing whether the amortized cost basis of the security will be recovered, by comparing the present value of cash flows expected to be collected from the security, computed using original yield as the discount rate, to the amortized cost basis of the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered to be the credit loss. Such impairment charges reflect non-cash losses at the time of recognition. Subsequent disposition or sale of such assets could further affect our future results of operations, as they are based on the difference between the sale prices received and the adjusted amortized cost of such assets at the time of sale. We consider numerous factors in our review of whether a decline in fair value is other-than-temporary, many of which involve complex judgment.

**Table of Contents*****A decline in the market value of our investment securities portfolio could adversely impact our regulatory capital ratios.***

The Federal Reserve Board, together with other federal banking regulatory agencies, recently issued proposed capital rules to implement the so-called Basel III capital framework in the United States. Among other things, the proposed rules would require banking organizations such as ourselves to include gains and losses on our securities holdings classified as available-for-sale ( AFS ) in our common equity tier 1 capital ( CET1 ). This aspect of the rules would be phased in over six years with full gain and loss flow-through to capital starting in 2018. Currently, unrealized losses on AFS equity securities are counted against Tier 1 capital, unrealized gains on AFS equity securities are partially included in Tier 2 capital and unrealized gains and losses on AFS debt securities are excluded from regulatory capital. However, these unrealized gains and losses are reflected in stockholders' equity under accounting principles generally accepted in the United States ( GAAP ). The agencies' proposals introduce the concept of CET1 which is comprised of qualifying common stock instruments, retained earnings, accumulated other comprehensive income ( AOCI ), certain qualifying minority interests in consolidated subsidiaries and other adjustments and establish a new minimum ratio of CET1 to total risk-weighted assets of 4.5% and a capital conservation buffer of 2.5% to be phased in over several years. Because of the inclusion of AOCI, unlike the current general risk-based capital rules, unrealized gains and losses on all AFS-classified securities would flow through to CET1 capital, after the transition period, if the proposals are adopted in their current form. Our CET1 levels are likely to be significantly more volatile under the agencies' proposals than previously because unrealized gains and losses on AFS classified securities recognized in stockholders' equity on the balance sheet for accounting purposes would also be incorporated for regulatory capital purposes. Accordingly, a decline in the market value of our investment securities portfolio could adversely impact our regulatory capital ratios.

***Market conditions and actions by governmental authorities may upset the historical relationship between interest rate changes and prepayment trends, which would make it more difficult for us to analyze our investment portfolio.***

Our success depends in part on our ability to analyze the relationship of changing interest rates on prepayments of the mortgage loans that underlie our mortgage-backed securities ( MBS ) portfolio. Changes in interest rates and prepayments affect the market price of MBS that we may purchase and any MBS that we may hold at a given time. As part of our overall portfolio risk management, we analyze interest rate changes and prepayment trends separately and collectively to assess their effects on our investment portfolio. In conducting this analysis, we depend on certain assumptions based upon historical trends with respect to the relationship between interest rates and prepayments under normal market conditions. U.S. government programs aimed at assisting homeowners, including the Homeowner Affordability and Stability Plan announced by the U.S. Treasury in February 2009, the Operation Twist program announced by the Federal Reserve Board on September 21, 2011, the expansion of the Home Affordable Refinancing Program ( HARP ) announced by the Federal Housing Finance Agency ( FHFA ), Federal National Mortgage Association ( Fannie Mae ) and the Federal Home Loan Mortgage Corporation ( Freddie Mac ) on October 24, 2011, and other expansions to the U.S. Treasury's Home Affordable Modification Program ( HAMP ), including proposals to allow Fannie Mae and Freddie Mac to use principal reductions when modifying loans under HAMP, could cause an increase in prepayment rates. Bills to implement these proposals, which were opposed by the FHFA, are currently under consideration in both chambers of Congress. On February 1, 2012, President Obama proposed legislation to expand HARP in order to allow a greater number of homeowners to refinance their mortgages at historically low interest rates. If the dislocations in the residential mortgage market, recent or future government actions, or other developments change the way that prepayment trends have historically responded to interest rate changes, our ability to (i) assess the market value of our investment portfolio, (ii) implement our hedging strategies, and (iii) adopt techniques to reduce our prepayment rate volatility would be significantly affected. This could adversely affect our results of operations, financial position or perception of financial health.

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

The residential mortgage loan origination business has historically been cyclical, enjoying periods of strong growth and profitability followed by periods of lower volumes and industry-wide losses. The market for residential mortgage loan originations is currently in decline, and this trend could also reduce the level of mortgage loans that we may originate in the future and may adversely impact our business. During periods of rising interest rates, refinancing originations for many mortgage products tend to decrease as the economic incentives for borrowers to refinance their existing mortgage loans are reduced. In addition, the residential mortgage loan origination business is impacted by



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home values. A significant trend of decreasing values in certain housing segments in Puerto Rico has also been noted. There is a risk that a reduction in housing values could negatively impact our loss levels on the mortgage portfolio because the value of the homes underlying the loans is a primary source of repayment in the event of foreclosure.

The decline in Puerto Rico's economy has had an adverse effect in the credit quality of our loan portfolios. Among other things, during the recession, we experienced an increase in the level of non-performing assets and loan loss provision, which adversely affected our profitability. Although the delinquency rates have decreased in the short term, they may increase if the economy falls back into a recession. If there is another decline in economic activity, additional increases in the allowance for loan and lease losses could be necessary with further adverse effects on our profitability.

Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to sell loans, the price received on the sale of such loans, and the value of the mortgage loan portfolio, all of which could have a negative impact on our results of operations and financial condition. In addition, any material decline in real estate values would weaken our collateral loan-to-value ratios and increase the possibility of loss if a borrower defaults. For a discussion of the impact of the Puerto Rico economy on our business operations, see Most of our business is conducted in Puerto Rico, which in recent years has experienced a downturn in the economy and in the real estate market.

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

The housing market in the U.S. is undergoing a correction of historic proportions. After a period of several years of booming housing markets, fueled by liberal credit conditions and rapidly rising property values, the sector has been in the midst of a substantial correction since early 2007. The general level of property values in the U.S., as measured by several indices widely followed by the market, has declined. These declines are the result of ongoing market adjustments that are aligning property values with income levels and home inventories. The U.S. residential real estate market has most recently shown signs of recovery driven by lower interest rates, fewer foreclosures, high affordability of home ownership, and satisfying demand that has built up during a period of economic uncertainty. However, we cannot predict whether the recovery will continue or if and when the market and related economic forces will return the U.S. residential real estate industry to a period of sustained growth. Diverse macroeconomic developments could also slow or impair a housing recovery and if the real estate market or the economy as a whole does not improve, we may experience material adverse effects on our business or financial condition and liquidity, including our investment securities and wholesale funding portfolios. Furthermore, any concern regarding the long-term sovereign credit rating of the United States, including due to concerns related to U.S. federal fiscal policy or difficulties in addressing federal debt levels, could stress the capital markets in the United States and globally and could have a negative impact on our investment securities and wholesale funding portfolios.

Significant concern regarding the creditworthiness of some of the governments in Europe has also contributed to volatility in the financial markets and led to greater economic uncertainty worldwide. Sovereign debt concerns in Europe could diminish economic recovery and lead to further stress in the capital markets, both globally and in the United States, which could also have a negative impact on our investment securities and wholesale funding portfolios.

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

Our business requires continuous access to various funding sources. We are able to fund our operations through deposits as well as through advances from the Federal Home Loan Bank of New York and other alternative sources; however, our business is significantly dependent upon other wholesale funding sources, such as repurchase agreements and brokered deposits, which consisted of approximately 57% of our total interest-bearing liabilities as of June 30, 2012. While most of our repurchase agreements have been structured with initial terms to maturity of between three and ten years, most of the counterparties have the right to exercise put options before the contractual maturities.

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

We expect to have continued access to credit from the foregoing sources of funds. However, there can be no assurance that such financing sources will continue to be available or will be available on favorable terms. In a period of financial disruption, or if negative developments occur with respect to us, the availability and cost of funding sources could be adversely affected. In that event, our cost of funds may increase, thereby reducing the net interest income, or we may need to dispose of a portion of the investment portfolio, which, depending upon market conditions, could result in realizing a loss or experiencing other adverse accounting consequences upon the dispositions. The interest rates that we pay on our securities are also influenced by, among other things, applicable credit ratings from recognized rating agencies. A downgrade to any of these credit ratings could affect our ability to access the capital markets, increase our borrowing costs and have a negative impact on our results of operations. Our efforts to monitor and manage liquidity risk may not be successful to deal with dramatic or unanticipated changes in the global securities markets or other reductions in liquidity driven by us or market related events. In the event that such sources of funds are reduced or eliminated and we are not able to replace them on a cost-effective basis, we may be forced to curtail or cease our loan origination business and treasury activities, which would have a material adverse effect on our operations and financial condition.

Following the completion of the proposed BBVAPR Acquisition, we expect to rely less on investment securities and the related wholesale funding, which will consist of approximately 54% of the combined entities' total interest-bearing liabilities, and 66% of total interest-bearing liabilities, after giving effect to approximately \$1.8 billion deleveraging of investment securities and wholesale funding portfolios that we plan to implement in connection with the BBVAPR Acquisition. See [Item 19](#). We may not be able to complete the planned deleveraging of our and BBVAPR's investment securities and wholesale funding portfolios. There can be no assurance that the BBVAPR Acquisition will be consummated, or if the BBVAPR Acquisition is consummated, that we will be able to reposition our balance sheet composition with a smaller investment securities portfolio following the acquisition.

***Our decisions regarding credit risk and the allowance for loan and lease 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 the loans will not be repaid. This default risk is affected by a number of factors, including:

- n the duration of the loan;
- n credit risks of a particular borrower;
- n changes in economic or industry conditions; and

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

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

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



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If the BBVAPR Acquisition is consummated, we will acquire a significant portfolio of commercial and auto loans. If we are unable to accurately predict loan losses with respect to these loan categories, we may have to increase the allowance for loan and lease losses. See **Risks Related to the Proposed BBVAPR Acquisition** Loans that we will acquire in the BBVAPR Acquisition may be subject to greater than anticipated impairment.

### ***We are subject to default and other risks in connection with mortgage loan originations.***

From the time that we fund the mortgage loans originated to the time that they are sold, we are generally at risk for any mortgage loan defaults. Once we sell the mortgage loans, the risk of loss from mortgage loan defaults and foreclosures passes to the purchaser or insurer of the mortgage loans. However, in the ordinary course of business, we make representations and warranties to the purchasers and insurers of mortgage loans relating to the validity of such loans. If there is a breach of any of these representations or warranties, we may be required to repurchase the mortgage loan and bear any subsequent loss on the mortgage loan. We also may be required to repurchase mortgage loans in the event that there was improper underwriting or fraud or in the event that the loans become delinquent shortly after they are originated. For the six-month period ended June 30, 2012, we repurchased \$4.1 million of loans from the Government National Mortgage Association. Any such repurchases in the future may negatively impact our liquidity and operating results. Termination of our ability to sell mortgage products to the government-sponsored entities would have a material adverse effect on our results of operations and financial condition. In addition, we may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, including securities fraud claims, and the amount of such losses could exceed the purchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans. In addition, we incur higher liquidity risk with respect to mortgage loans not eligible to be insured by Fannie Mae, the Government National Mortgage Association or Freddie Mac, due to a lack of secondary market in which to sell these loans.

We have established reserves in our consolidated financial statements for potential losses that are considered to be both probable and reasonably estimable related to the mortgage loans sold by us. The adequacy of the reserve and the ultimate amount of losses incurred will depend on, among other things, the actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rate of claimants, developments in litigation related to us and the industry, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices). Due to uncertainties relating to these factors, there can be no assurance that our reserves will be adequate or that the total amount of losses incurred will not have a material adverse effect upon our financial condition or results of operations. For additional information related to our allowance for loan and lease losses, see **Note 5 Loans Receivable and Allowance for Loan and Lease Losses** to our unaudited consolidated financial statements included in our quarterly report on Form 10-Q for the quarter ended June 30, 2012 and incorporated by reference into this prospectus.

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

A comprehensive risk management function is essential to the financial and operational success of our business. The types of risk we monitor and seek to manage include, but are not limited to, operational risk, technological and organizational risk, market risk, fiduciary risk, legal and compliance risk, liquidity risk and credit risk. We have adopted various policies, procedures and systems to monitor and manage these risks. There can be no assurance that those policies, procedures and systems are adequate to identify and mitigate all risks inherent in our various businesses. Our businesses and the markets in which we operate are also continuously evolving. If we fail to fully understand the implications of changes in our business or the financial markets and to adequately or timely enhance the risk framework to address those changes, we could incur losses. In addition, in a difficult or less liquid market environment, our risk management strategies may not be effective because other market participants may be attempting to use the same or similar strategies to deal with the challenging market conditions. In such circumstances, it may be difficult for us to reduce our risk positions due to the activity of such other market participants.

### ***Competition with other financial institutions could adversely affect our profitability.***

We face substantial competition in originating loans and in attracting deposits and assets to manage. The competition in originating loans and attracting assets comes principally from other U.S., Puerto Rico and foreign banks, investment advisors, broker-dealers, mortgage banking companies, consumer finance companies, credit

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unions, insurance companies, and other institutional lenders and purchasers of loans. We will encounter greater competition as we expand our operations. Increased competition may require us to increase the rates paid on deposits or lower the rates charged on loans which could adversely affect our profitability.

### ***Our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends.***

We are a separate and distinct legal entity from our subsidiaries. Dividends to us from our subsidiaries have represented a major source of funds for us to pay dividends on our Common Stock, make payments on corporate debt securities and meet other obligations. There are various federal law limitations on the extent to which Oriental Bank, our main subsidiary, can finance or otherwise supply funds to us through dividends and loans. These limitations include minimum regulatory capital requirements, federal banking law requirements concerning the payment of dividends out of net profits or surplus, Sections 23A and 23B of the Federal Reserve Act of 1913 and Regulation W of the Federal Reserve Board governing transactions between an insured depository institution and its affiliates, as well as general federal regulatory oversight to prevent unsafe or unsound practices.

If our subsidiaries' earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, our liquidity may be affected and we may not be able to make dividend payments to our holders of Common Stock, to make payments on outstanding corporate debt securities or meet other obligations, each of which could have a material adverse impact on our results of operations, financial position or perception of financial health. See **Risks Related to Our Common Stock and this Offering** Our ability to declare dividends on the Common Stock may be limited.

In addition, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

### ***Loans that we acquired in the FDIC-assisted acquisition of Eurobank may not be covered by the shared-loss agreements if the FDIC determines that we have not adequately performed under these agreements or if the shared-loss agreements have ended.***

Although the FDIC has agreed to reimburse us for 80% of qualifying losses on covered loans, we are not protected from all losses resulting from charge-offs with respect to such loans. Also, the FDIC has the right to refuse or delay payment for loan and lease losses if the shared-loss agreements are not performed by us in accordance with their terms. Additionally, the shared-loss agreements have limited terms, and therefore, any charge-offs that we experience after the terms of the shared-loss agreements have ended would not be recoverable from the FDIC.

### ***Certain provisions of the shared-loss agreements entered into with the FDIC may have anti-takeover effects and could limit our ability to engage in certain strategic transactions that our board of directors believes would be in the best interests of shareholders.***

The FDIC's agreement to bear 80% of qualifying losses on single family residential loans for ten years and commercial loans for five years is one of our significant assets and a feature of the FDIC-assisted acquisition without which we would not have entered into such transaction. Our agreement with the FDIC requires that we receive prior FDIC consent, which may be withheld by the FDIC in its sole discretion, prior to us or our shareholders engaging in certain transactions. If any such transaction is completed without prior FDIC consent, the FDIC would have the right to discontinue the loss-sharing arrangement.

Among other things, prior FDIC consent is required for: (i) a merger or consolidation of us with or into another company if our shareholders will own less than 2/3 of the combined company and (ii) a sale of shares by one or more of our shareholders that will effect a change in control of Oriental Bank, as determined by the FDIC with reference to the standards set forth in the Change in Bank Control Act of 1978 (generally, the acquisition of between 10% and 25% of our voting securities where the presumption of control is not rebutted, or the acquisition of more than 25% of our voting securities). Such a sale by shareholders may occur beyond our control. If we or any shareholder desires to enter into any such transaction, there can be no assurances that the FDIC would grant its consent in a timely manner, without conditions, or at all. If one of these transactions were to occur without prior FDIC consent and the FDIC withdrew its loss-share protection, there could be a material adverse impact on us.

### ***Loans that we acquired in the FDIC-assisted acquisition may be subject to impairment.***

Although the loan portfolios acquired by us were initially accounted for at fair value, certain of such loans have become impaired and we have taken \$58.6 million of provisions for loan and lease losses related to this portfolio.



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There is no assurance that loans in this portfolio will not become impaired or further impaired, which may result in additional provision for loan and lease losses related to these portfolios. The fluctuations in economic conditions, including those related to the Puerto Rico residential and commercial real estate and construction markets, may increase the level of provision for credit losses that we make to our loan portfolio and portfolios acquired in the FDIC-assisted acquisition, and consequently, reduce our net income. These fluctuations are not predictable, cannot be controlled, and may have a material adverse impact on our operations and financial condition even if other favorable events occur.

*We operate in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations.*

Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) has a broad impact on the financial services industry, including significant regulatory and compliance changes, such as: (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) enhanced lending limits strengthening the existing limits on a depository institution's credit exposure to one borrower and to affiliates; (iii) increased capital and liquidity requirements; (iv) increased regulatory examination fees; (v) changes to assessments to be paid to the FDIC for federal deposit insurance; (vi) prohibiting bank holding companies, such as us, from including in regulatory Tier 1 capital future issuances of trust preferred securities or other hybrid debt and equity securities; (vii) caps on the interchange fees that banks are able to charge merchants for debit card transactions pursuant to the Durbin Amendment; and (viii) numerous other provisions designed to improve supervision and oversight of the financial services industry. Additionally, the Dodd-Frank Act established a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the FDIC. It also creates a new consumer financial protection regulator, the Consumer Financial Protection Bureau, which assumed most of the consumer financial protection regulatory responsibilities that were exercised by federal banking regulators and other agencies. Further, the Dodd-Frank Act addresses many corporate governance and executive compensation matters that affect most U.S. publicly-traded companies, including us.

Certain recent regulatory changes under the Dodd-Frank Act and otherwise apply only to depository institutions with more than \$10 billion in total assets, including requirements to undergo regular stress testing of capital under hypothetical adverse economic scenarios, large bank adjustments to assessments paid to the FDIC for deposit insurance, supervision and examination by the Consumer Financial Protection Bureau, and requirements to establish a risk committee on a company's board of directors. In addition, financial institutions with more than \$10 billion in assets will not be eligible for the commercial end user exemption to Dodd-Frank's mandatory clearing requirements for swaps and security-based swaps transactions used to hedge commercial risk. Upon the consummation of the proposed BBVAPR Acquisition and the planned deleveraging of approximately \$1.8 billion in investment securities and related borrowings, we expect to have total assets of less than \$10 billion. If we are not able to complete the deleveraging or we otherwise grow to have more than \$10 billion of assets through additional acquisitions or organic growth, our costs of doing business would be likely to increase as a result of these requirements. See We may not be able to complete the planned deleveraging of our and BBVAPR's investment securities and wholesale funding portfolios.

Given that many of the provisions of the Dodd-Frank Act are being implemented over time and are subject to implementing regulations, the full extent of the impact that such requirements, and other legislative and regulatory developments, will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. In particular, the potential impact of the Dodd-Frank Act on our operations and activities, both currently and prospectively, include, among others:

- n a reduction in our ability to generate or originate revenue-producing assets as a result of compliance with heightened capital standards;

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- n increased cost of operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, and higher deposit insurance premiums;
- n the limitation on our ability to raise capital through the use of trust preferred securities as these securities will no longer be included as Tier I capital going forward; and
- n the limitation on our ability to expand consumer product and service offerings due to anticipated stricter consumer protection laws and regulations.

Further, we may be required to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements. Failure to comply with the new requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

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

We operate an international banking entity pursuant to the International Banking Center Regulatory Act of Puerto Rico (the IBE Act ) that provides us with significant tax advantages. The international banking entity has the benefits of exemptions from Puerto Rico income taxes on interest earned on, or gain realized from the sale of, non-Puerto Rico assets, including U.S. government obligations and certain mortgage-backed securities. This exemption has allowed us to have effective tax rates significantly below the maximum statutory tax rates. In the past, the Legislature of Puerto Rico has considered proposals to curb the tax benefits afforded to international banking entities. Recently, a new Puerto Rico law was enacted in this area. Although it did not repeal the IBE Act, the new law does not allow new license applications under the IBE Act to organize and operate an international banking entity. Any newly organized entity (now called an international financial entity ) must be licensed under the new law and such entity (as opposed to existing international banking entities organized under the IBE Act, including us, which are grandfathered) will generally be subject to a 4% Puerto Rico income tax rate. In the event other legislation is passed in Puerto Rico to eliminate or modify the tax exemption enjoyed by international banking entities, the consequences could have a materially adverse impact on us, including increasing the tax burden or otherwise adversely affecting our financial condition, results of operations or cash flows.

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

Our financial statements are subject to the application of GAAP, which are periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by FASB. Market conditions have prompted accounting standard setters to promulgate new guidance which further interprets or seeks to revise accounting pronouncements related to financial instruments, structures or transactions as well as to issue new standards expanding disclosures. See Note 1 Summary of Significant Accounting Policies to our consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended December 31, 2011 and incorporated by reference into this prospectus and Note 1 Basis of Presentation to our unaudited consolidated financial statements included in our quarterly report on Form 10-Q for the quarter ended June 30, 2012 and incorporated by reference into this prospectus, respectively, for a discussion of any accounting developments that have been issued but not yet implemented. An assessment of proposed standards is not provided as such proposals are subject to change through the exposure process and, therefore, the effects on our financial statements cannot be meaningfully assessed. It is possible that future accounting standards that we are required to adopt could change the current accounting treatment that applies to the consolidated financial statements and that such changes could have a material effect on our financial condition and results of operations.

***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 the ability to attract and retain senior management experienced in banking and wealth management. Retention of senior managers and appropriate succession planning will continue to be critical to the successful implementation of our strategies. For a discussion of retention risk with respect to BBVAPR employees following the proposed BBVAPR Acquisition, see Risks Related to the Proposed BBVAPR Acquisition We may not be able to integrate BBVAPR s assets into our operations.





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### ***Reputational risk and social factors may impact our results.***

Our ability to originate loans and to attract deposits and assets is highly dependent upon the perceptions of consumer, commercial and funding markets of our business practices and our financial health. Negative public opinion could result from actual or alleged conduct in any number of activities or circumstances, including lending practices, regulatory compliance, inadequate protection of customer information, or sales and marketing, and from actions taken by regulators in response to such conduct. Adverse perceptions regarding us could lead to difficulties in originating loans and generating and maintaining accounts as well as in financing them.

In addition, a variety of social factors may cause changes in borrowing activity, including credit card use, payment patterns and the rate of defaults by account holders and borrowers. If consumers develop or maintain negative attitudes about incurring debt, or if consumption trends decline, our business and financial results will be negatively affected.

### ***We could incur increased costs or reductions in revenue or suffer reputational damage in the event of misuse of information.***

Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks regarding our customers and their accounts. To provide these products and services, we use information systems and infrastructure that we and third party service providers operate. As a financial institution, we also are subject to and examined for compliance with an array of data protection laws, regulations and guidance, as well as to our own internal privacy and information security policies and programs.

Information security risks for financial institutions like us have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions and the increased sophistication and activities of organized crime, hackers and other external parties. Our technologies and systems may become the target of cyber-attacks or other attacks that could result in the misuse or destruction of our or our customers' confidential, proprietary or other information or that could result in disruptions to the business operations of us or our customers or other third parties. Further, a breach or attack affecting one of our third-party service providers or partners could impact us through no fault of our own. In addition, because the methods and techniques employed by perpetrators of fraud and others to attack systems and applications change frequently and often are not fully recognized or understood until after they have been launched, we and our third-party service providers and partners may be unable to anticipate certain attack methods in order to implement effective preventative measures.

While we have policies and procedures designated to prevent or limit the effect of the possible security breach of our information systems, if unauthorized persons were somehow to get access to confidential or proprietary information in our possession or to our proprietary information, it could result in significant legal and financial exposure, damage to our reputation or a loss of confidence in the security of our systems that could adversely affect our business. Though we have insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event.

### ***We will likely be classified as a passive foreign investment company for U.S. federal income tax purposes, which could subject U.S. investors in the shares of our Common Stock to adverse tax consequences, which may be significant.***

In light of our significant portfolio of investment securities, we will likely be classified as a passive foreign investment company (a PFIC) for U.S. federal income tax purposes for the current taxable year and, if the BBVAPR Acquisition is not consummated, may be a PFIC in subsequent taxable years. PFIC status is a factual determination made annually after the close of each taxable year on the basis of the composition of our income and the value of our active versus passive assets. The overall level of our passive assets will be significantly affected by changes in the amount of our cash, cash equivalents and securities held for investment, each of which may be classified as passive assets under the PFIC rules. If we were to be or become classified as a PFIC, a U.S. Holder that does not make a mark-to-market election may incur significantly increased U.S. income tax on gain recognized on the sale or other disposition of Common Stock and on the receipt of distributions on the Common Stock to the extent such gain or distribution is treated as an excess distribution under the U.S. federal income tax rules. See Certain U.S. Federal Income Tax Considerations - Passive Foreign Investment Company Rules.

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Investors are urged to consult their tax advisors concerning the U.S. federal income tax consequences of acquiring, holding, and disposing of our Common Stock if we are classified as a PFIC, including the possibility of making a mark-to-market election.

### **Risks Related to the Proposed BBVAPR Acquisition**

*BBVAPR is subject to similar business risks that we face.*

BBVAPR concentrates its business activities in the geographic area, operates its business and offers financial products that are similar to ours, and therefore, BBVAPR is affected by many of the same macroeconomic conditions in Puerto Rico and similar risks that we face in our business operations. See [Risks Related to Our Business](#) for a discussion of risks that we face.

*We may not receive the necessary regulatory approvals to consummate the BBVAPR Acquisition.*

The consummation of the proposed BBVAPR Acquisition is subject to the receipt of all necessary regulatory approvals, including those of federal and Puerto Rico bank regulators. In determining whether to approve a proposed acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, our financial condition and future prospects, and the financial stability of the United States. The regulators also review current and projected capital ratios and levels, the competence, experience, and integrity of management and its record of compliance with laws and regulations, the convenience and needs of the communities to be served (including the acquiring institution's record of compliance under the Community Reinvestment Act of 1977) and the effectiveness of the acquiring institution in combating money laundering activities. Such regulatory approvals may not be granted at all or may be granted only on terms that are so materially burdensome that they would prevent completion of the proposed transaction pursuant to the BBVAPR Acquisition Agreement. We may also be required to sell branches as a condition to receiving regulatory approval and that may reduce the benefit of the acquisition and be subject to our ability to find third-party purchasers for the divestitures of such branches on satisfactory terms and conditions. There can be no assurance as to when or whether these regulatory approvals will be received or the conditions associated with any approval.

*We may not be able to realize the anticipated benefits of the BBVAPR Acquisition.*

Our future growth and profitability depend, in part, on the ability to successfully manage the combined operations. The success of our proposed BBVAPR Acquisition will depend on, among other things, our ability to assess the quality of assets acquired, to realize anticipated cost savings and to integrate the acquired companies in a manner that permits growth opportunities and does not materially disrupt our or BBVAPR's existing customer relationships or result in decreased revenues resulting from any loss of customers. If we are not able to successfully achieve these objectives, the anticipated benefits of the BBVAPR Acquisition may not be realized fully or at all or may take longer to realize than expected.

*Loans that we will acquire in the BBVAPR Acquisition may be subject to greater than anticipated impairment.*

We will make fair value estimates of certain assets and liabilities in recording the BBVAPR Acquisition. Actual values of these assets and liabilities could differ from our estimates, which could result in us not achieving the anticipated benefits of the BBVAPR Acquisition. In addition, BBVAPR's loan scoring system may be different than ours, and as we evaluate their loan portfolio using our systems, we may have to make additional adjustments.

Given the economic conditions in Puerto Rico, we may continue to experience increased credit costs or need to take greater than anticipated markdowns and make greater than anticipated provisions to increase the allowances for loan losses on the loans acquired that could adversely affect our financial condition and results of operations in the future.

*We may not be able to complete the planned deleveraging of our and BBVAPR's investment securities and wholesale funding portfolios.*

In connection with the BBVAPR Acquisition we plan to deleverage approximately \$1.8 billion of our and BBVAPR's investment securities portfolio and wholesale funding to further shift our funding base from investment securities and wholesale funding to higher yielding assets, reduce our interest rate sensitivity and improve our regulatory capital ratios. The completion of the deleveraging transactions could be delayed or we may not be able to complete the deleveraging on terms satisfactory to us or at all. If we are unable to complete the deleveraging in a timely manner, we may be subject to additional regulatory requirements (see [We operate in a highly regulated](#)

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environment and may be adversely affected by changes in federal and local laws and regulations ) and may be required to raise additional capital. We expect to incur a relatively small loss in connection with the deleveraging; however, we could incur a larger than expected loss based on market conditions at the time we complete the deleveraging and that loss could be material.

### ***We may not be able to integrate BBVAPR's business into our operations.***

The successful integration of BBVAPR's banking operations and our future growth and profitability depend in part on our ability to successfully manage the combined operations. Integration of an acquired business can be complex and costly, sometimes including combining relevant accounting and data processing systems and management controls and policies, as well as managing relevant relationships with employees, clients, suppliers and other business partners. Integration efforts could divert management attention and resources, which could adversely affect our operations or results. The loss of key employees in connection with this acquisition could adversely affect our ability to successfully conduct the combined operations. In connection with the BBVAPR Acquisition, BBVAPR has offered bonuses to certain of its executives if they remain with BBVAPR through the Closing. However, there can be no assurance that any of these executives will choose to continue working at the combined business following the completion of the BBVAPR Acquisition, or if they do, that we will be able to successfully integrate any of these executives as part of our management team in the combined business.

The BBVAPR Acquisition may also result in business disruptions that cause us to lose customers or cause customers to move their accounts or business to competing financial institutions. It is possible that the integration process related to the proposed acquisition could disrupt our ongoing business or result in inconsistencies in customer service that could adversely affect our ability to maintain relationships with clients, customers, depositors and employees. Our inability to overcome these risks could have a material adverse effect on our business or financial condition, results of operations and future prospects. There is no assurance that our integration efforts will not result in other unanticipated costs.

### ***We may not be able to agree with BBVA on a transition services agreement that will provide us with sufficient services to facilitate the integration of the BBVAPR Acquisition.***

At Closing, BBVA and Oriental will enter into a transition services agreement pursuant to which BBVA will provide us with certain services to assist us with the day-to-day operations of the acquired companies and their transition to our infrastructure, and to provide data for the integration of information, for a period of up to 12 months. Negotiations relating to the transition services agreement are in their preliminary stages, and there can be no assurance that the services that BBVA agrees to provide to us will be sufficient, in scope or duration, to ensure the successful integration of BBVAPR.

### ***If the BBVAPR Acquisition is completed, we will incur significant transaction and acquisition-related costs.***

If the BBVAPR Acquisition is completed, we expect to incur certain one-time restructuring charges of approximately \$40 million in connection with the transaction. The substantial majority of non-recurring expenses resulting from the BBVAPR Acquisition will be comprised of transaction costs related to the BBVAPR Acquisition and financing arrangements and employment-related costs. We also will incur transaction fees and costs related to formulating and implementing integration plans. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in the business integration of the two groups of companies. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies or synergies related to the integration of the businesses should allow us to offset incremental transaction and acquisition-related costs over time, this net benefit may not be achieved in the near term, or at all.

### ***We may fail to successfully consummate the BBVAPR Acquisition, which may subject us to penalties.***

While we intend and expect to meet all of the conditions required to consummate the BBVAPR Acquisition, our ability to consummate the BBVAPR Acquisition is subject to certain events that are beyond our control. These events include our raising the necessary additional funds to finance the BBVAPR Acquisition (including our ability to consummate this offering or the proposed separate offering of non-convertible non-cumulative perpetual preferred stock that we expect to commence concurrently with, or shortly after, this offering) and the receipt of regulatory approvals from the FDIC, the Federal Reserve Board, FINRA and the OCFI (the Approvals ). See We may not receive the necessary regulatory approvals to consummate the BBVAPR Acquisition for factors that the federal bank regulators may consider in granting the Approvals.

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Under the BBVAPR Acquisition Agreement, we may be subject to a termination fee of \$25 million if the Closing does not occur before one year after execution of the BBVAPR Acquisition Agreement (or before 15 months after execution of the BBVAPR Acquisition Agreement in certain circumstances), the BBVAPR Acquisition Agreement is terminated, and the failure to close within one year (or such later date) is due to our inability to raise the specified additional funds or to obtain the Approvals or any other reason other than certain breaches by BBVA, subject to certain conditions. In addition, BBVA could seek damages in excess of \$25 million if BBVA terminates the BBVAPR Acquisition Agreement due to our failure to satisfy the funding requirement or if our willful and knowing breach of the BBVAPR Acquisition Agreement is the proximate cause of the Closing not having been consummated, and BBVA suffers losses as a result in excess of the \$25 million termination fee. If BBVA decides to terminate the BBVAPR Acquisition Agreement and collect the termination fee, such additional damages would be limited to BBVA's losses in excess of the termination fee, and could not exceed an additional \$25 million. Such limit would not apply if BBVA does not elect to terminate the BBVAPR Acquisition Agreement and collect the termination fee.

*If we fail to consummate the BBVAPR Acquisition, we may use a portion of the proceeds of this offering to redeem preferred stock.*

While we intend to use the proceeds of this offering to fund part of the purchase price of the BBVAPR Acquisition, this offering is not contingent on the BBVAPR Acquisition. If we fail to consummate the BBVAPR Acquisition we may choose to use the net proceeds of this offering for a variety of other purposes, including redeeming our Series C Preferred Stock at a redemption price equal to 101% of the liquidation preference of the shares of Series C Preferred Stock to be redeemed and accrued and unpaid dividends for the dividend period in which the redemption occurs (whether or not declared), plus a redemption premium based on the price of our Common Stock at the time of the redemption. In addition, we expect that the non-convertible non-cumulative perpetual preferred stock we intend to offer in conjunction with the BBVAPR Acquisition will be mandatorily redeemable if the BBVAPR Acquisition is not consummated. Any such redemption is subject to the receipt of any necessary regulatory approvals under applicable regulation, and there is no assurance that we will be able to obtain such regulatory approvals, if required.

### **Risks Related to Our Common Stock and this Offering**

*The price of our Common Stock may fluctuate significantly, and this may make it difficult for you to resell the Common Stock owned by you at times or at prices you find attractive.*

The price of our Common Stock on the New York Stock Exchange constantly changes. We expect that the market price of our Common Stock will continue to fluctuate, and there can be no assurances about the market prices for our Common Stock.

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

- n our past and future dividend practice;
- n our financial condition, performance, creditworthiness and prospects;
- n quarterly variations in our operating results or the quality of our assets;
- n operating results that may vary from the expectations of management, securities analysts and investors and changes in expectations as to our future financial performance;
- n developments in the business or in the financial sector in general;
- n legislative and regulatory changes affecting our industry in general or our business and operations;

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- n the operating and securities price performance of peer financial institutions;
  
- n the level of liquidity of our Common Stock;
  
- n future sales of our equity or equity-related securities;
  
- n announcements of innovations, new products, strategic developments, significant contracts, acquisitions and other material events by us or our competitors;
  
- n the impact of the Dodd-Frank Act on our businesses, business practices and cost of operations;
  
- n a credit default by the U.S. or Puerto Rico governments or a downgrade in the credit ratings of the U.S. or Puerto Rico governments;

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- n the relative strength or weakness of the consumer and commercial credit sectors and of the real estate market in Puerto Rico;
- n the departure of key personnel;
- n changes in the credit, mortgage and real estate markets, including the markets for mortgage-related securities;
- n changes in global financial markets and global economies and general market conditions;
- n negative economic conditions that adversely affect the economy, housing prices, the job market and other factors that may affect our liquidity and the performance of our loan portfolios, particularly in the markets in which we operate;
- n the failure to complete the BBVAPR Acquisition or unexpected difficulties or developments related to the integration of the BBVAPR Acquisition; and
- n the occurrence of major catastrophic events including terrorist attacks.

The stock markets, in general, have recently experienced, and may continue to experience, extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations that may be unrelated to our operating performance or prospects may adversely affect the trading price of our Common Stock. This volatility may affect the price at which you could sell the Common Stock, including at prices below the price you paid for the Common Stock. Increased volatility could also result in decline in the market price of our Common Stock.

***There may be future sales or other dilution of our equity, which may adversely affect the market price of our Common Stock.***

Except as described under "Underwriting," we are not restricted from issuing additional Common Stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, Common Stock. Moreover, on July 3, 2012, we issued the Series C Preferred Stock, whose holders have the right to convert shares of preferred stock into Common Stock. The issuance of any additional Common Stock or preferred stock or securities convertible into, exchangeable for or that represent the right to receive Common Stock or the exercise of such securities could be substantially dilutive to holders of our Common Stock, which have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series.

The market price of our Common Stock could decline as a result of this offering and our expected offering of non-convertible non-cumulative perpetual preferred stock as well as sales of our securities made after these offerings. We are not obliged to raise specific individual amounts or a specific proportion of Common Stock to non-convertible non-cumulative perpetual preferred stock as part of the Buyer Capital Raise and the final amount of Common Stock and non-convertible non-cumulative perpetual preferred stock we issue may ultimately be driven by market conditions or regulatory requirements. To the extent we issue less non-convertible non-cumulative perpetual preferred stock than we intend, we may be required to raise additional equity as part of the Buyer Capital Raise, which could be in the form of our Common Stock and be dilutive to the existing holders of our Common Stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our Common Stock and diluting their stock holdings in us.

In addition, we have in the past granted, and may from time to time grant, restricted stock units and options to purchase Common Stock to our directors, officers and employees under our Omnibus Performance Incentive Plan, which provides for equity-based compensation incentives. To the extent these options are exercised or the restricted periods for the restricted stock units lapse, the interests of our Common Stock shareholders will be subject to additional dilution.

These additional equity issuances would reduce any earnings available to the holders of our Common Stock and the return thereon unless our earnings increase correspondingly. This could make it more difficult for us to raise additional financing through the sale of equity or equity-related securities in the future at a time and place that we deem reasonable or appropriate. We cannot predict the timing or size of future equity issuances or the effect that they may have on the market price of the Common Stock.





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*The Common Stock is junior in right of payment to our existing and future indebtedness and to our existing and future preferred equity securities for purposes of dividend distribution or in the event of a liquidation, dissolution or winding-up.*

In conjunction with the BBVAPR Acquisition, we expect to offer up to \$       million in the aggregate of non-convertible non-cumulative perpetual preferred stock. We may in the future seek to raise additional capital and, if Oriental Bank's capital ratios fall below the required minimums, we or Oriental Bank could be required to raise additional capital by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our Common Stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our Common Stock, or both. Holders of our Common Stock are not entitled to preemptive rights or other protections against dilution.

Our board of directors is also authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the stockholders. In addition, our board of directors has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our Common Stock with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. If we issue preferred stock in the future that has a preference over our Common Stock with respect to the payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our Common Stock, the rights of holders of our Common Stock or the market price of our Common Stock could be adversely affected. As of June 30, 2012, we had approximately \$3.4 billion of total consolidated indebtedness and \$68 million aggregate outstanding amount of preferred stock (not including \$84 million aggregate outstanding amount of Series C Preferred Stock that would be senior in right of payment to the Common Stock. Pro forma for the BBVAPR Acquisition, we would have had \$10.1 billion of total consolidated indebtedness and \$185 million aggregate outstanding amount of preferred stock (not including any non-convertible non-cumulative perpetual preferred stock issued as part of the Buyer Capital Raise) that would be senior in right of payment to the Common Stock.

*Federal and Puerto Rico banking regulations may limit the ability of investors to purchase the Common Stock.*

Federal and Puerto Rico banking regulations may limit the amount of Common Stock that may be purchased by an investor (or group of investors acting in concert) without first obtaining regulatory approval. For example, the Change in Bank Control Act of 1978 would require an investor (or group of investors acting in concert) to obtain prior non-objection of the Federal Reserve Board in connection with the acquisition of 10% or more of any class of our voting securities. In addition, the U.S. Bank Holding Company Act of 1956, as amended (the BHC Act ) would require an investor to obtain prior approval of the Federal Reserve Board in connection with any transaction that would cause the investor to control us. Control for this purpose would be deemed to exist if an investor acquires 25% or more of any class of our voting securities or otherwise is deemed to have the ability to exercise a controlling influence over us. The Federal Reserve Board assesses the existence of a controlling influence based on all of the facts and circumstances, including the investor's aggregate ownership of voting and non-voting securities. Additional rules would apply to an investor that is itself controlled by another bank holding company.

Under the Puerto Rico Banking Act, as amended (the Banking Act ), a notice must be filed with the OCFI not less than 60 days prior to the consummation of any transfer of our Common Stock if, after such transfer, the transferee (including any group acting in concert) will own more than 5% of outstanding Common Stock. The transfer will require the approval of the OCFI if it will result in a change of control. A transfer will be presumed to result in a change of control if, as a result of such transfer, a person or group that did not own more than 5% of our outstanding Common Stock prior to such transfer owns more than 5% of such stock. In acting upon any such request for approval, the OCFI must take into consideration factors such as the experience and moral and financial accountability of the transferee, its impact on our operations, whether the change of control threatens the interest of our depositors, creditors or shareholders, and any public interest considerations. We have received a waiver from the OCFI of such notice and approval requirements with respect to transfers of our Common Stock as part of this offering and subject to certain conditions, including that no purchaser acquires 10% or more of our outstanding Common Stock as a result of this offering and that, in effect, no such purchaser exercises directly or indirectly a controlling influence over the management or policies of Oriental Bank. For purposes of the Banking Act, the term control means the power to, directly or indirectly, direct or influence decisively the administration or the policies of the bank.

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Investors should consult their own counsel regarding these and other regulatory requirements before making a decision to invest in the Common Stock.

### ***Our ability to declare dividends on the Common Stock may be limited.***

Unlike indebtedness, where principal and interest customarily are payable on specified due dates, in the case of the Common Stock, (i) dividends are payable only if and when declared by our board of directors out of funds legally available for such payments and are non-cumulative; (ii) as a corporation, we are subject to restrictions on dividend payments and redemption payments out of lawfully available funds; and (iii) there are no restrictions on our business or operations or on our ability to incur indebtedness, issue additional Common Stock or engage in any transactions.

Although we have historically declared cash dividends on our Common Stock, we are not required to do so. We expect to continue to pay dividends but our ability to pay future dividends at current levels will necessarily depend upon our earnings, financial condition, and market conditions. In addition, any dividends payable on the Common Stock are required to be paid on all of our outstanding Common Stock, which may also impact our ability to make such payments.

Our ability to pay dividends on the Common Stock is also subject to restrictions in the terms of each of our Series A, Series B and Series C preferred stock and any restrictions in the terms of preferred stock that we may offer in the future, including the non-convertible non-cumulative perpetual preferred stock that we expect to offer to finance, in part, the BBVAPR Acquisition, respectively, each of which rank, or will rank, senior to the Common Stock in right of payment.

While our Series A, Series B and Series C preferred stock remain outstanding, we cannot declare, set apart for payment or pay any dividends or make any other distributions (other than dividends paid or other distributions made in any other class of our stock ranking junior to our preferred stock) on, or redeem, purchase, set apart or otherwise acquire (except upon conversion or exchange for shares of our stock ranking junior to our preferred stock), shares of our Common Stock or of any other class of our stock ranking junior to our preferred stock with respect to dividend rights and rights on liquidation, dissolution or winding up, unless (i) all accrued and unpaid dividends on our Series A, Series B and Series C preferred stock for the 12 prior monthly dividend periods have been paid or are paid contemporaneously, (ii) the full monthly dividend on our Series A, Series B and Series C preferred stock for the current month has been or is contemporaneously declared and paid or set apart for payment, and (iii) we have not defaulted on the payment of the redemption price of any shares of our Series A or Series B preferred stock called for redemption.

In addition, as a bank holding company, our ability to declare and pay dividends depends on a number of federal regulatory considerations, including our ability to meet minimum regulatory capital requirements. We will soon become subject to more stringent capital requirements, which could diminish our ability to pay dividends. New and evolving capital standards, both as a result of the Dodd-Frank Act and the implementation of new capital standards adopted by the Basel Committee on Banking Supervision, including the so-called Basel III international accord, will have a significant effect on banks and bank holding companies, including us. The Federal Reserve Board, together with the other federal banking agencies, recently issued a proposal to implement Basel III in the United States, that would, among other things, narrow the definition of regulatory capital, raise the capital requirements associated with many of our assets, and establish higher minimum risk-based capital ratios that, when fully phased in, will require banking organizations, including us, to maintain a minimum common equity Tier 1 risk-based ratio of 4.5%, a Tier 1 ratio risk-based ratio of 6%, and a total capital ratio of 8%. A capital conservation buffer of 2.5% above each of these levels (to be phased-in beginning in 2016) will also be required in order to avoid restrictions on our ability to pay dividends. Moreover, the need to maintain more and higher quality capital, as well as greater liquidity, going forward than historically has been required could also require us to take steps to increase our capital that may be dilutive to shareholders or may limit our ability to pay dividends or otherwise return capital to shareholders.

### ***Anti-takeover provisions could negatively impact our stockholders.***

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

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**INCORPORATION BY REFERENCE**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document that we file at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at [www.sec.gov](http://www.sec.gov), from which interested persons can electronically access our SEC filings, including the registration statement to which this prospectus supplement relates and the exhibits and schedules thereto.

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus. Information that we file with the SEC following the date of this prospectus will not be incorporated by reference and you should rely only on the information incorporated by reference in this prospectus. We incorporate by reference into this prospectus the documents listed below:

- (a) Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on March 9, 2012;
- (b) Definitive Proxy Statement on Schedule 14A filed with the SEC on March 14, 2012, to the extent incorporated by reference in the Annual Report on Form 10-K for the year ended December 31, 2011;
- (c) Quarterly Reports on Form 10-Q for the quarters ended March 31 and June 30, 2012, filed with the SEC, respectively, on May 4, 2012 and August 3, 2012 (as amended on August 6, 2012); and
- (d) Current Reports on Form 8-K dated January 30, 2012, February 28, 2012, May 1, 2012, May 29, 2012, June 28, 2012 (Item 8.01) and July 3, 2012.

Our filings are available on the Investor Relations page of our website at <http://www.orientalfg.com>. Information contained in or linked to our website is not a part of this prospectus. You may also request a free copy of the above mentioned filings or any of our subsequent filings by written or oral request directed to:

Oriental Financial Group Inc.

Investor Relations c/o Anreder & Company

10 E. 40<sup>th</sup> Street, Suite 1308

New York, NY 10016

Telephone: (212) 532-3232 or (800) 421-1003

Facsimile: (212) 679-7999

E-mail: [ofg@anreder.com](mailto:ofg@anreder.com)

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

The information included in this prospectus contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to the financial condition, results of operations, plans, objectives, future performance and business of the Company, including, but not limited to, statements with respect to the adequacy of the allowance for loan losses, delinquency trends, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity, and the effect of legal proceedings and new accounting standards on the Company's financial condition and results of operations, all after giving pro forma effect to the BBVAPR Acquisition. All statements contained herein that are not clearly historical in nature are forward-looking, and the words anticipate, believe, continues, expect, estimate, intend, project and similar expressions and future or conditional verbs such as should, could, might, can, may, or similar expressions are generally intended to identify forward-looking statements.

These statements are not guarantees of future performance and involve certain risks, uncertainties, estimates and assumptions by management that are difficult to predict. Various factors, some of which by their nature are beyond the Company's control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- n the rate of growth in the economy and employment levels, as well as general business and economic conditions and specific factors impacting Puerto Rico;
- n changes in interest rates, as well as the magnitude of such changes;
- n the fiscal and monetary policies of the federal government and its agencies;
- n a credit default by the U.S. or Puerto Rico governments or a downgrade in the credit ratings of the U.S. or Puerto Rico governments;
- n changes in federal bank regulatory and supervisory policies, including required levels of capital;
- n the impact of the Dodd-Frank Act and other regulatory initiatives on the Company's businesses, business practices and cost of operations;
- n the relative strength or weakness of the consumer and commercial credit sectors and of the real estate market in Puerto Rico;
- n the performance of the stock and bond markets;
- n competition in the financial services industry;
- n additional FDIC assessments;
- n possible legislative, tax or regulatory changes;

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- n the receipt and timing of regulatory approvals required to consummate the BBVAPR Acquisition;
- n our ability to raise the necessary equity to finance the BBVAPR Acquisition;
- n our ability to successfully deleverage approximately \$1.8 billion of our and BBVAPR's investment securities and wholesale funding portfolios in connection with the BBVAPR Acquisition; and

n difficulties in integrating BBVAPR's operations into Oriental's operations and achieving the expected benefits of the acquisition. Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following: negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits, which may affect, among other things, the level of non-performing assets, charge-offs and provision expense; changes in interest rates and market liquidity, which may reduce interest margins, impact funding sources and affect the ability to originate and distribute financial products in the primary and secondary markets; adverse movements and volatility in debt and equity capital markets; changes in market rates and prices that may adversely impact the value of financial assets and liabilities; liabilities resulting from litigation and regulatory investigations; changes in accounting standards, rules and interpretations; increased competition; our ability to grow our core businesses; decisions to downsize, sell or close units or otherwise change our business mix; and management's ability to identify and manage these and other risks.

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All forward-looking statements included in this prospectus are based upon information available to the Company as of the date of this prospectus, and other than as required by law, including the requirements of applicable securities laws, we assume no obligation to update or revise any such forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

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**THE BBVAPR ACQUISITION**

The following discussion of the BBVAPR Acquisition is qualified in its entirety by reference to, and should be read in conjunction with, the information included elsewhere in this prospectus and in the documents incorporated by reference herein.

**Background on the BBVAPR Acquisition**

On June 28, 2012, Oriental and BBVA entered into the BBVAPR Acquisition Agreement, pursuant to which BBVA agreed to sell to Oriental, and Oriental agreed to purchase from BBVA, all of the outstanding common stock of each of BBVAPR Holding Corporation (the sole shareholder of BBVAPR Bank, a Puerto Rico chartered commercial bank, and BBVA Seguros, a subsidiary offering insurance services) and BBVA Securities, a registered broker-dealer.

Closing of the BBVAPR Acquisition is targeted to occur by year-end 2012. Consummation of the BBVAPR Acquisition is subject to the satisfaction of certain customary conditions, including the receipt of all required regulatory approvals without the imposition of a materially burdensome regulatory condition, as described in the BBVAPR Acquisition Agreement. See Regulatory Considerations.

Oriental will acquire all of the outstanding common stock of each of BBVAPR Holding Corporation and BBVA Securities for an aggregate purchase price of \$500 million, payable in cash. Immediately following the Closing, Oriental will merge BBVAPR Bank with and into Oriental Bank, with Oriental Bank continuing as the surviving entity. Oriental also intends to merge BBVA Securities with and into Oriental Financial Services, with Oriental Financial Services as the surviving registered broker-dealer and to combine the businesses of BBVA Seguros and Oriental Insurance.

The Company plans to finance the BBVAPR Acquisition through (i) the net proceeds from the issuance of Series C Preferred Stock on July 3, 2012, (ii) this offering, (iii) a separate offering of non-convertible non-cumulative perpetual preferred stock that we expect will commence concurrently with, or shortly after, this offering, and (iv) the remaining amount from cash on its balance sheet (see Additional Financing ).

In addition, to reduce capital requirements and further strategic goals (see Reasons for the BBVAPR Acquisition ), Oriental plans to deleverage approximately \$1.8 billion of its and BBVAPR s investment securities portfolio and wholesale funding in connection with the BBVAPR Acquisition. Oriental expects to sell approximately \$1.4 billion of its investment securities and related funding arrangements and approximately \$450 million of investment securities and related funding arrangements from BBVAPR s balance sheet. See Risk Factors We may not be able to complete the planned deleveraging of our and BBVAPR s investment securities and wholesale funding portfolios.

In the BBVAPR Acquisition Agreement, Oriental and BBVA agreed to use their reasonable best efforts to consummate the transaction and agreed to cooperate with one another to make the necessary filings and obtain the necessary consents and approvals of third parties and governmental authorities. BBVA and Oriental also agreed to use reasonable best efforts to cooperate with one another concerning finalization of a transition services agreement pursuant to which BBVA will provide Oriental with certain services to assist Oriental with the day-to-day operations of the acquired companies and their transition to Oriental s infrastructure, and to provide data for the integration of information, for a period of up to 12 months. Integration planning and negotiations relating to the transition services agreement are in their preliminary stages. BBVA agreed to cause the BBVAPR Companies to operate in the ordinary course of business consistent with past practice, and not to enter into certain types of transactions prior to the Closing.

BBVA agreed not to engage in specified activities competitive with the businesses of the BBVAPR Companies in Puerto Rico for three years following the Closing or solicit or hire any senior-level officer (other than certain excepted employees) of the BBVAPR Companies for one year following the Closing.

Oriental agreed that after the Closing it will phase out the use of BBVA marks within 60 days and provide each employee of the BBVAPR Companies who becomes an Oriental employee, for one year following the Closing, the base salary or hourly wage rate, annual bonus opportunity and employee benefits that are substantially comparable

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to those to which the employee was entitled immediately prior to the Closing, as well as severance benefits that are no less favorable than those provided immediately prior to the Closing.

In connection with the execution of the BBVAPR Acquisition Agreement, 30 members of management from BBVAPR Bank signed retention agreements with BBVAPR Bank providing for transaction bonuses for employees that remain with the BBVAPR Bank through the Closing, and for severance payments if their employment is terminated within 18 months following the Closing, subject to certain conditions. Oriental has agreed to honor and assume all obligations under the retention agreements.

The BBVAPR Acquisition Agreement provides certain customary termination rights for BBVA. Oriental may be subject to a termination fee of \$25 million if the Closing does not occur before one year after execution of the BBVAPR Acquisition Agreement (or before 15 months after execution of the BBVAPR Acquisition Agreement under certain circumstances), the BBVAPR Acquisition Agreement is terminated, and the failure to close within one year (or such later date) is due to our inability to raise the specified additional funds or to obtain the Approvals or any other reason other than certain breaches by BBVA, subject to certain conditions. Also, under certain conditions, if the BBVA Acquisition Agreement is terminated, the termination fee is payable and BBVAPR proves that it sustained losses in connection with such non-consummation in excess of the termination fee amount, BBVA may recover from Oriental up to an additional \$25 million in losses. There can be no assurance as to when or whether the acquisition will be consummated and what amounts Oriental may be obligated to pay under the BBVAPR Acquisition Agreement, if the acquisition is not consummated.

The BBVAPR Acquisition Agreement contains customary representations and warranties of each of BBVA and Oriental. It also contains customary indemnification provisions for each of BBVA and Oriental, subject, in certain cases, to a *de minimis* claim size threshold, an aggregate claim amount deductible, a cap on indemnification and other limitations on liability.

The BBVAPR Acquisition is contingent upon receipt by Oriental of all necessary regulatory approvals, including approval of the Federal Reserve Board, the FDIC, FINRA and the OCFI, as well as other customary closing conditions. See Regulatory Considerations.

### **Reasons for the BBVAPR Acquisition**

We believe the major objectives and anticipated benefits of the BBVAPR Acquisition are:

***Effective use of excess capital to enhance financial performance, franchise and shareholder value.*** We believe this transaction offers an efficient use of our excess capital to enhance our financial performance, franchise and shareholder value.

- n **Earnings per share accretion.** The BBVAPR Acquisition is anticipated to result in earnings growth both in the short-term and over the long-term.
- n **Market leading bank.** We believe the combination of Oriental Bank and BBVAPR Bank will create a market leading bank that is strongly capitalized, locally controlled (all but three of BBVAPR's management team is composed of local executives with significant retail and commercial banking experience) and focused on serving the needs of Puerto Rico businesses and consumers. Ultimately, combining two healthy institutions is expected to enable Oriental to continue to gain strength and leadership and enhance its competitive position in the Puerto Rico market. Pro forma for the BBVAPR Acquisition, the combined entities will rank second in Puerto Rico in total core deposits.
- n **Bigger branch network.** The BBVAPR Acquisition represents a unique opportunity to acquire 36 branches across Puerto Rico, which will be rebranded and add to Oriental's 28 branches at June 30, 2012, resulting in the combined entities ranking second in number of retail branches on the island. After the integration of BBVAPR Bank and Oriental Bank is complete, Oriental will assess whether there are any branches with overlapping service areas for consolidation.
- n **Expanded customer base and complementary products and services.** BBVAPR has a strong franchise that we believe is highly complementary to Oriental's. BBVAPR's branch network will substantially increase Oriental's presence across Puerto Rico. BBVAPR also has substantial commercial banking and auto lending operations supported by a management team of local executives with



significant retail and commercial

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banking experience. We expect the BBVAPR Acquisition will provide Oriental with a strategic advantage in continuing to serve a market that desires both personalized attention and access to a broad array of financial products and services offered at competitive prices. The Company believes the Puerto Rico customers of BBVAPR will generally fit the Company's traditional customer profile.

***Transformation of Oriental's financial profile.*** By acquiring the BBVAPR Companies, we will accelerate our long-standing goal of creating a more stable balance sheet, with a larger and more diversified loan portfolio, a greater core deposit funding base, and a smaller investment securities portfolio, improving earnings stability. Furthermore, in connection with the BBVAPR Acquisition, we plan to deleverage approximately \$1.8 billion of our and BBVAPR's investment securities and wholesale funding portfolios. In addition to reducing the sensitivity of our balance sheet to interest rates, the planned deleveraging would improve our capital ratios by reducing the size of our balance sheet. See Risk Factors. We may not be able to complete the planned deleveraging of our and BBVAPR's investment securities and wholesale funding portfolios.

- n **Larger and more diversified loan portfolio.** The BBVAPR Acquisition will create a more attractive interest-earning asset composition, with an increased proportion of loans, from 30% of Oriental's total interest-earning assets as at June 30, 2012 to 54% of the combined entities' total interest-earning assets pro forma for the BBVAPR Acquisition and 66% after giving effect to the planned deleveraging. The resulting loan portfolio of the combined entities pro forma for the BBVAPR Acquisition will be approximately a third each in commercial loans, residential mortgages, and consumer loans and leases.
- n **Greater core deposit funding base.** The BBVAPR Acquisition creates a more attractive funding composition, especially after giving effect to the planned deleveraging. Core deposits, which accounted for 36% of our funding base at June 30, 2012, would remain 36% of the combined companies' funding base and increase to 47% after giving effect to the planned deleveraging.
- n **Smaller investment securities portfolio.** The BBVAPR Acquisition will enable us to reposition our balance sheet composition away from wholesale assets and liabilities with a reduced proportion of investment securities, from 66% of Oriental's total earning assets as of June 30, 2012 to 44% of the combined entities' total earning assets pro forma for the BBVAPR Acquisition and 31% after giving effect to the planned deleveraging.
- n **Earnings stability.** As a result of the foregoing Oriental expects to rely less on investment securities and wholesale funding, which we expect will improve earnings stability and increase our overall net interest margin.

***Strengthening Oriental's position in Puerto Rico's banking industry.*** We believe the BBVAPR Acquisition further increases the strength of Oriental's position in the local banking industry. It is well timed, as the Puerto Rico economy has recently shown signs of stabilization and the Puerto Rico government's fiscal situation has continued to improve.

For a discussion of the potential risks inherent in the BBVAPR Acquisition, see Risk Factors Risks Related to the Proposed BBVAPR Acquisition.

**Additional Financing**

On July 3, 2012, the Company completed its sale to various institutional purchasers of \$84 million of its Series C Preferred Stock, with a conversion price of \$11.77, through a private placement pursuant to a subscription agreement dated June 28, 2012, between the Company and each of the purchasers, in accordance with Regulation D under the Securities Act.

In addition to the sale of the Series C Preferred Stock, prior to the Closing, Oriental agreed in the BBVAPR Acquisition Agreement to use its reasonable best efforts to carry out the Buyer Capital Raise. BBVA agreed to use its reasonable best efforts to provide information reasonably requested by Oriental, and otherwise to cooperate, in connection with the Buyer Capital Raise.

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The Company plans to carry out the Buyer Capital Raise through:

- n the sale of shares of our Common Stock in this offering for an aggregate offering price estimated at \$ million and net proceeds to us, after deducting estimated underwriting discounts and offering expenses, estimated at approximately \$ million (or \$ million if the underwriter exercises in full its option to purchase additional shares of Common Stock); and

- n the sale of up to \$ million in the aggregate of a new series of non-convertible non-cumulative perpetual preferred stock offered in a separate offering that we expect will commence concurrently with, or shortly after, this offering.

The closing of this offering of Common Stock is not conditioned upon the closing of our offering of the non-convertible non-cumulative perpetual preferred stock, and the closing of our offering of the non-convertible non-cumulative perpetual preferred stock will not be conditioned upon the closing of this offering of Common Stock. We are not required under the BBVAPR Acquisition Agreement to raise specific individual amounts or a specific proportion of Common Stock to other equity as part of the Buyer Capital Raise and the final amount of Common Stock and non-convertible non-cumulative perpetual preferred stock we issue may ultimately be driven by market conditions or regulatory requirements.

**Regulatory Considerations**

Consummation of the BBVAPR Acquisition is subject to certain customary conditions, including the receipt of required regulatory approvals without the imposition of a materially burdensome regulatory condition, as described in the BBVAPR Acquisition Agreement. We have filed applications with the Federal Reserve Board, the FDIC, and the OCFI, and other relevant regulators to acquire the BBVAPR Companies. Although we currently believe we should be able to obtain all required regulatory approvals in a timely manner, we cannot be certain when or if we will obtain them, or if obtained, whether they will contain terms, conditions or restrictions not currently contemplated that will be detrimental to or have a material adverse effect on the Company after consummation of the BBVAPR Acquisition or that will be so materially burdensome that they would prevent completion of the transaction pursuant to the BBVAPR Acquisition Agreement.

As of June 30, 2012 and December 31, 2011, the Company maintained capital ratios that satisfied the well capitalized standards under applicable regulatory capital guidelines. The Company's capital ratios as of the Closing will be affected by a number of factors, including the \$84 million in Series C Preferred Stock issued on July 3, 2012, this offering, and our separate offering of up to \$ million in the aggregate of non-convertible non-cumulative perpetual preferred stock, the net assets acquired in the BBVA Acquisition, fair value adjustments under purchase accounting rules, including adjustments due to interest rate changes, and our performance between June 30, 2012 and the Closing.

While no assurance can be given, we expect that, taking into account the private placement and offerings mentioned in the foregoing paragraph, after giving effect to approximately \$1.8 billion deleveraging of the investment securities and wholesale funding portfolios planned to occur in connection with the BBVAPR Acquisition (see Background on the BBVAPR Acquisition ), and purchase accounting adjustments, including the recording of goodwill and other intangibles, we will remain well capitalized upon the completion of the BBVAPR Acquisition. See Risk Factors A decline in the market value of our investment securities portfolio could adversely impact our regulatory capital ratios.

Set forth below are minimum capital ratios, where applicable, and the capital ratios for the Company as of June 30, 2012:

- n on an actual basis; and

- n on a pro forma basis giving effect to (i) the issuance of the Series C Preferred Stock, (ii) this offering, and (iii) the consummation of the BBVAPR Acquisition, including the purchase accounting adjustments.

We expect that our separate offering of up to \$ million in the aggregate of non-convertible non-cumulative perpetual preferred stock will have a positive effect on our capital ratios. Similarly, we expect that the deleveraging of \$1.8 billion of the investment securities and wholesale funding portfolios planned in connection with the BBVAPR Acquisition will have a positive effect on our capital ratios.



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The following pro forma capital ratios are presented for illustrative purposes only and do not necessarily indicate the financial results of the combined companies had the companies actually been combined as of the periods presented. The pro forma capital ratios are based largely on the purchase accounting adjustments, including the recording of goodwill and other intangibles, which are subject to adjustment and may vary significantly from the actual purchase price allocation that will be recorded at the time the BBVAPR Acquisition is completed. For more information on the purchase accounting and other adjustments used in preparing the pro forma financial information relating to the BBVAPR Acquisition adjustments, see Unaudited Pro Forma Condensed Combined Financial Information Relating to the BBVAPR Acquisition.

	EXISTING WELL CAPITALIZED MINIMUM REGULATORY REQUIREMENTS	AS OF DECEMBER 31, 2011  ACTUAL	AS OF JUNE 30, 2012  ACTUAL	PRO FORMA
<b>Oriental Financial Group Inc. <sup>(1)</sup></b>				
Tier 1 risk-based capital ratio	6%	31.52%	32.50%	10.98%
Total risk-based capital ratio	10	32.80	33.79	13.59
Tier 1 common equity to risk-weighted assets <sup>(2)</sup>		28.28	29.22	8.25
Tier 1 Capital to Total Assets ( Tier 1 Leverage Capital Ratio )	5	9.65	10.75	5.65
Tangible common equity to tangible assets <sup>(3)</sup>		9.32	9.73	5.29
Tangible common equity to risk weighted assets <sup>(3)</sup>		29.71	29.88	10.29

<sup>(1)</sup> From time to time, Oriental uses certain non-GAAP measures of financial performance to supplement the financial statements presented in accordance with GAAP. Oriental presents non-GAAP measures when its management believes that the additional information is useful and meaningful to investors. Non-GAAP measures do not have any standardized meaning and therefore may not be comparable to similar measures presented by other companies. The presentation of non-GAAP measures is not intended to be a substitute for, and should not be considered in isolation from, the financial measures reported in accordance with GAAP.

<sup>(2)</sup> The Tier 1 common equity to risk-weighted assets ratio is a non-GAAP measure. Tier 1 common equity to total risk-weighted assets is proposed to become a required capital ratio beginning January 1, 2013, with a minimum requirement of 4.5%. Additionally, a capital conservation buffer composed of Tier 1 common equity is proposed to be applicable to avoid restrictions on distributions and compensation beginning January 1, 2013, at a level of 2.5% to be phased in over several years. See Risk Factors A decline in the market value of our investment securities portfolio could adversely impact our regulatory capital ratios. Ratios calculated based upon Tier 1 common equity have become a focus of regulators and investors, and management believes ratios based on Tier 1 common equity assist investors in analyzing Oriental's capital position. In connection with the Supervisory Capital Assessment Program, the Federal Reserve Board began supplementing its assessment of the capital adequacy of a bank holding company based on a variation of Tier 1 capital, known as Tier 1 common equity. Because Tier 1 common equity is not formally defined by GAAP or, unlike Tier 1 capital, currently codified in the federal banking regulations, this measure is considered to be a non-GAAP financial measure. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, Oriental has procedures in place to calculate these measures using the appropriate GAAP or regulatory components. Although these non-GAAP financial measures are frequently used by shareholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

<sup>(3)</sup> Tangible common equity, tangible assets and the ratio of tangible common equity to tangible assets are non-GAAP measures. Management and many stock analysts use tangible common equity to tangible assets ratio in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations. Neither tangible common equity nor tangible assets or related measures should be considered in isolation or as a substitute for stockholders equity, total assets or any other measure calculated in accordance with GAAP. Moreover, the manner in which the Company calculates its tangible common equity, tangible assets and any other related measures may differ from that of other companies reporting measures with similar names. Tangible common equity consists of common equity less intangible assets (defined as goodwill and core deposit intangibles). Management believes that the ratios of tangible common equity to tangible assets and to risk-weighted assets assist investors in analyzing Oriental's capital position.



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The following table provides a reconciliation of Oriental's total stockholders' equity at June 30, 2012 (on an actual and pro forma basis) and December 31, 2011 to Tier 1 common equity as defined by the Federal Reserve Board, FDIC and other bank regulatory agencies:

	AS OF DECEMBER 31, 2011	AS OF JUNE 30, 2012 (ACTUAL) (in thousands)	AS OF JUNE 30, 2012 (PRO FORMA)
Common stockholders' equity	\$ 627,555	\$ 624,202	652,257
Unrealized gains on available-for-sale securities, net of income tax	(79,244)	(70,700)	(70,700)
Unrealized losses on cash flow hedges, net of income tax	42,113	49,439	49,439
Disallowed deferred tax assets	(26,879)	(26,243)	(126,150)
Disallowed servicing assets	(1,045)	(1,079)	(1,079)
Intangible assets:			
Goodwill	(2,701)	(2,701)	(71,663)
Core deposit intangible	(1,185)	(1,114)	(8,240)
Subordinated capital notes	35,000	35,000	35,000
<b>Total Tier 1 common equity</b>	<b>\$ 593,614</b>	<b>\$ 606,804</b>	<b>458,864</b>
<b>Tier 1 common equity to risk-weighted assets</b>	<b>28.28%</b>	<b>29.22%</b>	<b>8.25%</b>

The following table provides a reconciliation of Oriental's total stockholders' equity to tangible common equity at June 30, 2012 (on an actual and pro forma basis) and December 31, 2011:

	AS OF DECEMBER 31, 2011	AS OF JUNE 30, 2012 (in thousands)	AS OF JUNE 30, 2012 (PRO FORMA)
Total stockholders' equity	\$ 695,555	\$ 692,202	804,257
Preferred stock	(68,000)	(68,000)	(152,000)
Goodwill	(2,701)	(2,701)	(71,663)
Core deposit intangible	(1,185)	(1,114)	(8,240)
<b>Total tangible common equity</b>	<b>\$ 623,669</b>	<b>\$ 620,387</b>	<b>572,354</b>
Total assets	6,693,675	6,375,648	10,895,144
Goodwill	(2,701)	(2,701)	(71,663)
Core deposit intangible	(1,185)	(1,114)	(8,240)
<b>Total tangible assets</b>	<b>\$ 6,689,789</b>	<b>\$ 6,371,833</b>	<b>10,815,241</b>

Tangible common equity to tangible assets	9.32%	9.73%	5.29%
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**Description of BBVAPR**

**General.** The BBVAPR Companies are privately held companies and wholly-owned direct or indirect subsidiaries of BBVA. They are organized under the laws of the Commonwealth of Puerto Rico and their headquarters are in San Juan. BBVAPR provides comprehensive banking, insurance and securities brokerage services through a complete range of banking and financial solutions, including commercial banking; auto lending; corporate banking; residential mortgage lending; retail banking; financial planning; insurance; wealth management and investment brokerage. Like Oriental, BBVAPR Holding Corporation is subject to the provisions of the BHC Act and, accordingly, subject to the supervision and regulation of the Federal Reserve Board. The FDIC and OCFI also have regulatory and examination authority over BBVAPR Bank. The Office of the Insurance Commissioner of Puerto Rico has regulatory and examination authority over BBVA Seguros.



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BBVAPR Bank operates through 36 branches across Puerto Rico and has a diversified business model offering a variety of products and services. It is a leader in auto lending and has strong specialized corporate and institutional credit and services lines of business. It also has strong franchises in residential mortgage lending, retail banking, insurance and cash management. As of June 30, 2012, it had \$5.0 billion in total assets, \$3.7 billion in gross loans and \$3.4 billion in deposits, including \$680 million in brokered deposits.

**Historical Development.** BBVAPR was founded in 1969 as Banco de Mayagüez. In 1979, it was acquired by Banco Occidental (which was later acquired by Banco de Vizcaya). In 1992, it changed its name to Banco Bilbao Vizcaya Puerto Rico and in 1998 the headquarters were moved to San Juan. BBVAPR acquired Royal Bank de Puerto Rico in 1993 and Las Americas Trust & Company in 1994. In 1998, BBVAPR completed its expansion plan through the merger with PonceBank and the acquisition of certain assets and liabilities of Chase Manhattan Bank. In October 1999, Banco Bilbao Vizcaya merged with Argentaria, creating Banco Bilbao Vizcaya Argentaria, S.A., and consequently, Banco Bilbao Vizcaya Puerto Rico was renamed Banco Bilbao Vizcaya Argentaria Puerto Rico. In 2000, BBVAPR acquired a substantial part of Citibank's auto financing business.

**Operating Activities.** BBVAPR operates through three major business segments: banking, insurance, and securities brokerage and distinguishes itself based on quality service and marketing efforts focused on corporate and commercial customers, retail clients, state and municipal governments and other non-profit organizations, primarily in Puerto Rico.

- n **Banking Activities:** BBVAPR's banking activities are carried out through BBVAPR Bank, a commercial bank offering a variety of products and services mostly in Puerto Rico. It specializes in commercial banking and auto lending with strong corporate banking services. It also has strong franchises in residential mortgage lending and retail banking, including checking and savings accounts. Most of BBVAPR Bank's business activities are with customers located within Puerto Rico. BBVAPR Bank operates an international banking entity, Banco Bilbao Vizcaya Argentaria Puerto Rico Overseas, as a unit of BBVAPR Bank.

The majority of BBVAPR Bank's loan portfolio consists of commercial and industrial loans, residential mortgage loans, and auto loans. Commercial and industrial loans are granted to clients in diverse industries and do not have a significant concentration in any one industry or customer. The composition of BBVAPR Bank's loan portfolio, excluding residential mortgage loans held for sale, as of December 31, 2011 and 2010 and as of June 30, 2012 is as follows:

	AS OF DECEMBER 31		AS OF JUNE
	2011	2010	30 2012
	(in thousands)		
Commercial and industrial, including overdraft balances on demand deposits of \$974, \$5,926 and \$595, respectively	\$ 1,286,620	\$ 1,069,054	\$ 1,293,670
Construction and commercial real estate	303,162	390,031	285,398
Residential mortgage	921,768	942,034	916,857
Auto loans	1,196,993	1,155,630	1,246,612
Consumer, including overdraft balances on demand deposits of \$55, \$66 and \$103, respectively	242,653	239,892	245,623
<b>Subtotal</b>	<b>3,951,196</b>	<b>3,796,641</b>	<b>3,988,160</b>
Unearned interest	(289,362)	(262,896)	(308,127)
Discount on residential mortgage loans	(3,948)	(4,759)	(3,497)
Net deferred loan costs	9,472	9,381	9,460
Allowance for loan losses	(132,001)	(163,354)	(129,277)
<b>Total</b>	<b>\$ 3,535,357</b>	<b>\$ 3,375,013</b>	<b>\$ 3,556,719</b>

*Commercial and industrial loans* include commercial credit lines, overdrafts, unsecured commercial loans, and commercial loans secured by real estate and by other types of collateral. These loans are granted mainly to corporate clients, to automobile dealers to finance their inventory, to the government and to small and medium sized enterprises.



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*Construction and commercial real estate loans* include interim construction, land, and permanent loans (rental properties).

*Residential mortgage loans* are loans secured with first and second mortgages on residential properties that are originated in compliance with the specific guidance established by BBVAPR's mortgage loan policy in relation to conforming and nonconforming loans. BBVAPR Bank also obtains approval from the Federal National Mortgage Association and the Government National Mortgage Association for subsequent sale of eligible loans in the secondary market. During 2011 and 2010, BBVAPR Bank sold and securitized residential loans amounting to \$89 million and \$106 million, respectively, for gains amounting to \$1.4 million and \$0.6 million respectively. During the first half of 2012 and 2011, BBVAPR Bank sold and securitized residential loans amounting to \$64 million and \$42.9 million, respectively, for gains amounting to \$1.7 million and \$0.66 million, respectively.

*Auto loans* consist of financings for the purchase of new or used motor vehicles for private or public use. These loans are granted mainly through dealers authorized and approved by the auto credit department committee of BBVAPR Bank.

*Consumer loans* include retail products, such as personal loans, credit cards, and lines of credits, among others.

The following table summarizes BBVAPR's net deposits by type as of June 30, 2012.

	<b>BALANCE (in millions)</b>
Non-interest bearing demand deposits	\$ 709
Interest bearing savings and NOW accounts	996
Certificates of deposit	1,729
<b>Total</b>	<b>\$ 3,434</b>

<sup>n</sup> **Insurance Activities:** BBVAPR's insurance services are offered through BBVA Seguros, acting as a general insurance agency to sell life, health, disability, title and property and casualty insurance products in Puerto Rico it mainly sells through BBVAPR's branch network and through referrals from the auto and mortgage businesses and the BBVAPR branch network.

<sup>n</sup> **Securities Brokerage:** BBVAPR's securities trading and brokerage services are offered through BBVA. It is engaged in a single line of business as securities broker-dealer, which comprises several classes of services, including principal transactions, agency transactions, investment banking (including underwriting and agency services), and financial advisory services (including merger and acquisition and financial and restructuring services). BBVA Securities' counterparties include broker-dealers, banks, and other financial institutions. BBVA Securities has a clearing agreement with Pershing LLC pursuant to which Pershing LLC clears and executes the brokerage transactions of BBVA Securities' customers on a fully disclosed basis with BBVA Securities assuming the obligations of any defaulting customer.

BBVA Securities is a member of the Financial Industry Regulatory Authority, Inc. and the Securities Investor Protection Corporation. It does not carry customer accounts and is accordingly exempt from the Customer Protection Rule (SEC Rule 15c3-3).

***Market Area and Competition.*** Like Oriental, the main geographic business and service area of BBVAPR is in Puerto Rico, where the banking market is highly competitive.

*Employees.* As of June 30, 2012, BBVAPR had approximately 1,000 employees. None of its employees is represented by a collective bargaining group or unions.

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**Unaudited Pro Forma Condensed Combined Financial Information Relating to the BBVAPR Acquisition**

The following unaudited pro forma condensed combined financial information and explanatory notes show the impact of the BBVAPR Acquisition on the historical financial positions and results of operations of Oriental and BBVAPR under the purchase method of accounting. Under the purchase method of accounting, the assets and liabilities of BBVAPR will be recorded by Oriental at their respective fair values as of the date the BBVAPR Acquisition is completed. The unaudited pro forma condensed combined financial information combines the historical financial information of Oriental and BBVAPR as of and for the six-month period ended June 30, 2012, and for the year ended December 31, 2011. The unaudited pro forma condensed combined statement of financial condition as of June 30, 2012, assumes the BBVAPR Acquisition was completed on that date. The unaudited pro forma condensed combined statements of operations give effect to the BBVAPR Acquisition as if the BBVAPR Acquisition had been completed at the beginning of the earliest period presented, January 1, 2011. The BBVAPR Acquisition, which is targeted to be completed by year-end 2012, involves an aggregate purchase price of \$500 million.

The unaudited pro forma condensed combined financial information has been derived from and should be read in conjunction with the following financial statements included elsewhere or incorporated by reference in this prospectus:

- n Oriental's historical unaudited consolidated financial statements as of and for the six-month period ended June 30, 2012;
- n Oriental's historical audited consolidated financial statements as of and for the year ended December 31, 2011;
- n BBVAPR's historical unaudited combined financial statements as of and for the six-month period ended June 30, 2012; and
- n BBVAPR's historical audited combined financial statements as of and for the year ended December 31, 2011.

The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and does not necessarily indicate the financial results of the combined companies had the companies actually been combined at the beginning of each period presented nor should it be considered a prediction of future results. The adjustments included in these unaudited pro forma condensed financial statements are preliminary and may be revised, and such revisions may be material. The unaudited pro forma condensed combined financial information does not give effect to our expected separate offering of up to \$ million in the aggregate of non-convertible non-cumulative perpetual preferred stock or our approximately \$1.8 billion deleveraging of the investment securities and wholesale funding portfolios planned in connection with the BBVAPR Acquisition. The unaudited pro forma condensed combined financial information also does not consider any potential impacts of current market conditions on income, potential income enhancements, anticipated cost savings and expense efficiencies, or asset dispositions, among other factors. Further, the pro forma allocation of the purchase price reflected in the unaudited pro forma condensed combined financial information is subject to adjustment and may vary significantly from the actual purchase price allocation that will be recorded at the time the BBVAPR Acquisition is completed.

**Table of Contents****Unaudited Pro Forma Condensed Combined Statement of Financial Condition as of June 30, 2012**

	OFG	BBVAPR	PRO FORMA ADJUSTMENTS (In thousands)		PRO FORMA OFG BEFORE STOCK ISSUANCES	NET CAPITAL RAISES	PRO FORMA COMBINED OFG
<b>ASSETS</b>							
Cash and cash equivalents	\$ 464,579	\$ 428,570	\$ (500,000)	A	\$ 393,149	\$ 112,055	\$ 505,204
Securities purchased under agreements to resell and federal funds sold	225,000	14,000			239,000		239,000
<b>Investments:</b>							
Trading securities, at fair value	214	1,172			1,386		1,386
Investment securities available-for-sale, at fair value	2,612,839	593,263			3,206,102		3,206,102
Investment securities held-to-maturity, at amortized cost	895,500	3,110	4	I	898,614		898,614
Federal Home Loan Bank (FHLB) stock, at cost	22,868	16,674			39,542		39,542
Other investments	69				69		69
<b>Total investments</b>	<b>3,531,490</b>	<b>614,219</b>	<b>4</b>		<b>4,145,713</b>		<b>4,145,713</b>
Loans held-for-sale, at lower of cost or fair value	34,718	16,893			51,611		51,611
Loans held for investment, net of allowance for loan and lease losses	1,585,638	3,556,719	(107,596)	C	5,034,761		5,034,761
<b>Total loans, net</b>	<b>1,620,356</b>	<b>3,573,612</b>	<b>(107,596)</b>		<b>5,086,372</b>		<b>5,086,372</b>
FDIC shared-loss indemnification asset	359,767				359,767		359,767
Foreclosed real estate	31,631	62,740			94,371		94,371
Deferred tax asset, net	35,887	44,288	48,646	H	128,821		128,821
Premises and equipment, net	20,090	38,603	23,351	J	82,044		82,044
Derivative assets	11,367	9,661			21,028		21,028
Goodwill	2,701	116,353	(47,391)	E	71,663		71,663
Core Deposit Intangibles	1,114		7,126	D	8,240		8,240
Other assets	71,666	100,465	(19,210)	L	152,921		152,921
<b>Total assets</b>	<b>\$ 6,375,648</b>	<b>\$ 5,002,511</b>	<b>\$ (595,070)</b>		<b>\$ 10,783,089</b>	<b>\$ 112,055</b>	<b>\$ 10,895,144</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>							
Deposits	\$ 2,222,942	\$ 3,438,301 M	\$ 16,738	F	\$ 5,677,981	\$	\$ 5,677,981
Securities sold under agreements to repurchase and federal funds purchased	3,053,865	351,416 M	19,217	G	3,424,498		3,424,498
Other borrowings	286,653	398,692 M	1,461	G	686,806		686,806
Subordinated capital notes	36,083	117,000	(13,887)	G	139,196		139,196
Derivative liabilities	56,217	9,582			65,799		65,799
Accrued expenses and other liabilities	27,686	66,779 M	2,142	K	96,607		96,607
<b>Total liabilities</b>	<b>5,683,446</b>	<b>4,381,770</b>	<b>25,671</b>		<b>10,090,887</b>		<b>10,090,887</b>



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	OFG	BBVAPR	PRO FORMA ADJUSTMENTS		PRO FORMA OFG BEFORE STOCK ISSUANCES	NET CAPITAL RAISES	PRO FORMA COMBINED OFG
	(In thousands)						
<b>Stockholders equity:</b>							
Preferred stock	68,000				68,000	84,000	152,000
Common stock	47,842	166,852	(166,852)	<b>B</b>	47,842	3,056	50,898
Additional paid-in capital	499,852	362,891	(362,891)	<b>B</b>	499,852	24,999	524,851
Legal surplus	52,668				52,668		52,668
Retained earnings	83,982	80,077	(80,077)	<b>B</b>	83,982		83,982
Treasury stock, at cost	(81,403)				(81,403)		(81,403)
Accumulated other comprehensive income, net of tax	21,261	10,921	(10,921)	<b>B</b>	21,261		21,261
<b>Total stockholders equity</b>	<b>692,202</b>	<b>620,741</b>	<b>(620,741)</b>		<b>692,202</b>	<b>112,055</b>	<b>804,257</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 6,375,648</b>	<b>\$ 5,002,511</b>	<b>\$ (595,070)</b>		<b>\$ 10,783,089</b>	<b>\$ 112,055</b>	<b>\$ 10,895,144</b>

**Statement of financial condition pro forma adjustments as of June 30, 2012**

**A** Cash consideration paid for BBVAPR.

**B** Elimination of BBVAPR capital accounts to recognize the BBVAPR Acquisition under the purchase method of accounting.

**C** Elimination of existing BBVAPR allowance for loan and lease losses of \$129 million and recording mark to market of loan portfolio.

**D** Recording of core deposit intangible.

**E** Elimination of \$116 million in BBVAPR existing goodwill and recording of acquisition goodwill as a result of the BBVAPR Acquisition.

**F** Recording fair value of BBVAPR time deposits. Core deposits have been evaluated to record a core deposit intangible.

**G** Recording fair value of BBVAPR repurchase agreements, subordinated capital notes and other borrowings.

**H**



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Recording net deferred tax asset assuming a tax-free merger through a stock acquisition. In a tax-free merger, BBVAPR would not recognize taxable gain or loss on the BBVAPR Acquisition date. Therefore, the tax basis of assets acquired and liabilities assumed will carry over to Oriental without consideration of fair value adjustments.

**I** Recording mark to market adjustment of BBVAPR held to maturity securities.

**J** Recording fair value of BBVAPR premises.

**K** Adjustment of income tax payable for net operating loss carry forward limitations. Net deferred tax asset is also adjusted for this amount.

**L** Elimination of accrued interest receivable since it is part of the mark to market of loan valuation.

**M** Accrued interest payable was reclassified into deposits, securities sold under agreements to repurchase and federal funds purchased, and other borrowings to conform to Oriental's presentation.

**N** Assuming that \$33 million in Common Stock pursuant to this offering was issued at a purchase price of \$10.80, the last sale price of our Common Stock on the NYSE on August 31, 2012.

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**Unaudited Pro Forma Condensed Combined Statements of  
Operations for the Six-Month Period Ended June 30, 2012**

	OFG	BBVAPR	PRO FORMA ADJUSTMENTS (In thousands)		PRO FORMA COMBINED OFG
<b>Interest income:</b>					
Loans	\$ 77,229	\$ 118,019	\$ 40,159	<b>D</b>	\$ 235,407
Investments	53,479	7,373			60,852
<b>Total interest income</b>	<b>130,708</b>	<b>125,392</b>	<b>40,159</b>		<b>296,259</b>
<b>Interest expense:</b>					
Deposits	17,210	19,080	(2,790)	<b>D</b>	33,500
Securities sold under agreements to repurchase	34,156	8,315	(5,301)	<b>D</b>	37,170
Other borrowed funds	6,754	7,321	(703)	<b>D</b>	13,372
Subordinated capital notes	649	1,220	2,777	<b>D</b>	4,646
<b>Total interest expense</b>	<b>58,769</b>	<b>35,936</b>	<b>(6,017)</b>		<b>88,688</b>
<b>Net interest income</b>	<b>71,939</b>	<b>89,456</b>	<b>46,176</b>		<b>207,571</b>
<b>Provision for loan and lease losses, net</b>	<b>15,424</b>	<b>17,000</b>			<b>32,424</b>
<b>Net interest income after provision for loan and lease losses</b>	<b>56,515</b>	<b>72,456</b>	<b>46,176</b>		<b>175,147</b>
<b>Non-interest income</b>	<b>30,181</b>	<b>26,575</b>			<b>56,756</b>
<b>Non-interest expense:</b>					
Compensation and employee benefits	21,550	24,863			46,413
Professional and service fees	10,442	9,616			20,058
Occupancy and equipment	8,455	9,865			18,320
Insurance	3,262	3,874			7,136
Other	14,383	23,603	940	<b>A, B</b>	38,926
<b>Total non-interest expense</b>	<b>58,092</b>	<b>71,821</b>	<b>940</b>		<b>130,853</b>
<b>Income before income taxes</b>	<b>28,604</b>	<b>27,210</b>	<b>45,236</b>		<b>101,050</b>
Income tax expense	2,994	7,553	13,571	<b>C</b>	24,118
<b>Net income</b>	<b>25,610</b>	<b>19,657</b>	<b>31,665</b>		<b>76,932</b>
Less: Dividends on preferred stock	(2,401)				(2,401)
<b>Income available to common shareholders</b>	<b>\$ 23,209</b>	<b>\$ 19,657</b>	<b>\$ 31,665</b>		<b>\$ 74,531</b>
<b>Income per common share:</b>					
Basic	\$ 0.57	\$	\$ 1.13	<b>E</b>	\$ 1.69
Diluted	\$ 0.57	\$	\$ 0.88	<b>E, F</b>	\$ 1.45

Average common shares outstanding	40,873	3,113	E	43,986
Average common shares outstanding and equivalents	40,986	10,251	E, F	51,237

**Statement of operations pro forma adjustments for the six-month period ended June 30, 2012**

- A Incremental amortization of core deposit intangible using an accelerated method over a useful life of ten years.
- B Additional depreciation expense of premises valuation mark up adjustment over 40 years.
- C Income tax expense assumes an effective tax rate of 30%, a tax-free merger and an acquisition of shares.
- D Interest income has been adjusted to reflect the amortization of the accounting adjustment related to the difference between the fair value of acquired loans and the loans par value. These loans will be accounted for either under the provisions of ASC 310-30 or ASC 310-20 based on the credit quality and risk characteristics of the acquired loans. The amortization presented herein assumes that all acquired loans are accounted for under the provisions of ASC 310-20, where the difference between the fair value of the acquired loans and the loans par value is amortized into interest income, and the pro forma provision for loan losses does not include any adjustments for credit losses, including those Oriental has taken into account in estimating the loans fair value. Credit losses will reduce future period s net income as they are incurred. Upon and subsequent to the BBVAPR Acquisition, with respect to loans that are to be accounted under ASC 310-20, we will measure the effects of credit losses following the provisions of ASC 310-10 and ASC 450-20 to the acquired portfolio of loans. With respect to loans that are to be accounted for under the provisions of ASC 310-30, the interest income will accrete from the fair value of the acquired loans to the expected cash flows and then the credit losses would be based on the changes to such expected cash flows subsequent to the acquisition as prescribed in ASC 310-30.

Interest expense has been adjusted to reflect the amortization of the accounting adjustment related to current interest rates with respect to deposits and other liabilities for borrowed money being acquired. The adjustment relates to the difference between the fair value of these liabilities and their principal amount at maturity.

- E Assuming that \$33 million in Common Stock pursuant to this offering was issued on January 1, 2011 at a purchase price of \$10.80, the closing price of our Common Stock on August 31, 2012.
- F Assuming \$84 million in Series C Preferred Stock was issued on January 1, 2011.

**Table of Contents****Unaudited Pro Forma Condensed Combined Statement of Operations for the Year Ended December 31, 2011**

	OFG	BBVAPR	PRO FORMA ADJUSTMENTS (In thousands)		PRO FORMA COMBINED OFG
<b>Interest income:</b>					
Loans	\$ 135,998	\$ 231,408	\$ 80,318	D	\$ 447,724
Investments	161,030	14,216			175,246
<b>Total interest income</b>	<b>297,028</b>	<b>245,624</b>	<b>80,318</b>		<b>622,970</b>
<b>Interest expense:</b>					
Deposits	45,645	35,857	(5,579)	D	75,923
Securities sold under agreements to repurchase	93,279	23,307	(10,604)	D	105,982
Other borrowed funds	16,431	17,283	(1,406)	D	32,308
Subordinated capital notes	1,231	3,042	5,554	D	9,827
<b>Total interest expense</b>	<b>156,586</b>	<b>79,489</b>	<b>(12,035)</b>		<b>224,040</b>
<b>Net interest income</b>	<b>140,442</b>	<b>166,135</b>	<b>92,353</b>		<b>398,930</b>
<b>Provision for loan and lease losses, net</b>	<b>13,813</b>	<b>31,050</b>			<b>44,863</b>
<b>Net interest income after provision for loan and lease losses</b>	<b>126,629</b>	<b>135,085</b>	<b>92,353</b>		<b>354,067</b>
<b>Non-interest income</b>	<b>30,989</b>	<b>49,501</b>			<b>80,490</b>
<b>Non-interest expense:</b>					
Compensation and employee benefits	45,552	48,209			93,761
Professional and service fees	21,742	18,387			40,129
Occupancy and equipment	17,407	20,178			37,585
Insurance	6,642	7,689			14,331
Other	30,959	39,435	1,879	A, B	72,273
<b>Total non-interest expense</b>	<b>122,302</b>	<b>133,898</b>	<b>1,879</b>		<b>258,079</b>
<b>Income before income taxes</b>	<b>35,316</b>	<b>50,688</b>	<b>90,474</b>		<b>176,478</b>
Income tax expense	866	16,763	27,142	C	44,771
<b>Net income</b>	<b>34,450</b>	<b>33,925</b>	<b>63,332</b>		<b>131,707</b>
Less: Dividends on preferred stock	(4,802)				(4,802)
<b>Income available to common shareholders</b>	<b>\$ 29,648</b>	<b>\$ 33,925</b>	<b>\$ 63,332</b>		<b>\$ 126,905</b>
<b>Income per common share:</b>					
Basic	\$ 0.67	\$	\$ 2.00	E	\$ 2.67
Diluted	\$ 0.67	\$	\$ 1.65	E, F	\$ 2.32

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Average common shares outstanding	44,433	3,113	E	47,546
Average common shares outstanding and equivalents	44,524	10,251	E, F	54,775

**Statement of operations pro forma adjustments for the year ended December 31, 2011**

- A** Incremental amortization of core deposit intangible using an accelerated method over a useful life of ten years.
- B** Additional depreciation expense of premises valuation mark up adjustment over 40 years.
- C** Income tax expense assumes an effective tax rate of 30%, a tax-free merger and an acquisition of shares.
- D** Interest income has been adjusted to reflect the amortization of the accounting adjustment related to the difference between the fair value of acquired loans and the loans' par value. These loans will be accounted for either under the provisions of ASC 310-30 or ASC 310-20 based on the credit quality and risk characteristics of the acquired loans. The amortization presented herein assumes that all acquired loans are accounted for under the provisions of ASC 310-20, where the difference between the fair value of the acquired loans and the loans' par value is amortized into interest income, and the pro forma provision for loan losses does not include any adjustments for credit losses, including those Oriental has taken into account in estimating the loans' fair value. Credit losses will reduce future periods' net income as they are incurred. Upon and subsequent to the BBVAPR Acquisition, with respect to loans that are to be accounted under ASC 310-20, we will measure the effects of credit losses following the provisions of ASC 310-10 and ASC 450-20 to the acquired portfolio of loans. With respect to loans that are to be accounted for under the provisions of ASC 310-30, the interest income will accrete from the fair value of the acquired loans to the expected cash flows and then the credit losses would be based on the changes to such expected cash flows subsequent to the acquisition as prescribed in ASC 310-30.

Interest expense has been adjusted to reflect the amortization of the accounting adjustment related to current interest rates with respect to deposits and other liabilities for borrowed money being acquired. The adjustment relates to the difference between the fair value of these liabilities and their principal amount at maturity.

- E** Assuming that \$33 million in Common Stock pursuant to this offering was issued on January 1, 2011 at a purchase price of \$10.80.
- F** Assuming \$84 million in Series C Preferred Stock was issued on January 1, 2011.

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### **Note 1: Basis of Presentation**

The unaudited pro forma condensed combined financial information has been prepared using the purchase method of accounting, giving effect to the BBVAPR Acquisition as if it had occurred, with respect to the unaudited pro forma condensed combined statements of operations, as of the beginning of the earliest period presented, January 1, 2011, and with respect to the unaudited pro forma condensed combined statement of financial condition, as of June 30, 2012. The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and is not necessarily indicative of the results of operations or financial position had the BBVAPR Acquisition been consummated at the beginning of the period presented, nor is it necessarily indicative of the results of operations in future periods or the future financial position of the combined entities. Certain historical financial information of BBVAPR has been reclassified to conform to the condensed presentation in the unaudited pro forma condensed combined financial statements. The BBVAPR Acquisition, which is targeted to be completed by year-end 2012, is subject to regulatory approval. The unaudited pro forma condensed combined financial information includes preliminary estimated adjustments to record assets and liabilities of BBVAPR at their respective fair values and represents management's best estimates based on available information. The pro forma adjustments included herein are subject to updates, which could be material, as additional information becomes available and as additional analyses are performed. The final allocation of the purchase price will be determined after the BBVAPR Acquisition is completed and after completion of additional analyses to determine the fair value of BBVAPR's tangible and identifiable intangible assets and liabilities as of the date of the Closing of the BBVAPR Acquisition. Increases or decreases in the estimated fair values of the net assets, commitments, executory contracts, and other items of BBVAPR as compared with the information shown in the unaudited pro forma condensed combined financial information may change the amount of the purchase price allocated to goodwill and other assets and liabilities and may impact the statement of income due to adjustments in yield and/or amortization of the adjusted assets or liabilities. Any changes to BBVAPR's stockholder's equity, including results of operations from July 1, 2012, through the date the BBVAPR Acquisition is completed, will also change the amount of goodwill recorded.

The unaudited pro forma condensed combined statement of financial condition also includes the effects of Oriental's issuance of the Series C Preferred Stock on July 3, 2012 and this offering. See Note 4 below. The pro forma adjustments include assumptions regarding the amounts of capital to be raised in this offering, and amounts actually raised in this offering may differ.

### **Note 2: Accounting Policies and Financial Statement Classifications**

The accounting policies of BBVAPR are in the process of being reviewed in detail by Oriental. Upon completion of such review, conforming adjustments or financial statement reclassifications may be necessary. For example, the loss emergence periods used for various loan product classes, the estimated probability of default, the loss given default and the asset quality ratings assigned to specific credits used by BBVAPR may differ from those used by Oriental and may require conforming adjustments. Further, other conforming adjustments could be determined based on the accounting policy review.

### **Note 3: Prospective Pre-Tax Income Effect from the Accounting Adjustments Affecting the Acquisition of BBVAPR**

The unaudited pro forma condensed combined statement of operations includes adjustments to estimate the amortization of the accounting adjustment related to current interest rates and spreads. The following table presents the estimated increase (decrease) on pre-tax income from the purchase accounting adjustments for five years related to this amortization. The following table does not include further adjustments for credit losses that Oriental may need to make subsequent to the BBVAPR Acquisition. Any further adjustments for credit losses may cause pre-tax income to be lower than amounts estimated below. Upon and subsequent to the BBVAPR Acquisition, with respect to loans that are to be accounted under ASC 310-20, we will measure the effects of credit losses following the provisions of ASC 310-10 and ASC 450-20 to the acquired portfolio of loans. With respect to loans that are to be accounted for under the provisions of ASC 310-30, the interest income will accrete from the fair value of the acquired loans to the expected cash flows and then the credit losses would be based on the changes to such

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expected cash flows subsequent to the acquisition as prescribed in ASC 310-30. The amounts for Year 1 agree with the pro forma adjustments in the unaudited pro forma condensed combined statement of operations.

	(In thousands)				
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Loans	\$ 80,318	\$ 35,085	\$ 78,049	\$ 4,636	\$ 6,870
Deposits	5,579	4,464	3,348	2,232	1,116
Borrowings	6,455	2,240	(570)	(1,389)	
	\$ 92,352	\$ 41,789	\$ 80,827	\$ 5,479	\$ 7,986

**Note 4: Capital Issuance**

On July 3, 2012, Oriental issued the Series C Preferred Stock in connection with the BBVAPR Acquisition. Holders of the Series C Preferred Stock may convert their shares into Common Stock. Subject to certain adjustments in the event of fundamental changes concerning Oriental, certain specified events, or to prevent dilution, the Series C Preferred Stock may be converted at a conversion rate of 84.9798 shares of Common Stock per share of preferred stock (the Conversion Rate).

The unaudited pro forma condensed combined statement of financial condition assumes the issuance of \$33 million of Common Stock pursuant to this offering. The pro forma condensed combined statement of operations assumes the issuance of \$33 million of Common Stock pursuant to this offering on January 1, 2011, at a purchase price of \$10.80, the last sale price of our Common Stock on August 31, 2012.

**Note 5: Preliminary Purchase Accounting Allocation**

The following table presents the preliminary pro forma goodwill resulting from the BBVAPR Acquisition.

	(In thousands)
<b>Cash Consideration</b>	<b>\$ 500,000</b>
BBVAPR stockholder's equity	620,741
BBVAPR goodwill	(116,353)
<b>Adjustments to reflect assets acquired and liabilities assumed at fair value:</b>	
Loans, net	(107,596)
Securities held-to-maturity	4
Premises and equipment, net	23,351
Core deposit intangible	7,126
Other assets	(19,210)
Deposits	(16,738)
Accrued expenses and other liabilities	(2,142)

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Repurchase agreements, subordinated capital notes and other borrowings	(6,791)
Deferred taxes	48,646
Fair value of net assets acquired	431,038
<b>Preliminary pro forma goodwill resulting from the BBVAPR Acquisition</b>	<b>\$ 68,962</b>

### **Note 6: Effect of Hypothetical Adjustments on BBVAPR's Historical Financial Statements**

The unaudited pro forma condensed combined statement of operations presents the pro forma results assuming the consummation of BBVAPR Acquisition occurred at the earliest date presented, January 1, 2011. As required by Regulation S-X Article 11, the pro forma financial statements for the six months ended June 30, 2012 and for the year ended December 31, 2011, do not reflect any adjustments to eliminate BBVAPR's historical provision for credit losses and goodwill impairment charges. Had the BBVAPR Acquisition been consummated on January 1, 2011, the application of purchase accounting as required by ASC 805, Business Combinations, would have resulted in the acquired assets and liabilities being recorded at fair value with any excess fair value recorded as goodwill as of that date.



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**USE OF PROCEEDS**

We estimate that the net proceeds to us from the sale of the \_\_\_\_\_ shares of Common Stock offered in this offering, after deducting estimated underwriting discounts and estimated offering expenses, will be approximately \$ \_\_\_\_\_ million (or \$ \_\_\_\_\_ million if the underwriter exercises in full its option to purchase \_\_\_\_\_ additional shares of Common Stock). We intend to use the net proceeds from this offering to fund a portion of the purchase price for the pending BBVAPR Acquisition described under The BBVAPR Acquisition. If there is any excess of net proceeds over the amount of Buyer Capital Raise for the BBVAPR Acquisition, we intend to use any such excess net proceeds for general corporate purposes.

Until Closing of the BBVAPR Acquisition, the proceeds of this offering will be held as cash or cash equivalents. If the Closing does not occur, the proceeds will be applied for general corporate purposes, including, without limitation, the possible redemption of the Series C Preferred Stock, the mandatory redemption of the non-convertible, non-cumulative preferred stock that we expect to offer in a separate transaction concurrently with, or shortly after, this offering or other outstanding securities. Redemption of the Series C Preferred Stock and the non-convertible non-cumulative preferred stock may be subject to the receipt of prior regulatory approval under then applicable regulations.

A \$1.00 increase (decrease) in the assumed public offering price of \$10.90 per share (the last sale price of our Common Stock on the NYSE on October 8, 2012) would increase (decrease) the net proceeds to us from this offering by \$ \_\_\_\_\_ million, assuming the number of shares of Common Stock offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

**Table of Contents****MARKET PRICE OF OUR COMMON STOCK**

Our Common Stock is listed and traded on the NYSE under the symbol OFG. The following table shows, for the periods indicated, the high and low closing sales price per share on the NYSE for our Common Stock.

	PRICE		CASH DIVIDEND PER SHARE
	HIGH	LOW	
<b>Fiscal year ended December 31, 2010</b>			
1st Quarter	\$ 14.09	\$ 10.00	\$ 0.04
2nd Quarter	\$ 16.72	\$ 12.49	\$ 0.04
3rd Quarter	\$ 14.45	\$ 12.13	\$ 0.04
4th Quarter	\$ 13.72	\$ 11.50	\$ 0.05
<b>Fiscal year ended December 31, 2011</b>			
1st Quarter	\$ 12.84	\$ 11.40	\$ 0.05
2nd Quarter	\$ 13.07	\$ 11.26	\$ 0.05
3rd Quarter	\$ 13.20	\$ 9.18	\$ 0.05
4th Quarter	\$ 12.35	\$ 9.19	\$ 0.06
<b>Fiscal year ending December 31, 2012</b>			
1st Quarter	\$ 12.69	\$ 11.25	\$ 0.06
2nd Quarter	\$ 12.37	\$ 9.87	\$ 0.06
3rd quarter	\$ 11.44	\$ 10.15	(1)
4th quarter (through October 8, 2012)	\$ 10.90	\$ 10.59	

(1) On August 23, 2012, we declared a cash dividend of \$0.06 per share for the quarter ending September 30, 2012, to the holders of record of our Common Stock as of September 28, 2012, payable on October 15, 2012.

On October 8, 2012, the last sale price of our Common Stock as reported on the NYSE was \$10.90 per share. On June 27, 2012, immediately prior to our announcement of the BBVAPR Acquisition, the last sale price of our shares of Common Stock as reported on the NYSE was \$10.46 per share.

As of June 30, 2012, Oriental had approximately 3,281 holders of record of its Common Stock, including all directors and officers of Oriental, and beneficial owners whose shares are held in street name by securities broker-dealers or other nominees.

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**DIVIDEND POLICY**

Holders of our Common Stock are only entitled to receive dividends as our board of directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our Common Stock, we are not required to do so. We expect to continue to pay dividends, but our ability to pay future dividends at current levels will necessarily depend upon our earnings and financial condition, and general market conditions, and legal or regulatory restrictions as well as restrictions that may be imposed by the certificate of designations governing our various series of preferred stock. We paid a cash dividend of \$0.06 per share on April 15, 2012, to the holders of record of our Common Stock as of March 31, 2012. On August 23, 2012, we declared a cash dividend of \$0.06 per share to the holders of record of our Common Stock as of September 28, 2012, payable on October 15, 2012.

On August 22, 2012, we adopted a formal capital distribution policy. The policy provides that prior to approving any capital distributions, including cash or non-cash dividends (excluding dividends in the form of Common Stock), stock redemptions and stock repurchases, we will assess the risks to which we are exposed, evaluate our capital adequacy relative to such risks, and consider the potential impact on our earnings and capital base from current and prospective economic conditions. Generally, we will not make any capital distributions that will affect our capital adequacy relative to the risks to which we are exposed. This policy is designed to ensure that our rate of dividends on Common Stock will be consistent with our capital plan, asset quality and overall financial condition. Furthermore, we will not borrow in order to pay dividends, nor will we pay dividends based solely or largely upon gains resulting from unusual or nonrecurring events. Since Oriental Bank's dividends are our main source of funds, whenever the Bank is unable to pay dividends to us, as a result of statutory limitations or otherwise, we will consider reducing or suspending dividends in order to conserve our capital base and provide capital assistance, as necessary, to the Bank.

The principal source of funds for Oriental's holding company is the dividends from the Bank. The ability of the Bank to pay dividends on its common stock is restricted by applicable law, including the Puerto Rico Banking Act, the Federal Deposit Insurance Act (the "FDIA"), each as amended from time to time. In general terms, the Banking Act provides that when the expenditures of a bank are greater than receipts, the excess of expenditures over receipts will be charged against the undistributed profits of the bank and the balance, if any, will be charged against the required reserve fund of the bank. If there is no sufficient reserve fund to cover such balance in whole or in part, the outstanding amount will be charged against the bank's capital account. The Puerto Rico Banking Act provides that until said capital has been restored to its original amount and the reserve fund to 20% of the original capital, the bank may not declare any dividends. In general terms, the FDIA and the regulations issued thereunder restrict the payment of dividends when a bank is undercapitalized, when a bank has failed to pay insurance assessments, or when there are safety and soundness concerns regarding a bank.

The payment of dividends by the Bank may also be affected by other regulatory requirements and policies, such as maintenance of adequate capital. If, in the opinion of the regulatory authority, a bank under its jurisdiction is engaged in, or is about to engage in, an unsafe or unsound practice (that, depending on the financial condition of the bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice. The Federal Reserve Board has a policy statement that provides that insured banks and bank holding companies generally should not maintain their existing rate of cash dividends on common stock unless (i) the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality, and overall financial condition. In addition, all insured banks are subject to the capital-based limitations required by the Federal Deposit Insurance Corporation Improvement Act of 1991.

The payment of dividends by the Bank may also be affected by other regulatory requirements and policies, such as maintenance of adequate capital. If, in the opinion of the regulatory authority, a bank under its jurisdiction is engaged in, or is about to engage in, an unsafe or unsound practice (that, depending on the financial condition of the bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice.

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In this light, prior to any capital distribution our board of directors will consider our capital base and broad risk exposure, heavily weighting into such analysis the ability of the Bank to continue making dividend distributions to us and the need to continuously improve our capital base so that we are able to provide financial assistance to the Bank in the event that it faces any financial distress.

While our Series A, Series B and Series C preferred stock remain outstanding, we cannot declare, set apart for payment or pay any dividends or make any other distributions (other than dividends paid or other distributions made in any other class of our stock ranking junior to our preferred stock) on, or redeem, purchase, set apart or otherwise acquire (except upon conversion or exchange for shares of our stock ranking junior to our preferred stock), shares of our Common Stock or of any other class of our stock ranking junior to our preferred stock with respect to dividend rights and rights on liquidation, dissolution or winding up, unless (i) all accrued and unpaid dividends on our Series A, Series B and Series C preferred stock for the 12 prior monthly dividend periods have been paid or are paid contemporaneously, (ii) the full monthly dividend on our Series A, Series B and Series C preferred stock for the current month has been or is contemporaneously declared and paid or set apart for payment, and (iii) we have not defaulted on the payment of the redemption price of any shares of our Series A or Series B preferred stock called for redemption.

For additional information on our Common Stock, including restrictions that may be imposed by the certificate of designations governing our various series of preferred stock, potential investors should also refer to the section "Description of Capital Stock" in this prospectus.

**Table of Contents****CAPITALIZATION**

The following table sets forth our unaudited cash and cash equivalents, indebtedness, capitalization and certain bank regulatory capital ratios at June 30, 2012:

- n on an actual basis (adjusted only to include the issuance and sale of \$84 million in 84,000 shares of our Series C Preferred Stock that closed on July 3, 2012);
- n on an as adjusted basis to give effect to the issuance and sale of \_\_\_\_\_ shares of our Common Stock in this offering, assuming the shares of Common Stock are offered at \$ \_\_\_\_\_ per share, the last sale price of our Common Stock on the NYSE on \_\_\_\_\_, 2012 as set forth on the cover page of this prospectus;
- n on an as pro forma basis to give effect to the consummation of the BBVAPR Acquisition (see The BBVAPR Acquisition Unaudited Pro Forma Condensed Combined Financial Information Relating to the BBVAPR Acquisition ).

The following table should be read in conjunction with our consolidated financial statements and the related notes incorporated by reference in this prospectus and in conjunction with the unaudited pro forma condensed combined financial and other information and related notes included in this prospectus under The BBVAPR Acquisition Unaudited Pro Forma Condensed Combined Financial Information Relating to the BBVAPR Acquisition.

	AS OF JUNE 30, 2012 (UNAUDITED) (\$ IN THOUSANDS)		
	ACTUAL <sup>(1)</sup>	AS ADJUSTED	PRO FORMA <sup>(2)</sup>
<b>Cash and Cash Equivalents</b>	\$ 543,634	\$	\$
<b>Liabilities:</b>			
Deposits	\$ 2,222,942	\$	\$
Borrowings:			
Securities sold under agreements to repurchase	3,053,865		
Other borrowings	286,653		
Subordinated capital notes	36,083		
<b>Total borrowings</b>	3,376,601		
Derivative liabilities	56,217		
Accrued expenses and other liabilities	27,686		
<b>Total liabilities</b>	\$ 5,683,446	\$	\$
<b>Stockholders equity:</b>			
Preferred stock, \$1 par value; 10,000,000 shares authorized:			
1,340,000 shares of Series A and 1,380,000 shares of Series B issued and outstanding, \$25 liquidation value	68,000		
84,000 shares of Series C authorized; \$1,000 liquidation value; 84,000 shares of Series C issued and outstanding <sup>(3)</sup>	84,000		
Common stock, \$1 par value; 100,000,000 shares authorized; 47,841,611 shares issued; 40,703,831 shares outstanding	47,842		
Additional paid-in capital	494,907		
Legal surplus	52,668		

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Retained earnings	83,982		
Treasury stock, at cost, 7,110,780 shares	(81,403)		
Accumulated other comprehensive income, net of tax of \$1,411	21,261		
<b>Total stockholders equity</b>	\$ 771,257	\$	\$
<b>Total liabilities and stockholders equity</b>	\$ 6,454,703	\$	\$

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(1) Adjusted to include the issuance and sale of \$84 million in 84,000 shares of our Series C Preferred Stock that closed on July 3, 2012.

(2) Does not give effect to:

n the expected separate offering of up to \$            million in the aggregate of non-convertible non-cumulative perpetual preferred stock that we expect will commence concurrently with, or shortly after, this offering. Such offering would result in an additional \$            in Cash and Cash Equivalents and an additional \$            in Additional paid-in capital. Any difference in the actual amount raised from the expected offering of non-convertible non-cumulative perpetual preferred stock will be reflected in Cash and Cash Equivalents, Preferred Stock and Additional paid-in capital. We expect that the non-convertible non-cumulative perpetual preferred stock will be mandatorily redeemable if the BBVAPR Acquisition is not consummated. See Description of Capital Stock--Non-Convertible Non-Cumulative Perpetual Preferred Stock; or

n the approximately \$1.8 billion deleveraging of the investment securities and wholesale funding portfolios planned in connection with the BBVAPR Acquisition. The deleveraging would result in a reduction in Borrowings; however, the amounts and effect of the deleveraging transactions will depend on the actual terms of the deleveraging transactions and the amounts and types of investment securities and wholesale funding included. The deleveraging may not be possible on terms satisfactory to us or at all. See Risk Factors We may not be able to complete the planned deleveraging of our and BBVAPR s investment securities and wholesale funding portfolios. Any difference in the actual amount deleveraged from the planned deleveraging amount will be reflected in Securities sold under agreements to repurchase.

(3) Upon termination of the BBVAPR Acquisition Agreement, we have the option to redeem the Series C Preferred Stock, subject to regulatory approval, at a redemption price equal to 101% of the liquidation preference and unpaid dividends plus a redemption premium.

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**DESCRIPTION OF CAPITAL STOCK**

The following description is a general summary of the terms of our capital stock. The description below does not purport to be complete and is subject to and qualified in its entirety by reference to our amended certificate of incorporation (the "Certificate of Incorporation") and amended and restated bylaws (the "Bylaws"). The description herein does not contain all of the information that you may find useful or that may be important to you. You should refer to the provisions of our Certificate of Incorporation and Bylaws because they, and not the summaries, define the rights of holders of shares of our capital stock. You can obtain copies of our Certificate of Incorporation and Bylaws by following the directions in the section "Incorporation by Reference" of this prospectus.

**Authorized Capital**

We are authorized to issue 100,000,000 shares of Common Stock, par value \$1.00 per share, and 10,000,000 shares of preferred stock, par value \$1.00 per share (1,405,000 shares of 7.125% Noncumulative Monthly Income Preferred Stock, Series A (the "Series A Preferred Stock"), 1,380,000 shares of 7.0% Noncumulative Monthly Income Preferred Stock, Series B (the "Series B Preferred Stock"), and 84,000 shares of Series C Preferred Stock. The following is a summary of certain rights and privileges of our Common Stock and serial preferred stock. Statements in this summary are qualified in their entirety by reference to our Certificate of Incorporation and Bylaws.

**Common Stock**

As of June 30, 2012, there were 47,886,046 shares of our Common Stock issued, of which 40,730,831 are outstanding and 7,110,780 are held by us as treasury shares, and 44,435 shares are reserved for issuance under our Omnibus Plan. As of June 30, 2012, a total of 511,615 unvested and 423,178 vested stock options were outstanding under our 1996, 1998 and 2000 Incentive Stock Option Plans and the Omnibus Plan, and 216,736 restricted stock units were outstanding under our Omnibus Plan. The Omnibus Plan replaced and superseded our Incentive Stock Option Plans. All outstanding stock options under our Incentive Stock Option Plans continue in full force and effect, subject to their original terms. Our Common Stock is traded in the NYSE under the symbol "OFG". The holders of our Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Each share of our Common Stock has the same relative rights as, and is identical in all respects with, each other share of our Common Stock. At each annual meeting of shareholders in which more than one director is being elected, every shareholder entitled to vote at such election has the right to vote, in person or by proxy, the number of shares owned by the shareholder for as many persons as there are directors to be elected and for whose election the shareholder has a right to vote, or to cumulate the votes by giving one candidate as many votes as the number of such directors to be elected multiplied by the number of his or her shares equals, or by distributing such votes on the same principle among any number of candidates.

Subject to the rights of holders of the outstanding shares of our Series A Preferred Stock, our Series B Preferred Stock, our Series C Preferred Stock, and our new series of non-convertible non-cumulative perpetual preferred stock that we expect to offer in a separate offering, and any other outstanding shares of preferred stock, in the event of the liquidation, dissolution or distribution of our assets, the holders of our Common Stock are entitled to share ratably in the assets legally available for distribution to shareholders. Our Common Stock has no redemption, conversion or sinking fund privileges.

Subject to any dividend preferences which may be established with respect to any series of serial preferred stock, the holders of our Common Stock are entitled to receive, pro rata, dividends when and as declared by our board of directors out of funds legally available for the payment of dividends.

Holders of our Common Stock do not have preemptive rights to subscribe for or pur