

ORIENTAL FINANCIAL GROUP INC

Form 10-Q

August 08, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

**Commission File Number 001-12647
Oriental Financial Group Inc.**

Incorporated in the Commonwealth of Puerto Rico.

IRS Employer Identification No. 66-0538893

Principal Executive Offices:

997 San Roberto Street
Oriental Center 10th Floor
Professional Offices Park
San Juan, Puerto Rico 00926
Telephone Number: (787) 771-6800

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

Yes No

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 the 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
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

24,292,786 common shares (\$1.00 par value per share)
outstanding as of July 31, 2008

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FORWARD-LOOKING STATEMENTS

When used in this Form 10-Q or future filings by Oriental Financial Group Inc. (the Group) with the Securities and Exchange Commission (the SEC), in the Group s press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases would be, will allow, intends to, will likely result, are expected to, will continue, is anticipated, estimated, project, believe, expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

The future results of the Group could be affected by subsequent events and could differ materially from those expressed in forward-looking statements. If future events and actual performance differ from the Group s assumptions, the actual results could vary significantly from the performance projected in the forward-looking statements.

The Group wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made and are based on management s current expectations, and to advise readers that various factors, including local, regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities, competitive, and regulatory factors, legislative changes and accounting pronouncements, could affect the Group s financial performance and could cause the Group s actual results for future periods to differ materially from those anticipated or projected. The Group does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM I FINANCIAL STATEMENTS****UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****JUNE 30, 2008 AND DECEMBER 31, 2007***(In thousands, except share data)*

	June 30, 2008	December 31, 2007
ASSETS		
Cash and due from banks	\$ 56,486	\$ 88,983
Investments:		
Trading securities, at fair value with amortized cost of \$1,298 (December 31, 2007 \$1,103)	1,311	1,122
Investment securities available-for-sale, at fair value with amortized cost of \$3,467,005 (December 31, 2007 \$3,063,763)		
Securities pledged that can be repledged	3,213,381	2,903,078
Other investment securities	168,926	166,204
Total investment securities available-for-sale	3,382,307	3,069,282
Investment securities held-to-maturity, at amortized cost with fair value of \$1,198,736 (December 31, 2007 \$1,478,112)		
Securities pledged that can be repledged	1,161,754	1,348,159
Other investment securities	76,393	144,728
Total investment securities held-to-maturity	1,238,147	1,492,887
Federal Home Loan Bank (FHLB) stock, at cost	22,062	20,658
Other investments	150	1,661
Total investments	4,643,977	4,585,610
Loans:		
Mortgage loans held-for-sale, at lower of cost or market	42,122	16,672
Loans receivable, net of allowance for loan losses of \$11,885 (December 31, 2007 \$10,161)	1,176,035	1,162,894
Total loans, net	1,218,157	1,179,566
Accrued interest receivable	42,842	52,315
Premises and equipment, net	21,378	21,779

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Deferred tax asset, net	17,249	10,362
Foreclosed real estate	4,906	4,207
Investment in equity indexed options	27,641	40,709
Other assets	27,543	16,324
Total assets	\$ 6,060,179	\$ 5,999,855

LIABILITIES AND STOCKHOLDERS EQUITY

Deposits:

Demand deposits	\$ 124,140	\$ 119,152
Savings accounts	407,911	387,790
Certificates of deposit	960,368	739,478

Total deposits	1,492,419	1,246,420
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Borrowings:

Federal funds purchased and other short term borrowings	41,583	27,460
Securities sold under agreements to repurchase	3,810,752	3,861,411
Advances from FHLB	331,895	331,898
Subordinated capital notes	36,083	36,083

Total borrowings	4,220,313	4,256,852
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Securities purchased but not yet received	23,103	111,431
Accrued expenses and other liabilities	23,177	25,691

Total liabilities	5,759,012	5,640,394
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Stockholders equity:

Preferred stock, \$1 par value; 5,000,000 shares authorized; \$25 liquidation value; 1,340,000 shares of Series A and 1,380,000 shares of Series B issued and outstanding	68,000	68,000
Common stock, \$1 par value; 40,000,000 shares authorized; 25,736,121 shares issued; 24,292,086 shares outstanding (December 31, 2007-25,555,575; 24,120,771)	25,736	25,557
Additional paid-in capital	212,282	210,073
Legal surplus	43,533	40,573
Retained earnings	64,406	45,296
Treasury stock, at cost 1,444,035 shares (December 31, 2007 1,436,426 shares)	(17,136)	(17,023)
Accumulated other comprehensive loss, net of tax of \$4,402 (December 31, 2007 \$2,166)	(95,654)	(13,015)

Total stockholders equity	301,167	359,461
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Commitments and Contingencies

Total liabilities and stockholders equity	\$ 6,060,179	\$ 5,999,855
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See notes to unaudited consolidated financial statements.

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UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007
(In thousands, except per share data)

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2008	2007	2008	2007
Interest income:				
Loans	\$ 19,682	\$ 22,315	\$ 39,510	\$ 44,163
Mortgage-backed securities	47,765	25,268	87,266	50,766
Investment securities and other	17,711	23,218	40,483	37,371
Total interest income	85,158	70,801	167,259	132,300
Interest expense:				
Deposits	12,265	13,601	24,694	25,849
Securities sold under agreements to repurchase	40,208	36,546	80,448	69,334
Advances from FHLB, term notes and other borrowings	3,716	2,198	7,537	4,515
Subordinated capital notes	534	766	1,236	1,524
Total interest expense	56,723	53,111	113,915	101,222
Net interest income	28,435	17,690	53,344	31,078
Provision for loan losses	1,980	1,375	3,630	2,450
Net interest income after provision for loan losses	26,455	16,315	49,714	28,628
Non-interest income:				
Financial service revenues	4,500	4,049	8,740	8,892
Banking service revenues	1,395	2,265	2,922	4,139
Investment banking revenues	12		750	
Mortgage banking activities	545	170	1,551	232
Net gain (loss) on:				
Sale of securities available-for-sale	198		9,522	358
Derivatives	228	88	(7,575)	8,384
Trading securities	16	2	(1)	2
Other investments	16	1,169	116	788
Foreclosed real estate	(260)	30	(510)	67
Other		23	(1)	65
Total non-interest income, net	6,650	7,796	15,514	22,927

Non-interest expenses:

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Compensation and employee benefits	7,824	6,916	15,539	13,661
Occupancy and equipment	3,365	3,343	6,652	6,337
Professional and service fees	2,267	1,984	4,147	3,522
Advertising and business promotion	836	1,118	1,910	1,911
Directors and investor relations	303	769	581	1,300
Loan servicing expenses	339	540	670	1,063
Taxes, other than payroll and income taxes	607	489	1,218	937
Electronic banking charges	396	457	814	916
Clearing and wrap fees expenses	313	310	607	675
Communication	325	308	650	646
Insurance	579	211	1,181	427
Foreclosure expenses	201	338	351	405
Printing, postage, stationery and supplies	245	189	522	391
Other	480	505	968	1,113
Total non-interest expenses	18,080	17,477	35,810	33,304
Income before income taxes	15,025	6,634	29,418	18,251
Income tax expense (benefit)	598	187	(1,857)	811
Net income	14,427	6,447	31,275	17,440
Less: Dividends on preferred stock	(1,200)	(1,201)	(2,401)	(2,401)
Income available to common shareholders	\$ 13,227	\$ 5,246	\$ 28,874	\$ 15,039
Income per common share:				
Basic	\$ 0.54	\$ 0.21	\$ 1.19	\$ 0.61
Diluted	\$ 0.54	\$ 0.21	\$ 1.19	\$ 0.61
Average common shares outstanding	24,290	24,488	24,227	24,480
Average potential common shares-options	94	75	110	97
Average diluted common shares outstanding	24,384	24,563	24,337	24,577
Cash dividends per share of common stock	\$ 0.14	\$ 0.14	\$ 0.28	\$ 0.28

See notes to unaudited consolidated financial statements.

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FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007***(In thousands)*

CHANGES IN STOCKHOLDERS' EQUITY:	Six-Month Period Ended June	
	2008	2007
Preferred stock:		
Balance at beginning and end of period	\$ 68,000	\$ 68,000
Common stock:		
Balance at beginning of period	25,557	25,431
Stock options exercised	179	112
Balance at end of period	25,736	25,543
Additional paid-in capital:		
Balance at beginning of period	210,073	209,033
Stock-based compensation expense	252	12
Stock options exercised	1,957	815
Balance at end of period	212,282	209,860
Legal surplus:		
Balance at beginning of period	40,573	36,245
Transfer from retained earnings	2,960	2,067
Balance at end of period	43,533	38,312
Retained earnings:		
Balance at beginning of period	45,296	26,772
Net income	31,275	17,440
Cash dividends declared on common stock	(6,804)	(6,861)
Cash dividends declared on preferred stock	(2,401)	(2,401)
Transfer to legal surplus	(2,960)	(2,067)
Balance at end of period	64,406	32,883
Treasury stock:		
Balance at beginning of period	(17,023)	(12,956)
Stock used to match defined contribution plan 1165(e)	121	175
Stock purchased	(234)	(530)

Balance at end of period	(17,136)	(13,311)
Accumulated other comprehensive loss, net of tax:		
Balance at beginning of period	(13,015)	(16,099)
Other comprehensive loss, net of tax	(82,639)	(31,713)
Balance at end of period	(95,654)	(47,812)
Total stockholders equity	\$ 301,167	\$ 313,475

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007**

(In thousands)

COMPREHENSIVE INCOME	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2008	2007	2008	2007
Net income	\$ 14,427	\$ 6,447	\$ 31,275	\$ 17,440
Other comprehensive loss, net of tax:				
Unrealized loss on securities available-for-sale	(51,649)	(31,296)	(79,685)	(26,097)
Realized gain on investment securities available-for-sale included in net income	(198)		(9,522)	(358)
Gains on derivatives designated as cash flow hedges included in net income				(773)
Gain from termination of cash flow hedging				(8,225)
Income tax effect related to unrealized loss on securities available-for-sale	4,156	4,381	6,568	3,740
Other comprehensive loss for the period	(47,691)	(26,915)	(82,639)	(31,713)
Comprehensive loss	\$ (33,264)			