ORIENTAL FINANCIAL GROUP INC
Form S-1
October 19, 2012
Table of Contents

Index to Financial Statements

As filed with the Securities and Exchange Commission on October 18, 2012

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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	**6022**	**66-0538893**
(State or other jurisdiction of incorporation or organization	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

Oriental Center

Professional Office Park

997 San Roberto Street, 10th Floor

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)

Copies to:

Leslie N. Silverman
Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York, New York 10006
(212) 225-2000

Michael J. Zeidel
Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, New York 10036
(212) 735-3000

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: ¨

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 x Non-accelerated filer ¨ Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered**	**Proposed Maximum Offering Price Per Unit**	**Proposed Maximum Aggregate Offering Price (1)**	**Amount of Registration Fee**
Preferred Stock, $25.00 liquidation preference per share			$33,000,000	$4,502

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

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

Table of Contents

Index to Financial Statements

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 18, 2012

PRELIMINARY PROSPECTUS

Shares

ORIENTAL FINANCIAL GROUP INC.

Series D Non-Cumulative Perpetual

Preferred Stock

We are offering shares of our non-cumulative perpetual preferred stock, Series D, with a liquidation preference of $25.00 per share.

We will pay dividends on the preferred stock, when, as, and if declared by our board of directors and to the extent that we have lawfully available funds to pay dividends. Dividends will be payable quarterly, in arrears, on of each year, beginning on , at a rate of % per annum. Dividends on the preferred stock will not be cumulative. If for any reason our board of directors does not declare a dividend on the preferred stock for any dividend period, such dividend will not accrue or be payable, and we will have no obligation to pay dividends for such dividend period, whether or not dividends on the preferred stock are declared for any future dividend period. Dividends on the preferred stock will not be declared, paid or set aside for payment to the extent such act would cause us to fail to comply with applicable laws and regulations, including applicable capital adequacy guidelines.

We may redeem the preferred stock, in whole or in part, from time to time, on any dividend payment date on or after , or in whole, but not in part, within 90 days upon the occurrence of certain changes related to the regulatory capital treatment of the preferred stock, at a redemption price of $25 per share, plus any declared and unpaid dividends to, but excluding, the redemption date. Upon termination of the BBVAPR Acquisition Agreement (as defined herein), we must, subject to regulatory approval if required under 12 CFR 225.4, redeem all (but not less than all) the shares of preferred stock pursuant to a notice of redemption given on or prior to the third business day after September 30, 2013, in cash, at a redemption price equal to 101% of the liquidation preference of the shares of preferred stock, plus accrued and unpaid dividends for such dividend period (whether or not declared).

We intend to apply for the preferred stock to be listed on the New York Stock Exchange (NYSE) under the symbol .

Investing in our preferred stock involves a high degree of risk. See Risk Factors beginning on page 11 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.

	PER SHARE	TOTAL
Public offering price	$	$
Underwriting discount	$	$
Proceeds to us (before expenses)	$	$

Delivery of the shares of preferred stock is expected to be made on or about , 2012.

Jefferies

Oriental Financial Services

Prospectus dated , 2012

Table of Contents

Index to Financial Statements

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 underwriters are not, making an offer of our non-cumulative perpetual preferred stock, Series D, $25.00 liquidation preference per share (the Preferred 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 underwriters 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.**

Table of Contents

Index to Financial Statements

TABLE OF CONTENTS

	PAGE
PROSPECTUS SUMMARY	1
RISK FACTORS	11
INCORPORATION BY REFERENCE	27
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	28
THE BBVAPR ACQUISITION	30
USE OF PROCEEDS	46
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS	47
CAPITALIZATION	48
DESCRIPTION OF SERIES D PREFERRED STOCK	50
DESCRIPTION OF CAPITAL STOCK	58
CERTAIN PUERTO RICO INCOME TAX CONSIDERATIONS	62
CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS	66
UNDERWRITING (Conflicts of Interest)	70
LEGAL MATTERS	73
EXPERTS	74
FINANCIAL STATEMENTS	F-1
PART II INFORMATION NOT REQUIRED IN PROSPECTUS	II-1
EXHIBIT INDEX	E-1

Table of Contents

Index to Financial Statements

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 Preferred Stock. For a more complete discussion of the information you should consider before investing in the Preferred 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 G 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:

- 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;

- 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;

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

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

- Implementing a broad ranging effort to instill in employees and make customers aware of Oriental s determination to effectively serve and advise its customer base in a responsive and professional manner.

Table of Contents

Index to Financial Statements

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.

[Table of Contents](#)

[Index to Financial Statements](#)

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), the Commonwealth of Puerto Rico and six other U.S. states and territories.

Oriental Insurance

Oriental Insurance 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. Oriental does not expect any change to the composition of its board of directors as a result of the BBVAPR Acquisition.

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.

3

Table of Contents

Index to Financial Statements

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 Convertible 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:

- the consummation of this offering;
- the net proceeds of its recent common stock offering, par value $1.00 per share (the Common Stock);
- the net proceeds of the Series C Convertible Preferred Stock; and
- the remaining amount from cash on its balance sheet.

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. On October 10, 2012, the OCFI approved Oriental s acquisition of BBVAPR Bank and the merger of BBVAPR Bank with and into Oriental Bank, with Oriental Bank as the surviving entity. See The BBVAPR Acquisition Regulatory Considerations. The consummation of this offering is not contingent on the closing of the BBVAPR Acquisition.

Related Transactions

On , Oriental priced an underwritten public offering of shares of its Common Stock for an aggregate offering price of $, which it expects to close on , subject to certain customary closing conditions. In addition, Oriental granted the underwriters of the Common Stock offering a 30-day option to purchase up to additional shares of Common Stock. The Common Stock was offered pursuant to a separate prospectus. The closing of this offering of Preferred Stock is not conditioned upon the closing of Oriental s offering of the Common Stock.

In addition, in connection with the BBVAPR Acquisition, Oriental plans to dispose of approximately $1.8 billion of its and BBVAPR Bank 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. Oriental expects that the $1.8 billion planned deleveraging will result in a one-time charge to income before income taxes of approximately $10 million (or $ million after giving effect to income taxes), in the aggregate, which includes the expected securities mark-to-market gains or losses and the expected cost on the termination of the wholesale funding agreements. There is no expected one-time charge from the planned deleveraging of BBVAPR Bank s securities portfolio and wholesale funding since the purchase accounting fair value adjustments will reflect the sales price of the securities and the liquidation value of the liabilities being deleveraged. The $1.8 billion planned deleveraging is also expected to result in a reduction to pre-tax income of approximately $6.2 million in 2013 and approximately $4.0 million in 2014 (or $ million and $ million, respectively, after giving effect to income taxes). Actual amounts will depend on market prices for the investment securities to be sold and the remaining term under the wholesale funding agreements at the time of the deleveraging transactions. See The BBVAPR Acquisition and Capitalization for more information on the expected deleveraging transactions.

Risk Factors

An investment in the Preferred Stock involves risks. You should carefully consider the information set forth in the section of this prospectus entitled Risk Factors beginning on page 11, as well as other information included or incorporated by reference in this prospectus, before deciding whether to invest in the Preferred Stock.

4

[Table of Contents](#)

[Index to Financial Statements](#)

Conflicts of Interest

Oriental Financial Services, a broker-dealer registered with FINRA and affiliated with us, has been engaged to act as an underwriter for this offering. Consequently, Oriental Financial Services will be deemed to have a conflict of interest within the meaning of FINRA Rule 5121(f)(5)(B), and this offering will be conducted in compliance with FINRA Rule 5121. No underwriter with a conflict of interest pursuant to FINRA Rule 5121 may sell securities to a discretionary account without written approval by the discretionary accountholder. Pursuant to FINRA Rule 5121, the appointment of a Qualified Independent Underwriter is not necessary in connection with this offering because, pursuant to FINRA Rule 5121(a)(1)(A), Jefferies & Company, Inc., as the member primarily responsible for managing the public offering, has no conflict of interest.

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, 10th Floor, San Juan, Puerto Rico 00926. Our telephone number is (787) 771-6800. We maintain a website at 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. We are not incorporating the contents of our website into this prospectus.

Table of Contents

Index to Financial Statements

The Offering

The following summary contains basic information about the offering and our Preferred 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 Preferred Stock, please refer to the section of this prospectus entitled Description of the Series D Preferred Stock.

Issuer	Oriental Financial Group Inc., a Puerto Rico corporation.
Shares we are offering	shares of Preferred Stock.
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 the Buyer Capital Raise, we intend to use any such excess net proceeds for general corporate purposes. See Use of Proceeds.
Public offering price	$25 per share.
Dividends	Dividends on the Preferred Stock will only be payable when, as and if declared by our board of directors, out of funds legally available for payment at a rate of % per annum, on each dividend payment date. A dividend payment date means each , commencing , except if any such date is not a business day, then such date will nevertheless be a dividend payment date but dividends on the Preferred Stock, when, as and if declared, will be paid on the next succeeding business day (without adjustment in the amount of the dividend per share of the Preferred Stock). Dividends on shares of the Preferred Stock will not be cumulative and will not be mandatory. If our board of directors does not declare a dividend on the Preferred Stock in respect of a dividend period, then no dividend will be deemed to have accrued for such dividend period, be payable on the related dividend payment date, or accumulate, and we will have no obligation to pay any dividend accrued for such dividend period, whether or not our board of directors declares a dividend on the Preferred Stock or any other outstanding series of our preferred stock or on our Common Stock for any future dividend period. Dividends on the Preferred Stock will not be declared, paid or set aside for payment to the extent such act would cause us to fail to comply with applicable laws and regulations, including applicable capital adequacy guidelines. See Description of the Series D Preferred Stock Dividends.
Maturity	The Preferred Stock is perpetual and has no maturity date.
Optional Redemption	

We may redeem the Preferred Stock, in whole or in part, from time to time, on any dividend payment date on or after , or in whole, but not in part, within 90 days upon the occurrence of certain changes related to the regulatory capital treatment of the Preferred Stock, at a redemption price of $25 per share, plus any declared and unpaid dividends to, but excluding, the redemption date.

Table of Contents

Index to Financial Statements

	Optional redemption of the Preferred Stock will be subject to the prior approval of the Federal Reserve Board (or any successor appropriate federal banking agency) if then required under capital guidelines or other regulations applicable to us. See Description of the Series D Preferred Stock Redemption Optional redemption.
Mandatory Redemption	Upon termination of the BBVAPR Acquisition Agreement, we must, subject to regulatory approval if required under 12 CFR 225.4, redeem all (but not less than all) the shares of Preferred Stock pursuant to a notice of redemption given on or prior to the third business day after September 30, 2013, in cash, at a redemption price equal to 101% of the liquidation preference of the shares of Preferred Stock, plus accrued and unpaid dividends for such dividend period (whether or not declared). See Description of the Series D Preferred Stock Redemption Mandatory redemption.
Liquidation rights	In the event that we voluntarily or involuntarily liquidate, dissolve or wind up our affairs, holders of the Preferred Stock will be entitled to receive an amount per share equal to $25 per share, plus any declared and unpaid dividends including, if applicable, a pro rata portion of any declared and unpaid dividends for the then-current dividend period to the date of liquidation, without regard to any undeclared dividends, out of our assets that are available for distribution to shareholders, after payment or provision for payment of our debts and other liabilities but before any distribution of assets is made to holders of our Common Stock or any other junior stock. In addition, the Preferred Stock may be fully subordinate to interests held by the U.S. government in the event we enter into a receivership, insolvency, liquidation or similar proceeding, including a proceeding under the orderly liquidation authority provisions of the Dodd-Frank Act (as defined herein).
	If our assets are not sufficient to pay the total liquidation amount in full to all holders of the Preferred Stock and all holders of any of our stock ranking equally with the Preferred Stock as to distributions of assets upon any liquidation, dissolution or winding-up of us, the amounts paid to the holders of the Preferred Stock and to such other stock will be paid pro rata in accordance with the respective total liquidation amount for those holders.
	For purposes of the liquidation rights, neither the sale, conveyance, exchange or transfer of all or substantially all of our property and assets, nor the consolidation or merger by us with or into any other corporation or by another corporation with or into us, will constitute a liquidation, dissolution or winding-up of our affairs. See Description of the Series D Preferred Stock Liquidation Rights.
Voting rights	Holders of Preferred Stock will not have voting rights, except with respect to authorizing or increasing senior stock, certain changes in the terms of the Preferred Stock, certain dividend non-payments and as otherwise required by applicable law. See Description of the Series D Preferred Stock Voting Rights.

Table of Contents

Index to Financial Statements

Ranking	With respect to the payment of dividends and distributions of assets upon any liquidation, dissolution or winding-up, the Preferred Stock will rank: n senior to our Common Stock and all other junior stock; n on a parity with our Series A, B and C preferred stock and any other series of our parity stock; n junior to any senior stock; and n junior to all existing and future indebtedness and other non-equity claims on us.
Book-entry form	The Preferred 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 Preferred 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 Preferred Stock, see Certain Puerto Rico Income Tax Considerations and Certain U.S. Federal Income Tax Considerations, respectively.
Passive Foreign Investment Company Rules	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. If we were to be or become classified as a PFIC, a U.S. Holder (as defined herein) 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 Preferred Stock and on the receipt of distributions on the Preferred 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.
NYSE Listing	We intend to apply for the Preferred Stock to be listed on the NYSE.

Table of Contents

Index to Financial Statements

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:

- 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 Condition 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

- The section entitled Risk Factors in this prospectus.

Table of Contents

Index to Financial Statements

	AS OF AND FOR THE YEAR ENDED DECEMBER 31,			AS OF AND FOR THE SIX MONTHS ENDED JUNE 30,	
	2011	2010	2009	2012	2011
				(Unaudited)	
	(in thousands except per share data)				
Selected financial condition data:					
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
Selected operations data:					
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
Stock and related per share data:					
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

Table of Contents

Index to Financial Statements

RISK FACTORS

An investment in our Preferred 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.

Table of Contents

Index to Financial Statements

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:

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

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

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

- The remaining maturity of various assets and liabilities may shorten or lengthen as interest rates change. For example, if long-term mortgage interest rates decline sharply, 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.

- 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.

Table of Contents

Index to Financial Statements

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

Index to Financial Statements

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 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.

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

Table of Contents

Index to Financial Statements

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-earning assets pro forma for the BBVAPR Acquisition, and 66% 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 We may not be able to complete the planned deleveraging of our and BBVAPR Bank 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:

- the duration of the loan;
- credit risks of a particular borrower;
- changes in economic or industry conditions; and
- in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

We strive to maintain an appropriate allowance for loan 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.

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

Table of Contents

Index to Financial Statements

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 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.

Table of Contents

Index to Financial Statements

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 and outstanding preferred stock, make payments on corporate debt securities and meet other obligations and will represent a major source of funds for the payment of dividends on the Preferred Stock. 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, Preferred Stock and our other outstanding preferred 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 Preferred Stock and this Offering Our ability to declare dividends on the Preferred 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. 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

Table of Contents

Index to Financial Statements

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 (CFPB), 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 CFPB, 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. Although we expect to have total assets of less than $10 billion after the Closing of the proposed BBVAPR Acquisition and the planned deleveraging of approximately $1.8 billion in investment securities and related borrowings, we may still be treated for certain regulatory and supervisory purposes as an institution with more than $10 billion in assets based on the combined total assets of Oriental and BBVAPR prior to the merger, until such time as the Bank (or Oriental, as applicable) has closed four consecutive quarters with $10 billion or less in total assets. 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 permanently as a result of these requirements. See We may not be able to complete the planned deleveraging of our and BBVAPR Bank 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:

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

Table of Contents

Index to Financial Statements

- 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.

20

Table of Contents

Index to Financial Statements

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 Preferred 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 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 Preferred Stock and on the receipt of distributions on the Preferred 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.

Investors are urged to consult their tax advisors concerning the U.S. federal income tax consequences of acquiring, holding, and disposing of our Preferred 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 Bank s investment securities and wholesale funding portfolios.

In connection with the BBVAPR Acquisition we plan to dispose of approximately $1.8 billion of our and BBVAPR Bank s investment securities portfolio and pay the corresponding wholesale funding of the portfolio 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 permanently subject to additional regulatory requirements

Table of Contents

Index to Financial Statements

(see We operate in a highly regulated 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 one-time charge to income before income taxes of approximately $10 million (or $ million after giving effect to income taxes) as well as a reduction to pre-tax income of approximately $6.2 million in 2013 and approximately $4.0 million in 2014 (or $ million and $ million, respectively, after giving effect to income taxes) in connection with the deleveraging; however, we could incur larger than expected losses based on market conditions at the time we complete the deleveraging and those losses 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 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 separate offering of Common Stock that we expect to close on) and the receipt of regulatory approvals from the FDIC, the Federal Reserve Board, FINRA and the OCFI (the Approvals). On October 10, 2012, the OCFI approved Oriental s acquisition of BBVAPR Bank and the merger of BBVAPR Bank with

Table of Contents

Index to Financial Statements

and into Oriental Bank, with Oriental Bank as the surviving entity. 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.

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.

Risks Related to Our Preferred Stock and this Offering

If we fail to consummate the BBVAPR Acquisition, we will be obligated to redeem the Preferred Stock, subject to receipt of regulatory approval, if required, and investors may not receive a market rate of return on their investment.

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 will be obligated to redeem the Preferred Stock at a redemption price equal to 101% of the liquidation preference of the Preferred Stock and accrued and unpaid dividends for the dividend period in which the redemption occurs (whether or not declared). 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, and redeem the Preferred Stock, and even if we redeem the Preferred Stock, investors may not receive a market rate of return on their investment. If we fail to obtain the necessary regulatory approvals to redeem the Preferred Stock, our obligation to redeem the Preferred Stock will cease and the Preferred Stock will be a perpetual security.

If we consummate the BBVAPR Acquisition, investors should not expect us to redeem the Preferred Stock on the date it becomes redeemable or on any particular date afterwards.

The Preferred Stock is a perpetual equity security. If we consummate the BBVAPR Acquisition, we may redeem the Preferred Stock either in whole or in part, from time to time, on any dividend payment date on or after or in whole, but not in part, within 90 days upon the occurrence of certain changes related to the regulatory capital treatment of the Preferred Stock, as described below under Description of the Series D Preferred Stock Redemption Optional redemption. Any decision we may make to redeem the Preferred Stock will depend upon, among other things, our evaluation of our capital position, including for bank capital ratio purposes, the composition of our shareholders equity and general market conditions at that time. In addition, any such redemption of the Preferred Stock would be subject to receipt of prior approval of the Federal Reserve Board (or any successor appropriate federal banking agency) if then required under capital guidelines or other regulations applicable to us. There is no assurance that we will be able to obtain such regulatory approval, if required, and redeem the Preferred Stock.

An active trading market of the Preferred Stock may not develop.

The shares of Preferred Stock are a new issue of securities with no established trading market. Although we plan to apply to list the shares on the NYSE, there is no guarantee that we will be able to list the shares. Even if the shares are listed, there may be little or no secondary market for the shares. Even if an active trading market develops, the Preferred Stock could trade at prices that may be lower than the price at which the shares of Preferred Stock were purchased, depending on many factors, including prevailing interest rates and the market for similar securities, general economic conditions and our financial condition, performance and prospects. The liquidity of, and any trading market for, the Preferred Stock may be adversely affected by general declines or disruptions in the market for such similar securities. Further, because the shares do not have a stated maturity date, investors seeking liquidity in the shares will be limited to selling their shares in the secondary market.

Table of Contents

Index to Financial Statements

The Preferred Stock is an equity security and is junior in right of payment to our existing and future indebtedness.

The shares of Preferred Stock are equity interests in the Company and do not constitute indebtedness. The shares of Preferred Stock will rank junior in right of payment to all of our existing and future indebtedness, and equal in right of payment with all of our outstanding preferred stock, and the terms of the Preferred Stock will not prohibit us from issuing additional securities in the future that rank senior (other than senior stock as described below) or equal in right of payment with the Preferred Stock. Our existing and future indebtedness may also restrict payment of dividends on the Preferred Stock. As of June 30, 2012, we had $5.7 billion of total consolidated indebtedness that would be senior in right of payment to the shares of Preferred Stock and our other outstanding series of preferred stock. In addition, the Preferred Stock will effectively be subordinated to all existing and future liabilities and obligations of our subsidiaries as our right to participate in any distribution of assets of any of our subsidiaries, including upon the subsidiary s liquidation, will be subject to the prior claims of creditors of that subsidiary, except to the extent that any of our claims as a creditor of such subsidiary may be recognized.

The Preferred Stock may be junior in rights and preferences to our future preferred stock.

Subject to approval by holders of at least two-thirds of the shares of our Preferred Stock then outstanding, we may issue preferred stock in the future, the terms of which are expressly senior to the Preferred Stock. The terms of any such future preferred stock may restrict dividend payments on the Preferred Stock unless full dividends for all of our outstanding preferred stock senior to the Preferred Stock have been declared and paid or set aside for payment for the relevant period or periods specified by the terms of such preferred stock. If we issue such shares of preferred stock in the future, the rights of holders of the Preferred Stock or the market price of the Preferred Stock could be adversely affected.

Dividends on the Preferred Stock are non-cumulative.

Dividends on the Preferred Stock are non-cumulative and are payable when, as and if declared by our board of directors. Consequently, if our board of directors does not authorize and declare a dividend for any dividend period prior to the related dividend payment date, holders of the Preferred Stock would not be entitled to receive a dividend for that dividend period, and the undeclared dividend will not accrue and not be payable, whether or not dividends are declared for any subsequent dividend period with respect to the Preferred Stock. We will have no obligation to pay dividends accrued for a dividend period after the dividend payment date for that period if our board of directors has not declared a dividend prior to such dividend payment date, whether or not dividends are declared for any subsequent period with respect to the Preferred Stock.

Our ability to declare dividends on the Preferred Stock may be limited.

Unlike indebtedness, where principal and interest customarily are payable on specified due dates, in the case of the Preferred Stock, (i) dividends are payable only if and when declared by our board of directors out of funds legally available for such payments; (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 preferred stock or engage in any transactions. Our ability to pay dividends on the Preferred Stock and our Common Stock is also subject to restrictions in our Series A, B and C preferred stock, which rank equally with the Preferred Stock in right of payment.

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.

[Table of Contents](#)

[Index to Financial Statements](#)

Proposed capital regulations may require us to limit the restrictions under the Preferred Stock dividend stopper in order for the Preferred Stock to qualify as Tier 1 capital.

On June 7, 2012, the Federal Reserve approved for publication a notice of proposed rulemaking that would implement new international capital guidelines established by the Basel Committee on Banking Supervision. If adopted as proposed, this proposed rule would require the Preferred Stock to meet certain criteria in order to qualify as Tier 1 capital, including that we would be required to have full discretion at all times to cancel dividends or other capital distributions on the Preferred Stock without imposing any restrictions on the Company other than restrictions on our ability to make capital distributions on our Common Stock. As a result, we may not be permitted to condition the payment of dividends or other capital distributions on our equity securities (other than our Common Stock) on the payment of dividends on the Preferred Stock.

In addition, the notice of proposed rulemaking indicates that the Federal Reserve is considering including further limits on dividend stopper provisions in securities eligible for Tier 1 capital by requiring that an issuer have the ability to cancel or substantially reduce dividend payments on Tier 1 capital instruments when the banking organization is paying up to a penny per share dividend to its common stockholders. Such a proposal would go beyond the core Basel III requirements for Tier 1 capital, and was not included in the proposed regulatory text. If this further restriction on dividend stoppers were adopted, the Preferred Stock dividend stopper could require the payment of dividends on the Preferred Stock in order to pay dividends or other capital distributions on our Common Stock, except that we would be permitted to pay up to one cent per share of dividends on Common Stock so long as we paid an equivalent amount per share on the Preferred Stock.

Accordingly, we have included in the Preferred Stock dividend stopper a provision under which the terms of the Preferred Stock dividend stopper will be modified as necessary, without holder consent, if after giving effect to any change in law or regulation (which may or may not be in connection with or otherwise resulting from the adoption of the notice of proposed rulemaking, or otherwise in connection with the implementation by applicable U.S. bank regulatory authorities of the Basel III capital accord), the Preferred Stock would qualify as Tier 1 capital as a result of such modification. We intend any such change in the Preferred Stock dividend stopper to provide investors in the Preferred Stock with the maximum protection permitted by law and regulation consistent with the treatment of the Preferred Stock as Tier 1 capital. There can be no assurance if or when the proposed rule will be adopted or whether the proposed rule, if adopted, will include further changes or limitations on dividend stoppers

Holders of the Preferred Stock will have limited voting rights.

Holders of the Preferred Stock have no rights with respect to matters that generally require the approval of holders of our Common Stock. Holders of the Preferred Stock will have voting rights only as required by law, in our certificate of incorporation, as amended (the Certificate of Incorporation), and in the certificate of designations for the Preferred Stock. Our Series A and B preferred stock have similar voting rights. See Description of the Series D Preferred Stock Voting Rights.

If investors are able to resell their Preferred Stock, many other factors may affect the price they receive, which may be lower than they believe to be appropriate.

If investors are able to resell their shares of Preferred Stock, the price they receive will depend on many other factors that may vary over time, including:

- the number of potential buyers;
- the level of liquidity of the Preferred Stock;
- our financial performance;
- the amount of indebtedness we have outstanding;

- the level, direction and volatility of market interest rates generally;
- the market for similar securities;
- the market price of our Common Stock; and
- the terms of the Preferred Stock.

As a result of these factors, investors may only be able to sell their Preferred Stock at prices that may be below those they believe to be appropriate, including prices below the price they paid for the Preferred Stock.

Table of Contents

Index to Financial Statements

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, 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 filed with the SEC on 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. 40th Street, Suite 1308

New York, NY 10016

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

Facsimile: (212) 679-7999

E-mail: ofg@anreder.com

Table of Contents

Index to Financial Statements

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:

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

- possible legislative, tax or regulatory changes;
- the receipt and timing of regulatory approvals required to consummate the BBVAPR Acquisition;
- our ability to raise the necessary equity to finance the BBVAPR Acquisition;
- our ability to successfully deleverage approximately $1.8 billion of our and BBVAPR Bank s investment securities portfolio and wholesale funding in connection with the BBVAPR Acquisition; and
- 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.

Table of Contents

Index to Financial Statements

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.

Table of Contents

Index to Financial Statements

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 Convertible Preferred Stock on July 3, 2012, (ii) this offering, (iii) the net proceeds from its recent Common Stock 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 Bank s investment securities portfolio and wholesale funding in connection with the BBVAPR Acquisition. Consummation of the deleveraging is not a condition to closing this offering. 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 Bank s balance sheet. See Risk Factors We may not be able to complete the planned deleveraging of our and BBVAPR Bank 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

Table of Contents

Index to Financial Statements

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 of BBVAPR Bank s 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. On October 10, 2012, the OCFI approved Oriental s acquisition of BBVAPR Bank and the merger of BBVAPR Bank with and into Oriental Bank, with Oriental Bank as the surviving entity. 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.

- Earnings per share accretion. The BBVAPR Acquisition is anticipated to result in earnings growth both in the short-term and over the long-term.

- 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.

- 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.

- 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

[Table of Contents](#)

[Index to Financial Statements](#)

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 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 Bank 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. Oriental expects that the $1.8 billion planned deleveraging will result in a one-time charge to income before income taxes of approximately $10 million (or $ million after giving effect to income taxes), in the aggregate, which includes the expected securities mark-to-market gains or losses and the expected cost on the termination of the wholesale funding agreements. There is no expected one-time charge from the planned deleveraging of BBVAPR Bank s securities portfolio and wholesale funding since the purchase accounting fair value adjustments will reflect the sales price of the securities and the liquidation value of the liabilities being deleveraged. The $1.8 billion planned deleveraging is also expected to result in a reduction to pre-tax income of approximately $6.2 million in 2013 and approximately $4.0 million in 2014 (or $ million and $ million, respectively, after giving effect to income taxes). Actual amounts will depend on market prices for the investment securities to be sold and the remaining term under the wholesale funding agreements at the time of the deleveraging transactions. See Risk Factors We may not be able to complete the planned deleveraging of our and BBVAPR Bank s investment securities and wholesale funding portfolios.

- 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.

- 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.

- 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.

- 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 Convertible Preferred Stock, with a conversion price of $11.77, through a private placement pursuant to a

Table of Contents

Index to Financial Statements

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 Convertible 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.

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

- the sale of shares of Common Stock in its recent public offering, expected to close on , for an aggregate offering price of $ million; and
- the sale of shares of our Preferred 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.

The closing of this offering of Preferred Stock is not conditioned upon the closing of our recent offering of Common Stock, and the closing of our offering of Common Stock will not be conditioned upon the closing of this offering of Preferred Stock. We are not required under the BBVAPR Acquisition Agreement to raise specific individual amounts or a specific proportion of Preferred Stock to other equity as part of the Buyer Capital Raise, and the final amount of 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. On October 10, 2012, the OCFI approved Oriental s acquisition of BBVAPR Bank and the merger of BBVAPR Bank with and into Oriental Bank, with Oriental Bank as the surviving entity. Although we currently believe we should be able to obtain all other 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 Convertible Preferred Stock issued on July 3, 2012, the recent offering of $33 million in Common Stock, expected to close on , and this offering, the net assets acquired in the BBVAPR 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, the capital ratios for the Company as of December 31, 2011 on an actual basis, and the capital ratios for the Company as of June 30, 2012:

- on an actual basis; and

- on a pro forma basis giving effect to (i) the issuance of the Series C Convertible Preferred Stock, (ii) the recent offering of $33 million in Common Stock, (iii) this offering, and (iv) the consummation of the BBVAPR Acquisition, including the purchase accounting adjustments.

Table of Contents

Index to Financial Statements

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.

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	AS OF JUNE 30, 2012	
		ACTUAL	ACTUAL	PRO FORMA [1]
Oriental Financial Group Inc. [2]				
Tier 1 risk-based capital ratio	6%	31.52%	32.50%	11.49%
Total risk-based capital ratio	10	32.80	33.79	14.09
Tier 1 common equity to risk-weighted assets [3]		28.28	29.22	8.37
Tier 1 Capital to Total Assets (Tier 1 Leverage Capital Ratio)	5	9.65	10.75	5.90
Tangible common equity to tangible assets [4]		9.32	9.73	5.35
Tangible common equity to risk weighted assets [4]		29.71	29.88	10.41

(1) Assumes that $33 million of Preferred Stock was issued in this offering at a purchase price of $25.00 per share, the liquidation value, and $33 million in Common Stock was issued at a purchase price of $10.22 per share, the closing price of our Common Stock on the NYSE on October 15, 2012.

(2) 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.

(3) 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.

(4) 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.

Table of Contents

Index to Financial Statements

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)	AS OF JUNE 30, 2012 (PRO FORMA)
		(in thousands)	
Common stockholders equity	$ 627,555	$ 624,202	$ 659,864
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
Total Tier 1 common equity	**$ 593,614**	**$ 606,804**	**$ 466,471**
Tier 1 common equity to risk-weighted assets	**28.28%**	**29.22%**	**8.37%**

The following table provides a reconciliation of Oriental s total stockholders equity to total tangible common equity and total assets to total tangible assets 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	AS OF JUNE 30, 2012 (PRO FORMA)
		(in thousands)	
Total stockholders equity	$ 695,555	$ 692,202	$ 833,297
Preferred stock	(68,000)	(68,000)	(173,433)
Goodwill	(2,701)	(2,701)	(71,663)
Core deposit intangible	(1,185)	(1,114)	(8,240)
Total tangible common equity	**$ 623,669**	**$ 620,387**	**$ 579,961**
Total assets	6,693,675	6,375,648	10,924,181
Goodwill	(2,701)	(2,701)	(71,663)
Core deposit intangible	(1,185)	(1,114)	(8,240)
Total tangible assets	**$ 6,689,789**	**$ 6,371,833**	**$ 10,844,278**

Tangible common equity to tangible assets	**9.32%**	**9.73%**	**5.35%**

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 Bank Holding Company Act of 1956 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.

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.

Table of Contents

Index to Financial Statements

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 Activiti