Our core value: Supporting our customers' financial aspirations

2007 ANNUAL REPORT

ORIENTAL FINANCIAL GROUP

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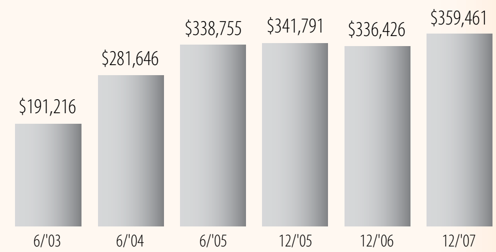
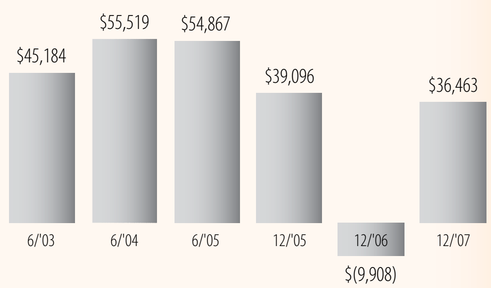
FINANCIAL HIGHLIGHTS

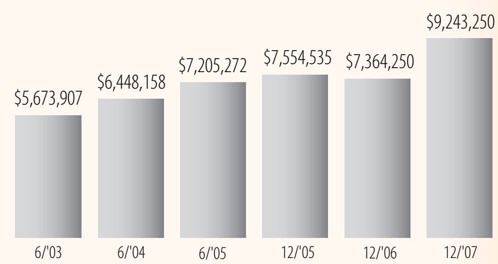
Stockholders' equity
(in thousands)



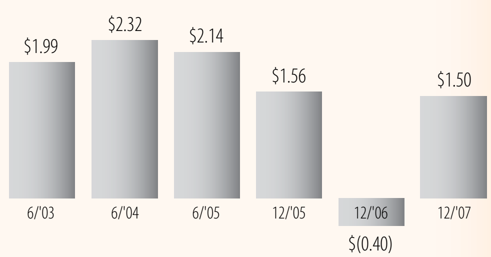
Income (loss) available to common shareholders
(in thousands)



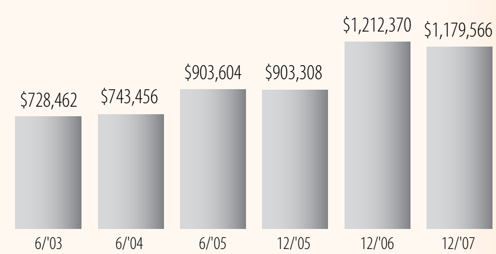
Total assets owned & managed
(in thousands)



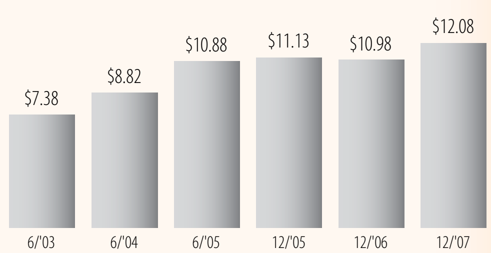
Income (loss) per common share



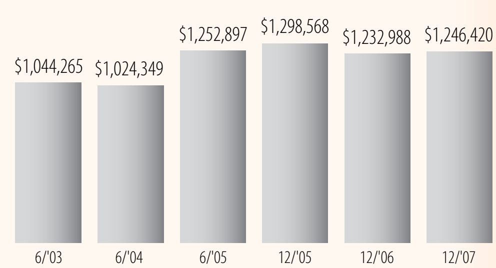
Total loans, net
(in thousands)



Book value per common share



Deposits
(in thousands)



FROM THE CHAIRMAN OF THE BOARD TO OUR SHAREHOLDERS

On behalf of my colleagues on the Board, I would like to extend our best wishes to our Shareholders. We are pleased with the financial performance of Oriental this past year, and we congratulate the management team on its accomplishments.

Our Board, consisting of independent directors, and only one current member of management, CEO and President José Rafael Fernández, has as its primary function, consistent with the best interests of all constituents, the formation and oversight of the policies by which the Group and its subsidiaries are managed. In addition to regular monthly meetings of the Board, each of us participates in meetings of various Board committees; Compensation, Governance, Audit and the Boards of our subsidiaries. My fellow Board members have my appreciation for their commitment and dedication as evidenced by their almost perfect attendance at all Board and committee meetings.

Among our Board's objectives is the assurance that the Group adheres to the highest standards of corporate responsibility and governance. We take these responsibilities very seriously and work closely with members of management to achieve and sustain the highest possible performance levels. Towards the end of this past year, we added a new member to the Board, Héctor J. Vázquez-Muñiz, who brings considerable experience in financial risk management, adding to the already broad backgrounds that our existing Directors share in accounting, business, government affairs, real estate and other areas.

Thank you for your confidence in us. These are difficult economic times through which we are passing, both in Puerto Rico and the United States, but be assured that the Board, together with an excellent management team, remains dedicated to realizing our goals for the future. Oriental Financial Group has a fine and distinguished history as one of Puerto Rico's leading financial institutions, and our commitment is to continue that excellent tradition on behalf of its shareholders and the community it serves.

José J. Gil de Lamadrid
Chairman of the Board of Directors

BOARD OF DIRECTORS

José J. Gil de Lamadrid, CPA - Chairman of the Board, Oriental Financial Group

José Rafael Fernández - President and CEO, Inc. of Oriental Financial Group

Juan Carlos Aguayo, P.E. - President and CEO of Structural Steel Works, Inc.

Pablo Iván Altieri, M.D.

Mari Carmen Aponte, Esq.

Francisco Arriví - President and CEO of Pulte Homes International Caribbean Corp.

Nelson García-Mangual, CPA - President of Impress Quality Printing

Pedro Morazzani-Ferrer, CPA - Partner, CPA Firm Zayas, Morazzani & Co.

Héctor J. Vázquez Muñiz, CPA

Carlos O. Souffront, Esq. - Board Secretary

From left:
Pedro Morazzani-Ferrer, CPA;
Carlos O. Souffront, Esq.;
Mari Carmen Aponte, Esq.;
Pablo Iván Altieri, M.D.;
Juan Carlos Aguayo, P.E.;
Francisco Arriví;
Héctor J. Vázquez Muñiz, CPA;
Nelson García-Mangual, CPA.
Seated from left:
José Rafael Fernández;
José J. Gil de Lamadrid, CPA.

FROM THE PRESIDENT & CEO TO OUR SHAREHOLDERS

2007 was a highly successful year. Income available to common shareholders rebounded to $36.5 million, or $1.50 per common share, compared to a year-ago loss. Book value per common share of $12.08 was up 10.0% from a year ago.

We believe that the Group is entering 2008 on solid footing and is off to a strong start as we move to further integrate the delivery of banking and financial products and services for our mid- and high-net worth customers in Puerto Rico.

Our Vision of Financial Planning

Financial planning is one of the keys to success in helping individuals and families to achieve their monetary and lifetime goals. At one time, access to planning and the necessary products were available only for the wealthy few. Nowadays, technology has made it easier than ever to access these financial products. The challenge remains, however, in getting the right advice and services.

At Oriental Group, our vision is to bring all the benefits of sophisticated financial planning to our core customers in an efficient manner. We've already taken great strides, but there is even greater opportunity. To achieve that, we are:

1. Launching a systematic method to get to know each of our customers' needs, goals and aspirations, so we can help them plan for the future.
2. Creating streamlined processes so that we can deliver value added advice, products and services, on a consistent basis, throughout our branch network.
3. Training our people to develop long-term customer relationships, provide the right advice, and intimately understand all financial planning products.
4. Remodeling and relocating our branches to ensure we are attracting and providing convenient access to our core mid- and high-net worth customers.
5. Implementing all of the above in a highly efficient manner so as to leverage our existing infrastructure as much as possible.

If we can do that, we will help people in Puerto Rico achieve their goals. We will make Oriental Group a better investment, and we will continue to live up to our promise "Aquí tu dinero crece." With us, your money grows.

2007 Results & Accomplishments

Our performance reflected a number of accomplishments -- the repositioning of our securities portfolio and related funding, growth in financial services, controlling non-interest expenses, our conservative lending policies, and the continued strengthening of our management team.

Net Interest Income

Net interest income, our largest source of revenues, increased 69.1%, to $67.2 million in 2007. Growth reflected a 24.6% increase in interest income from investment securities and loans, while total interest expenses rose by only half as much. This was primarily due to repositioning of the available-for-sale portfolio (AFS) and related funding in late 2006-early 2007.

We also replaced lower yielding investments that matured in the held-to-maturity portfolio with new, higher yielding securities for the AFS portfolio, and the balance of our borrowings, as well as our deposits, benefited from the Federal Reserve Bank's decision to cut interest rates.

Oriental Group was able to match groups of new securities with related funding in order to realize favorable spreads, reduce interest rate sensitivity and produce steadier net interest income growth from investment securities over longer periods.

Non-Interest Revenues

Non-interest revenues from banking and financial services, our other major recurring source of revenues, increased slightly in 2007, primarily due to a 7.9% increase in financial service revenues.

Our retail businesses generated increased fees from brokerage, wealth management, asset protection, and personal trust and retirement programs, including Keogh and Individual Retirement Accounts. We also expanded revenues in our corporate trust and retirement businesses, which involve setting up 401K programs and managing the administration of private pension plans through our subsidiary, Caribbean Pension Consultants. Trust assets managed grew 6.1% in 2007 and broker dealer assets managed increased 12.0%.

In marketing, we also rely on offering the right kind of deposit products to attract customers. The success of our Oriental Money account generated a significant increase in savings deposits in 2007, enabling us to grow core deposits and reduce the use of more costly wholesale certificates of deposit.

Loan Production

Oriental's lending activities are focused on residential mortgages and commercial loans. We are highly conservative, with more than 90% of our mortgage portfolio featuring fixed-rate, fully amortizing, and fully documented loans. In commercial lending, more than 90% of our loans are collateralized with real estate.

Primarily due to economic conditions in Puerto Rico, 2007 was a challenging year for our mortgage business. In response, we right-sized our production department and expanded our wholesale mortgage purchasing team. To further expand our mortgage business in 2008, we entered into an exclusive alliance to supply mortgages, in line with our credit standards, to Citigroup's Primerica Financial Services for its clients in Puerto Rico.

Considering the state of the economy, our commercial lending business held up well in 2007. In 2008, we plan to offer new cash management products to develop the deposit side of our commercial business, and through an exclusive relationship with The Sage Group plc, which markets point of sale solutions, we expect to increase our commercial retail clientele.

Credit Quality

One of Oriental's priorities in loan management is maintaining high credit quality, which helps to improve profitability and build our capital base. While net credit losses and non-performing mortgage loans increased in 2007, our net credit losses, at 0.37% of total loans outstanding, were well below the 0.88% average for Puerto Rico banks as a group. We do not anticipate the increase in non-performing residential mortgage loans will lead to significantly higher net credit losses as these loans are generally well collateralized with adequate loan-to-value ratios.

Our five key strategies

1 Expand our retail and wholesale mortgage businesses and our commercial lending operations

2 Integrate and innovate the delivery of financial and banking services for mid net worth clients through all our financial centers

3 Develop a robust, wealth management business for high net worth clients

4 Diversify interest income and reduce interest rate sensitivity

5 Vigorously manage and control expenses

Non-Interest Expenses

An important accomplishment in 2007 was containing the growth of non-interest expenses to only 4.9%, thereby improving our operating leverage. During 2007, we completed the updating of our technology, moving our banking platform to Metavante Corporation. This follows the transfer in 2006 of our platforms for wrap accounts to Fidelity's National Financial Services and for consumer Internet access to S1 Corporation. This combination of world-class technologies provides us with one of the most advanced banking-financial services infrastructures in Puerto Rico.

Stockholders' Equity

Once again, the Group ended the year with some of the strongest capital ratios among Puerto Rico banks. Stockholders' equity increased 6.8% in 2007, to $359.5 million from a year ago. Our Leverage Capital Ratio was 1.7 times higher than the minimum, Tier I Risk-Based Capital Ratio was 4.7 times higher, and Total Risk-Based Capital Ratio was 2.4 times higher. We also repurchased 1.2% of shares in the open market in 2007 at an average price of $9.29 each, and the Board of Directors doubled the size of our repurchase program to $15 million. At year end, $11.3 million of authorization remained.

Executive Team

We continued to strengthen our executive team in 2007, most recently with the appointment of Lidio V. Soriano as Executive Vice President in charge of the Group's Retail Banking, Financial Service and Mortgage Divisions. Lidio is the former head of Citibank's consumer mortgage operation in Puerto Rico. His joining Oriental follows our appointment last year of Julio R. Micheo as Senior Executive Vice President and Chief Investment Officer, in charge of our Institutional businesses. Julio's responsibilities include the investment securities portfolios, investment banking, and the wholesale purchases of mortgages and their sale into the secondary market.

Outlook

We are well positioned for the challenges ahead, particularly in light of the recessionary environment in Puerto Rico. None of our accomplishments in 2007 would have been possible, nor can we hope to achieve our goals, without the loyal and dedicated support of our staff, shareholders, partners in the marketplace, management and executive teams, and our Board of Directors. They have our sincerest appreciation.

José Rafael Fernández
President and Chief Executive Officer

LEADERSHIP TEAM

Executive Team

José Rafael Fernández, President and CEO

Julio Micheo, CPA, Senior Executive VP and Chief Investments Officer

Lidio Soriano, CPA, Executive VP Banking, Mortgage and Oriental Financial Services

Norberto González, CPA, JD, Executive VP & Chief Financial Officer

Ganesh Kumar, Executive VP Strategic Planning & Operations

Officers

José Rafael Fernández, President and CEO

Julio Micheo, CPA, Senior Executive VP and Chief Investments Officer

Lidio Soriano, CPA, Executive VP Banking, Mortgage and Oriental Financial Services

Norberto González, CPA, JD, Executive VP & Chief Financial Officer

Ganesh Kumar, Executive VP Strategic Planning & Operations

Luis Raúl Salvá, Senior VP, Chief Lending Officer

Mari Evelyn Rodríguez, Senior VP Strategic Planning & Marketing

César A. Ortíz, CPA, Esq., Senior VP and Chief Risk Officer

Grettel Báez, CPA, VP and General Auditor

José Gabriel Díaz, Esq., First Senior VP & Executive Trust Officer

Francisco Portero, Senior VP Commercial Banking

Bill Hummer, President Caribbean Pension Consultants (CPC)

Juan José Santiago, CPA, Senior VP IRA & Keogh Trust Office

Ana T. Ramos, Senior VP Information Technology

Carlos Viña, CPA, Senior VP and Controller

Patrick Dunn, Senior VP Operations – Oriental Financial Services

Rafael Cruz, Eng., Senior VP Operations

From left:
Julio Micheo;
José Rafael Fernández;
Norberto González.
Seated from left:
Lidio Soriano;
Ganesh Kumar.

FORM 10-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007,

or

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

For the transition period from to

Commission file no. 001-12647

Oriental Financial Group Inc.

Incorporated in the Commonwealth of Puerto Rico

IRS Employer Identification No. 66-0538893

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

Securities Registered Pursuant to Section 12(b) of the Act:
Common Stock
($1.00 par value per share)
7.125% Noncumulative Monthly Income Preferred Stock, Series A
($1.00 par value per share, $25.00 liquidation preference per share)
7.0% Noncumulative Monthly Income Preferred Stock, Series B
($1.00 par value per share, $25.00 liquidation preference per share)
Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filings pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the common stock held by non-affiliates of Oriental Financial Group Inc. (the "Group") was $267.5 million based upon the reported closing price of $10.91 on the New York Stock Exchange as of June 29, 2007.

As of February 29, 2008, the Group had 24,200,579 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Group's annual report to shareholders for the year 2007 are incorporated herein by reference in response to Items 5 through 9A of Part II and Item 15(a)(1) of Part IV.

Portions of the Group's definitive proxy statement relating to the 2007 annual meeting of shareholders are incorporated herein by reference in response to Items 10 through 14 of Part III.

ORIENTAL FINANCIAL GROUP INC.

FORM 10-K

For the Year Ended December 31, 2007

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FORWARD-LOOKING STATEMENTS

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

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

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

PART I

ITEM 1. *BUSINESS*

General

The Group is a publicly-owned financial holding company incorporated on June 14, 1996 under the laws of the Commonwealth of Puerto Rico, providing a full range of financial services through its subsidiaries. The Group is subject to the provisions of the U.S. Bank Holding Company Act of 1956, as amended, (the "BHC Act") and, accordingly, subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board").

The Group provides comprehensive financial services to its clients through a complete range of banking and financial solutions, including mortgage, commercial and consumer lending; checking and savings accounts; financial planning, insurance, asset management, and investment brokerage; and corporate and individual trust and retirement services. The Group operates through three major business segments: Banking, Treasury and Financial Services, and distinguishes 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. The Group has 24 financial centers in Puerto Rico and a subsidiary, Caribbean Pension Consultants Inc. ("CPC"), based in Boca Raton, Florida. The Group's long-term goal is to strengthen its banking-financial services franchise by expanding its lending businesses, increasing the level of integration in the marketing and delivery of banking and financial services, continuing to maintain effective asset-liability management, growing non-interest revenues from banking and financial services, and improving operating efficiencies.

The Group's strategy involves:

(1) Strengthening its banking-financial services franchise by expanding its ability to attract deposits and build relationships with mid net worth individual customers and professional and mid-market commercial businesses through aggressive marketing and expansion of its sales force;

(2) Focusing on greater growth in mortgage, commercial and consumer lending; insurance products, trust and wealth management services, which traditionally have been one of the Group's greatest strengths; and increasing the level of integration in the marketing and delivery of banking and financial services;

(3) To maximize net interest income, the Group matches its portfolio of investment securities with the related funding to better lock-in favorable spreads. To emphasize safety and liquidity, the Group primarily invests in U.S. government agency obligations. The Group plans to continue to build its investments profile, while remaining attentive to market opportunities that could further improve net interest margin.

(4) Opening, expanding or relocating financial centers; improving operating efficiencies; and continuing to maintain effective asset-liability management; and

(5) Implementing a broad ranging effort to instill in employees and make customers aware of the Group's determination to effectively serve and advise its customer base in a responsive and professional manner.

Together with a highly experienced group of senior and mid level executives, this strategy has generally resulted in sustained growth in the Group's mortgage, commercial, consumer lending and wealth-management activities, allowing the Group to distinguish itself in a highly competitive industry. The unstable interest rate environment of recent years has validated the strategy's basic premise for greater revenue diversity, which remains an integral part of the Group's long-term goal.

While progress is expected to continue, the Group is not immune from general and local financial and economic conditions. However, the Group remains well capitalized, having one of the strongest capital positions in the Puerto Rico banking industry. Past experience is not necessarily indicative of future performance, especially given market uncertainties, but based on a reasonable time horizon of three to five years, the strategy is expected to maintain its steady progress towards the Group's long-term goal.

Segment Disclosure

The Group has three reportable segments: Banking, Treasury, and Financial Services. Management established the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Group's organizational structure, nature of products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. The Group measures the performance of these reportable segments based on pre-established goals involving different financial parameters such as net income, interest spread, loan production, and fees generated.

For detailed information regarding performance of the Group's operating segments, please refer to Note 17 to the Group's accompanying consolidated financial statements.

Banking Activities

Oriental Bank and Trust (the "Bank"), the Group's main subsidiary, is a full-service Puerto Rico commercial bank with its main office located in San Juan, Puerto Rico. The Bank has 24 branches throughout Puerto Rico and was incorporated in 1964 as a federal mutual savings and loan association. It became a federal mutual savings bank in July 1983 and converted to a federal stock savings bank in April 1987. Its conversion from a federally-chartered savings bank to a commercial bank chartered under the banking law of the Commonwealth of Puerto Rico, on June 30, 1994, allowed the Bank to more effectively pursue opportunities in its market and obtain more flexibility in its businesses, placing the Bank in the mainstream of financial services in Puerto Rico. As a Puerto Rico-chartered commercial bank, it is subject to examination by the Federal Deposit Insurance Corporation (the "FDIC") and the Office of the Commissioner of Financial Institutions of Puerto Rico (the "OCFI"). The Bank offers banking services such as commercial and consumer lending, saving and time deposit products, financial planning, and corporate and individual trust services, and, through its residential mortgage lending division and its mortgage lending subsidiary, Oriental Mortgage Corporation ("Oriental Mortgage"), capitalizes on its banking network. The Bank operates an international banking entity ("IBE") pursuant to the International Banking Center Regulatory Act of Puerto Rico, as amended (the "IBE Act") which is a wholly-owned subsidiary of the Bank, named Oriental International Bank Inc. (the "IBE subsidiary") organized in November 2003. The IBE subsidiary offers the Bank certain Puerto Rico tax advantages and its services are limited under Puerto Rico law to persons and assets/liabilities located outside of Puerto Rico. Another IBE, which operated as a division of the Bank, was liquidated on May 31, 2007, after obtaining the corresponding regulatory approvals.

Banking activities include the Bank's branches and mortgage banking activities with traditional retail banking products such as deposits and mortgage, commercial, and consumer loans. The Bank's lending activities are primarily with consumers located in Puerto Rico. The Bank's loan transactions include a diversified number of industries and activities, all of which are encompassed within three main categories: mortgage, commercial, and consumer.

The Group's mortgage banking activities are conducted through a division of the Bank, and also through Oriental Mortgage. The mortgage banking activities primarily consist of the origination and purchase of residential mortgage loans for the Group's own portfolio and from time to time, if conditions so warrant, the Group may engage in the sale of such loans to other financial institutions in the secondary market. The Group originates Federal Housing Administration ("FHA")-insured, Veterans Administration ("VA")-guaranteed mortgages, and Rural Housing Service ("RHS")-guaranteed loans that are primarily securitized for issuance of Government National Mortgage Association ("GNMA") mortgage-backed securities which can be resold to individual or institutional investors in the secondary market. Conventional loans that meet the underwriting requirements for sale or exchange under standard Federal National Mortgage Association (the "FNMA") or the Federal Home Loan Mortgage Corporation (the "FHLMC") programs are referred to as conforming mortgage loans and are also securitized for issuance of FNMA or FHLMC mortgage-backed securities. In 2006, and after FNMA's approval for the Group to sell FNMA-conforming conventional mortgage loans directly in the secondary market, the Group became an approved seller of FNMA, as well as FHLMC, mortgage loans for issuance of FNMA and FHLMC mortgage-backed securities. The Group is also an approved issuer of GNMA mortgage-backed securities. The Group continues to outsource the servicing of the GNMA, FNMA and FHLMC pools that it issues and its mortgage loan portfolio. In January 2008, the Group entered into an exclusive alliance with Primerica Financial Services, Inc. ("Primerica"), a wholly-owned subsidiary of Citigroup, in which the Group is the supplier of a mortgage platform and related services for Primerica in its program to market home loans to its clients in Puerto Rico.

Servicing assets represent the contractual right to service loans for others. Servicing assets are included as part of other assets in the consolidated statements of financial condition. Loan servicing fees, which are based on a percentage of the principal balances of the loans serviced, are credited to income as loan payments are collected.

Servicing assets are initially recognized at fair value. The Group elected the amortization method with periodic testing for impairment.

Loan Underwriting

All loan originations, regardless of whether originated through the Group's retail banking network or purchased from third parties, must be underwritten in accordance with the Group's underwriting criteria including loan-to-value ratios, borrower income qualifications, debt ratios and credit history, investor requirements, and title insurance and property appraisal requirements. The Group's underwriting standards comply with the relevant guidelines set forth by the Department of Housing and Urban Development ("HUD"), VA, FNMA, FHLMC, federal and Puerto Rico banking regulatory authorities, as applicable. The Group's underwriting personnel, while operating within the Group's loan offices, make underwriting decisions independent of the Group's mortgage loan origination personnel.

Sale of Loans and Securitization Activities

The Group may engage in the sale or securitization of a portion of the residential mortgage loans that it originates and purchases and utilizes various channels to sell its mortgage products. The Group is an approved issuer of GNMA-guaranteed mortgage-backed securities which involves the packaging of FHA loans, RHS loans or VA loans into pools of mortgage-backed securities for sale primarily to securities broker-dealers and other institutional investors. The Group can also act as issuer in the case of conforming conventional loans in order to group them into pools of FNMA or FHLMC-issued mortgage-backed securities which the Group then sells to securities broker-dealers. The issuance of mortgage-backed securities provides the Group with flexibility in selling the mortgage loans that it originates or purchases and also provides income by increasing the value and marketability of such loans. In the case of conforming conventional loans, the Group also has the option to sell such loans through the FNMA and FHLMC cash window program.

Treasury Activities

Treasury activities encompass all of the Group's treasury-related functions. The Group's investment portfolio consists of mortgage-backed securities, collateralized mortgage obligations, both non-agency and those issued by U.S. Government agencies, U.S. Treasury notes, U.S. Government agency bonds, P.R. Government obligations, structured credit investments and money market instruments. Mortgage-backed securities, the largest component, consist principally of pools of residential mortgage loans that are made to consumers and then resold in the form of pass-through certificates in the secondary market, the payment of interest and principal of which is guaranteed by GNMA, FNMA or FHLMC. For more information see Notes 2 and 3 to the accompanying consolidated financial statements.

The Group's principal funding sources are securities sold under agreements to repurchase, branch deposits, Federal Home Loan Bank ("FHLB") advances, and subordinated capital notes. Through its branch system, the Bank offers personal non-interest and interest-bearing checking accounts, savings accounts, certificates of deposit, individual retirement accounts ("IRAs") and commercial non-interest bearing checking accounts. The FDIC insures the Bank's deposit accounts up to applicable limits. Management makes retail deposit pricing decisions periodically through the Asset and Liability Management Committee ("ALCO"), which adjusts the rates paid on retail deposits in response to general market conditions and local competition. Pricing decisions take into account the rates being offered by other local banks, LIBOR, and mainland U.S. market interest rates.

Financial Services Activities

Financial services activities are generated by such businesses as securities brokerage, fiduciary services, insurance, and pension administration.

Oriental Financial Services Corp. ("OFSC") is a Puerto Rico corporation and the Group's subsidiary engaged in securities brokerage and investment banking activities in accordance with the Group's strategy of providing fully integrated financial solutions to the Group's clients. OFSC, a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation, is a registered securities broker-dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934. OFSC does not carry customer accounts and is, accordingly, exempt from the Customer Protection Rule (SEC Rule 15c3-3) pursuant to subsection (k)(2)(ii) of such rule. It clears securities transactions through National Financial Services, LLC, a clearing agent which carries the accounts of OFSC's customers on a "fully disclosed" basis.

OFSC offers securities brokerage services covering various investment alternatives such as tax-advantaged fixed income securities, mutual funds, stocks, and bonds to retail and institutional clients. It also offers separately managed accounts and mutual fund asset allocation programs sponsored by unaffiliated professional asset managers. These services are designed to meet each client's specific needs and preferences, including transaction-based pricing and asset-based fee pricing.

OFSC also manages and participates in public offerings and private placements of debt and equity securities in Puerto Rico. It has a joint venture agreement with Bear, Stearns & Co. Inc. to engage in municipal securities business with the Commonwealth of Puerto Rico and its instrumentalities, municipalities, and public corporations. Investment banking revenue from such activities include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which OFSC acts as an underwriter or agent. Investment banking revenue also includes fees earned from providing merger-and-acquisition and financial restructuring advisory services. Investment banking management fees are recorded on the offering date, sales concessions on settlement date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable.

Oriental Insurance Inc. ("Oriental Insurance") is a Puerto Rico corporation and the Group's subsidiary engaged in insurance agency services. It was established by the Group to take advantage of the cross-marketing opportunities provided by financial modernization legislation. Oriental Insurance currently earns commissions by acting as a licensed insurance agent in connection with the issuance of insurance policies by unaffiliated insurance companies and anticipates continued growth as it expands the products and services it provides and continues to cross market its services to the Group's existing customer base.

Caribbean Pension Consultants, Inc., a Florida corporation, is the Group's subsidiary engaged in the administration of retirement plans in the U.S., Puerto Rico, and the Caribbean.

Market Area and Competition

The main geographic business and service area of the Group is in Puerto Rico, where the banking market is highly competitive. As of December 31, 2007, Puerto Rico had 10 commercial banking institutions with a total of approximately $101 billion in assets according to industry statistics published by the FDIC. The Group ranked 8th based on total assets at December 31, 2007. Puerto Rico banks are subject to the same federal laws, regulations and supervision that apply to similar institutions in the United States of America.

The Group competes with brokerage firms with retail operations, credit unions, savings and loan cooperatives, small loan companies, insurance agencies, and mortgage banks in Puerto Rico. The Group encounters intense competition in attracting and retaining deposits and in its consumer and commercial lending activities. Management believes that the Group has been able to compete effectively for deposits and loans by offering a variety of transaction account products and loans with competitive terms, by emphasizing the quality of its service, by pricing its products at competitive interest rates, by offering convenient branch locations, and by offering financial planning services at each of its branch locations. The Group's ability to originate loans depends primarily on the service it provides to its borrowers in making prompt credit decisions and on the rates and fees that it charges.

Regulation and Supervision

General

The Group is a financial holding company subject to supervision and regulation by the Federal Reserve Board under the BHC Act and the Gramm-Leach-Bliley Act of 1999. The qualification requirements and the process for a bank holding company that elects to be treated as a financial holding company requires that all of the subsidiary banks controlled by the bank holding company at the time of election must be and remain at all times "well capitalized" and "well managed."

The Group elected to be treated as a financial holding company as permitted by the Gramm-Leach-Bliley Act. Under the Gramm-Leach-Bliley Act, if the Group fails to meet the requirements for being a financial holding company and is unable to correct such deficiencies within certain prescribed time periods, the Federal Reserve Board could require the Group to divest control of its depository institution subsidiary or alternatively cease conducting activities that are not permissible for bank holding companies that are not financial holding companies.

Financial holding companies may engage, directly or indirectly, in any activity that is determined to be (i) financial in nature, (ii) incidental to such financial activity, or (iii) complementary to a financial activity provided it does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. The Gramm-Leach-Bliley Act specifically provides that the following activities have been determined to be "financial in nature": (a) lending, trust and other banking activities; (b) insurance activities; (c) financial, investment or economic advisory services; (d) securitization of assets; (e) securities underwriting and dealing; (f) existing bank holding company domestic activities; (g) existing bank holding company foreign activities; and (h) merchant banking activities.

In addition, the Gramm-Leach-Bliley Act specifically gives the Federal Reserve Board the authority, by regulation or order, to expand the list of financial or incidental activities but requires consultation with the U.S. Treasury Department and gives the Federal Reserve Board authority to allow a financial holding company to engage in any activity that is complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system.

The Group is required to file with the Federal Reserve Board and the SEC periodic reports and other information concerning its own business operations and those of its subsidiaries. In addition, Federal Reserve Board approval must also be obtained before a bank holding company acquires all or substantially all of the assets of another bank or merges or consolidates with another bank holding company. The Federal Reserve Board also has the authority to issue cease and desist orders against bank holding companies and their non-bank subsidiaries.

The Bank is regulated by various agencies in the United States and the Commonwealth of Puerto Rico. Its main regulators are the OCFI and the FDIC. The FDIC insures the Bank's deposits up to $100,000 per depositor, except for certain retirement accounts which are insured up to $250,000 per depositor. The Bank is subject to extensive regulation and examination by the OCFI and the FDIC, and is subject to certain Federal Reserve Board regulations of transactions with Bank affiliates. The federal and Puerto Rico laws and regulations which are applicable to the Bank regulate, among other things, the scope of its business, its investments, its reserves against deposits, the timing of the availability of deposited funds, and the nature and amount of and collateral for certain loans. In addition to the impact of such regulations, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to control inflation in the economy.

The Group's mortgage banking business is subject to the rules and regulations of FHA, VA, RHS, FNMA, FHLMC, HUD and GNMA with respect to the origination, processing and selling of mortgage loans and the sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisal reports, require credit reports on prospective borrowers and fix maximum loan amounts, and, with respect to VA loans, fix maximum interest rates. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act, the Real Estate Settlement Procedures Act and the regulations promulgated thereunder which, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. The Group is also subject to regulation by the OCFI with respect to, among other things, licensing requirements and maximum origination fees on certain types of mortgage loan products.

The Group and its subsidiaries are subject to the rules and regulations of certain other regulatory agencies. OFSC, as a registered broker-dealer, is subject to the supervision, examination and regulation of the FINRA, the SEC, and the OCFI in matters relating to the conduct of its securities business, including record keeping and reporting requirements, supervision and licensing of employees and obligations to customers.

Oriental Insurance is subject to the supervision, examination and regulation of the Office of the Commissioner of Insurance of Puerto Rico in matters relating to insurance sales, including but not limited to, licensing of employees, sales practices, charging of commissions and reporting requirements.

Holding Company Structure

The Bank is subject to restrictions under federal laws that limit the transfer of funds to its affiliates (including the Group), whether in the form of loans, other extensions of credit, investments or asset purchases, among others. Such transfers are limited to 10% of the transferring institution's capital stock and surplus with respect to any affiliate (including the Group), and, with respect to all affiliates, to an aggregate of 20% of the transferring institution's capital stock and surplus. Furthermore, such loans and extensions of credit are required to be secured in specified amounts, carried out on an arm's length basis, and consistent with safe and sound banking practices.

Under Federal Reserve Board policy, a bank holding company, such as the Group, is expected to act as a source of financial and managerial strength to its banking subsidiaries and to also commit resources to support them. This support may be required at times when, absent such policy, the bank holding company might not otherwise provide such support. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain capital of a subsidiary bank will be assumed by the bankruptcy trustee and be entitled to a priority of payment. In addition, any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. The Bank is currently the only depository institution subsidiary of the Group.

Since the Group is a financial holding company, its right to participate in the assets of any subsidiary upon the latter's liquidation or reorganization will be subject to the prior claims of the subsidiary's creditors (including depositors in the case of depository institution subsidiaries) except to the extent that the Group is a creditor with recognized claims against the subsidiary.

Dividend Restrictions

The principal source of funds for the Group is the dividends from the Bank. The ability of the Bank to pay dividends on its common stock is restricted by the Puerto Rico Banking Act of 1933, as amended (the Banking Act"), the FDIA and FDIC regulations. In general terms, the Banking Act provides that when the expenditures of a bank are greater than receipts, the excess of expenditures over receipts shall be charged against the undistributed profits of the bank and the balance, if any, shall be charged against the required reserve fund of the bank. If there is no sufficient reserve fund to cover such balance in whole or in part, the outstanding amount shall be charged against the bank's capital account. The Banking Act provides that until said capital has been restored to its original amount and the reserve fund to 20% of the original capital, the bank may not declare any dividends. In general terms, the FDIA and the FDIC regulations restrict the payment of dividends when a bank is undercapitalized, when a bank has failed to pay insurance assessments, or when there are safety and soundness concerns regarding a bank. For more information see Note 13 to the accompanying consolidated financial statements.

The payment of dividends by the Bank may also be affected by other regulatory requirements and policies, such as maintenance of adequate capital. If, in the opinion of the regulatory authority, a depository institution under its jurisdiction is engaged in, or is about to engage in, an unsafe or unsound practice (that, depending on the financial condition of the depository institution, could include the payment of dividends), such authority may require, after notice and hearing, that such depository institution cease and desist from such practice. The Federal Reserve Board has issued a policy statement that provides that insured banks and bank holding companies should generally pay dividends only out of operating earnings for the current and preceding two years. In addition, all insured depository institutions are subject to the capital-based limitations required by the Federal Deposit Insurance Corporation Improvement Act of 1991("FDICIA").

Federal Home Loan Bank System

The FHLB system, of which the Bank is a member, consists of 12 regional FHLBs governed and regulated by the Federal Housing Finance Board. The FHLB serves as a credit facility for member institutions within their assigned regions. They are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. They make loans (i.e., advances) to members in accordance with policies and procedures established by the FHLB and the boards of directors of each regional FHLB.

As a system member, the Bank is entitled to borrow from the FHLB of New York (the "FHLB-NY") and is required to own capital stock in the FHLB-NY in an amount equal to the greater of $500; 1% of the Bank's aggregate unpaid principal of its home mortgage loans, home purchase contracts, and similar obligations; or 5% of the Bank's aggregate amount of outstanding advances by the FHLB-NY. The Bank is in compliance with the stock ownership rules described above with respect to such advances, commitments, home mortgage loans and similar obligations. All loans, advances and other extensions of credit made by the FHLB-NY to the Bank are secured by a portion of the Bank's mortgage loan portfolio, certain other investments and the capital stock of the FHLB-NY held by the Bank. At no time may the aggregate amount of outstanding advances made by the FHLB-NY to the Bank exceed 20 times the amount paid in by the Bank for capital stock in the FHLB-NY.

Federal Deposit Insurance Corporation Improvement Act

Under FDICIA the federal banking regulators must take prompt corrective action in respect to depository institutions that do not meet minimum capital requirements. FDICIA, and the regulations issued thereunder, established five capital tiers: (i) "well capitalized," if it has a total risk-based capital ratio of 10.0% or more, has a Tier I risk-based capital ratio of 6.0% or more, has a Tier I leverage capital ratio of 5.0% or more, and is not subject to any written capital order or directive; (ii) "adequately capitalized," if it has a total risk-based capital ratio of 8.0% or more, a Tier I risk-based capital ratio of 4.0% or more and a Tier I leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized," (iii) "undercapitalized," if it has a total risk-based capital ratio that is less than 8.0%, a Tier I risk-based ratio that is less than 4.0% or a Tier I leverage capital ratio that is less than 4.0% (3.0% under certain circumstances), (iv) "significantly undercapitalized," if it has a total risk-based capital ratio that is less than 6.0%, a Tier I risk-based capital ratio that is less than 3.0% or a Tier I leverage capital ratio that is less than 3.0%, and (v) "critically undercapitalized," if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. A depository institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives a less than satisfactory examination rating in any of the first four categories. The Bank is a "well-capitalized" institution.

FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fees to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to restrictions on borrowing from the Federal Reserve System. In addition, undercapitalized depository institutions are subject to growth limitations and are required to submit capital restoration plans. A depository institution's holding company must guarantee the capital plan, up to an amount equal to the lesser of 5% of the depository institution's assets at the time it becomes undercapitalized or the amount of the capital deficiency when the institution fails to comply with the plan. The federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from corresponding banks. Critically undercapitalized depository institutions are subject to the appointment of a receiver or conservator.

Insurance of Accounts and FDIC Insurance Assessments

The Bank is subject to FDIC deposit insurance assessments. The Federal Deposit Insurance Reform Act of 2005 (the "Reform Act") merged the Bank Insurance Fund ("BIF") and the Savings Association Insurance Fund ("SAIF") into a single Deposit Insurance Fund, and increased the maximum amount of the insurance coverage for certain retirement accounts, and possible "inflation adjustments" in the maximum amount of coverage available with respect to other insured accounts. In addition, it granted a one-time initial assessment credit (of approximately $4.7 billion) to recognize institutions' past contributions to the fund. As a result of the merger of the BIF and the SAIF, all insured institutions are subject to the same assessment rate schedule.

Under the Reform Act, the FDIC made significant changes to its risk-based assessment system so that effective January 1, 2007 the FDIC imposes insurance premiums based upon a matrix that is designed to more closely tie what banks pay for deposit insurance to the risks they pose. The new FDIC risk-based assessment system imposes premiums based upon factors that vary depending upon the size of the bank. These factors are: for banks with less than $10 billion in assets — capital level, supervisory rating, and certain financial ratios; for banks with $10 billion up to $30 billion in assets — capital level, supervisory rating, certain financial ratios and (if at least one is available) debt issuer ratings, and additional risk information; and for banks with over $30 billion in assets — capital level, supervisory rating, debt issuer ratings (unless none are available in which case certain financial ratios are used), and additional risk information. The FDIC has adopted a new base schedule of rates that the FDIC can adjust up or down, depending on the revenue needs of the DIF, and has set initial premiums for 2007 that range from 5 cents per $100 of domestic deposits for the banks in the lowest risk category to 43 cents per $100 of domestic deposits for banks in the highest risk category. The new assessment system is expected to result in increased annual assessments on the deposits of the Bank of 5 basis points per $100 of deposits. The Bank had available an FDIC credit of approximately $630,000 which was fully utilized to offset the 2007 assessment. The Bank paid insurance premiums to the FDIC of approximately $154,000 during 2007 after utilizing such credits.

Regulatory Capital Requirements

The Federal Reserve Board has adopted risk-based capital guidelines for bank holding companies. Under the guidelines, the minimum ratio of qualifying total capital to risk-weighted assets is 8%. At least half of the total capital is to be comprised of qualifying common stockholders' equity, qualifying noncumulative perpetual preferred stock (including related surplus), minority interests related to qualifying common or noncumulative perpetual preferred stock directly issued by a consolidated U.S. depository institution or foreign bank subsidiary, and restricted core capital elements (collectively "Tier 1 Capital"). The remainder ("Tier 2 Capital") may consist, subject to certain limitations, of allowance for loan and lease losses; perpetual preferred stock and related surplus hybrid capital instruments, perpetual debt, and mandatory convertible debt securities; term subordinated debt and intermediate-term preferred stock, including related surplus; and unrealized holding gains on equity securities.

The Federal Reserve Board has adopted regulations with respect to risk-based and leverage capital ratios that require most intangibles, including core deposit intangibles, to be deducted from Tier 1 Capital. The regulations, however, permit the inclusion of a limited amount of intangibles related to originated and purchased mortgage servicing rights and purchased credit card relationships and include a "grandfathered" provision permitting inclusion of certain existing intangibles.

In addition, the Federal Reserve Board has established minimum leverage ratio (Tier 1 Capital to total assets) guidelines for bank holding companies and member banks. These guidelines provide for a minimum leverage ratio of 3% for bank holding companies and member banks that meet certain specified criteria including that they have the highest regulatory rating. All other bank holding companies and member banks are required to maintain a minimum ratio of Tier 1 Capital to total assets of 4%. The guidelines also provide that banking organizations experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines state that the Federal Reserve Board will continue to consider a "tangible Tier 1 leverage ratio" and other indicators of capital strength in evaluating proposals for expansion or new activities.

Failure to meet the capital guidelines could subject an institution to a variety of enforcement actions including the termination of deposit insurance by the FDIC and to certain restrictions on its business. At December 31, 2007, the Group was in compliance with all capital requirements. For more information, please refer to Note 13 to the accompanying consolidated financial statements.

Safety and Soundness Standards

Section 39 of the FDIA, as amended by FDICIA, requires each federal banking agency to prescribe for all insured depository institutions standards relating to internal control, information systems, and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, and such other operational and managerial standards as the agency deems appropriate. In addition, each federal banking agency also is required to adopt for all insured depository institutions standards relating to asset quality, earnings and stock valuation that the agency determines to be appropriate. Finally, each federal banking agency is required to prescribe standards for the employment contracts and other compensation arrangements of executive officers, employees, directors and principal stockholders of insured depository institutions that would prohibit compensation, benefits and other arrangements that are excessive or that could lead to a material financial loss for the institution. If an institution fails to meet any of the standards described above, it will be required to submit to the appropriate federal banking agency a plan specifying the steps that will be taken to cure the deficiency. If the institution fails to submit an acceptable plan or fails to implement the plan, the appropriate federal banking agency will require the institution to correct the deficiency and, until it is corrected, may impose other restrictions on the institution, including any of the restrictions applicable under the prompt corrective action provisions of FDICIA.

The FDIC and the other federal banking agencies have adopted Interagency Guidelines Establishing Standards for Safety and Soundness that, among other things, set forth standards relating to internal controls, information systems and internal audit systems, loan documentation, credit, underwriting, interest rate exposure, asset growth and employee compensation.

Activities and Investments of Insured State-Chartered Banks

Section 24 of the FDIA, as amended by FDICIA, generally limits the activities and equity investments of FDIC-insured, state-chartered banks to those that are permissible for national banks. Under FDIC regulations of equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank, such as the Bank, is not prohibited from, among other things, (i) acquiring or retaining a majority interest in a subsidiary engaged in permissible activities, (ii) investing as a limited partner in a partnership, or as a non-controlling interest holder of a limited liability company, the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such investments may not exceed 2% of the bank's total assets, (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions, and (iv) acquiring or retaining the voting stock of an insured depository institution owned exclusively by insured depository institutions.

Under the FDIC regulations governing the activities and investments of insured state banks which further implemented Section 24 of the FDIA, as amended by FDICIA, an insured state-chartered bank may not, directly, or indirectly through a subsidiary, engage as "principal" in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the insurance fund of which it is a member and the bank is in compliance with applicable regulatory capital requirements. Any insured state-chartered bank directly or indirectly engaged in any activity that is not permitted for a national bank must cease the impermissible activity.

Transactions with Affiliates and Related Parties

Transactions between the Bank and any of its affiliates are governed by sections 23A and 23B of the Federal Reserve Act. These sections are important statutory provisions designed to protect a depository institution from transferring to its affiliates the subsidy arising from the institution's access to the Federal safety net. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. Generally, sections 23A and 23B (1) limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of the bank's capital stock and surplus, and limit such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus, and (2) require that all such transactions be on terms that are consistent with safe and sound banking practices. The term "covered transactions" includes the making of loans, purchase of or investment in securities issued by the affiliate, purchase of assets, issuance of guarantees and other similar types of transactions. Most loans by a bank to any of its affiliates must be secured by collateral in amounts ranging from 100 to 130 percent of the loan amount, depending on the nature of the collateral. In addition, any covered transaction by a bank with an affiliate and any sale of assets or provision of services to an affiliate must be on terms that are substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Regulation W of the Federal Reserve Board comprehensively implements sections 23A and 23B. The regulation unified and updated staff interpretations issued over the years prior to its adoption, incorporated several interpretative proposals (such as to clarify when transactions with an unrelated third party will be attributed to an affiliate), and addressed issues arising as a result of the expanded scope of non-banking activities engaged in by banks and bank holding companies and authorized for financial holding companies under the Gramm-Leach-Bliley Act.

Sections 22(g) and (h) of the Federal Reserve Act place restrictions on loans by a bank to executive officers, directors, and principal shareholders. Regulation O of the Federal Reserve Board implements these provisions. Under Section 22(h) and Regulation O, loans to a director, an executive officer and to a greater than 10% shareholders of a bank and certain of their related interests ("insiders"), and insiders of its affiliates, may not exceed, together with all other outstanding loans to such person and related interests, the bank's single borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus). Section 22(h) and Regulation O also require that loans to insiders and to insiders of affiliates be made on terms substantially the same as offered in comparable transactions to other persons, unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the bank and (ii) does not give preference to insiders over other employees of the bank. Section 22(h) and Regulation O also require prior board of directors' approval for certain loans, and the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) and Regulation O place additional restrictions on loans to executive officers.

Community Reinvestment Act

Under the Community Reinvestment Act ("CRA"), a financial institution has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires federal examiners, in connection with the examination of a financial institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Group has a Compliance Department, which oversees the planning of products and services offered to the community, especially those aimed to serve low and moderate income communities.

USA Patriot Act

Under Title III of the USA Patriot Act, also known as the International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001, all financial institutions, including the Group, OFSC and the Bank, are required in general to identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions.

The U.S. Treasury Department ("US Treasury") has issued a number of regulations implementing the USA Patriot Act that apply certain of its requirements to financial institutions. The regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing.

Failure of a financial institution to comply with the USA Patriot Act's requirements could have serious legal consequences for the institution. The Group and its subsidiaries, including the Bank, have adopted policies, procedures and controls to address compliance with the USA Patriot Act under existing regulations, and will continue to revise and update their policies, procedures and controls to reflect changes required by the USA Patriot Act and US Treasury's regulations.

Privacy Policies

Under the Gramm-Leach-Bliley Act, all financial institutions are required to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request, and establish procedures and practices to protect customer data from unauthorized access. The Group and its subsidiaries have established policies and procedures to assure the Group's compliance with all privacy provisions of the Gramm-Leach-Bliley Act.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act of 2002 ("SOX") implemented legislative reforms intended to address corporate and accounting fraud. SOX contains reforms of various business practices and numerous aspects of corporate governance. Most of these requirements have been implemented pursuant to regulations issued by the SEC. The following is a summary of certain key provisions of SOX.

In addition to the establishment of an accounting oversight board that enforces auditing, quality control and independence standards and is funded by fees from all registered public accounting firms and publicly traded companies, SOX places restrictions on the scope of services that may be provided by accounting firms to their public company audit clients. Any non-audit services being provided to a public company audit client requires pre-approval by the Audit Committee of the Board of Directors ("Audit Committee"). In addition, SOX makes certain changes to the requirements for partner rotation after a period of time. SOX requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the SEC, subject to civil and criminal penalties if they knowingly or willingly violate this certification requirement. In addition, counsel is required to report evidence of a material violation of securities laws or a breach of fiduciary duties to the company's chief legal officer or to both the company's chief executive officer and its chief legal officer, and, if any of such officers does not appropriately respond, to report such evidence to the Audit Committee or other similar committee of the Board of Directors (the "Board") or to the Board itself.

Under SOX, longer prison terms apply to corporate executives who violate federal securities laws; the period during which certain types of suits can be brought against a company or its officers is extended; and bonuses issued to top executives prior to restatement of a company's financial statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from insider trading during retirement plan "blackout" periods, and loans to company executives (other than loans by financial institutions permitted by federal rules or regulations) are restricted. In addition, the legislation accelerates the time frame for disclosures by public companies, as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers required to report changes in ownership in a company's securities must now report any such change within two business days of the change.

SOX increases responsibilities and codifies certain requirements relating to audit committees of public companies and how they interact with the company's independent registered public accounting firm. Audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the company. In addition, companies are required to disclose whether at least one member of the committee is a "financial expert" (as such term is defined by the SEC) and if not, why not. A company's independent registered public accounting firm is prohibited from performing statutorily mandated audit services for a company if the company's chief executive officer, chief financial officer, controller, chief accounting officer or any person serving in equivalent positions had been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. SOX also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent public or certified accountant engaged in the audit of the company's financial statements for the purpose of rendering the financial statements materially misleading.

SOX also has provisions relating to inclusion of certain internal control reports and assessments by management in the annual report to stockholders. The law also requires the company's registered public accounting firm to provide an attestation report on the company's internal control over financial reporting. The Group is required to include in its annual report on Form 10-K an internal control report containing management's assertions regarding the effectiveness of the Group's internal control structure and procedures over financial reporting. The internal control report must include a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the Group; of management's assessment as to the effectiveness of the Group's internal control over financial reporting based on management's evaluation of it, as of the end of the Group's most recent fiscal year, including disclosure of any material weaknesses therein; of the framework used by management as criteria for evaluating the effectiveness of the Group's internal control over financial reporting; and a statement that the Group's independent registered public accounting firm that audited its financial statements has audited the effectiveness of the Group's internal control over financial reporting as of December 31, 2007.

Puerto Rico Banking Act

As a Puerto Rico-chartered commercial bank, the Bank is subject to regulation and supervision by the OCFI under the Banking Act (the "Banking Act"), which contains provisions governing the incorporation and organization, rights and responsibilities of directors, officers and stockholders as well as the corporate powers, savings, lending, capital and investment requirements and other aspects of the Bank and its affairs. In addition, the OCFI is given extensive rulemaking power and administrative discretion under the Banking Act. The OCFI generally examines the Bank at least once every year.

The Banking Act requires that at least 10% of the yearly net income of the Bank be credited annually to a reserve fund. This apportionment shall be done every year until the reserve fund is equal to the total paid-in capital on common and preferred stock. As of December 31, 2007, the Bank's capital reserve fund, which is presented as "Legal surplus" in the accompanying consolidated financial statements, was $40.6 million.

The Banking Act also provides that when the expenditures of a bank are greater that the receipts, the excess of the former over the latter shall be charged against the undistributed profits of the bank, and the balance, if any, shall be charged against the reserve fund, as a reduction thereof. If there is no reserve fund sufficient to cover such balance in whole or in part, the outstanding amount shall be charged against the capital account and no dividend shall be declared until said capital has been restored to its original amount and the reserve fund to 20% of the original capital.

The Banking Act further requires every bank to maintain a legal reserve which shall not be less than 20% of its demand liabilities, except government deposits (federal, commonwealth and municipal), which are secured by actual collateral.

The Banking Act also requires change of control filings. When any person or entity will own, directly or indirectly, upon consummation of a transfer, 5% or more of the outstanding voting capital stock of a bank, the acquiring parties must inform the OCFI of the details not less than 60 days prior to the date said transfer is to be consummated. The transfer will require the approval of the OCFI if it results in a change of control of the bank. Under the Banking Act, a change of control is presumed if an acquirer who did not own more than 5% of the voting capital stock before the transfer exceeds such percentage after the transfer.

The Banking Act permits Puerto Rico commercial banks to make loans to any one person, firm, partnership or corporation, up to an aggregate amount of 15% of the sum of: (i) the bank's paid-in capital; (ii) the bank's reserve fund; (iii) 50% of the bank's retained earnings; subject to certain limitations; and (iv) any other components that the Commissioner may determine from time to time. If such loans are secured by collateral worth at least 25% more than the amount of the loan, the aggregate maximum amount shall include 33.33% of 50% of the bank's retained earnings. There are no restrictions under the Banking Act on the amount of loans that are wholly secured by bonds, securities and other evidence of indebtedness of the Government of the United States, or of the Commonwealth of Puerto Rico, or by bonds, not in default, of municipalities or instrumentalities of the Commonwealth of Puerto Rico.

Due to the reclassification of certain mortgage loans purchase transactions as a commercial loan to the seller of the mortgage loans (refer to Note 20), at December 31, 2006 the Group had a lending concentration of $76.8 million outstanding to the financial institution from which it had purchased the mortgage loans. The resulting commercial loan was secured by mortgage loans on family residences located in Puerto Rico and the obligations of the borrower under the commercial loan were also secured by a guarantee from its parent company. The reclassification of the mortgage loans purchase transactions as a commercial loan to the seller resulted in the Group booking a loan exceeding the loan to one borrower limits imposed by Puerto Rico banking laws. To address it, the Group requested a waiver from the OCFI and it was issued on May 4, 2006 allowing the Group to retain the commercial loan on its books until paid in full. By an agreement entered into on July 13, 2007, the borrower under the commercial loan and the Group agreed to the repayment of the outstanding principal balance on the commercial loan. In payment of the outstanding principal balance on the commercial loan, the Group (i) retained certain mortgage loans which were part of the collateral for the commercial loan with an outstanding principal balance of $26.6 million; (ii) received from the borrower mortgage loans meeting the Group's credit underwriting standards with an outstanding principal balance of $25.9 million; and (iii) cash. The Group does not have any lending credit relationship in excess of its lending limit for loans to a single borrower at December 31, 2007.

The Puerto Rico Finance Board is composed of the Commissioner of Financial Institutions of Puerto Rico; the Presidents of the Government Development Bank for Puerto Rico, the Economic Development Bank for Puerto Rico and the Planning Board; the Puerto Rico Secretaries of Commerce and Economic Development, Treasury and Consumer Affairs; the Commissioner of Insurance; and the President of the Public Corporation for Insurance and Supervision of Puerto Rico Cooperatives. It has the authority to regulate the maximum interest rates and finance charges that may be charged on loans to individuals and unincorporated businesses in the Commonwealth, and promulgates regulations that specify maximum rates on various types of loans to individuals.

The current regulations of the Puerto Rico Finance Board provide that the applicable interest rate on loans to individuals and unincorporated businesses (including real estate development loans, but excluding certain other personal and commercial loans secured by mortgages on real estate property) is to be determined by free competition. The Puerto Rico Finance Board also has the authority to regulate maximum finance charges on retail installment sales contracts and for credit card purchases. There is presently no maximum rate for retail installment sales contracts and for credit card purchases.

International Banking Center Regulatory Act of Puerto Rico

The business and operations of the Bank's IBE subsidiary are subject to supervision and regulation by the OCFI. Under the IBE Act, no sale, encumbrance, assignment, merger, exchange or transfer of shares, interest or participation in the capital of an IBE may be initiated without the prior approval of the OCFI, if by such transaction a person would acquire, directly or indirectly, control of 10% or more of any class of stock, interest or participation in the capital of the IBE. The IBE Act and the regulations issued thereunder by the OCFI (the "IBE Regulations") limit the business activities that may be carried out by an IBE. Such activities are limited in part to persons and assets/liabilities located outside of Puerto Rico. The IBE Act provides further that every IBE must have not less than $300,000 of unencumbered assets or acceptable financial guarantees.

Pursuant to the IBE Act and the IBE Regulations, the Bank's IBE subsidiary has to maintain books and records of all its transactions in the ordinary course of business. It is also required to submit quarterly and annual reports of their financial condition and results of operations to the OCFI, including annual audited financial statements.

The IBE Act empowers the OCFI to revoke or suspend, after notice and hearing, a license issued thereunder if, among other things, the IBE fails to comply with the IBE Act, the IBE Regulations or the terms of its license, or if the OCFI finds that the business or affairs of the IBE are conducted in a manner that is not consistent with the public interest.

Employees

At December 31, 2007, the Group had 518 employees. None of its employees is represented by a collective bargaining group. The Group considers its employee relations to be good.

Internet Access to Reports

The Group's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any and all amendments to such reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge on or through the Group's internet website at www.orientalfg.com, as soon as reasonably practicable after the Group electronically files such material with, or furnishes it to, the SEC.

The Group's corporate governance guidelines, code of business conduct and ethics, and the charters of its audit committee, compensation committee, and corporate governance and nominating committee are available free of charge on the Group's website at www.orientalfg.com in the investor relations section under the corporate governance link. The Group's code of business conduct and ethic applies to its directors, officers, employees and agents, including its principal executive, financial and accounting officers.

ITEM 1A. *RISK FACTORS*

In addition to the other information contained elsewhere in this report and the Group's other filings with the SEC, the following risk factors should be carefully considered in evaluating the Group and its subsidiaries. The risks and uncertainties described below are not the only ones facing the Group and its subsidiaries. Additional risks and uncertainties, not presently known to us or otherwise, may also impair our business operations. If any of the risks described below or such other risks actually occur, our business, financial condition or results of operations could be materially and adversely affected.

Puerto Rico's current economic condition may have an adverse effect on our loan portfolio

Beginning in 2005 and continuing through 2007, a number of key economic indicators suggested that the economy of Puerto Rico was slowing down.

Construction remained weak during 2007, as the combination of rising interest rates, the Commonwealth's fiscal situation and decreasing public investment in construction projects affected the sector. During the period from January to November of the calendar year 2007, cement production, a real indicator of construction activity, declined by 11.7% as compared to the same period in 2006. As of September 2007, exports decreased by 11.7%, while imports decreased by 8.9%, a negative trade, which continues since the first negative trade balance of the last decade was registered in November 2006. Tourism activity has also declined during fiscal year 2007. Total hotel registrations for the fiscal year 2007 declined 5.1% as compared to the fiscal year 2006. During 2007, new vehicle sales decreased by 13%, the lowest since 1993. In 2007, average employment declined by 1.27% while the average number of unemployed increased by 3.30%; the unemployment rate increased to 11.2% when compared to the December 2006 unemployment rate of 10.2%.

In general, the Puerto Rico economy continued its trend of decreasing growth, primarily due to weaker manufacturing, softer consumption and decreased government investment in construction. Increases in oil prices and other consumer goods and services, coupled with a 7% sales tax implemented in October 2006 as part of a government program of tax and fiscal reforms, have also contributed to the general economic slowdown.

Factors such as the government's ability to implement meaningful steps to curb operating expenditures, improve managerial and budgetary controls, and eliminate the government's reliance on operating budget loans from the Government Development Bank of Puerto Rico will be key determinants of future economic stability. Also, the inability to agree on future fiscal year Commonwealth budgets could result in ratings pressure from the rating agencies.

These economic concerns and uncertainties in the private and public sectors have had an adverse effect in the credit quality of our loan portfolios as delinquency rates have increased in the short-term and may continue to increase until the economy stabilizes. The reduction in consumer spending may continue to impact growth in our other interest and non-interest revenue sources.

A prolonged economic slowdown or a decline in the real estate market could harm the results of our operations

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 declining interest rates, such as the one being currently experienced, refinancing activity on mortgage loans has tended to increase. However, due to the general economic slowdown in Puerto Rico and its impact on the value of residential properties, an increase in mortgage refinancing activity has not yet occurred. A recent trend of decreasing values in certain housing segments has been noted. There is a risk that a reduction in housing values could negatively impact our loss levels on the mortgage portfolio. Any sustained period of increased delinquencies, foreclosures or losses could harm our ability to sell loans, the price we receive on the sale of such loans, and the value of our mortgage loan portfolio, all of which could have a negative impact on our results of operations and financial condition.

Financial results are constantly exposed to market risk

Market risk refers to the probability of variations in the net interest income or the market value of assets and liabilities due to interest rate volatility. Despite the varied nature of market risks, the primary source of this risk to us is the impact of changes in interest rates on net interest income.

Net interest income is the difference between the revenue generated on 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. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position. A positive gap denotes asset sensitivity, which means that an increase in interest rates could have a positive effect on net interest income, while a decrease in interest rates could have a negative effect on net interest income.

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, mortgage-backed securities held in the securities available-for-sale portfolio 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.

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 implement strategies to reduce future interest rate exposure.

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 dislocation 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 supply of homes in the market has increased substantially, and additional property value decreases may be required to clear the overhang of excess inventory in the U.S. market. Declining property values could impact the credit quality and fair value of our non-agency collateralized mortgage obligations and structured credit investments included as part of our investment securities portfolio.

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

Our business requires continuous access to various funding sources. While we are able to fund our operations through deposits as well as through advances from the Federal Home Loan Bank of New York and other alternative sources, our business is significantly dependent upon other wholesale funding sources, such as repurchase agreements.

While we expect to have continued access to credit from the foregoing sources of funds, there can be no assurance that such financing sources will continue to be available or will be available on favorable terms. In the event that such sources of funds are reduced or eliminated and we are not able to replace them on a cost-effective basis, we may be forced to curtail or cease our loan origination business and treasury activities, which would have a material adverse effect on our operations and financial condition.

Our decisions regarding credit risk and the allowance for loan losses may materially and adversely affect our business and results of operations

Making loans is an essential element of our business and there is a risk that our loans will not be repaid. The 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 losses to provide for probable losses inherent in our 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, as are the size and diversity of individual credits. Our methodology for measuring the adequacy of the allowance relies on several key elements which include a specific allowance for identified problem loans, a general systematic allowance, and an unallocated allowance.

We recorded a provision for loan losses of $6.6 million in 2007 based on our overall evaluation of the risks of our loan portfolio. Although we believe that our allowance for loan losses is currently sufficient given the constant monitoring of the risk inherent in our loan portfolio, there is no precise method of predicting loan losses and therefore we always face the risk that charge-offs in future periods will exceed our allowance for loan losses and that additional increases in the allowance for loan losses will be required. In addition, the FDIC as well as the OCFI may require us to establish additional reserves. Additions to the allowance for loan losses would result in a decrease in our net earnings and capital and could hinder our ability to pay dividends.

We are subject to default and other risks in connection with our mortgage loan originations

From the time that we fund the mortgage loans we originate to the time we sell them, we are generally at risk for any mortgage loan defaults. Once we sell the mortgage loans, the risk of loss from mortgage loan defaults and foreclosures passes to the purchaser or insurer of the mortgage loans. However, in the ordinary course of business, we make representations and warranties to the purchasers and insurers of mortgage loans 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. In addition, we incur higher liquidity risk with respect to the non-conforming mortgage loans originated by us, because of the lack of a favorable secondary market in which to sell them.

We are at risk because most of our business is conducted in a geographically concentrated area

Because most of our business activities are conducted in Puerto Rico, and a substantial portion of our credit exposure is in Puerto Rico, we are at risk from adverse economic, political or business developments including a downturn in real estate values and natural hazards that affect Puerto Rico. If Puerto Rico's economy experiences an overall decline as a result of these adverse developments or natural hazards, the rates of delinquencies, foreclosures, bankruptcies and losses on loan portfolios would probably increase substantially. This would cause our profitability to decrease.

Competition with other financial institutions could adversely affect our profitability

We face substantial competition in originating loans and in attracting deposits. The competition in originating loans comes principally from other U.S., Puerto Rico and foreign banks, mortgage banking companies, consumer finance companies, 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 we pay on deposits or lower the rates we offer on loans which could adversely affect our profitability.

The Group operates in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations

The Group is subject to extensive regulation, supervision and examination by federal and Puerto Rico banking authorities. Any change in applicable federal or Puerto Rico laws or regulations could have a substantial impact on its operations. Additional laws and regulations may be enacted or adopted in the future that could significantly affect the Group's powers, authority and operations, which could have a material adverse effect on the Group's financial condition and results of operations. Further, regulators, in the performance of their supervisory and enforcement duties, have significant discretion and power to prevent or remedy unsafe and unsound practices or violations of laws by banks and bank holding companies. The exercise of this regulatory discretion and power may have a negative impact on the Group.

Competition in attracting talented people could adversely affect our operations

We depend on our ability to attract and retain key personnel and we rely heavily on our management team. The inability to recruit and retain key personnel or the unexpected loss of key managers may adversely affect our operations. Our success to date has been influenced strongly by our ability to attract and retain senior management experienced in banking and financial services. Retention of senior managers and appropriate succession planning will continue to be critical to the successful implementation of our strategies.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

Not applicable.

ITEM 2. *PROPERTIES*

The Group leases its main offices located at 997 San Roberto Street, Oriental Center, Professional Offices Park, San Juan, Puerto Rico. The executive office, treasury, trust division, brokerage, investment banking, mortgage banking, commercial banking, insurance services, and back-office support departments are maintained at such location.

The Bank owns seven branch premises and leases seventeen branch commercial offices throughout Puerto Rico. The Bank's management believes that each of its facilities is well maintained and suitable for its purpose and can readily obtain appropriate additional space as may be required at competitive rates by extending expiring leases or finding alternative space.

At December 31, 2007, the aggregate future rental commitments under the terms of the leases, exclusive of taxes, insurance and maintenance expenses payable by the Group, was $23.3 million.

The Group's investment in premises and equipment, exclusive of leasehold improvements, at December 31, 2007, was $12.4 million.

ITEM 3. *LEGAL PROCEEDINGS*

On August 14, 1998, as a result of a review of its accounts in connection with the admission by a former Group officer of having embezzled funds and manipulated bank accounts and records, the Group became aware of certain irregularities. The Group notified the appropriate regulatory authorities and commenced an intensive investigation with the assistance of forensic accountants, fraud experts, and legal counsel. The investigation determined losses of $9.6 million, resulting from dishonest and fraudulent acts and omissions involving several former Group employees. These losses were submitted to the Group's fidelity insurance policy (the "Policy") issued by Federal Insurance Company, Inc. ("FIC"), a stock insurance corporation organized under the laws of the State of Indiana. In the opinion of the Group's management, its legal counsel and experts, the losses determined by the investigation were covered by the Policy. However, FIC denied all claims for such losses. On August 11, 2000, the Group filed a lawsuit in the United States District Court for the District of Puerto Rico against FIC for breach of insurance contract, breach of covenant of good faith and fair dealing and damages, seeking payment of the Group's $9.6 million insurance claim loss and the payment of consequential damages of no less than $13.0 million resulting from FIC's bad faith, capricious, arbitrary, fraudulent and without cause denial of the Group's claims. The losses resulting from such dishonest and fraudulent acts and omissions were expensed in prior years. On October 3, 2005, a jury rendered a verdict of $7.5 million in favor of the Group and against FIC ("2005 Verdict"). The jury granted the Group $453,219 for fraud and loss documentation in connection with its Accounts Receivable Returned Checks Account and $7,078,640.60 regarding its bad faith claim. However, the jury could not reach a decision on the Group's claim for $3.4 million in connection with fraud in its Cash Accounts, thus forcing a new trial on this issue. The jury denied the Group's claim for $5.6 million in connection with fraud in the Mortgage Loans Account. The court decided not to enter a final judgment for the aforementioned awards until a new trial regarding the Cash

Accounts claim be held. On August 14, 2007, a jury rendered a verdict in favor of FIC and against the Group, regarding its Cash Accounts ("2007 Verdict").

Judgment pursuant to the aforementioned 2005 and 2007 verdicts was entered on August 15, 2007. FIC filed a motion to set aside the 2005 Verdict which OFG opposed. The Group filed a motion to set aside the 2007 Verdict which FIC opposed. In addition, the Group filed Motion to Correct Judgment, Bill of Costs and Motion for Imposition of Attorneys and Experts Costs so as to recover pre and post judgment interest, costs, fees and expenses related to the prosecution of its claims.

The Group has not recognized any income on these claims since the post-trial motions have not been ruled upon yet and appellate rights have not been exhausted. Thus, the amount to be collected cannot be determined at this time.

In addition, the Group and its subsidiaries are defendants in a number of legal proceedings incidental to their business. The Group is vigorously contesting such claims. Based upon a review by legal counsel and the development of these matters to date, Management is of the opinion that the ultimate aggregate liability, if any, resulting from these claims will not have a material adverse effect on the Group's financial condition or results of operations.

ITEM 4. *SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS*

Not applicable.

PART II

ITEM 5. *MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

The Group's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "OFG". Information concerning the range of high and low sales prices for the Group's common stock for each quarter in the years ended December 31, 2007 and 2006, as well as cash dividends declared for such periods are contained in Table 7 ("Capital, Dividends and Stock Data") and under the "Stockholders' Equity" caption in the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A").

Information concerning legal or regulatory restrictions on the payment of dividends by the Group and the Bank is contained under the caption "Dividend Restrictions" in Item 1 of this report.

As of December 31, 2007, the Group had approximately 6,760 holders of record of its common stock, including all directors and officers of the Group, and beneficial owners whose shares are held in "street" name by securities broker-dealers or other nominees.

The Puerto Rico Internal Revenue Code of 1994, as amended, generally imposes a withholding tax on the amount of any dividends paid by Puerto Rico corporations to individuals, whether residents of Puerto Rico or not, trusts, estates, and special partnerships at a special 10% withholding tax rate. Prior to the first dividend distribution for the taxable year, such shareholders may elect to be taxed on the dividends at the regular rates, in which case the special 10% tax will not be withheld from such year's distributions. Dividends distributed by Puerto Rico corporations to foreign corporations or partnerships not engaged in trade or business in Puerto Rico are also generally subject to withholding tax at a 10% rate.

United States citizens who are non-residents of Puerto Rico will not be subject to Puerto Rico tax on dividends if the individual's gross income from sources within Puerto Rico during the taxable year does not exceed $1,300 if single, or $3,000 if married, and form AS 2732 of the Puerto Rico Treasury Department "Withholding Tax Exemption Certificate for the Purpose of Section 1147" is filed with the withholding agent. U.S. income tax law permits a credit against the U.S. income tax liability, subject to certain limitations, for certain foreign income taxes paid or deemed paid with respect to foreign source income, including that arising from dividends from foreign corporations, such as the Group.

Effective April 25, 2007, the Board formally adopted the 2007 Omnibus Performance Incentive Plan (the "Omnibus Plan"), which provides for equity-based compensation incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units and dividend equivalents, as well as equity-based performance awards. The Omnibus Plan replaced and superseded the Oriental Financial Group Inc. 1996, 1998 and 2000 Incentive Stock Option Plans (the "Stock Option Plans"). All outstanding stock options under the Stock Option Plans continue in full force and effect, subject to their original terms and conditions.

The following table shows certain information pertaining to the Omnibus Plan as of December 31, 2007:

Plan Category	(a) Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding those reflected in column (a))
Equity compensation plans approved by shareholders:			
Omnibus Plan	33,000	12.29	478,994(1)

(1) Excludes 38,006 restricted shares issued.

On December 16, 2004, the Financial Accounting Standards Board ("FASB") published Statement 123(R) requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements based on the fair value of the equity or liability instruments issued. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 123(R) replaced FASB Statement No. 123, *"Accounting for Stock-Based Compensation,"* and superseded APB Opinion No. 25, *"Accounting for Stock Issued to Employees."* The Group implemented Statement 123(R) as of July 1, 2005. The implementation of this statement had no effect on the consolidated financial results of the Group as of July 1, 2005.

On June 30, 2005, the Compensation Committee of the Group's Board of Directors approved the acceleration of the vesting of all unvested options to purchase shares of common stock of OFG that were held by employees, officers and directors as of June 30, 2005. As a result, options to purchase 1,219,333 shares became exercisable. The purpose of the accelerated vesting was to enable the Group to avoid recognizing in its income statement compensation expense associated with these options in future periods, upon adoption of FASB Statement No. 123(R).

Subsequent to the adoption of SFAS 123R, the Group recorded approximately $86,000, $15,000 and $11,000 related to compensation expense for options issued during the years ended December 31, 2007 and 2006, and the six-month period ended December 31, 2005, respectively.

Purchases of equity securities by the issuer and affiliated purchasers

During 2007, the Group repurchased 458,826 shares of its common stock, at an average price of $9.23, for a total of $4.2 million. There were no repurchases during the quarter ended December 31, 2007. On July 27, 2007, the Group's Board approved a new stock repurchase program pursuant to which the Group is authorized to purchase in the open market up to $15.0 million of its outstanding share of common stock. The shares of common stock so repurchased are to be held by the Group as treasury shares. The new program substituted the previous program approved on August 30, 2005.

For more information, please refer to Notes 1 and 13 to the accompanying consolidated financial statements incorporated herein by reference.

ITEM 6. *SELECTED FINANCIAL DATA*

The information required by this item is incorporated herein by reference from portions of the 2007 annual report to shareholders filed as Exhibit 13.0. The following ratios of the Group should be read in conjunction with the portions of such report filed as Exhibit 13.0. Selected financial data are presented for the last five fiscal years.

The ratios shown below demonstrate the Group's ability to generate sufficient earnings to pay the fixed charges or expenses of its debt and preferred stock dividends. The Group's consolidated ratios of earnings to combined fixed charges and preferred stock dividends were computed by dividing earnings by combined fixed charges and preferred stock dividends, as specified below, using two different assumptions, one excluding interest on deposits and the second including interest on deposits:

Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends:	Year Ended December 31,		Six-Month Period Ended December 31,	Fiscal Year Ended June 30,		
	2007	2006	2005	2005	2004	2003
Excluding Interest on Deposits	1.22x	(A)	1.21x	1.66x	2.11x	2.00x
Including Interest on Deposits	1.17x	(A)	1.16x	1.48x	1.72x	1.6x

(A) During 2006, earnings were not sufficient to cover preferred dividends, and the ratio was less that 1:1. The Group would have had to generate additional earnings of $10.0 million to achieve a ratio of 1:1 in 2006.

For purposes of computing the consolidated ratios of earnings to combined fixed charges and preferred stock dividends, earnings consist of pre-tax income from continuing operations plus fixed charges and amortization of capitalized interest, less interest capitalized. Fixed charges consist of interest expensed and capitalized, amortization of debt issuance costs, and the Group's estimate of the interest component of rental expense. The term "preferred stock dividends" is the amount of pre-tax earnings that is required to pay dividends on the Group's outstanding preferred stock. As of December 31, 2007, 2006 and 2005, and June 30, 2005 and 2004, the Group had noncumulative preferred stock issued and outstanding amounting to $68.0 million as follows: (1) Series A amounting to $33.5 million or 1,340,000 shares at a $25 liquidation value; and (2) Series B amounting to $34.5 million or 1,380,000 shares at a $25 liquidation value.

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The information required by this item is incorporated herein by reference from portions of the 2007 annual report to shareholders filed as Exhibit 13.0 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

The information regarding the market risk of the Group is incorporated herein by reference from portions of the 2007 annual report to shareholders filed as Exhibit 13.0, under the caption "Risk Management".

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

The information required by this item is incorporated herein by reference from portions of the 2007 annual report to shareholders filed as Exhibit 13.0. The consolidated financial statements of this report set forth the list of all reports required by this item, and they are incorporated herein by reference.

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

Not applicable.

ITEM 9A. *CONTROLS AND PROCEDURES*

(a) Disclosure Controls and Procedures

The Group's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of December 31, 2007, an evaluation was carried out under the supervision and with the participation of the Group's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Group's disclosure controls and procedures. Based upon such evaluation, management concluded that the Group's disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Group in the reports that it files or submits under the Securities Exchange Act of 1934.

(b) Management's Report on Internal Control over Financial Reporting

The Management's Report on Internal Control over Financial Reporting is incorporated herein by reference from portions of the 2007 annual report to shareholders filed as Exhibit 13.0.

(c) Changes in Internal Control over Financial Reporting

As disclosed on our Form 10-K for the year ended December 31, 2006, on Part II Section 9B, the Group entered into a Technology Outsourcing Agreement made as of January 26, 2007, (the "Agreement") with Metavante Corporation ("Metavante"), for certain technology-related services and software licenses offered by Metavante. The Agreement provides for: (i) the transfer of the Group's data processing and other information technology services to Metavante's systems; (ii) technology upgrades, enhancements and software modifications; and (iii) the full integration of certain interfaces between the Group and Metavante, so that the Group is able to receive Metavante's services in a live operating environment.

Pursuant to this agreement, during the quarter ended December 31, 2007, the Group completed the conversion of its core banking system. As part of the changes resulting from this conversion, under the Group's agreement with Metavante, during the quarter ended December 31, 2007, several information technology general controls surrounding the core banking system were changed. Pursuant to such agreement, Metavante is responsible for establishing and maintaining an information security program designed to ensure on its premises the security and confidentiality of all data and information of any kind or nature submitted by the Group to Metavante, or received by Metavante on behalf of the Group, in connection with Metavante's services. Metavante is also responsible for maintaining a disaster recovery and continuity plan in connection with the services provided to the Group. In addition, information technology related controls and some manual application controls also changed to accommodate changes in the processes affected by the new core banking system implementation.

Management assessed the changes in controls following the conversion of the core banking system in our conclusions over internal control over financial reporting detailed on the Management's Report on Internal Control over Financial Reporting incorporated by reference on this Form 10-K for the year ended December 31, 2007.

Except for the above items, there have not been any other changes in the Group's internal control over financial reporting (as such term is defined in rules 13a — 15(f) and 15d — 15 (f) under the Exchange Act) during the last quarter of the year ended December 31, 2007, that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting.

ITEM 9B. *OTHER INFORMATION*

Not applicable.

PART III

Items 10 through 14 will be provided by incorporating the information required under such items by reference from the Group's definitive proxy statement to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this report.

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

(a)(1) — Financial Statements

The list of financial statements required by this item is set forth in the financial data index incorporated by reference from portions of the 2007 annual report to shareholders filed as Exhibit 13.0.

(a)(2) — Financial Statement Schedules

No schedules are presented because the information is not applicable or is included in the consolidated financial statements or in the notes thereto described in (a)(1) above.

(a)(3) — Exhibits

Exhibit No.:	Description of Document:
3(i)	Amended and Restated Certificate of Incorporation.(1)
3(ii)	By-Laws.(2)
4.1	Certificate of Designation creating the 7.125% Noncumulative Monthly Income Preferred Stock, Series A(3)
4.2	Certificate of Designation creating the 7.0% Noncumulative Monthly Income Preferred Stock, Series B(4)
10.5	Lease Agreement Between Oriental Financial Group Inc. and Professional Office Park V, Inc.(5)
10.6	First Amendment to Lease Agreement Dated May 18, 2004, Between Oriental Financial Group Inc. and Professional Office Park V, Inc.(5)
10.8	Employment Agreement between Oriental Financial Group Inc. and Jose Rafael Fernández(5)
10.12	Change in Control Compensation Agreement between Oriental Financial Group Inc. and Jose R. Fernández(5)
10.13	Change in Control Compensation Agreement between Oriental Financial Group Inc. and Norberto González(5)
10.14	Change in Control Compensation Agreement between Oriental Financial Group Inc. and Ganesh Kumar(5)
10.17	Change in Control Compensation Agreement between Oriental Financial Group Inc. and Mari Evelyn Rodríguez(6)
10.18	Change in Control Compensation Agreement between Oriental Financial Group Inc. and José J. Gil de Lamadrid(7)
10.19	Agreement between Oriental Financial Group Inc. and José J. Gil de Lamadrid(8)
10.20	Change in Control Compensation Agreement between Oriental Financial Group Inc. and Julio R. Micheo(9)
10.23	Technology Transfer Agreement between Oriental Financial Group Inc. and Metavante Corporation (10)
10.24	2007 Omnibus Performance Incentive Plan(11)
10.25	Form of qualified stock option award and agreement(12)
10.26	Form of restricted stock award and agreement(13)
12.0	Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends (included in Item 6 hereof).
13.0	Portions of the 2007 annual report to shareholders
21.0	List of subsidiaries
23.1	Consent of Deloitte & Touche LLP
23.2	Consent of KPMG LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated herein by reference from Exhibit No. 3 of the Group's registration statement on Form S-3 filed with the SEC on April 2, 1999.

(2) Incorporated herein by reference from Exhibit No. 3(ii) of the Group's current report on Form 8-K filed with the SEC on March 3, 2008.

(3) Incorporated herein by reference from Exhibit No. 4.1 of the Group's registration statement on Form 8-A filed with the SEC on April 30, 1999.

(4) Incorporated herein by reference from Exhibit No. 4.1 of the Group's registration statement on Form 8-A filed with the SEC on September 26, 2003.

(5) Incorporated herein by reference from Exhibit 10 of the Group's annual report on Form 10-K filed with the SEC on September 13, 2005.

(6) Incorporated herein by reference from Exhibit 10.1 of the Group's quarterly report on Form 10-Q filed with the SEC on October 17, 2006.

(7) Incorporated herein by reference from Exhibit 10.2 of the Group's current report on Form 8-K filed with the SEC on December 4, 2006.

(8) Incorporated herein by reference from Exhibit 10.1 of the Group's current report on Form 8-K filed with the SEC on December 4, 2006.

(9) Incorporated herein by reference from Exhibit 10 of the Group's current report on Form 10-K filed with the SEC on December 15, 2006.

(10) Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

(11) Incorporated herein by reference from the Group's definitive proxy statement for the 2007 annual meeting of stockholders filed with the SEC on May 23, 2007.

(12) Incorporated herein by reference from Exhibit No. 10.1 of the Group's registration statement on Form S-8 filed with the SEC on November 30, 2007.

(13) Incorporated herein by reference from Exhibit No. 10.2 of the Group's registration statement on Form S-8 filed with the SEC on November 30, 2007.

SIGNATURES

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

ORIENTAL FINANCIAL GROUP INC.

By: /s/ José Rafael Férnandez — Dated: March 14, 2008
José Rafael Férnandez,
President and Chief Executive Officer

By: /s/ Norberto González — Dated: March 14, 2008
Norberto González
Executive Vice President and Chief
Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the date indicated.

By: /s/ José J. Gil de Lamadrid — Dated: March 14, 2008
José J. Gil de Lamadrid
Chairman of the Board

By: /s/ José Rafael Fernández — Dated: March 14, 2008
José Rafael Fernández
Director

By: /s/ Maricarmen Aponte — Dated: March 14, 2008
Maricarmen Aponte
Director

By: /s/ Francisco Arriví — Dated: March 14, 2008
Francisco Arriví
Director

By: /s/ Dr. Pablo I. Altieri — Dated: March 14, 2008
Dr. Pablo I. Altieri
Director

By: /s/ Juan Carlos Aguayo — Dated: March 14, 2008
Juan Carlos Aguayo
Director

By: /s/ Nelson García — Dated: March 14, 2008
Nelson García
Director

By: /s/ Pedro Morazzani

Pedro Morazzani
Director

Dated: March 14, 2008

By: /s/ Héctor Vázquez Muñiz

Héctor Vázquez Muñiz
Director

Dated: March 14, 2008

EXHIBIT 13.0

ORIENTAL FINANCIAL GROUP INC.

FORM-10K

FINANCIAL DATA INDEX

FINANCIAL STATEMENTS

FINANCIAL REVIEW AND SUPPLEMENTARY INFORMATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Oriental Financial Group Inc:

We have audited the accompanying consolidated statements of financial condition of Oriental Financial Group Inc. and subsidiaries (the "Group") as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' equity, comprehensive income, and cash flows for the years ended December 31, 2007 and 2006 and the six-month period ended December 31, 2005. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oriental Financial Group Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years ended December 31, 2007 and 2006 and the six month period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Group changed its method of evaluating prior year misstatements and, effective July 1, 2005, also changed its method of accounting for share-based payment in accordance with Statement of Financial Accounting Standards No. 123 (Revised 2004), *Shared-Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Oriental Financial Group Inc. and subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 13, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

San Juan, Puerto Rico
March 13, 2008

Stamp No. 2222084 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Oriental Financial Group Inc.
San Juan, Puerto Rico

We have audited the accompanying consolidated statements of operations, changes in stockholders' equity, comprehensive income, and cash flows of Oriental Financial Group Inc. and its subsidiaries (the "Group") for the year ended June 30, 2005. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and the cash flows of Oriental Financial Group Inc. and its subsidiaries for the year ended June 30, 2005 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 20, the accompanying financial statements for the year ended June 30, 2005 have been restated.

/s/ DELOITTE & TOUCHE LLP

San Juan, Puerto Rico
September 9, 2005 (June 9, 2006 as
to the effects of the restatement
discussed in Note 20)

Stamp No. 2293190
affixed to original.

ORIENTAL FINANCIAL GROUP INC.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and stockholders of Oriental Financial Group Inc.:

The management of Oriental Financial Group Inc. (the "Group") is responsible for establishing and maintaining effective internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, and for the assessment of internal control over financial reporting. The Group's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Group's internal control over financial reporting includes those policies and procedures that:

(1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Group;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Group are being made only in accordance with authorization of management and directors of the Group; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Group's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As called for by Section 404 of the Sarbanes-Oxley Act of 2002, management has assessed the effectiveness of the Group's internal control over financial reporting as of December 31, 2007. Management made its assessment using the criteria set forth in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Criteria").

Based on its assessment, management has concluded that the Group maintained effective internal control over financial reporting as of December 31, 2007 based on the COSO Criteria. The effectiveness of the Group's internal control over financial reporting as of December 31, 2007, has been audited by KPMG LLP, the Group's independent registered public accounting firm, as stated in their report dated March13, 2008.

By: */s/ José Rafael Fernández*

José Rafael Fernández
President and Chief Executive Officer
Date: March 13, 2008

By: */s/ Norberto González*

Norberto González
Executive Vice President and Chief Financial Officer
Date: March 13, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Oriental Financial Group Inc:

We have audited Oriental Financial Group Inc.'s (the "Group's") internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Oriental Financial Group Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Oriental Financial Group Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, comprehensive income, and cash flows for the years ended December 31, 2007 and 2006, and the six-month period ended December 31, 2005, and our report dated March 13, 2008, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Juan, Puerto Rico
March 13, 2008

Stamp No. 2222073 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2007 AND 2006

	December 31, 2007	December 31, 2006
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$ 22,858	$ 15,341
Money market investments	66,125	23,729
Total cash and cash equivalents	**88,983**	**39,070**
Investments:		
Trading securities, at fair value with amortized cost of $1,103 (December 31, 2006 — $246)	1,122	243
Investment securities available-for-sale, at fair value with amortized cost of $3,063,763 (December 31, 2006 — $984,060)		
Securities pledged that can be repledged	2,903,078	947,880
Other investment securities	166,204	27,080
Total investment securities available-for-sale	3,069,282	974,960
Investment securities held-to-maturity, at amortized cost with fair value of $1,478,112 (December 31, 2006 — $1,931,720)		
Securities pledged that can be repledged	1,348,159	1,814,746
Other investment securities	144,728	152,731
Total investment securities held-to-maturity	1,492,887	1,967,477
Other investments	1,662	30,949
Federal Home Loan Bank (FHLB) stock, at cost	20,658	13,607
Total investments	**4,585,610**	**2,987,236**
Securities sold but not yet delivered	—	**6,430**
Loans:		
Mortgage loans held-for-sale, at lower of cost or fair value	16,672	10,603
Loans receivable, net of allowance for loan losses of $10,161 (December 31, 2006 — $8,016)	1,162,894	1,201,767
Total loans, net	**1,179,566**	**1,212,370**
Accrued interest receivable	52,315	27,940
Premises and equipment, net	21,779	20,153
Deferred tax asset, net	10,362	14,150
Foreclosed real estate	4,207	4,864
Investment in equity indexed options	40,709	34,216
Other assets	16,324	25,557
Total assets	**$5,999,855**	**$4,371,986**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$ 119,152	$ 132,434
Savings accounts	387,790	266,184
Certificates of deposit	739,478	834,370
Total deposits	**1,246,420**	**1,232,988**
Borrowings:		
Federal funds purchased and other short-term borrowings	27,460	13,568
Securities sold under agreements to repurchase	3,861,411	2,535,923
Advances from FHLB	331,898	182,489
Term notes	—	15,000
Subordinated capital notes	36,083	36,083
Total borrowings	**4,256,852**	**2,783,063**
Securities purchased but not yet received	111,431	—
Accrued expenses and other liabilities	25,691	19,509
Total liabilities	**5,640,394**	**4,035,560**
Stockholders' equity:		
Preferred stock, $1 par value; 5,000,000 shares authorized; $25 liquidation value; 1,340,000 shares of Series A and 1,380,000 shares of Series B issued and outstanding	68,000	68,000
Common stock, $1 par value; 40,000,000 shares authorized; 25,557,197 shares issued; 24,120,771 shares outstanding (December 31, 2006 — 25,430,929; 24,441,524)	25,557	25,431
Additional paid-in capital	210,073	209,033
Legal surplus	40,573	36,245
Retained earnings	45,296	26,772
Treasury stock, at cost 1,436,426 shares (December 31, 2006 — 989,405 shares)	(17,023)	(12,956)
Accumulated other comprehensive loss, net of tax of $2,166 (December 31, 2006 — $290)	(13,015)	(16,099)
Total stockholders' equity	**359,461**	**336,426**
Commitments and Contingencies		
Total liabilities and stockholders' equity	**$5,999,855**	**$4,371,986**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006, THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2005, AND THE FISCAL YEAR ENDED JUNE 30, 2005

	Year Ended December 31,		Six-Month Period Ended December 31,	Fiscal Year Ended June 30,
	2007	2006	2005	2005
				(As restated See note 20)
	(In thousands, except per share data)			
Interest income:				
Loans	$ 85,802	$ 76,815	$ 30,901	$ 54,966
Mortgage-backed securities	111,006	98,058	45,251	103,425
Investment securities	88,868	55,381	27,469	30,395
Short term investments	3,688	2,057	1,465	526
Total interest income	**289,364**	**232,311**	**105,086**	**189,312**
Interest expense:				
Deposits	52,794	46,701	20,281	29,744
Securities sold under agreements to repurchase	147,690	125,714	42,909	60,524
Advances from FHLB, term notes and other borrowings	12,042	10,439	5,046	8,313
Subordinated capital notes	3,108	5,331	2,470	4,318
Total interest expense	**215,634**	**188,185**	**70,706**	**102,899**
Net interest income	**73,730**	**44,126**	**34,380**	**86,413**
Provision for loan losses	6,550	4,388	1,902	3,315
Net interest income after provision for loan losses	**67,180**	**39,738**	**32,478**	**83,098**
Non-interest income:				
Financial service revenues	17,295	16,029	7,432	14,032
Banking service revenues	7,862	9,006	4,495	7,752
Investment banking revenues	126	2,701	74	339
Net gain (loss) on:				
Mortgage banking activities	2,401	3,368	1,702	7,774
Securities available-for-sale, including other than temporary impairments	3,799	(17,637)	650	7,446
Derivatives	10,997	3,218	1,256	(2,811)
Early extinguishment of subordinated capital notes	—	(915)	—	—
Trading securities	23	28	5	(15)
Other	(1)	1,440	768	368
Total non-interest income, net	**42,502**	**17,238**	**16,382**	**34,885**
Non-interest expenses:				
Compensation and employees' benefits	28,376	24,630	12,714	23,606
Occupancy and equipment	12,624	11,573	5,798	10,583
Professional and service fees	7,161	6,821	3,771	6,994
Advertising and business promotion	4,472	4,466	2,862	5,720
Taxes, other than payroll and income taxes	2,151	2,405	1,195	1,836
Director and investors relations	2,103	2,323	374	883
Loan servicing expenses	1,740	2,017	911	1,727
Electronic banking charges	1,826	1,914	854	2,075
Communication	1,302	1,598	837	1,630
Printing, postage, stationery and supplies	842	995	528	891
Insurance	848	861	374	767
Other	3,414	4,110	1,596	3,251
Total non-interest expenses	**66,859**	**63,713**	**31,814**	**59,963**
Income (loss) before income taxes	**42,823**	**(6,737)**	**17,046**	**58,020**
Income tax expense (benefit)	1,558	(1,631)	127	(1,649)
Net income (loss)	**41,265**	**(5,106)**	**16,919**	**59,669**
Less: Dividends on preferred stock	(4,802)	(4,802)	(2,401)	(4,802)
Income (loss) available to common shareholders	**$ 36,463**	**$ (9,908)**	**$ 14,518**	**$ 54,867**
Income (loss) per common share:				
Basic	**$ 1.50**	**$ (0.40)**	**$ 0.59**	**$ 2.23**
Diluted	**$ 1.50**	**$ (0.40)**	**$ 0.58**	**$ 2.14**
Average common shares outstanding	24,326	24,562	24,777	24,571
Average potential common shares-options	41	101	154	1,104
Average diluted common shares outstanding	**24,367**	**24,663**	**24,931**	**25,675**
Cash dividends per share of common stock	**$ 0.56**	**$ 0.56**	**$ 0.28**	**$ 0.55**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006, THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2005, AND THE FISCAL YEAR ENDED JUNE 30, 2005

CHANGES IN STOCKHOLDERS' EQUITY:	Year Ended December 31, 2007	Year Ended December 31, 2006	Six-Month Period Ended December 31, 2005	Fiscal Year Ended June 30, 2005 (As restated See note 20)
			(In thousands)	
Preferred stock:				
Balance at beginning and end of period	**$ 68,000**	**$ 68,000**	**$ 68,000**	**$ 68,000**
Common stock:				
Balance at beginning of period	25,431	25,350	25,104	22,253
Stock options exercised	126	81	246	857
Stock dividend and stock split effected in the form of a dividend	—	—	—	1,994
Balance at end of period	**25,557**	**25,431**	**25,350**	**25,104**
Additional paid-in capital:				
Balance at beginning of period	209,033	208,454	206,804	137,156
Stock-based compensation expense	86	15	—	7,552
Stock options exercised	954	564	1,650	3,650
Stock dividend and stock split effected in the form of a dividend	—	—	—	58,456
Common stock issuance costs	—	—	—	(10)
Balance at end of period	**210,073**	**209,033**	**208,454**	**206,804**
Legal surplus:				
Balance at beginning of period	36,245	35,863	33,893	27,425
Transfer from retained earnings	4,328	382	1,970	6,468
Balance at end of period	**40,573**	**36,245**	**35,863**	**33,893**
Retained earnings:				
Balance at beginning of period	26,772	52,340	46,705	76,752
Cumulative effect on initial adoption of SAB 108	—	(1,525)	—	—
Net income (loss)	41,265	(5,106)	16,919	59,669
Cash dividends declared on common stock	(13,611)	(13,753)	(6,913)	(13,523)
Stock dividend and stock split effected in the form of a dividend	—	—	—	(64,923)
Cash dividends declared on preferred stock	(4,802)	(4,802)	(2,401)	(4,802)
Transfer to legal surplus	(4,328)	(382)	(1,970)	(6,468)
Balance at end of period	**45,296**	**26,772**	**52,340**	**46,705**
Treasury stock:				
Balance at beginning of period	(12,956)	(10,332)	(3,368)	(4,578)
Stock purchased	(4,297)	(2,819)	(7,003)	(3,512)
Stock used to match defined contribution plan	230	195	39	249
Stock dividend and stock split effected in the form of a dividend	—	—	—	4,473
Balance at end of period	**(17,023)**	**(12,956)**	**(10,332)**	**(3,368)**
Accumulated other comprehensive income (loss), net of tax:				
Balance at beginning of period	(16,099)	(37,884)	(38,383)	(45,362)
Other comprehensive income, net of tax	3,084	21,785	499	6,979
Balance at end of period	**(13,015)**	**(16,099)**	**(37,884)**	**(38,383)**
Total stockholders' equity	**$359,461**	**$336,426**	**$341,791**	**$338,755**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006,
THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2005,
AND THE FISCAL YEAR ENDED JUNE 30, 2005

COMPREHENSIVE INCOME	Year Ended December 31, 2007	Year Ended December 31, 2006	Six-Month Period Ended December 31, 2005	Fiscal Year Ended June 30, 2005 (As restated, See note 20)
			(In thousands)	
Net income (loss)	**$41,265**	**$ (5,106)**	**$ 16,919**	**$59,669**
Other comprehensive income (loss):				
Unrealized gain (loss) on securities available-for-sale arising during the period	18,338	3,073	(13,056)	10,830
Realized (gain) loss on investment securities available-for-sale included in net income	(3,799)	15,172	(650)	(7,446)
Unrealized (loss) gain on derivatives designated as cash flows hedges arising during the period	—	(720)	13,962	(6,372)
Realized (gain) loss on derivatives designated as cash flow hedges included in net income (loss)	(773)	(3,218)	(1,256)	10,131
Realized gain on termination of derivative activities, net	—	8,998	—	—
Gain from termination of cash flow hedging	(8,225)	—	—	—
Income tax effect related to unrealized (gain) loss on securities available-for-sale	(2,457)	(1,520)	1,499	(164)
Other comprehensive income for the period, net of tax	**3,084**	**21,785**	**499**	**6,979**
Comprehensive income	**$44,349**	**$16,679**	**$ 17,418**	**$66,648**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006, THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2005, AND THE FISCAL YEAR ENDED JUNE 30, 2005

	Year Ended December 31, 2007	Year Ended December 31, 2006	Six-Month Period Ended December 31, 2005	Fiscal Year Ended June 30, 2005 (As restated, See note 20)
	(In thousands)			
Cash flows from operating activities:				
Net income (loss)	$ 41,265	$ (5,106)	$ 16,919	$ 59,669
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Amortization of deferred loan origination fees, net of costs	(721)	(1,625)	(838)	(2,609)
Amortization of premiums, net of accretion of discounts on investment securities	792	5,584	8,474	9,835
Other than temporary impairment	—	2,466	—	—
Realized gains on termination of derivative instruments	—	(852)	—	—
Depreciation and amortization of premises and equipment	5,419	5,481	3,211	5,857
Deferred income tax expense (benefit)	1,332	(3,448)	(4,532)	982
Equity in losses (earnings), of investment in limited liability partnership	279	(828)	(838)	(247)
Provision for loan losses	6,550	4,388	1,902	3,315
Stock-based compensation (benefit)	86	15	11	(3,057)
(Gain) loss on:				
Sale of securities available-for-sale	(3,799)	15,172	(650)	(7,446)
Mortgage banking activities	(2,401)	(3,368)	(1,702)	(7,774)
Derivatives	(10,997)	(3,218)	(1,256)	2,811
Sale of foreclosed real estate	349	(180)	(32)	—
Sale of premises and equipment	(20)	(253)	(4)	—
Early extinguishment of subordinated capital notes	—	915	—	—
Originations of loans held-for-sale	(114,722)	(95,713)	(12,097)	(178,256)
Proceeds from sale of loans held-for-sale	54,510	41,842	21,114	102,305
Net (increase) decrease in:				
Trading securities	(879)	(97)	119	309
Accrued interest receivable	(24,375)	1,127	(5,332)	(4,608)
Other assets	(2,680)	(3,559)	(4,619)	(11,820)
Net increase (decrease) in:				
Accrued interest on deposits and borrowings	4,787	(15,096)	1,552	5,252
Other liabilities	6,358	(2,466)	(10,133)	1,296
Net cash provided by (used in) operating activities	**(38,867)**	**(58,819)**	**11,269**	**(24,186)**
Cash flows from investing activities:				
Net decrease (increase) in time deposits with other banks	—	60,000	(30,000)	(30,000)
Purchases of:				
Investment securities available-for-sale	(3,434,208)	(1,273,841)	(334,767)	(1,738,613)
Investment securities held-to-maturity	(158,842)	(6,500)	(259,904)	(529,006)
Other investments	—	(30,982)	—	—
FHLB stock	(43,390)	(29,520)	—	—
Purchases of equity options	(10,474)	(3,702)	(293)	(1,371)
Maturities and redemptions of:				
Investment securities available-for-sale	744,976	134,949	209,013	562,230
Investment securities held-to-maturity	633,052	384,594	48,671	232,290
FHLB stock	36,339	35,915	7,056	1,102
Other investments	29,274	—	—	—
Investment in limited liability partnership	11,634	—	—	—
Proceeds from sales of:				
Investment securities available-for-sale	787,255	1,252,995	139,898	1,143,501
Foreclosed real estate	4,017	2,589	1,537	3,034
Premises and fixed assets	—	—	13	3,355
Loan production:				
Origination and purchase of loans, excluding loans held-for-sale	(189,773)	(459,975)	(170,217)	(333,177)
Principal repayment of loans	219,108	150,704	109,804	206,112
Additions to premises and equipment	(7,025)	(10,553)	(2,779)	(4,073)
Net cash provided by (used in) investing activities	**(1,378,057)**	**206,673**	**(281,968)**	**(484,616)**

	Year Ended December 31, 2007	Year Ended December 31, 2006	Six-Month Period Ended December 31, 2005	Fiscal Year Ended June 30, 2005 (As restated, See note 20)
	(In thousands)			
Cash flows from financing activities:				
Net increase (decrease) in:				
Deposits	19,016	(69,452)	36,140	224,928
Securities sold under agreements to repurchase	1,320,609	111,844	236,124	295,891
Federal funds purchased	13,892	9,113	(9,785)	12,310
Term Notes	(15,000)	—	—	—
Proceeds from:				
Short term borrowings	—	—	1,930	—
Advances from FHLB	5,279,620	4,703,325	837,251	2,204,272
Exercise of stock options, net	1,080	645	1,896	4,507
Repayments of advances from FHLB	(5,131,520)	(4,834,725)	(823,951)	(2,204,272)
Repayments of subordinated capital notes	—	(36,083)	—	—
Termination of derivative instruments	1,620	10,459	—	—
Common stock purchased	(4,067)	(2,624)	(6,964)	(3,263)
Dividends paid	(18,413)	(18,555)	(9,356)	(17,919)
Net cash provided by (used in) financing activities	**1,466,837**	**(126,053)**	**263,285**	**516,454**
Net change in cash and cash equivalents	**49,913**	**21,801**	**(7,414)**	**7,652**
Cash and cash equivalents at beginning of period	39,070	17,269	24,683	17,031
Cash and cash equivalents at end of period	**$ 88,983**	**$ 39,070**	**$ 17,269**	**$ 24,683**
Supplemental Cash Flow Disclosure and Schedule of Noncash Activities:				
Interest paid	$ 213,764	$ 203,280	$ 58,844	$ 97,647
Income taxes paid	$ —	$ 82	$ —	$ 554
Mortgage loans securitized into mortgage-backed securities	$ 56,544	$ 52,214	$ 50,209	$ 85,809
Net charge-offs	$ 4,405	$ 3,001	$ 1,767	$ 4,373
Investment securities available-for-sale transferred to held-to-maturity	$ 3,377	$ —	$ —	$ 565,191
Accrued dividend payable	$ 3,084	$ 3,423	$ 3,445	$ 3,487
Securities sold but not yet delivered	$ —	$ 6,430	$ 44,009	$ 1,034
Securities and loans purchased but not yet received	$ 111,431	$ —	$ 43,354	$ 22,772
Transfer from loans to foreclosed real estate	$ 3,709	$ 2,471	$ 2,121	$ 4,689

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2007 AND 2006
AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006,
THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2005,
AND THE FISCAL YEAR ENDED JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Oriental Financial Group Inc. (the "Group" or "Oriental") conform to U.S. generally accepted accounting principles ("GAAP") and to financial services industry practices. The following is a description of the Group's most significant accounting policies:

Nature of Operations

Oriental is a publicly-owned financial holding company incorporated under the laws of the Commonwealth of Puerto Rico. It has four direct subsidiaries, Oriental Bank and Trust (the "Bank"), Oriental Financial Services Corp. ("Oriental Financial Services"), Oriental Insurance, Inc. ("Oriental Insurance") and Caribbean Pension Consultants, Inc., which is located in Boca Raton, Florida. The Group also has two special purpose entities, Oriental Financial (PR) Statutory Trust I (the "Statutory Trust I", presently inactive) and Oriental Financial (PR) Statutory Trust II (the "Statutory Trust II"). Through these subsidiaries and its divisions, the Group provides a wide range of financial services such as mortgage, commercial and consumer lending, financial planning, insurance sales, money management and investment banking and brokerage services, as well as corporate and individual trust services. Note 17 to the consolidated financial statements presents further information about the operations of the Group's business segments.

The main offices for the Group and its subsidiaries are located in San Juan, Puerto Rico. The Group is subject to examination, regulation and periodic reporting under the U.S. Bank Holding Company Act of 1956, as amended, which is administered by the Board of Governors of the Federal Reserve System.

The Bank operates through 24 financial centers located throughout Puerto Rico and is subject to the supervision, examination and regulation of the Office of the Commissioner of Financial Institutions of Puerto Rico ("OCFI") and the Federal Deposit Insurance Corporation ("FDIC"). The Bank offers banking services such as commercial and consumer lending, saving and time deposit products, financial planning, and corporate and individual trust services, and capitalizes on its commercial banking network to provide mortgage lending products to its clients, which it also provides through its wholly-owned mortgage lending subsidiary, Oriental Mortgage Corporation. The Bank also operates an IBE pursuant to the IBE Act, Oriental International Bank Inc., which is a wholly-owned subsidiary of the Bank. The IBE subsidiary offers the Bank certain Puerto Rico tax advantages and its services are limited under Puerto Rico law to persons and assets/liabilities located outside of Puerto Rico. Another IBE, which operated as a division of the Bank, was liquidated on May 31, 2007, after obtaining the required regulatory approvals.

Oriental Financial Services is subject to the supervision, examination and regulation of the Financial Industry Regulatory Authority ("FINRA"), the Securities and Exchange Commission ("SEC"), and the OCFI. Oriental Insurance is subject to the supervision, examination and regulation of the Office of the Commissioner of Insurance of Puerto Rico.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate mainly to the determination of the allowance for loan losses, the valuation of derivative instruments, and the determination of income taxes.

Fiscal Year

On August 30, 2005, the Group's Board of Directors amended Section 1 of Article IX of the Group's Bylaws to change its fiscal year to a calendar year. The fiscal year was from July 1 of each year to June 30 of the following year. Data presented on the accompanying consolidated financial statements includes balance sheet data as of December 31, 2007 and 2006, and operations data for the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005 and the fiscal year ended June 30, 2005. Please refer to Note 19 of the accompanying consolidated financial statements for comparative information.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Group and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The special purpose entities are exempt from the consolidation requirements, under the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 46 (Revised), *"Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51."*

Cash Equivalents

The Group considers as cash equivalents all money market instruments that are not pledged and that have maturities of three months or less at the date of acquisition.

Earnings per Common Share

Basic earnings per share is calculated by dividing income available to common shareholders (net income reduced by dividends on preferred stock) by the weighted average of outstanding common shares. Diluted earnings per share is similar to the computation of basic earnings per share except that the weighted average of common shares is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares (options) had been issued, assuming that proceeds from exercise are used to repurchase shares in the market (treasury stock method). Any stock splits and dividends are retroactively recognized in all periods presented in the consolidated financial statements.

Securities Purchased/Sold Under Agreements to Resell/Repurchase

The Group purchases securities under agreements to resell the same or similar securities. Amounts advanced under these agreements represent short-term loans and are reflected as assets in the consolidated statements of financial condition. It is the Group's policy to take possession of securities purchased under resale agreements while the counterparty retains effective control over the securities. The Group monitors the fair value of the underlying securities as compared to the related receivable, including accrued interest, and requests additional collateral when deemed appropriate. The Group also sells securities under agreements to repurchase the same or similar securities. The Group retains effective control over the securities sold under these agreements; accordingly, such agreements are treated as financing arrangements, and the obligations to repurchase the securities sold are reflected as liabilities. The securities underlying the financing agreements remain included in the asset accounts. The counterparty to repurchase agreements generally has the right to repledge the securities received as collateral.

Investment Securities

Securities are classified as held-to-maturity, available-for-sale or trading. Securities for which the Group has the intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. Securities that might be sold prior to maturity because of interest rate changes, to meet liquidity needs, or to better match the repricing characteristics of funding sources are classified as available-for-sale. These securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported net of tax in other comprehensive income.

The Group classifies as trading those securities that are acquired and held principally for the purpose of selling them in the near future. These securities are carried at fair value with realized and unrealized changes in fair value included in earnings in the period in which the changes occur.

The Group's investment in the Federal Home Loan Bank (FHLB) of New York stock has no readily determinable fair value and can only be sold back to the FHLB at cost. Therefore, the carrying value represents its fair value.

Premiums and discounts are amortized to interest income over the life of the related securities using the interest method. Net realized gains or losses on sales of investment securities available-for-sale, and unrealized loss valuation adjustments considered other than temporary, if any, on securities classified as either available-for-sale or held-to-maturity are reported separately in the statements of operations. The cost of securities sold is determined on the specific identification method.

Impairment of Investment Securities

The Group evaluates its securities available-for-sale and held-to-maturity for impairment. An impairment charge in the consolidated statements of operations is recognized when the decline in the fair value of investments below their cost basis is judged to be other-than-temporary. The Group considers various factors in determining whether it should recognize an impairment charge, including, but not limited to the length of time and extent to which the fair value has been less than its cost basis, and the Group's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. For debt securities, the Group also considers, among other factors, the debtors repayment ability on its bond obligations and its cash and capital generation ability. For the year ended December 31, 2006, the Group charged to operations approximately $2.5 million on available-for-sale securities with other than temporary impairments. No such charges were recorded during 2007 or for periods prior to 2006 presented in these financial statements.

Derivative Financial Instruments

As part of the Group's asset and liability management, the Group may use option agreements and interest rate contracts, which include interest rate swaps to hedge various exposures or to modify interest rate characteristics of various statement of financial condition accounts.

The Group follows Statement of Financial Accounting Standards ("SFAS") No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* as amended (refer to Note 9), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The statement requires that all derivative instruments be recognized as assets and liabilities at fair value. If certain conditions are met, the derivative may qualify for hedge accounting treatment and be designated as one of the following types of hedges: (a) hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment ("fair value hedge"); (b) a hedge of the exposure to variability of cash flows of a recognized asset, liability or forecasted transaction ("cash flow hedge") or (c) a hedge of foreign currency exposure ("foreign currency hedge").

In the case of a qualifying fair value hedge, changes in the value of the derivative instruments that have been highly effective are recognized in current period earnings along with the change in value of the designated hedged item. In the case of a qualifying cash flow hedge, changes in the value of the derivative instruments that have been highly effective are recognized in other comprehensive income, until such time as those earnings are affected by the variability of the cash flows of the underlying hedged item. In either a fair value hedge or a cash flow hedge, net earnings may be impacted to the extent the changes in the fair value of the derivative instruments do not perfectly offset changes in the fair value or cash flows of the hedged items. If the derivative is not designated as a hedging instrument, the changes in fair value of the derivative are recorded in earnings.

Certain contracts contain embedded derivatives. When the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated and carried at fair value.

The Group uses several pricing models that consider current fair value and contractual prices for the underlying financial instruments as well as time value and yield curve or volatility factors underlying the positions to derive the fair value of certain derivatives contracts.

Off-Balance Sheet Instruments

In the ordinary course of business, the Group enters into off-balance sheet instruments consisting of commitments to extend credit and commitments under credit card arrangements, further discussed in Note 14 to the consolidated financial statements. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. The Group periodically evaluates the credit risks inherent in these commitments, and establishes allowances for such risks if and when these are deemed necessary.

Mortgage Banking Activities and Loans Held-For-Sale

The residential mortgage loans reported as held-for-sale are stated at the lower-of-cost-or-market, cost being determined on the outstanding loan balance less unearned income, and fair value determined in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Realized gains or losses on these loans are determined using the specific identification method. Loans held-for-sale include all conforming mortgage loans originated and purchased, which from time to time the Group sells to other financial institutions or securitizes conforming mortgage loans into Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) pass-through certificates.

Prior to December 31, 2005, servicing rights on mortgage loans originated and held by the Group were sold to another financial institution. Upon their sale, a portion of the accounting basis of the mortgage loans held-for-investment was allocated to the mortgage servicing rights ("MSRs") based upon the relative fair values of the mortgage loans and the MSRs, which results in a discount to the mortgage loans held for investment. That discount is accreted using the interest method as an adjustment to yield on the mortgage loans over the estimated life of the related loans. When related loans are sold or collected any unamortized discount is recognized as income. In 2006, the Group entered into a sub-servicing agreement with a local institution to service GNMA, FNMA and FHLMC pools that it issues and its mortgage loan portfolio at a fixed annual cost per loan.

Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

The Group recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

The Group is not engaged in sales of mortgage loans and mortgage-backed securities subject to recourse provisions except for those provisions that allow for the repurchase of loans as a result of a breach of certain representations and warranties other than those related to the credit quality of the loans included in the sale transactions.

According to SFAS 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"), a transfer of financial assets (all or a portion of the financial asset) in which the Group surrenders control over these financial assets shall be accounted for as a sale to the extent that consideration, other than beneficial interests in the transferred assets, is received in exchange. The Group has surrendered control over transferred assets if and only if all of the following conditions are met:

a. The transferred assets have been isolated from the Group — put presumptively beyond the reach of the Group and its creditors even in bankruptcy or other receivership.

b. Each transferee has the right to pledge or exchange the assets it received and no condition both constrains the transferee from taking advantage of its rights to pledge or exchange and provided more than a trivial benefit to the Group.

c. The Group does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the Group to repurchase or redeem them before their maturity or (2) the ability to unilaterally cause the holder to return specific assets other than through a cleanup call.

If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not meet the criteria for a sale as described above, the Group would account for the transfer as a secured borrowing.

Servicing assets

The Group periodically sells or securitizes loans while retaining the obligation to perform the servicing of such loans. In addition, the Group may purchase or assume the right to service loans originated by others. Whenever the Group undertakes an obligation to service a loan, management assesses whether a servicing asset and/or liability should be recognized. A servicing asset is recognized whenever the compensation for servicing is expected to more than adequately compensate the servicer for performing the servicing. Likewise, a servicing liability would be recognized in the event that servicing fees to be received are not expected to adequately compensate the Group for its expected cost. Servicing assets are presented on as other assets in the consolidated statements of condition.

Upon adoption of SFAS No. 156 *"Accounting for Servicing of Financial Assets — an Amendment of FASB Statements No. 133 and 140"* in January 2007, all separately recognized servicing assets are initially recognized at fair value. For subsequent measurement of servicing rights, the Group has elected the amortization method with periodic testing for impairment. Under the amortization method, servicing assets are amortized in proportion to, and over the period of, estimated servicing income and assessed for impairment based on fair value at each reporting period. Contractual servicing fees, as well as fair value adjustments, and impairment losses, if any, are reported in banking service revenues in the consolidated statements of operations. Loan servicing fees, which are based on a percentage of the principal balances of the loans serviced, are credited to income as loan payments are collected.

The fair value of servicing rights is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions. For purposes of evaluating and measuring impairment of capitalized servicing assets that are accounted under the amortization method, the amount of impairment recognized, if any, is the amount by which the capitalized servicing assets per stratum exceed their estimated fair value.

Prior to 2006, the total cost of loans to be sold with servicing assets retained was allocated to the servicing assets and the loans (without servicing assets), based on their relative fair values. Servicing assets were amortized in proportion to, and over the period of, estimated net servicing income.

Loans and Allowance for Loan Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, unamortized discount related to MSR sold and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs and premiums and discounts on loans purchased are deferred and amortized over the estimated life of the loans as an adjustment of their yield through interest income using a method that approximates the interest method.

Interest recognition is discontinued when loans are 90 days or more in arrears on principal and/or interest based on contractual terms, except for collateralized residential mortgage loans for which recognition is discontinued when they become 365 days or more past due based on contractual terms and are then written down, if necessary, based on the specific evaluation of the collateral underlying the loan. Loans for which the recognition of interest income has been discontinued are designated as non-accruing. Collections are accounted for on the cash method thereafter, until qualifying to return to accrual status. Such loans are not reinstated to accrual status until interest is received on a current basis and other factors indicative of doubtful collection cease to exist.

The Group follows a systematic methodology to establish and evaluate the adequacy of the allowance for loan losses to provide for inherent losses in the loan portfolio. This methodology includes the consideration of factors such as economic conditions, portfolio risk characteristics, prior loss experience, and results of periodic credit reviews of individual loans. The provision for loan losses charged to current operations is based on such methodology. Loan losses are charged and recoveries are credited to the allowance for loan losses.

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

Included in the review of individual loans are those that are impaired, as provided in SFAS No. 114, *"Accounting by Creditors for Impairment of a Loan."* A loan is considered impaired when, based on current information and events, it is probable that the Group will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the observable market price of the loan or the fair value of the collateral, if the loan is collateral dependent. Loans are individually evaluated for impairment, except large groups of small balance homogeneous loans that are collectively evaluated for impairment under the provisions of SFAS No. 5, *"Accounting for Contingencies"*, as amended, and loans that are recorded at fair value or at the lower of cost or market. The Group measures for impairment all commercial loans over $250,000 and over 90-days past due. The portfolios of mortgages and consumer loans are considered homogeneous, and are evaluated collectively for impairment.

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

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

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of each type of asset. Amortization of leasehold improvements is computed using the straight-line method over the terms of the leases or estimated useful lives of the improvements, whichever is shorter.

Long-lived assets and identifiable intangibles, except for financial instruments, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, an estimate is made of the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized if the fair value is less than the carrying amount of the related asset. Otherwise, an impairment loss is not recognized. There were no such impairment losses in periods presented in the accompanying consolidated financial statements.

Foreclosed Real Estate

Foreclosed real estate is initially recorded at the lower of the related loan balance or the fair value of the real estate at the date of foreclosure. At the time properties are acquired in full or partial satisfaction of loans, any excess of the loan balance over the estimated fair value of the property is charged against the allowance for loan losses. After foreclosure, these properties are carried at the lower of cost or fair value less estimated costs to sell based on recent appraised values or options to purchase the foreclosed property. Any excess of the carrying value over the estimated fair value, less estimated costs to sell, is charged to operations. The costs and expenses associated to holding these properties in portfolio are expensed as incurred.

Income Taxes

In preparing the consolidated financial statements, the Group is required to estimate income taxes. This involves an estimate of current income tax expense together with an assessment of temporary differences resulting from differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The determination of current income tax expense involves estimates and assumptions that require the Group to assume certain positions based on its interpretation of current tax regulations. Changes in assumptions affecting estimates may be required in the future and estimated tax assets or liabilities may need to be increased or decreased accordingly. The accrual for tax contingencies is adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. When particular matters arise, a number of years may elapse before such matters are audited and finally resolved. Favorable resolution of such matters could be recognized as a reduction to the Group's effective rate in the year of resolution. Unfavorable settlement of any particular issue could increase the effective rate and may require the use of cash in the year of resolution.

The determination of deferred tax expense or benefit is based on changes in the carrying amounts of assets and liabilities that generate temporary differences. The carrying value of the Group's net deferred tax assets assumes that the Group will be able to generate sufficient future taxable income based on estimates and assumptions. If these estimates and related assumptions change in the future, the Group may be required to record valuation allowances against its deferred tax assets resulting in additional income tax expense in the consolidated statements of operations.

Management evaluates the realizability of the deferred tax assets on a regular basis and assesses the need for a valuation allowance. A valuation allowance is established when management believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowance from period to period are included in the Group's tax provision in the period of change.

In addition to valuation allowances, the Group establishes accruals for certain tax contingencies when, despite the belief that Group's tax return positions are fully supported, the Group believes that certain positions are likely to be challenged. The tax contingency accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. The Group's tax contingency accruals are reflected as income tax payable as a component of accrued expenses and other liabilities.

Effective at the beginning of the first quarter of 2007, the Group adopted the provisions of Financial Accounting Standard Board ("FASB") Interpretation No. 48 ("FIN 48"), *"Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109."* FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, *"Accounting for Income Taxes."* The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. The Group's policy to include interest and penalties related to unrecognized tax benefits within the provision for taxes on the consolidated statements of operations did not change as a result of implementing the provisions of FIN 48. No adjustments resulted from the implementation of FIN 48.

Equity-Based Compensation Plans

On April 25, 2007, the Board of Directors (the "Board") formally adopted the Oriental Financial Group Inc. 2007 Omnibus Performance Incentive Plan (the "Omnibus Plan"), which was subsequently approved at the annual meeting of stockholders held on June 27, 2007. The Omnibus Plan provides for equity-based compensation incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units and dividend equivalents, as well as equity-based performance awards.

The purpose of the Omnibus Plan is to provide flexibility to the Group to attract, retain and motivate directors, officers, and key employees through the grant of awards based on performance and to adjust its compensation practices to the best compensation practice and corporate governance trends as they develop from time to time. The Omnibus Plan is further intended to motivate high levels of individual performance coupled with increased shareholder returns. Therefore, awards under the Omnibus Plan (each, an "Award") are intended to be based upon the recipient's individual performance, level of responsibility and potential to make significant contributions to the Group. Generally, the Omnibus Plan will terminate as of (a) the date when no more of the Group's shares of common stock are available for issuance under the Omnibus Plan, or, if earlier, (b) the date the Omnibus Plan is terminated by the Group's Board.

The Compensation Committee of the Group's Board, or such other committee as the Board may designate (the "Committee"), has full authority to interpret and administer the Omnibus Plan in order to carry out its provisions and purposes. The Committee has the authority to determine those persons eligible to receive an Award and to establish the terms and conditions of any Award. The Committee may delegate, subject to such terms or conditions or guidelines as it shall determine, to any employee or group of employees any portion of its authority and powers under the Omnibus Plan with respect to participants who are not directors or executive officers subject to the reporting requirements under Section 16(a) of the Securities Exchange Act of 1934. Only the Committee may exercise authority in respect of Awards granted to such participants.

The Omnibus Plan replaced and superseded the Oriental Financial Group Inc. 1996, 1998 and 2000 Incentive Stock Option Plans (the "Stock Option Plans"). All outstanding stock options under the Stock Option Plans continue in full force and effect, subject to their original terms and conditions.

Effective July 1, 2005, the Group adopted SFAS No. 123R *"Share-Based Payment"* ("SFAS 123R"), an amendment of SFAS No. 123 "Accounting for Stock-Based Compensation" using the modified prospective transition method. SFAS 123R requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award with the cost to be recognized over the service period. SFAS No. 123R applies to all awards unvested and granted after this effective date and awards modified, repurchased, or cancelled after that date.

Had the estimated fair value of the options granted been included in compensation expense for the periods indicated below, the Group's net earnings and earnings per share would have been as follows:

	Fiscal Year Ended June 30, 2005 (In thousands, except for per share data)
Net income, as reported	$59,669
Share-based (compensation) benefit included in reported earnings	(3,057)
Share-based employee compensation determined under fair value based method for all awards	(1,459)
Pro forma net income	55,153
Less: Dividends on preferred stock	(4,802)
Pro forma income available to common shareholders	$50,351
Earnings per share:	
Basic — as reported	$ 2.23
Basic — pro forma	$ 2.05
Diluted — as reported	$ 2.14
Diluted — pro forma	$ 1.96
Average common shares outstanding	24,571
Average potential common shares-options	1,104
	25,675

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, except for those resulting from investments by owners and distributions to owners. GAAP requires that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and on derivative activities that qualify and are designated for cash flows hedge accounting, are reported as a separate component of the stockholders' equity section of the consolidated statements of financial condition, such items, along with net income, are components of comprehensive income.

Evaluation of Prior Year Misstatements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"), *"Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements"*. SAB 108 provides the SEC staff's views regarding the process of quantifying financial statement misstatements. It requires the use of two different approaches to quantifying misstatements — (1) the "rollover approach" and (2) the "iron curtain approach "— when assessing whether such a misstatement is material to the current period financial statements. The rollover approach focuses on the impact on the income statement of a misstatement originating in the current reporting period. The iron curtain approach focuses on the cumulative effect on the balance sheet as of the end of the current reporting period of uncorrected misstatements regardless of when they originated. If a material misstatement is quantified under either approach, after considering quantitative and qualitative factors, the financial statements would require adjustment. Depending on the magnitude of the correction with respect to the current period financial statements, changes to financial statements for prior periods could result. SAB 108 was effective for the Group on January 1, 2006.

The Group had three unrecorded accounting adjustments that were considered in the SAB 108 analysis. The Group historically deferred commissions to certain employees as part of the Bank's deposit-gathering campaigns, instead of charging compensation expenses in the year paid. The balance of deferred commission as of January 1, 2006, was $719,000 and was corrected as of January 1, 2006, as a credit to cumulative retained earnings at that date.

The second accounting adjustment was the reversal of a prior year over-accrual of income taxes. As of December 31, 2005, utilizing the rollover method to evaluate differences, the Group decided not to correct $589,000 of excess income taxes provision. Such difference was corrected as of January 1, 2006, against cumulative retained earnings at that date.

The third accounting adjustment was the Group's method of recognizing interest on a structured note carried as held-to-maturity investment. The structured note pays interest depending on whether LIBOR is within a range or not. In the past, the Group had recorded interest on such note on a cash basis instead of using the retrospective interest method required by Financial Accounting Standards Board Emerging Issues Task Force Abstracts Issue No. 96-12, *"Recognition of Interest Income and Balance Sheet Classification of Structured Notes"*. As a result of the adoption of SAB 108, approximately $1.4 million of interest previously recognized on a cash basis in prior periods was reversed and recorded as interest income for 2006.

After considering all of the quantitative and qualitative factors, the Group determined that these accounting adjustments had not previously been material to prior periods when measured using the rollover method. Given that the effect of correcting these misstatements during 2006 would be material to the Group's 2006 consolidated financial statements using this dual method, the Group concluded that the cumulative effect adjustment method of initially applying the guidance in SAB 108 was appropriate, and adjusted $1.525 million as a cumulative effect on the beginning retained earnings on the 2006 Consolidated Statements of Changes in Stockholder's Equity.

Commitments and Contingencies

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Reclassifications

Certain amounts in prior years have been reclassified to conform to the presentation adopted in the current year.

New Accounting Pronouncements

SFAS No. 157, "Fair Value Measurements"

In September 2006, FASB issued SFAS No. 157, *"Fair Value Measurements"*, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements.

This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application was encouraged, provided that the reporting entity had not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. The Group adopted the provisions of SFAS No. 157 commencing in the first quarter of 2008. Such provisions are to be applied prospectively. The Group is currently assessing the impact of SFAS No. 157 on its consolidated financial statements, including disclosures.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115"

On February 15, 2007, FASB issued SFAS No. 159, *"The Fair Value Option for Financial assets and Financial Liabilities, Including an amendment of FASB Statement No. 115"*. SFAS No. 159 provides an alternative measurement treatment for certain financial assets and financial liabilities, under an instrument-by-instrument election, that permits fair value to be used for both initial and subsequent measurement, with changes in fair value recognized in earnings. While SFAS No. 159 is effective for the Group beginning January 1, 2008, earlier adoption is permitted as of January 1, 2007, provided that the entity also adopts all of the requirements of SFAS No. 157. The Group adopted the provisions of SFAS No. 159 in January 2008, but decided not to apply the fair value option for any of its financial assets and liabilities, other than those required by SFAS 115.

SFAS No. 141R, "Business Combinations"

In December 2007, the FASB issued SFAS No. 141R, *"Business Combinations."* SFAS No. 141R will significantly change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. The statement will also require all acquisition-related costs to be expensed as they are incurred. SFAS No. 141R is required to be applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, with earlier adoption being prohibited

The Group is currently evaluating the effect, if any, of the adoption of SFAS 141R on its consolidated financial statements, including disclosures.

2. INVESTMENTS

Investment Securities

The amortized cost, gross unrealized gains and losses, fair value, and weighted average yield of the securities owned by the Group at December 31, 2007 and 2006, were as follows:

	December 31, 2007				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Puerto Rico Government and agency obligations	$ 18,331	$ 63	$ 937	$ 17,457	5.69%
Obligations of US Government sponsored agencies	1,279,977	14,933	—	1,294,910	5.91%
Structured credit investments	85,548	—	7,188	78,360	5.46%
Total investment securities	**1,383,856**	**14,996**	**8,125**	**1,390,727**	
FNMA and FHLMC certificates	998,008	10,681	223	1,008,466	5.85%
GNMA certificates	48,907	869	216	49,560	5.69%
Non-agency collateralized mortgage obligations (CMOs)	632,992	42	12,505	620,529	5.49%
Total mortgage-backed-securities and CMOs	**1,679,907**	**11,592**	**12,944**	**1,678,555**	
Total securities available-for-sale	**3,063,763**	**26,588**	**21,069**	**3,069,282**	**5.78%**
Held-to-maturity					
Puerto Rico Government and agency obligations	55,206	—	3,781	51,425	5.29%
Obligations of US Government sponsored agencies	418,731	902	1,980	417,653	4.92%
Structured credit investments	96,171	—	11,949	84,222	6.69%
Total investment securities	**570,108**	**902**	**17,710**	**553,300**	
FNMA and FHLMC certificates	624,267	4,331	3,560	625,038	5.03%
GNMA certificates	161,647	1,504	1,204	161,947	5.36%
CMOs issued by US Government sponsored agencies	136,865	1,489	527	137,827	5.14%
Total mortgage-backed-securities and CMOs	**922,779**	**7,324**	**5,291**	**924,812**	
Total securities held-to-maturity	**1,492,887**	**8,226**	**23,001**	**1,478,112**	**5.16%**
Total	**$4,556,650**	**$34,814**	**$44,070**	**$4,547,394**	**5.58%**

	December 31, 2006				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
			(In thousands)		
Available-for-sale					
Puerto Rico Government and agency obligations	$ 20,254	$ 64	$ 872	$ 19,446	5.68%
Structured credit and other investments	50,598	520	2,347	48,771	6.11%
Total investment securities	**70,852**	**584**	**3,219**	**68,217**	
FNMA and FHLMC certificates	150,099	—	1,506	148,593	5.45%
GNMA certificates	40,690	408	235	40,863	5.61%
Non-agency collateralized mortgage obligations (CMOs)	722,419	7	5,139	717,287	5.48%
Total mortgage-backed-securities and CMOs	**913,208**	**415**	**6,880**	**906,743**	
Total securities available-for-sale	**984,060**	**999**	**10,099**	**974,960**	**5.52%**
Held-to-maturity					
US Treasury securities	15,022	—	127	14,895	2.71%
Obligations of US Government sponsored agencies	848,400	7	17,529	830,878	3.85%
Puerto Rico Government and agency obligations	55,262	—	3,961	51,301	5.29%
Total investment securities	**918,684**	**7**	**21,617**	**897,074**	
FNMA and FHLMC certificates	713,171	628	11,529	702,270	5.04%
GNMA certificates	182,874	215	2,176	180,913	5.35%
CMOs issued by US Government sponsored agencies	152,748	18	1,303	151,463	5.13%
Total mortgage-backed-securities and CMOs	**1,048,793**	**861**	**15,008**	**1,034,646**	
Total securities held-to-maturity	**1,967,477**	**868**	**36,625**	**1,931,720**	**4.55%**
Total	**$2,951,537**	**$1,867**	**$46,724**	**$2,906,680**	**4.87%**

For the years ended December 31, 2007 and 2006 and the six-month period ended December 31, 2005, the Group's investment securities portfolio generated tax-exempt interest income of $184.7 million, $146.7 million and $71.4 million, respectively (fiscal year ended June 30, 2005 — $127.9 million). Exempt interest relates mostly to interest earned on obligations of the United States and Puerto Rico governments and certain mortgage-backed securities, including securities held by the Bank's international banking entity. For the years ended December 31, 2007 and 2006, and the six-month period ended December 31, 2005, the Group's investment securities portfolio generated taxable interest income of $18.9 million, $8.8 million and $2.8 million, respectively (fiscal year ended June 30, 2005 — $6.4 million).

The next table shows the amortized cost and fair value of the Group's investment securities at December 31, 2007, by contractual maturity. Maturities for mortgage-backed securities are based upon contractual terms assuming no prepayments. Expected maturities of investment securities might differ from contractual maturities because they may be subject to prepayments and/or call options.

	December 31, 2007			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Investment securities				
Due within one year	$ 14,977	$ 14,977	$ 24,998	$ 24,988
Due after 1 to 5 years	—	—	287,377	286,126
Due after 5 to 10 years	914,532	916,058	66,500	58,422
Due after 10 years	454,347	459,692	191,233	183,763
	1,383,856	**1,390,727**	**570,108**	**553,299**
Mortgage-backed securities				
Due within one year	77	80	—	—
Due after 1 to 5 years	760	793	—	—
Due after 10 years	1,679,070	1,677,682	922,779	924,813
	1,679,907	**1,678,555**	**922,779**	**924,813**
	$3,063,763	**$3,069,282**	**$1,492,887**	**$1,478,112**

Securities not due on a single contractual maturity date, such as collateralized mortgage obligations, are classified in the period of final contractual maturity. The expected maturities of collateralized mortgage obligations and certain other securities may differ from their contractual maturities because they may be subject to prepayments or may be called by the issuer.

Net proceeds from the sale of investment securities available-for-sale during the years ended December 31, 2007 and 2006, and the six-month period ended December 31, 2005, totaled $787.3 million, $1.253 billion and $139.9 million, respectively (fiscal year ended June 30, 2005 — $1.1 billion). Gross realized gains on those sales during the year ended December 31, 2007 were $3.8 million. There were no losses on such sales during the year ended December 31, 2007. Gross realized gains and losses for the year ended December 31, 2006 were $5.6 million and $20.8 million, respectively; gross realized gains and losses for the six-month period ended December 31, 2005 were $744,000 and $94,000, respectively; and gross realized gains and losses for the fiscal year ended June 30, 2005 were $12.2 million and $4.7 million, respectively.

During the fourth quarter of 2006, the Group completed an evaluation of its available-for-sale investment portfolio considering changing market conditions, and strategically repositioned this portfolio. The repositioning involved open market sales of approximately $865 million of securities with a weighted average yield of 4.60% at a loss of approximately $16.0 million, and the purchase of $860 million of "AAA"-rated securities with a weighted average yield of 5.55%. Proceeds were used to repay repurchase agreements with a weighted average rate paid of 5.25%.

The following table shows the Group's gross unrealized losses and fair value of investment securities available-for-sale and held-to-maturity, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007 and 2006.

December 31, 2007
Available-for-sale

	Less Than 12 Months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Puerto Rico Government and agency obligations	$ 1,996	$ 325	$ 1,671
Mortgage-backed-securities and non-agency CMOs	118,616	336	118,280
Structured credit investments	85,548	7,188	78,360
	206,160	**7,849**	**198,311**

	12 Months or More		
	Amortized Cost	Unrealized Loss	Fair Value
Puerto Rico Government and agency obligations	14,152	613	13,539
Mortgage-backed-securities and non-agency CMOs	634,910	12,607	622,303
Structured credit investments	—	—	—
	649,062	**13,220**	**635,842**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
Puerto Rico Government and agency obligations	16,148	938	15,210
Mortgage-backed-securities and non-agency CMOs	753,526	12,943	740,583
Structured credit investments	85,548	7,188	78,360
	$855,222	**$21,069**	**$834,153**

Held-to-maturity

	Less Than 12 Months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Puerto Rico Government and agency obligations	$ 4,238	$ 54	$ 4,184
Structured credit investments	96,171	11,949	84,222
Mortgage-backed-securities and CMOs issued by US sponsored Government agencies	18,403	129	18,274
	118,812	**12,132**	**106,680**

	12 Months or More		
	Amortized Cost	Unrealized Loss	Fair Value
Obligations of US Government sponsored agencies	124,998	1,980	123,018
Puerto Rico Government and agency obligations	50,968	3,727	47,241
Mortgage-backed-securities and CMOs issued by US sponsored Government agencies	373,122	5,162	367,960
	549,088	**10,869**	**538,219**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
Obligations of US Government sponsored agencies	124,998	1,980	123,018
Puerto Rico Government and agency obligations	55,206	3,781	51,425
Structured credit investments	96,171	11,949	84,222
Mortgage-backed-securities and CMOs issued by US sponsored Government agencies	391,525	5,291	386,234
	$667,900	**$ 23,001**	**$644,899**

December 31, 2006
Available-for-sale

	Less Than 12 Months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Puerto Rico Government and agency obligations	$ 1,996	$ 172	$ 1,824
Mortgage-backed-securities and non-agency CMOs	880,687	6,641	874,046
Structured credit and other investments	87	57	30
	882,770	**6,870**	**875,900**

	12 Months or More		
	Amortized Cost	Unrealized Loss	Fair Value
Puerto Rico Government and agency obligations	14,086	700	13,386
Mortgage-backed-securities and non-agency CMOs	9,101	239	8,862
Structured credit and other investments	24,962	2,290	22,672
	48,149	**3,229**	**44,920**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
Puerto Rico Government and agency obligations	16,082	872	15,210
Mortgage-backed-securities and non-agency CMOs	889,788	6,880	882,908
Structured credit and other investments	25,049	2,347	22,702
	$930,919	**$10,099**	**$920,820**

Held-to-maturity

	Less Than 12 Months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Mortgage-backed-securities and CMOs issued by US Government-sponsored agencies	$393,983	$ 1,262	$392,721
	393,983	**1,262**	**392,721**

	12 Months or More		
	Amortized Cost	Unrealized Loss	Fair Value
US Treasury securities	15,022	128	14,894
Obligations of US Government sponsored agencies	841,900	17,529	824,371
Puerto Rico Government and agency obligations	55,262	3,961	51,301
Mortgage-backed-securities and CMOs issued by US Government-sponsored agencies	484,083	13,745	470,338
	1,396,267	**35,363**	**1,360,904**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
US Treasury securities	15,022	127	14,895
Obligations of US Government sponsored agencies	841,900	17,529	824,371
Puerto Rico Government and agency obligations	55,262	3,961	51,301
Mortgage-backed-securities and CMOs issued by US Government-sponsored agencies	878,066	15,008	863,058
	$1,790,250	**$ 36,625**	**$1,753,625**

At December 31, 2007, mortgage-backed securities include approximately $626.8 million in non-agency collateralized mortgage obligations with unrealized losses of $12.4 million in the Group's available-for-sale investment securities portfolio. These obligations are collateralized by pools of mortgage loans originated in the U.S., and are senior classes having subordination of losses ranging from 9.0% to 16.2%, which provide the capacity to withstand higher delinquency and foreclosure levels. These issues are rated "AAA" by Standard & Poor's and "Aaa" by Moody's. At December 31, 2007, the investment securities portfolio includes structured credit investments issued by U.S. institutions with balances of $85.5 million in the available-for-sale portfolio, and $96.2 million in the held-to-maturity portfolio, with unrealized losses of approximately $7.2 million and $11.9 million, respectively. The unrealized loss position is a reflection of the credit markets' recent activity, with credit spreads widening significantly. The underlying collateral on the structures that the Group owns has performed adequately, with no defaults to date. The Group is closely monitoring these securities for any decline in value that the Group's management may consider to be other-than-temporary. Management has the intent and ability to hold these investments for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments.

All other securities in an unrealized loss position at December 31, 2007 are mainly composed of securities issued or backed by U.S. government agencies and U.S. government sponsored agencies. The vast majority of these securities are rated the equivalent of "AAA" by nationally recognized statistical rating organizations. These investments are primarily highly liquid securities that have a large and efficient secondary market. Valuations are performed on a monthly basis using a third party provider and dealer quotes. The Group's management believes that the unrealized losses of such other securities at December 31, 2007 are temporary and are substantially related to market interest rate fluctuations and not to deterioration in the creditworthiness of the issuer. Also, management has the intent and ability to hold these investments for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments.

During the year ended December 31, 2006, the Group recognized through earnings approximately $2.5 million in losses in corporate securities in the available-for-sale portfolio that the Group's management considered to be other than temporary impaired. These investments were sold in January 2007. No such charges were recorded in 2007 or prior to 2006.

3. PLEDGED ASSETS

At December 31, 2007, residential mortgage loans with principal outstanding balances amounting to $529.3 million were pledged to secure advances and borrowings from the FHLB. Investment securities with fair values totaling $4.1 billion, $100.4 million and $7.6 million at December 31, 2007, were pledged to secure investment securities sold under agreements to repurchase (see Note 8), public fund deposits (see Note 7) and other funds, respectively. Also, investment securities with fair values totaling $118,000 at December 31, 2007, were pledged to the Puerto Rico Treasury Department.

As of December 31, 2007, investment securities available-for-sale and held-to-maturity not pledged amounted to $166.2 million and $144.7 million, respectively. As of December 31, 2007, mortgage loans not pledged amounted to $476.9 million.

4. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans Receivable

The composition of the Group's loan portfolio at December 31, 2007 and 2006 was as follows:

	December 31,	
	2007	2006
	(In thousands)	
Loans secured by real estate:		
Residential — 1 to 4 family	$ 960,704	$ 898,809
Home equity loans, secured personal loans and others	28,783	36,623
Commercial	135,070	223,563
Deferred loan fees, net	(2,887)	(3,147)
	1,121,670	1,155,848
Other loans:		
Commercial	22,128	18,139
Personal consumer loans and credit lines	29,245	35,772
Deferred loan cost, net	12	24
	51,385	53,935
Loans receivable	**1,173,055**	**1,209,783**
Allowance for loan losses	(10,161)	(8,016)
Loans receivable, net	**1,162,894**	**1,201,767**
Mortgage loans held-for-sale	16,672	10,603
Total loans, net	**$1,179,566**	**$1,212,370**

In the years ended December 31, 2007 and 2006, and the six-month period ended December 31, 2005, residential mortgage loan production, including loans purchased, amounted to $248.5 million, $478.5 million and

$135.3 million, respectively (fiscal year ended June 30, 2005 — $289.7 million) and mortgage loan sales/conversions totaled $111.1 million, $94.1 million and $71.6 million, respectively (fiscal year ended June 30, 2005 — $188.1 million). In June 2006 and May 2007, respectively, the Group purchased from two financial institutions all rights, title and interest in certain mortgage loans on residential properties located in Puerto Rico with principal outstanding balances of $173.2 million and $43.9 million, respectively.

At December 31, 2007 and 2006, residential mortgage loans held-for-sale amounted to $16.7 million and $10.6 million, respectively. In the years ended December 31, 2007 and 2006, and the six-month period ended December 31, 2005, the Group recognized gains of $2.4 million, $3.4 million and $1.7 million, respectively, (fiscal year ended June 30, 2005 — $7.8 million) in these sales, which are presented in the consolidated statements of operations as mortgage banking activities.

At December 31, 2007 and 2006, loans on which the accrual of interest has been discontinued amounted to $27.3 million and $17.8 million, respectively. The gross interest income that would have been recorded in the years ended December 31, 2007 and 2006, and six-month period ended December 31, 2005, if non-accrual loans had performed in accordance with their original terms amounted to $4.4 million, $3.4 million and $1.4 million, respectively (fiscal year ended June 30, 2005 — $2.2 million). The Group's investment in loans past due 90 days or more and still accruing amounted to $38.8 million and $20.5 million at December 31, 2007 and 2006, respectively.

Due to the reclassification of certain mortgage loans purchase transactions as a commercial loan to the seller of the mortgage loans (refer to Note 20), at December 31, 2006 the Group had a lending concentration of $76.8 million outstanding to the financial institution from which it had originally purchased the mortgage loans. The resulting commercial loan was secured by mortgage loans on family residences located in Puerto Rico and the obligations of the borrower under the commercial loan were also secured by a guarantee from its parent company. The reclassification of the mortgage loans purchase transactions as a commercial loan to the seller resulted in the Group booking a loan exceeding the loan-to-one borrower limits imposed by Puerto Rico banking laws. To address this issue, the Group requested a waiver from the OCFI and it was issued on May 4, 2006 allowing the Group to retain the commercial loan on its books until paid in full. Pursuant to an agreement entered into on July 13, 2007, the borrower under the commercial loan and the Group agreed to the repayment of the outstanding principal balance on the commercial loan. In payment of the outstanding principal balance on the commercial loan, the Group (i) retained certain mortgage loans which were part of the collateral for the commercial loan with an outstanding principal balance of $26.6 million; (ii) received from the borrower mortgage loans meeting the Group's credit underwriting standards with an outstanding principal balance of $25.9 million; and (iii) cash. The Group does not have any lending credit relationship in excess of the applicable lending limit for loans to a single borrower at December 31, 2007.

Allowance for Loan Losses

The changes in the allowance for loan losses for the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005, and the fiscal year ended June 30, 2005, were as follows:

	Year Ended December 31,		Six-Month Period Ended December 31,	Fiscal Year Ended June 30,
	2007	2006	2005	2005
	(In thousands)			
Balance at beginning of period	**$ 8,016**	**$ 6,630**	**$ 6,495**	**$ 7,553**
Provision for loan losses	6,550	4,388	1,902	3,315
Loans charged-off	(4,906)	(3,678)	(2,081)	(5,094)
Recoveries	501	676	314	721
Balance at end of period	**$10,161**	**$ 8,016**	**$ 6,630**	**$ 6,495**

As described in Note 1 under the heading "Loans and Allowance for Loan Losses," the Group evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. At December 31, 2007, the total investment in impaired commercial loans was $1.1 million (December 31, 2006 — $2.0 million). The impaired commercial loans were measured based on the fair value of collateral. The average investment in impaired commercial loans for the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005, and for the fiscal year ended June 30, 2005, amounted to $1.5 million, $2.2 million, $3.2 million and $2.3 million, respectively. The Group's management determined that impaired loans did not require a valuation allowance in accordance with FASB Statement No. 114 *"Accounting by Creditors for Impairment of a Loan."*

5. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2007 and 2006 are stated at cost less accumulated depreciation and amortization as follows:

	Useful Life (Years)	December 31, 2007	December 31, 2006
		(In thousands)	
Land	—	$ 1,014	$ 1,014
Buildings and improvements	40	4,682	2,777
Leasehold improvements	5 — 10	13,411	12,948
Furniture and fixtures	3 — 7	7,162	6,801
Information technology and other	3 — 7	14,072	12,368
		40,341	35,908
Less: accumulated depreciation and amortization		(18,562)	(15,755)
		$ 21,779	$ 20,153

Depreciation and amortization of premises and equipment for the years ended December 31, 2007 and 2006, and the six-month period ended December 31, 2005, totaled $5.4 million, $5.5 million and $3.2 million, respectively (fiscal year ended June 30, 2005 — $5.9 million). These are included in the consolidated statements of operations as part of occupancy and equipment expenses.

6. ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable at December 31, 2007 and 2006 consists of $10.6 million and $10.1 million, respectively from loans, and $41.7 million and $17.8 million, respectively from investments.

Other assets at December 31, 2007 and 2006 consist of the following:

	December 31, 2007	December 31, 2006
	(In thousands)	
Prepaid expenses	2,714	2,165
Servicing asset	2,526	1,507
Goodwill	2,006	2,006
Investment in Statutory Trusts	1,086	1,086
Deferred charges	910	1,037
Investment in limited partnership	—	11,913
Accounts receivable and other assets	7,082	5,843
	$16,324	$25,557

In August 2007, the IBE subsidiary redeemed and terminated all of its limited partnership units in QED FED II, LCC, a partnership organized under the laws of the State of Illinois that is engaged in the trading of futures and futures options contracts on a wide range of financial instruments, for cash. During the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005, and the fiscal year ended June 30, 2005, (losses)/profits of ($279,000), $828,100, $837,700 and $246,834, respectively, were charged/credited to earnings.

7. DEPOSITS AND RELATED INTEREST

At December 31, 2007, 2006 and 2005, the weighted average interest rate of the Group's deposits was 4.34%, 3.78% and 3.17%, respectively, inclusive of non-interest bearing deposits of $50.0 million, $59.6 million and $61.5 million, respectively. Interest expense for the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005 and the fiscal year ended June 30, 2005, is set forth below:

	Year Ended December 31,		Six-Month Period Ended December 31,	Fiscal Year Ended June 30,
	2007	2006	2005	2005
	(In thousands)			
Demand deposits	$ 817	$ 857	$ 445	$ 900
Savings deposits	13,959	5,366	440	941
Certificates of deposit	38,018	40,479	19,396	27,903
	$52,794	**$46,701**	**$20,281**	**$29,744**

At December 31, 2007 and 2006, time deposits in denominations of $100,000 or higher amounted to $650.8 million, and $439.5 million including: (i) brokered certificates of deposit of $35.0 million and $179.1 million at a weighted average rate of 4.79% and 5.00%; and (ii) public fund deposits from various local government agencies of $95.8 million and $57.9 million at a weighted average rate of 4.56% and 5.30%, which were collateralized with investment securities with fair value of $100.4 million and $119.8 million, respectively .

Excluding equity indexed options in the amount of $38.8 million, which are used by the Group to manage its exposure to the Standard & Poor's 500 stock market index, and also excluding accrued interest of $3.3 million and unamortized deposit discounts in the amount of $14.0 million, the scheduled maturities of certificates of deposit at December 31, 2007 are as follows:

	(In thousands)
Within one year:	
Three(3) months or less	$218,259
Over 3 months through 1 year	300,037
	518,296
Over 1 through 2 years	89,854
Over 2 through 3 years	27,086
Over 3 through 4 years	24,372
Over 4 through 5 years	50,142
Over 5 years	1,673
	$711,423

The aggregate amount of overdraft in demand deposit accruals that were reclassified to loans amounted to $1,805,000 as of December 31, 2007, (December 31, 2006 — $1,322,000).

8. BORROWINGS

Short Term Borrowings

At December 31, 2007, short term borrowings amounted to $27,460,000 (December 31, 2006 — $13,568,000) which mainly consist of federal funds purchased with a weighted average rate of 1.83% (December 31, 2006 — 4.92%).

Securities Sold under Agreements to Repurchase

At December 31, 2007, securities underlying agreements to repurchase were delivered to, and are being held by, the counterparties with whom the repurchase agreements were transacted. The counterparties have agreed to resell to the Group the same or similar securities at the maturity of the agreements.

At December 31, 2007, securities sold under agreements to repurchase (classified by counterparty), excluding accrued interest in the amount of $11.4 million, were as follows:

	Borrowing Balance	Fair Value of Underlying Collateral
	(In thousands)	
Citigroup	$1,800,000	$1,903,831
Credit Suisse First Boston Corporation	1,250,000	1,339,148
UBS Financial Services	500,000	511,330
JP Morgan Chase	200,023	211,295
Merrill Lynch	100,000	107,601
Total	**$3,850,023**	**$4,073,205**

During the fourth quarter of 2006 and throughout 2007, the Group restructured most of its short-term repurchase agreements portfolio into longer-term, structured repurchase agreements. The terms of these structured positions range between three and ten years, and the counterparts have the right to exercise put options before their contractual maturity from one to three years after the agreements' settlement dates. The following table shows a summary of these agreements and their terms, excluding accrued interest in the amount of $11.0 million, at December 31, 2007:

Borrowing Balance	Weighted-Average Coupon	Settlement Date	Maturity Date	Next Put Date	Months to Next Put Date
(In thousands)					
$ 450,000	4.22%	12/28/2006	12/28/2011	3/28/2008	3
450,000	4.34%	12/28/2006	12/28/2011	12/28/2008	12
750,000	4.34%	03/02/2007	03/02/2017	3/2/2009	14
150,000	4.31%	03/06/2007	12/06/2012	12/7/2009	23
900,000	3.71%	03/06/2007	06/06/2017	3/6/2009	14
350,000	4.26%	05/09/2007	05/09/2012	2/9/2008	1
100,000	3.71%	06/06/2007	03/06/2017	3/6/2009	14
100,000	4.67%	07/27/2007	07/27/2014	1/27/2010	25
100,000	4.39%	08/14/2007	08/16/2010	2/14/2008	1
100,000	4.50%	08/14/2007	08/14/2012	8/14/2009	19
300,000	4.47%	09/13/2007	09/13/2012	9/13/2009	20
$3,750,000	4.17%				

The following table presents the borrowings under repurchase agreements, excluding accrued interest in the amount of $11.4 million and $6.5 million, respectively, at December 31, 2007 and 2006, their maturities and approximate fair values of their collateral as follows:

	December 31,			
	2007		2006	
	Borrowing Balance	Fair Value of Underlying Collateral	Borrowing Balance	Fair Value of Underlying Collateral
	(In thousands)			
GNMA certificates				
Within 30 days	$ 4,832	$ 27,672	$ 96,271	$ 99,235
After 30 to 90 days	—	—	26,829	27,316
3 — 5 years	10,729	11,241	—	—
over 5 years	76,816	72,861		
	92,377	111,774	123,100	126,551
FNMA certificates				
Within 30 days	32,000	101,982	286,046	291,871
After 30 to 90 days	—	—	136,548	139,280
1 — 3 years	3,261	3,401		
3 to 5 years	437,719	450,431	116,984	127,625
over 5 years	316,228	299,115		
	789,208	854,929	539,578	558,776
FHLMC certificates				
Within 30 days	48,168	80,613	157,605	164,610
After 30 to 90 days	—	—	89,952	91,426
1 — 3 years	96,739	100,901		
3 to 5 years	242,470	254,043		
over 5 years	229,075	221,558	—	—
	616,452	657,115	247,557	256,036
CMOs				
Within 30 days	—	17,512	147,687	152,149
3 to 5 years	746,355	743,807	683,016	713,141
	746,355	761,319	830,703	865,290
US Agency securities				
Within 30 days	15,023	64,841	403,245	408,687
After 30 to 90 days	—	—	280,062	279,487
3 to 5 years	362,727	385,621	100,000	98,058
over 5 years	1,227,881	1,237,606		
	1,605,631	1,688,068	783,307	786,232
US Treasury Bonds				
Within 30 days	—	—	5,170	8,674
	—	—	5,170	8,674
Total	**$3,850,023**	**$4,073,205**	**$2,529,415**	**$2,601,559**

At December 31, 2007 and 2006, the weighted average interest rate of the Group's repurchase agreements was 4.20% and 4.94%, respectively and included agreements with interest ranging from 3.71% to 5.25% and 4.17% to 5.33%, respectively. The following summarizes significant data on securities sold under agreements to repurchase as of December 31, 2007 and 2006, excluding accrued interest:

	December 31, 2007	December 31, 2006
	(In thousands)	
Average daily aggregate balance outstanding	$3,154,369	$2,627,484
Maximum amount outstanding at any month-end	$3,850,023	$2,908,561
Weighted average interest rate during the year	4.68%	5.09%
Weighted average interest rate at year end	4.20%	4.94%

Advances from the Federal Home Loan Bank

At December 31, 2007 and 2006, advances from the FHLB consisted of the following, excluding accrued interest of $1.9 million and $589,000, respectively:

Maturity Date	Fixed Interest Rate	December 31, 2007	December 31, 2006
		(In thousands)	
January-2007	5.33%	$ —	$ 6,900
January-2007	5.41%	—	30,000
January-2007	5.44%	—	30,000
January-2007	5.45%	—	40,000
April-2007	3.09%	—	25,000
August-2008	4.07%	50,000	50,000
May-2012	4.37%	25,000	—
July-2012	4.57%	25,000	—
July-2012	4.26%	25,000	—
August-2012	4.33%	50,000	—
August-2012	4.09%	100,000	—
May-2014	4.20%	25,000	—
May-2014	4.22%	30,000	—
		$330,000	**$181,900**
Weighted average interest rate		**4.21%**	**4.73%**

Advances are received from the FHLB under an agreement whereby the Group is required to maintain a minimum amount of qualifying collateral with a fair value of at least 110% of the outstanding advances. At December 31, 2007, these advances were secured by mortgage loans amounting to $529.3 million. Also, at December 31, 2007, the Group has an additional borrowing capacity with the FHLB of $113.3 million. At December 31, 2007, the weighted average maturity of FHLB's advances was 51.3 months (December 31, 2006 — 5.8 months).

During 2007, the Group restructured most of its FHLB advances portfolio into longer-term, structured advances. The terms of these advances range between five and seven years, and the FHLB has the right to exercise put options before the contractual maturity of the advances from six months to one year after the advances' settlement dates. The following table shows a summary of these advances and their terms, excluding accrued interest in the amount of $1.7 million, at December 31, 2007:

Borrowing Balance	Weighted-Average Coupon	Settlement Date	Maturity Date	Next Put Date	Months to Next Put Date
(In thousands)					
$ 25,000,000	4.37%	05/04/2007	05/04/2012	2/5/2008	1
25,000,000	4.20%	05/08/2007	05/08/2014	2/8/2008	1
30,000,000	4.22%	05/11/2007	05/11/2014	2/13/2008	1
25,000,000	4.57%	07/24/2007	07/24/2012	1/24/2008	1
25,000,000	4.26%	07/30/2007	07/30/2012	1/30/2008	1
50,000,000	4.33%	08/10/2007	08/10/2012	8/10/2008	7
100,000,000	4.09%	08/16/2007	08/16/2012	8/16/2008	8
$280,000,000	4.24%				

Term Notes

At December 31, 2006, there were term notes outstanding in the amount of $15.0 million, with a floating rate due quarterly at 4.98%, which matured on March 27, 2007, and which were secured by investment securities with fair value amounting to $15.5 million. There were no term notes outstanding as of December 31, 2007.

Subordinated Capital Notes

Subordinated capital notes amounted to $36.1 million at December 31, 2007 and 2006.

In October 2001 and August 2003, the Statutory Trust I and the Statutory Trust II, respectively, special purpose entities of the Group, were formed for the purpose of issuing trust redeemable preferred securities. In December 2001 and September 2003, $35.0 million of trust redeemable preferred securities were each issued by the Statutory Trust I and the Statutory Trust II, respectively, as part of pooled underwriting transactions. Pooled underwriting involves participating with other bank holding companies in issuing the securities through a special purpose pooling vehicle created by the underwriters.

The proceeds from these issuances were used by the Statutory Trust I and the Statutory Trust II to purchase a like amount of floating rate junior subordinated deferrable interest debentures ("subordinated capital notes") issued by the Group. The call provision of the subordinated capital notes purchased by the Statutory Trust I was exercised by the Group in December 2006 and the Group recorded a $915,000 loss related to the write-off of unamortized issuance costs of the notes. The second one, has a par value of $36.1 million, bears interest based on 3 months LIBOR plus 295 basis points (December 31, 2007 and 2006 — 7.94% and 8.31%, respectively;), payable quarterly, and matures on September 17, 2033. Statutory Trust II may be called at par after five years (on September 17, 2008). The trust redeemable preferred security has the same maturity and call provisions as the subordinated capital notes. The subordinated deferrable interest debentures issued by the Group are accounted for as a liability denominated as subordinated capital notes on the consolidated statements of financial condition.

The subordinated capital note is treated as Tier 1 capital for regulatory purposes. Under Federal Reserve Board rules, restricted core capital elements, which are qualifying trust preferred securities, qualifying cumulative perpetual preferred stock (and related surplus) and certain minority interests in consolidated subsidiaries, are limited in the aggregate to no more than 25% of a bank holding company's core capital elements (including restricted core capital elements), net of goodwill less any associated deferred tax liability.

The aggregate contractual maturities of long-term borrowings for each of the five years subsequent to December 31, 2007, are: $177.5 million in 2008, none in 2009, $100.0 million in 2010, $900.0 million in 2011, and $3.1 billion in 2012 and thereafter.

9. DERIVATIVE ACTIVITIES

The Group may use various derivative instruments as part of its asset and liability management. These transactions involve both credit and market risks. The notional amounts are amounts on which calculations, payments, and the value of the derivatives are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. The actual risk of loss is the cost of replacing, at market, these contracts in the event of default by the counterparties. The Group controls the credit risk of its derivative financial instrument agreements through credit approvals, limits, monitoring procedures and, when necessary, collateral.

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

The Group generally uses interest rate swaps and options in managing its interest rate risk exposure. Certain swaps were entered into to convert the forecasted rollover of short-term borrowings into fixed rate liabilities for longer periods and provide protection against increases in short-term interest rates. Under these swaps, the Group paid a fixed monthly or quarterly cost and received a floating thirty or ninety-day payment based on LIBOR. Floating rate payments received from the swap counterparties partially offset the interest payments to be made on the forecasted rollover of short-term borrowings. The Group decided to unwind all of its outstanding interest rate swaps with aggregate notional amounts of $1.1 billion in two separate transactions in July and December 2006.

The Group offers its customers certificates of deposit with an option tied to the performance of the Standard & Poor's 500 stock market index. At the end of five years depositors receive a return equal to the greater of 15% of the principal in the account or 150% of the average increase in the month-end value of the index. The Group uses option agreements with major broker-dealer companies to manage its exposure to changes in this index. Under the terms of the option agreements, the Group receives the average increase in the month-end value of the index in exchange for a fixed premium. The changes in fair value of the option agreements used to manage the exposure in the stock market in the certificates of deposit are recorded in earnings in accordance with SFAS No. 133, as amended.

There were no derivatives designated as a hedge as of December 31, 2007 and 2006. Derivatives not designated as a hedge, consist of purchased options used to manage the exposure to the stock market on stock indexed deposits with notional amounts of $152,530,000 and $131,530,000 as of December 31, 2007 and 2006, respectively; embedded options on stock indexed deposits with notional amounts of $147,073,000 and $122,924,000 as of December 31, 2007 and 2006, respectively.

At December 31, 2007, the yearly contractual maturities of derivative instruments were as follows:

Year Ending December 31,	Equity Indexed Options Purchased	Equity Indexed Options Written
	(In thousands)	
2008	35,700	33,308
2009	22,085	20,870
2010	9,045	8,647
2011	21,415	20,825
2012	64,285	63,423
	152,530	147,073

For the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005 and for the fiscal year ended June 30, 2005, net interest (income) expense on interest rate swaps amounted to ($773,000),

($8.5 million), ($1.3 million) and $10.1 million, respectively, which represent -0.36%, -4.5%, -2% and 10%, respectively, of the total interest expense recorded for such periods. The average net interest rate of the interest rate swaps during the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005 and the fiscal year ended June 30, 2005 , was -0.02%, -0.32%, -0.11% and 1.14% , respectively.

Gains (losses) credited (charged) to earnings and reflected as “Derivatives” in the consolidated statements of operations for the years ended December 31, 2007 and 2006 and the six-month period ended December 31, 2005 and for the fiscal year ended June 30, 2005 amounted to $11.0 million, $3.2 million, $1.3 million and ($2.8 million), respectively. During the year ended December 31, 2007, an $8.2 million gain was recognized due to the elimination of forecasted transactions on the cash flow hedges of interest rate swaps that were terminated in 2006, which gains were previously included in other comprehensive income.

At December 31, 2007 and 2006, the purchased options used to manage the exposure to the stock market on stock indexed deposits amounted to $40.7 million and $34.2 million, respectively; the options sold to customers embedded in the certificates of deposit represented a liability of $ $38.8 million and $32.2 million, respectively, recorded in deposits. Also, in a separate transaction during the fourth quarter of 2007, the Group entered into an interest-rate swap to manage its interest rate risk exposure, with a notional amount of $300.0 million, which was subsequently terminated in December 2007, resulting in a gain of approximately $1.6 million.

10. EMPLOYEE BENEFIT PLAN

The Group has a cash or deferred arrangement profit sharing plan qualified under Section 1165(e) of the Puerto Rico Internal Revenue Code of 1994, as amended (the “Puerto Rico Code”) and the Section 401(a) and (e) of the United States Revenue Code of 1986, as amended (the “U.S. Code”), covering all full-time employees of the Group who have six months of service and are age twenty-one or older. Under this plan, participants may contribute each year from 2% to 10% of their compensation, as defined in the Puerto Rico Code and U.S. Code, up to a specified amount. The Group contributes 80 cents for each dollar contributed by an employee, up to $832 per employee. The Group’s matching contribution is invested in shares of its common stock. The plan is entitled to acquire and hold qualified employer securities as part of its investment of the trust assets pursuant to ERISA Section 407. For the years ended December 31, 2007 and 2006 and the six-month period ended December 31, 2005, the Group contributed 17,216, 12,787 and 2,700, respectively, (fiscal year ended June 30, 2005 — 8,807) shares of its common stock with a fair value of approximately $204,200, $168,200 and $39,000, respectively (fiscal year ended June 30, 2005 — $196,800) at the time of contribution. The Group’s contribution becomes 100% vested once the employee completes three years of service.

Also, the Group offers to its senior management a non-qualified deferred compensation plan, where executives can defer taxable income. Both the employer and the employee have flexibility because non-qualified plans are not subject to ERISA contribution limits nor are they subject to discrimination tests in terms of who must be included in the plan. Under this plan, the employee’s current taxable income is reduced by the amount being deferred. Funds deposited in a deferred compensation plan can accumulate without current income tax to the individual. Taxes are due when the funds are withdrawn, at the current income tax rate which may be lower than the individual’s current tax bracket.

11. RELATED PARTY TRANSACTIONS

The Bank grants loans to its directors, executive officers and to certain related individuals or organizations in the ordinary course of business. These loans are offered at the same terms as loans to non-related parties. The activity and balance of these loans were as follows:

	December 31, 2007	December 31, 2006
	(In thousands)	
Balance at the beginning of period	$ 4,033	$ 4,467
New loans	199	736
Repayments and other	(2,272)	(1,170)
Balance at the end of period	**$ 1,960**	**$ 4,033**

12. INCOME TAX

Under the Puerto Rico Code, all companies are treated as separate taxable entities and are not entitled to file consolidated returns. The Group and its subsidiaries are subject to Puerto Rico regular income tax or alternative minimum tax ("AMT") on income earned from all sources. The AMT is payable if it exceeds regular income tax. The excess of AMT over regular income tax paid in any one year may be used to offset regular income tax in future years, subject to certain limitations.

The components of income tax expense (benefit) for the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005 and for the fiscal year ended June 30, 2005, are as follows:

	Year Ended December 31,		Six-Month Period Ended December 31,	Fiscal Year Ended June 30,
	2007	2006	2005	2005
			(In thousands)	
Current income tax expense (benefit)	$ 226	$ 1,817	$ 4,659	$(2,631)
Deferred income tax expense (benefit)	1,332	(3,448)	(4,532)	982
Income tax expense (benefit)	**$1,558**	**$(1,631)**	**$ 127**	**$(1,649)**

The Group maintained an effective tax rate lower than the statutory rate of 39% as of December 31, 2007, 43.5% as of December 31, 2006, 41.5% as of December 31, 2005, and 39% for the previous period presented, mainly due to the interest income arising from certain mortgage loans, investments and mortgage-backed securities exempt for P.R. income tax purposes, net of expenses attributable to the exempt income. In addition, the Puerto Rico Code provides a dividend received deduction of 100% on dividends received from wholly-owned subsidiaries subject to income taxation in Puerto Rico. For the years ended December 31, 2007 and 2006 and the six-month period ended December 31, 2005, the Group generated tax-exempt interest income of $184.7 million, $146.7 million and $71.4 million, respectively (fiscal year ended June 30, 2005 — $127.9 million). Exempt interest relates mostly to interest earned on obligations of the United States and Puerto Rico governments and certain mortgage-backed securities, including securities held by the Bank's IBE subsidiary.

The reconciliation between the Puerto Rico income tax statutory rate and the effective tax rate as reported for the year ended December 31, 2007, 2006, the six-month period ended December 31, 2005 and for the fiscal year ended June 30, 2005, are as follows:

	Year Ended December 31,				Six-Month Period Ended December 31,		Fiscal Year Ended June 30,	
	2007		2006		2005		2005	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)							
Statutory rate	$ 16,701	39.0%	$(2,931)	43.5%	$ 7,074	41.5%	$ 22,628	39.0%
Increase (decrease) in rate resulting from:								
Exempt interest income, net	(16,052)	−37.5%	(3,527)	52.3%	(9,625)	−56.5%	(23,090)	−39.8%
Non-deductible charge	35	0.1%	37	−0.5%	28	0.2%	746	1.3%
Change in valuation allowance	573	1.3%	2,029	−30.1%	1,991	11.7%	—	0.0%
Provision/(credit) for income tax contingencies	529	1.2%	(465)	6.9%	4,300	25.2%	(2,800)	−4.8%
Other items, net	(228)	−0.5%	3,226	−47.9%	(3,641)	−21.4%	867	1.5%
Income tax expense (benefit)	$ 1,558	3.6%	$(1,631)	24.2%	$ 127	0.8%	$ (1,649)	−2.8%

Deferred income tax reflects the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes. The components of the Group's deferred tax asset, net at December 31, 2007 and 2006, are as follows:

	December 31,	
	2007	2006
	(In thousands)	
Allowance for loan losses	$ 3,978	$ 3,142
Unamortized discount related to mortgage servicing rights sold	1,360	1,745
Deferred gain on sale of assets	261	312
Deferred loan origination fees	2,157	3,043
Unrealized net gains included in other comprehensive income	—	290
S&P option contracts	7,121	6,714
Loss carryforwards	4,233	4,629
Other	133	584
Total gross deferred tax asset	**19,243**	**20,459**
Less: Valuation allowance	(4,593)	(4,020)
Net deferred tax asset	**14,650**	**16,439**
Unrealized net loss included in other comprehensive income	(2,166)	—
Deferred loan origination costs	(2,122)	(2,289)
Total deferred tax liabilities	**(4,288)**	**(2,289)**
Deferred tax asset, net	**$10,362**	**$14,150**

In assessing the realizability of the deferred tax asset, management considers whether it is more likely than not that some portion or all of the deferred tax asset will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax asset are deductible, management believes it is more likely than not that the Group will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2007. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

At December 31, 2007, the holding company and its subsidiaries have loss carryforwards for income tax purposes of approximately $20.3 million, which are available to offset future taxable income, if any, through December 2012.

The Group benefits from favorable tax treatment under regulations relating to the activities of the Bank's IBE subsidiary. Any change in such tax regulations, whether by applicable regulators or as a result of legislation subsequently enacted by the Legislature of Puerto Rico, could adversely affect the Group's profits and financial condition.

Effective at the beginning of the first quarter of 2007, the Group adopted the provisions of FIN 48, which contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

The total amount of gross unrecognized tax benefits as of the date of adoption that would affect the effective tax rate was $5.7 million. The Group classifies unrecognized tax benefits in income taxes payable. No adjustments resulted from the implementation of FIN 48. These gross unrecognized tax benefits would affect the effective tax rate if realized. For the year ended December 31, 2007 there were no changes (new, expiring or settled) unrecognized tax benefits. Therefore the balance at December 31, 2007 was $5.7 million. The tax periods ended June 30, 2003, 2004, and 2005, and December 31, 2005 and 2006 remain subject to examination by the Puerto Rico Department of Treasury.

The Group's policy to include interest and penalties related to unrecognized tax benefits within the provision for taxes on the consolidated statements of income did not change as a result of implementing the provisions of FIN 48. As of the date of adoption of FIN 48, the Group had accrued $1.3 million ($1.9 million as of December 31, 2007) for the payment of interest and penalties relating to unrecognized tax benefits. On January 13, 2008, $2.4 million in unrecognized tax benefits expired due to statute of limitation. The Group does not anticipate any other significant changes in unrecognized tax benefits during 2008.

13. STOCKHOLDERS' EQUITY

Treasury Stock

During 2007, the Group repurchased 458,826 shares of its common stock, at an average price of $9.23, for a total of $4.2 million. On July 27, 2007, the Group's Board approved a new stock repurchase program pursuant to which the Group is authorized to purchase in the open market up to $15.0 million of its outstanding share of common stock. The shares of common stock so repurchased are to be held by the Group as treasury shares. The new program substituted the previous program approved on August 30, 2005.

The activity in connection with common shares held in treasury by the Group for the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005, and the fiscal year ended June 30, 2005 is set forth below:

	Year Ended December 31,				Six-Month Period Ended December 31,		Fiscal Year Ended June 30,	
	2007		2006		2005		2005	
	Shares	Dollar Amount	Shares	Dollar Amount	Shares	Dollar Amount	Shares	Dollar Amount
Beginning of period	989	$12,956	770	$10,332	228	$ 3,368	246	$ 4,578
Common shares repurchased under the repurchase program	459	4,236	233	2,817	545	7,003	200	3,014
Common shares repurchased /used to match defined contribution plan, net	(12)	(169)	(14)	(193)	(3)	(39)	24	249
Stock dividend	—	—	—	—	—	—	(242)	(4,473)
End of period	**1,436**	**$17,023**	**989**	**$12,956**	**770**	**$10,332**	**228**	**$ 3,368**

Equity-Based Compensation Plans

Effective April 25, 2007, the Board formally adopted the Omnibus Plan, which provides for equity-based compensation incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units and dividend equivalents, as well as equity-based performance awards. The Omnibus Plan replaced and superseded the Oriental Financial Group Inc. 1996, 1998 and 2000 Incentive Stock Option Plans (the "Stock Option Plans"). All outstanding stock options under the Stock Option Plans continue in full force and effect, subject to their original terms. Under the Omnibus Plan, the Group granted 33,000 qualified stock options and 38,006 restricted shares in 2007.

The activity in outstanding options for the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005, and the fiscal year ended June 30, 2005, is set forth below:

	Fiscal Year Ended December 31,				Six-Month Period Ended December 31,		Fiscal Year Ended June 30,	
	2007		2006		2005		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning of period	833,533	$15.61	946,855	$15.51	1,219,333	$13.23	1,674,351	$12.36
Options granted	140,500	12.22	30,000	12.20	56,000	15.02	566,525	24.36
Options exercised	(134,586)	8.52	(72,486)	8.04	(246,489)	3.44	(871,162)	8.15
Options forfeited	(121,747)	17.09	(70,836)	19.60	(81,989)	17.12	(150,381)	11.95
End of period	**717,700**	**$16.15**	**833,533**	**$15.61**	**946,855**	**$15.51**	**1,219,333**	**$13.23**

The total intrinsic value of stock options exercised during the year ended December 31, 2007, was $412,000.

The following table summarizes the range of exercise prices and the weighted average remaining contractual life of the options outstanding at December 31, 2007:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Contract Life (Years)	Number of Options	Weighted Average Exercise Price
$ 5.63 to $ 8.45	58,173	$ 7.53	7.3	58,173	$ 7.53
8.45 to 11.27	22,966	10.88	4.7	19,966	10.96
11.27 to 14.09	314,599	12.48	2.9	146,299	12.73
14.09 to 16.90	80,487	15.51	4.8	48,487	15.77
19.73 to 22.55	69,575	19.93	4.4	69,575	19.93
22.55 to 25.37	110,850	24.04	3.3	110,850	24.04
25.37 to 28.19	61,050	27.48	3.2	61,050	27.48
	717,700	$16.15	4.4	514,400	$17.72
Aggregate Intrinsic Value	$697,000			$494,000	

The average fair value of each option granted during years ended December 31, 2007 and 2006, and the six-month period ended December 31, 2005, was $3.07, $3.84 and $4.79, respectively, and in fiscal year ended June 30, 2005 was $13.09. The average fair value of each option granted was estimated at the date of the grant using the Black-Scholes option pricing model. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no restrictions and are fully transferable and negotiable in a free trading market. Black-Scholes does not consider the employment, transfer or vesting restrictions that are inherent in the Group's employee options. Use of an option valuation model, as required by GAAP, includes highly subjective assumptions based on long-term predictions, including the expected stock price volatility and average life of each option grant.

The following assumptions were used in estimating the fair value of the options granted:

	Year Ended December 31, 2007	Year Ended December 31, 2006	Six-Month Period Ended December 31, 2005	Fiscal Year Ended June 30, 2005
Weighted Average Assumptions:				
Dividend yield	4.62%	3.97%	2.75%	2.75%
Expected volatility	33%	34%	44%	35%
Risk-free interest rate	4.62%	4.24%	4.03%	4.06%
Expected life (in years)	8.5	8.5	8.5	7

During the year ended December 31, 2007 the Group granted 38,006 restricted shares at a weighted average granted date fair value of $12.49 under the Omnibus Plan. No shares were exercised or forfeited during 2007.

Upon adoption of SFAS 123R on July 1st 2005, the Group recorded approximately $86,000, $23,000 and $11,000 related to compensation expense for qualified stock options and restricted shares issued during the years ended December 31, 2007 and 2006, and the six-month period ended December 31, 2005, respectively. The remaining unrecognized compensation cost related to unvested awards as of December 31, 2007, was approximately $898,000 and the weighted average period of time over which this cost will be recognized is approximately 8.5 years.

Earnings (loss) per Common Share

The calculation of earnings (loss) per common share for the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005, and the fiscal year ended June 30, 2005 is as follows:

	Year Ended December 31, 2007	Year Ended December 31, 2006	Six-Month Period Ended December 31, 2005	Fiscal Year Ended June 30, 2005
	(In thousands, except per share data)			
Net income (loss)	$41,265	$ (5,106)	$16,919	$59,669
Less: Dividends on preferred stock	(4,802)	(4,802)	(2,401)	(4,802)
Income (loss) available to common shareholders'	**$36,463**	**$ (9,908)**	**$14,518**	**$54,867**
Weighted average common shares and share equivalents:				
Average common shares outstanding	24,326	24,562	24,777	24,571
Average potential common shares-options	41	101	154	1,104
Total	**24,367**	**24,663**	**24,931**	**25,675**
Earnings (loss) per common share — basic	**$ 1.50**	**$ (0.40)**	**$ 0.59**	**$ 2.23**
Earnings (loss) per common share — diluted	**$ 1.50**	**$ (0.40)**	**$ 0.58**	**$ 2.14**

For the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005, and the fiscal years ended June 30, 2005, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 635,934, 494,179, 552,869 and 207,545, respectively.

Legal Surplus

The Banking Act requires that a minimum of 10% of the Bank's net income for the year be transferred to a reserve fund until such fund (legal surplus) equals the total paid in capital on common and preferred stock. At December 31, 2007, legal surplus amounted to $40.6 million (December 31, 2006 — $36.2 million). The amount transferred to the legal surplus account is not available for the payment of dividends to shareholders. In addition, the Federal Reserve

Board has issued a policy statement that bank holding companies should generally pay dividends only from operating earnings of the current and preceding two years.

Preferred Stock

On May 28, 1999, the Group issued 1,340,000 shares of 7.125% Noncumulative Monthly Income Preferred Stock, Series A, at $25 per share. Proceeds from issuance of the Series A Preferred Stock, were $32.4 million, net of $1.1 million of issuance costs. The Series A Preferred Stock has the following characteristics: (1) annual dividends of $1.78 per share, payable monthly, if declared by the Board of Directors; missed dividends are not cumulative, (2) redeemable at the Group's option beginning on May 30, 2004, (3) no mandatory redemption or stated maturity date and (4) liquidation value of $25 per share.

On September 30, 2003, the Group issued 1,380,000 shares of 7.0% Noncumulative Monthly Income Preferred Stock, Series B, at $25 per share. Proceeds from issuance of the Series B Preferred Stock, were $33.1 million, net of $1.4 million of issuance costs. The Series B Preferred Stock has the following characteristics: (1) annual dividends of $1.75 per share, payable monthly, if declared by the Board of Directors; missed dividends are not cumulative, (2) redeemable at the Group's option beginning on October 31, 2008, (3) no mandatory redemption or stated maturity date, and (4) liquidation value of $25 per share.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss), net of income tax, as of December 31, 2007 and 2006, consisted of:

	December 31,	
	2007	2006
	(In thousands)	
Unrealized loss on securities available-for-sale transferred to held to maturity	$(16,257)	$(18,721)
Unrealized gain (loss) on securities available-for-sale	3,242	(6,376)
Realized gain on termination of derivative activities	—	8,998
	$(13,015)	**$(16,099)**

Minimum Regulatory Capital Requirements

The Group (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Group's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Group and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Group and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations) and of Tier 1 capital to average assets (as defined in the regulations). As of December 31, 2007, 2006 and 2005, the Group and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2007 and 2006, the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that have changed the Bank's category. The Group's and the Bank's actual capital amounts and ratios as of December 31, 2007 and 2006 are as follows:

Group Ratios	Actual Amount	Actual Ratio	Minimum Capital Requirement Amount	Minimum Capital Requirement Ratio
	(Dollars in thousands)			
As of December 31, 2007				
Total Capital to Risk-Weighted Assets	$406,470	**19.06%**	$170,583	**8.00%**
Tier I Capital to Risk-Weighted Assets	$396,309	**18.59%**	$ 85,292	**4.00%**
Tier I Capital to Total Assets	$396,309	**6.69%**	$236,847	**4.00%**
As of December 31, 2006				
Total Capital to Risk-Weighted Assets	$380,574	**22.04%**	$135,677	**8.00%**
Tier I Capital to Risk-Weighted Assets	$372,558	**21.57%**	$ 67,830	**4.00%**
Tier I Capital to Total Assets	$372,558	**8.42%**	$176,987	**4.00%**

Bank Ratios	Actual Amount	Actual Ratio	Minimum Capital Requirement Amount	Minimum Capital Requirement Ratio	Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
	(Dollars in thousands)					
As of December 31, 2007						
Total Capital to Risk-Weighted Assets	$341,713	**17.12%**	$159,657	**8.00%**	$199,572	**10.00%**
Tier I Capital to Risk-Weighted Assets	$331,552	**16.61%**	$ 79,829	**4.00%**	$119,743	**6.00%**
Tier I Capital to Total Assets	$331,552	**5.80%**	$228,768	**4.00%**	$285,960	**5.00%**
As of December 31, 2006						
Total Capital to Risk-Weighted Assets	$293,339	**17.49%**	$134,174	**8.00%**	$167,651	**10.00%**
Tier I Capital to Risk-Weighted Assets	$285,323	**17.01%**	$ 67,095	**4.00%**	$100,543	**6.00%**
Tier I Capital to Total Assets	$285,323	**6.43%**	$177,495	**4.00%**	$222,098	**5.00%**

The Group's ability to pay dividends to its stockholders and other activities can be restricted if its capital falls below levels established by the Federal Reserve Board's guidelines. In addition, any bank holding company whose capital falls below levels specified in the guidelines can be required to implement a plan to increase capital.

14. COMMITMENTS

Loan Commitments

At December 31, 2007, there were $49.6 million in loan commitments, which represents unused lines of credit provided to customers. Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates, bear variable interest and may require payment of a fee. Since the commitments may expire unexercised, the total commitment amounts do not necessarily represent future cash requirements. The Group evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the customer.

At December 31, 2007, commitments to sell or securitize mortgage loans at fair value, expiring on June 30, 2008, amounted to approximately $13.7 million.

Lease Commitments

The Group has entered into various operating lease agreements for branch facilities and administrative offices. Rent expense for the years ended December 31, 2007 and 2006 and the six-month period ended December 31, 2005 amounted to $4.2 million, $3.9 million and $1.7 million, respectively (fiscal year ended June 30, 2005 — $3.0 million). Future rental commitments under terms of leases in effect at December 31, 2007, exclusive of taxes, insurance and maintenance expenses payable by the Group, are summarized as follows:

Year Ending December 31,	Minimum Rent (In thousands)
2008	$ 3,200
2009	3,175
2010	3,018
2011	2,967
2012	3,003
Thereafter	7,918
	$23,281

15. LITIGATION

On August 14, 1998, as a result of a review of its accounts in connection with the admission by a former Group officer of having embezzled funds and manipulated bank accounts and records, the Group became aware of certain irregularities. The Group notified the appropriate regulatory authorities and commenced an intensive investigation with the assistance of forensic accountants, fraud experts, and legal counsel. The investigation determined losses of $9.6 million, resulting from dishonest and fraudulent acts and omissions involving several former Group employees. These losses were submitted to the Group's fidelity insurance policy (the "Policy") issued by Federal Insurance Company, Inc. ("FIC"), a stock insurance corporation organized under the laws of the State of Indiana. In the opinion of the Group's management, its legal counsel and experts, the losses determined by the investigation were covered by the Policy. However, FIC denied all claims for such losses. On August 11, 2000, the Group filed a lawsuit in the United States District Court for the District of Puerto Rico against FIC for breach of insurance contract, breach of covenant of good faith and fair dealing and damages, seeking payment of the Group's $9.6 million insurance claim loss and the payment of consequential damages of no less than $13.0 million resulting from FIC's bad faith, capricious, arbitrary, fraudulent and without cause denial of the Group's claims. The losses resulting from such dishonest and fraudulent acts and omissions were expensed in prior years. On October 3, 2005, a jury rendered a verdict of $7.5 million in favor of the Group and against FIC ("2005 Verdict"). The jury granted the Group $453,219 for fraud and loss documentation in connection with its Accounts Receivable Returned Checks Account and $7,078,640.60 regarding its bad faith claim. However, the jury could not reach a decision on the Group's claim for $3.4 million in connection with fraud in its Cash Accounts, thus forcing a new trial on this issue. The jury denied the Group's claim for $5.6 million in connection with fraud in the Mortgage Loans Account. The court decided not to enter a final judgment for the aforementioned awards until a new trial regarding the Cash Accounts claim be held. On August 14, 2007, a jury rendered a verdict in favor of FIC and against the Group, regarding its Cash Accounts ("2007 Verdict").

Judgment pursuant to the aforementioned 2005 and 2007 verdicts was entered on August 15, 2007. FIC filed a motion to set aside the 2005 Verdict which OFG opposed. The Group filed a motion to set aside the 2007 Verdict which FIC opposed. In addition, the Group filed Motion to Correct Judgment, Bill of Costs and Motion for Imposition of Attorneys and Experts Costs so as to recover pre and post judgment interest, costs, fees and expenses related to the prosecution of its claims.

The Group has not recognized any income on these claims since the post-trial motions have not been ruled upon yet and appellate rights have not been exhausted. Thus, the amount to be collected cannot be determined at this time.

In addition, the Group and its subsidiaries are defendants in a number of legal proceedings incidental to their business. The Group is vigorously contesting such claims. Based upon a review by legal counsel and the development of these matters to date, Management is of the opinion that the ultimate aggregate liability, if any, resulting from these claims will not have a material adverse effect on the Group's financial condition or results of operations.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The reported fair values of financial instruments are based on either quoted market prices for identical or comparable instruments or estimated based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk. Accordingly, the fair values may not represent the actual values of the financial instruments that could have been realized as of year-end or that will be realized in the future.

The fair value estimates are made at a point in time based on the type of financial instruments and related relevant market information. Quoted market prices are used for financial instruments in which an active market exists. However, because no market exists for a portion of the Group's financial instruments, fair value estimates are based on judgments regarding the amount and timing of estimated future cash flows, assumed discount rates reflecting varying degrees of risk, and other factors. Because of the uncertainty inherent in estimating fair values, these estimates may vary from the values that would have been used had a ready market for these financial instruments existed.

These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect these fair value estimates. The fair value estimates do not take into consideration the value of future business and the value of assets and liabilities that are not financial instruments. Other significant tangible and intangible assets that are not considered financial instruments are the value of long-term customer relationships of the retail deposits, and premises and equipment.

The estimated fair value and carrying value of the Group's financial instruments at December 31, 2007 and 2006 is as follows:

	December 31,			
	2007		2006	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)			
Financial Assets:				
Cash and cash equivalents	$ 88,983	$ 88,983	$ 39,070	$ 39,070
Trading securities	1,122	1,122	243	243
Investment securities available-for-sale	3,069,282	3,069,282	974,960	974,960
Investment securities held-to-maturity	1,478,112	1,492,887	1,931,720	1,967,477
FHLB stock	20,658	20,658	13,607	13,607
Securities sold but yet not delivered	—	—	6,430	6,430
Total loans (including loans held-for-sale)	1,170,493	1,179,566	1,209,177	1,212,370
Equity options purchased	40,709	40,709	34,216	34,216
Accrued interest receivable	52,315	52,315	27,940	27,940
Financial Liabilities:				
Deposits	1,228,205	1,246,420	1,220,601	1,232,988
Securities sold under agreements to repurchase	3,954,699	3,861,411	2,523,152	2,535,923
Advances from FHLB	340,259	331,898	180,876	182,489
Subordinated capital notes	36,083	36,083	36,083	36,083
Term notes	—	—	15,000	15,000
Federal funds purchased and other short term borrowings	27,460	27,460	13,568	13,568
Securities and loans purchased but not yet received	119,152	119,152	—	—
Accrued expenses and other liabilities	25,691	25,691	19,509	19,509

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2007 and 2006:

- Cash and cash equivalents, money market investments, time deposits with other banks, securities sold but not yet delivered, accrued interest receivable and payable, securities and loans purchased but not yet received, federal funds purchased, accrued expenses, other liabilities, term notes and subordinated capital notes have been valued at the carrying amounts reflected in the consolidated statements of financial condition as these are reasonable estimates of fair value given the short-term nature of the instruments.

- The fair value of trading securities and investment securities available-for-sale and held-to-maturity is estimated based on bid quotations from securities dealers. If a quoted market price is not available, fair value is estimated using either quoted market prices for similar securities, or valuations provided by securities dealers. Investments in FHLB stock are valued at their redemption value.

- The estimated fair value of loans held-for-sale is based on secondary market prices. The fair value of the loan portfolio has been estimated for loan portfolios with similar financial characteristics. Loans are segregated by type, such as mortgage, commercial and consumer. Each loan category is further segmented into fixed and adjustable interest rates and by performing and non-performing categories. The fair value of performing loans is calculated by discounting contractual cash flows, adjusted for prepayment estimates, if any, using estimated current market discount rates that reflect the credit and interest rate risk inherent in the loan. The fair value for significant non-performing loans is based on specific evaluations of discounted expected future cash flows from the loans or its collateral using current appraisals and market rates.

- The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is based on the discounted value of the contractual cash flows, using estimated current market discount rates for deposits of similar remaining maturities.
- For short-term borrowings, the carrying amount is considered a reasonable estimate of fair value. The fair value of long-term borrowings is based on the discounted value of the contractual cash flows, using current estimated market discount rates for borrowings with similar terms and remaining maturities and put dates.
- The fair value of interest rate swaps and equity index option contracts were estimated by management based on the present value of expected future cash flows using discount rates of the swap yield curve. These fair values represent the estimated amount the Group would receive or pay to terminate the contracts taking into account the current interest rates and the current creditworthiness of the counterparties.
- The fair value of commitments to extend credit and unused lines of credit is based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings.

17. SEGMENT REPORTING

The Group segregates its businesses into the following major reportable segments of business: Banking, Treasury and Financial Services. Management established the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. Other factors such as the Group's organization, nature of its products, distribution channels and economic characteristics of the products were also considered in the determination of the reportable segments. The Group measures the performance of these reportable segments based on pre-established goals of different financial parameters such as net income, net interest income, loan production, and fees generated.

Banking includes the Bank's branches and mortgage banking, with traditional banking products such as deposits and mortgage, commercial and consumer loans. The mortgage banking activities are carried out by the Bank's mortgage banking division and Oriental Mortgage Corporation, the Bank's mortgage lending subsidiary, whose principal activity is to originate and purchase mortgage loans for the Group's own portfolio. The Group originates Federal Housing Administration ("FHA")-insured and Veterans Administration ("VA")-guaranteed mortgages that are primarily securitized for issuance of Government National Mortgage Association ("GNMA") mortgage-backed securities which can be resold to individual or institutional investors in the secondary market. Conventional loans that meet the underwriting requirements for sale or exchange under standard Federal National Mortgage Association (the "FNMA") or the Federal Home Loan Mortgage Corporation (the "FHLMC") programs are referred to as conforming mortgage loans and are also securitized for issuance of FNMA or FHLMC mortgage-backed securities. Through December 2005, the Group outsourced the securitization of GNMA, FNMA and FHLMC mortgage-backed securities. In 2006 and after FNMA's approval for the Group to sell FNMA-conforming conventional mortgage loans directly in the secondary market, the Group became an approved seller of FNMA, as well as FHLMC, mortgage loans for issuance of FNMA and FHLMC mortgage-backed securities. The Group is also an approved issuer of GNMA mortgage-backed securities. The Group outsourced to a third party the sub-servicing of the GNMA, FNMA and FHLMC pools that it issues and its mortgage loan portfolio.

Treasury activities encompass all of the Group's treasury-related functions and investment banking business. The Group's investment portfolio consists of mortgage-backed securities, collateralized mortgage obligations, both non-agency and those issued by U.S. Government agencies, U.S. Treasury notes, U.S. Government agency bonds, P.R. Government obligations, structured credit investments and money market instruments. Mortgage-backed securities, the largest component, consist principally of pools of residential mortgage loans that are made to consumers and then resold in the form of certificates in the secondary market, the payment of interest and principal of which is guaranteed by GNMA, FNMA or FHLMC.

Intersegment sales and transfers, if any, are accounted for as if the sales or transfers were to third parties, that is, at current market prices. The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies." Following are the results of operations and the selected financial information by operating segment as of and for the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005, and for the fiscal year ended June 30, 2005:

Year Ended December 31, 2007	Banking	Treasury	Financial Services	Total Major Segments	Eliminations	Total
			(In thousands)			
Interest income	$ 85,797	$ 203,341	$ 226	$ 289,364	$ —	**$ 289,364**
Interest expense	(34,364)	(180,344)	(926)	(215,634)	—	**(215,634)**
Net interest income (expense)	51,433	22,997	(700)	73,730	—	**73,730**
Non-interest income (loss)	14,092	14,110	14,300	42,502	—	**42,502**
Non-interest expenses	(51,715)	(2,731)	(12,413)	(66,859)	—	**(66,859)**
Intersegment revenue	3,681	—	—	3,681	(3,681)	—
Intersegment expense	—	(737)	(2,944)	(3,681)	3,681	—
Provision for loan losses	(6,550)	—	—	(6,550)		**(6,550)**
Income (loss) before income taxes	**$ 10,941**	**$ 33,639**	**$ (1,757)**	**$ 42,823**	$ —	**$ 42,823**
Total assets as of December 31, 2007	**$1,604,690**	**$4,738,719**	**$ 11,082**	**$6,354,491**	**$(354,636)**	**$5,999,855**

Year Ended December 31, 2006	Banking	Treasury	Financial Services	Total Major Segments	Eliminations	Total
			(In thousands)			
Interest income	$ 79,267	$ 152,830	$ 214	$ 232,311	$ —	**$ 232,311**
Interest expense	(25,683)	(161,529)	(973)	(188,185)	—	**(188,185)**
Net interest income (expense)	53,584	(8,699)	(759)	44,126	—	**44,126**
Non-interest income (loss)	9,452	(8,430)	16,216	17,238	—	**17,238**
Non-interest expenses	(50,177)	(2,573)	(10,963)	(63,713)	—	**(63,713)**
Intersegment revenue	3,952	—	—	3,952	(3,952)	—
Intersegment expense	—	(806)	(3,146)	(3,952)	3,952	—
Provision for loan losses	(4,388)	—	—	(4,388)		**(4,388)**
Income (loss) before income taxes	**$ 12,423**	**$ (20,508)**	**$ 1,348**	**$ (6,737)**	$ —	**$ (6,737)**
Total assets as of December 31, 2006	**$1,677,446**	**$2,995,634**	**$ 12,014**	**$4,685,094**	**$(313,108)**	**$4,371,986**

Six-Month Period Ended December 31, 2005	Banking	Treasury	Financial Services	Total Major Segments	Eliminations	Total
			(In thousands)			
Interest income	$ 46,754	$ 58,267	$ 65	$ 105,086	$ —	**$ 105,086**
Interest expense	(31,304)	(39,402)	—	(70,706)	—	**(70,706)**
Net interest income	15,450	18,865	65	34,380	—	**34,380**
Non-interest income	5,158	3,737	7,487	16,382	—	**16,382**
Non-interest expenses	(24,904)	(1,571)	(5,339)	(31,814)	—	**(31,814)**
Intersegment revenue	1,699	—	—	1,699	(1,699)	—
Intersegment expense	—	(6)	(1,693)	(1,699)	1,699	—
Provision for loan losses	(1,902)	—	—	(1,902)		**(1,902)**
Income (loss) before income taxes	**$ (4,499)**	**$ 21,025**	**$ 520**	**$ 17,046**	$ —	**$ 17,046**
Total assets as of December 31, 2005	**$969,186**	**$3,963,013**	**$ 8,513**	**$4,940,712**	**$(393,763)**	**$4,546,949**
Fiscal Year Ended June 30, 2005						
Interest income	$ 79,220	$ 110,033	$ 59	$ 189,312	$ —	**$ 189,312**
Interest expense	(44,676)	(58,223)	—	(102,899)	—	**(102,899)**
Net interest income	34,544	51,810	59	86,413	—	**86,413**
Non-interest income	14,234	6,480	14,171	34,885	—	**34,885**
Non-interest expenses	(48,267)	(1,524)	(10,172)	(59,963)	—	**(59,963)**
Intersegment revenue	3,684	—	—	3,684	(3,684)	—
Intersegment expense	—	(593)	(3,091)	(3,684)	3,684	—
Provision for loan losses	(3,315)	—	—	(3,315)		**(3,315)**
Income before income taxes	**$ 880**	**$ 56,173**	**$ 967**	**$ 58,020**	$ —	**$ 58,020**
Total assets as of June 30, 2005	**$973,296**	**$3,655,649**	**$ 9,582**	**$4,638,527**	**$(391,662)**	**$4,246,865**

18. ORIENTAL FINANCIAL GROUP INC. (HOLDING COMPANY ONLY) FINANCIAL INFORMATION

As a bank holding company subject to the regulations of the Federal Reserve Board, the Group must obtain approval from the Federal Reserve Board for any dividend if the total of all dividends declared by it in any calendar year would exceed the total of its consolidated net profits for the year, as defined by the Federal Reserve Board, combined with its retained net profits for the two preceding years. The payment of dividends by the Bank to the Group may also be affected by other regulatory requirements and policies, such as the maintenance of certain regulatory capital levels. For the year ended December 31, 2006, the Bank paid $10.0 million in dividends to the Group. No dividends were paid during the year ended December 31, 2007 and for the six-month period ended December 31, 2005. Dividends paid for the fiscal year ended June 30, 2005 amounted to $5.0 million.

The following condensed financial information presents the financial position of the holding company only as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006, the six-month period ended December 31, 2005, and the fiscal year ended June 30, 2005:

ORIENTAL FINANCIAL GROUP INC.

CONDENSED STATEMENTS OF FINANCIAL POSITION INFORMATION
(Holding Company Only)

	December 31,	
	2007	2006
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 38,409	$ 29,082
Investment securities available-for-sale, at fair value	319,221	1,700
Other investment securities	1,675	30,949
Investment securities held-to-maturity, at amortized cost	—	21,895
Investment in bank subsidiary, equity method	325,130	282,225
Investment in nonbank subsidiaries, equity method	9,225	10,170
Due from bank subsidiary, net	1,433	—
Other assets	6,299	4,307
Total assets	**$701,392**	**$380,328**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Securities sold under agreements to repurchase	$300,000	$ —
Subordinated capital notes	36,083	36,083
Dividend payable	3,377	3,423
Due to Bank subsidiary	656	4,184
Deferred tax liability, net	808	12
Accrued expenses and other liabilities	1,007	200
Total liabilities	**341,931**	**43,902**
Stockholders' equity	359,461	336,426
Total liabilities and stockholders' equity	**$701,392**	**$380,328**

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME INFORMATION (Holding Company Only)

	Year Ended December 31, 2007	Year Ended December 31, 2006	Six-Month Period Ended December 31, 2005	Fiscal Year Ended June 30, 2005
	(In thousands)			
Income:				
Dividends from bank subsidiary	$ —	$10,000	$ —	$ 5,000
Dividends from nonbank subsidiary	—	—	77	121
Interest income	6,968	2,468	648	1,287
Investment and trading activities, net and other	3,972	(1,127)	802	—
Total income	**10,940**	**11,341**	**1,527**	**6,408**
Expenses:				
Interest expense	7,234	5,337	2,474	4,325
Operating expenses	4,767	5,408	551	(401)
Total expenses	**12,001**	**10,745**	**3,025**	**3,924**
Income (loss) before income taxes	**(1,061)**	**596**	**(1,498)**	**2,484**
Income tax (expense) benefit	33	(5)	4	—
Income (loss) before changes in undistributed earnings of subsidiaries	**(1,028)**	**591**	**(1,494)**	**2,484**
Equity in undistributed earnings (losses) from:				
Bank subsidiary	43,238	(6,631)	19,846	59,679
Nonbank subsidiaries	(945)	934	(1,433)	(2,494)
Net income (loss)	**41,265**	**(5,106)**	**16,919**	**59,669**
Other comprenhensive income, net of taxes	3,084	21,785	499	6,979
Comprehensive income	**$44,349**	**$16,679**	**$17,418**	**$66,648**

CONDENSED STATEMENTS OF CASH FLOWS INFORMATION
(Holding Company Only)

	Year Ended December 31, 2007	Year Ended December 31, 2006	Six-Month Period Ended December 31, 2005	Fiscal Year Ended June 30, 2005
			(In thousands)	
Cash flows from operating activities:				
Net income (loss)	**$ 41,265**	**$ (5,106)**	**$ 16,919**	**$ 59,669**
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Equity in (earnings) losses from banking subsidiary	(43,238)	6,631	(19,699)	(59,679)
Equity in losses (earnings) from non-banking subsidiaries	945	(934)	1,281	2,494
Amortization of premiums, net of accretion discounts on investment securities	(454)	(8)	6	9
Realized gain (loss) on sale of investments	719	1,515	(228)	—
Stock based compensation	86	15	—	—
Deferred income tax (benefit) expense	(33)	1	(4)	—
(Increase) decrease in other assets	(2,028)	699	(547)	62
Increase (decrease) in accrued expenses and liabilities	761	(2,303)	(827)	(2,267)
Net cash provided by (used in) operating activities	**(1,977)**	**510**	**(3,099)**	**288**
Cash flows from investing activities:				
Purchase of investment securities available for sale	(315,000)	(2,844)	—	—
Redemptions and sales of investment securities available-for-sale	1,496	275	9,515	507
Purchase of investment securities held-to-maturity	—	(6,500)	(11,100)	—
Redemptions of investment securities held-to-maturity	21,895	6,745	—	4
Purchase of other investment securities	—	(30,982)	—	—
Redemptions and sales of other investment securities	29,274	—	—	—
Net (increase) decrease in due from bank subsidiary, net	(982)	100,804	19,150	20,648
Net (increase) decrease in due from non bank subsidiary, net	(451)	—	—	—
Acquisition of and capital contribution in non-banking subsidiary	—	(909)	—	—
Net cash provided by (used in) investing activities	**(263,768)**	**66,589**	**17,565**	**21,159**
Cash flows from financing activities:				
Net increase in securities sold under agreements to repurchase	300,000	—	—	—
Proceeds from exercise of stock options	1,080	645	1,896	4,507
Net (decrease) increase in due to nonbank subsidiaries, net	—	(200)	—	49
Net (decrease) increase in due to bank subsidiaries, net	(3,528)	4,184	—	—
Net proceeds from issuance of common stock	—	—	—	(10)
Net proceeds from redemptions of subordinated notes payable to nonbank subsidiary	—	(36,998)	—	—
Purchase of treasury stock	(4,067)	(2,624)	(6,964)	(3,512)
Dividends paid	(18,413)	(18,555)	(9,356)	(17,918)
Net cash provided by (used in) financing activities	**275,072**	**(53,548)**	**(14,424)**	**(16,884)**
Increase in cash and cash equivalents	**9,327**	**13,551**	**42**	**4,563**
Cash and cash equivalents at beginning of period	29,082	15,531	15,489	10,926
Cash and cash equivalents at end of period	**$ 38,409**	**$ 29,082**	**$ 15,531**	**$ 15,489**

19. CHANGE IN THE FISCAL YEAR END

On August 20, 2005, the Group changed its fiscal year from a twelve-month period ending June 30th to a twelve-month period ending December 31st. The Group's consolidated financial statements for the period ended December 31, 2005, include the six-month period from July 1, 2005 to December 31, 2005.

The following table presents certain financial information for the year ended December 31, 2007 and 2006, and the comparative unaudited year ended December 31, 2005, as well as information for the six-month period ended December 31, 2005.

	Year Ended December 31,			Six-Month Period Ended December 31,	Six-Month Period Ended December 31, 2004
	2007	2006	2005 (Unaudited)	2005	2004 (Unaudited)
Total interest income	$289,364	$232,311	$201,534	$105,086	$92,864
Total interest expense	215,634	188,185	127,456	70,706	46,149
Net interest income	73,730	44,126	74,078	34,380	46,715
Provision for loan losses	6,550	4,388	3,412	1,902	1,805
Total non-interest income	42,502	17,238	28,920	16,382	22,347
Total non-interest expense	66,859	63,713	57,856	31,814	33,921
Income (loss) before income taxes	42,823	(6,737)	41,730	17,046	33,336
Income tax expense (benefit)	1,558	(1,631)	(2,168)	127	645
Net income (loss)	41,265	(5,106)	43,898	16,919	32,691
Less: Dividends on preferred tocks	(4,802)	(4,802)	(4,802)	(2,401)	(2,401)
Income available (loss) to common shareholders	$ 36,463	$ (9,908)	$ 39,096	$ 14,518	$30,290
Earnings per Share:					
Basic	$ 1.50	$ (0.40)	$ 1.58	$ 0.59	$ 1.24
Diluted	$ 1.50	$ (0.40)	$ 1.56	$ 0.58	$ 1.17
Weighted average basic shares outstanding	24,326	24,562	24,750	24,777	24,407
Weighted average diluted shares outstanding	24,367	24,672	25,083	25,117	25,953
Dividends declared per common share	$ 0.56	$ 0.56	$ 0.56	$ 0.28	$ 0.27

20. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Subsequent to the issuance of the Group's June 30, 2005 consolidated financial statements, the Group's management determined that the accounting treatment for certain mortgage-related transactions previously treated as purchases under SFAS No. 140, *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"*, and the treatment of certain employee stock option awards as fixed awards as opposed to variable awards did not conform to GAAP, as discussed below. As a result, the accompanying consolidated statement of operations for the year ended June 30, 2005 was restated to correct the accounting for these transactions.

The Group determined that certain transactions involving the transfer of real estate mortgage loans ("mortgage-related transactions"), secured mainly by one-to-four family residential properties did not constitute purchases under SFAS No. 140 and should have been presented as originations of commercial loans. As a result: (1) such mortgage-related transactions are now presented as commercial loans secured by real estate mortgage loans instead of loan purchases; (2) the associated balance guarantee swap derivative was reversed resulting in a decrease in loans receivable-net and other liabilities; and (3) for regulatory capital requirement purposes the risk weighting factor on the outstanding balance of such loans increased from 50% to 100%.

The Group has also determined that certain employee stock option awards with anti-dilution provisions should have been accounted for as variable awards under APB Opinion No. 25, "*Accounting for Stock Issued to Employees*", given that the terms of these awards are such that the number of shares that the employees are entitled to receive, and the purchase price, depend on events occurring after the date of grant. As a result, compensation expense has been determined taking into account the appropriate measurement dates and market prices of the stock.

A summary of the significant effects of the restatement for the fiscal year ended June 30, 2005, is as follows:

	Fiscal Year Ended June 30, 2005	
	As Previously Reported	**As Restated**
Non-interest expenses:		
Compensation and employees' benefits	$26,663	$23,606
Total non-interest expenses	63,020	59,963
Income before Income taxes	54,963	58,020
Net income	56,612	59,669
Income per common share:		
Basic	$ 2.11	$ 2.23
Diluted	$ 2.05	$ 2.14

ORIENTAL FINANCIAL GROUP INC.

SELECTED FINANCIAL DATA
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005, SIX-MONTH PERIODS ENDED DECEMBER 31, 2005 AND 2004, AND FOR THE FISCAL YEARS PERIOD ENDED JUNE 30, 2005 AND 2004

	Year Ended December 31,			Six-Month Period Ended December 31,		Fiscal Year Ended June 30,	
	2007	2006	2005	2005	2004	2005	2004
	(In thousands, except per share data)						
			(Unaudited)		(Unaudited)		
EARNINGS:							
Interest income	$289,364	$232,311	$201,534	$105,086	$92,864	$189,312	$164,385
Interest expense	215,634	188,185	127,456	70,706	46,149	102,899	77,174
Net interest income	**73,730**	**44,126**	**74,078**	**34,380**	**46,715**	**86,413**	**87,211**
Provision for loan losses	6,550	4,388	3,412	1,902	1,805	3,315	4,587
Net interest income after provision for loan losses	**67,180**	**39,738**	**70,666**	**32,478**	**44,910**	**83,098**	**82,624**
Non-interest income	42,502	17,238	28,920	16,382	22,347	34,885	46,034
Non-interest expenses	66,859	63,713	57,856	31,814	33,921	59,963	63,364
Income (loss) before taxes	**42,823**	**(6,737)**	**41,730**	**17,046**	**33,336**	**58,020**	**65,294**
Income tax benefit (expense)	1,558	1,631	2,168	(127)	(645)	1,649	(5,577)
Net Income (loss)	**41,265**	**(5,106)**	**43,898**	**16,919**	**32,691**	**59,669**	**59,717**
Less: dividends on preferred stock	(4,802)	(4,802)	(4,802)	(2,401)	(2,401)	(4,802)	(4,198)
Income available (loss) to common shareholders	**$ 36,463**	**$ (9,908)**	**$ 39,096**	**$ 14,518**	**$30,290**	**$ 54,867**	**$ 55,519**
PER SHARE AND DIVIDENDS DATA(1):							
Earnings (loss) per common shares (basic)	**$ 1.50**	**$ (0.40)**	**$ 1.58**	**$ 0.59**	**$ 1.24**	**$ 2.23**	**$ 2.48**
Earnings (loss) per common shares (diluted)	**$ 1.50**	**$ (0.40)**	**$ 1.56**	**$ 0.58**	**$ 1.17**	**$ 2.14**	**$ 2.32**
Average common shares outstanding	**24,326**	**24,562**	**24,750**	**24,777**	**24,407**	**24,571**	**22,394**
Average potential common share-options	**41**	**101**	**333**	**154**	**1,546**	**1,104**	**1,486**
Average shares and shares equivalents	**24,367**	**24,663**	**25,083**	**24,931**	**25,953**	**25,675**	**23,880**
Book value per common share	**$ 12.08**	**$ 10.98**	**$ 11.13**	**$ 11.14**	**$ 10.17**	**$ 10.88**	**$ 8.82**
Market price at end of period	**$ 13.41**	**$ 12.95**	**$ 12.36**	**$ 12.36**	**$ 28.31**	**$ 15.26**	**$ 27.07**
Cash dividends declared per common share	**$ 0.56**	**$ 0.56**	**$ 0.56**	**$ 0.28**	**$ 0.27**	**$ 0.55**	**$ 0.51**
Cash dividends declared on common shares	**$ 13,612**	**$ 13,753**	**$ 13,583**	**$ 6,913**	**$ 6,582**	**$ 13,522**	**$ 11,425**

	December 31,			June 30,		
	2007	2006	2005	2005	2004	2003
PERIOD END BALANCES:						
Investments and loans						
Investments	$4,590,610	$2,992,236	$3,473,287	$3,221,789	$2,839,003	$2,231,543
Loans and leases (including loans held-for-sale), net	1,179,566	1,212,370	903,308	903,604	743,456	728,462
Securities sold but not yet delivered	—	6,430	44,009	1,034	47,312	1,894
	$5,770,176	**$4,211,036**	**$4,420,604**	**$4,126,427**	**$3,629,771**	**$2,961,899**
Deposits and Borrowings						
Deposits	$1,246,420	$1,232,988	$1,298,568	$1,252,897	$1,024,349	$1,044,265
Repurchase agreements	3,861,411	2,535,923	2,427,880	2,191,756	1,895,865	1,400,598
Other borrowings	395,441	247,140	404,921	399,476	387,166	181,083
Securities and loans purchased but not yet received	111,431	—	43,354	22,772	89,068	152,219
	$5,614,703	**$4,016,051**	**$4,174,723**	**$3,866,901**	**$3,396,448**	**$2,778,165**
Stockholders' equity						
Preferred equity	$ 68,000	$ 68,000	$ 68,000	$ 68,000	$ 68,000	$ 33,500
Common equity	291,461	268,426	273,791	270,755	213,646	157,716
	$ 359,461	**$ 336,426**	**$ 341,791**	**$ 338,755**	**$ 281,646**	**$ 191,216**
Capital ratios						
Leverage capital	**6.69%**	**8.42%**	**10.13%**	**10.59%**	**10.88%**	**7.83%**
Tier 1 risk-based capital	**18.59%**	**21.57%**	**34.70%**	**36.97%**	**36.77%**	**23.36%**
Total risk-based capital	**19.06%**	**22.04%**	**35.22%**	**37.51%**	**37.48%**	**23.88%**
SELECTED FINANCIAL RATIOS AND OTHER INFORMATION:						
Return on average assets (ROA)	**0.76%**	**−0.11%**	**1.02%**	**1.46%**	**1.79%**	**1.75%**
Return on average common equity (ROE)	**13.52%**	**−3.59%**	**15.00%**	**21.34%**	**32.35%**	**28.93%**
Equity-to-assets ratio	**5.99%**	**7.69%**	**7.52%**	**7.98%**	**7.56%**	**6.29%**
Efficiency ratio	**65.93%**	**84.69%**	**57.51%**	**51.39%**	**52.92%**	**55.77%**
Expense ratio	**0.77%**	**0.73%**	**0.75%**	**0.75%**	**0.97%**	**1.13%**
Interest rate spread	**1.27%**	**0.70%**	**1.53%**	**2.00%**	**2.64%**	**2.91%**
Number of financial centers	**25**	**25**	**24**	**24**	**23**	**23**
Trust assets managed	$1,962,226	$1,848,596	$1,875,300	$1,823,292	$1,670,651	$1,670,437
Broker-dealer assets gathered	1,281,168	1,143,668	1,132,286	1,135,115	1,051,812	962,919
Assets managed	**3,243,394**	**2,992,264**	**3,007,586**	**2,958,407**	**2,722,463**	**2,633,356**
Assets owned	5,999,856	4,371,986	4,546,949	4,246,865	3,725,695	3,040,551
Total financial assets managed and owned	**$9,243,250**	**$7,364,250**	**$7,554,535**	**$7,205,272**	**$6,448,158**	**$5,673,907**

(1) Per share related information has been retroactively adjusted to reflect stock splits and stock dividends, when applicable.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2007

OVERVIEW OF FINANCIAL PERFORMANCE

The following discussion of our financial condition and results of operations should be read in conjunction with Item 6, "Selected Financial Data," and our consolidated financial statements and related notes in Item 8. This discussion and analysis contains forward-looking statements. Please see "Forward Looking Statements" and "Risk Factors" for discussions of the uncertainties, risks and assumptions associated with these statements.

On August 30, 2005, the Group's Board of Directors amended Section 1 of Article IX of the Group's bylaws to change its fiscal year-end from June 30 to December 31. As a result of the change in fiscal year end, the following comparative periods are presented for purposes of discussion of results of operations:

- Year ended December 31, 2007 compared to year ended December 31, 2006;
- Year ended December 31, 2006 compared to year ended December 31, 2005 (unaudited); and
- Six-month period ended December 31, 2005 compared to six-month period ended December 31, 2004 (unaudited).

Comparison of the years ended December 31, 2007 and 2006:

The Group's mix of businesses and products generates both the interest income traditionally associated with a banking institution and non-interest income traditionally associated with a financial services institution (generated by such businesses as securities brokerage, fiduciary services, investment banking, insurance and pension administration). Although all of these businesses, to varying degrees, are affected by interest rate and financial markets fluctuations and other external factors, the Group's commitment is to continue producing a balanced and growing revenue stream.

Major highlights for the year ended December 31, 2007 follows:

- Return on assets (ROA) and common equity (ROE) for 2007 were 0.76% and 13.52%, respectively, a significant improvement from negative returns of -0.11% and -3.59%, respectively, last year.
- Net interest margin for 2007 increased to 1.51%, up 53 basis points from last year.
- Book value per common share of $12.08 as of December 31, 2007, represents an increase of 10.0% from last year.

Favorable results achieved in the year ended December 31, 2007 continue to reflect the success of strategies the Group has been pursuing. These strategies included:

1. The decision to adopt conservative lending policies starting several years ago in light of weakening economic conditions in Puerto Rico.
2. The repositioning of Oriental's investment portfolio and related funding to improve margins, in line with what the Group correctly anticipated would be a more positively sloped yield curve.
3. Growing Oriental's franchise with the objective of integrating the delivery of banking and financial services to mid and high-net worth clients, building recurring non-interest revenues, closely monitoring non-interest expenses, and strengthening the Group's management team.

For the year ended December 31, 2007, net income available to common shareholders was $36.5 million, compared with net loss to common shareholders of $9.9 million reported in the same period of 2006. Earnings available to common shareholders per diluted share were $1.50, compared to a loss per diluted share of $0.40 reported for 2006. Results for the fourth quarter and year ended December 31, 2006 included $20.7 million, or $0.87 per share, in losses and write-offs, the majority of which related to the sale of lower yielding securities stemming from the repositioning of the available-for-sale securities portfolio that led to a sizeable increase in net interest income in 2007.

Return on common equity (ROE) and return on assets (ROA) for the year ended December 31, 2007 were 13.52% and 0.76%, respectively, from (3.59%) and (0.11%), respectively, in the same period of 2006.

Net interest income represented 63.4% of the Group's total revenues (defined as net interest income plus non-interest income) in the year ended December 31, 2007. During the year ended December 31, 2007, net interest income was $73.7 million, an increase of 67.1% from the $44.1 million recorded for the same period of 2006. Higher interest income on increased investment securities and loan volume and average yields was partially offset by higher volume and interest rates on borrowings. Interest rate spread for the year ended December 31, 2007 was 1.27% compared to 0.70% in the same period of 2006. At December 31, 2007 average interest earning assets increased 9.36% to $4.900 billion, compared to $4.481 billion at December 31, 2006, reflecting a 8.57% increase in investments from $3.426 billion to $3.719 billion.

The provision for loan losses for the year ended December 31, 2007 increased 49.3% to $6.6 million from $4.4 million for the same period of 2006, reflecting higher allowance requirements related to increased mortgage and commercial loan business in the period and local economic conditions. For the quarters ended December 31, 2007 and 2006, the provision for loan losses was $2.5 million and $1.5 million, respectively, an increase of 69.1%. Based on an analysis of the credit quality and the composition of the Group's loan portfolio, management determined that the provision for loan losses for the year ended December 31, 2007 was adequate in order to maintain the allowance for loan losses at an appropriate level.

Non-interest income for 2007 reflects financial service revenue growth of 7.9% to $17.3 million in 2007, compared to $16.0 million in 2006, due to the Group's success in expanding its business in corporate and personal trusts, retirement, wealth management, and asset protection services for mid and high net worth customers. As a result, trust assets managed increased 6.1% year-over-year, to $2.0 billion at December 31, 2007, and broker-dealer assets gathered increased 12.0% year-over-year, to $1.3 billion. Refer to Table 2 for additional information on the Group's non-interest income.

Non-interest expenses for the year ended December 31, 2007 increased 4.9% to $66.9 million, compared to $63.7 million for the same period of 2006. Effective cost control has enabled the Group to restrain the growth of overhead costs. Refer to Table 3 for additional information on the Group's non-interest expenses.

Total Group financial assets (including assets managed by the trust department, the retirement plan administration subsidiary, and securities broker-dealer subsidiary) increased 25.5% to $9.243 billion as of December 31, 2007, compared to $7.366 billion as of December 31, 2006. Assets managed by the Group's trust department, the retirement plan administration subsidiary, and the securities broker-dealer subsidiary increased to $3.243 billion from $2.992 billion as of December 31, 2006, an increase of 8.4%. The Group's assets owned totaled $6.000 billion as of December 31, 2007, an increase of 37.2%, compared to $4.372 billion as of December 31, 2006, mainly as a result of an increase in the investment securities portfolio, which increased 53.4% or $1.598 billion.

On the liability side, total deposits increased 1.1%, from $1.233 billion at December 31, 2006, to $1.246 billion at December 31, 2007, mainly from increases in savings accounts. Total borrowings increased 53.0%, from $2.783 billion at December 31, 2006, to $4.257 billion at December 31, 2007, mainly from increased securities sold under agreements to repurchase to finance the increase in investments.

Stockholders' equity as of December 31, 2007 was $359.5 million, an increase of 6.8% from $336.4 million as of December 31, 2006. The Group's capital ratios remain significantly above regulatory capital requirements. At December 31, 2007, the Tier 1 Leverage Capital Ratio was 6.69%, Tier 1 Risk-Based Capital Ratio was 18.59%, and Total Risk-Based Capital Ratio was 19.06%.

Comparison of the years ended December 31, 2006 and 2005:

During the fourth quarter of 2006, the Group completed a review of its available-for-sale ("AFS") investment portfolio in light of asset/liability management considerations and changing market conditions, and has strategically repositioned this portfolio. The repositioning involved open market sales of approximately $865 million of securities with a weighted average yield of 4.60% at a loss of approximately $16.0 million which is included as non-interest income in the accompanying consolidated financial statements. Following the sale, $860 million of triple-A securities at a weighted average yield of 5.55% were purchased and classified as AFS. As part of this repositioning, the Group entered into a $900 million, 5-year structured repurchase agreement ($450 million non-put 1-year and

$450 million non-put 2-years) with a weighted average rate paid of 4.52%. Proceeds were used to repay repurchase agreements with a weighted average rate paid of 5.25%. In February 2007, the Group continued its strategic repositioning of the repurchase agreements portfolio, restructuring an additional $1 billion of short-term borrowings, with a weighted average rate being paid of approximately 5.35%, into 10-year, non-put 2-year structured repurchased agreements, priced at 95 basis points under 90-day LIBOR (for a current rate of 4.40%).

For the year ended December 31, 2006, net loss to common shareholders was $9.9 million compared with net income available to common stockholders of $39.1 million reported in the same period of 2005. Loss per diluted share was $0.40, compared to earnings per diluted share of $1.56 reported for the same period of 2005.

Return on common equity (ROE) and return on assets (ROA) for the year ended December 31, 2006 were (3.59%) and (0.11%), respectively, from 15.00% and 1.02%, respectively, in the same period of 2005.

Net interest income represented 71.9% of the Group's total revenues (defined as net interest income plus non-interest income) in the year ended December 31, 2006. During the year ended December 31, 2006, net interest income was $44.1 million, a decrease of 40.4% from the $74.1 million recorded for the same period of 2005. Higher interest income on increased investment securities and loan volume and average yields was offset by higher volume and interest rates on borrowings. Interest rate spread for the year ended December 31, 2006 was 0.70% compared to 1.53% in the same period of 2005. At December 31, 2006 average interest earning assets increased 7.32% to $4.481 billion, compared to $4.175 billion at December 31, 2005, reflecting a 4.12% increase in investments from $3.290 billion to $3.426 billion, which consisted mainly of AAA-rated mortgage-backed securities and U.S. government and agency obligations.

The provision for loan losses for the year ended December 31, 2006 increased 28.6% to $4.4 million from $3.4 million for the same period of 2005, reflecting higher allowance requirements related to increased mortgage and commercial loan business in the period. For the quarters ended December 31, 2006 and 2005, the provision for loan losses was $1.5 million and $1.0 million, respectively, an increase of 54.6%. Based on an analysis of the credit quality and the composition of the Group's loan portfolio, management determined that the provision for loan losses for the year ended December 31, 2006 was adequate in order to maintain the allowance for loan losses at an appropriate level.

Non-interest income for 2006 reflects increases in revenues from financial and banking services and investment banking activities, despite the challenging economic environment in Puerto Rico.

Non-interest expenses for the year ended December 31, 2006 increased 10.0% to $63.7 million, compared to $57.9 million for the same period of 2005. Non-interest expenses in the fourth quarter of 2006 included approximately $1.8 million primarily for a supplemental pension payment and charitable contributions made in recognition of the Group's former Chairman, President, and CEO enhancing the value of Oriental over the course of his 19 years of leadership. Excluding this amount, non-interest expenses for 2006 would have been $61.9 million. The 2005 expenses of $57.9 million reflected a $6.3 million reduction in non-cash compensation related to the variable accounting for certain employee stock options. Excluding this non-cash adjustment, total non-interest expenses for the year ended December 31, 2005 would have been $64.2 million.

Total Group financial assets (including assets managed by the trust department, the retirement plan administration subsidiary, and securities broker-dealer subsidiary) decreased 2.5% to $7.366 billion as of December 31, 2006, compared to $7.555 billion as of December 31, 2005. Assets managed by the Group's trust department, the retirement plan administration subsidiary, and the securities broker-dealer subsidiary decreased to $2.992 billion from $3.008 billion as of December 31, 2005, a decrease of 0.5%. The Group's assets owned totaled $4.374 billion as of December 31, 2006, a decrease of 3.8%, compared from $4.547 billion as of December 31, 2005, mainly as a result of a decrease in the investment securities portfolio, which decreased by 13.9% or $481.1 million.

On the liability side, total deposits decreased by 5.1%, from $1.299 billion at December 31, 2005, to $1.233 billion at December 31, 2006, mainly from decreases in certificates of deposit, partially offset by increased savings accounts. Total borrowings decreased 1.8%, from $2.833 billion at December 31, 2005, to $2.782 billion at December 31, 2006, mainly from repayments of repurchase agreements and the redemption of the Statutory Trust I subordinated capital notes in December 2006.

Stockholders' equity as of December 31, 2006 was $336.4 million, a slight decrease of 1.6% from $341.8 million as of December 31, 2005. As discussed in Note 1 of the accompanying consolidated financial statements, the Group adopted SAB 108. As part of the initial implementation, the Group adjusted $1.525 million as an accumulated effect on the beginning retained earnings. The net effect of these adjustments in the consolidated statement of operations for the year ended December 31, 2006 was to increase the previously reported net loss by $93,000 with no effect on per share data. The Group's capital ratios remain significantly above regulatory capital requirements. At December 31, 2006, the Tier 1 Leverage Capital Ratio was 8.42%, Tier 1 Risk-Based Capital Ratio was 21.57%, and Total Risk-Based Capital Ratio was 22.04%.

Comparison of the six-month periods ended December 31, 2005 and December 31, 2004:

For the six-month period ended December 31, 2005, net income available to common shareholders was $14.5 million, a decrease of 52.1% compared with $30.3 million reported in the same period of 2004. Earnings per diluted share decreased 50.4% to $0.58, compared to $1.17 per share reported for the same period of 2004.

Return on common equity (ROE) and return on assets (ROA) for the six-month period ended December 31, 2005 were 11.54% and 0.77%, respectively, which represent a decrease of 53.4% in ROE, from 24.78% in the same period of 2004, and a decrease of 53.4% in ROA, from 1.65% in the same period of 2004.

Net interest income represented approximately 68% of the Group's total revenues in the six-month period ended December 31, 2005. During such six-month period, net interest income was $34.4 million, a decrease of 26.4% from the $46.7 million recorded for the same period of 2004. Higher interest income on increased investment securities volume was offset by lower average yields on such investments and higher interest rates on borrowings. Interest rate spread for the six-month period ended December 31, 2005 was 1.33% compared to 2.27% in the same period of 2004. At December 31, 2005, average interest earning assets increased 12.7% to $4.277 billion, compared to $3.796 at December 31, 2004, reflecting a 12.5% increase in investments from $2.984 to $3.358 billion, which consisted mainly of AAA-rated mortgage-backed securities and U.S. government and agency obligations.

The provision for loan losses for the six-month period ended December 31, 2005 increased 5.4% to $1.9 million from $1.8 million for the same period of 2004, reflecting higher allowance requirements related to the increase of commercial and consumer loan business in that period. Based on an analysis of the credit quality and the composition of the Group's loan portfolio, management determined that the provision for loan losses was adequate in order to maintain the allowance for loan losses at an appropriate level.

Non-interest income represented approximately 32.3% of the Group's total revenues in the six-month period ended December 31, 2005. For such six-month period, non-interest income decreased 26.7% to $16.4 million from $22.3 million for the same period of 2004. Performance in such period of 2005 reflects increases in banking service revenues, partially offset by decreases in revenues from financial services, investment banking activities, as well as mortgage banking and securities activities.

Total non-interest banking and financial services revenues decreased 19.4% to $13.7 million in the six-month period ended December 31, 2005, compared to $17.0 million for the same period of 2004. Banking service revenues increased 16.5% to $4.5 million compared to $3.9 million for the comparable period of 2004. Financial service revenues decreased 1.4% to $7.5 million compared to $7.6 million for the same period of 2004.

For the six-month period ended December 31, 2005, mortgage-banking revenues were $1.7 million, reflecting a decrease of 69.2% when compared with $5.5 million for the same period of 2004. Such decrease in mortgage revenues resulted from reduced sales of whole-loans in the open market, which resulted in lower gains on such transactions.

Non-interest expenses for the six-month period ended December 31, 2005 decreased 6.2% to $31.8 million, compared to $33.9 million for the same period of 2004, reflecting tight cost controls. The decrease was mainly due to reductions in compensation and employee benefits, as well as in advertising and business promotion and electronic banking charges. Professional and service fees increased 11.6% for such period of 2005, compared to the corresponding 2004 period, in part due to the impact of the compliance requirements of the Sarbanes-Oxley Act of 2002. The Group's efficiency ratio in the six-month period ended December 31, 2005 was 66.12%, compared to 53.24% for the same six-month period of 2004. The Group computes its efficiency ratio by dividing operating expenses by the sum of net interest income and recurring non-interest income, but excluding gains on sale of investment securities.

Total Group financial assets (including assets managed by the trust department, the retirement plan administration subsidiary, and securities broker-dealer subsidiary) increased 5.3% to $7.554 billion as of December 31, 2005, compared to $7.173 billion as of December 31, 2004. Assets managed by the Group's trust department, the retirement plan administration subsidiary, and the securities broker-dealer subsidiary decreased to $3.008 billion from $3.009 billion as of December 31, 2004. The Group's assets owned reached $4.547 billion as of December 31, 2005, an increase of 9.2%, compared to $4.164 billion as of December 31, 2004. Major contributors to this increase were the investment securities portfolio, which increased by 5.4% or $176.7 million, along with the loan portfolio, which increased by $135.4 million or 17.6%.

On the liability side, total deposits increased by 21.8%, from $1.066 billion at December 31, 2004, to $1.299 billion at December 31, 2005. Total borrowings increased 3.8%, from $2.729 billion at December 31, 2004, to $2.833 billion at December 31, 2005.

The Group continued strengthening its capital base during 2005. Stockholders' equity as of December 31, 2005 was $341.8 million, an increase of 7.4% from $318.1 million as of December 31, 2004. This increase reflects the impact of earnings retention.

TABLE 1 — ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE: For the Years Ended December 31, 2007 and 2006

	Interest		Average Rate		Average Balance	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
			(Dollars in thousands)			
A — TAX EQUIVALENT SPREAD						
Interest-earning assets	$289,364	$232,311	5.91%	5.18%	$4,899,910	$4,480,729
Tax equivalent adjustment	63,483	57,657	1.30%	1.29%	—	—
Interest-earning assets — tax equivalent	**352,847**	**289,968**	**7.21%**	**6.47%**	**4,899,910**	**4,480,729**
Interest-bearing liabilities	215,634	188,185	4.64%	4.48%	4,642,889	4,198,401
Tax equivalent net interest income / spread	**$137,213**	**$101,783**	**2.57%**	**1.99%**	**$ 257,022**	**$ 282,328**
Tax equivalent interest rate margin			**2.81%**	**2.27%**		
B — NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	$200,057	$154,942	5.45%	4.57%	$3,668,534	$3,386,999
Investment management fees	(210)	(1,522)	–0.01%	–0.04%	—	—
Total investment securities	199,847	153,420	5.45%	4.53%	3,668,534	3,386,999
Trading securities	27	19	3.33%	5.01%	811	379
Money market investments	3,688	2,057	7.37%	5.36%	50,023	38,360
	203,562	**155,496**	**5.47%**	**4.54%**	**3,719,368**	**3,425,738**
Loans:						
Mortgage	66,343	55,278	6.60%	6.86%	1,005,751	805,285
Commercial	16,061	17,417	11.17%	8.20%	143,802	212,294
Consumer	3,398	4,120	10.97%	11.01%	30,989	37,412
	85,802	**76,815**	**7.27%**	**7.28%**	**1,180,542**	**1,054,991**
	289,364	**232,311**	**5.91%**	**5.18%**	**4,899,910**	**4,480,729**
Interest-bearing liabilities:						
Deposits:						
Non-interest bearing deposits	—	—	—	—	35,909	39,177
Now accounts	817	857	1.29%	1.09%	63,303	78,826
Savings	13,958	5,366	4.58%	3.25%	304,781	165,249
Certificates of deposit	38,019	40,478	4.67%	4.26%	813,483	950,695
	52,794	**46,701**	**4.34%**	**3.78%**	**1,217,476**	**1,233,947**
Borrowings:						
Repurchase agreements	147,847	133,646	4.68%	5.09%	3,154,369	2,627,484
Interest rate risk management	(773)	(8,494)	−0.02%	−0.32%	—	—
Financing fees	586	562	0.02%	0.02%	—	—
Total repurchase agreements	**147,660**	**125,714**	4.68%	4.78%	**3,154,369**	**2,627,484**
FHLB advances	10,883	8,968	5.17%	3.74%	210,690	239,590
Subordinated capital notes	3,138	5,331	8.70%	7.54%	36,083	70,732
Term notes	176	846	3.78%	5.64%	4,670	15,000
Other borrowings	982	625	5.01%	5.37%	19,601	11,648
	162,840	**141,484**	**4.75%**	**4.77%**	**3,425,413**	**2,964,454**
	215,634	**188,185**	**4.64%**	**4.48%**	**4,642,889**	**4,198,401**
Net interest income/spread	**$ 73,730**	**$ 44,126**	**1.27%**	**0.70%**		
Interest rate margin			**1.51%**	**0.98%**		
Excess of interest-earning assets over interest-bearing liabilities					**$ 257,021**	**$ 282,328**
Interest-earning assets over interest-bearing liabilities ratio					**105.54%**	**106.72%**

C. CHANGES IN NET INTEREST INCOME DUE TO:

	December 31, 2007 versus December 31, 2006		
	Volume	**Rate**	**Total**
Interest Income:			
Loans	$ 9,125	$ (138)	$ 8,987
Investments	16,070	31,996	48,066
	25,195	**31,858**	**57,053**
Interest Expense:			
Deposits	(714)	6,807	6,093
Repurchase agreements	24,665	(2,719)	21,946
Other borrowings	(3,692)	3,102	(590)
	20,259	**7,190**	**27,449**
	$ 4,936	**$24,668**	**$29,604**

TABLE 1A — ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE: For the Years Ended December 31, 2006 and 2005

	Interest		Average Rate		Average Balance	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
			(Dollars in thousands)			
A — TAX EQUIVALENT SPREAD						
Interest-earning assets	$232,311	$201,534	5.18%	4.83%	$4,480,729	$4,175,143
Tax equivalent adjustment	57,657	45,156	1.29%	1.08%	—	—
Interest-earning assets — tax equivalent	**289,968**	**246,690**	**6.47%**	**5.91%**	**4,480,729**	**4,175,143**
Interest-bearing liabilities	188,185	127,456	4.48%	3.30%	4,198,401	3,857,666
Tax equivalent net interest income/spread	**$101,783**	**$119,234**	**1.99%**	**2.61%**	**$ 282,328**	**$ 317,477**
Tax equivalent interest rate margin			**2.27%**	**2.86%**		
B — NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	$154,942	$142,211	4.57%	4.38%	$3,386,999	$3,245,440
Investment management fees	(1,522)	(1,764)	−0.04%	−0.05%	—	—
Total investment securities	153,420	140,447	4.53%	4.33%	3,386,999	3,245,440
Trading securities	19	9	5.01%	3.08%	379	292
Money market investments	2,057	1,820	5.36%	4.10%	38,360	44,341
	155,496	**142,276**	**4.54%**	**4.32%**	**3,425,738**	**3,290,073**
Loans:						
Mortgage	55,278	43,482	6.86%	5.95%	805,285	730,614
Commercial	17,417	12,790	8.20%	10.20%	212,294	125,395
Consumer	4,120	2,986	11.01%	10.27%	37,412	29,061
	76,815	**59,258**	**7.28%**	**6.70%**	**1,054,991**	**885,070**
	232,311	**201,534**	**5.18%**	**4.83%**	**4,480,729**	**4,175,143**
Interest-bearing liabilities:						
Deposits:						
Non-interest bearing deposits	—	—	—	—	39,177	42,508
Now accounts	857	908	1.09%	1.05%	78,826	86,703
Savings	5,366	909	3.25%	1.01%	165,249	89,948
Certificates of deposit	40,478	34,784	4.26%	3.54%	950,695	983,582
	46,701	**36,601**	**3.78%**	**3.04%**	**1,233,947**	**1,202,741**
Borrowings:						
Repurchase agreements	133,646	74,696	5.09%	3.31%	2,627,484	2,255,199
Interest rate risk management	(8,494)	1,486	−0.32%	0.07%	—	—
Financing fees	562	695	0.02%	0.03%	—	—
Total repurchase agreements	**125,714**	**76,877**	4.78%	3.41%	**2,627,484**	**2,255,199**
FHLB advances	8,968	8,553	3.74%	2.79%	239,590	306,398
Subordinated capital notes	5,331	4,743	7.54%	6.57%	70,732	72,166
Term notes	846	456	5.64%	3.04%	15,000	15,000
Other borrowings	625	226	5.37%	3.67%	11,648	6,162
	141,484	**90,855**	**4.77%**	**3.42%**	**2,964,454**	**2,654,925**
	188,185	**127,456**	**4.48%**	**3.30%**	**4,198,401**	**3,857,666**
Net interest income / spread	**$ 44,126**	**$ 74,078**	**0.70%**	**1.53%**		
Interest rate margin			**0.98%**	**1.78%**		
Excess of interest-earning assets over interest-bearing liabilities					**$ 282,328**	**$ 317,477**
Interest-earning assets over interest-bearing liabilities ratio					**106.72%**	**108.23%**

C. CHANGES IN NET INTEREST INCOME DUE TO:

	December 31, 2006 versus December 31, 2005		
	Volume	**Rate**	**Total**
Interest Income:			
Loans	$ 4,351	$ 8,868	$ 13,219
Investments	13,206	4,352	17,558
	17,557	**13,220**	**30,777**
Interest Expense:			
Deposits	922	9,178	10,100
Repurchase agreements	9,146	39,692	48,838
Other borrowings	(2,387)	4,178	1,791
	7,681	**53,048**	**60,729**
	$ 9,876	**$(39,828)**	**$(29,952)**

TABLE 1B — ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE: For the Six-Month Periods Ended December 31, 2005 and 2004

	Interest		Average Rate		Average Balance	
	Six-Month Period Ended December 31,		Six-Month Period Ended December 31,		Six-Month Period Ended December 31,	
	2005	2004	2005	2004	2005	2004
			(Dollars in thousands)			
A — TAX EQUIVALENT SPREAD						
Interest-earning assets	$105,086	$ 92,864	4.91%	4.89%	$4,276,515	$3,795,805
Tax equivalent adjustment	23,912	21,167	1.12%	1.12%	—	—
Interest-earning assets — tax equivalent	**128,998**	**114,031**	**6.03%**	**6.01%**	**4,276,515**	**3,795,805**
Interest-bearing liabilities	70,706	46,149	3.58%	2.62%	3,953,452	3,526,701
Tax equivalent net interest income/spread	**$ 58,292**	**$ 67,882**	**2.45%**	**3.39%**	**$ 323,063**	**$ 269,104**
Tax equivalent interest rate margin			**2.72%**	**3.58%**		
B — NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	$ 73,540	$ 67,039	4.46%	4.53%	$3,300,864	$2,962,126
Investment management fees	(824)	(958)	−0.05%	−0.06%	—	—
Total investment securities	72,716	66,081	4.41%	4.47%	3,300,864	2,962,126
Trading securities	4	2	3.31%	0.41%	242	975
Money market investments	1,465	171	5.17%	1.65%	56,691	20,788
	74,185	**66,254**	**4.42%**	**4.44%**	**3,357,797**	**2,983,889**
Loans:						
Mortgage	24,617	22,558	6.50%	6.50%	757,207	694,529
Commercial	4,602	3,002	7.11%	6.24%	129,506	96,264
Consumer	1,682	1,050	10.51%	9.94%	32,005	21,123
	30,901	**26,610**	**6.73%**	**6.55%**	**918,718**	**811,916**
	105,086	**92,864**	**4.91%**	**4.89%**	**4,276,515**	**3,795,805**
Interest-bearing liabilities:						
Deposits:						
Non-interest bearing deposits	—	—	—	—	60,334	50,728
Now accounts	445	438	1.05%	1.06%	84,809	82,931
Savings	440	472	1.02%	1.02%	86,135	92,623
Certificates of deposit	19,396	12,513	3.70%	3.16%	1,049,495	793,112
	20,281	**13,423**	**3.17%**	**2.63%**	**1,280,773**	**1,019,394**
Borrowings:						
Repurchase agreements	43,807	18,856	3.86%	1.79%	2,270,145	2,109,690
Interest rate risk management	(1,255)	7,388	–0.11%	0.70%	—	—
Financing fees	357	311	0.03%	0.03%	—	—
Total repurchase agreements	**42,909**	**26,555**	**3.78%**	**2.52%**	**2,270,145**	**2,109,690**
FHLB advances	4,595	4,002	3.01%	2.58%	305,430	310,451
Subordinated capital notes	2,470	2,046	6.85%	5.67%	72,166	72,166
Term notes	261	123	3.48%	1.64%	15,000	15,000
Other borrowings	190	—	3.82%	—	9,938	—
	50,425	**32,726**	**3.77%**	**2.61%**	**2,672,679**	**2,507,307**
	70,706	**46,149**	**3.58%**	**2.62%**	**3,953,452**	**2,526,701**
Net interest income/spread	**$ 34,380**	**$ 46,715**	**1.33%**	**2.27%**		
Interest rate margin			**1.61%**	**2.46%**		
Excess of interest-earning assets over interest-bearing liabilities					**$ 323,063**	**$ 269,104**
Interest-earning assets over interest-bearing liabilities ratio					**108.17%**	**107.63%**

C. CHANGES IN NET INTEREST INCOME DUE TO:

	December 31, 2005 versus December 31, 2004		
	Volume	**Rate**	**Total**
Interest Income:			
Loans	$ 3,615	$ 676	$ 4,291
Investments	8,262	(331)	7,931
	11,877	**345**	**12,222**
Interest Expense:			
Deposits	6,762	96	6,858
Repurchase agreements	1,838	14,515	16,354
Other borrowings	75	1,271	1,345
	8,675	**15,882**	**24,557**
	$ 3,202	**$(15,537)**	**$(12,335)**

Net Interest Income

Comparison of the years ended December 31, 2007 and 2006:

Net interest income is affected by the difference between rates earned on the Group's interest-earning assets and rates paid on its interest-bearing liabilities (interest rate spread) and the relative amounts of its interest-earning assets and interest-bearing liabilities (interest rate margin). As further discussed in the Risk Management section of this report, the Group monitors the composition and repricing of its assets and liabilities to maintain its net interest income at adequate levels. Table 1 shows the major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for the years ended December 31, 2007 and 2006.

Net interest income increased 67.1% to $73.7 million in the year ended December 31, 2007, from $44.1 million in the same period of 2006. This increase was due to a positive volume variance of $25.2 million, and a positive rate variance of $31.9 million, as average interest earning assets increased 9.36% to $4.900 billion as of December 31, 2007, from $4.481 billion as of December 31, 2006. The interest rate margin increased 53 basis points to 1.51% for the year ended December 31, 2007, from 0.98% for the same period of 2006. The interest rate spread increased 53 basis points to 1.27% for the year ended December 31, 2007, from 0.70% for the same period of 2006, due to a 73 basis point increase in the average yield of interest earning assets to 5.91% from 5.18%, offset by a 16 basis point increase in the average cost of funds to 4.64% from 4.48%. Overall improvement was due to the repositioning of the Group's investment portfolio and related funding to improve margin in line with what the Group correctly anticipated would be a more positively sloped yield curve.

Interest income increased 24.6% to $289.4 million for the year ended December 31, 2007, as compared to $232.3 million for the period of 2006, reflecting the increase in the average balance of interest earning assets and yields. Interest income is generated by investment securities, which accounted for 70.3% of total interest income, and from loans, which accounted for 29.7% of total interest income. Interest income from investments increased 30.9% to $203.6 million, due to an 8.6% increase in the average balance of investments, which grew to $3.719 billion from $3.426 billion, and by 93 basis point increase in yield from 4.54% to 5.47%. Interest income from loans increased 11.7% to $85.8 million, mainly due to a 11.9% increase in the average balance of loans, which grew to $1.181 billion from $1.655 billion. Yields remained constant at 7.27% in 2007 and 7.28% in 2006.

Interest expense increased 14.6%, to $215.6 million for year ended December 31, 2007, from $188.2 million for the same period of 2006, due to a 16 basis point increase in the average cost of retail and wholesale funds, to 4.64% for 2007, from 4.48% for the same period of 2006. The increase is due to higher average interest-bearing liabilities which grew to $4.643 billion, from $4.198 billion, year over year, in order to fund the growth of the Group's investment and loan portfolios. The average cost of retail deposits increased 56 basis points, to 4.34% for the year ended December 31, 2007, from 3.78% for the same period of 2006, and the average cost of wholesale funding sources decreased 2 basis points, to 4.75%, from 4.77%, specifically reflected in repurchase agreements, which decreased 10 basis points, to 4.68% from 4.78% due to the strategic repositioning of the repurchase agreements portfolio.

Comparison of the years ended December 31, 2006 and 2005:

Table 1A shows the major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for the years ended December 31, 2006 and 2005.

Net interest income decreased 40.4% to $44.1 million in the year ended December 31, 2006, from $74.1 million in the same period of 2005. This decrease was due to a positive volume variance of $9.9 million, offset by a negative rate variance of $39.8 million, as average interest earning assets increased 7.32% to $4.481 billion as of December 31, 2006, from $4.175 billion as of December 31, 2005, while the interest rate margin declined 80 basis points to 0.98% for the year ended December 31, 2006, from 1.78% for the same period of 2005. The interest rate spread declined 83 basis points to 0.70% for the year ended December 31, 2006, from 1.53% for the same period of 2005, due to a 35 basis point increase in the average yield of interest earning assets to 5.18% from 4.83%, offset by a 118 basis point increase in the average cost of funds to 4.48% from 3.30%. The increase in the average yield of interest earning assets was primarily due to the purchase of securities with higher rates, reflecting market conditions, prepayments of lower rate mortgage loans and mortgage-backed securities, and the repricing of adjustable and floating interest rate commercial loans. The increase in the average cost of funds was primarily due to higher rates paid on repurchase agreements and other borrowings due to the impact of the increases in short-term borrowing rates.

Interest income increased 15.3% to $232.3 million for the year ended December 31, 2006, as compared to $201.5 million for the period of 2005, reflecting the increase in the average balance of interest earning assets and in yields. Interest income is generated by investment securities, which accounted for 66.7% of total interest income, and from loans, which accounted for 33.3% of total interest income. Interest income from investments increased 9.3% to $155.5 million, due to a 4.1% increase in the average balance of investments, which grew to $3.426 billion from $3.290 billion, and by an 22 basis point increase in yield from 4.32% to 4.54%. Interest income from loans increased 29.6% to $76.8 million, mainly due to a 19.2% increase in the average balance of loans, which grew to $1.055 billion from $885 million, and a 58 basis point increase in yield from 6.70% to 7.28%.

Interest expense increased 47.6%, to $188.2 million for the year ended December 31, 2006, from $127.5 million for the same period of 2005, due to a 118 basis point increase in the average cost of retail and wholesale funds, to 4.48% for 2006, from 3.30% for the same period of 2005. The increase is due to higher average interest-bearing liabilities which grew to $4.198 billion, from $3.858 billion, year over year, in order to fund the growth of the Group's investment and loan portfolios. The average cost of retail deposits increased 74 basis points, to 3.78% for the year ended December 31, 2006, from 3.04% for the same period of 2005, and the average cost of wholesale funding sources increased 135 basis points, to 4.77%, from 3.42%, substantially reflected in repurchase agreements, which increased 137 basis points, to 4.78% from 3.41%.

Comparison of the six-month periods ended December 31, 2005 and 2004:

Table 1B shows the major categories of interest-earning assets and interest-bearing liabilities, their respective interest income, expenses, yields and costs, and their impact on net interest income due to changes in volume and rates for the six-month periods ended December 31, 2005 and 2004.

Net interest income decreased 26.4% to $34.4 million in the six-month period ended December 31, 2005, from $46.7 million in the same six-month period of 2004. This decrease was due to a positive volume variance of $3.2 million, offset by a negative rate variance of $15.5 million, as average interest earning assets increased 12.7% to $4.277 billion as of December 31, 2005, from $3.796 billion as of December 31, 2004, while the interest rate margin declined 85 basis points to 1.61% for the same period of 2005, from 2.46% for the same period of 2004. The interest rate spread declined 94 basis points to 1.33% for the six-month period ended December 31, 2005, from 2.27% for the same period of 2004, due to a 2 basis point increase in the average yield of interest earning assets to 4.91% from 4.89%, in addition to a 96 basis point increase in the average cost of funds to 3.58% from 2.62%. The increase in the average yield of interest earning assets was primarily due to the purchase of securities with lower rates, reflecting market conditions, prepayments of higher rate mortgage loans and mortgage-backed securities, and the repricing of adjustable and floating interest rate commercial loans. The increase in the average cost of funds was primarily due to higher rates paid on repurchase agreements and other borrowings due to the impact of the increases in short-term borrowing rates.

Interest income increased 13.2% to $105.1 million for the six-month period ended December 31, 2005, as compared to $92.9 million for the same six-month period of 2004, reflecting a 12.7% increase in the average balance of interest earning assets, which grew to $4.277 billion in the six-month period ended December 31, 2005, from $3.796 billion for the same period of 2004, with an increase in yield to 4.91% from 4.89%. Interest income is generated by investment securities, which accounted for 70.6% of total interest income, and from loans, which accounted for 29.4% of total interest income. Interest income from investments increased 12.0% to $74.2 million, due to a 12.5% increase in the average balance of investments, which grew to $3.358 billion, partially offset by a 2 basis point decline in yield from 4.44% to 4.42%. The increase in investments reflects a 21.5% increase in U.S. government and agency obligations, which grew to $1.251 billion as of December 31, 2005, from $819.0 million as of December 31, 2004. Interest income from loans increased 16.1% to $30.9 million, mainly due to a 13.2% increase in the average balance of loans, which grew to $918.7 million, in addition to an 18 basis point increase in yield from 6.55% to 6.73%. Total loans remained approximately at the same level comparing December 31, 2005 to June 30, 2005 at $903 million.

Interest expense increased 53.2%, to $70.7 million for the six-month period ended December 31, 2005, from $46.1 million for the same period of 2004, due to a 96 basis point increase in the average cost of retail and wholesale funds, to 3.58% for the 2005 six-month period, from 2.62% for the same period of 2004. The increase is also due to the expansion of the average interest-bearing liabilities to $3.953 billion, from $3.527 billion, in order to fund the growth of the Group's investment and loan portfolios. The average cost of retail deposits increased 54 basis points, to 3.17% for the six-month period ended December 31, 2005, from 2.63% for the same period of 2004, and the average cost of wholesale funding sources increased 116 basis points, to 3.77%, from 2.61%, substantially reflected in repurchase agreements, which increased 126 basis points, to 3.78%, and subordinated capital notes which increased 118 basis points.

TABLE 2 — NON-INTEREST INCOME SUMMARY
FOR THE YEARS ENDED ENDED DECEMBER 31, 2007, 2006 AND 2005,
FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2005 AND 2004,
AND FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

	Fiscal Year Ended December 31,				Six-Month Period Ended December 31,		Fiscal Year Ended June 30,	
	2007	2006	Variance%	2005	2005	2004	2005	2004
				(Unaudited) (Dollars in thousands)		(Unaudited)		
Financial service revenues	$17,295	$ 16,029	7.9%	$14,029	$ 7,432	$ 7,435	$14,032	$17,617
Banking service revenues	7,862	9,006	−12.7%	8,315	4,495	3,721	7,541	7,165
Investment banking revenues	126	2,701	−95.3%	235	74	177	339	—
Mortgage banking activities	2,401	3,368	−28.7%	3,943	1,702	5,532	7,774	7,719
Total banking and financial service revenues	27,684	31,104	−11.0%	26,522	13,703	16,865	29,686	32,501
Securities net activity	3,799	(17,637)	121.5%	3,173	650	5,642	8,165	13,414
Derivatives net gain (loss)	10,997	3,218	241.7%	(2,061)	1,077	(393)	(3,530)	11
Trading net gain (loss)	23	28	−17.9%	(48)	5	38	(15)	21
Loss on early extinguishment of Subordinated capital notes	—	(915)	100.0%	—	—	—	—	—
Income from other investments	236	—	100.0%	—	—	—	—	—
Securities, derivatives and trading activities	15,055	(15,306)	−198.4%	1,064	1,732	5,287	4,620	13,446
Investment in limited liability partnership	—	828	−100.0%	1,085	838	—	246	—
Other income	(237)	612	−138.7%	249	110	195	334	87
Other non-interest income	(237)	1,440	−116.5%	1,334	948	195	580	87
Total non-interest income	**$42,502**	**$ 17,238**	**146.6%**	**$28,920**	**$16,383**	**$22,347**	**$34,886**	**$46,034**

Non-Interest Income

Comparison of the years ended December 31, 2007 and 2006:

Non-interest income is affected by the amount of securities and trading transactions, the level of trust assets under management, transactions generated by the gathering of financial assets and investment activities by the securities broker-dealer subsidiary, the level of mortgage banking activities, and fees from deposit accounts and insurance products. As shown in Table 2, non-interest income for the year ended December 31, 2007 increased 146.6%, from $17.2 million to $42.5 million, when compared to the same period in 2006.

Financial services revenues, which consist of commissions and fees from fiduciary activities, and commissions and fees from securities brokerage, and insurance activities, increased 7.9%, to $17.3 million in the year ended December 31, 2007, from $16.0 million in the same period of 2006. Banking service revenues, which consist primarily of fees generated by deposit accounts, electronic banking and customer services, decreased 12.7% to $7.9 million in the year ended December 31, 2007, from $9.0 million in the same period of 2006, mainly driven by reduced consumer banking activity. Investment banking revenues declined due to fewer transactions in 2007 as compared to 2006. Income generated from mortgage banking activities decreased 28.7% in the year ended December 31, 2007, from $3.4 million in the year ended December 31, 2006, to $2.4 million in the same period of 2007 mainly the result of reduced mortgage loan production.

Revenues from securities, derivatives and trading activities for the year ended December 31, 2007 reflects the Group's previously disclosed net gain of approximately $11 million from the July 2006 unwinding of interest rate swaps that had been used to hedge rising interest costs of short-term repurchase agreements. This gain was included in other comprehensive income, and was being recognized into earnings as a reduction of interest expense on remaining short-term borrowings. The repurchase agreements restructuring, however, significantly reduced the Group's short-term borrowings during the March 2007 quarter, eliminating the forecasted transactions that the swaps were intended to hedge. As a result, Oriental recognized the remaining balance of $8.2 million (equal to $0.33 per basic and fully diluted share) of the gain as non-interest income in the quarter ended March 31, 2007. Revenues from securities, derivatives and trading activities in the year ended December 31, 2006 reflects the $16.0 million loss incurred with respect to the repositioning of the investment securities portfolio.

Comparison of the years ended December 31, 2006 and 2005:

Non-interest income is affected by the amount of securities and trading transactions, the level of trust assets under management, transactions generated by the gathering of financial assets and investment activities by the securities broker-dealer subsidiary, the level of mortgage banking activities, and fees from deposit accounts and insurance products. As shown in Table 2, non-interest income for the year ended December 31, 2006 decreased 40.4%, from $28.9 million to $17.2 million, when compared to the same period in 2005.

Income generated from mortgage banking activities decreased 14.6% in the year ended December 31, 2006, from $3.9 million in the year ended December 31, 2005, to $3.4 million in the same period of 2006. Financial services revenues, which consist of commissions and fees from fiduciary activities, and commissions and fees from securities brokerage, and insurance activities, increased 14.3%, to $16.0 million in the year ended December 31, 2006, from $14.0 million in the same period of 2005. Banking service revenues, which consist primarily of fees generated by deposit accounts, electronic banking and customer services, continued with an increase of 8.3% to $9.0 million in the year ended December 31, 2006, from $8.3 million in the same period of 2005, mainly driven by the strategy of strengthening the Group's banking franchise by expanding our ability to attract deposits and build relationships with individual, professional and commercial customers through aggressive marketing and the expansion of the Group's sales force.

Revenues from securities, derivatives and trading activities in the year ended December 31, 2006 reflects the $16.0 million loss incurred with respect to the repositioning of the investment securities portfolio partially offset by increased gains on derivatives instruments due to a positive variance in the mark-to-market of such positions.

Comparison of the six-month periods ended December 31, 2005 and 2004:

As shown in Table 2, non-interest income for the six-month period ended December 31, 2005 decreased 26.7%, from $22.3 million to $16.4 million, when compared to the same period in 2004. Income generated from mortgage banking activities decreased 69.2% in the six-month period ended December 31, 2005, from $5.5 million in the six-month period ended December 31, 2004, to $1.7 million in the same period of 2005.

Financial services revenues decreased 0.3% and 2.7%, respectively, to $4.1 million and $3.4 million in the six-month period ended December 31, 2005, from $4.1 million and $3.5 million in the same period of 2004. Decrease for the period reflected the temporarily reduced market for public finance activities in Puerto Rico which affects revenues from brokerage and investment banking activities in the local retail public finance market.

Banking service revenues increased 16.5% to $4.5 million in the six-month period ended December 31, 2005, from $3.9 million in the same period of 2004.

Revenues from securities, derivatives and trading activities decreased 63.9% in the six-month period ended December 31, 2005 due to a net gain of $1.9 million in the 2005 six-month period from a net gain of $5.3 in the same period of 2004. The reduction in securities net activity, which was principally due to the Group's strategy of retaining a higher amount of profitable investment securities to obtain recurring interest income, offset the positive results in derivatives activity, which reflected a net gain of $5,000 during the six-month period ended December 31, 2005, compared to a $322,000 net loss in the same period of 2004.

TABLE 3 — NON-INTEREST EXPENSES SUMMARY FOR THE YEARS ENDED ENDED DECEMBER 31, 2007, 2006 AND 2005, FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2005, AND 2004 AND FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

	Year Ended December 31,				Six-Month Period Ended December 31,		Fiscal Year Ended June 30,	
	2007	2006	Variance%	2005	2005	2004	2005	2004
				(Unaudited)		(Unaudited)		
	(Dollars in thousands)							
Compensation and employees' benefits	$28,376	$24,630	15.2%	$20,410	$12,714	$15,910	$23,606	$28,511
Occupancy and equipment	12,624	11,573	9.1%	11,331	5,798	5,050	10,583	9,639
Professional and service fees	7,161	6,821	5.0%	7,385	3,771	3,380	6,994	5,631
Advertising and business promotion	4,472	4,466	0.1%	5,276	2,862	3,306	5,720	6,850
Taxes, other than payroll and income taxes	2,151	2,405	−10.6%	2,129	1,195	902	1,836	1,754
Director and investors relations	2,103	2,323	−9.5%	918	374	339	883	677
Loan servicing expenses	1,740	2,017	−13.7%	1,742	911	896	1,727	1,853
Electronic banking charges	1,826	1,914	−4.6%	1,914	854	1,015	2,075	1,679
Communication	1,302	1,598	−18.5%	1,624	837	843	1,630	1,849
Printing, postage, stationery and supplies	842	995	−15.4%	945	528	474	891	1,121
Insurance	848	861	−1.5%	749	374	392	767	791
Other operating expenses	3,414	4,110	−16.9%	3,433	1,596	1,414	3,251	3,009
Total non-interest expenses	**$66,859**	**$63,713**	**4.9%**	**$57,856**	**$31,814**	**$33,921**	**$59,963**	**$63,364**
Relevant ratios and data:								
Non-interest income to Non-interest expenses ratio	**63.57%**	**28.35%**		**49.99%**	**51.49%**	**65.88%**	**58.18%**	**72.65%**
Efficiency ratio	**65.93%**	**86.33%**		**57.51%**	**66.17%**	**53.24%**	**51.39%**	**52.92%**
Expense ratio	**0.77%**	**0.73%**		**0.75%**	**0.85%**	**0.89%**	**0.75%**	**0.97%**
Compensation and benefits to non-interest expenses	**42.4%**	**38.7%**		**35.3%**	**40.0%**	**46.9%**	**39.4%**	**45.0%**
Compensation to total assets	**0.47%**	**0.56%**		**0.45%**	**0.56%**	**0.76%**	**0.56%**	**0.77%**
Average compensation per employee (annualized)	**$ 53.5**	**$ 46.4**		**$ 38.7**	**$ 48.8**	**$ 60.6**	**$ 44.6**	**$ 52.3**
Average number of employees	**522**	**530**		**527**	**521**	**525**	**529**	**545**
Assets per employee	**$11,320**	**$ 8,552**		**$ 8,624**	**$ 8,723**	**$ 7,932**	**$ 8,028**	**$ 6,836**
Total workforce	**518**	**535**		**520**	**520**	**554**	**520**	**526**

Non-Interest Expenses

Comparison of the years ended December 31, 2007 and 2006:

Non-interest expenses for the year ended December 31, 2007 increased 4.9% to $66.9 million, compared to $63.7 million for the same period of 2006. During the year ended December 31, 2007, compensation and employees' benefits increased 15.2% to $28.4 million from $24.6 million in the year ended December 31, 2006. Such increase was mainly due to lower deferred costs pursuant to SFAS No. 91 *("Accounting for Non Refundable Fees Associated with Originating or Acquiring Loans and Initial Direct Cost of Leases and Amendment of FASB Statement No. 13, 60 and 65 and a rescission of FASB Statement No. 17")* due to reduced mortgage loan production.

In the year ended December 31, 2007, taxes, other than payroll and income taxes, director and investor relations, loan servicing expense, communication and other operating expenses decreased 10.6%, 9.5%, 13.7%, 18.5% and 16.9%, respectively, compared to the year ended December 31, 2006, reflecting the Group's cost control program.

Comparison of the years ended December 31, 2006 and 2005:

Non-interest expenses for the year ended December 31, 2006 increased 10.1% to $63.7 million, compared to $57.9 million for the same period of 2005. Non-interest expenses in the fourth quarter of 2006 included approximately $1.8 million primarily for a supplemental pension payment and charitable contributions made in recognition of the Group's former Chairman, President, and CEO enhancing the value of Oriental over the course of his 19 years of leadership. Excluding this amount, non-interest expenses for 2006 would have been $61.5 million. The 2005 expenses of $57.9 million reflected a $6.3 million reduction in non-cash compensation related to the variable accounting for certain employee stock options. Excluding this non-cash adjustment, total non-interest expenses for the year ended December 31, 2005 would have been $64.1 million.

During the year ended December 31, 2006, the cost of advertising and business promotions decreased 15.4% to $4.4 million from $5.3 million in the year ended December 31, 2005. Such reduction was mainly due to the Group's continued use of more selective promotional campaigns to enhance the market recognition of new and existing products, to increase fee-based revenues, and to strengthen the banking and financial services franchise.

In the year ended December 31, 2006, professional and service fees decreased 7.6%, from $7.4 million in 2005 to $6.8 million in 2006. The decrease was due to the effect of reviews performed by advisors in specific operational areas to improve financial and operational performance and expenses associated with SOX implementation and additional audit fees related to the change in the Group's fiscal year incurred during 2005.

Comparison of the six-month periods ended December 31, 2005 and 2004:

Non-interest expenses in the six-month period ended December 31, 2005 decreased 6.2%, from $33.9 million in the six-month period ended December 31, 2004 to $31.8 million in the same period of 2005. The decrease in non-interest expenses was mainly the result of a 20.1% reduction in compensation and employee benefits expense from the six-month period ended December 31, 2004 to the comparative 2005 period, from $15.9 million to $12.7 million, respectively. The reduction was mainly due to the recording of compensation expense for the six-month period ended December 31, 2004 of $3.2 million as a result of the application of the variable accounting to outstanding options granted to certain employees. No such expense was required for the six-month period ended December 31, 2005.

The increment in non-interest expenses, other than in compensation and employees' benefits, during the comparative six-month periods reflects the Group's expansion and improvement of the Group's sales capabilities, including additional experienced lenders, marketing, enhancing branch distribution and support risk management processes. Also, these results include expenses for new technology for the implementation of PeopleSoft enterprise software to increase efficiencies, and cost of documentation and testing required by SOX regarding management's assessment of internal control over financial reporting. Consequently, expenses have been pared in other areas, consistent with management's goal of limiting expense growth to those areas that directly contribute to increase the efficiency, service quality and profitability of the Group.

Occupancy and equipment expenses increased 14.8%, from $5.1 million in the six-month period ended December 31, 2004 to $5.8 million in the six-month period ended December 31, 2005, due to higher depreciation resulting from upgrading technology, infrastructure in our financial centers in order to improve efficiency and the acceleration of leasehold improvements amortization due to the move to new facilities in May 2006.

During the six-month period ended December 31, 2005, the cost of advertising and business promotions decreased 20.5% to $2.9 million versus $3.3 million in the six-month period ended December 31, 2004. Such activity was mainly due to management's strategy of redistributing the marketing expenses for the 2005 six-month period ended December 31, as the Group continued its selective promotional campaign.

In the six-month period ended December 31, 2005, professional and service fees increased 11.6%, from $3.4 million in the six-month period ended December 31 2004 to $3.8 million in the 2005 six-month period. The increase in the period was due to the effect of reviews performed by advisors in specific operational areas to improve financial and operational performance and expenses associated with SOX implementation.

The aggregate decrease in communication, electronic banking charges and insurance is principally due to effective cost controls without affecting the general growth in the Group's business activities, products and services.

The rise in taxes other than payroll and income taxes, and other operating expenses is principally due to the general growth in the Group's business activities, products and services offered.

Provision for Loan Losses

Comparison of the years ended December 31, 2007 and 2006:

The provision for loan losses for the year ended December 31, 2007 totaled $6.6 million, a 49.3% increase from the $4.4 million reported for 2006, which is in line with the increase in non-performing loans of the Group. Based on an analysis of the credit quality and the composition of the Group's loan portfolio, management determined that the provision for 2007 was adequate in order to maintain the allowance for loan losses at an adequate level.

Net credit losses increased 46.8% during 2007 primarily due to increased net credit losses from mortgage loans due to the overall deterioration of the economy in Puerto Rico. Recoveries decreased from $677,000 for 2006 to $501,000 for 2007. As result, the recoveries to charge-offs ratio decreased from 18.4% in 2006, to 10.2% in 2007. Mortgage loan charge-offs in 2007 were $2.0 million as compared to $896,000 in 2006. Commercial loans net credit losses increased to $252,000 in 2007, when compared with $161,000 in 2006. Commercial loans originated by the Group are mainly collateralized by mortgages.

Net credit losses on consumer loans increased when compared to 2006. In 2007, net credit losses on consumer loans were $2.1 million, an increase of 7.7% when compared to 2006 in which the Group had net credit losses of $2.0 million.

The Group evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. At December 31, 2007, the total investment in impaired commercial loans was $1.1 million. Impaired commercial loans are measured based on the fair value of collateral. The Group determined that no specific impairment allowance was required for such loans. The average investment in impaired commercial loans for the year ended December 31, 2007 amounted to $1.5 million compared to $2.2 million for the year ended December 31, 2006.

The Group follows a residential mortgage lending policy, in which more than 90% of its residential mortgage portfolio consists of fixed-rate, fully amortizing, well-documented loans. Furthermore, the Group has never been active in negative amortization loans or adjustable-rate mortgage loans, including those with teaser rates, and does not originate construction and development loans.

Please refer to the Allowance for Loan Losses and Non-Performing Assets section on Table 8 through Table 12 for a more detailed analysis of the allowances for loan losses, net credit losses and credit quality statistics.

Comparison of the years ended December 31, 2006 and 2005:

The provision for loan losses for the year ended December 31, 2006 totaled $4.4 million, a 28.6% increase from the $3.4 million reported for 2005, which is in line with the Group's 34.3% growth in loans during 2006. Based on an analysis of the credit quality and the composition of the Group's loan portfolio, management determined that the provision for 2006 was adequate in order to maintain the allowance for loan losses at an adequate level.

The 30.9% reduction in net credit losses during 2006 was primarily due to a $1.4 million decrease in net credit losses from mortgage loans. Recoveries increased from $597,000 for 2005 to $677,000 for 2006. As result, the recoveries to charge-offs ratio increased from 15.1% in 2005, to 18.4% in 2006.

Mortgage loan charge-offs in 2006 were $896,000 as compared to $2.4 million in 2005. Commercial loans net credit losses decreased to $161,000 in 2006, when compared from $646,000 in 2005. The commercial lending that the Group originates is mainly collateralized by mortgages.

Net credit losses on consumer loans increased when compared to 2005. In 2006, net credit losses on consumer loans were $2.0 million, an increase of 40.9% when compared to 2005 in which the Group had net credit losses of $1.4 million, reflecting the deterioration in consumer lending due to adverse economic conditions in Puerto Rico.

The Group evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. At December 31, 2006, the total investment in impaired commercial loans was $2.0 million. Impaired commercial loans are measured based on the fair value of collateral. The Group determined that no specific impairment allowance was required for such loans. The average investment in impaired commercial loans for the year ended December 31, 2006 amounted to $2.2 million compared to $3.2 million for the six-month period ended December 31, 2005.

Please refer to the Allowance for Loan Losses and Non-Performing Assets section on Table 8 through Table 12 for a more detailed analysis of the allowances for loan losses, net credit losses and credit quality statistics.

Comparison of the six-month periods ended December 31, 2005 and 2004:

The provision for loan losses for the six-month period ended December 31, 2005 totaled $1.9 million, a 5.4% increase from the $1.8 million reported for the six-month period ended December 31, 2004. Based on an analysis of the credit quality and the composition of the Group's loan portfolio, management determined that the provision was adequate in order to maintain the allowance for loan losses at an appropriate level.

The reduction in net credit losses of 1.5% during the six-month period ended December 31, 2005 was primarily due to a $568,000 decrease in net credit losses from mortgage loans. Recoveries decreased from $438,000 for the six-month period ended December 31, 2004 to $314,000 for the corresponding 2005 six-month period. As result, the recoveries to charge-offs ratio decreased from 19.6% in the six-month period ended December 31, 2004 to 15.1% in the corresponding 2005 six-month period.

Mortgage loan charge-offs in the six-month period ended December 31, 2005 were $774,000 as compared to $1.2 million in the same period of 2004. Commercial loans net credit losses increased to $164,000 in the 2005 six-month period, when compared to $25,000 in the same period of 2004.

Net credit losses on consumer loans increased when compared with the 2004 period. In the six-month period ended December 31, 2005, net credit losses on consumer loans were $974,000, an increase of 70.4% when compared with the same period of 2004 in which the Group had net credit losses of $571,000.

At December 31, 2005, the total investment in impaired commercial loans was $3.6 million. The Group determined that no specific impairment allowance was required for such loans. The average investment in impaired commercial loans for the year ended December 31, 2005 amounted to $3.2 million compared to $2.3 million for the year ended June 30, 2005.

Income Taxes

The income tax expense was $1.6 million for the year ended December 31, 2007, as compared to a benefit of $1.6 million for 2006. The tax benefit in 2006 takes into account, among other things, the expiration of certain tax contingencies. Also, the effective income tax rate in 2007 was lower than the 39% statutory tax rate for the Group, due to the high level of tax-advantaged interest income earned on certain investments and loans, net of the disallowance of related expenses attributable to exempt income. Exempt interest relates principally to interest earned on obligations of the United States and Puerto Rico governments and certain mortgage-backed securities, including securities held by the Group's international banking entity.

FINANCIAL CONDITION

Assets Owned

At December 31, 2007, the Group's total assets amounted to $6.000 billion, an increase of 37.2% when compared to $4.372 billion at December 31, 2006, and interest-earning assets reached $5.765 billion, up 37.1%, versus $4.200 billion at December 31, 2006.

As detailed in Table 4, investments are the Group's largest interest-earning assets component. Investments principally consist of money market instruments, U.S. government and agency bonds, mortgage-backed securities and Puerto Rico government and agency bonds. At December 31, 2007, the investment portfolio increased 53.5% to $4.586 billion, from $2.987 billion as of December 31, 2006, principally as a result of the repositioning of the available-for-sale portfolio and the market opportunities taken to improve the Group's interest margins.

TABLE 4 — ASSETS SUMMARY AND COMPOSITION AS OF DECEMBER 31, 2007, 2006 AND 2005

	December 31, 2007	December 31, 2006	Variance %	December 31, 2005
	(Dollars in thousands)			
Investments:				
Mortgage-backed securities	$2,602,766	$1,955,566	33.1%	$1,961,285
U.S. Government and agency obligations	1,698,748	863,019	96.8%	1,251,058
P.R. Government and agency obligations	72,667	100,729	−27.9%	90,333
Other investment securities	189,109	23,366	709.3%	90,609
Short-term investments	—	—	—	60,000
FHLB stock	20,658	13,607	51.8%	20,002
Other investments	1,662	30,949	−94.6%	—
	4,585,610	**2,987,236**	**53.5%**	**3,473,287**
Loans:				
Loans receivable	1,173,055	1,209,783	−3.0%	900,992
Allowance for loan losses	(10,161)	(8,016)	26.8%	(6,630)
Loans receivable, net	**1,162,894**	**1,201,767**	−3.2%	**894,362**
Mortgage loans held for sale	16,672	10,603	57.2%	8,946
Total loans	**1,179,566**	**1,212,370**	−2.7%	**903,308**
Securities sold but not yet delivered	—	**6,430**	−100.0%	**44,009**
Total securities and loans	**5,765,176**	**4,206,036**	**37.1%**	**4,420,604**
Other assets:				
Cash and due from banks	22,858	15,341	49.0%	13,789
Money Market Investments	66,125	23,729	178.7%	3,480
Accrued interest receivable	52,315	27,940	87.2%	29,067
Premises and equipment, net	21,779	20,153	8.1%	14,828
Deferred tax asset, net	10,362	14,150	−26.8%	12,222
Foreclosed real estate	4,207	4,864	−13.5%	4,802
Investment in Equity indexed options	40,709	34,216	19.0%	22,054
Other assets	16,324	25,557	−36.1%	26,103
Total other assets	**234,679**	**165,950**	**41.4%**	**126,345**
Total assets	**$5,999,855**	**$4,371,986**	**37.2%**	**$4,546,949**
Investments portfolio composition:				
Mortgage-backed securities	56.8%	65.5%		56.5%
U.S. Government and agency obligations	37.0%	28.9%		36.0%
P.R. Government and agency obligations	1.6%	3.4%		2.6%
FHLB stock, short term investments and other investment securities	4.6%	2.3%		4.9%
	100.0%	**100.0%**		**100.0%**

Refer to Note 2 of the accompanying consolidated financial statements for information related to the carrying amount of available-for-sale and held-to-maturity investment securities at December 31, 2007, by contractual maturity.

At December 31, 2007, the Group's loan portfolio, the second largest category of the Group's interest-earning assets, amounted to $1.180 billion, a decrease of 2.7% when compared to the $1.212 billion at December 31, 2006. The Group's loan portfolio is mainly comprised of residential loans, home equity loans, and commercial loans collateralized by mortgages on real estate in Puerto Rico. As shown in Table 5, the mortgage loan portfolio amounted to $986.6 million or 84.1% of the loan portfolio as of December 31, 2007, compared to $932.3 million or 77.1% of the loan portfolio at December 31, 2006. Mortgage production and purchases of $248.5 million for the year ended December 31, 2007 decreased 48.1%, from $478.5 million, when compared to the year ended December 31, 2005.

The second largest component of the Group's loan portfolio is commercial loans. At December 31, 2007, the commercial loan portfolio totaled $157.2 million (13.4% of the Group's total loan portfolio), in comparison to $241.4 million at December 31, 2006 (19.9% of the Group's total loan portfolio). The decrease in commercial loans was mainly on July 13, 2007, when the Group unwound certain mortgage-related transactions.

The consumer loan portfolio totaled $29.2 million (2.5% of total loan portfolio at December 31, 2007), a decrease of 18.9% when compared to the December 31, 2006 portfolio of $36.1 million (3.0% total loan portfolio at such date). Consumer loan production decreased 56.7% for the year ended December 31, 2007 from $16.6 million in 2006 to $7.2 million in 2007.

The following table summarizes the remaining contractual maturities of the Group's total loans segmented to reflect cash flows as of December 31, 2007. Contractual maturities do not necessarily reflect the actual term of a loan, considering prepayments.

		Maturities				
			After One Year to Five Years		After Five Years	
	Balance outstanding at December 31, 2007	One Year or Less	Fixed Interest Rates	Variable Interest Rates	Fixed Interest Rates	Variable Interest Rates
			(In thousands)			
Mortgage, mainly residential	$1,006,157	$ 4,056	$ 6,965	$ —	$ 995,136	$ —
Commercial, mainly real estate	157,198	51,001	37,973	54,783	7,893	5,548
Consumer	29,246	6,959	17,154	—	5,133	—
Total	$1,192,601	$62,016	$62,092	$54,783	$1,008,162	$5,548

TABLE 5 — LOANS RECEIVABLE COMPOSITION:
Selected Financial Data
As of December 31, 2007, 2006 and 2005

	December 31, 2007	2006	2005
	(Dollars in thousands)		
Mortgage, mainly residential	$ 986,612	$ 932,285	$637,318
Commercial, mainly real estate	157,198	241,433	227,846
Consumer	29,245	36,065	35,828
Loans receivable	1,173,055	1,209,783	900,992
Allowance for loan losses	(10,161)	(8,016)	(6,630)
Loans receivable, net	1,162,894	1,201,767	894,362
Mortgage loans held for sale	16,672	10,603	8,946
Total loans, net	**$1,179,566**	**$1,212,370**	**$903,308**
Loans portfolio composition percentages:			
Mortgage, mainly residential	84.1%	77.1%	71.0%
Commercial, mainly real estate	13.4%	19.9%	25.0%
Consumer	2.5%	3.0%	4.0%
Total loans	**100.0%**	**100.0%**	**100.0%**

Liabilities and Funding Sources

As shown in Table 6, at December 31, 2007, the Group's total liabilities reached $5.640 billion, 39.7% higher than the $4.037 billion reported at December 31, 2006. Interest-bearing liabilities, the Group's funding sources, amounted to $5.503 billion at December 31, 2007 versus $4.015 billion at December 31, 2006, a 37.1% increase, mainly driven by the increase in repurchase agreements used to fund the purchase of additional investment securities.

Borrowings are the Group's largest interest-bearing liability component. Borrowings consist mainly of diversified funding sources through the use of FHLB advances and borrowings, repurchase agreements, subordinated capital notes, other borrowings and lines of credit. At December 31, 2007, borrowings amounted to $4.257 billion, 53.0% higher than the $2.782 billion recorded at December 31, 2006. Repurchase agreements as of December 31, 2007 amounted to $3.861 billion, a 52.3% increase when compared to $2.536 billion as of December 31, 2006.

The FHLB system functions as a source of credit for financial institutions that are members of a regional Federal Home Loan Bank. As a member of the FHLB, the Group can obtain advances from the FHLB, secured by the FHLB stock owned by the Group, as well as by certain of the Group's mortgage loans and investment securities. FHLB funding amounted to $331.9 million at December 31, 2007, versus $181.9 million at December 31, 2006. These advances mature from August 2008 through May 2014.

TABLE 6 — LIABILITIES SUMMARY AND COMPOSITION AS OF DECEMBER 31, 2007, 2006 AND 2005

	December 31, 2007	December 31, 2006	Variance %	December 31, 2005
	(Dollars in thousands)			
Deposits:				
Non-interest bearing deposits	$ 50,149	$ 59,603	−15.9%	$ 61,473
Now accounts	68,994	72,810	−5.2%	85,119
Savings accounts	387,788	266,181	45.7%	82,640
Certificates of deposit	736,186	829,867	−11.3%	1,061,401
	1,243,117	**1,228,461**	**1.2%**	**1,290,633**
Accrued interest payable	3,303	4,527	−27.0%	7,935
	1,246,420	**1,232,988**	**1.1%**	**1,298,568**
Borrowings:				
Federal funds purchases and other short term borrowings	27,460	13,568	102.4%	4,455
Repurchase agreements	3,861,411	2,535,923	52.3%	2,427,880
Advances from FHLB	331,898	181,900	82.5%	313,300
Subordinated capital notes	36,083	36,083	0.0%	72,166
Term notes	—	15,000	−100.0%	15,000
	4,256,852	**2,782,474**	**53.0%**	**2,832,801**
Total deposits and borrowings	**5,503,272**	**4,015,462**	**37.1%**	**4,131,369**
Securities and loans purchased but not yet received	111,431	—	100.0%	43,354
Other liabilities	25,691	21,802	17.8%	30,435
Total liabilities	**$5,640,394**	**$4,037,264**	**39.7%**	**$4,205,158**
Deposits portfolio composition percentages:				
Non-interest bearing deposits	4.0%	4.8%		4.8%
Now accounts	5.6%	5.9%		6.6%
Savings accounts	31.2%	21.7%		6.4%
Certificates of deposit	59.2%	67.6%		82.2%
	100.0%	**100.0%**		**100.0%**
Borrowings portfolio composition percentages:				
Federal funds purchases and other short term borrowings	0.7%	0.5%		0.2%
Repurchase agreements	90.7%	91.1%		85.7%
Advances from FHLB	7.8%	6.5%		11.1%
Subordinated capital notes	0.8%	1.3%		2.5%
Term notes	0.0%	0.6%		0.5%
	100.0%	**100.0%**		**100.0%**
Securities sold under agreements to repurchase				
Amount outstanding at year-end	$3,861,411	$2,535,923		$2,427,880
Daily average outstanding balance	$3,154,369	$2,627,323		$2,270,145
Maximum outstanding balance at any month-end	$3,861,411	$2,923,796		$2,427,880
Weighted average interest rate(1):				
For the period	4.68%	5.09%		3.31%
At period end	4.20%	4.94%		4.01%

(1) Excludes effect of interest rate risk management and financing fees.

At December 31, 2007, deposits, the second largest category of the Group's interest-bearing liabilities reached $1.246 billion, up 1.1% from $1.233 billion at December 31, 2006. Deposits reflected an 11.3% decrease in certificates of deposit, to $736.2 million, primarily due to a decrease of $144.1 million in brokered CDs. This decrease was offset by an increase in savings accounts.

At December 31, 2007, the scheduled maturities of time deposits and individual retirement accounts (IRAs) of $100,000 or more were as follows:

	(In thousands)
3 months or less	$211,776
Over 3 months through 6 months	186,809
Over 6 months through 12 months	90,764
Over 12 months	161,460
Total	**$650,809**

Stockholders' Equity

At December 31, 2007, the Group's total stockholders' equity was $359.5 million, a 6.8% increase, when compared to $336.4 million at December 31, 2006. The Group's capital ratios remain significantly above regulatory capital requirements. At December 31, 2007, the Tier 1 Leverage Capital Ratio was 6.69%, the Tier 1 Risk-Based Capital Ratio was 18.59%, and the Total Risk-Based Capital Ratio was 19.06%.

The Bank is considered "well-capitalized" under the regulatory framework for prompt corrective action if it meets or exceeds a Tier I risk-based capital ratio of 6%, a total risk-based capital ratio of 10% and a leverage capital ratio of 5%. In addition, the Group and the Bank meet the following minimum capital requirements: a Tier I risk-based capital ratio of 4%, a total risk-based capital ratio of 8% and a Tier 1 leverage capital ratio of 4%. As shown in Table 7 and in Note 13 to the consolidated financial statements, the Group and the Bank comfortably exceed these benchmarks due to the high level of capital and the quality and conservative nature of its assets.

The Group's common stock is traded on the New York Stock Exchange (NYSE) under the symbol OFG. At December 31, 2007, the Group's market capitalization for its outstanding common stock was $323.5 million ($13.41 per share).

TABLE 7 — CAPITAL, DIVIDENDS AND STOCK DATA AS OF DECEMBER 31, 2007, 2006 AND 2005

	December 31, 2007	December 31, 2006	Variance %	December 31, 2005
	(In thousands, except for per share data)			
Capital data:				
Stockholders' equity	$359,461	$ 336,426	6.8%	$341,791
Regulatory Capital Ratios data:				
Leverage Capital Ratio	6.69%	8.42%	−20.5%	10.13%
Minimum Leverage Capital Ratio Required	4.00%	4.00%		4.00%
Actual Tier 1 Capital	$396,309	$ 372,558	6.4%	$447,669
Minimum Tier 1 Capital Required	$236,847	$ 176,987	33.8%	$176,790
Tier 1 Risk-Based Capital Ratio	18.59%	21.57%	−13.8%	34.70%
Minimum Tier 1 Risk-Based Capital Ratio Required	4.00%	4.00%		4.00%
Actual Tier 1 Risk-Based Capital	$396,309	$ 372,558	6.4%	$447,669
Minimum Tier 1 Risk-Based Capital Required	$ 85,292	$ 67,830	25.7%	$ 51,602
Total Risk-Based Capital Ratio	19.06%	22.04%	−13.5%	35.22%
Minimum Total Risk-Based Capital Ratio Required	8.00%	8.00%		8.00%
Actual Total Risk-Based Capital	$406,470	$ 380,574	6.8%	$454,299
Minimum Total Risk-Based Capital Required	$170,583	$ 135,677	25.7%	$103,204
Stock data:				
Outstanding common shares, net of treasury	24,121	24,453	−1.4%	24,580
Book value	$ 12.08	$ 10.98	10.0%	$ 11.13
Market Price at end of period	$ 13.41	$ 12.95	3.6%	$ 12.36
Market capitalization	$323,463	$ 316,671	2.1%	$303,809
Common dividend data:				
Cash dividends declared(1)	$ 13,612	$ 13,753	−1.0%	$ 6,913
Cash dividends declared per share(1)	$ 0.56	$ 0.56	0.0%	$ 0.28
Payout ratio	37.33%	−140.12%	−126.6%	47.61%
Dividend yield	4.78%	4.39%	—	4.34%

(1) The information presented for December 31, 2005, reflects cash dividends declared for the six-month period ended on that date.

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

	Price		Cash Dividend
	High	Low	Per share
December 31, 2007			
December 31, 2007	$14.56	$11.01	$0.14
September 30, 2007	$11.38	$ 8.39	$0.14
June 30, 2007	$12.00	$10.58	$0.14
March 31, 2007	$13.41	$11.25	$0.14
December 31, 2006			
December 31, 2006	$13.57	$11.47	$0.14
September 30, 2006	$12.86	$11.82	$0.14
June 30, 2006	$13.99	$11.96	$0.14
March 31, 2006	$14.46	$12.41	$0.14

Group's Financial Assets

The Group's total financial assets include the Group's assets and the assets managed by the Group's trust division, the retirement plan administration subsidiary, and the securities broker-dealer subsidiary. At December 31, 2007, such assets totaled $9.243 billion, an increase of 25.5% from $7.364 billion at December 31, 2006. This was mainly due to an increase of 37.2% in the Group's assets owned, when compared to December 31, 2006. The principal component of the Group's financial assets is the assets owned by the Group, of which about 98% are owned by the Group's banking subsidiary.

Another component of financial assets is the assets managed by the Group's trust division and the retirement plan administration subsidiary. The Group's trust division offers various types of IRA products and manages 401(K) and Keogh retirement plans, custodian and corporate trust accounts, while the retirement plan administration subsidiary manages private pension plans. As of December 31, 2007, total assets managed by the Group's trust division amounted to $1.962 billion, an increase of 6.10% over the $1.849 billion at December 31, 2006.

The other financial asset component is the assets gathered by the Group's securities broker-dealer subsidiary. The Group's broker-dealer subsidiary offers a wide array of investment alternatives to its client base, such as tax-advantaged fixed income securities, mutual funds, stocks and bonds. At December 31, 2007, total assets gathered by the broker-dealer from its customer investment accounts increased 12.0%, to $1.281 billion as of December 31, 2007, from $1.144 billion as of December 31, 2006.

Allowance for Loan Losses and Non-Performing Assets

The Group maintains an allowance for loan losses at a level that management considers adequate to provide for probable losses based upon an evaluation of known and inherent risks. The Group's allowance for loan losses policy provides for a detailed quarterly analysis of probable losses. Tables 8 through 12 set forth an analysis of activity in the allowance for loan losses and present selected loan loss statistics. In addition, refer to Table 5 for the composition ("mix") of the loan portfolio.

At December 31, 2007, the Group's allowance for loan losses amounted to $10.2 million or 0.85% of total loans versus $8.0 million or 0.66% of total loans at December 31, 2006. The allowance for residential mortgage loans increased by 60.1% or $2.2 million, when compared with balances recorded at December 31, 2006. The allowance for commercial loans remained constant at $1.8 million year over year, while the allowance for consumer loans increased by 3.2% or $62,000, when compared to $1.9 million recorded at December 30, 2006.

The provision for loan losses for 2007 totaled \$6.6 million, a 49.3% increase from the \$4.4 million reported for 2006. Based on an analysis of the credit quality and the composition of the Group's loan portfolio, management determined that the provision for 2006 was adequate in order to maintain the allowance for loan losses at an appropriate level.

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

**TABLE 8 — ALLOWANCE FOR LOAN LOSSES SUMMARY
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005,
SIX-MONTH PERIODS ENDED DECEMBER 31, 2005 AND 2004,
AND FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

	Year Ended December 31,			Six-Month Period Ended December 31,		Fiscal Year Ended June 30,	
	2007	2006	2005	2005	2004	2005	2004
	(Dollars in thousands)						
Balance at beginning of period	\$ 8,016	\$ 6,630	\$ 7,565	\$ 6,495	\$ 7,553	\$ 7,553	\$ 5,031
Provision for loan losses	6,550	4,388	3,412	1,902	1,805	3,315	4,587
Net credit losses — see Table 10	(4,405)	(3,002)	(4,347)	(1,767)	(1,793)	(4,373)	(2,065)
Balance at end of period	**\$10,161**	**\$ 8,016**	**\$ 6,630**	**\$ 6,630**	**\$ 7,565**	**\$ 6,495**	**\$ 7,553**

TABLE 9 — ALLOWANCE FOR LOAN LOSSES BREAKDOWN AS OF DECEMBER 31, 2007, 2006 AND 2005, AND FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

	Year Ended December 31,		Fiscal Year Ended June 30,		
	2007	2006	2005	2005	2004
	(Dollars in thousands)				
Mortgage	$ 5,958	$3,721	$3,185	$3,167	$3,861
Commercial	1,838	1,831	1,723	1,714	1,317
Consumer	2,006	1,944	1,417	1,335	1,462
Unallocated allowance	359	520	305	279	913
	$10,161	**$8,016**	**$6,630**	**$6,495**	**$7,553**
Allowance composition:					
Mortgage	58.7%	46.4%	48.0%	48.7%	51.1%
Commercial	18.1%	22.8%	26.0%	26.4%	17.4%
Consumer	19.7%	24.3%	21.4%	20.6%	19.4%
Unallocated allowance	3.5%	6.5%	4.6%	4.3%	12.1%
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Allowance coverage ratio at end of period Applicable to:					
Mortgage	0.59%	0.39%	0.50%	0.51%	0.60%
Commercial	1.17%	0.76%	0.76%	0.73%	1.61%
Consumer	6.86%	5.36%	3.96%	4.41%	7.84%
Unallocated allowance to total loans	0.03%	0.04%	0.03%	0.03%	0.12%
Total allowance to total loans	**0.85%**	**0.66%**	**0.73%**	**0.71%**	**1.01%**
Other selected data and ratios:					
Allowance coverage ratio to:					
Non-performing loans	15.4%	20.9%	23.3%	23.3%	25.1%
Non-real estate non-performing loans	314.5%	205.9%	135.4%	135.4%	184.7%

TABLE 10 — NET CREDIT LOSSES STATISTICS: YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005, SIX-MONTH PERIODS ENDED DECEMBER 31, 2005 AND 2004, AND FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

	Year Ended December 31,			Six-Month Period Ended December 31,		Fiscal Year Ended June 30,	
	2007	2006	2005	2005	2004	2005	2004
Mortgage							
Charge-offs	$ (2,030)	$ (896)	$ (2,437)	$ (774)	$ (1,198)	$ (2,861)	$ (378)
Recoveries	15	40	145	145	—	—	—
	(2,015)	**(856)**	**(2,292)**	**(629)**	**(1,198)**	**(2,861)**	**(378)**
Commercial							
Charge-offs	(359)	(277)	(665)	(180)	(129)	(614)	(249)
Recoveries	107	116	19	16	105	119	139
	(252)	**(161)**	**(646)**	**(164)**	**(24)**	**(495)**	**(110)**
Consumer							
Charge-offs	(2,517)	(2,505)	(1,842)	(1,127)	(904)	(1,619)	(2,580)
Recoveries	379	520	433	153	333	602	1,003
	(2,138)	**(1,985)**	**(1,409)**	**(974)**	**(571)**	**(1,017)**	**(1,577)**
Net credit losses							
Total charge-offs	(4,906)	(3,678)	(4,944)	(2,081)	(2,231)	(5,094)	(3,207)
Total recoveries	501	676	597	314	438	721	1,142
	$ (4,405)	**$ (3,002)**	**$ (4,347)**	**$ (1,767)**	**$ (1,793)**	**$ (4,373)**	**$ (2,065)**
Net credit losses to average loans:							
Mortgage	0.20%	0.11%	0.31%	0.17%	0.34%	0.41%	0.06%
Commercial	0.18%	0.08%	0.52%	0.25%	0.05%	0.46%	0.19%
Consumer	6.91%	5.31%	4.85%	6.08%	5.41%	4.31%	8.83%
Total	**0.37%**	**0.28%**	**0.49%**	**0.38%**	**0.44%**	**0.53%**	**0.28%**
Recoveries to charge-offs	**10.2%**	**18.4%**	**12.1%**	**15.1%**	**19.6%**	**14.2%**	**35.6%**
Average Loans							
Mortgage	$1,005,751	$ 805,285	$730,614	$757,207	$694,529	$699,027	$662,590
Commercial	143,802	212,294	125,395	129,506	96,264	108,636	57,047
Consumer	30,989	37,412	29,061	32,005	21,123	23,576	17,867
Total	**$1,180,542**	**$1,054,991**	**$885,070**	**$918,718**	**$811,916**	**$831,239**	**$737,504**

TABLE 11 — NON-PERFORMING ASSETS

	December 31,			June 30,	
	2007	2006	2005	2005	2004
	(Dollars in thousands)				
Non-performing assets:					
Non-performing loans					
Non-accruing loans	$27,347	$17,845	$18,986	$21,859	$23,714
Accruing loans over 90 days past due	38,762	20,453	9,447	8,997	7,224
Total non-performing loans (see Table 12 below)	66,109	38,298	28,433	30,856	30,938
Foreclosed real estate	4,207	4,864	4,802	4,186	888
Total non-performing assets	**$70,316**	**$43,162**	**$33,235**	**$35,042**	**$31,826**
Non-performing assets to total assets	**1.17%**	**0.99%**	**0.73%**	**0.83%**	**0.85%**

	Year Ended December 31,		Six-Month Period Ended December 31,	Fiscal Year Ended June 30,	
	2007	2006	2005	2005	2004
Interest that would have been recorded in the period if the loans had not been classified as non-accruing loans	**$4,359**	**$3,433**	**$1,403**	**$2,164**	**$843**

TABLE 12 — NON-PERFORMING LOANS: AS OF DECEMBER 31, 2007, 2006 AND 2005

	December 31,		
	2007	2006	2005
	(Dollars in thousands)		
Non-performing loans:			
Mortgage	$62,878	$34,404	$23,535
Commercial, mainly real estate	2,413	3,167	4,600
Consumer	818	727	298
Total	**$66,109**	**$38,298**	**$28,433**
Non-performing loans composition percentages:			
Mortgage	95.1%	89.8%	82.8%
Commercial, mainly real estate	3.7%	8.3%	16.2%
Consumer	1.2%	1.9%	1.0%
Total	**100.0%**	**100.0%**	**100.0%**
Non-performing loans to:			
Total loans	**5.56%**	**3.14%**	**3.12%**
Total assets	**1.10%**	**0.88%**	**0.63%**
Total capital	**18.39%**	**11.38%**	**8.32%**

Larger commercial loans that exhibit potential or observed credit weaknesses are subject to individual review and grading. Where appropriate, allowances are allocated to individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to the Group. Included in the review of individual loans are those that are impaired, following the provisions of SFAS No. 114. A loan is considered impaired when, based on current information and events, it is probable that the Group will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the observable market price of the loan or the fair value of the collateral, if the loan is collateral dependent. Loans are individually evaluated for impairment, except large groups of small balance, homogeneous loans that are collectively evaluated for impairment under the provisions of SFAS No. 5, and for loans that are recorded at fair value or at the lower of cost or market. The Group measures for impairment all commercial loans over $250,000 and 90 days past due. The portfolios of residential mortgages and consumer loans are considered homogeneous and are evaluated collectively for impairment.

For loans that are not individually graded, the Group uses a methodology that follows a loan credit risk rating process that involves dividing loans into risk categories. The Group, using an aged-based rating system, applies an overall allowance percentage to each loan portfolio category based on historical credit losses adjusted for current conditions and trends. This delinquency-based calculation is the starting point for management's determination of the required level of the allowance for loan losses. Other data considered in this determination includes overall historical loss trends and other information, including underwriting standards, economic trends and unusual events.

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

An unallocated allowance is established recognizing the estimation risk associated with the aged-based rating system and with the specific allowances. It is based upon management's evaluation of various macroeconomic conditions, the effects of which are not directly measured in determining the aged-based rating system and the specific allowances. These conditions include then-existing general economic and business conditions affecting our key lending areas; credit quality trends, including trends in non-performing loans expected to result from existing conditions, collateral values, loan volumes and concentrations, seasoning of the loans portfolio, recent loss experience in particular segments of the portfolio, regulatory examination results, and findings by the Group's management. The evaluation of the inherent loss regarding these conditions involves a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments.

During the year ended December 31, 2007, net credit losses amounted to $4.4 million, a 46.8% increase when compared to $3.0 million reported for the same period of 2006. The increase was primarily due to a $1.2 million in net credit losses for mortgage loans. Total recoveries decreased from $677,000 in 2006 to $501,000 in 2007. As a result, the recoveries to charge-offs ratio decreased from 18.4% in 2006, to 10.2% in 2007.

The Group's non-performing assets include non-performing loans and foreclosed real estate (see Tables 11 and 12). At December 31 2007, the Group's non-performing assets totaled $70.3 million (1.17% of total assets) versus $43.2 million (0.99% of total assets) at December 31, 2006.

At December 31, 2007, the allowance for loan losses to non-performing loans coverage ratio was 15.4% (20.9% at December 31, 2006. Excluding the lesser-risk mortgage loans, the ratio is 314.5% (205.9% at December 31, 2006).

In July 2007, the Group regained control of all the servicing for its outstanding mortgage loans and subcontracted it out to a leading third party servicer. This has enabled the Group to better monitor performance and implement aggressive loss mitigation measures which, it is believed, will help stabilize the level of non-performing residential mortgage loans in the near future. The Group does not expect the increase in non-performing residential mortgage loans to translate into significantly higher losses as these loans are generally well collateralized with adequate loan-to-value ratios.

The Group follows a conservative residential mortgage lending policy, with more than 90% of its residential mortgage portfolio consisting of fixed-rate, fully amortizing, fully documented loans that do not have the level of risk associated with subprime loans offered by certain major US mortgage loan originators. Furthermore, Oriental has never been active in negative amortization loans or adjustable rate mortgage loans, including those with teaser rates, and does not originate construction and development loans.

Detailed information concerning each of the items that comprise non-performing assets follows:

- *Mortgage loans* — residential mortgage loans are placed in non-accrual status when they become 365 days or more past due, or earlier if other factors indicate that the collection of principal an interest is doubtful, and are written down, if necessary, based on the specific evaluation of the collateral underlying the loan. At December 31, 2007, the Group's non-performing mortgage loans totaled $62.9 million or 82.8% of the Group's non-performing loans, compared to $34.4 million or 89.8% at December 31, 2006, and to $23.5 million or 82.8% at December 31, 2005. Non-performing loans in this category are primarily residential mortgage loans. Based on the value of the underlying collateral and the loan-to-value ratios, management considers that no significant losses will be incurred on this portfolio.

- *Commercial business loans* — are placed in non-accrual status when they become 90 days or more past due and are charged-off based on the specific evaluation of the underlying collateral. At December 31, 2007, the Group's non-performing commercial business loans amounted to $2.4 million or 3.7% of the Group's non-performing loans, compared to $3.2 million or 8.3% at December 31, 2006, and $4.6 million or 16.2% at December 31, 2005. Most of this portfolio is also collateralized by real estate and no significant losses are expected.

- *Consumer loans* — are placed in non-accrual status when they become 90 days past due and charged-off when payments are delinquent 120 days. At December 31, 2007, the Group's non-performing consumer loans amounted to $818,000 or 1.2% of the Group's total non-performing loans, compared to $727,000 or 1.9% at December 31, 2006, and $208,000 or 1.0% at December 31, 2005.

- *Foreclosed real estate assets* — are initially recorded at the lower of the related loan balance or fair value at the date of foreclosure. Any excess of the loan balance over the fair value of the property is charged against the allowance for loan losses. Subsequently, any excess of the carrying value over the estimated fair value less selling costs is charged to operations. Management is actively seeking prospective buyers for these foreclosed properties. Foreclosed real estate amounted to $4.2 million at December 31, 2007, $4.9 million at December 31, 2006 and $4.8 million at December 31, 2005

Contractual Obligations and Commercial Commitments

As disclosed in the notes to the Group's consolidated financial statements, the Group has certain obligations and commitments to make future payments under contracts. At December 31, 2007, the aggregate contractual obligations and commercial commitments are:

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
	(Dollars in thousands)				
CONTRACTUAL OBLIGATIONS(1):					
Federal funds purchased and other short term borrowings	$ 27,460	$ 27,460	$ —	$ —	$ —
Securities sold under agreements to repurchase	3,850,023	100,023	100,000	1,800,000	1,850,000
Advances from FHLB	330,000	50,000	—	225,000	55,000
Subordinated capital notes	36,083	—	—	—	36,083
Annual rental commitments under noncancelable operating leases	23,281	3,200	6,193	5,970	7,918
Total	$4,266,847	$180,683	$106,193	$2,030,970	$1,949,001

(1) Excluding accrued interest.

Such commitments will be funded in the normal course of business from the Bank's principal sources of funds. At December 31, 2006 the Bank had $612.4 million in certificates of deposit that mature during the following twelve months.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with U.S. generally accepted accounting principles in the United States of America which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the prices of goods and services since such prices are affected by inflation.

RISK MANAGEMENT

Background

The Group's risk management policies are established by its Board of Directors (the "Board"), implemented by management, through the adoption of a risk management program, which is overseen and monitored by the Chief Risk Officer and the Risk Management Committee (RMC). During 2007, the Group continued to refine and enhance its risk management program by strengthening policies, processes and procedures necessary to maintain effective risk management.

All aspects of the Group's business activities are susceptible to risk. Consequently, risk identification and monitoring are essential to risk management. As more fully discussed below, the Group's primary risks exposure include, market, interest rate, credit, liquidity, operational and concentration risks.

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in market rates or prices, such as interest rates or prices. The Group evaluates market risk together with interest rate risk (See "Interest Rate Risk" below).

The Group's financial results and capital levels are constantly exposed to market risk. The Board and management are primarily responsible for ensuring that the market risk assumed by the Group complies with the guidelines established by Board approved policies. The Board has delegated the management of this risk to the Asset and Liability Management Committee ("ALCO") which is composed of certain executive officers from the business, treasury and finance areas. One of ALCO's primary goals is to ensure that the market risk assumed by the Group is within the parameters established in the policies adopted by the Board.

Interest Rate Risk

Interest rate risk is the exposure of the Group's earnings or capital to adverse movements in interest rates. It is a predominant market risk in terms of its potential impact on earnings.

The Group manages its asset/liability position in order to limit the effects of changes in interest rates on net interest income. ALCO is responsible for monitoring compliance with the market risk policies approved by the Board and adopting interest risk management strategies. In that role, ALCO oversees interest rate risk, liquidity management and other related matters.

In discharging its responsibilities, ALCO examines current and expected conditions in world financial markets, competition and prevailing rates in the local deposit market, liquidity, unrealized gains and losses in securities, recent or proposed changes to the investment portfolio, alternative funding sources and their costs, hedging and the possible purchase of derivatives such as swaps and caps, and any tax or regulatory issues which may be pertinent to these areas. ALCO approves funding decisions in light of the Group's overall growth strategies and objectives.

Each month, the Group performs a net interest income simulation analysis on a consolidated basis to estimate the potential change in future earnings from projected changes in interest rates. These simulations are carried out over a one to three-year time horizon, assuming gradual upward and downward interest rate movements of 200 basis points, achieved during a twelve-month period. Simulations are carried out in two ways:

(1) using a static balance sheet as the Group had on the simulation date, and

(2) using a growing balance sheet based on recent growth patterns and strategies.

The balance sheet is divided into groups of assets and liabilities detailed by maturity or re-pricing and their corresponding interest yields and costs. As interest rates rise or fall, these simulations incorporate expected future lending rates, current and expected future funding sources and cost, the possible exercise of options, changes in prepayment rates, deposits decay and other factors which may be important in projecting the future growth of net interest income.

The Group uses asset-liability management software to project future movements in the Group's 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. For the simulation made as of December 31, 2007, and based on the significant downward shift in rates experienced at the beginning of 2008, the Group's ALCO decided to update the rates as of the end of January 2008 and use these as the starting point for the projections.

These simulations are highly complex, and use many simplifying assumptions that are intended to reflect the general behavior of the Group over the period in question. There can be no assurance that actual events will match these assumptions in all cases. For this reason, the results of these simulations are only approximations of the true sensitivity of net interest income to changes in market interest rates.

The following table presents the results of the simulations as of December 31, 2007, assuming a one-year time horizon:

	December 31, 2007			
	Net Interest Income Risk (projected for 2008)			
	Static Balance Sheet		Growing Simulation	
Change in Interest Rate	Amount Change	Percent Change	Amount Change	Percent Change
	(Dollars in thousands)			
+200 Basis points	$ 1,349	1.36%	$ 3,447	3.00%
−200 Basis points	$(1,266)	−1.27%	$(7,391)	−6.44%

Future net interest income could be affected by the Group's investments in callable securities, and its structured repurchase agreements and advances from the FHLB.

As part of the strategy to limit the interest rate risk and reduce the re-pricing gaps of the Group's assets and liabilities, the maturity and the repricing frequency of the liabilities has been extended to longer terms. Also, the concentration of long-term fixed rate securities has been reduced.

Derivatives. The Group uses derivative instruments and other strategies to manage its exposure to interest rate risk caused by changes in interest rates beyond management's control.

The following summarizes strategies, including derivative activities, used by the Group in managing interest rate risk:

Interest rate swaps — Interest rate swap agreements generally involve the exchange of fixed and floating-rate interest payment obligations without the exchange of the underlying principal. The interest rate swaps have been utilized to convert short term repurchase agreements into fix rate to better match the repricing nature of these borrowings. There were no outstanding interest rate swaps as of December 31, 2007 or 2006.

Interest rate cap agreements — Interest rate cap agreements provide the right to receive cash if a reference interest rate rises above a contractual rate. The value increases as the reference interest rate rises. The Group may utilize interest rate cap agreements to protect against rising interest rates. There were no outstanding interest rate caps as of December 31, 2007 or 2006.

Structured repurchase agreements — The Group uses structured repurchase agreements, with embedded call options, to reduce the Group's exposure to interest rate risk by lengthening the contractual maturities of its liabilities, while keeping funding costs low.

The Group offers its customers certificates of deposit with an option tied to the performance of the Standard & Poor's 500 stock market index. At the end of five years, the depositor receives a minimum return or a specified percentage of the average increase of the month-end value of the stock index. The Group uses option agreements with major money center banks and major broker-dealer companies to manage its exposure to changes in those indexes. Under the terms of the option agreements, the Group receives the average increase in the month-end value of the corresponding index in exchange for a fixed premium. The changes in fair value of the options purchased and the options embedded in the certificates of deposit are recorded in earnings.

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

At December 31, 2007, the contractual maturities of the equity indexed options, by fiscal year were as follows:

Year Ending December 31,	Equity Indexed Options Purchased	Equity Indexed Options Written
	(In thousands)	
2008	$ 35,700	$ 33,308
2009	22,085	20,870
2010	9,045	8,647
2011	21,415	20,825
2012	64,285	63,423
	$152,530	**$147,073**

At December 31, 2007 and 2006, the fair value the purchased options used to manage the exposure to the stock market on stock indexed deposits represented an asset of $40.7 million, and $34.2 million, respectively; and the options sold to customers embedded in the certificates of deposit represented a liability of $38.8 million and $32.2 million, respectively, recorded in deposits.

Credit Risk

Credit risk is the possibility of loss arising from a borrower or counterparty in a credit-related contract failing to perform in accordance with its terms. The principal source of credit risk for the Group's is its lending activities. (Refer to the "Allowance for Loan Losses and Non-Performing Assets" section for further details.)

The Group manages its credit risk through a comprehensive credit policy which establishes sound underwriting standards, by monitoring and evaluating loan portfolio quality, and by the constant assessment of reserves and loan concentrations. The Group also employs proactive collection and loss mitigation practices.

The Group may also encounter risk of default in relation to its securities portfolio. The securities held by the Group are principally mortgage-backed securities and U.S. Treasury and agency securities. Thus, a substantial portion of these instruments are guaranteed by mortgages, a U.S. government-sponsored entity or the full faith and credit of the U.S. government, and are deemed to be of the highest credit quality. The available-for-sale securities portfolio also includes approximately $626.8 million in non-government agency pass-through collateralized mortgage obligations. These obligations are senior classes having subordination of losses ranging from 9.0% to 16.2%, which provide the capacity to withstand higher delinquency and foreclosure levels. These issues are rated "AAA" by Standard & Poor's and "Aa" by Moody's. At December 31, 2007, the Group held structured credit investments with balances of $85.5 million in the available-for-sale portfolio, and $96.2 million in the held-to-maturity portfolio. These issues are rated investment-grade by Standard & Poor's ("AAA", "AA" or "A") and Moody's ("A2"). The unrealized loss position is a reflection of the recent dislocations seen in the financial and credit markets, which have created a significant widening in the market's credit spreads. The underlying reference long portfolios (collateral) on the structures are substantively investment grade, they have performed adequately, there have been no defaults to date, and none of our structured credit investments have been downgraded.

Management's Credit Committee, composed of the Group's Chief Executive Officer, Chief Credit Risk Officer and other senior executives, has primary responsibility for setting strategies to achieve the Group's credit risk goals and objectives. Those goals and objectives are set forth in the Group's Credit Policy.

Liquidity Risk

Liquidity risk is the risk of the Group not being able to generate sufficient cash from either assets or liabilities to meet obligations as they become due, without incurring substantial losses. The Group's cash requirements principally consist of deposit withdrawals, contractual loan funding, repayment of borrowings as they mature, and funding of new and existing investment as required.

Effective liquidity management requires that the Group have sufficient cash available at all times to meet its financial commitments, finance planned growth and have a reasonable safety margin for normal as well as unexpected cash needs. ALCO is responsible for managing the Group's liquidity risk in accordance with the policies adopted by the Board. In discharging its liquidity risk management obligations, ALCO approves operating and contingency procedures and monitors their implementation. The Group's Treasurer and CIO is responsible for the implementation of the liquidity risk management policies adopted by the Board and of the operating and contingency procedures adopted by ALCO, and for monitoring the Group's liquidity position on an ongoing basis. Using measures of liquidity developed by the Group's Treasury Division under several different scenarios, the Treasury Division, ALCO and the Board review the Group's liquidity position on a daily, monthly and quarterly basis, respectively.

The Group meets its liquidity management objectives by maintaining (i) liquid assets in the form of investment securities,(ii) sufficient unused borrowing capacity in the national money markets, and achieving (iii) consistent growth in core deposits. As of December 31, 2007, the Group had approximately $310.9 million in investments available to cover liquidity needs. Additional asset-driven liquidity is provided by the availability of loan assets to pledge. These sources, in addition to the Group's 6.69% average equity capital base, provide a stable funding base.

The Group utilizes different sources of funding to help ensure that adequate levels of liquidity are available when needed. Diversification of funding sources is of great importance as it protects the Group's liquidity from market disruptions. The principal sources of short-term funds are deposits, securities sold under agreements to repurchase, and lines of credit with the FHLB. ALCO reviews credit availability on a regular basis. The Group securitizes and sells mortgage loans as supplemental source of funding. Long-term certificates of deposit as well as long-term funding through the issuance of notes have also provided additional funding. The cost of these different alternatives, among other things, is taken into consideration. The Group's principal uses of funds are the origination of loans and the repayment of maturing deposit accounts and borrowings.

Operational Risk

Operational risk is the risk of loss from inadequate or failed internal processes, personnel and systems or from external events. All functions, products and services of the Group are susceptible to operational risk.

The Group faces ongoing and emerging risk and regulatory pressure related to the activities that surround the delivery of banking and financial products. Coupled with external influences such as market conditions, security risks, and legal risk, the potential for operational and reputational loss has increased. In order to mitigate and control operational risk, the Group has developed, and continues to enhance, specific internal controls, policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout the organization. The purpose of these policies and procedures is to provide reasonable assurance that the Group's business operations are functioning within established limits.

The Group classifies operational risk into two major categories: business specific and corporate-wide affecting all business lines. For business specific risks, a risk assessment group works with the various business units to ensure consistency in policies, processes and assessments. With respect to corporate wide risks, such as information security, business recovery, legal and compliance, the Group has specialized groups, such as Information Security, Corporate Compliance, Information Technology and Operations. These groups assist the lines of business in the development and implementation of risk management practices specific to the needs of the business groups. All these matters are reviewed and discussed in the RMC.

The Group is subject to extensive regulation in the different jurisdictions in which it conducts its business, and this regulatory scrutiny has been significantly increasing over the last several years. The Group has established and continues to enhance procedures based on legal and regulatory requirements that are reasonably designed to ensure compliance with all applicable statutory and regulatory requirements. The Group has a corporate compliance function, headed by a Senior Compliance Officer who reports to the Chief Risk Officer and is responsible for the oversight of regulatory compliance and implementation of an enterprise-wide compliance program.

Concentration Risk

Substantially all of the Group's business activities and a significant portion of its credit exposure are concentrated in Puerto Rico. As a consequence, the Group's 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 its loans and loan servicing portfolio.

Puerto Rico is currently in a general economic slowdown that has caused a reduction in private sector employment and consumer spending. Increases in oil prices and other consumer goods and services, coupled with a 7% sales tax implemented in October 2006 as part of a government program of tax and fiscal reforms, have also contributed to the general economic slowdown.

These economic concerns and uncertainties in the private and public sectors have had an adverse effect in the credit quality of our loan portfolios as delinquency rates have increased in the short-term and may continue to increase until the economy stabilizes. The reduction in consumer spending may continue to impact growth in our other interest and non-interest revenue sources.

QUARTERLY FINANCIAL DATA (Unaudited)

The following is a summary of the unaudited quarterly results of operations:

TABLE 13A — SELECTED QUARTERLY FINANCIAL DATA:

Year Ended December 31, 2007	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
	Quarter Ended			
	(In thousands, except for per share data)			
Interest income	$61,500	$70,801	$74,926	$82,138
Interest expense	48,234	53,111	55,276	59,135
Net interest income	**13,266**	**17,690**	**19,650**	**23,003**
Provision for loan losses	(1,075)	(1,375)	(1,614)	(2,486)
Net interest income after provision for loan losses	**12,191**	**16,315**	**18,036**	**20,517**
Total non-interest income	15,251	7,796	7,134	12,442
Total non-interest expenses	15,827	17,477	16,522	17,032
Income before taxes	**11,615**	**6,634**	**8,648**	**15,927**
Income tax expense	624	187	196	551
Net income	**10,991**	**6,447**	**8,452**	**15,376**
Less: Dividends on preferred stock	(1,200)	(1,201)	(1,200)	(1,201)
Income available to common shareholders	**$ 9,791**	**$ 5,246**	**$ 7,252**	**$14,175**
Per share data:				
Basic	$ 0.40	$ 0.21	$ 0.30	$ 0.59
Diluted	$ 0.40	$ 0.21	$ 0.30	$ 0.59

TABLE 13B — SELECTED QUARTERLY FINANCIAL DATA:

	Quarter Ended			
Year Ended December 31, 2006	**March 31, 2006**	**June 30, 2006**	**September 30, 2006**	**December 31, 2006**
	(In thousands, except for per share data)			
Interest income	$55,992	$56,894	$60,865	$ 58,560
Interest expense	40,780	46,186	51,912	49,307
Net interest income	**15,212**	**10,708**	**8,953**	**9,253**
Provision for loan losses	(1,101)	(947)	(870)	(1,470)
Net interest income after provision for loan losses	**14,111**	**9,761**	**8,083**	**7,783**
Total non-interest income	8,953	7,521	9,885	(9,121)
Total non-interest expenses	14,883	14,784	15,145	18,901
Income before taxes	**8,181**	**2,498**	**2,823**	**(20,239)**
Income tax expense	131	(21)	446	(2,187)
Net income	**8,050**	**2,519**	**2,377**	**(18,052)**
Less: Dividends on preferred stock	(1,200)	(1,201)	(1,200)	(1,201)
Income available to common shareholders	**$ 6,850**	**$ 1,318**	**$ 1,177**	**$(19,253)**
Per share data:				
Basic	$ 0.28	$ 0.05	$ 0.05	$ (0.78)
Diluted	$ 0.28	$ 0.05	$ 0.05	$ (0.78)

TABLE 13C — SELECTED QUARTERLY FINANCIAL DATA:

Six-Month Period Ended December 31, 2005	Quarter Ended September 30, 2005	Quarter Ended December 31, 2005
	(In thousands, except for per share data)	
Interest income	$50,813	$54,273
Interest expense	33,485	37,221
Net interest income	**17,328**	**17,052**
Provision for loan losses	951	951
Net interest income after provision for loan losses	**16,377**	**16,101**
Total non-interest income	7,825	8,557
Total non-interest expenses	15,390	16,424
Income before taxes	**8,812**	**8,234**
Income tax expense	(391)	264
Net income	**8,421**	**8,498**
Less: Dividends on preferred stock	(1,200)	(1,201)
Income available to common shareholders	**$ 7,221**	**$ 7,297**
Per share data:		
Basic	$ 0.29	$ 0.30
Diluted	$ 0.29	$ 0.29

TABLE 13D — SELECTED QUARTERLY FINANCIAL DATA:

	Quarter Ended			
Year Ended June 30, 2005	September 30, 2004	December 31, 2004	March 31, 2005	June 30, 2005
	(In thousands, except for per share data)			
Interest income	$44,947	$47,917	$47,572	$48,876
Interest expense	21,294	24,855	27,162	29,588
Net interest income	**23,653**	**23,062**	**20,410**	**19,288**
Provision for loan losses	700	1,105	660	850
Net interest income after provision for loan losses	**22,953**	**21,957**	**19,750**	**18,438**
Total non-interest income	10,404	11,943	6,101	6,437
Total non-interest expenses	15,461	18,460	12,148	13,894
Income before taxes	**17,896**	**15,440**	**13,703**	**10,981**
Income tax expense	(768)	123	2,671	(377)
Net income	**17,128**	**15,563**	**16,374**	**10,604**
Less: Dividends on preferred stock	(1,200)	(1,201)	(1,200)	(1,201)
Income available to common shareholders	**$15,928**	**$14,362**	**$15,174**	**$ 9,403**
Per share data:				
Basic	$ 0.66	$ 0.59	$ 0.62	$ 0.38
Diluted	$ 0.61	$ 0.55	$ 0.58	$ 0.37

Critical Accounting Policies

Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

A transfer of financial assets is accounted for as a sale when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the transferor, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity. As such, the Group recognizes the financial assets and servicing assets it controls and the liabilities it has incurred. At the same time, it ceases to recognize financial assets when control has been surrendered and liabilities when they are extinguished.

Derivative Financial Instruments

As part of the Group's asset and liability management, the Group uses interest-rate contracts, which include interest-rate swaps to hedge various exposures or to modify interest rate characteristics of various statement of financial condition accounts.

The Group follows Statement of Financial Accounting Standards ("SFAS") No. 133, "*Accounting for Derivative Instruments and Hedging Activities*", as amended, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The statement requires that all derivative instruments be recognized as assets and liabilities at fair value. If certain conditions are met, the derivative may qualify for hedge accounting treatment and be designated as one of the following types of hedges: (a) hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment ("fair value hedge"); (b) a hedge of the exposure to variability of cash flows of a recognized asset, liability or forecasted transaction ("cash flow hedge") or (c) a hedge of foreign currency exposure ("foreign currency hedge").

In the case of a qualifying fair value hedge, changes in the value of the derivative instruments that have been highly effective are recognized in current period earnings along with the change in value of the designated hedged item. In the case of a qualifying cash flow hedge, changes in the value of the derivative instruments that have been highly effective are recognized in other comprehensive income, until such time as those earnings are affected by the variability of the cash flows of the underlying hedged item. In either a fair value hedge or a cash flow hedge, net earnings may be impacted to the extent the changes in the fair value of the derivative instruments do not perfectly offset changes in the fair value or cash flows of the hedged items. If the derivative is not designated as a hedging instrument, the changes in fair value of the derivative are recorded in earnings.

Certain contracts contain embedded derivatives. When the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, it is bifurcated and carried at fair value.

The Group may use several pricing models that consider current market and contractual prices for the underlying financial instruments as well as time value and yield curve or volatility factors underlying the positions to derive the fair value of certain derivatives contracts.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

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

Income Taxes

In preparing the consolidated financial statements, the Group is required to estimate income taxes. This involves an estimate of current income tax expense together with an assessment of temporary differences resulting from differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The determination of current income tax expense involves estimates and assumptions that require the Group to assume certain positions based on its interpretation of current tax regulations. Changes in assumptions affecting estimates may be required in the future and estimated tax assets or liabilities may need to be increased or decreased accordingly. The accrual for tax contingencies is adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. The Group's effective tax rate includes the impact of tax contingency accruals and changes to such accruals, including related interest and penalties, as considered appropriate by management. When particular matters arise, a number of years may elapse before such matters are audited and finally resolved. Favorable resolution of such matters could be recognized as a reduction to the Group's effective rate in the year of resolution. Unfavorable settlement of any particular issue could increase the effective rate and may require the use of cash in the year of resolution.

New Accounting Pronouncements

SFAS No. 157, "Fair Value Measurements"

In September 2006, FASB issued SFAS No. 157, *"Fair Value Measurements"*, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements.

This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application was encouraged, provided that the reporting entity had not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. The Group adopted the provisions of SFAS No. 157 commencing in the first quarter of 2008. Such provisions are to be applied prospectively. The Group is currently assessing the impact of SFAS No. 157 on its consolidated financial statements, including disclosures.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115"

On February 15, 2007, the FASB issued SFAS No. 159, *"The Fair Value Option for Financial assets and Financial Liabilities, Including an amendment of FASB Statement No. 115"*. SFAS No. 159 provides an alternative measurement treatment for certain financial assets and financial liabilities, under an instrument-by-instrument election, that permits fair value to be used for both initial and subsequent measurement, with changes in fair value recognized in earnings. While SFAS No. 159 is effective for the Group beginning January 1, 2008, earlier adoption is permitted as of January 1, 2007, provided that the entity also adopts all of the requirements of SFAS No. 157. The Group adopted the provisions of SFAS 159 in January 2008, but decided not to apply the fair value option for any of its financial assets and liabilities, other than those required by SFAS 115.

SFAS No. 141R, "Business Combinations"

In December 2007, the FASB issued SFAS No. 141R, *"Business Combinations."* SFAS No. 141R will significantly change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. The statement will also require all acquisition-related costs to be expensed as they are incurred. SFAS No. 141R is required to be applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, with earlier adoption being prohibited. The Group is currently evaluating the effect, if any, of the adoption of SFAS 141R on its consolidated financial statements, including disclosures.

GENERAL INFORMATION

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Independent Certified Public Accountants

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Form 10-K

Annual Report on Form 10-K filed with the SEC is available on request from: www.proxyvote.com

Annual Meeting

The Annual Meeting of Stockholders will be held June 18, 2008 at 9:30 am
Training Room - 8th Floor
Oriental Tower
Professional Office Park
Marginal San Roberto #997
San Juan, PR 00927

Branch Offices

METROPOLITAN AREA REGION
Río Piedras – San Roberto
Bayamón
Carolina
Carolina – Plaza Escorial
Hato Rey – Ponce de León Ave.
Hato Rey – Torre Chardón
Las Cumbres
Galería San Patricio
Miramar

EASTERN REGION
Belz Factory Outlet Mall
Caguas Bairoa
Caguas – HIMA
Cayey
Ceiba
Humacao- Pueblo
Humacao- Oriental Center
Las Piedras
Naguabo
San Lorenzo
Yabucoa

WESTERN REGION
Arecibo
Guayama
Mayagüez
Ponce

Annual Certifications

Our President and CEO has submitted to the NYSE the Domestic Company Section 303A Annual CEO Certification for 2007 regarding our compliance with the corporate governance listing standards of the NYSE. Also, we have filed with the SEC, as exhibits 31.1 and 31.2 to our annual report on Form 10-K for fiscal 2007, the Sarbanes-Oxley Act Section 302 Certifications of both our CEO and CFO regarding the quality of our public disclosures."

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Oriental Financial Group

(NYSE:OFG)

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