ORIENTAL FINANCIAL GROUP

Keeping Our Course in Challenging Times

2008 Annual Report

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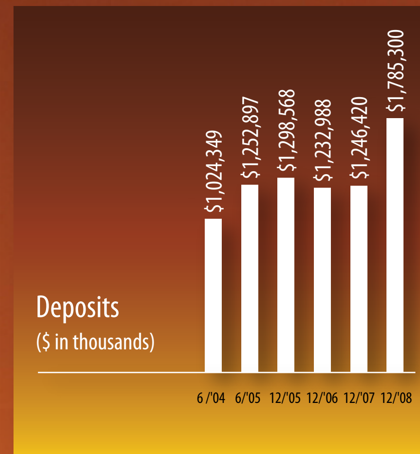
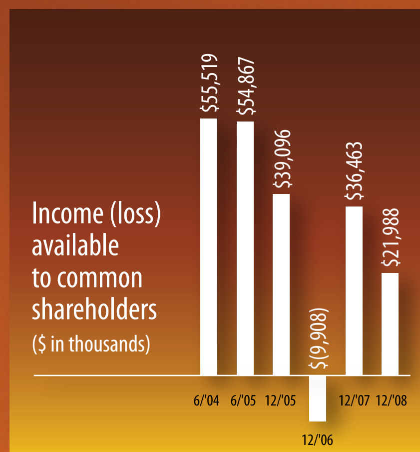
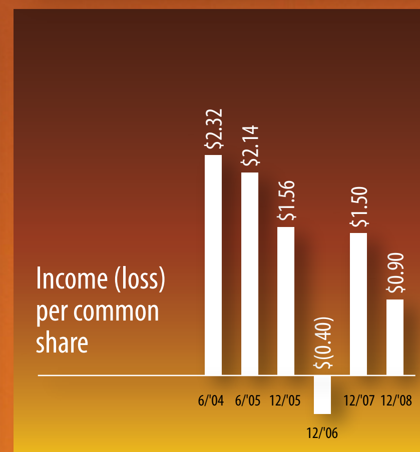
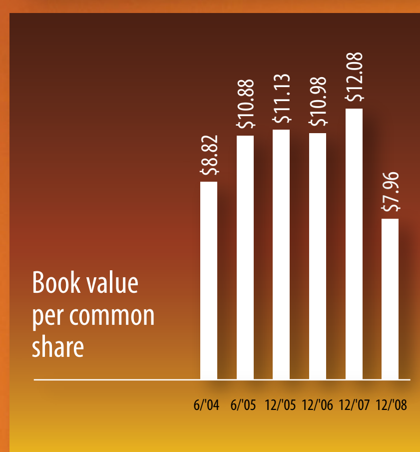
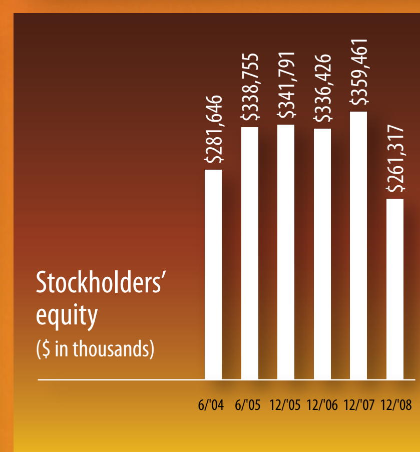
Financial Highlights

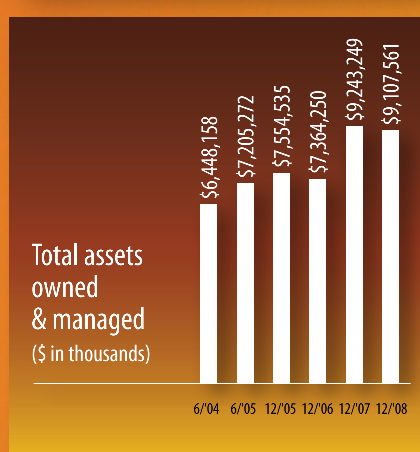


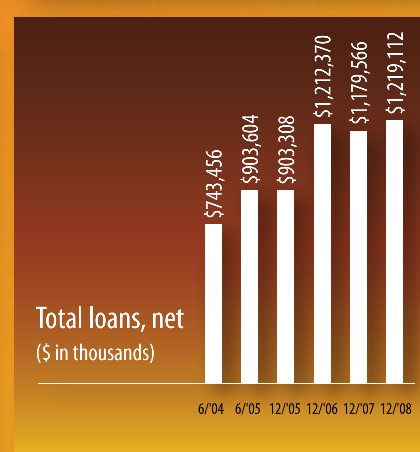












From the Chairman of the Board to Our Shareholders

My colleagues on the Board of Directors join me in extending our greetings on another year of progress for Oriental Financial Group, which was achieved despite the difficult economic and financial climate. The Company's performance is a testament to its leadership, and the commitment of the Group's employees. They all have our congratulations.

We elected three new Directors, increasing membership of the Board to 11, including 10 independents. The new members are Julian S. Inclán, president of American Paper Corporation who previously served as a director from 1995 to 2007; Rafael Machargo-Chardón, an attorney with more than 30 years experience; and Josen Rossi, Chairman, CEO and majority owner of Aireko Enterprises, a multi-enterprise and construction group. We welcome them, and appreciate their willingness to share their experience in furthering Oriental's goals.

Following the close of the year, the Board made a major decision to adjust the common stock dividend. The move was a prudent one, given the many cross currents affecting banks in general, and it provides the Group with additional capital to better manage any challenges or opportunities we might face.

Oriental has distinguished itself as one of the strongest financially capable institutions in the Puerto Rico banking industry. Our Board is dedicated to helping assure that remains so through policy direction and oversight of management. This has been a success in many ways, and our objective remains focused on assuring continued growth of and value in an institution in which we all take great pride.

Your support is, as always, greatly appreciated, as is the hard work and loyal efforts of the Group's employees.

José J. Gil de Lamadrid

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

Board of Directors & Executive Team

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

José Rafael Fernández
President, CEO & Vice Chairman of the Board, Oriental Financial Group, Inc.

Juan Carlos Aguayo, P.E., M.S.C.E.
President and CEO, Structural Steel Works, Inc.

Pablo Iván Altieri, MD

Mari Carmen Aponte, Esq.

Francisco Arriví
President and CEO, Pulte Homes International Caribbean Corp.

Nelson García, CPA
President, Impress Quality Printing

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

Julian S. Inclán
President, American Paper Corp.

Ganesh Kumar,
Executive VP Strategic Planning & Operations

Rafael Machargo, Esq.
Managing Partner, Machargo Chardón & Associates

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

Pedro L. Morazzani, CPA
Partner, Zayas, Morazzani & Company

Josen Rossi
Chairman of the Board & CEO, Aireko Enterprises

Carlos O. Souffront, Esq.
Board of Directors Secretary & General Counsel,
Oriental Financial Group, Inc.

From left: Pedro L. Morazzani, CPA, Rafael Machargo, Esq., Pablo I. Altieri, M.D., Ganesh Kumar, Mari Carmen Aponte, Esq., Carlos O. Souffront, Esq., Francisco Arriví, Julio R. Micheo, CPA, Nelson García, CPA, Norberto González, CPA, J.D. , Juan Carlos Aguayo, P.E. , Julian S. Inclán.

Seated from left: José Rafael Fernández, José J. Gil de Lamadrid, CPA

José Rafael Fernández
President, Chief Executive Officer &
Vice Chairman of the Board

From the President & CEO to Our Shareholders

Oriental Financial Group was solidly profitable in 2008, despite unprecedented world, U.S. and Puerto Rico financial and economic challenges. While Puerto Rico entered its fourth year of recession, all operations performed admirably, as we:

- Strengthened our banking and financial services franchise in terms of service quality, market share and branch network

- Expanded residential mortgage and commercial lending, and generated strong cash flow from our interest-earning assets

- Continued to integrate the delivery of products and services, with banking, financial services, lending and operations working closely together

- Experienced relatively low credit write-offs, the result of strategies instituted over the last four years to prevent over-exposure to credit risk

The Group had its best year ever in 2008 on an operating basis. Net interest income from loans and investments increased 51%, to $111.3 million. Excluding the other-than-temporary impairment non-cash charges of $55.8 million on certain investment securities, net of tax, reported in the third quarter of 2008, the Group had income available to common shareholders of $77.8 million, or $3.19 per common share.

We are well positioned to achieve continued progress in 2009. The year marks the Group's 45th anniversary in business and our 15th since the stock was listed on the New York Stock Exchange. With total financial assets managed and owned of more than $9.1 billion at December 31, 2008, we have come a long way from our origin as a small savings and loan bank on the eastern part of the Island.

Our Banking and Financial Service Franchise

The Group has a niche market approach, focusing on bringing all the benefits of sophisticated financial planning to our core, mid and high net worth customers.

In financial services, we continued to grow market share in brokerage as well as in 401K, Keogh, and Personal Trust retirement services. Our brokerage business enjoyed a record year in commissions, mainly due to the strong level of service and the increased availability we have established in the branches. While the S&P 500 Index fell 38% in 2008, the total assets the Group manages for others declined just 11%, to $2.90 billion at December 31, 2008, underscoring our investment capabilities.

We continued to realign our retail branches to increase penetration of the mid and high net worth market in the greater San Juan metropolitan area. We opened two new branches in Caguas and Bayamón, remodeled our Las Cumbres and San Patricio branches, and consolidated three branches in the East to achieve cost savings. Towards the end of 2009, we expect to open a third new branch, in Condado, another highly attractive location in the metropolitan market.

We also launched our client financial plan, called MVP, for the Most Valuable Practice. MVP involves working closely with clients to identify the individual financial issues, such as monthly budgeting, or saving for college or retirement. The goal is to develop the best and most appropriate strategy for their needs, particularly in this uncertain economic environment. As one sign of our progress, without offering irrational rates, we increased retail deposits by 3% year over year, to $1.1 billion, including a 28% increase in retail certificates of deposit.

Our Lending Business

Reflecting a long-term practice that has served us well, more than 90% of our residential mortgage portfolio consists of fixed-rate, fully amortizing, fully documented loans that do not have risks generally associated with subprime loans. In commercial lending, we focus on physicians, lawyers and other professionals, as well as middle market companies, in expanding their operations on the Island or helping them acquire property. Such loans avoid risks generally associated with apartment, condominium or office building construction projects.

Loan production increased 43% last year, to $290 million, with residential mortgage volume up 57%, to $230 million, and commercial lending 15% higher, at $56 million. At year end, our overall loan portfolio grew more than 3%, to $1.2 billion, with our residential mortgage portfolio exceeding $1 billion for the first time. Lending growth was primarily driven by increased market share. In residential mortgage, we strengthened our relationships with realtors and expanded penetration in the South and West. In commercial, we benefitted from the steady progress we've made since deciding to expand this segment in 2003. The Group is now on track to achieve a commercial loan portfolio in 2009 of more than $200 million, an important milestone.

While non-performing loans increased $11.4 million from the end of 2007, actual net credit losses inched up only $323,000. The allowance for loan losses was increased to $14.3 million, from $10.2 million a year ago. Based on historical performance, non-performing loans are not expected to result in significantly higher losses as most are well-collateralized with adequate loan-to-value ratios.

Our Investment Securities Portfolio

Our investment securities portfolio is focused on buying highly rated and liquid instruments and financing through long term wholesale funding, in such a manner so as to lock in a positive spread and reduce interest rate sensitivity.

Approximately 84% of the portfolio consists of fixed-rate mortgage-backed securities or notes, guaranteed or issued by FNMA, FHLMC or GNMA, and U.S. agency senior debt obligations, and thus backed by a U.S. government sponsored entity or the full faith and credit of the U.S. government, and Puerto Rico Government and agency obligations. The balance consists of non-agency collateralized mortgage obligations, the majority of which are backed by prime fixed-rate residential mortgage collateral, and structured credit investments. Like many other financial holding companies, market conditions in the mainland U.S. have affected valuations of some of the securities we own, but we are working aggressively to manage this risk.

Capital Position

The Group ended the year with stockholders' equity of $261.3 million and total common equity of $193.3 million, equal to book value of $7.96 per share. As a result, it continues to maintain capital ratios in excess of regulatory requirements and among the highest of Puerto Rico banks. At December 31, 2008, the Leverage Capital Ratio was 6.38% (1.6 times the minimum of 4.00%); Tier I Risk-Based Capital Ratio was 17.11% (4.3 times the minimum of 4.00%), and the Total Risk-Based Capital Ratio was 17.73% (2.2 times the minimum of 8.00%).

In March 2009, the Group's banking subsidiary, Oriental Bank and Trust, issued $105 million of senior unsecured debt under the FDIC Temporary Liquidity Guarantee Program. The issue obtained credit rating of "AAA" by Standard & Poor's and Fitch, the highest available. Also in March, the Board of Directors decided to preserve capital by adjusting the dividend to an annualized rate of $0.16 per share, preserving approximately $9.7 million a year.

Outlook

We believe 2009 will be another challenging year as financial and economic forces continue to buffet the world and Puerto Rico. However, we continue to anticipate progress.

- Despite the local recession, we expect to further our inroads with our target clientele, and increase lending to homeowners and businesses, while avoiding major credit problems.

- While our investment securities portfolio is affected by prevailing interest rates, wholesale funding agreements have started to provide us with significantly lower costs in the first quarter of 2009, enabling us to continue to expand spreads.

- Given local bank market conditions, a long awaited consolidation and rationalization in the Puerto Rico banking market is a distinct possibility. If such opportunities present themselves, we believe we are well positioned to acquire assets, but we would do so only on a highly selective, risk adjusted basis.

Thank You

Our sincerest appreciation goes out to our clients, loyal and dedicated staff, shareholders, partners in the marketplace, management and executive teams, and Board of Directors. Our continued progress would not be possible without your support.

José Rafael Fernández
President, Chief Executive Officer & Vice Chairman of the Board

Leadership Team

Executive Team

José Rafael Fernández, President, CEO & Vice Chairman of the Board

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

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

Ganesh Kumar, Executive VP Strategic Planning & Operations

Officers

José Rafael Fernández, Vice Chairman of the Board, President & CEO

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

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

Ganesh Kumar, Executive VP Strategic Planning & Operations

Carlos O. Souffront, Esq, Legal Counsel

Mari Evelyn Rodríguez, Senior VP Retail Banking

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

Sylvia Rivera, Senior VP Mortgage & Business Development

Luis Raúl Salvá, Senior VP, Chief Lending Officer

Grettel Báez, CPA, VP and General Auditor

Francisco Portero, Senior VP Commercial Banking

Bill Hummer, President Caribbean Pension Consultants (CPC)

Juan José Santiago, CPA, Senior VP Trust Officer

Sean Miles, Senior VP Financial Services

Carlos Viña , CPA, Senior VP and Controller

César Ortiz, CPA, Esq., Senior VP Risk Management

Patrick Dunn, Senior VP Operations – Oriental Financial Services

Rafael Cruz, Eng., Senior VP Operations

Ana T. Ramos, Senior VP Information Technology

Jennifer Zapata, Senior VP Human Resources

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, 2008,

or

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

For the Transition Period from to .

Commission File 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. ☐

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

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ (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 $346.4 million based upon the reported closing price of $14.26 on the New York Stock Exchange as of June 30, 2008.

As of February 28, 2009, the Group had 24,201,047 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Group's annual report to shareholders for the year 2008 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 2008 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, 2008

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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, Financial Services, and Treasury, 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 23 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 and 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 and 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; and increasing the level of integration in the marketing and delivery of banking and financial services;

(3) Matching its portfolio of investment securities with the related funding to better lock-in favorable spreads, and primarily investing in U.S. government agency obligations.

(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. 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, Financial Services, and Treasury. 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 23 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.

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. The Group is 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.

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.

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 and engages 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.

Treasury Activities

Treasury activities encompass all of the Group's treasury-related functions. The Group's investment portfolio consists of mortgage-backed securities, obligations of U.S. Government sponsored agencies, PuertoRico Government and agency obligations, structured credit investments, and money market instruments. Agency 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, wholesale deposits, 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.

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. 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 also 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 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 from the reserve account. 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.

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 $10.0 billion in assets — capital level, supervisory rating, weighted average CAMELS component rating, and certain financial ratios; for banks with $10.0 billion up to $30.0 billion in assets — capital level, supervisory rating, weighted average CAMELS component ratings, long-term debt issuer ratings (unless none are available in which case certain financial ratios are used), and additional risk information; and for banks with over $30.0 billion in assets — capital level, supervisory rating, weighted average CAMELS component ratings, long-term 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.

On October 3, 2008, President George W. Bush signed into law the Emergency Economic Stabilization Act of 2008 ("EESA"), which temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The temporary increase in deposit insurance coverage became effective upon the President's signature. The legislation provides that the basic deposit insurance limit will return to $100,000 after December 31, 2009. The legislation did not increase coverage for retirement accounts; which continues to be $250,000.

On November 21, 2008, the Board of Directors of the FDIC approved the Temporary Liquidity Guarantee Program (TLGP) to strengthen confidence and encourage liquidity in the banking system. The TLGP is comprised of the Debt Guarantee Program ("DGP") and the Transaction Account Guarantee Program ("TAGP"). The DGP guarantees all newly issued senior unsecured debt (e.g., promissory notes, unsubordinated unsecured notes and commercial paper) up to prescribed limits issued by participating entities, including bank holding companies, beginning on October 14, 2008 and continuing through October 31, 2009. For eligible debt issued by that date, the FDIC will provide the guarantee coverage until the earlier of the maturity date of the debt or June 30, 2012. The TAGP offers a full guarantee for non interest-bearing transaction deposit accounts held at FDIC-insured depository institutions. The unlimited deposit coverage is voluntary for eligible institutions and is in addition to the $250,000 FDIC deposit insurance per depositor that was included as part of the EESA. The TAGP coverage became effective on October 14, 2008 and will continue for participating institutions until December 31, 2009. The Group opted to become a participating entity on both of these programs and will pay applicable fees for participation. Participants in the DGP program have a fee structure based on a sliding scale, depending on length of maturity. Shorter-term debt have a lower fee structure and longer-term debt have a higher fee. The range is 50 basis points on debt of 180 days or less, and a maximum of 100 basis points for debt with maturities of one year or longer, on an annualized basis. Any eligible entity that has not chosen to opt out of the TAGP is assessed, on a quarterly basis, an annualized 10 cents per $100 fee on balances in non interest bearing transaction accounts that exceed the existing deposit insurance limit of $250,000. The Group's banking subsidiary issued in March 2009 $105 million in notes guaranteed under the FDIC TLGP. These notes are due on March 16, 2012, bear interest at a 2.75% fixed rate, and are backed by the full faith and credit of the United States. Interest on the notes is payable on the 16th of each March and September, beginning

September 16, 2009. An annual fee of 100 basis points will also be paid to the FDIC to maintain the FDIC guarantee coverage until the maturity of the notes.

On December 16, 2008, the Board of Directors of the FDIC voted to adopt a final rule increasing risk-based assessment rates uniformly by seven basis points, on an annual basis, for the first quarter of 2009. Banks previously paid between 5 and 43 cents per $100 of their domestic deposits for FDIC insurance. Under this final rule, risk-based rates will range between 12 and 50 cents per $100 of domestic deposits (annualized) for the first quarter 2009 assessment. Most institutions will be charged between 12 and 14 cents per $100 of deposits. On February 27, 2009, the Board of Directors of the FDIC voted to adopt a final rule to alter the way in which the FDIC's risk-based assessment system differentiates for risk, change deposit insurance assessment rates, and make technical and other changes to the rules governing the risk-based assessment system. Under this final rule, risk-based rates will range between 12 and 45 cents per $100 of domestic deposits (annualized) and between 7 and 77.5 cents per $100 of domestic deposits after adjustments, effective April 1, 2009. Most institutions will be charged between 7 and 24 cents per $100 of deposits. Also on February 27, 2009, the Board of Directors of the FDIC voted to adopt an interim final rule to impose an emergency special assessment of 20 cents per $100 of deposits on June 30, 2009, and to allow the FDIC to impose emergency special assessments after June 30, 2009 of 10 cents per $100 of deposits if the reserve ratio of the DIF is estimated to fall to a level that the FDIC believes would adversely affect public confidence or to a level that is close to zero or negative at the end of a calendar quarter.

Brokered Deposits

FDIC regulations adopted under the FDIA govern the receipt of brokered deposits by banks. Well-capitalized institutions are not subject to limitations on brokered deposits, while adequately-capitalized institutions are able to accept, renew or rollover brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the interest paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits. As of December 31, 2008, the Bank was a well-capitalized institution and was therefore not subject to these limitations on brokered deposits.

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"). Banking organizations are expected to maintain at least 50 percent of their Tier 1 Capital as common equity. Not more than 25% of qualifying Tier 1 Capital may consist of noncumulative perpetual preferred stock, trust preferred securities or other "so-called" restricted core capital elements. In addition, effective October 17, 2008, the Federal Reserve Board approved an interim rule to allow the inclusion of the senior perpetual preferred stock issued to the Treasury Department under the TARP Capital Purchase Program, without limit, as Tier 1 capital. "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. "Tier 3 Capital" consists of qualifying unsecured subordinated debt. The sum of Tier 2 and Tier 3 Capital may not exceed the amount of Tier 1 Capital.

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, 2008, 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 if certain requirements are met.

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 a range of corporate governance and accounting measures to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of disclosures under federal securities laws. In addition, SOX established membership requirements and responsibilities for the audit committee, imposed restrictions on the relationship between the Group and external auditors, imposed additional responsibilities for the external financial statements on our chief executive officer and chief financial officer, expanded the disclosure requirements for corporate insiders, required management to evaluate its disclosure controls and procedures and its internal control over financial reporting, and required the auditors to issue a report on the internal controls over financial reporting.

Since the 2005 Annual Report on Form 10-K, the Group has included its management assessment regarding the effectiveness of the Group's internal control over financial reporting. The internal control report includes a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the Group; management's assessment as to the effectiveness of the Group's internal control over financial reporting based on management's evaluation, as of year-end; and the framework used by management as criteria for evaluating the effectiveness of the Group's internal control over financial reporting. As of December 31, 2008, the Group's management concluded that its internal control over financial reporting was effective. The Group's independent registered public accounting firm reached the same conclusion.

Puerto Rico Banking Act

As a Puerto Rico-chartered commercial bank, the Bank is subject to regulation and supervision by the OCFI under the Puerto Rico 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.

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.

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, 2008, the Group had 539 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.

We may incur a significant impairment charge in connection with a decline in the market value of our investment securities portfolio, including our mortgage-backed securities and structured credit investments

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

When the fair value of a security declines, management must assess whether the decline is "other-than-temporary." When the decline in fair value is deemed "other-than-temporary," the amortized cost basis of the investment security is reduced to its then current fair value through a charge to earnings. Such impairment charges reflect non-cash losses at the time of recognition. Subsequent disposition or sale of such assets could further affect our future results of operations, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale. The review of whether a decline in fair value is other-than-temporary considers numerous factors such as: (1) adverse situations that might affect our ability to fully collect interest and principal;

(2) the credit quality and performance of any underlying collateral and guarantees; (3) the length of time the amortized cost has exceeded the fair value and the severity of the impairment relative to the security's amortized cost basis; (4) external credit ratings and market value; (5) management's assessment of current market conditions and future expectations; and (6) current and expected future interest rates. Many of these factors involve significant judgment.

As of December 31, 2008, in connection with management's evaluation of fair value referenced above, we had approximately $529.7 million in non-agency collateralized mortgage obligations, net of unrealized losses of $108.0 million in our available-for-sale investment securities portfolio. At December 31, 2008, the investment securities portfolio also included structured credit investments with balances of $136.2 million in the available-for-sale portfolio, with unrealized losses of approximately $43.4 million. These unrealized losses were deemed "temporary" and excluded from earnings, and reported net of tax in other comprehensive loss. If all or a significant portion of these unrealized losses were determined to be other-than-temporary, we would recognize a material charge to earnings in the quarter during which such determination was made, our capital ratios would be adversely impacted and our credit ratings could be downgraded. A significant reduction in our capital ratios or a ratings downgrade might adversely impact our ability to access the capital markets or might increase our cost of capital.

Changes in interest rates may hurt our business

Changes in interest rates is one of the principal market risks affecting us. Our income and cash flows depend to a great extent on the difference between the interest rates earned on interest-earning assets such as loans and investment securities, and the interest rates paid on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors that are beyond our control, including general economic conditions and the policies of various governmental and regulatory agencies (in particular, the Federal Reserve Board). Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the prepayment speed of loans, the value of loans and investment securities, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits or other sources of funding.

We are at risk because most of our business is conducted in Puerto Rico, which is experiencing a downturn in the economy and in the real estate market

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 and natural hazards that affect Puerto Rico. Beginning in 2005 and continuing through 2009, the Puerto Rico economy has been deteriorating due, in part, to reductions in private investment, especially in the construction sector which has a multiplier effect on the whole economy. According to the latest revisions by the Puerto Rico Planning Board, the Island's economy registered a contraction of 2.5% for the fiscal year ended June 30, 2008, and the Puerto Rico Planning Board projects a further decline of 3.4% and 2.0% for the fiscal years ending June 30, 2009 and 2010, respectively.

The Commonwealth of Puerto Rico government is currently facing a significant fiscal deficit. The Commonwealth's access to the municipal bond market and its credit ratings depend, in part, on achieving a balanced budget. In March 2009, the Legislature passed, and the Governor signed, laws to reduce spending, including public-sector employment by 10% or 30,000 jobs, raise revenues through selective tax increases, and stimulate the economy. Since the government is an important source of employment on Puerto Rico, these measures could exacerbate the recession.

Pursuant to the Declaration of Fiscal Emergency and Omnibus Plan for Economic Stabilization and Restoration of the Puerto Rican Credit Act of March, 2, 2009, for tax years beginning after December 31, 2008, and ending before January 1, 2012, every corporation engaged in trade or business in Puerto Rico, including banks, insurance companies, and international banking entities, will be subject to an additional five percent (5%) surcharge on corporate income tax. This temporary tax was enacted as a measure to generate additional revenues to address the fiscal crisis that the government of Puerto Rico is currently facing.

A period of reduced economic growth or a recession has historically resulted in a reduction in lending activity and an increase in the rate of defaults in commercial loans, consumer loans and residential mortgages. A recession may have a significant adverse impact on our net interest income and fee income. We may also experience significant losses on the loan portfolio due to a higher level of defaults on commercial loans, consumer loans and residential mortgages.

The decline in Puerto Rico's economy has 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. Among other things, we have experienced an increase in the level of our non-performing assets and loan loss provision, which adversely affects our profitability. If the decline in economic activity continues, additional increases in the allowance for loan losses could be necessary and there could be further adverse effects on our profitability. The reduction in consumer spending may also continue to impact growth in our other interest and non-interest revenue sources.

Financial results are constantly exposed to market risk

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

We use an asset-liability management software to project future movements in our balance sheet and income statement. The starting point of the projections generally corresponds to the actual values of the balance sheet on the date of the simulations. These simulations are highly complex, and use many simplifying assumptions.

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.

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

We offer certificates of deposit with an option tied to the performance of the Standard & Poor's 500 stock market index and we use derivatives, such as option agreements with major broker-dealer companies, to manage our exposure to changes in the value of the index. We may also use derivatives, such as interest rate swaps, to manage part of our exposure to market risk caused by changes in interest rates. The derivative instruments that we may utilize also have their own risks, which include: (1) basis risk, which is the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost; (2) credit or default risk, which is the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder; and (3) legal risk, which is the risk that we are unable to enforce certain terms of such instruments. All or any of such risks could expose us to losses.

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

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

A comprehensive risk management function is essential to the financial and operational success of our business. The types of risk we monitor and seek to manage include, but are not limited to, operational risk, market risk, fiduciary risk, legal and compliance risk, liquidity risk and credit risk. We have adopted various policies, procedures and systems to monitor and manage risk. There can be no assurance that those policies, procedures and systems are adequate to identify and mitigate all risks inherent in our various businesses. In addition, our businesses and the markets in which we operate are continuously evolving. If we fail to fully understand the implications of changes in our business or the financial markets and to adequately or timely enhance our risk framework to address those changes, we could incur losses.

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

The residential mortgage loan origination business has historically been cyclical, enjoying periods of strong growth and profitability followed by periods of lower volumes and industry-wide losses. The market for residential mortgage loan originations is currently in decline, and this trend could also reduce the level of mortgage loans that we may originate in the future and may adversely impact our business. During periods of rising interest rates, refinancing originations for many mortgage products tend to decrease as the economic incentives for borrowers to refinance their existing mortgage loans are reduced. In addition, the residential mortgage loan origination business is impacted by home values. A recent trend of decreasing values in certain housing segments has also been noted. There is a risk that a reduction in housing values could negatively impact our loss levels on the mortgage portfolio because the value of the homes underlying the loans is a primary source of repayment in the event of foreclosure.

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. In addition, any material decline in real estate values would weaken our collateral loan-to-value ratios and increase the possibility of loss if a borrower defaults.

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

The housing market in the U.S. is undergoing a correction of historic proportions. After a period of several years of booming housing markets, fueled by liberal credit conditions and rapidly rising property values, the sector has been in the midst of a substantial correction since early 2007. The general level of property values in the U.S., as measured by several indices widely followed by the market, has declined. These declines are the result of ongoing market adjustments that are aligning property values with income levels and home inventories. The 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 and brokered deposits. While most of our repurchase agreements have been structured with initial terms to maturity of between three and ten years, the counterparties have the right to exercise put options before the contractual maturities.

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

Although 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 a period of financial disruption such as the one currently being experienced in the U.S. financial system, or if negative developments occurred with respect to us, the availability and cost of our funding sources could be adversely affected. In that event, our cost of funds may increase, thereby reducing our net interest income, or we may need to dispose of a portion of our investment portfolio, which, depending upon market conditions, could result in realizing a loss or experiencing other adverse accounting consequences upon the dispositions. Our efforts to monitor and manage liquidity risk may not be successful to deal with dramatic or unanticipated changes in the global securities markets or other reductions in liquidity driven by us or market related events. In the event that such sources of funds are reduced or eliminated and we are not able to replace them on a cost-effective basis, we may be forced to curtail or cease our loan origination business and treasury activities, which would have a material adverse effect on our operations and financial condition.

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. This default risk is affected by a number of factors, including:

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

We strive to maintain an appropriate allowance for loan 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.

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 Office of the Commissioner of Financial Institutions of Puerto Rico may require us to establish additional reserves. Additions to the allowance for loan losses would result in a decrease of 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.

Competition with other financial institutions could adversely affect our profitability

We face substantial competition in originating loans and in attracting deposits and assets to manage. The competition in originating loans and attracting assets comes principally from other U.S., Puerto Rico and foreign banks, investment advisors, broker/dealers, mortgage banking companies, consumer finance companies, credit unions, insurance companies, and other institutional lenders and purchasers of loans. We will encounter greater competition as we expand our operations. Increased competition may require us to increase the rates we pay on deposits or lower the rates we charge on loans which could adversely affect our profitability.

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

We are subject to extensive regulation, supervision and examination by federal and Puerto Rico banking authorities. As a result of the recent turmoil in U.S. financial markets, there may be significant changes and increased regulation of banks and bank holding companies in the future. Any change in applicable federal or Puerto Rico laws or regulations could significantly affect our powers, authority and operations, and could have a material adverse effect on our financial condition and results of operations. Regulatory changes could also impose additional costs which could negatively impact our profitability. 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 us.

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

We operate an international banking entity pursuant to the International Banking Center Regulatory Act of Puerto Rico that provides us with significant tax advantages. Our international banking entity is generally not subject to Puerto Rico income taxes on interest earned on, or gain realized from the sale of, non-Puerto Rico assets, including U.S. government obligations and certain mortgage backed securities. This exemption has allowed us to have effective tax rates significantly below the maximum statutory tax rates. In the past, the legislature of Puerto Rico has considered proposals to curb the tax benefits afforded to international banking entities. In the event legislation passed in Puerto Rico to eliminate or modify the 100% tax exemption enjoyed by international banking entities, the consequences could have a materially adverse impact on us, including increasing our tax burden or otherwise adversely affecting our financial condition, results of operations or cash flows.

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.

Stock price volatility

The trading price of the Group's stock could be subject to significant fluctuations due to a change in sentiment in the market regarding the operations, business prospects or industry outlook. Risk factors may include the following:

- operating results that may be worse than the expectations of management, securities analysts and investors;
- developments in the business or in the financial sector in general;
- regulatory changes affecting the industry in general or the business and operations;
- the operating and securities price performance of peer financial institutions;
- announcements of strategic developments, acquisitions and other material events by the Group or its competitors;
- changes in the credit, mortgage and real estate markets, including the markets for mortgage-related securities; and
- changes in global financial markets and global economies and general market conditions.

Stock markets, in general, and the Group's common stock in particular, have recently experienced significant price and volume volatility and the market price of the common stock may continue to be subject to similar market fluctuations that may be unrelated to the operating performance or prospects.

Dividends on the common stock

Holders of the Group's common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on the common stock, we are not required to do so. The Group expects to continue to pay dividends but its ability to pay future dividends at current levels will necessarily depend upon its earnings, financial condition, and market conditions.

Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect the Group's financial statements

The Group's financial statements are subject to the application of Generally Accepted Accounting Principles in the United States ("GAAP"), which is periodically revised and/or expanded. Accordingly, from time to time the Group is required to adopt new or revised accounting standards issued by the FASB. Market conditions have prompted accounting standard setters to promulgate new guidance which further interprets or seeks to revise accounting pronouncements related to financial instruments, structures or transactions as well as to issue new standards expanding disclosures. The impact of accounting pronouncements that have been issued but not yet implemented is disclosed in the Group's annual and quarterly reports on Form 10-K and Form 10-Q. An assessment of proposed standards is not provided as such proposals are subject to change through the exposure process and, therefore, the effects on the Group's financial statements cannot be meaningfully assessed. It is possible that future accounting standards that the Group is required to adopt could change the current accounting treatment that the Group applies to its consolidated financial statements and that such changes could have a material effect on the Group's financial condition and results of operations.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

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 five branch premises and leases eighteen 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, 2008, the aggregate future rental commitments under the terms of the leases, exclusive of taxes, insurance and maintenance expenses payable by the Group, was $31.6 million.

The Group's investment in premises and equipment, exclusive of leasehold improvements, at December 31, 2008, was $25.3 million.

ITEM 3. *LEGAL PROCEEDINGS*

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, 2008 and 2007, 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, 2008, the Group had approximately 6,622 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 plan as of December 31, 2008:

	(a)	(b)	(c)
Plan Category	**Number of Securities to Be Issued Upon Exercise of Outstanding Options**	**Weighted-average Exercise Price of Outstanding Options**	**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	164,322(1)	14.61	385,678

(1) Includes 56,000 stock options and 108,322 restricted shares.

Subsequent to the adoption of SFAS 123R in July 1, 2005, the Group recorded approximately $559,000, $86,000 and $15,000 related to compensation expense for options issued during the years ended December 31, 2008, 2007, and 2006, respectively.

Purchases of equity securities by the issuer and affiliated purchasers

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 shares of common stock. The shares of common stock so repurchased are to be held by the Group as treasury shares. There were no repurchases during 2008. The approximate dollar value of shares that may yet be repurchased under the plan amounted to $11.3 million at December 31, 2008.

ITEM 6. *SELECTED FINANCIAL DATA*

The information required by this item is incorporated herein by reference from portions of the 2008 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,**	
	2008	**2007**	**2006**	**2005**	**2005**	**2004**
Excluding Interest on Deposits	1.08x	1.22x	(A)	1.21x	1.66x	2.11x
Including Interest on Deposits	1.06x	1.17x	(A)	1.16x	1.48x	1.72x

(A) During 2006, earnings were not sufficient to cover preferred dividends, and the ratio was less than 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, 2008, 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 2008 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 2008 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 2008 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, 2008, 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 2008 annual report to shareholders filed as Exhibit 13.0.

c. Attestation Report of the Public Accounting Firm

The registered public accounting firm's attestation report on the Group's internal control over financial reporting is incorporated herein by reference from portions of the 2008 annual report to shareholders filed as Exhibit 13.0.

d. Changes in Internal Control over Financial Reporting

There have not been any 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 quarter of the year ended December 31, 2008, 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.

PART IV

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 2008 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)	Certificate of Incorporation, as amended.(1)
3(ii)	By-Laws.(2)
4.1	Certificate of Designation of the 7.125% Noncumulative Monthly Income Preferred Stock, Series A.(3)
4.2	Certificate of Designation of 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(6)
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)

Exhibit No.:	Description of Document:
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	Amended and Restated 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)
10.27	Form of restricted unit award and agreement
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 2008 annual report to shareholders
21.0	List of subsidiaries
23.1	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 June 23, 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 2008 annual meeting of stockholders filed with the SEC on April 28, 2008.

(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 Fernández, José Rafael Fernández, President and Chief Executive Officer	Dated: March 16, 2009
By: /s/ Norberto González Norberto González Executive Vice President and Chief Financial Officer	Dated: March 16, 2009

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 José J. Gil de Lamadrid Chairman of the Board	Dated: March 16, 2009
By: /s/ José Rafael Fernández José Rafael Fernández Vice Chairman of the Board	Dated: March 16, 2009
By: /s/ Juan Carlos Aguayo Juan Carlos Aguayo Director	Dated: March 16, 2009
By: /s/ Dr. Pablo I. Altieri Dr. Pablo I. Altieri Director	Dated: March 16, 2009
By: /s/ Maricarmen Aponte Maricarmen Aponte Director	Dated: March 16, 2009
By: /s/ Francisco Arriví Francisco Arriví Director	Dated: March 16, 2009
By: /s/ Nelson García Nelson García Director	Dated: March 16, 2009
By: /s/ Julian Inclán Julian Inclán Director	Dated: March 16, 2009

By: /s/ Rafael Machargo	Dated: March 16, 2009
Rafael Machargo Director	
By: /s/ Pedro Morazzani	Dated: March 16, 2009
Pedro Morazzani Director	
By: /s/ Josen Rossi	Dated: March 16, 2009
Josen Rossi Director	

EXHIBIT 10.27

AWARD NO.: _____________

ORIENTAL FINANCIAL GROUP INC.
2007 OMNIBUS PERFORMANCE INCENTIVE PLAN
RESTRICTED UNIT AWARD AND AGREEMENT

This Restricted Unit Award and Agreement (the "Award") is made and entered into on this ___th day of __________, 20___, by and between Oriental Financial Group Inc. (the "Corporation") and __________(the "Grantee"). All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the 2007 Omnibus Performance Incentive Plan, as amended and restated (the "Plan"). Whenever appropriate, words and terms used in the singular shall be deemed to include the plural, and vice versa, and the masculine gender shall be deemed to include the feminine gender.

WHEREAS, the Corporation has established and maintains the Plan to, among other things, provide flexibility to the Corporation and its Affiliates to attract, retain and motivate their directors, officers, and other key employees through the grant of awards based on performance and to adjust their compensation practices to the best compensation practices and corporate governance trends as they develop from time to time;

WHEREAS, the Plan is further intended to motivate high levels of individual performance coupled with increased shareholder returns;

WHEREAS, the Plan is administered by the Compensation Committee of the Board of Directors of the Corporation (the "Plan Administrators");

WHEREAS, Grantee is eligible to participate in the Plan; and

WHEREAS, the Plan Administrators have determined that Grantee shall participate and receive performance incentives under the Plan.

NOW, THEREFORE, in consideration of the premises, and subject to the terms and conditions of the Plan, the Corporation and Grantee agree as follows:

SECTION 1. Award; Grantee Rights. The Corporation hereby awards__________ (__________) Restricted Units (the "Restricted Units") to Grantee for the acquisition of an equal number of shares of Common Stock at the end of the Restricted Period. A Restricted Unit does not represent an equity interest in the Corporation and carries not voting or dividend rights. The Restricted Units may be forfeited to, and acquired at no cost by, the Corporation as set forth in Sections 3 and 4 below.

SECTION 2. Lapse of Restricted Period. Subject to Article X of the Plan regarding a Change of Control, the Restricted Period shall commence on the date of this Award and shall lapse in its entirety on the third anniversary of the date of this Award. Notwithstanding anything to the contrary herein, upon the lapse of the Restricted Period, the Compensation Committee may, in its sole discretion, elect to pay cash or part cash and part Common Stock in lieu of delivering only Common Stock. If a cash payment is made in lieu of delivering Common Stock, the amount of such cash payment for each share of Common Stock to which Grantee is entitled shall be equal to the Fair Market Value of the Common Stock on the date on which the Restricted Period lapsed.

SECTION 3. Termination of Employment. The following provisions shall apply in the event of Grantee's termination of employment with the Corporation or any Affiliate:

(a) Due to Death. In the event Grantee's employment terminates by reason of his death, Grantee's estate or beneficiaries shall receive a payment calculated in the following manner: (i) the number of Restricted Units will be reduced by multiplying the grant under this Award by a fraction, the numerator of which is the number of full months in the applicable vesting period during which Grantee was an active employee and the denominator of which is the number of months in the vesting period set forth in Section 2 above (with a partial month worked counted as a full month if Grantee is an active employee for 15 days or more in that month); and (ii) the resulting reduced number of Restricted Units shall be considered vested and payment of such pro-rated Award is to be made to Grantee's beneficiaries or estate as soon as practicable after Grantee's termination of employment.

(b) Due to Disability. In the event Grantee's employment is terminated by reason of his Disability, Grantee (or his estate or beneficiaries, if he subsequently dies) shall receive a payment calculated in the following manner: (i) the number of Restricted Units will be reduced by multiplying the grant under this Award by a fraction, the numerator of which is the number of full months in the applicable vesting period during which Grantee was an active employee and the denominator of which is the number of months in the vesting period set forth in Section 2 above (with a partial month worked counted as a full month if Grantee is an active employee for 15 days or more in that month); and (ii) the resulting reduced number of Restricted Units shall be considered vested and payment of such pro-rated Award is to be made to Grantee (his beneficiaries or estate, if he subsequently dies) as soon as practicable after Grantee's termination of employment.

(c) Due to Cause. In the event Grantee's employment is terminated by the Corporation or any Affiliate for Cause, the remaining Restricted Units shall be forfeited at the time of such termination, and Grantee shall disgorge any profit, gain or other benefit received in respect of the lapse of restrictions on any prior Restricted Units for a period of twelve (12) months prior to the termination of his employment for Cause. In the event Grantee's employment is terminated by the Corporation or any Affiliate for Cause, the provisions of this paragraph will apply notwithstanding any assertion (by Grantee or otherwise) of a termination of employment for any other reason enumerated under this Section.

(d) Due to Resignation. In the event Grantee's employment ends as a result of his resignation from the Corporation or any Affiliate, any Restricted Units shall be forfeited upon his termination of employment.

SECTION 4. Termination of Non-Employee Director. In the event a Grantee's service as a Non-Employee Director shall terminate for reasons other than removal for Cause, Grantee (or his estate or beneficiaries, if he subsequently dies) shall receive a payment calculated in the following manner: (i) the number of Restricted Units will be reduced by multiplying the grant under this Award by a fraction, the numerator of which is the number of full months in the applicable vesting period during which Grantee was an active Non-Employee Director and the denominator of which is the number of months in the applicable vesting period (with a partial month worked counted as a full month if Grantee is an active Non-Employee Director for 15 days or more in that month); and (ii) the resulting reduced number of Restricted Units shall be considered vested and payment of such pro-rated Awards is to be made to Grantee (or his or her beneficiaries or estate, if he subsequently dies) as soon as practicable after his termination as a Non-Employee Director. In the event Grantee's service as a Non-Employee Director is terminated for Cause, any remaining Restricted Units granted to him shall be forfeited at the time of such termination, and Grantee shall disgorge any profit, gain or other benefit received in respect of the lapse of restrictions on any prior Restricted Units for a period of twelve (12) months prior to his termination for Cause. In the event Grantee's service as a Non-Employee Director is terminated for Cause, the provisions of this paragraph will apply notwithstanding any assertion (by Grantee or otherwise) of a termination for any other reason.

SECTION 5. Transferability of Award. This Award may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. No transfer of this Award by will or by the laws of descent and distribution shall be effective to bind the Corporation unless the Corporation shall have been furnished with written notice thereof and a copy of the will and/or such other evidence as the Board or the Plan Administrators may determine necessary to establish the validity of the transfer.

SECTION 6. Miscellaneous Provisions.

(a) This Award is subject to the terms of the Plan, which are incorporated herein by reference.

(b) The laws of the Commonwealth of Puerto Rico shall be controlling in all matters relating to this Award.

(b) The titles and captions in this Award are used only for convenience and are not to be used in its interpretation.

IN WITNESS WHEREOF*, the Corporation and Grantee have duly executed this Award on the date first above written.*

ORIENTAL FINANCIAL GROUP INC.	***GRANTEE***
*By:*______________________________	*By:*______________________________
Name:	*Name:*
Title:	*Title:*

EXHIBIT 13.0

ORIENTAL FINANCIAL GROUP INC.

FORM-10K

FINANCIAL DATA INDEX

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, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity, comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2008. 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, 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.

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, 2008, 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 16, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

San Juan, Puerto Rico
March 16, 2009

Stamp No. 2376374 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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, 2008. Management made its assessment using the criteria set forth in *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, 2008 based on the COSO Criteria.

The effectiveness of the Group's internal control over financial reporting as of December 31, 2008, has been audited by KPMG LLP, the Group's independent registered public accounting firm, as stated in their report dated March 16, 2009.

By: */s/ José Rafael Fernández*
José Rafael Fernández
President and Chief Executive Officer
Date: March 16, 2009

By: */s/ Norberto González*
Norberto González
Executive Vice President and Chief Financial Officer
Date: March 16, 2009

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") internal control over financial reporting as of December 31, 2008, based on *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, 2008, 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. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated March 16, 2009, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Juan, Puerto Rico
March 16, 2009

Stamp No. 2376375 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, 2008 AND 2007

	December 31, 2008	December 31, 2007
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$ 14,370	$ 22,858
Money market investments	52,002	66,125
Total cash and cash equivalents	**$ 66,372**	**$ 88,983**
Investments:		
Trading securities, at fair value with amortized cost of $255 (December 31, 2007 — $1,103)	256	1,122
Investment securities available-for-sale, at fair value with amortized cost of $4,052,574 (December 31, 2007 — $3,063,763)		
Securities pledged that can be repledged	3,790,733	2,903,078
Other investment securities	133,474	166,204
Total investment securities available-for-sale	3,924,207	3,069,282
Investment securities held-to-maturity, at amortized cost with fair value at December 31, 2007 of $1,478,112		
Securities pledged that can be repledged	—	1,348,159
Other investment securities	—	144,728
Total investment securities held-to-maturity	—	1,492,887
Other investments	150	1,662
Federal Home Loan Bank (FHLB) stock, at cost	21,013	20,658
Total investments	**3,945,626**	**4,585,610**
Securities sold but not yet delivered	**834,976**	—
Loans:		
Mortgage loans held-for-sale, at lower of cost or fair value	26,562	16,672
Loans receivable, net of allowance for loan losses of $14,293 (December 31, 2007 — $10,161)	1,192,550	1,162,894
Total loans, net	**1,219,112**	**1,179,566**
Accrued interest receivable	43,914	52,315
Premises and equipment, net	21,184	21,779
Deferred tax asset, net	28,463	10,362
Foreclosed real estate	9,162	4,207
Investment in equity indexed options	12,801	40,709
Other assets	23,926	16,324
Total assets	**$6,205,536**	**$5,999,855**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$ 453,798	$ 119,152
Savings accounts	50,152	387,790
Certificates of deposit	1,281,350	739,478
Total deposits	**1,785,300**	**1,246,420**
Borrowings:		
Federal funds purchased and other short-term borrowings	29,193	27,460
Securities sold under agreements to repurchase	3,761,121	3,861,411
Advances from FHLB	308,442	331,898
Subordinated capital notes	36,083	36,083
Total borrowings	**4,134,839**	**4,256,852**
Securities purchased but not yet received	398	111,431
Accrued expenses and other liabilities	23,682	25,691
Total liabilities	**5,944,219**	**5,640,394**
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; 25,739,397 shares issued; 24,297,132 shares outstanding (December 31, 2007 — 25,557,197; 24,120,771)	25,739	25,557
Additional paid-in capital	212,625	210,073
Legal surplus	43,016	40,573
Retained earnings	51,233	45,296
Treasury stock, at cost 1,442,265 shares (December 31, 2007 — 1,436,426 shares)	(17,109)	(17,023)
Accumulated other comprehensive loss, net of tax of $6,004 (December 31, 2007 — $2,166)	(122,187)	(13,015)
Total stockholders' equity	**261,317**	**359,461**
Commitments and Contingencies		
Total liabilities and stockholders' equity	**$6,205,536**	**$5,999,855**

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

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

	Year Ended December 31,		
	2008	2007	2006
	(In thousands, except per share data)		
Interest income:			
Loans	$ 79,165	$ 85,802	$ 76,815
Mortgage-backed securities	184,019	111,006	98,058
Investment securities	73,948	88,868	55,381
Short term investments	1,907	3,688	2,057
Total interest income	**339,039**	**289,364**	**232,311**
Interest expense:			
Deposits	49,781	52,794	46,701
Securities sold under agreements to repurchase	161,363	147,690	125,714
Advances from FHLB, term notes and other borrowings	14,280	12,042	10,439
Subordinated capital notes	2,304	3,108	5,331
Total interest expense	**227,728**	**215,634**	**188,185**
Net interest income	**111,311**	**73,730**	**44,126**
Provision for loan losses	8,860	6,550	4,388
Net interest income after provision for loan losses	**102,451**	**67,180**	**39,738**
Non-interest income (loss):			
Financial service revenues	16,481	17,295	16,029
Banking service revenues	5,726	7,862	9,006
Investment banking revenues	950	126	2,701
Mortgage banking activities	3,685	2,401	3,368
Net gain (loss) on:			
Sale of securities	35,070	2,953	(15,171)
Other than temporary impairments	(58,804)	—	(2,466)
Derivatives	(12,943)	10,997	3,218
Mortgage tax credits	(2,480)	—	—
Early extinguishment of subordinated capital notes	—	—	(915)
Trading securities	(13)	23	28
Other investments	148	1,174	1,008
Foreclosed real estate	(670)	(349)	180
Other	608	20	252
Total non-interest income (loss), net	**(12,242)**	**42,502**	**17,238**
Non-interest expenses:			
Compensation and employees' benefits	30,572	28,376	24,630
Occupancy and equipment	13,843	12,624	11,573
Professional and service fees	9,203	7,161	6,821
Advertising and business promotion	3,970	4,472	4,466
Taxes, other than payroll and income taxes	2,514	2,151	2,405
Insurance	2,421	848	861
Electronic banking charges	1,726	1,826	1,914
Loan servicing expenses	1,383	1,740	2,017
Clearing and wrap fees expenses	1,250	1,070	1,383
Communication	1,292	1,302	1,598
Director and investors relations	1,159	2,103	2,323
Other	3,409	3,186	3,722
Total non-interest expenses	**72,742**	**66,859**	**63,713**
Income (loss) before income taxes	**17,467**	**42,823**	**(6,737)**
Income tax expense (benefit)	(9,323)	1,558	(1,631)
Net income (loss)	**26,790**	**41,265**	**(5,106)**
Less: Dividends on preferred stock	(4,802)	(4,802)	(4,802)
Income available (loss) to common shareholders	**$ 21,988**	**$ 36,463**	**$ (9,908)**
Income (loss) per common share:			
Basic	**$ 0.91**	**$ 1.50**	**$ (0.40)**
Diluted	**$ 0.90**	**$ 1.50**	**$ (0.40)**
Average common shares outstanding	24,260	24,326	24,562
Average potential common shares-options	67	41	101
Average diluted common shares outstanding	**24,327**	**24,367**	**24,663**
Cash dividends per share of common stock	**$ 0.56**	**$ 0.56**	**$ 0.56**

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, 2008, 2007, AND 2006

CHANGES IN STOCKHOLDERS' EQUITY:	Year Ended December 31, 2008	2007	2006
		(In thousands)	
Preferred stock:			
Balance at beginning and end of year	**$ 68,000**	**$ 68,000**	**$ 68,000**
Common stock:			
Balance at beginning of year	25,557	25,431	25,350
Stock options exercised	182	126	81
Balance at end of year	25,739	25,557	25,431
Additional paid-in capital:			
Balance at beginning of year	210,073	209,033	208,454
Stock-based compensation expense	559	86	15
Stock options exercised	1,993	954	564
Balance at end of year	**212,625**	**210,073**	**209,033**
Legal surplus:			
Balance at beginning of year	40,573	36,245	35,863
Transfer from retained earnings	2,443	4,328	382
Balance at end of year	**43,016**	**40,573**	**36,245**
Retained earnings:			
Balance at beginning of year	45,296	26,772	52,340
Cumulative effect on initial adoption of SAB 108	—	—	(1,525)
Net income (loss)	26,790	41,265	(5,106)
Cash dividends declared on common stock	(13,608)	(13,611)	(13,753)
Cash dividends declared on preferred stock	(4,802)	(4,802)	(4,802)
Transfer to legal surplus	(2,443)	(4,328)	(382)
Balance at end of year	**51,233**	**45,296**	**26,772**
Treasury stock:			
Balance at beginning of year	(17,023)	(12,956)	(10,332)
Stock purchased	(235)	(4,297)	(2,819)
Stock used to match defined contribution plan	149	230	195
Balance at end of year	**(17,109)**	**(17,023)**	**(12,956)**
Accumulated other comprehensive income (loss), net of tax:			
Balance at beginning of year	(13,015)	(16,099)	(37,884)
Other comprehensive income (loss), net of tax	(109,172)	3,084	21,785
Balance at end of year	**(122,187)**	**(13,015)**	**(16,099)**
Total stockholders' equity	**$ 261,317**	**$359,461**	**$336,426**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

COMPREHENSIVE INCOME (LOSS)	Year Ended December 31, 2008	2007	2006
		(In thousands)	
Net income (loss)	**$ 26,790**	**$41,265**	**$ (5,106)**
Other comprehensive income (loss):			
Unrealized gain (loss) on securities available-for-sale arising during the year	(121,204)	17,492	607
Realized (gain) loss on investment securities included in net income (loss)	(35,070)	(2,953)	15,172
Other than temporary impairments	38,932	—	2,466
Unrealized loss on derivatives designated as cash flows hedges arising during the year	—	—	(720)
Realized gain on derivatives designated as cash flow hedges included in net loss	—	(773)	(3,218)
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	8,170	(2,457)	(1,520)
Other comprehensive income (loss) for the year, net of tax	**(109,172)**	**3,084**	**21,785**
Comprehensive income (loss)	**$ (82,382)**	**$44,349**	**$16,679**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006.

	Year Ended December 31,		
	2008	2007	2006
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	**$ 26,790**	**$ 41,265**	**$ (5,106)**
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Amortization of deferred loan origination fees, net of costs	(428)	(721)	(1,625)
Amortization of premiums, net of accretion of discounts on investment securities	(787)	792	5,584
Other than temporary impairments	58,804	—	2,466
Realized gains on termination of derivative instruments	—	—	(852)
Depreciation and amortization of premises and equipment	5,443	5,419	5,481
Deferred income tax expense (benefit)	(9,931)	1,332	(3,448)
Equity in losses (earnings), of investment in limited liability partnership	—	279	(828)
Provision for loan losses	8,860	6,550	4,388
Stock-based compensation	559	86	15
(Gain) loss on:			
Sale of securities	(35,070)	(3,799)	15,172
Mortgage banking activities	(3,685)	(2,401)	(3,368)
Derivatives	12,943	(10,997)	(3,218)
Mortgage tax credits	2,480	—	—
Sale of foreclosed real estate	670	349	(180)
Sale of premises and equipment	1	(20)	(253)
Early extinguishment of subordinated capital notes	—	—	915
Originations of loans held-for-sale	(140,080)	(114,722)	(95,713)
Proceeds from sale of loans held-for-sale	59,339	54,510	41,842
Net (increase) decrease in:			
Trading securities	866	(879)	(97)
Accrued interest receivable	8,401	(24,375)	1,127
Other assets	(10,082)	(2,680)	(3,559)
Net increase (decrease) in:			
Accrued interest on deposits and borrowings	2,717	4,787	(15,096)
Other liabilities	(2,312)	6,358	(2,466)
Net cash used in operating activities	**(14,502)**	**(38,867)**	**(58,819)**
Cash flows from investing activities:			
Purchases of:			
Investment securities available-for-sale	(4,159,014)	(3,434,208)	(1,273,841)
Investment securities held-to-maturity	(14,000)	(158,842)	(6,500)
Other investments	—	—	(30,982)
FHLB stock	(22,164)	(43,390)	(29,520)
Equity options	(5,596)	(10,474)	(3,702)
Maturities and redemptions of:			
Investment securities available-for-sale	970,543	744,976	134,949
Investment securities held-to-maturity	304,133	633,052	384,594
FHLB stock	21,809	36,339	35,915
Other investments	1,511	29,274	—
Investment in limited liability partnership	—	11,634	—

	Year Ended December 31,		
	2008	2007	2006
		(In thousands)	
Proceeds from sales of:			
Investment securities available-for-sale	1,687,779	787,255	1,252,995
Investment securities held-to-maturity	834,976	—	—
Foreclosed real estate	3,264	4,017	2,589
Fixed assets	14	—	—
Loan production:			
Origination and purchase of loans, excluding loans held-for-sale	(157,063)	(189,773)	(459,975)
Principal repayment of loans	111,869	219,108	150,704
Additions to premises and equipment	(4,863)	(7,025)	(10,553)
Net decrease in time deposits with other banks	—	—	60,000
Net cash provided by (used in) investing activities	**(426,802)**	**(1,378,057)**	**206,673**
Cash flows from financing activities:			
Net increase (decrease) in:			
Deposits	564,516	19,016	(69,452)
Securities sold under agreements to repurchase	(100,023)	1,320,609	111,844
Federal funds purchased	1,733	13,892	9,113
Proceeds from:			
Advances from FHLB	2,098,070	5,279,620	4,703,325
Exercise of stock options, net	2,175	1,080	645
Repayments of advances from FHLB	(2,121,370)	(5,131,520)	(4,834,725)
Repayments of subordinated capital notes	—	—	(36,083)
Repayment of term notes	—	(15,000)	—
Termination of derivative instruments	(7,912)	1,620	10,459
Common stock purchased	(86)	(4,067)	(2,624)
Dividends paid	(18,410)	(18,413)	(18,555)
Net cash provided by (used in) financing activities	**418,693**	**1,466,837**	**(126,053)**
Net change in cash and cash equivalents	**(22,611)**	**49,913**	**21,801**
Cash and cash equivalents at beginning of year	88,983	39,070	17,269
Cash and cash equivalents at end of year	**$ 66,372**	**$ 88,983**	**$ 39,070**
Supplemental Cash Flow Disclosure and Schedule of Noncash Activities:			
Interest paid	$ 225,011	$ 213,764	$ 203,280
Income taxes paid	$ 54	$ —	$ 82
Mortgage loans securitized into mortgage-backed securities	$ 72,753	$ 56,544	$ 52,214
Investment securities held-to-maturity transferred to available-for-sale	$ 375,780	$ —	$ —
Securities sold but not yet delivered	$ 834,976	$ —	$ 6,430
Securities purchased but not yet received	$ 398	$ 111,431	$ —
Transfer from loans to foreclosed real estate	$ 8,889	$ 3,709	$ 2,471

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2008, 2007, AND 2006

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

The Group 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.

The main offices of 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 23 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 ("OCIF") 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. Oriental International Bank Inc. ("OIB"), a wholly-owned subsidiary of the Bank, operates as an international banking entity ("IBE") pursuant to the International Banking Center Regulatory Act of Puerto Rico, as amended. OIB offers the Bank certain Puerto Rico tax advantages. OIB activities are limited under Puerto Rico law to persons and assets/liabilities located outside of Puerto Rico.

Oriental Financial Services is subject to the supervision, examination and regulation of the Financial Industry Regulatory Authority ("FINRA"), the SEC, and the OCIF. 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 securities and derivative instruments, and the determination of income taxes and other-than-temporary impairment of securities.

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, a restricted security, 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, 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.

Financial Instruments

Certain financial instruments including derivatives, trading securities and investment securities available-for-sale are recorded at fair value and unrealized gains and losses are recorded in other comprehensive income or as part of non-interest income, as appropriate. Fair values are based on listed market prices, if available. If listed market prices are not available, fair value is determined based on other relevant factors, including price quotations for similar instruments. The fair values of certain derivative contracts are derived from 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.

Effective January 1, 2008, the Group determines the fair value of its financial instruments based on the fair value framework established in SFAS No. 157, "*Fair Value Measurements*" ("SFAS 157"), which establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below:

Basis of Fair Value Measurement

Level 1-Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2-Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3-Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Impairment of Investment Securities

The Group conducts periodic reviews to identify and evaluate each investment in an unrealized loss position, in accordance with FASB Staff Position No. 115-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" (FSP FAS 115-1). An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in accumulated other comprehensive income for available-for-sale securities, while such losses related to held-to-maturity securities are not recorded, as these investments are carried at their amortized cost (less any other-than-temporary impairment). Regardless of the classification of the securities as available-for-sale or held-to-maturity, the Group has assessed each position for credit impairment.

Factors considered in determining whether a loss is temporary include:

- the length of time and the extent to which fair value has been below cost;
- the severity of the impairment;
- the cause of the impairment and the financial condition and near-term prospects of the issuer;
- activity in the market of the issuer which may indicate adverse credit conditions; and
- the Group's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Group's review for impairment generally entails:

- identification and evaluation of investments that have indications of possible other-than-temporary impairment;
- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;

- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and
- documentation of the results of these analyses.

The extent of the Group's analysis regarding credit quality and the stress on assumptions used in the analysis have been refined for securities where the current fair value or other characteristics of the security warrant. Given the declines in fair values and length of time in which non-agency collateralized mortgage obligations and structured credit investments have been in an unrealized loss position, general concerns regarding housing prices and the delinquency and default rates on the mortgage loans and credit spreads underlying these securities, the Group's analysis for identifying securities for which all principal and interest contractually due might not be recovered have been performed.

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 statements of financial condition accounts.

The Group follows Statement of Financial Accounting Standards ("SFAS") No. 133: *"Accounting for Derivative Instruments and Hedging Activities*," (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 accruals 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-fair value, 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.

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 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 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 2007, 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 mortgage servicing right "("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. When a loan is paid off or sold, any unamortized net deferred fee (cost) is credited (charged) to income.

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 the valuation allowance from period to period are generally included in the Group's tax provision in the period of change.

In addition to valuation allowances, the Group establishes accruals for uncertain tax positions when, despite the belief that the Group's tax return positions are fully supported, the Group believes that certain positions are likely to be challenged. The uncertain tax positions 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 uncertain tax positions 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"*, 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 Group's policy to include interest and penalties related to unrecognized tax benefits within the provision for taxes on the audited consolidated statements of operations did not change as a result of implementing the provisions 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.

The Group follows the fair value method of recording stock-based compensation. 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.

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.

Recently Issued Accounting Pronouncements and Interpretations:

SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51"

In December 2007, the FASB issued SFAS No. 160, *"Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51"* ("SFAS No. 160"), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. FAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited. The Group is currently evaluating the effect, if any, of the adoption of SFAS 160 on its consolidated financial statements, including disclosures. The effects of adopting this standard, if any, are not expected to be significant.

SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133"

In March 2008, FASB issued SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133"*, which requires additional disclosures for derivative instruments and hedging activities and thereby improves the transparency of financial reporting. Entities are required to provide enhanced disclosures about how and when an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Earlier application was encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. While the Group already provides some of these disclosures, enhancements will be incorporated into the Group's annual and quarterly reports for the year 2009.

SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles"

In May 2008, FASB issued SFAS No. 162, *" The Hierarchy of Generally Accepted Accounting Principles"*, This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy).

This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of this standard is not expected to have a material effect on the Group's results of operations or financial position. The Board does not expect that this statement will result in a change in current accounting practice. However, transition provisions have been provided in the unusual circumstance that the application of the provisions of this statement results in a change in accounting practice.

FASB Staff Position (FSP) FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions"

The objective of FSP FAS 140-3, issued by the FASB in February 2008, is to provide implementation guidance on whether the security transfer and contemporaneous repurchase financing involving the transferred financial asset must be evaluated as one linked transaction or two separate delinked transactions. Current practice records the transfer as a sale and the repurchase agreement as a financing. The FSP FAS 140-3 requires the recognition of the transfer and the repurchase agreement as one linked transaction, unless all of the following criteria are met: (1) the initial transfer and the repurchase financing are not contractually contingent on one another; (2) the initial transferor has full recourse upon default, and the repurchase agreement's price is fixed and not at fair value; (3) the financial asset is readily obtainable in the marketplace and the transfer and repurchase financing are executed at market rates; and (4) the maturity of the repurchase financing is before the maturity of the financial asset. The scope of this FSP is limited to transfers and subsequent repurchase financings that are entered into contemporaneously or in contemplation of one another. The impact of this FSP is not expected to be material.

FASB Staff Position (FSP) FAS 142-3, "Determination of the Useful Life of Intangible Assets"

FSP FAS 142-3, issued by the FASB in April 2008, amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142 *"Goodwill and Other Intangible Assets"*. In developing these assumptions, an entity should consider its own historical experience in renewing or extending similar arrangements adjusted for entity's specific factors or, in the absence of that experience, the assumptions that market participants would use about renewals or extensions adjusted for the entity specific factors. FSP FAS 142-3 shall be applied prospectively to intangible assets acquired after the effective date. This FSP was adopted by the Group on January 1, 2009. The Group will be evaluating the potential impact of adopting this FSP to prospective transactions.

FSP No. FAS 132(R)-1 "Employers' Disclosures about Postretirement Benefit Plan Assets"

FSP No. FAS 132(R)-1 applies to employers who are subject to the disclosure requirements of FAS 132(R), and is effective for fiscal years ending after December 15, 2009. Early application is permitted. Upon initial application, the provisions of this FSP are not required for earlier periods that are presented for comparative periods. The FSP requires the following additional disclosures: (a) the investment allocation decision making process, including the factors that are pertinent to an understanding of investment policies and strategies, (b) the fair value of each major category of plan assets, disclosed separately for pension plans and other postretirement benefit plans, (c) the inputs and valuation techniques used to measure the fair value of plan assets, including the level within the fair value hierarchy in which the fair value measurements in their entirety fall, and (d) significant concentrations of risk within plan assets. Additional detailed information is required for each category above. The Group will apply the new disclosure requirements commencing with the December 31, 2009 financial statements. This FSP impacts disclosures only and will not have an effect on the Group's consolidated statements of condition or operations.

FSP No. EITF 03-6-1 "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"

FSP No. EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share ("EPS") under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, *"Earnings per Share"*. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of this FSP. Early application is not permitted. This FSP will not have an impact on the Group's EPS computation upon adoption.

EITF Issue No. 07-5 "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock"

In June 2008, the EITF reached consensus on Issue No. 07-5. EITF Issue No. 07-5 provides guidance about whether an instrument (such as outstanding common stock warrants) should be classified as equity and not marked to market for accounting purposes. EITF Issue No. 07-5 is effective for financial statements for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The guidance in this issue shall be applied to outstanding instruments as of the beginning of the fiscal year in which t*his issue is initially applied.* The Group is currently evaluating the effect, if any, of the adoption of EITF Issue No. 07-5 on its consolidated financial statements, including disclosures. The effects of adopting this standard, if any, are not expected to be significant.

EITF 08-6 "Equity Method Investment Accounting Considerations"

EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. This EITF applies to all investments accounted for under the equity method. This issue is effective for fiscal years beginning on or after December 15, 2008. Early adoption is not permitted. EITF 08-6 provides guidance on (1) how the initial carrying value of an equity method investment should be determined, (2) how an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed, (3) how an equity method investee's issuance of shares should be accounted for, and (4) how to account for a change in an investment from the equity method to the cost method. Management is evaluating the impact that the adoption of EITF 08-6 could have on the Group's financial condition or results of operations.

EITF 08-7 "Accounting for Defensive Intangible Assets"

EITF 08-7 clarifies how to account for defensive intangible assets subsequent to initial measurement. EITF 08-7 applies to acquired intangible assets in situations in which an entity does not intend to actively use the asset but intends to hold (lock up) the asset to prevent others from obtaining access to the asset (a defensive intangible asset), except for intangible assets that are used in research and development activities. A defensive intangible asset should be accounted for as a separate unit of accounting. A defensive intangible asset shall be assigned a useful life in accordance with paragraph 11 of SFAS. No 142. EITF 08-7 is effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management will be evaluating the impact of adopting this EITF for future acquisitions commencing in January 2009.

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, 2008 and 2007, were as follows:

	December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Obligations of US Government sponsored agencies	$ 941,144	$ 7,172	$ 6,400	$ 941,916	5.37%
Puerto Rico Government and agency obligations	91,599	597	9,307	82,889	5.40%
Structured credit investments	176,127	3,469	43,415	136,181	6.18%
Total investment securities	**1,208,870**	**11,238**	**59,122**	**1,160,986**	
FNMA and FHLMC certificates	1,521,428	25,527	205	1,546,750	5.51%
GNMA certificates	332,071	4,206	496	335,781	5.76%
CMOs issued by US Government sponsored agencies	352,579	202	1,755	351,026	5.34%
Non-agency collateralized mortgage obligations	637,626	—	107,962	529,664	8.49%
Total mortgage-backed-securities and CMOs	**2,843,704**	**29,935**	**110,418**	**2,763,221**	
Total securities available-for-sale	**$4,052,574**	**$41,173**	**$169,540**	**$3,924,207**	**5.98%**

	December 31, 2007				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	(In thousands)				
Available-for-sale					
Obligations of US Government sponsored agencies	$1,279,977	$14,933	$ —	$1,294,910	5.91%
Puerto Rico Government and agency obligations	18,331	63	937	17,457	5.69%
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					
Obligations of US Government sponsored agencies	418,731	902	1,980	417,653	4.92%
Puerto Rico Government and agency obligations	55,206	—	3,781	51,425	5.29%
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%**

For 2008, 2007, and 2006 the Group's investment securities portfolio generated tax-exempt interest income of $193.4 million, $184.7 million and $146.7 million, respectively. 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 2008, 2007, and 2006, the Group's investment securities portfolio generated taxable interest income of $64.6 million, $18.9 million and $8.8 million, respectively.

The next table shows the amortized cost and fair value of the Group's investment securities at December 31, 2008, by contractual maturity. 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.

	December 31, 2008 Available-for-sale	
	Amortized Cost	Fair Value
	(In thousands)	
Investment securities		
Due within one year	$ 91,995	$ 91,996
Due after 1 to 5 years	20,000	20,595
Due after 5 to 10 years	740,290	720,448
Due after 10 years	356,585	327,947
	1,208,870	**1,160,986**
Mortgage-backed securities		
Due after 5 to 10 years	48,291	48,315
Due after 10 years	2,795,413	2,714,906
	2,843,704	**2,763,221**
	$4,052,574	**$3,924,207**

In keeping with the Group's investment strategy, during 2008 and 2007, there were certain sales of securities because the Group felt at the time of such sales that gains could be realized while at the same time having good opportunities to invest the proceeds in other investment securities with attractive yields and terms that would allow the Group to continue to protect its net interest margin.

Gains on sales of securities for 2008 included $14.4 million from the sale on December 31, 2008 of $820.6 million of agency-issued held-to-maturity securities. On that date, the remaining securities in the held-to-maturity portfolio were transferred to the available-for-sale portfolio at a fair value of $354.5 million with a net unrealized loss of $23.2 million.

Net proceeds from the sale of investment securities available-for-sale during 2008, 2007, and 2006, totaled $1.7 billion, $787.3 million and $1.3 billion, respectively. Gross realized gains on those sales during 2008 and 2007 were $20.7 million and $3.8 million, respectively. There were no losses on such sales during 2007 and $61,000 in losses during 2008 (all related to securities with unamortized cost at the time of sale which represented less than 15% of the original face value). Gross realized gains and losses for 2006 were $5.6 million and $20.8 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 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 tables below present an analysis of the gross realized gains and losses by category for the years ended December 31, 2008 and 2007:

Description	Original Face	Original Cost	Sale Proceeds	Sale Book Value	Gains	Losses
	Year Ended December 31, 2008					
	In thousands					
Gain on Sale of Securities Available-for-Sale						
Investment securities						
Obligations of U.S. Government sponsored agencies	$ 793,300	$ 792,957	$ 791,278	$ 782,063	$ 9,215	$ —
Puerto Rico Government and agency obligations	1,830	1,843	1,862	1,804	58	—
Total investment securities	795,130	794,800	793,140	783,867	9,273	—
Mortgage-backed securities and CMOs						
FNMA and FHLMC certificates	821,488	817,883	703,921	693,370	10,551	—
GNMA certificates	196,578	199,030	190,718	189,872	907	(61)
Total mortgage-backed securities and CMOs	1,018,066	1,016,913	894,639	883,242	11,458	(61)
	1,813,196	**1,811,713**	**1,687,779**	**1,667,109**	**20,731**	**(61)**
Gain on Sale of Securities Held-to-Maturity						
Investment securities						
Obligations of U.S. Government sponsored agencies	125,000	124,981	127,870	125,000	2,870	—
Total investment securities	125,000	124,981	127,870	125,000	2,870	—
Mortgage-backed securities and CMOs						
FNMA and FHLMC certificates	1,028,748	906,544	488,628	481,518	7,110	—
GNMA certificates	319,223	272,090	115,358	113,441	1,917	—
CMOs issued by U.S. Government sponsored agencies	140,473	140,979	103,119	100,616	2,503	—
Total mortgage-backed securities and CMOs	1,488,444	1,319,613	707,105	695,575	11,530	—
	1,613,444	**1,444,594**	**834,975**	**820,575**	**14,400**	**—**
Total	**$3,426,640**	**$3,256,307**	**$2,522,754**	**$2,487,684**	**$35,131**	**$(61)**

Description	Original Face	Original Cost	Sale Proceeds	Sale Book Value	Gains	Losses
	Year Ended December 31, 2007					
	In thousands					
Gain on Sale of Securities Available-for-Sale						
Investment securities						
Obligations of U.S. Government sponsored agencies	$200,000	$200,000	$200,575	$200,000	$ 575	$—
Corporate bonds and others	25,000	24,909	25,322	24,964	358	—
Total investment securities	225,000	224,909	225,897	224,964	933	—
Mortgage-backed securities and CMOs						
FNMA and FHLMC certificates	533,823	516,991	515,463	513,562	1,901	—
GNMA certificates	45,168	43,824	45,895	45,779	120	—
Total mortgage-backed securities and CMOs	578,991	560,815	561,358	559,341	2,021	—
Total	**$803,991**	**$785,724**	**$787,255**	**$784,305**	**$2,954**	**$—**

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, 2008 and 2007:

December 31, 2008
Available-for-sale

	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
CMOs issued by US Government sponsored agencies	$ 334,690	$ 1,756	$332,934
Obligations of US Government sponsored agencies	325,500	6,400	319,100
Non-agency collaterized mortgage obligations	234,198	48,564	185,634
FNMA and FHLMC certificates	52,519	148	52,371
Structured credit investments	50,262	11,815	38,447
GNMA certificates	19,582	229	19,353
Puerto Rico Government and agency obligations	252	1	251
	1,017,003	**68,913**	**948,090**

	12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
Non-agency collaterized mortgage obligations	403,428	59,398	344,030
Structured credit investments	100,548	31,599	68,949
Puerto Rico Government and agency obligations	71,218	9,306	61,912
GNMA certificates	9,084	267	8,817
FNMA and FHLMC certificates	1,025	57	968
	585,303	**100,627**	**484,676**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
Non-agency collaterized mortgage obligations	637,626	107,962	529,664
CMOs issued by US Government sponsored agencies	334,690	1,756	332,934
Obligations of US Government sponsored agencies	325,500	6,400	319,100
Structured credit investments	150,810	43,414	107,396
Puerto Rico Government and agency obligations	71,470	9,307	62,163
FNMA and FHLMC certificates	53,544	205	53,339
GNMA certificates	28,666	496	28,170
	$1,602,306	**$169,540**	**$1,432,766**

December 31, 2007
Available-for-sale

	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
FNMA and FHLMC certificates	$110,224	$ 223	$110,001
Structured credit investments	85,548	7,188	78,360
GNMA certificates	8,392	113	8,279
Puerto Rico Government and agency obligations	1,996	325	1,671
	206,160	**7,849**	**198,311**

	12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
Non-agency collaterized mortgage obligations	630,429	12,505	617,924
Puerto Rico Government and agency obligations	14,152	613	13,539
GNMA certificates	4,481	102	4,379
	649,062	**13,220**	**635,842**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
Non-agency collaterized mortgage obligations	630,429	12,505	617,924
FNMA and FHLMC certificates	110,224	223	110,001
Structured credit investments	85,548	7,188	78,360
Puerto Rico Government and agency obligations	16,148	938	15,210
GNMA certificates	12,873	215	12,658
	$855,222	**$21,069**	**$834,153**

Held-to-maturity

	Less than 12 months		
	Amortized Cost	Unrealized Loss	Fair Value
		(In thousands)	
Structured credit investments	$ 96,171	$11,949	$ 84,222
CMOs issued by US Government sponsored agencies	17,176	25	17,151
Puerto Rico Government and agency obligations	4,238	54	4,184
GNMA certificates	1,227	104	1,123
	118,812	**12,132**	**106,680**

	12 months or more		
	Amortized Cost	Unrealized Loss	Fair Value
FNMA and FHLMC certificates	304,536	3,560	300,976
Obligations of US Government sponsored agencies	124,998	1,980	123,018
Puerto Rico Government and agency obligations	50,968	3,727	47,241
GNMA certificates	49,299	1,100	48,199
CMOs issued by US Government sponsored agencies	19,287	502	18,785
	549,088	**10,869**	**538,219**

	Total		
	Amortized Cost	Unrealized Loss	Fair Value
FNMA and FHLMC certificates	304,536	3,560	300,976
Obligations of US Government sponsored agencies	124,998	1,980	123,018
Structured credit investments	96,171	11,949	84,222
Puerto Rico Government and agency obligations	55,206	3,781	51,425
GNMA certificates	50,526	1,204	49,322
CMOs issued by US Government sponsored agencies	36,463	527	35,936
	$667,900	**$23,001**	**$644,899**

At December 31, 2008, the Group's available-for-sale investment securities portfolio included approximately $637.6 million in non-agency collateralized mortgage obligations with unrealized losses of $108.0 million. The Group constantly monitors such non-agency mortgage-backed securities to measure the collateral performance and gauge trends for these positions, and the effect of collateral behavior on credit enhancements, cash flows, and fair values of the bonds. The Group also periodically monitors any rating migration, and takes into account the time lag between underlying performance and rating agency actions. The collateral for all of the non-agency collateralized mortgage obligations, except for the ALT A CMO which is more thoroughly discussed below, has performed well since the issuance of each security, and the estimated future collateral losses are lower than the subordination levels of these securities. This assessment is made using a cash flow model that estimates the cash flows on the underlying mortgages, based on the security-specific collateral and deal structure, and also includes inputs such as constant default rates, prepayment rates, and loss severity. The cash flows estimated by the model are distributed through the different tranches of each security, considering subordination for the different tranches. The model results as of December 31, 2008 show that the estimated future collateral losses, if any, are lower than the Group's subordination levels for each one of these securities. Therefore, these securities are deemed to have sufficient credit support to absorb the estimated collateral losses.

In the specific case of the ALT A CMO, this security has been carefully monitored during the past year. As of September 30, 2008, the Group considered that the deterioration in the performance of underlying loans, including increases in delinquency and loss experience, resulted in projected losses which exceeded the tranche subordination. As a result, an other than temporary impairment amounting to $38.9 million was recorded at that time. As of December 31, 2008, the Group updated its estimate of the fair value of the security considering new market information, including a higher yield of 18% as a result of continued higher spreads under current market conditions. Based on the Group's estimate using market participant data, projected losses in excess of remaining subordination at that date were not greater than the estimated losses contemplated by projected cash flow estimates determined upon previous impairment of the security. Consequently, the Group has determined that no additional impairment charge is necessary as of December 31, 2008.

At December 31, 2008, the Group held structured credit investments amounting to $176.1 million in the available-for-sale portfolio, with unrealized losses of approximately $39.9 million. The Group's structured credit investments portfolio consists of two types of instruments: synthetic collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs). At December 31, 2008, the Group estimated that it will recover all interest and principal for the Group's specific tranches of these securities. This assessment is based on an analysis in which the credit quality of the Group's positions was evaluated through a determination of the expected losses on the underlying collateral. The losses on the underlying corporate pools were inferred by observations on the credit spreads of the reference entities or market quotes used to derive the credit spreads. The spreads of the portfolios were converted to loss probabilities, and these were applied to a cash flow model that provided estimated projected losses for each security. The model results as of December 31, 2008 show that the estimated future collateral losses, if any, are lower than the Group's subordination levels for each one of these securities. Therefore, these securities are deemed to have sufficient credit support to absorb the estimated collateral losses.

Other than temporary impairment analysis is based on estimates that depend on market conditions and are subject to further change over time. In addition, while the Group believes that the methodology used to value these exposures is reasonable, the methodology is subject to continuing refinement, including those made as a result of market developments. Consequently, it is reasonably possible that changes in estimates or conditions could result in the need to recognize other than temporary impairment in the future.

All other securities in an unrealized loss position at December 31, 2008, are mainly composed of securities issued or backed by U.S. government agencies and U.S. government sponsored agencies. 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, 2008, are temporary and are substantially related to market interest rate fluctuations and not to deterioration in the creditworthiness of the issuer or guarantor. At December 31, 2008, the Group has the intent and ability to hold these investments until a period of time sufficient to allow for any recovery in fair value or maturity up to (or beyond) the cost of these investments.

3. PLEDGED ASSETS

At December 31, 2008, residential mortgage loans with principal outstanding balances amounting to $639.8 million were pledged to secure advances and borrowings from the FHLB. Investment securities with fair values totaling $3.8 billion, $82.1 million and $36.2 million at December 31, 2008, 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 $112,000 at December 31, 2008, were pledged to the Puerto Rico Treasury Department.

As of December 31, 2008, investment securities available-for-sale not pledged amounted to $133.5 million. As of December 31, 2008, mortgage loans not pledged amounted to $383.6 million.

4. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans Receivable

The Group's credit activities are mainly with customers located in Puerto Rico. The Group's loan transactions are encompassed within three main categories: mortgage, commercial and consumer. The composition of the Group's loan portfolio at December 31, 2008 and 2007 was as follows:

	December 31,	
	2008	2007
	(In thousands)	
Loans secured by real estate:		
Residential — 1 to 4 family	$ 976,569	$ 960,704
Home equity loans, secured personal loans and others	23,507	28,783
Commercial	145,377	135,070
Deferred loan fees, net	(3,197)	(2,887)
	1,142,256	1,121,670
Other loans:		
Commercial	41,700	22,128
Personal consumer loans and credit lines	23,054	29,245
Deferred loan cost (fees), net	(167)	12
	64,587	51,385
Loans receivable	**1,206,843**	**1,173,055**
Allowance for loan losses	(14,293)	(10,161)
Loans receivable, net	**1,192,550**	**1,162,894**
Mortgage loans held-for-sale	26,562	16,672
Total loans, net	**$1,219,112**	**$1,179,566**

At December 31, 2008 and 2007, loans on which the accrual of interest has been discontinued amounted to $38.8 and $27.3 million, respectively. The gross interest income that would have been recorded in the years ended December 31, 2008, 2007, and 2006 if non-accrual loans had performed in accordance with their original terms amounted to $2.5 million, $2.0 million and $1.3 million, respectively. The Group's investment in loans past due 90 days or more and still accruing amounted to $38.7 million and $38.8 million at December 31, 2008, 2007, respectively.

Allowance for Loan Losses

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. The analysis includes a review of historical loan loss experience, value of underlying collateral, current economic conditions, financial condition of borrowers and other pertinent factors.

While management uses available information in estimating probable loan losses, future additions to the allowance may be required based on factors beyond the Group's control.

The changes in the allowance for loan losses for the years ended December 31, 2008, 2007, and 2006 were as follows:

	Year Ended December 31,		
	2008	2007	2006
		(In thousands)	
Balance at beginning of year	**$10,161**	**$ 8,016**	**$ 6,630**
Provision for loan losses	8,860	6,550	4,388
Loans charged-off	(5,104)	(4,906)	(3,678)
Recoveries	376	501	676
Balance at end of year	**$14,293**	**$10,161**	**$ 8,016**

The Group evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. At December 31, 2008, the total investment in impaired commercial loans was $4.6 million (December 31, 2007 — $1.1 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, 2008, 2007 and 2006, amounted to $1.9 million, $1.5 million, and $2.2 million, respectively. The Group's management determined that impaired loans required a valuation allowance in accordance with FASB Statement No. 114 *"Accounting by Creditors for Impairment of a Loan"* of approximately $1.1 million at December 31, 2008. No allowance was required at December 31, 2007.

5. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2008 and 2007 are stated at cost less accumulated depreciation and amortization as follows:

	December 31,		
	Useful Life (Years)	2008	2007
		(In thousands)	
Land	—	$ 1,014	$ 1,014
Buildings and improvements	40	4,234	4,682
Leasehold improvements	5 — 10	16,540	13,411
Furniture and fixtures	3 — 7	7,490	7,162
Information technology and other	3 — 7	12,527	14,072
		41,805	40,341
Less: accumulated depreciation and amortization		(20,621)	(18,562)
		$ 21,184	**$ 21,779**

Depreciation and amortization of premises and equipment for the years ended December 31, 2008, 2007, and 2006, totaled $5.4 million, $5.4 million, and $5.5 million, respectively. 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, 2008 and 2007 consists of $10.9 million and $10.6 million, respectively from loans, and $33.0 million and $41.7 million, respectively from investments.

Other assets at December 31, 2008 and 2007 consist of the following:

	December 31, 2008	December 31, 2007
	(In thousands)	
Mortgage tax credits	$ 5,047	$ 69
Prepaid expenses	3,433	2,645
Servicing asset	2,819	2,526
Goodwill	2,006	2,006
Investment in Statutory Trusts	1,086	1,086
Deferred charges	900	910
Accounts receivable and other assets	8,635	7,082
	$23,926	**$16,324**

In December 2007, the Commonwealth of Puerto Rico established mortgage loan tax credits to financial institutions that provided financing for the acquisition of new homeowners for the period from December 2007 to December 2008 up to a maximum amount of $220 million in tax credits overall. At December 31, 2008 and 2007 mortgage loan tax credits amounted to $5.0 million and $69,000, respectively. A loss of $2.5 million was included in the Consolidated Statements of Operations for the year ended December 31, 2008, representing a provision for loss on mortgage loan tax credits for new homeowners which surpassed the $220 million limit established by the government and is now doubtful whether these tax credits will be granted. No provision for loss on mortgage tax credits was recorded for the years ended December 31, 2007 or 2006.

7. DEPOSITS AND RELATED INTEREST

At December 31, 2008, 2007, the weighted average interest rate of the Group's deposits was 3.54%, and 4.42%, respectively, inclusive of non-interest bearing deposits of $53.2 million, and $50.0 million, respectively. Interest expense for the years ended December 31, 2008 and 2007, and 2006 is set forth below:

	Year Ended December 31, 2008	2007	2006
		(In thousands)	
Demand deposits	$ 4,197	$ 817	$ 857
Savings deposits	10,199	13,959	5,366
Certificates of deposit	35,385	38,018	40,479
	$49,781	**$52,794**	**$46,701**

At December 31, 2008 and 2007, time deposits in denominations of $100,000 or higher amounted to $548.4 million, and $615.8 million including: (i) public fund deposits from various local government agencies of $72.3 million and $95.8 million at a weighted average rate of 2.04% and 4.56%, which were collateralized with investment securities with fair value of $82.1 million and $100.4 million, respectively.

Excluding equity indexed options in the amount of $16.6 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 $6.5 million and unamortized deposit discounts in the amount of $16.7 million, the scheduled maturities of certificates of deposit at December 31, 2008 are as follows:

	(In thousands)
Within one year:	
Three (3) months or less	$ 301,337
Over 3 months through 1 year	676,661
	977,998
Over 1 through 2 years	128,337
Over 2 through 3 years	59,729
Over 3 through 4 years	73,277
Over 4 through 5 years	34,573
Over 5 years	1,086
	$1,275,000

At December 31, 2008 and 2007 brokered certificates of deposits amounted to $515.6 million and $35.0 million, respectively, at a weighted average rate of 2.97% and 4.79%.

The aggregate amount of overdraft in demand deposit accounts that were reclassified to loans amounted to $2.2 million as of December 31, 2008, (December 31, 2007 — $1.8 million).

8. BORROWINGS

Short Term Borrowings

At December 31, 2008, short term borrowings amounted to $29.2 million (December 31, 2007 — $27.5 million) which mainly consist of federal funds purchased with a weighted average rate of 1.49% (December 31, 2007 — 1.83%).

Securities Sold under Agreements to Repurchase

At December 31, 2008, 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, 2008, securities sold under agreements to repurchase (classified by counterparty), excluding accrued interest in the amount of $11.1 million, were as follows:

	Borrowing Balance	Fair Value of Underlying Collateral
	(In thousands)	
Citigroup	$1,800,000	$2,138,837
Credit Suisse First Boston Corporation	1,250,000	1,438,233
UBS Financial Services	500,000	595,583
JP Morgan Chase	100,000	118,764
Merrill Lynch	100,000	107,007
Total	**$3,750,000**	**$4,398,424**

The fair value of underlying collateral includes agency-issued investment securities with a fair value of $834.9 million sold on December 31, 2008 for which the transaction settled after that date. The proceeds from such sale were reinvested after year-end in similar quality agency-issued securities, which were then placed as collateral for the corresponding repurchase agreements.

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 counterparties 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 $11.1 million, at December 31, 2008:

Year of Maturity	Borrowing Balance	Weighted-Average Coupon	Settlement Date	Maturity Date	Next Put Date
	(In thousands)				
2010					
	$ 100,000	4.39%	8/14/2007	8/16/2010	2/14/2009
	100,000				
2011					
	100,000	4.17%	12/28/2006	12/28/2011	3/28/2009
	350,000	4.23%	12/28/2006	12/28/2011	3/28/2009
	100,000	4.29%	12/28/2006	12/28/2011	3/28/2009
	350,000	4.35%	12/28/2006	12/28/2011	3/28/2009
	900,000				
2012					
	350,000	4.26%	5/9/2007	5/9/2012	2/9/2009
	100,000	4.50%	8/14/2007	8/14/2012	8/14/2009
	300,000	4.47%	9/13/2007	9/13/2012	9/13/2009
	150,000	4.31%	3/6/2007	12/6/2012	12/7/2009
	900,000				
2014					
	100,000	4.67%	7/27/2007	7/27/2014	1/27/2010
	100,000				
2017	250,000	4.44%	3/2/2007	3/2/2017	3/2/2009
	500,000	4.46%	3/2/2007	3/2/2017	3/2/2009
	1,000,000	3.71%	3/6/2007	3/6/2017	3/6/2009
	1,750,000				
Total	$3,750,000	4.19%			

None of the structured repurchase agreements referred to above with put dates up to March 6, 2009 were put by the counterparties at their corresponding put dates. Such repurchase agreements include $1.25 billion which reset at the put dates at a formula which is based on the three-month LIBOR rate less fifteen times the difference between the ten-year SWAP rate and the two-year SWAP rate, with a minimum of 0.0% on $1.0 billion and 0.25% on $250 million, and a maximum of 10.6%. These repurchase agreements will bear the respective minimum rates of 0.0% and 0.25% from March 2009 to at least their next put dates scheduled for June 2009.

The following table presents the borrowings under repurchase agreements, excluding accrued interest in the amount of $11.1 million and $11.4 million, respectively, at December 31, 2008 and 2007, their maturities and approximate fair values of their collateral as follows:

	December 31,			
	2008		2007	
	Borrowing Balance	Fair Value of Underlying Collateral	Borrowing Balance	Fair Value of Underlying Collateral
	(In thousands)			
GNMA certificates				
Within 30 days	$ —	$ 215,923	$ 4,832	$ 27,672
1 — 3 years	24,232	25,127	—	—
3 — 5 years	80,264	84,364	10,729	11,241
Over 5 years	109,621	82,977	76,816	72,861
	214,117	408,391	92,377	111,774
FNMA certificates				
Within 30 days	—	239,966	32,000	101,982
1 — 3 years	8,701	9,050	3,261	3,401
3 to 5 years	404,596	424,447	437,719	450,431
Over 5 years	853,669	786,220	316,228	299,115
	1,266,966	1,459,683	789,208	854,929
FHLMC certificates				
Within 30 days	—	24,883	48,168	80,613
1 — 3 years	67,067	70,128	96,739	100,901
3 to 5 years	113,903	117,852	242,470	254,043
Over 5 years	371,557	340,142	229,075	221,558
	552,527	553,005	616,452	657,115
CMOs				
Within 30 days	—	12,059	—	17,512
3 to 5 years	801,237	876,170	746,355	743,807
Over 5 years	77,134	81,600	—	—
	878,371	969,829	746,355	761,319
US Agency securities				
Within 30 days	—	147,118	15,023	64,841
3 to 5 years	50,000	51,117	362,727	385,621
Over 5 years	788,019	809,281	1,227,881	1,237,606
	838,019	1,007,516	1,605,631	1,688,068
Total	**$3,750,000**	**$4,398,424**	**$3,850,023**	**$4,073,205**

At December 31, 2008 and 2007, the weighted average interest rate of the Group's repurchase agreements was 4.34% and 4.20%, respectively and included agreements with interest ranging from 3.71% to 4.67% and 3.71% to 5.25%, respectively. The following summarizes significant data on securities sold under agreements to repurchase as of December 31, 2008 and 2007, excluding accrued interest:

	December 31, 2008	December 31, 2007
	(In thousands)	
Average daily aggregate balance outstanding	$3,800,673	$3,154,369
Maximum amount outstanding at any month-end	$3,836,635	$3,850,023
Weighted average interest rate during the year	4.25%	4.68%
Weighted average interest rate at year end	4.34%	4.20%

Advances from the Federal Home Loan Bank

At December 31, 2008 and 2007, advances from the FHLB consisted of the following, excluding accrued interest of $1.7 million and $1.9 million, respectively:

Maturity Date	Fixed Interest Rate	December 31, 2008	December 31, 2007
		(In thousands)	
August-2008	4.07%	$ —	$ 50,000
January-2009	0.44%	26,700	—
May-2012	4.37%	25,000	25,000
July-2012	4.57%	25,000	25,000
July-2012	4.26%	25,000	25,000
August-2012	4.33%	50,000	50,000
August-2012	4.09%	100,000	100,000
May-2014	4.20%	25,000	25,000
May-2014	4.22%	30,000	30,000
		$306,700	**$330,000**
Weighted average interest rate		**3.91%**	**4.21%**

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, 2008, these advances were secured by mortgage loans amounting to $639.8 million. Also, at December 31, 2008, the Group has an additional borrowing capacity with the FHLB of $235.3 million. At December 31, 2008, the weighted average maturity of FHLB's advances was 43.6 months (December 31, 2007 — 51.3 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 and quarterly thereafter. 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, 2008:

Year of Maturity	Borrowing Balance (In thousands)	Weighted-Average Coupon	Settlement Date	Maturity Date	Next Put Date
2012					
	$ 25,000	4.37%	5/4/2007	5/4/2012	2/5/2009
	25,000	4.57%	7/24/2007	7/24/2012	1/24/2009
	25,000	4.26%	7/30/2007	7/30/2012	1/30/2009
	50,000	4.33%	8/10/2007	8/10/2012	2/10/2009
	100,000	4.09%	8/16/2007	8/16/2012	2/16/2009
	225,000				
2014					
	25,000	4.20%	5/8/2007	5/8/2014	2/8/2009
	30,000	4.22%	5/11/2007	5/11/2014	2/13/2009
	55,000				
	$280,000	4.24%			

None of the structured advances from the FHLB referred to above with put dates up to February 16, 2009 were put by the counterparty at their corresponding put dates.

Subordinated Capital Notes

Subordinated capital notes amounted to $36.1 million at December 31, 2008 and 2007.

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, 2008 and 2007 — 4.82% and 7.94%, respectively;), payable quarterly, and matures on September 17, 2033. Statutory Trust II may be called at par after five years and quarterly thereafter (next call date March 2009). 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.

Temporary Liquidity Guarantee Program

The Group's banking subsidiary issued in March 2009 $105 million in notes guaranteed under the FDIC Temporary Liquidity Guarantee Program. These notes are due on March 16, 2012, bear interest at a 2.75% fixed rate, and are backed by the full faith and credit of the United States. Interest on the notes is payable on the 16th of each March and September, beginning September 16, 2009. An annual fee of 100 basis points will also be paid to the FDIC to maintain the FDIC guarantee coverage until the maturity of the notes.

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 collateral, when considered necessary.

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.

During the year ended December 31, 2008, losses of $12.9 million were recognized and reflected as "Derivatives" in the consolidated statements of operations. This was mainly due to a $4.9 million loss in connection to equity index option agreements in which performance by the counterparty (Lehman Brothers Finance S.A.), which filed for bankruptcy on October 3, 2008, is uncertain, resulting in a credit risk exposure for such amount, and an interest-rate swap contract that the Group entered into in January 2008 to manage the Group's interest rate risk exposure with a notional amount of $500 million. Such contract was subsequently terminated, resulting in a loss to the Group of approximately $7.9 million. For the years ended December 31, 2007 and 2006, gains of $11.0 million and $3.2 million, respectively, were recognized and reflected as "Derivatives" in the consolidated statements of operations. There were no outstanding interest-rate swap contracts at December 31, 2008 and 2007.

The Group offers its customers certificates of deposit with an option tied to the performance of the Standard & Poor's 500 stock market 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 at December 31, 2008 and 2007. 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 $149.8 million and $152.5 million at December 31, 2008 and 2007, respectively; and embedded options on stock indexed deposits with notional amounts of $155.4 million and $147.0 million at December 31, 2008 and 2007, respectively.

At December 31, 2008, the yearly contractual maturities of derivative instruments were as follows:

Year Ending December 31,	Equity Indexed Options Purchased	Equity Indexed Options Written
	(In thousands)	
2009	22,085	20,578
2010	9,045	8,559
2011	21,415	20,417
2012	64,285	64,037
2013	38,590	36,198
	155,420	149,789

At December 31, 2008 and 2007, the purchased options used to manage the exposure to the stock market on stock indexed deposits represented an asset of $17.4 million and $40.7 million, respectively; the options sold to customers embedded in the certificates of deposit and recorded as deposits in the consolidated statement of financial condition, represented a liability of $31.9 million and $38.8 million, respectively.

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 currently 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, 2008 and 2007, the Group contributed 9,697, 17,216 and 12,787, respectively, shares of its common stock with a fair value of approximately $148,600, $204,200 and $168,200, respectively 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, 2008	December 31, 2007
Balance at the beginning of year	$1,960	$ 4,033
New loans	605	199
Repayments	(226)	(25)
Other	225	(2,247)
Balance at the end of year	**$2,564**	**$ 1,960**

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, 2008, 2007, and 2006 are as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Current income tax expense	$ 608	$ 226	$ 1,817
Deferred income tax expense (benefit)	(9,931)	1,332	(3,448)
Income tax expense (benefit)	**$(9,323)**	**$1,558**	**$(1,631)**

The Group maintained an effective tax rate lower than the statutory rate of 39% as of December 31, 2008 and 2007, and 43.5% as of December 31, 2006, 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, 2008 and 2007 and 2006, the Group generated tax-exempt interest income of $193.4 million, $184.7 million and $146.7 million, respectively. 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. Pursuant to the Declaration of Fiscal Emergency and Omnibus Plan for Economic Stabilization and Restoration of the Puerto Rican Credit Act of March, 2, 2009, for tax years beginning after December 31, 2008, and ending before January 1, 2012, every corporation engaged in trade or business in Puerto Rico, including banks, insurance companies, and international banking entities, will be subject to an additional five percent (5%) surcharge on corporate income tax. This temporary tax was enacted as a measure to generate additional revenues to address the fiscal crisis that the government of Puerto Rico is currently facing.

The reconciliation between the Puerto Rico income tax statutory rate and the effective tax rate as reported for the years ended December 31, 2008, 2007, and 2006 are as follows:

	Year Ended December 31,					
	2008		2007		2006	
	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)		(Dollars in thousands)		(Dollars in thousands)	
Statutory rate	$ 6,813	39.0%	$ 16,701	39.0%	$(2,931)	43.5%
Increase (decrease) in rate resulting from:						
Exempt interest income, net	(11,285)	−64.6%	(16,052)	−37.5%	(3,527)	52.3%
Non-deductible charge	42	0.2%	35	0.1%	37	−0.5%
Change in valuation allowance	(3,340)	−19.1%	573	1.3%	2,029	−30.1%
Provision/(credit) for income tax contingencies, net	(1,956)	−11.2%	529	1.2%	(465)	6.9%
Other items, net	403	2.3%	(228)	−0.5%	3,226	−47.9%
Income tax expense (benefit)	$ (9,323)	−53.4%	$ 1,558	3.6%	$(1,631)	24.2%

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, 2008 and 2007, are as follows:

	December 31, 2008	December 31, 2007
	(In thousands)	
Allowance for loan losses	$ 5,611	$ 3,978
Unamortized discount related to mortgage servicing rights sold	1,028	1,360
Deferred gain on sale of assets	180	261
Deferred loan origination fees	2,561	2,157
Other-than-temporary impairment	7,681	—
Unrealized net loss included in accumulated other comprehensive income	6,004	—
Charitable contributions	66	66
S&P option contracts	6,644	7,121
Net operating loss carryforwards	1,698	4,233
Other	147	67
Total gross deferred tax asset	**31,620**	**19,243**
Less: Valuation allowance	(1,253)	(4,593)
Net deferred tax asset	**30,367**	**14,650**
Unrealized net gain included in accumulated other comprehensive income	—	(2,166)
Deferred loan origination costs	(1,904)	(2,122)
Total deferred tax liabilities	**(1,904)**	**(4,288)**
Deferred tax asset, net	**$28,463**	**$10,362**

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, 2008. 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, 2008, the holding company and its subsidiaries have loss carryfowards for income tax purposes of approximately $3.7 million, which are available to offset future taxable income, if any, through December 2013.

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 $5.8 million. The Group classifies unrecognized tax benefits in income taxes payable. No adjustments resulted from the implementation of FIN 48. For the year ended December 31, 2007 there were no changes (new, expiring or settled) unrecognized tax benefits. For the year ended December 31, 2008 $2.5 million of unrecognized tax benefits expired due to the statute of limitation. The balance at December 31, 2008 was $4.0 million. The tax periods ended June 30, 2004, and 2005, and December 31, 2005, 2006, and 2007 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 (December 31, 2008-$1.5 million; $1.9 million as of December 31, 2007) for the payment of interest and penalties relating to unrecognized tax benefits. On January 13, 2009, $325,000 in unrecognized tax benefits expired due to statute of limitation. The Group does not anticipate any other significant changes in unrecognized tax benefits during 2009.

13. STOCKHOLDERS' EQUITY

Treasury Stock

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 shares of common stock. The shares of common stock so repurchased are to be held by the Group as treasury shares. There were no repurchases during 2008. The approximate dollar value of shares that may yet be repurchased under the plan amounted to $11.3 million at December 31, 2008.

The activity in connection with common shares held in treasury by the Group for 2008, 2007, and 2006 is set forth below:

	Year Ended December 31,					
	2008		2007		2006	
	Shares	Dollar Amount	Shares	Dollar Amount	Shares	Dollar Amount
			(In thousands)			
Beginning of year	1,436	$17,023	989	$12,956	770	$10,332
Common shares repurchased under the repurchase program	—	—	459	4,236	233	2,817
Common shares repurchased /used to match defined contribution plan, net	6	86	(12)	(169)	(14)	(193)
End of year	**1,442**	**$17,109**	**1,436**	**$17,023**	**989**	**$12,956**

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 23,000 options and 70,316 restricted shares in 2008.

The activity in outstanding options for 2008, 2007 and 2006, is set forth below:

	Year Ended December 31,					
	2008		2007		2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning of year	717,700	$16.15	833,533	$15.61	946,855	$15.51
Options granted	23,000	17.93	140,500	12.22	30,000	12.20
Options exercised	(182,200)	11.93	(134,586)	8.52	(72,486)	8.04
Options forfeited	(58,300)	21.49	(121,747)	17.09	(70,836)	19.60
End of year	**500,200**	**$17.14**	**717,700**	**$16.15**	**833,533**	**$15.61**

The total intrinsic value of stock options exercised during the year ended December 31, 2008 was $1.4 million.

The following table summarizes the range of exercise prices and the weighted average remaining contractual life of the options outstanding at December 31, 2008:

	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	6,826	$ 7.55	8.3	6,826	$ 7.55
8.45 to 11.27	3,000	10.29	1.4	—	—
11.27 to 14.09	247,339	12.42	3.3	69,939	12.51
14.09 to 16.90	62,035	15.60	5.5	38,035	15.92
19.73 to 22.55	31,100	20.75	4.4	19,600	20.10
22.55 to 25.37	88,850	23.98	4.3	88,850	23.98
25.37 to 28.19	61,050	27.48	4.2	61,050	27.48
	500,200	$17.14	4.5	284,300	$20.17
Aggregate Intrinsic Value	$ —			$ —	

The average fair value of each option granted during 2008, 2007, and 2006, was $5.39, $2.67, and $3.24, respectively. 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:

	2008	2007	2006
Weighted Average Assumptions:			
Dividend yield	4.78%	4.96%	4.26%
Expected volatility	35%	33%	34%
Risk-free interest rate	3.23%	4.82%	4.46%
Expected life (in years)	8.5	8.5	8.5

During 2008 the Group granted 70,316 restricted shares at a weighted average granted date fair value of $21.14 under the Omnibus Plan. During 2008, 8,408 restricted shares were forfeited and no restricted shares were exercised.

Earnings (loss) per Common Share

The calculation of earnings (loss) per common share for the years ended December 31, 2008 and 2007, and 2006 is as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands, except per share data)		
Net income (loss)	$26,790	$41,265	$ (5,106)
Less: Dividends on preferred stock	(4,802)	(4,802)	(4,802)
Income available (loss) to common shareholders’	**$21,988**	**$36,463**	**$ (9,908)**
Weighted average common shares and share equivalents:			
Average common shares outstanding	24,260	24,326	24,562
Average potential common shares-options	67	41	101
Total	**24,327**	**24,367**	**24,663**
Earnings (loss) per common share — basic	**$ 0.91**	**$ 1.50**	**$ (0.40)**
Earnings (loss) per common share — diluted	**$ 0.90**	**$ 1.50**	**$ (0.40)**

For the years ended December 31, 2008 and 2007, and 2006, weighted-average stock options with an anti-dilutive effect on earnings per share not included in the calculation amounted to 193,399, 635,934, and 494,179, 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, 2008, legal surplus amounted to $43.0 million (December 31, 2007 — $40.6 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, 2008 and 2007, consisted of:

	December 31, 2008	December 31, 2007
	(In thousands)	
Unrealized loss on securities available-for-sale transfered to held to maturity	$ —	$(16,543)
Unrealized gain (loss) on securities available-for-sale	(128,191)	5,694
Tax effect of accumulated other comprehensive income	6,004	(2,166)
	$(122,187)	**$(13,015)**

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, 2008 and 2007, the Group and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2008 and 2007, 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, 2008 and 2007 are as follows:

	Actual		Minimum Capital Requirement	
Group Ratios	**Amount**	**Ratio**	**Amount**	**Ratio**
	(Dollars in thousands)			
As of December 31, 2008				
Total Capital to Risk-Weighted Assets	$403,528	**17.73%**	$182,044	**8.00%**
Tier I Capital to Risk-Weighted Assets	$389,235	**17.11%**	$ 91,022	**4.00%**
Tier I Capital to Total Assets	$389,235	**6.38%**	$244,101	**4.00%**
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%**

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Bank Ratios						
As of December 31, 2008						
Total Capital to Risk-Weighted Assets	$325,593	**14.86%**	$175,281	**8.00%**	$219,101	**10.00%**
Tier I Capital to Risk-Weighted Assets	$311,300	**14.21%**	$ 87,640	**4.00%**	$131,461	**6.00%**
Tier I Capital to Total Assets	$311,300	**5.42%**	$229,903	**4.00%**	$287,378	**5.00%**
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%**

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, 2008, there were $47.0 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, 2008, commitments to sell or securitize mortgage loans, expiring on or before November 30, 2009, amounted to approximately $316.3 million. At December 31, 2007, commitments to sell or securitize mortgage loans 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, 2008, 2007 and 2006 amounted to $5.1 million, $4.2 million and $3.9 million, respectively. Future rental commitments under terms of leases in effect at December 31, 2008, exclusive of taxes, insurance and maintenance expenses payable by the Group, are summarized as follows:

Year Ending December 31,	Minimum Rent
	(In thousands)
2009	$ 3,940
2010	3,734
2011	3,727
2012	3,720
2013	3,505
Thereafter	12,982
	$31,608

15. LITIGATION

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

As discussed in Note 1, effective January 1, 2008, the Group adopted SFAS 157, which provides a framework for measuring fair value under GAAP.

Fair Value Measurement

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Level 1 asset and liabilities include equity securities that are traded in an active exchange market, as well as certain U.S. Treasury and other U.S. government agency securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include (i) mortgage-backed securities for which the fair value is estimated based on valuations obtained from third-party pricing services for identical or comparable assets, (ii) debt securities with quoted prices that are traded less frequently than exchange-traded instruments and (iii) derivative contracts and financial liabilities (e.g. callable brokered CDs and medium-term notes elected for fair value option under SFAS 159) whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, for which the determination of fair value requires significant management judgment or estimation.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment securities

The fair value of investment securities is based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use both observable and unobservable inputs depending on the market activity of the instrument. Structured credit investments and non-agency collateralized mortgage obligations are not trading actively in the current market; accordingly, they do not exhibit readily observable prices. Based on their valuation methodology, such investments are classified as Level 3. The estimated fair value of the structured credit investments and the non-agency collateralized mortgage obligations are determined by using a third-party cash flow valuation model to calculate the present value of projected future cash flows. The assumptions used which are highly uncertain and require a high degree of judgment, include primarily market discount rates, current spreads, duration, leverage, delinquency and loss rates. The assumptions used are drawn from a combination of internal and external data sources. A third-party valuation of these investments, in which all economic assumptions are determined by this third-party (external-based valuation), is obtained at least on a quarterly basis and is used by management as a benchmark to evaluate the adequacy of the cash flow model and the reasonableness of the assumptions and fair value estimates developed internally for the internal-based valuation. The external-based valuations are analyzed and assumptions are evaluated and incorporated in the internal-based valuation model when deemed necessary and agreed by management.

Derivative instruments

The fair values of the derivative instruments were provided by valuation experts and counterparties. Certain derivatives with limited market activity are valued using externally developed models that consider unobservable market parameters. The Group offers its customers certificates of deposit with an option tied to the performance of the Standard & Poor's 500 stock market index (S&P Index), and uses equity indexed option agreements with major broker-dealer companies to manage its exposure to changes in this index. Their fair value is obtained from counterparties or an external pricing source and validated by management. Based on their valuation methodology, derivative instruments are classified as Level 3. These options are tied in to Asian options whose payoff is linked to the average value of the S&P Index on a specific set of dates during the life of the option. The methodology uses an average rate option or a cash-settled option whose payoff is based on the difference between the expected average value of the S&P Index during the remaining life of the option and the strike price at inception. The assumptions used which are uncertain and require a degree of judgment, include primarily S&P Index volatility and leverage. The external-based valuations are analyzed and assumptions are evaluated and incorporated in either an internal-based valuation model when deemed necessary or compared to counterparties prices and agreed by management.

Assets and liabilities measured at fair value on a recurring basis, including financial liabilities for which the Group has elected the fair value option, are summarized below:

	December 31, 2008		
	Fair Value Measurements		
	Level 1	Level 2	Level 3
		(In thousands)	
Investment securities available-for-sale	$ —	$3,258,359	$665,848
Money market instruments	52,002	—	—
Derivative asset	—	—	12,801
Derivative liability	—	—	(16,588)
	$52,002	$3,258,359	$662,061

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2008.

Level 3 Instruments Only	Total Fair Value Measurements (Year Ended December 31, 2008)		
	Investment Securities Available-for-sale	Derivative Asset	Derivative Liability
		(In thousands)	
Balance at beginning of year	$ 78,360	$ 40,709	$(38,793)
Total gains (losses) (realized/unrealized):			
Included in earnings	(38,932)	(19,257)	14,226
Included in other comprehensive income	(37,935)	—	—
New instruments acquired	—	6,676	(6,626)
Principal repayment and amortization	(19,931)	(15,327)	14,605
Transfer of non-agency CMOs to Level 3	609,149	—	—
Transfers from held-to-maturity portfolio	75,137	—	—
Balance at end of year	$665,848	$ 12,801	$(16,588)

The information about the estimated fair value of financial instruments required by GAAP is presented hereunder. The aggregate fair value amounts presented do not necessarily represent management's estimate of the underlying value of the Group.

The estimated fair value is 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, 2008 and 2007 is as follows:

	December 31,			
	2008		2007	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial Assets:				
Cash and cash equivalents	$ 66,372	$ 66,372	$ 88,983	$ 88,983
Trading securities	256	256	1,122	1,122
Investment securities available-for-sale	3,921,958	3,921,958	3,069,282	3,069,282
Investment securities held-to-maturity	—	—	1,478,112	1,492,887
FHLB stock	21,013	21,013	20,658	20,658
Securities sold but yet not delivered	834,976	834,976	—	—
Total loans (including loans held-for-sale)	1,216,398	1,219,112	1,170,493	1,179,566
Investment in equity indexed options	12,801	12,801	40,709	40,709
Accrued interest receivable	43,914	43,914	52,315	52,315
Financial Liabilities:				
Deposits	1,789,309	1,785,300	1,228,205	1,246,420
Securities sold under agreements to repurchase	4,016,479	3,761,121	3,954,699	3,861,411
Advances from FHLB	333.906	308,442	340,259	331,898
Subordinated capital notes	36,083	36,083	36,083	36,083
Federal funds purchased and other short term borrowings	29,193	29,193	27,460	27,460
Securities purchased but not yet received	398	398	111,431	111,431
Accrued expenses and other liabilities	23,682	23,682	25,691	25,691

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2008 and 2007:

- 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 fair value of the loan portfolio (including loans held-for-sale) 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 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, Financial Services, and Treasury. 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. Mortgage banking activities are carried out by the Bank's mortgage banking division whose principal activity is to originate mortgage loans for the Group's own portfolio, and Oriental Mortgage Corporation, the Bank's mortgage lending subsidiary. As part of its mortgage banking activities, the Group may sell loans directly into the secondary market or securitize conforming loans into mortgage-backed securities.

Financial services are comprised of the Bank's trust division (Oriental Trust), the broker dealer subsidiary (Oriental Financial Services Corp.), the insurance agency subsidiary (Oriental Insurance, Inc.), and the pension plan administration subsidiary (Caribbean Pension Consultants, Inc.). The core operations of this segment are financial planning, money management and investing banking, brokerage services, insurance sales activity, corporate and individual trust and retirement services, as well as pension plan administration services.

The Treasury segment encompasses all of the Group's asset and liability management activities such as: purchases and sales of investment securities, interest rate risk management, derivatives, and borrowings.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 followed by the Group, which are described in the "Summary of Significant Accounting Policies" included in the Group's annual report on Form 10K Following are the results of operations and the selected financial information by operating segment as of and for the years ended December 31, 2008, 2007, and 2006:

Year Ended December 31, 2008	Banking	Financial Services	Treasury	Total Major Segments	Eliminations	Total
			(In thousands)			
Interest income	$ 80,725	$ 97	$ 258,217	$ 339,039	$ —	**$ 339,039**
Interest expense	(33,128)	—	(194,600)	(227,728)	—	**(227,728)**
Net interest income (expense)	47,597	97	63,617	111,311	—	**111,311**
Non-interest income (loss)	7,104	17,236	(36,582)	(12,242)	—	**(12,242)**
Non-interest expenses	(57,210)	(11,413)	(4,119)	(72,742)	—	**(72,742)**
Intersegment revenue	3,702	—	—	3,702	(3,702)	**—**
Intersegment expense	—	(2,954)	(748)	(3,702)	3,702	**—**
Provision for loan losses	(8,860)	—	—	(8,860)	—	**(8,860)**
Income (loss) before income taxes	**$ (7,667)**	**$ 2,966**	**$ 22,168**	**$ 17,467**	**$ —**	**$ 17,467**
Total assets as of December 31, 2008	**$1,524,979**	**$ 10,763**	**$4,912,694**	**$6,446,187**	**$(242,900)**	**$6,205,536**

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

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

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, 2008 and 2006, the Bank paid $33.1 million and $10.0 million, respectively, in dividends to the Group. No dividends were paid during the year ended December 31, 2007.

The following condensed financial information presents the financial position of the holding company only as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years ended December 31, 2008, 2007 and 2006:

ORIENTAL FINANCIAL GROUP INC.

CONDENSED STATEMENTS OF FINANCIAL POSITION INFORMATION
(Holding Company Only)

	December 31,	
	2008	2007
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 27,037	$ 38,409
Investment securities available-for-sale, at fair value	344,610	319,221
Other investment securities	150	1,675
Investment in bank subsidiary, equity method	216,691	325,130
Investment in nonbank subsidiaries, equity method	9,065	9,225
Due from bank subsidiary, net	45	1,433
Deferred tax asset, net	428	—
Other assets	4,074	6,299
Total assets	**$602,100**	**$701,392**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Securities sold under agreements to repurchase	$300,708	$300,708
Subordinated capital notes	36,083	36,083
Dividend payable	3,402	3,377
Due to bank subsidiary	—	656
Deferred tax liability, net	—	808
Accrued expenses and other liabilities	590	299
Total liabilities	**340,783**	**341,931**
Stockholders' equity	261,317	359,461
Total liabilities and stockholders' equity	**$602,100**	**$701,392**

CONDENSED STATEMENTS OF OPERATIONS INFORMATION
(Holding Company Only)

	Year Ended December 31,		
	2008	2007	2006
		(In thousands)	
Income:			
Dividends from bank subsidiary	$33,000	$ —	$10,000
Interest income	18,148	6,968	2,468
Investment and trading activities, net and other	4,350	3,972	(1,127)
Total income	**55,498**	**10,940**	**11,341**
Expenses:			
Interest expense	15,939	7,234	5,337
Operating expenses	4,084	4,767	5,408
Total expenses	**20,023**	**12,001**	**10,745**
Income (loss) before income taxes	**35,475**	**(1,061)**	**596**
Income tax (expense) benefit	41	33	(5)
Income (loss) before equity in undistributed earnings (losses) of subsidiaries	**35,516**	**(1,028)**	**591**
Equity in undistributed earnings (losses) from:			
Bank subsidiary	(8,566)	43,239	(6,631)
Nonbank subsidiaries	(160)	(946)	934
Net income (loss)	**$26,790**	**$41,265**	**$ (5,106)**

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME INFORMATION
(Holding Company Only)

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Net Income (loss)	$ 26,790	$41,265	$ (5,106)
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on securities available-for-sale arising during the year	(3,748)	4,965	(130)
Realized gain on securities available-for-sale arising during the year	(1,558)	(719)	—
Other comprehensive income (loss) from bank subsidiary	(104,873)	(333)	21,887
Income tax effect related to unrealized loss (gain) on securities available-for-sale	1,007	(829)	28
Total other comprehensive income (loss) for the year	**(109,172)**	**3,084**	**21,785**
Total comprehensive income (loss)	**$ (82,382)**	**$44,349**	**$16,679**

CONDENSED STATEMENTS OF CASH FLOWS INFORMATION
(Holding Company Only)

	Year Ended December 31, 2008	2007	2006
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	**$ 26,790**	**$ 41,265**	**$ (5,106)**
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in undistributed (earnings) losses from banking subsidiary	8,566	(43,239)	6,631
Equity in undistributed losses (earnings) from non-banking subsidiaries	160	946	(934)
Amortization of premiums, net of accretion discounts on investment securities	(649)	(454)	(8)
Write-down of other investment securities	—	330	—
Loss (gain) on derivative activities	—	(1,620)	610
Realized gain (loss) on sale of investments	(1,575)	(1,049)	905
Stock based compensation	559	86	15
Deferred income tax (benefit) expense	(229)	(33)	1
(Increase) decrease in other assets	2,225	(2,028)	699
Increase (decrease) in accrued expenses, other liabilities, and dividend payable	316	761	(2,303)
Net cash provided by (used in) operating activities	**36,163**	**(5,035)**	**510**
Cash flows from investing activities:			
Purchase of securities available for sale	(1,016,855)	(944,199)	(2,844)
Redemptions and sales of securities available-for-sale	671,809	314,692	275
Proceeds from sale of investment securities available-for-sale	316,575	317,774	—
Transfer of security held-to-maturity to a subsidiary	—	10,792	—
Purchase of securities held-to-maturity	—	—	(6,500)
Redemptions of securities held-to-maturity	—	11,100	6,745
Purchase of other securities	—	—	(30,982)
Redemptions and sales of other securities	1,525	28,944	—
Net (increase) decrease in due from bank subsidiary, net	1,388	(982)	100,804
Net (increase) decrease in due from non bank subsidiary, net	—	(451)	—
Capital contribution to banking subsidiary	(5,000)	—	—
Acquisition of and capital contribution to non-banking subsidiary	—	—	(909)
Net cash provided by (used in) investing activities	**(30,558)**	**(262,330)**	**66,589**
Cash flows from financing activities:			
Net increase in securities sold under agreements to repurchase	—	300,000	—
Proceeds from exercise of stock options	2,175	1,080	645
Net (decrease) increase in due to nonbank subsidiaries, net	—	—	(200)
Net (decrease) increase in due to bank subsidiaries, net	(656)	(3,528)	4,184
Net proceeds from redemptions of subordinated notes payable to nonbank subsidiary	—	—	(36,998)
Proceeds from termination of derivative instruments	—	1,620	—
Purchase of treasury stock	(86)	(4,067)	(2,624)
Dividends paid	(18,410)	(18,413)	(18,555)
Net cash provided by (used in) financing activities	**(16,977)**	**276,692**	**(53,548)**
Increase in cash and cash equivalents	**(11,372)**	**9,327**	**13,551**
Cash and cash equivalents at beginning of year	38,409	29,082	15,531
Cash and cash equivalents at end of year	**$ 27,037**	**$ 38,409**	**$ 29,082**

ORIENTAL FINANCIAL GROUP INC.

SELECTED FINANCIAL DATA
YEARS ENDED DECEMBER 31, 2008, 2007, 2006 AND 2005,
SIX-MONTH PERIODS ENDED
DECEMBER 31, 2005 AND 2004
AND FOR THE FISCAL YEAR PERIOD ENDED JUNE 30, 2005

	Year Ended December 31,				Six-Month Period Ended December 31,	Fiscal Year Ended June 30,	
	2008	2007	2006	2005	2005	2004	2005
	(In thousands, except per share data)				(Unaudited)	(Unaudited)	
EARNINGS:							
Interest income	$339,039	$289,364	$232,311	$201,534	$105,086	$92,864	$189,312
Interest expense	227,728	215,634	188,185	127,456	70,706	46,149	102,899
Net interest income	111,311	73,730	44,126	74,078	34,380	46,715	86,413
Provision for loan losses	8,860	6,550	4,388	3,412	1,902	1,805	3,315
Net interest income after provision for loan losses	102,451	67,180	39,738	70,666	32,478	44,910	83,098
Non-interest income (loss)	(12,242)	42,502	17,238	28,920	16,382	22,347	34,885
Non-interest expenses	72,742	66,859	63,713	57,856	31,814	33,921	59,963
Income (loss) before taxes	17,467	42,823	(6,737)	41,730	17,046	33,336	58,020
Income tax (benefit) expense	(9,323)	1,558	1,631	2,168	(127)	(645)	1,649
Net Income (loss)	26,790	41,265	(5,106)	43,898	16,919	32,691	59,669
Less: dividends on preferred stock	(4,802)	(4,802)	(4,802)	(4,802)	(2,401)	(2,401)	(4,802)
Income available (loss) to common shareholders	$ 21,988	$ 36,463	$ (9,908)	$ 39,096	$ 14,518	$30,290	$ 54,867
PER SHARE AND DIVIDENDS DATA(1):							
Income (loss) per common share (basic)	$ 0.91	$ 1.50	$ (0.40)	$ 1.58	$ 0.59	$ 1.24	$ 2.23
Income (loss) per common share (diluted)	$ 0.90	$ 1.50	$ (0.40)	$ 1.56	$ 0.58	$ 1.17	$ 2.14
Average common shares outstanding	24,260	24,326	24,562	24,750	24,777	24,407	24,571
Average potential common share-options	67	41	101	333	154	1,546	1,104
Average shares and shares equivalents	24,327	24,367	24,663	25,083	24,931	25,953	25,675
Book value per common share	$ 7.96	$ 12.08	$ 10.98	$ 11.13	$ 11.14	$ 10.17	$ 10.88
Market price at end of period	$ 6.05	$ 13.41	$ 12.95	$ 12.36	$ 12.36	$ 28.31	$ 15.26
Cash dividends declared per common share	$ 0.56	$ 0.56	$ 0.56	$ 0.56	$ 0.28	$ 0.27	$ 0.55
Cash dividends declared on common shares	$ 13,608	$ 13,612	$ 13,753	$ 13,583	$ 6,913	$ 6,582	$ 13,522

	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005	June 30, 2005	June 30, 2004
PERIOD END BALANCES:						
Investments and loans						
Investments	$3,945,626	$4,585,610	$2,992,236	$3,473,287	$3,221,789	$2,839,003
Loans and leases (including loans held-for-sale), net	1,219,112	1,179,566	1,212,370	903,308	903,604	743,456
Securities sold but not yet delivered	834,976	—	6,430	44,009	1,034	47,312
	$5,999,714	**$5,765,176**	**$4,211,036**	**$4,420,604**	**$4,126,427**	**$3,629,771**
Deposits and Borrowings						
Deposits	$1,785,300	$1,246,420	$1,232,988	$1,298,568	$1,252,897	$1,024,349
Repurchase agreements	3,761,121	3,861,411	2,535,923	2,427,880	2,191,756	1,895,865
Other borrowings	373,718	395,441	247,140	404,921	399,476	387,166
Securities and loans purchased but not yet received	398	111,431	—	43,354	22,772	89,068
	$5,920,537	**$5,614,703**	**$4,016,051**	**$4,174,723**	**$3,866,901**	**$3,396,448**
Stockholders' equity						
Preferred equity	$ 68,000	$ 68,000	$ 68,000	$ 68,000	$ 68,000	$ 68,000
Common equity	193,317	291,461	268,426	273,791	270,755	213,646
	$ 261,317	**$ 359,461**	**$ 336,426**	**$ 341,791**	**$ 338,755**	**$ 281,646**
Capital ratios						
Leverage capital	**6.38%**	**6.69%**	**8.42%**	**10.13%**	**10.59%**	**10.88%**
Tier 1 risk-based capital	**17.11%**	**18.59%**	**21.57%**	**34.70%**	**36.97%**	**36.77%**
Total risk-based capital	**17.73%**	**19.06%**	**22.04%**	**35.22%**	**37.51%**	**37.48%**
SELECTED FINANCIAL RATIOS AND OTHER INFORMATION:						
Return on average assets (ROA)	**0.43%**	**0.76%**	**—0.11%**	**1.02%**	**1.46%**	**1.79%**
Return on average common equity (ROE)	**9.51%**	**13.52%**	**—3.59%**	**15.00%**	**21.34%**	**32.35%**
Equity-to-assets ratio	**4.21%**	**5.99%**	**7.69%**	**7.52%**	**7.98%**	**7.56%**
Efficiency ratio	**52.65%**	**65.93%**	**84.69%**	**57.51%**	**51.39%**	**52.92%**
Expense ratio	**0.77%**	**0.77%**	**0.73%**	**0.75%**	**0.75%**	**0.97%**
Interest rate spread	**1.62%**	**1.27%**	**0.70%**	**1.53%**	**2.00%**	**2.64%**
Number of financial centers	**23**	**25**	**25**	**24**	**24**	**23**
Trust assets managed	$1,706,286	$1,962,226	$1,848,596	$1,875,300	$1,823,292	$1,670,651
Broker-dealer assets gathered	1,195,739	1,281,168	1,143,668	1,132,286	1,135,115	1,051,812
Assets managed	**2,902,025**	**3,243,394**	**2,992,264**	**3,007,586**	**2,958,407**	**2,722,463**
Assets owned	6,205,536	5,999,855	4,371,986	4,546,949	4,246,865	3,725,695
Total financial assets managed and owned	**$9,107,561**	**$9,243,249**	**$7,364,250**	**$7,554,535**	**$7,205,272**	**$6,448,158**

(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, 2008

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.

Comparison of the years ended December 31, 2008 and 2007:

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, 2008 follows:

- Strong performance in core revenues, with net interest income of $111.3 million or 51.0% higher than in the previous year, and mortgage banking activities of $3.7 million or 53.5% higher than in the previous year.
- Gain of $35.0 million on the sale of securities, as Oriental took advantage of the sharp increase in fair values, the result of the U.S. Treasury's plan to purchase such securities in the secondary market, combined with reductions in the federal funds target rate, twice in October and once in December. This gain included $14.4 million from the sale on December 31, 2008 of $820.6 million of agency-issued securities that had been classified as held-to-maturity (HTM). The remaining securities in the HTM portfolio were transferred to the available-for-sale (AFS) portfolio on that date. The proceeds from the sale were reinvested after year-end in similar quality agency-issued securities at a higher average yield.
- During the third quarter of 2008, the Group reported an other-than-temporary impairment of $55.8 million, net of tax ($2.29 per diluted share).

While the economic environment in Puerto Rico continues to be challenging from a credit point of view, in particular, our conservative strategies have minimized our exposure, putting us in a good position going forward. Because of our favorable FICO scores, loan to value ratios and sufficient reserves, we should continue to experience low net credit losses and provide credit to homeowners and businesses in Puerto Rico.

For the year ended December 31, 2008, the Group reported income available to common shareholders of $22.0 million compared to $36.5 million in 2007, with income per common share (diluted) of $0.90 compared to $1.50. Excluding the other than temporary impairment (OTTI) non-cash loss of $55.8 million, net of tax ($2.29 per diluted share), reported in the third quarter of 2008, the Group had income available to common shareholders of $77.8 million, with income per common share (basic and diluted) of $3.19.

Return on common equity (ROE) and return on assets (ROA) for the year ended December 31, 2008 were 9.51% and 0.43%, respectively, from 13.52% and 0.76%, respectively, in the same period of 2007.

Net interest income represented 112.4% of the Group's total revenues (defined as net interest income plus non-interest income) in the year ended December 31, 2008. During the year ended December 31, 2008, net interest income was $111.3 million, an increase of 51.1% from the $73.7 million recorded for the same period of 2007. Higher interest income reflected increased investment securities and loan volume and lower average costs of deposits and borrowings. Interest rate spread for the year ended December 31, 2008 was 1.62% compared to 1.19% in the same period of 2007. At December 31, 2008 average interest earning assets increased 16.9% to $6.0 billion, compared to $5.1 billion at December 31, 2007, reflecting a 21.2% increase in investments from $3.9 billion to $4.8 billion.

The provision for loan losses for the year ended December 31, 2008 increased 35.27% to $8.9 million from $6.6 million for the same period of 2007, reflecting higher allowance requirements related to increased mortgage and commercial loan business in the period and local economic conditions. 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, 2008 was adequate in order to maintain the allowance for loan losses at an appropriate level.

Assets under management, which generate recurring fees for the Group's financial service businesses, stood at $2.9 billion at December 31, 2008, down 10.5% from December 31, 2007. A relatively high proportion of fixed income investments in the mix helped to offset the general decline in equity markets.

Non-interest expenses for the year ended December 31, 2008 increased 8.8% to $72.7 million, compared to $66.9 million for the same period of 2007. 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.

Loan production of $290.1 million was up 43.0% compared to 2007, as Oriental's low credit losses and capital levels enabled it to continue prudent lending. Mortgage originations of $229.9 million increased 56.5% year over year. Commercial originations of $55.8 million increased 14.5% year over year to an average of about $14.0 million a quarter.

Total deposits of $1.8 billion increased 43.2% from the year 2007, representing 30.2% of interest bearing liabilities, versus 22.6% at December 31, 2007. The increase was primarily due to an increase in brokered certificates of deposit. Total borrowings decreased 2.9%, from $4.3 billion at December 31, 2007, to $4.1 at December 31, 2008.

Stockholders' equity as of December 31, 2008 was $261.3 million, a decrease of 27.3% from $359.5 million as of December 31, 2007 reflecting a decreased mark-to-market valuation on the available for sale investment securities portfolio. The Group's capital ratios are above regulatory capital requirements. At December 31, 2008, the Tier 1 Leverage Capital Ratio was 6.38%, Tier 1 Risk-Based Capital Ratio was 17.11%, and Total Risk-Based Capital Ratio was 17.73%.

Comparison of the years ended December 31, 2007 and 2006

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 1.19% compared to 0.70% in the same period of 2006. At December 31, 2007 average interest earning assets increased 14.0% to $5.1 billion, compared to $4.5 billion at December 31, 2006, reflecting a 14.7% increase in investments from $3.4 billion to $3.9 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 $9.2 billion as of December 31, 2007, compared to $7.4 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 $3.2 billion from $3.0 billion as of December 31, 2006, an increase of 8.4%. The Group's assets owned totaled $6.0 billion as of December 31, 2007, an increase of 37.2%, compared to $4.4 billion as of December 31, 2006, mainly as a result of an increase in the investment securities portfolio, which increased 53.4% or $1.6 billion.

On the liability side, total deposits increased 1.1%, from $1.2 billion at December 31, 2006, to $1.2 billion at December 31, 2007, mainly from increases in savings accounts. Total borrowings increased 53.0%, from $2.8 billion at December 31, 2006, to $4.3 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%.

TABLE 1 — ANALYSIS OF NET INTEREST INCOME AND CHANGES DUE TO VOLUME/RATE: For the Years Ended December 31, 2008 and 2007

	Interest		Average rate		Average balance	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
	(Dollars in thousands)					
A — TAX EQUIVALENT SPREAD						
Interest-earning assets	$339,039	$289,364	5.68%	5.66%	$5,973,225	$5,108,910
Tax equivalent adjustment	112,077	96,460	1.88%	1.89%	—	—
Interest-earning assets — tax equivalent	**451,116**	**385,824**	**7.56%**	**7.55%**	**5,973,225**	**5,108,910**
Interest-bearing liabilities	227,728	215,634	4.06%	4.47%	5,602,622	4,822,058
Tax equivalent net interest income / spread	**$223,388**	**$170,190**	**3.50%**	**3.08%**	**$ 370,603**	**$ 286,852**
Tax equivalent interest rate margin			3.74%	3.33%		
B — NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	$257,947	$200,057	5.49%	5.18%	$4,702,428	$3,863,221
Investment management fees	—	(210)	0.00%	—0.01%	—	—
Total investment securities	257,947	199,847	5.49%	5.17%	4,702,428	3,863,221
Trading securities	20	27	3.70%	3.33%	540	810
Money market investments	1,907	3,688	3.35%	5.78%	56,856	63,818
	259,874	**203,562**	**5.46%**	**5.18%**	**4,759,824**	**3,927,849**
Loans:						
Mortgage	66,087	66,343	6.44%	6.59%	1,026,779	1,007,391
Commercial	10,610	16,061	6.57%	11.17%	161,541	143,819
Consumer	2,468	3,398	9.84%	11.38%	25,081	29,851
	79,165	**85,802**	**6.52%**	**7.26%**	**1,213,401**	**1,181,061**
	339,039	**289,364**	**5.68%**	**5.66%**	**5,973,225**	**5,108,910**
Interest-bearing liabilities:						
Deposits:						
Non-interest bearing deposits	—	—	—	—	36,697	35,589
Now accounts	4,197	817	2.44%	1.28%	171,725	64,010
Savings	10,199	13,958	3.36%	4.39%	303,298	318,207
Certificates of deposit	35,385	38,019	3.96%	4.90%	894,209	775,315
	49,781	**52,794**	**3.54%**	**4.42%**	**1,405,929**	**1,193,121**
Borrowings:						
Repurchase agreements	161,363	147,847	4.25%	4.45%	3,800,673	3,323,696
Interest rate risk management	—	(773)	0.00%	—0.02%	—	—
Financing fees	—	586	0.00%	0.02%	—	—
Total repurchase agreements	161,363	147,660	4.25%	4.44%	3,800,673	3,323,696
FHLB advances	13,457	10,883	4.20%	4.45%	320,594	244,445
Subordinated capital notes	2,304	3,138	6.39%	8.70%	36,083	36,083
Term notes	—	176	0.00%	5.05%	—	3,493
Other borrowings	823	983	2.09%	4.63%	39,343	21,220
	177,947	**162,840**	**4.24%**	**4.49%**	**4,196,693**	**3,628,937**
	227,728	**215,634**	**4.06%**	**4.47%**	**5,602,622**	**4,822,058**
Net interest income / spread	**$111,311**	**$ 73,730**	**1.62%**	**1.19%**		
Interest rate margin			**1.86%**	**1.44%**		
Excess of interest-earning assets over interest-bearing liabilities					**$ 370,603**	**$ 286,852**
Interest-earning assets over interest-bearing liabilities ratio					**106.61%**	**105.95%**

C. CHANGES IN NET INTEREST INCOME DUE TO:

	December 31, 2008 versus December 31, 2007		
	Volume	**Rate**	**Total**
Interest Income:			
Investments	$43,118	$ 13,195	$56,313
Loans	2,349	(8,987)	(6,638)
	45,467	**4,208**	**49,675**
Interest Expense:			
Deposits	9,417	(12,430)	(3,013)
Repurchase agreements	21,191	(7,491)	13,700
Other borrowings	4,514	(3,110)	1,404
	35,122	**(23,031)**	**12,091**
	$10,345	**$ 27,239**	**$37,584**

TABLE 1A — 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	5.66%	5.18%	$5,108,910	$4,480,729
Tax equivalent adjustment	96,460	57,657	1.89%	1.29%	—	—
Interest-earning assets — tax equivalent	**385,824**	**289,968**	**7.55%**	**6.47%**	**5,108,910**	**4,480,729**
Interest-bearing liabilities	215,634	188,185	4.47%	4.48%	4,822,058	4,198,401
Tax equivalent net interest income / spread	**$170,190**	**$101,783**	**3.08%**	**1.99%**	**$ 286,852**	**$ 282,328**
Tax equivalent interest rate margin			**3.33%**	**2.27%**		
B — NORMAL SPREAD						
Interest-earning assets:						
Investments:						
Investment securities	$200,057	$154,942	5.18%	4.57%	$3,863,221	$3,386,999
Investment management fees	(210)	(1,522)	−0.01%	−0.04%	—	—
Total investment securities	199,847	153,420	5.17%	4.53%	3,863,221	3,386,999
Trading securities	27	19	3.33%	5.01%	810	379
Money market investments	3,688	2,057	5.78%	5.36%	63,818	38,360
	203,562	**155,496**	**5.18%**	**4.54%**	**3,927,849**	**3,425,738**
Loans:						
Mortgage	66,343	55,278	6.59%	6.86%	1,007,391	805,285
Commercial	16,061	17,417	11.17%	8.20%	143,819	212,294
Consumer	3,398	4,120	11.38%	11.01%	29,851	37,412
	85,802	**76,815**	**7.26%**	**7.28%**	**1,181,061**	**1,054,991**
	289,364	**232,311**	**5.66%**	**5.18%**	**5,108,910**	**4,480,729**
Interest-bearing liabilities:						
Deposits:						
Non-interest bearing deposits	—	—	—	—	35,589	39,177
Now accounts	817	857	1.28%	1.09%	64,010	78,826
Savings	13,958	5,366	4.39%	3.25%	318,207	165,249
Certificates of deposit	38,019	40,478	4.90%	4.26%	775,315	950,695
	52,794	**46,701**	**4.42%**	**3.78%**	**1,193,121**	**1,233,947**
Borrowings:						
Repurchase agreements	147,847	133,646	4.45%	5.09%	3,323,696	2,627,484
Interest rate risk management	(773)	(8,494)	—0.02%	−0.32%	—	—
Financing fees	586	562	0.02%	0.02%	—	—
Total repurchase agreements	**147,660**	**125,714**	4.44%	4.78%	**3,323,696**	**2,627,484**
FHLB advances	10,883	8,968	4.45%	3.74%	244,445	239,590
Subordinated capital notes	3,138	5,331	8.70%	7.54%	36,083	70,732
Term notes	176	846	5.05%	5.64%	3,493	15,000
Other borrowings	983	625	4.63%	5.37%	21,220	11,648
	162,840	**141,484**	**4.49%**	**4.77%**	**3,628,937**	**2,964,454**
	215,634	**188,185**	**4.47%**	**4.48%**	**4,822,058**	**4,198,401**
Net interest income / spread	**$ 73,730**	**$ 44,126**	**1.19%**	**0.70%**		
Interest rate margin			**1.44%**	**0.98%**		
Excess of interest-earning assets over interest-bearing liabilities					**$ 286,852**	**$ 282,328**
Interest-earning assets over interest-bearing liabilities ratio					**105.95%**	**106.72%**

C. CHANGES IN NET INTEREST INCOME DUE TO:

	December 31, 2007 versus December 31, 2006		
	Volume	**Rate**	**Total**
Interest Income:			
Investments	$26,022	$22,044	$48,066
Loans	9,159	(172)	8,987
	35,181	**21,872**	**57,053**
Interest Expense:			
Deposits	(1,807)	7,900	6,093
Repurchase agreements	30,930	(8,984)	21,946
Other borrowings	(1,578)	988	(590)
	27,545	**(96)**	**27,449**
	$ 7,636	**$21,968**	**$29,604**

Net Interest Income

Comparison of the years ended December 31, 2008 and 2007:

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, 2008 and 2007.

Net interest income increased 51.0% to $111.3 million in the year ended December 31, 2008, from $73.7 million in the same period of 2007. This increase was due to a positive volume variance of $10.4 million, and a positive rate variance of $27.2 million, as average interest earning assets increased 16.9% to $6.0 billion as of December 31, 2008, from $5.1 billion as of December 31, 2007. The interest rate margin increased 42 basis points to 1.86% for the year ended December 31, 2008, from 1.44% for the same period of 2007. The interest rate spread increased 43 basis points to 1.62% for the year ended December 31, 2008, from 1.19% for the same period of 2007, due to a 41 basis point decrease in the average cost of funds to 4.06% from 4.47%, and a 2 basis point increase in the average yield of interest earning assets to 5.68% from 5.66%.

Interest income increased 17.2% to $339.0 million for the year ended December 31, 2008, as compared to $289.4 million for the period of 2007, reflecting the increase in the average balance of interest earning assets and yields. Interest income is generated by investment securities, which accounted for 76.7% of total interest income, and from loans, which accounted for 23.3% of total interest income. Interest income from investments increased 27.7% to $259.9 million, due to a 21.2% increase in the average balance of investments, which grew to $4.8 billion from $3.9 billion, mostly due to an increase in yield of 28 basis point from 5.18% to 5.46%. Interest income from loans decreased 7.7% to $79.2 million, mainly due to a 41.8% increase in loans on which the accrual of interest has been discontinued, which grew to $38.8 million from $27.3 million. Yields decreased from 7.26% in 2007 to 6.52% in 2008.

Interest expense increased 5.6%, to $227.7 million for year ended December 31, 2008, from $215.6 million for the same period of 2007. The increase is due to higher average interest-bearing liabilities which grew to $5.6 billion, from $4.8 billion, year over year, in order to fund the growth of the Group's investment and loan portfolios, which was partially offset by a 41 basis point decrease in the average cost of retail and wholesale funds, to 4.06% for 2008, from 4.47% for the same period of 2007. The average cost of retail deposits decreased 88 basis points, to 3.54% for the year ended December 31, 2008, from 4.42% for the same period of 2007, and the average cost of wholesale funding sources decreased 25 basis points, to 4.24%, from 4.49%, specifically reflected in repurchase agreements, which decreased 19 basis points, to 4.25% from 4.44% due to the strategic repositioning of the repurchase agreements portfolio and the increase in broker certificates of deposit that are used as a more economical and flexible alternative for replacing higher cost deposits and short-term repurchase agreements.

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

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, 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 $7.6 million, and a positive rate variance of $22.0 million, as average interest earning assets increased 14.0% to $5.1 billion as of December 31, 2007, from $4.5 billion as of December 31, 2006. The interest rate margin increased 46 basis points to 1.44% for the year ended December 31, 2007, from 0.98% for the same period of 2006. The interest rate spread increased 49 basis points to 1.19% for the year ended December 31, 2007, from 0.70% for the same period of 2006, due to a 64 basis point increase in the average yield of interest earning assets to 5.18% from 4.54%, and a 1 basis point decrease in the average cost of funds to 4.47% 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 14.7% increase in the average balance of investments, which grew to $3.9 billion from $3.4 billion, and by 64 basis point increase in yield from 4.54% to 5.18%. 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 $1.2 billion from $1.1 billion. Yields remained constant at 7.26% 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. The increase is due to higher average interest-bearing liabilities which grew to $4.8 billion, from $4.2 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 64 basis points, to 4.42% 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 28 basis points, to 4.49%, from 4.77%, specifically reflected in repurchase agreements, which decreased 34 basis points, to 4.44% from 4.78% due to the strategic repositioning of the repurchase agreements portfolio.

TABLE 2 — NON-INTEREST INCOME (LOSS) SUMMARY
FOR THE YEARS ENDED ENDED DECEMBER 31, 2008, 2007, AND 2006

	Year Ended December 31,			
	2008	2007	Variance %	2006
	(Dollars in thousands)			
Financial service revenues	$ 16,481	$17,295	−4.7%	$ 16,029
Banking service revenues	5,726	7,862	−27.2%	9,006
Investment banking revenues	950	126	654.0%	2,701
Mortgage banking activities	3,685	2,401	53.5%	3,368
Total banking and financial service revenues	26,842	27,684	−3.0%	31,104
Net gain (loss) on:				
Sale of securities	35,070	2,953	−1087.6%	(15,171)
Other than temporary impairments	(58,804)	—	−100.0%	(2,466)
Derivatives	(12,943)	10,997	−217.7%	3,218
Mortgage tax credits	(2,480)	—	−100.0%	—
Early extinguishment of subordinated capital notes	—	—	100.0%	(915)
Trading securities	(13)	23	−156.5%	28
Other investments	148	1,174	−87.4%	1,008
Foreclosed real estate	(670)	(349)	92.0%	180
Other	608	20	2940.0%	252
	(39,084)	14,818	−363.8%	(13,866)
Total non-interest income (loss)	**$(12,242)**	**$42,502**	−128.8%	**$ 17,238**

Non-Interest Income

Comparison of the years ended December 31, 2008 and 2007:

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, the Group recorded non-interest losses in the amount of $12.2 million for the year ended December 31, 2008, a decrease of 128.8% when compared to income of $42.5 during the same period in 2007.

Financial services revenues, which consist of commissions and fees from fiduciary activities, and commissions and fees from securities brokerage, and insurance activities, decreased 4.7%, to $16.5 million in the year ended December 31, 2008, from $17.3 million in the same period of 2007, mainly the result of reduced financial service revenues. Banking service revenues, which consist primarily of fees generated by deposit accounts, electronic banking and customer services, decreased 27.2% to $5.7 million in the year ended December 31, 2008, from $7.9 million in the same period of 2007, mainly driven by reduced consumer banking activity. Investment banking revenues increased due to more transactions in 2008 as compared to 2007. Income generated from mortgage banking activities increased 53.5% in the year ended December 31, 2008, from $2.4 million in the year ended December 31, 2007, to $3.7 million in the same period of 2008 mainly the result of increased mortgage banking revenues due to the securitization and sale of conventional mortgages into the secondary market and increased financial services revenues from brokerage activity. Year ended December 31, 2008 results also included a loss of $2.5 million, representing a provision for loss on mortgage loan tax credits for new homeowners. The credits were instituted by the Commonwealth of Puerto Rico in 2008, but it is now doubtful whether they will be granted.

Securities, derivatives and trading activities revenues for the year ended December 31, 2008 amounted to a loss of $36.5 million compared to a gain of approximately $15.1 million in the same period of 2007. During the third quarter of 2008, the Group recorded an other-than-temporary non cash loss of $58.8 million. This loss was partially offset by a gain of $35.1 million on the sale of securities.

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

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.

TABLE 3 — NON-INTEREST EXPENSES SUMMARY
FOR THE YEARS ENDED ENDED DECEMBER 31, 2008, 2007, AND 2006

	Year Ended December 31,			
	2008	2007	Variance %	2006
	(Dollars in thousands)			
Compensation and employees' benefits	$30,572	$28,376	7.7%	$24,630
Occupancy and equipment	13,843	12,624	9.7%	11,573
Professional and service fees	9,203	7,161	28.5%	6,821
Advertising and business promotion	3,970	4,472	−11.2%	4,466
Taxes, other than payroll and income taxes	2,514	2,151	16.9%	2,405
Insurance	2,421	848	185.5%	861
Electronic banking charges	1,726	1,826	−5.5%	1,914
Loan servicing expenses	1,383	1,740	−20.5%	2,017
Communication	1,292	1,302	−0.8%	1,598
Clearing and wrap fees expenses	1,250	1,070	16.8%	1,383
Director and investors relations	1,159	2,103	−44.9%	2,323
Other operating expenses	3,409	3,186	7.0%	3,722
Total non-interest expenses	**$72,742**	**$66,859**	**8.8%**	**$63,713**
Relevant ratios and data:				
Efficiency ratio	**52.65%**	**65.93%**		**86.33%**
Expense ratio	**0.77%**	**0.77%**		**0.73%**
Compensation and benefits to non-interest expenses	**42.0%**	**42.4%**		**38.7%**
Compensation to total assets	**0.50%**	**0.47%**		**0.56%**
Average compensation per employee	**$ 56.9**	**$ 53.5**		**$ 46.4**
Average number of employees	**537**	**522**		**530**
Assets per employee	**$11,552**	**$11,320**		**$ 8,552**
Total workforce	**539**	**518**		**535**

Non-Interest Expenses

Comparison of the years ended December 31, 2008 and 2007:

Non-interest expenses for the year ended December 31, 2008 increased 8.8% to $72.7 million, compared to $66.9 million for the same period of 2007. During the year ended December 31, 2008, compensation and employees' benefits increased 7.7% to $30.6 million from $28.4 million in the year ended December 31, 2007. Professional fees increased 28.5% from $7.2 million in the year ended December 31, 2007 to $9.2 million in the year ended December 31, 2008.

In the year ended December 31, 2008, advertising and business promotion, electronic banking charges, loan servicing expenses, director and investor relations expenses, and other operating expenses decreased 11.2%, 5.5%, 20.5%, 44.9% and 11.7%, respectively, compared to the year ended December 31, 2007.

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.

Provision for Loan Losses

Comparison of the years ended December 31, 2008 and 2007:

The provision for loan losses for the year ended December 31, 2008 totaled $8.9 million, a 35.3% increase from the $6.6 million reported for 2007, 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 2008 was adequate in order to maintain the allowance for loan losses at an adequate level.

Net credit losses increased 7.4% during 2008 primarily due to the overall deterioration of the economy in Puerto Rico. Recoveries decreased from $501,000 for 2007 to $376,000 for 2008. As result, the recoveries to charge-offs ratio decreased from 10.2% in 2007, to 7.4% in 2008. Mortgage loan charge-offs in 2008 remained constant at $2.0 million compared to 2007. Commercial loans net credit losses increased to $407,000 in 2008, when compared with $253,000 in 2007. The commercial loans that the Group originates are mainly collateralized by mortgages.

Net credit losses on consumer loans increased when compared to 2007. In 2008, net credit losses on consumer loans were $2.3 million, an increase of 9.7% when compared to 2007 in which the Group had net credit losses of $2.1 million.

The Group evaluates all loans, some individually and others as homogeneous groups, for purposes of determining impairment. At December 31, 2008, the total investment in impaired commercial loans was $4.6 million. Impaired commercial loans are measured based on the fair value of collateral. The Group determined an impairment allowance of $1.1 million. The average investment in impaired commercial loans for the year ended December 31, 2008 amounted to $1.8 million compared to $1.5 million for the year ended December 31, 2007.

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, 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. The commercial loans that the Group originates 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.

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.

Income Taxes

The income tax benefit was $9.3 million for the year ended December 31, 2008, as compared to an expense of $1.6 million for 2007. The tax benefit in 2008 takes into account, among other things, the expiration of certain tax contingencies and a reduction in the Group's valuation allowance for deferred tax asset. 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, 2008, the Group's total assets amounted to $6.2 billion, an increase of 3.4% when compared to $6.0 billion at December 31, 2008, and interest-earning assets reached $6.0 billion, up 16.9%, versus $5.1 billion at December 31, 2007.

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, 2008, the investment portfolio increased 4.2% to $4.8 billion, including $835 million of securities sold but not yet delivered at that date, from $4.6 billion.

TABLE 4 — ASSETS SUMMARY AND COMPOSITION AS OF DECEMBER 31, 2008, 2007 AND 2006

	December 31, 2008	December 31, 2007	Variance %	December 31, 2006
	(Dollars in thousands)			(Dollars in thousands)
Investments:				
Mortgage-backed securities	$2,763,401	$2,602,766	6.2%	$1,955,566
U.S. Government and agency obligations	941,917	1,698,748	−44.6%	863,019
P.R. Government and agency obligations	82,927	72,667	14.1%	100,729
Other investment securities	136,218	189,109	−28.0%	23,366
FHLB stock	21,013	20,658	1.7%	13,607
Other investments	150	1,662	−91.0%	30,949
	3,945,626	**4,585,610**	−14.0%	**2,987,236**
Loans:				
Loans receivable	1,206,843	1,173,055	2.9%	1,209,783
Allowance for loan losses	(14,293)	(10,161)	40.7%	(8,016)
Loans receivable, net	**1,192,550**	**1,162,894**	**2.6%**	**1,201,767**
Mortgage loans held for sale	26,562	16,672	59.3%	10,603
Total loans	**1,219,112**	**1,179,566**	**3.4%**	**1,212,370**
Securities sold but not yet delivered	**834,976**	—	**100.0%**	**6,430**
Total securities and loans	**5,999,714**	**5,765,176**	**4.0%**	**4,206,036**
Other assets:				
Cash and due from banks	14,370	22,858	−37.1%	15,341
Money Market Investments	52,002	66,125	−21.4%	23,729
Accrued interest receivable	43,914	52,315	−16.1%	27,940
Premises and equipment, net	21,184	21,779	−2.7%	20,153
Deferred tax asset, net	28,463	10,362	174.7%	14,150
Foreclosed real estate	9,162	4,207	117.8%	4,864
Investment in equity indexed options	12,801	40,709	−68.6%	34,216
Other assets	23,926	16,324	46.6%	25,557
Total other assets	**205,822**	**234,679**	**−12.3%**	**165,950**
Total assets	**$6,205,536**	**$5,999,855**	**3.4%**	**$4,371,986**
Investments portfolio composition:				
Mortgage-backed securities	70.0%	56.8%		65.5%
U.S. Government and agency obligations	23.9%	37.0%		28.9%
P.R. Government and agency obligations	2.1%	1.6%		3.4%
FHLB stock, short term investments and other investment securities	4.0%	4.6%		2.3%
	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, 2008, by contractual maturity.

At December 31, 2008, the Group's loan portfolio, the second largest category of the Group's interest-earning assets, amounted to $1.2 billion, an increase of 3.4% when compared to the $1.2 billion at December 31, 2007. 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 $996.7 million or 82.6% of the loan portfolio as of December 31, 2008, compared to $986.6 million or 84.1% of the loan portfolio at December 31, 2007. Mortgage production and purchases of $236.9 million for the year ended December 31, 2008 decreased 4.7%, from $248.5 million, when compared to the year ended December 31, 2007.

The second largest component of the Group's loan portfolio is commercial loans. At December 31, 2008, the commercial loan portfolio totaled $187.1 million (15.5% of the Group's total loan portfolio), in comparison to $157.2 million at December 31, 2007 (13.4% of the Group's total loan portfolio).

The consumer loan portfolio totaled $23.1 million (1.9% of total loan portfolio at December 31, 2008), a decrease of 21.2% when compared to the December 31, 2007 portfolio of $29.2 million (2.5% total loan portfolio at such date). Consumer loan production decreased 38.7% for the year ended December 31, 2008 from $7.2 million in 2007 to $4.4 million in 2008.

The following table summarizes the remaining contractual maturities of the Group's total loans segmented to reflect cash flows as of December 31, 2008. 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, 2008	One Year or Less	Fixed Interest Rates	Variable Interest Rates	Fixed Interest Rates	Variable Interest Rates
	(In thousands)					
Mortgage, mainly residential	$1,024,981	$ 4,932	$35,620	$ —	$984,429	$ —
Commercial, mainly real estate	187,077	75,222	38,922	52,439	12,940	7,554
Consumer	23,054	6,747	14,678	—	1,629	—
Total	$1,235,112	$86,901	$89,220	$52,439	$998,998	$7,554

TABLE 5 — LOANS RECEIVABLE COMPOSITION:
Selected Financial Data
As of December 31, 2008, 2007 and 2006

	December 31,		
	2008	**2007**	**2006**
	(Dollars in thousands)		
Mortgage, mainly residential	$ 996,712	$ 986,612	$ 932,285
Commercial, mainly real estate	187,077	157,198	241,433
Consumer	23,054	29,245	36,065
Loans receivable	1,206,843	1,173,055	1,209,783
Allowance for loan losses	(14,293)	(10,161)	(8,016)
Loans receivable, net	1,192,550	1,162,894	1,201,767
Mortgage loans held for sale	26,562	16,672	10,603
Total loans, net	**$1,219,112**	**$1,179,566**	**$1,212,370**
Loans portfolio composition percentages:			
Mortgage, mainly residential	82.6%	84.1%	77.1%
Commercial, mainly real estate	15.5%	13.4%	19.9%
Consumer	1.9%	2.5%	3.0%
Total loans	**100.0%**	**100.0%**	**100.0%**

Liabilities and Funding Sources

As shown in Table 6, at December 31, 2008, the Group's total liabilities reached $5.9 billion, 5.3% higher than the $5.6 billion reported at December 31, 2007. Interest-bearing liabilities, the Group's funding sources, amounted to $5.9 billion at December 31, 2008 versus $5.5 billion at December 31, 2007, a 7.6% increase, mainly driven by the increase in brokered certificates of deposit that are used as a more economical and flexible alternative for replacing higher cost deposits and short-term repurchase.

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, 2008, borrowings amounted to $4.1 billion, 2.9% lower than the $4.3 billion recorded at December 31, 2007. Repurchase agreements as of December 31, 2008 amounted to $3.8 billion, a 2.7% decrease when compared to $3.9 billion as of December 31, 2007.

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 $308.4 million at December 31, 2008, versus $331.9 million at December 31, 2007. These advances mature from January 2009 through May 2014.

TABLE 6 — LIABILITIES SUMMARY AND COMPOSITION AS OF DECEMBER 31, 2008, 2007 AND 2006

	December 31, 2008	December 31, 2007	Variance %	December 31, 2006
	(Dollars in thousands)			
Deposits:				
Non-interest bearing deposits	$ 53,165	$ 50,149	6.0%	$ 59,603
Now accounts	400,623	68,994	480.7%	72,810
Savings accounts	50,152	387,788	−87.1%	266,181
Certificates of deposit	1,274,862	736,186	73.2%	829,867
	1,778,802	**1,243,117**	**43.1%**	**1,228,461**
Accrued interest payable	6,498	3,303	96.7%	4,527
	1,785,300	**1,246,420**	**43.2%**	**1,232,988**
Borrowings:				
Federal funds purchases and other short term borrowings	29,193	27,460	6.3%	13,568
Repurchase agreements	3,761,121	3,861,411	−2.6%	2,535,923
Advances from FHLB	308,442	331,898	−7.1%	181,900
Subordinated capital notes	36,083	36,083	0.0%	36,083
Term notes	—	—	0.0%	15,000
	4,134,839	**4,256,852**	−2.9%	**2,782,474**
Total deposits and borrowings	**5,920,139**	**5,503,272**	**7.6%**	**4,015,462**
Securities and loans purchased but not yet received	398	111,431	−99.6%	—
Other liabilities	23,682	25,691	−7.8%	21,802
Total liabilities	**$5,944,219**	**$5,640,394**	**5.4%**	**$4,037,264**
Deposits portfolio composition percentages:				
Non-interest bearing deposits	3.0%	4.0%		4.8%
Now accounts	22.5%	5.6%		5.9%
Savings accounts	2.8%	31.2%		21.7%
Certificates of deposit	71.7%	59.2%		67.6%
	100.0%	**100.0%**		**100.0%**
Borrowings portfolio composition percentages:				
Federal funds purchased and other short term borrowings	0.7%	0.7%		0.5%
Repurchase agreements	91.0%	90.7%		91.1%
Advances from FHLB	7.5%	7.8%		6.5%
Subordinated capital notes	0.8%	0.8%		1.3%
Term notes	0.0%	0.0%		0.6%
	100.0%	**100.0%**		**100.0%**
Securities sold under agreements to repurchase				
Amount outstanding at year-end	$3,761,121	$3,861,411		$2,535,923
Daily average outstanding balance	$3,800,673	$3,154,369		$2,627,323
Maximum outstanding balance at any month-end	$3,858,680	$3,861,411		$2,923,796
Weighted average interest rate:				
For the year	4.25%	4.68%		5.09%
At year end	4.34%	4.20%		4.94%

At December 31, 2008, deposits, the second largest category of the Group's interest-bearing liabilities reached $1.8 billion, up 43.2% from $1.2 billion at December 31, 2007. Deposits reflected a 73.2% increase in certificates of deposit, to $1.275 million, primarily due to an increase of $448.5 million in brokered certificates of deposit.

At December 31, 2008, 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	$ 88,347
Over 3 months through 6 months	79,685
Over 6 months through 12 months	95,858
Over 12 months	63,026
Total	**$326,916**

Stockholders' Equity

At December 31, 2008, the Group's total stockholders' equity was $261.3 million, a 27.3% decrease, when compared to $359.5 million at December 31, 2007. The Group's capital ratios are above regulatory capital requirements. At December 31, 2008, the Tier 1 Leverage Capital Ratio was 6.38%, the Tier 1 Risk-Based Capital Ratio was 17.11%, and the Total Risk-Based Capital Ratio was 17.73%.

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, 2008, the Group's market capitalization for its outstanding common stock was $147.0 million ($6.05 per share).

TABLE 7 — CAPITAL, DIVIDENDS AND STOCK DATA AS OF DECEMBER 31, 2008, 2007 AND 2006

	December 31, 2008	December 31, 2007	Variance %	December 31, 2006
	(In thousands, except for per share data)			
Capital data:				
Stockholders' equity	$261,317	$359,461	−27.3%	$ 336,426
Regulatory Capital Ratios data:				
Leverage Capital Ratio	6.38%	6.69%	−4.6%	8.42%
Minimum Leverage Capital Ratio Required	4.00%	4.00%		4.00%
Actual Tier 1 Capital	$389,235	$396,309	−1.8%	$ 372,558
Minimum Tier 1 Capital Required	$244,101	$236,847	3.1%	$ 176,987
Tier 1 Risk-Based Capital Ratio	17.11%	18.59%	−8.0%	21.57%
Minimum Tier 1 Risk-Based Capital Ratio Required	4.00%	4.00%		4.00%
Actual Tier 1 Risk-Based Capital	$389,235	$396,309	−1.8%	$ 372,558
Minimum Tier 1 Risk-Based Capital Required	$ 91.022	$ 85,292	6.7%	$ 67,830
Total Risk-Based Capital Ratio	17.73%	19.06%	−7.0%	22.04%
Minimum Total Risk-Based Capital Ratio Required	8.00%	8.00%		8.00%
Actual Total Risk-Based Capital	$403,523	$406,470	−0.7%	$ 380,574
Minimum Total Risk-Based Capital Required	$182,044	$170,583	6.7%	$ 135,677
Stock data:				
Outstanding common shares, net of treasury	24,297	24,121	0.7%	24,453
Book value per common share	$ 7.96	$ 12.08	−34.2%	$ 10.98
Market price at end of year	$ 6.05	$ 13.41	−54.9%	$ 12.95
Market capitalization	$146,991	$323,463	−54.6%	$ 316,671
Common dividend data:				
Cash dividends declared	$ 13,608	$ 13,612	0.0%	$ 13,753
Cash dividends declared per share	$ 0.56	$ 0.56	0.0%	$ 0.56
Payout ratio	61.89%	37.33%	65.8%	−140.12%
Dividend yield	3.11%	4.78%	−34.9%	4.39%

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
2008			
December 31, 2008	$18.56	$ 5.37	$0.14
September 30, 2008	$20.99	$14.21	$0.14
June 30, 2008	$20.57	$14.26	$0.14
March 31, 2008	$23.28	$12.79	$0.14
2007			
December 31, 2007	$14.56	$11.01	$0.14
September 30, 2007	$11.63	$ 8.39	$0.14
June 30, 2007	$12.42	$10.58	$0.14
March 31, 2007	$14.04	$11.25	$0.14
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, 2008, such assets totaled $9.1 billion, a decrease of 1.5% from $9.2 billion at December 31, 2007. This was mainly due to a decrease of 13.0% in the Trust assets managed, when compared to December 31, 2007.

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.

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, 2008, total assets gathered by the broker-dealer from its customer investment accounts decreased 6.7%, to $1.2 billion as of December 31, 2008, from $1.3 billion as of December 31, 2007.

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, 2008, the Group's allowance for loan losses amounted to $14.3 million or 1.16% of total loans versus $10.2 million or 0.85% of total loans at December 31, 2007. The allowance for residential mortgage loans increased by 42.9% or $2.6 million, when compared with balances recorded at December 31, 2007. The allowance for commercial loans increased by 117.8% or $2.2 million, when compared with balances recorded at December 31, 2007. The allowance for consumer loans decreased by 16.7% or $343,000 to $1.7, when compared to $2.0 million recorded at December 30, 2007.

The provision for loan losses for 2008 totaled $8.9 million, a 34.8% increase from the $6.6 million reported for 2007. Based on an analysis of the credit quality and the composition of the Group's loan portfolio, management determined that the provision for 2008 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, 2008, 2007, AND 2006

	Year Ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Balance at beginning of year	$10,161	$ 8,016	$ 6,630
Provision for loan losses	8,860	6,550	4,388
Net credit losses — see Table 10	(4,728)	(4,405)	(3,002)
Balance at end of year	**$14,293**	**$10,161**	**$ 8,016**

TABLE 9 — ALLOWANCE FOR LOAN LOSSES BREAKDOWN AS OF DECEMBER 31, 2008, 2007 AND 2006

	Year Ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Mortgage	$ 8,514	$ 5,958	$3,721
Commercial	4,004	1,838	1,831
Consumer	1,714	2,006	1,944
Unallocated allowance	61	359	520
	$14,293	**$10,161**	**$8,016**
Allowance composition:			
Mortgage	59.6%	58.7%	46.4%
Commercial	28.0%	18.1%	22.8%
Consumer	12.0%	19.7%	24.3%
Unallocated allowance	0.4%	3.5%	6.5%
	100.0%	**100.0%**	**100.0%**
Allowance coverage ratio at end of period Applicable to:			
Mortgage	0.83%	0.59%	0.39%
Commercial	2.14%	1.17%	0.76%
Consumer	7.43%	6.86%	5.36%
Unallocated allowance to total loans	0.00%	0.03%	0.04%
Total allowance to total loans	**1.16%**	**0.85%**	**0.66%**
Other selected data and ratios:			
Allowance coverage ratio to:			
Non-performing loans	18.5%	15.4%	20.9%
Non-real estate non-performing loans	239.9%	314.5%	205.9%

TABLE 10 — NET CREDIT LOSSES STATISTICS:
YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006
(Dollars in thousands)

	Year Ended December 31,		
	2008	2007	2006
Mortgage			
Charge-offs	$ (1,977)	$ (2,030)	$ (896)
Recoveries	—	15	40
	(1,977)	**(2,015)**	**(856)**
Commercial			
Charge-offs	(459)	(359)	(277)
Recoveries	52	107	116
	(407)	**(252)**	**(161)**
Consumer			
Charge-offs	(2,668)	(2,517)	(2,505)
Recoveries	324	379	520
	(2,344)	**(2,138)**	**(1,985)**
Net credit losses			
Total charge-offs	(5,104)	(4,906)	(3,678)
Total recoveries	376	501	676
	$ (4,728)	**$ (4,405)**	**$ (3,002)**
Net credit losses to average loans:			
Mortgage	0.19%	0.20%	0.11%
Commercial	0.25%	0.18%	0.08%
Consumer	9.35%	6.91%	5.31%
Total	**0.39%**	**0.37%**	**0.28%**
Recoveries to charge-offs	**7.4%**	**10.2%**	**18.4%**
Average loans:			
Mortgage	$1,026,779	$1,005,751	$ 805,285
Commercial	161,541	143,802	212,294
Consumer	25,081	30,989	37,412
Total	**$1,213,401**	**$1,180,542**	**$1,054,991**

TABLE 11 — NON-PERFORMING ASSETS

	December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Non-performing assets:			
Non-performing loans			
Non-accruing loans	$38,779	$27,347	$17,845
Accruing loans over 90 days past due	38,710	38,762	20,453
Total non-performing loans (see Table 12 below)	77,489	66,109	38,298
Foreclosed real estate	9,162	4,207	4,864
Total non-performing assets	**$86,651**	**$70,316**	**$43,162**
Non-performing assets to total assets	**1.40%**	**1.17%**	**0.99%**

	Year Ended December 31,		
	2008	2007	2006
Interest that would have been recorded for the year if the loans had not been classified as non-accruing loans	**$2,545**	**$2,043**	**$1,298**

TABLE 12 — NON-PERFORMING LOANS: AS OF DECEMBER 31, 2008, 2007 AND 2006

	December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Non-performing loans:			
Mortgage	$71,531	$62,878	$34,404
Commercial, mainly real estate	5,186	2,413	3,167
Consumer	772	818	727
Total	**$77,489**	**$66,109**	**$38,298**
Non-performing loans composition percentages:			
Mortgage	92.3%	95.1%	89.8%
Commercial, mainly real estate	6.7%	3.7%	8.3%
Consumer	1.0%	1.2%	1.9%
Total	**100.0%**	**100.0%**	**100.0%**
Non-performing loans to:			
Total loans	**6.28%**	**5.56%**	**3.14%**
Total assets	**1.25%**	**1.10%**	**0.88%**
Total capital	**29.65%**	**18.39%**	**11.38%**

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.

During the year ended December 31, 2008, net credit losses amounted to $4.7 million, a 7.3% increase when compared to $4.4 million reported for the same period of 2007. The increase was primarily due to a $206,000 in net credit losses for consumer loans and $155,000 for commercial loans. Total recoveries decreased from $501,000 in 2007 to $376,000 in 2008. As a result, the recoveries to charge-offs ratio decreased from 10.2% in 2007, to 7.4% in 2008.

The Group's non-performing assets include non-performing loans and foreclosed real estate (see Tables 11 and 12). At December 31 2008, the Group's non-performing assets totaled $86.8 million (1.40% of total assets) versus $70.3 million (1.17% of total assets) at December 31, 2007.

At December 31, 2008, the allowance for loan losses to non-performing loans coverage ratio was 18.5% (15.4% at December 31, 2007. Excluding the lesser-risk mortgage loans, the ratio is 239.9% (314.5% at December 31, 2007).

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* — 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 and interest is doubtful, and are written down, if necessary, based on the specific evaluation of the collateral underlying the loan. At December 31, 2008, the Group's non-performing mortgage loans totaled $71.5 million or 92.3% of the Group's non-performing loans, compared to $62.9 million or 95.1% at December 31, 2007, and to $34.4 million or 89.8% at December 31, 2006.

- *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, 2008, the Group's non-performing commercial business loans amounted to $5.2 million or 6.7% of the Group's non-performing loans, compared to $2.4 million or 3.7% at December 31, 2007, and $3.2 million or 8.3% at December 31, 2006.

- *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, 2008, the Group's non-performing consumer loans amounted to $772,000 or 1.0% of the Group's total non-performing loans, compared to $818,000 or 1.2% at December 31, 2007, and $727,000 or 1.9% at December 31, 2006.

- *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 $9.2 million at December 31, 2008, $4.2 million at December 31, 2007 and $4.9 million at December 31, 2006.

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, 2008, 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	$ 29,193	$29,043	$ —	$ 150	$ —
Securities sold under agreements to repurchase	3,750,000	—	1,000,000	900,00	1,850,000
Advances from FHLB	306,700	26,700	—	225,000	55,000
Subordinated capital notes	36,083	—	—	—	36,083
Annual rental commitments under noncancelable operating leases	31,608	3,940	7,461	7,225	12,982
Total	$4,153,584	$59,683	$1,007,461	$1,132,375	$1,954,065

(1) Excluding accrued interest

Such commitments will be funded in the normal course of business from the Bank's principal sources of funds.

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 2008, 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 quarter, 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-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 an 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.

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 at December 31, 2008, assuming a one-year time horizon:

	Net Interest Income Risk (one year projection)			
	Static Balance Sheet		Growing simulation	
Change in interest rate	Amount Change	Percent Change	Amount Change	Percent Change
	(In thousands)			
+ 200 Basis points	$ 4,519	3.91%	$ 1,883	1.43%
+ 100 Basis points	$ 10,120	8.75%	$ 2,527	1.91%
− 100 Basis points	$ (7,902)	−6.83%	$(10,939)	−8.29%
− 200 Basis points	$(12,104)	−10.47%	$(18,530)	−14.04%

Future net interest income could be affected by the Group's investments in callable securities, prepayment risk related to mortgage loans and mortgage-backed 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. The concentration of long-term fixed rate securities has also been reduced.

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 fixed rate to better match the repricing nature of these borrowings. There were no outstanding interest rate swaps as of December 31, 2008 or 2007.

Structured borrowings — The Group uses structured repurchase agreements and from advances from FHLB, 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, 2008 and 2007, the fair value the purchased options used to manage the exposure to the stock market on stock indexed deposits represented an asset of $12.8 million, and $40.7 million, respectively; and the options sold to customers embedded in the certificates of deposit represented a liability of $18.0 million and $38.8 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.

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 $529.7 million in non-government agency pass-through collateralized mortgage obligations. and $136.2 in structured credit investments that are considered of a higher credit risk than agency securities.

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 Chief Investment Officer 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, 2008, the Group had approximately $133.5 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 6.38% 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.

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, 2008	Quarter Ended March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
	(In thousands, except for per share data)			
Interest income	$82,101	$85,158	$ 84,744	$87,036
Interest expense	57,192	56,573	56,703	57,260
Net interest income	**24,909**	**28,585**	**28,041**	**29,776**
Provision for loan losses	1,650	1,980	1,950	3,280
Net interest income after provision for loan losses	**23,259**	**26,605**	**26,091**	**26,496**
Total non-interest income (loss)	8,864	6,650	(57,167)	29,411
Total non-interest expenses	17,730	18,080	18,197	18,735
Income before taxes	**14,393**	**15,175**	**(49,273)**	**37,172**
Income tax expense (benefit)	(2,455)	598	(4,226)	(3,240)
Net income	**16,848**	**14,577**	**(45,047)**	**40,412**
Less: Dividends on preferred stock	(1,201)	(1,200)	(1,200)	(1,201)
Income available (loss) to common shareholders	**$15,647**	**$13,377**	**$(46,247)**	**$39,211**
Per share data:				
Basic	$ 0.65	$ 0.54	$ (1.90)	$ 1.61
Diluted	$ 0.64	$ 0.54	$ (1.89)	$ 1.61

TABLE 13B — SELECTED QUARTERLY FINANCIAL DATA:

Year Ended December 31, 2007	Quarter Ended March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
	(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

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.

Financial Instruments

Certain financial instruments including derivatives, trading securities and investment securities available-for-sale are recorded at fair value and unrealized gains and losses are recorded in other comprehensive income or as part of non-interest income, as appropriate. Fair values are based on listed market prices, if available. If listed market prices are not available, fair value is determined based on other relevant factors, including price quotations for similar instruments. The fair values of certain derivative contracts are derived from 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.

SFAS No. 157, "*Fair Value Measurements*" ("SFAS 157"), establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below:

Basis of Fair Value Measurement

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 — Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Impairment of Investment Securities

The Group conducts periodic reviews to identify and evaluate each investment in an unrealized loss position, in accordance with FSP FAS 115-1. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in accumulated other comprehensive income for available-for-sale securities, while such losses related to held-to-maturity securities are not recorded, as these investments are carried at their amortized cost (less any other-than-temporary impairment). Regardless of the classification of the securities as available-for-sale or held-to-maturity, the Group has assessed each position for credit impairment.

Factors considered in determining whether a loss is temporary include:

- the length of time and the extent to which fair value has been below cost;
- the severity of the impairment;
- the cause of the impairment and the financial condition and near-term prospects of the issuer;

- activity in the market of the issuer which may indicate adverse credit conditions; and
- the Group's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Group's review for impairment generally entails:

- identification and evaluation of investments that have indications of possible other-than-temporary impairment;
- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;
- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and
- documentation of the results of these analyses.

The extent of the Group's analysis regarding credit quality and the stress on assumptions used in the analysis have been refined for securities where the current fair value or other characteristics of the security warrant. Given the declines in fair values and length of time in which non-agency collateralized mortgage obligations and structured credit investments have been in an unrealized loss position, general concerns regarding housing prices and the delinquency and default rates on the mortgage loans and credit spreads underlying these securities, the Group's analysis for identifying securities for which all principal and interest contractually due might not be recovered have been performed.

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. 161 *"Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133: Accounting for Derivative Instruments and Hedging Activities*," 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.

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 the valuation allowance from period to period are generally included in the Group's tax provision in the period of change.

Recently Issued Accounting Pronouncements and Interpretations:

SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51"

In December 2007, the FASB issued SFAS No. 160, *"Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51"* ("SFAS No. 160"), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. FAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited. The Group is currently evaluating the effect, if any, of the adoption of SFAS 160 on its consolidated financial statements, including disclosures. The effects of adopting this standard, if any, are not expected to be significant.

SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133"

In March 2008, FASB issued SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133"*, which requires additional disclosures for derivative instruments and hedging activities and thereby improves the transparency of financial reporting. Entities are required to provide enhanced disclosures about how and when an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Earlier application was encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. While the Group already provides some of these disclosures, enhancements will be incorporated into the Group's annual and quarterly reports for the year 2009.

SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles"

In May 2008, FASB issued SFAS No. 162, '*" The Hierarchy of Generally Accepted Accounting Principles"*, This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy).

This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of this standard is not expected to have a material effect on the Group's results of operations or financial position. The Board does not expect that this statement will result in a change in current accounting practice. However, transition provisions have been provided in the unusual circumstance that the application of the provisions of this statement results in a change in accounting practice.

FASB Staff Position (FSP) FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions"

The objective of FSP FAS 140-3, issued by the FASB in February 2008, is to provide implementation guidance on whether the security transfer and contemporaneous repurchase financing involving the transferred financial asset must be evaluated as one linked transaction or two separate delinked transactions. Current practice records the transfer as a sale and the repurchase agreement as a financing. The FSP FAS 140-3 requires the recognition of the transfer and the repurchase agreement as one linked transaction, unless all of the following criteria are met: (1) the initial transfer and the repurchase financing are not contractually contingent on one another; (2) the initial transferor has full recourse upon default, and the repurchase agreement's price is fixed and not at fair value; (3) the financial asset is readily obtainable in the marketplace and the transfer and repurchase financing are executed at market rates; and (4) the maturity of the repurchase financing is before the maturity of the financial asset. The scope of this FSP is limited to transfers and subsequent repurchase financings that are entered into contemporaneously or in contemplation of one another. The impact of this FSP is not expected to be material.

FASB Staff Position (FSP) FAS 142-3, "Determination of the Useful Life of Intangible Assets"

FSP FAS 142-3, issued by the FASB in April 2008, amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142 "*Goodwill and Other Intangible Assets*". In developing these assumptions, an entity should consider its own historical experience in renewing or extending similar arrangements adjusted for entity's specific factors or, in the absence of that experience, the assumptions that market participants would use about renewals or extensions adjusted for the entity specific factors. FSP FAS 142-3 shall be applied prospectively to intangible assets acquired after the effective date. This FSP was adopted by the Group on January 1, 2009. The Group will be evaluating the potential impact of adopting this FSP to prospective transactions.

FSP No. FAS 132(R)-1 "Employers' Disclosures about Postretirement Benefit Plan Assets"

FSP No. FAS 132(R)-1 applies to employers who are subject to the disclosure requirements of FAS 132(R), and is effective for fiscal years ending after December 15, 2009. Early application is permitted. Upon initial application, the provisions of this FSP are not required for earlier periods that are presented for comparative periods. The FSP requires the following additional disclosures: (a) the investment allocation decision making process, including the factors that are pertinent to an understanding of investment policies and strategies, (b) the fair value of each major category of plan assets, disclosed separately for pension plans and other postretirement benefit plans, (c) the inputs and valuation techniques used to measure the fair value of plan assets, including the level within the fair value hierarchy in which the fair value measurements in their entirety fall, and (d) significant concentrations of risk within plan assets. Additional detailed information is required for each category above. The Group will apply the new disclosure requirements commencing with the December 31, 2009 financial statements. This FSP impacts disclosures only and will not have an effect on the Group's consolidated statements of condition or operations.

FSP No. EITF 03-6-1 "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"

FSP No. EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share ("EPS") under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, "*Earnings per Share*" . Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of this FSP. Early application is not permitted. This FSP will not have an impact on the Group's EPS computation upon adoption.

EITF Issue No. 07-5 "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock"

In June 2008, the EITF reached consensus on Issue No. 07-5. EITF Issue No. 07-5 provides guidance about whether an instrument (such as outstanding common stock warrants) should be classified as equity and not marked to market for accounting purposes. EITF Issue No. 07-5 is effective for financial statements for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The guidance in this issue shall be applied to outstanding instruments as of the beginning of the fiscal year in which t*his issue is initially applied.* The Group is currently evaluating the effect, if any, of the adoption of EITF Issue No. 07-5 on its consolidated financial statements, including disclosures. The effects of adopting this standard, if any, are not expected to be significant.

EITF 08-6 "Equity Method Investment Accounting Considerations"

EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. This EITF applies to all investments accounted for under the equity method. This issue is effective for fiscal years beginning on or after December 15, 2008. Early adoption is not permitted. EITF 08-6 provides guidance on (1) how the initial carrying value of an equity method investment should be determined, (2) how an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed, (3) how an equity method investee's issuance of shares should be accounted for, and (4) how to account for a change in an investment from the equity method to the cost method. Management is evaluating the impact that the adoption of EITF 08-6 could have on the Group's financial condition or results of operations.

EITF 08-7 "Accounting for Defensive Intangible Assets"

EITF 08-7 clarifies how to account for defensive intangible assets subsequent to initial measurement. EITF 08-7 applies to acquired intangible assets in situations in which an entity does not intend to actively use the asset but intends to hold (lock up) the asset to prevent others from obtaining access to the asset (a defensive intangible asset), except for intangible assets that are used in research and development activities. A defensive intangible asset should be accounted for as a separate unit of accounting. A defensive intangible asset shall be assigned a useful life in accordance with paragraph 11 of SFAS. No 142. EITF 08-7 is effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management will be evaluating the impact of adopting this EITF for future acquisitions commencing in January 2009.

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 24, 2009 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
Bayamón – Plaza del Sol
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 - Las Catalinas Mall
Cayey
Ceiba
Humacao- Oriental Center
Las Piedras
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 2008 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 2008, the Sarbanes-Oxley Act Section 302 Certifications of both our CEO and CFO regarding the quality of our public disclosures.”

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Business Lines

Oriental Financial Group
(NYSE:OFG)

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