

ORIENTAL FINANCIAL GROUP INC

Form 10-Q

November 06, 2009

Table of Contents

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

(Mark One)

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

For the quarterly period ended September 30, 2009

or

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

For the transition period from _____ to _____

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

Incorporated in the Commonwealth of Puerto Rico.

IRS Employer Identification No. 66-0538893

Principal Executive Offices:

997 San Roberto Street
Oriental Center 10th Floor
Professional Offices Park
San Juan, Puerto Rico 00926

Telephone Number: (787) 771-6800

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer (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

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

24,233,762 common shares (\$1.00 par value per share)
outstanding as of October 31, 2009

TABLE OF CONTENTS

	Page
<u>Part I FINANCIAL INFORMATION:</u>	
<u>Item 1 Financial Statements</u>	
<u>Unaudited consolidated statements of financial condition at September 30, 2009 and December 31, 2008</u>	1
<u>Unaudited consolidated statements of operations for the quarters and nine-month periods ended September 30, 2009 and 2008</u>	2
<u>Unaudited consolidated statements of changes in stockholders' equity for the nine-month periods ended September 30, 2009 and 2008</u>	3
<u>Unaudited consolidated statements of comprehensive income for the quarters and nine-month periods ended September 30, 2009 and 2008</u>	3
<u>Unaudited consolidated statements of cash flows for the nine-month periods ended September 30, 2009 and 2008</u>	4
<u>Notes to unaudited consolidated financial statements</u>	5
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	53
<u>Item 4 Controls and Procedures</u>	56
<u>PART II OTHER INFORMATION:</u>	
<u>Item 1 Legal Proceedings</u>	57
<u>Item 1A Risk Factors</u>	57
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
<u>Item 3 Defaults Upon Senior Securities</u>	57
<u>Item 4 Submissions of Matters to a Vote of Security Holders</u>	57
<u>Item 5 Other Information</u>	57
<u>Item 6 Exhibits</u>	57
<u>Signatures</u>	58
Certifications	

EX-10.28

EX-31.1

EX-31.2

EX-32.1

EX-32.2

Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

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

Table of Contents**PART I FINANCIAL INFORMATION****ITEM****UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****SEPTEMBER 30, 2009 AND DECEMBER 31, 2008***(In thousands, except share data)*

	September 30, 2009	December 31, 2008
ASSETS		
Cash and due from banks	\$ 170,443	\$ 66,372
Investments:		
Trading securities, at fair value with amortized cost of \$37 (December 31, 2008 - \$255)	39	256
Investment securities available-for-sale, at fair value with amortized cost of \$4,604,048 (December 31, 2008 - \$4,052,574)		
Securities pledged that can be repledged	3,919,168	3,790,733
Other investment securities	573,458	133,474
Total investment securities available-for-sale	4,492,626	3,924,207
Other Investments	150	150
Federal Home Loan Bank (FHLB) stock, at cost	19,937	21,013
Total investments	4,512,752	3,945,626
Securities sold but not yet delivered	417,280	834,976
Loans:		
Mortgage loans held-for-sale, at lower of cost or fair value	26,213	26,562
Loans receivable, net of allowance for loan losses of \$20,176 (December 31, 2008 - \$14,293)	1,125,379	1,192,550
Total loans, net	1,151,592	1,219,112
Accrued interest receivable	39,970	43,914
Deferred tax asset, net	26,590	28,463
Premises and equipment, net	20,202	21,184
Foreclosed real estate	8,319	9,162
Investment in equity indexed options	5,983	12,801

Other assets	27,915	23,926
Total assets	\$ 6,381,046	\$ 6,205,536

LIABILITIES AND STOCKHOLDERS EQUITY**Deposits:**

Demand deposits	\$ 775,503	\$ 453,690
Savings accounts	66,713	50,152
Certificates of deposit	1,075,689	1,281,458

Total deposits	1,917,905	1,785,300
-----------------------	------------------	------------------

Borrowings:

Federal funds purchased and other short term borrowings	35,328	29,193
Securities sold under agreements to repurchase	3,557,086	3,761,121
Advances from FHLB	281,741	308,442
FDIC-guaranteed term notes	105,112	
Subordinated capital notes	36,083	36,083

Total borrowings	4,015,350	4,134,839
-------------------------	------------------	------------------

Securities purchased but not yet received	30,945	398
Accrued expenses and other liabilities	34,277	23,682

Total liabilities	5,998,477	5,944,219
--------------------------	------------------	------------------

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; 24,232,301 shares outstanding (December 31, 2008 - 25,739,397; 24,297,132)	25,739	25,739
Additional paid-in capital	213,264	212,625
Legal surplus	52,659	43,016
Retained earnings	146,421	51,233
Treasury stock, at cost 1,507,096 shares (December 31, 2008 - 1,442,265 shares)	(17,147)	(17,109)
Accumulated other comprehensive loss, net of tax of \$4,881 (December 31, 2008 - \$6,004)	(106,367)	(122,187)

Total stockholders equity	382,569	261,317
----------------------------------	----------------	----------------

Total liabilities and stockholders equity	\$ 6,381,046	\$ 6,205,536
--	---------------------	---------------------

See notes to unaudited consolidated financial statements.

- 1 -

Table of Contents

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2009 AND 2008**
(In thousands, except per share data)

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2009	2008	2009	2008
Interest income:				
Loans	\$ 18,251	\$ 19,971	\$ 55,278	\$ 59,481
Mortgage-backed securities	48,750	47,040	151,179	134,306
Investment securities and other	11,552	17,733	38,078	58,216
Total interest income	78,553	84,744	244,535	252,003
Interest expense:				
Deposits	13,990	12,202	41,962	36,746
Securities sold under agreements to repurchase	27,209	40,456	90,937	120,904
Advances from FHLB and other borrowings	3,106	3,505	9,277	11,042
FDIC-guaranteed term notes	1,021		2,154	
Subordinated capital notes	333	540	1,158	1,776
Total interest expense	45,659	56,703	145,488	170,468
Net interest income	32,894	28,041	99,047	81,535
Provision for loan losses	4,400	1,950	11,250	5,580
Net interest income after provision for loan losses	28,494	26,091	87,797	75,955
Non-interest income:				
Financial service revenues	3,764	3,756	10,163	12,496
Banking service revenues	1,422	1,406	4,381	4,328
Investment banking revenues (losses)		200	(4)	950
Mortgage banking activities	2,232	910	7,191	2,461
Total banking and financial service revenues	7,418	6,272	21,731	20,235
Excess of amortized costs over fair value on other-than-temporarily impaired securities	(44,737)	(58,804)	(107,331)	(58,804)
Non-credit related unrealized loss on securities recognized in other comprehensive income	36,478		94,656	

Edgar Filing: ORIENTAL FINANCIAL GROUP INC - Form 10-Q

Other-than-temporary impairments on securities	(8,259)	(58,804)	(12,675)	(58,804)
Net gain(loss) on:				
Sale of securities	35,528	386	56,388	9,908
Derivatives	(64)	(5,522)	19,778	(13,247)
Early extinguishment of repurchase agreements	(17,551)		(17,551)	
Trading securities	(505)	(31)	12,427	(32)
Foreclosed real estate	(278)	58	(576)	(452)
Other investments	10	16	34	132
Other	21	609	60	608
Total non-interest income (loss), net	16,320	(57,016)	79,616	(41,652)
Non-interest expenses:				
Compensation and employees benefits	7,882	7,742	23,626	23,281
Occupancy and equipment	3,747	3,561	10,994	10,213
Professional and service fees	2,459	2,457	7,461	6,604
Insurance	1,273	618	5,560	1,799
Advertising and business promotion	1,097	847	3,329	2,757
Taxes, other than payroll and income taxes	834	644	2,129	1,862
Electronic banking charges	471	428	1,607	1,242
Loan servicing expenses	397	352	1,167	1,022
Communication	382	314	1,163	964
Directors and investor relations	348	273	1,029	854
Clearing and wrap fees expenses	293	294	860	901
Printing, postage, stationery and supplies	194	214	665	736
Other	1,109	453	2,381	1,772
Total non-interest expenses	20,486	18,197	61,971	54,007
Income (loss) before income taxes	24,328	(49,122)	105,442	(19,704)
Income tax expense (benefit)	3,001	(4,226)	8,452	(6,083)
Net income (loss)	21,327	(44,896)	96,990	(13,621)
Less: Dividends on preferred stock	(1,201)	(1,200)	(3,602)	(3,601)
Income available (loss) to common shareholders	\$ 20,126	\$ (46,096)	\$ 93,388	\$ (17,222)
Income (loss) per common share:				
Basic	\$ 0.83	\$ (1.90)	\$ 3.85	\$ (0.71)
Diluted	\$ 0.83	\$ (1.89)	\$ 3.84	\$ (0.71)
Average common shares outstanding	24,303	24,292	24,284	24,249

Edgar Filing: ORIENTAL FINANCIAL GROUP INC - Form 10-Q

Average potential common shares-options	65	82	17	100
Average diluted common shares outstanding	24,368	24,374	24,301	24,349
Cash dividends per share of common stock	\$ 0.04	\$ 0.14	\$ 0.12	\$ 0.42

See notes to unaudited consolidated financial statements.

- 2 -

Table of Contents**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2009 AND 2008***(In thousands)*

	Nine-Month Period Ended September 30,	
	2009	2008
CHANGES IN STOCKHOLDERS' EQUITY:		
Preferred stock:		
Balance at beginning and end of period	\$ 68,000	\$ 68,000
Common stock:		
Balance at beginning of period	25,739	25,557
Stock options exercised		181
Balance at end of period	25,739	25,738
Additional paid-in capital:		
Balance at beginning of period	212,625	210,073
Stock-based compensation expense	550	444
Capital contribution	89	
Stock options exercised		1,994
Balance at end of period	213,264	212,511
Legal surplus:		
Balance at beginning of period	43,016	40,573
Transfer from retained earnings	9,643	
Balance at end of period	52,659	40,573
Retained earnings:		
Balance at beginning of period	51,233	45,296
Cummulative effect on initial adoption of FASB ASC 320-10-65-1	14,359	
Net income (loss)	96,990	(13,621)
Cash dividends declared on common stock	(2,916)	(10,206)
Cash dividends declared on preferred stock	(3,602)	(3,601)
Transfer to legal surplus	(9,643)	
Balance at end of period	146,421	17,868
Treasury stock:		
Balance at beginning of period	(17,109)	(17,023)

Stock used to match defined contribution plan 1165(e)	144	116
Stock purchased	(182)	(235)
Balance at end of period	(17,147)	(17,142)
Accumulated other comprehensive loss, net of tax:		
Balance at beginning of period	(122,187)	(13,015)
Cummulative effect on initial adoption of FASB ASC 320-10-65-1	(14,359)	
Other comprehensive income (loss), net of tax	30,179	(92,515)
Balance at end of period	(106,367)	(105,530)
Total stockholders equity	\$ 382,569	\$ 242,018

Table of Contents

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2009 AND 2008
(In thousands)**

	Quarter Ended September 30,		Nine-Month Period Ended September 30,	
	2009	2008	2009	2008
COMPREHENSIVE INCOME				
Net income (loss)	\$ 21,327	\$ (44,896)	\$ 96,990	\$ (13,621)