

ORIENTAL FINANCIAL GROUP INC

Form 11-K

June 30, 2004

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**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 11-K

**ANNUAL REPORT
PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(Mark One):

- ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the fiscal year ended December 31, 2003

OR

- TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from _____ to _____

Commission file number 001-12647

- A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

**ORIENTAL GROUP CODA PROFIT SHARING PLAN
c/o Oriental Bank and Trust
Professional Offices Park
996 San Roberto Street
San Juan, Puerto Rico 00926**

- B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

**ORIENTAL FINANCIAL GROUP INC.
Professional Offices Park
998 San Roberto Street
San Juan, Puerto Rico 00926**

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EX-23 CONSENT OF DELOITTE & TOUCHE LLP

EX-32.1 SECTION 906 CERTIFICATION OF THE CFO

EX-32.2 SECTION 906 CERTIFICATION OF THE SENIOR VP

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SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

ORIENTAL GROUP CODA PROFIT SHARING PLAN

(Name of Plan)

Date: June 30, 2004

/s/ Norberto González

Norberto González, C.P.A.
Executive Vice President and
Acting Chief Financial Officer

/s/ José Gabriel Díaz

José Gabriel Díaz, Esq.
First Senior Vice President
and Executive Trust Officer

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INDEX OF EXHIBITS

Exhibit No.	Description of Document
23	Consent of Deloitte & Touche LLP
32.1	Section 1350 certification by the Executive Vice President and Acting Chief Financial Officer
32.2	Section 1350 certification by the First Senior Vice President and Executive Trust Officer

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***ORIENTAL GROUP CODA
PROFIT SHARING PLAN***

Financial Statements as of December 31, 2003 and 2002 and for the
Year Ended December 31, 2003, Supplemental Schedules for the Year
Ended December 31, 2003 and Report of Independent Registered
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ORIENTAL GROUP CODA PROFIT SHARING PLAN

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Participants and the Oriental Group Retirement Committee of
Oriental Group CODA Profit Sharing Plan:

We have audited the accompanying statements of net assets available for benefits of Oriental Group CODA Profit Sharing Plan (the Plan) as of December 31, 2003 and 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2003. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2003 and 2002, and the changes in net assets available for benefits for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules listed in the Table of Contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These schedules are the responsibility of the Plan s management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 2003 financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

/s/ Deloitte & Touche LLP
San Juan, Puerto Rico

June 25, 2004

Stamp No. 1962198
affixed to original.

Table of Contents**ORIENTAL GROUP CODA PROFIT SHARING PLAN****STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
AS OF DECEMBER 31, 2003 AND 2002**

ASSETS	2003	2002
INVESTMENTS At fair value	\$6,981,976	\$5,430,852
	<hr/>	<hr/>
RECEIVABLES:		
Participants contributions	18,659	16,446
Employer s contributions	7,685	
Other	66,362	57,764
	<hr/>	<hr/>
Total receivables	92,706	74,210
	<hr/>	<hr/>
Total assets	7,074,682	5,505,062
LIABILITIES Excess contribution to be recognized next year	4,359	67,594
	<hr/>	<hr/>
NET ASSETS AVAILABLE FOR BENEFITS	\$7,070,323	\$5,437,468
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See notes to financial statements.

Table of Contents**ORIENTAL GROUP CODA PROFIT SHARING PLAN****STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2003**

ADDITIONS:	
Additions to net assets attributed to:	
Investment income:	
Net appreciation in fair value of investments	\$ 1,586,678
Dividends	116,876
Interest	906
	<hr/>
Total investment income	1,704,460
	<hr/>
Contributions:	
Participants	501,316
Employer	45,238
	<hr/>
Total contributions	546,554
	<hr/>
Total additions	2,251,014
DEDUCTIONS Deductions from net assets attributed to benefits paid to participants	618,159
	<hr/>
NET INCREASE	1,632,855
NET ASSETS AVAILABLE FOR BENEFITS:	
Beginning of year	5,437,468
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End of year	\$7,070,323
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See notes to financial statements.

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ORIENTAL GROUP CODA PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

1. DESCRIPTION OF THE PLAN

The following description of Oriental Group CODA Profit Sharing Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

- a. **General** The Plan is a defined contribution plan maintained by Oriental Financial Group Inc. (the Employer) for the benefit of its employees and those of its affiliated companies (Oriental Bank & Trust (the Bank), Oriental Financial Services Corp., Oriental Mortgage Corp. and FISA Insurance Agency, Inc.), who are residents of Puerto Rico, have completed six-months of service and are age twenty-one or older. The Plan was established effective January 1, 1992. Effective January 1, 2002, the Plan was amended to transfer the sponsorship of the Plan from Oriental Bank & Trust to the Employer and to change the name of the Plan from Oriental Bank & Trust Cash or Deferred Arrangement Profit Sharing Plan to Oriental Group CODA Profit Sharing Plan. This Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).
- b. **Contributions** Each year, participants may contribute up to 10 percent of pretax annual compensation, as defined in the Plan, not exceeding the maximum deferral amount specified by the Puerto Rico tax laws. Participants may also contribute amounts representing distributions from other qualified defined benefit or contribution plans. Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers eleven mutual funds, a fund, which invests in Oriental Bank & Trust time deposits, and a fund which invests in common stock of the Employer as investment options for participants. The Employer contributes 80 percent of the first \$1,040 of the participant's contributions. The Employer's matching contributions are invested directly in the Employer common stock. Contributions are subject to certain limitations.
- c. **Participant Accounts** Each participant's account is credited with the participant's contribution and allocations of (a) the Employer's contribution and, (b) Plan earnings. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.
- d. **Vesting** Participants are vested immediately in their contributions plus actual earnings thereon. The Employer's contribution portion of their accounts plus actual earnings thereon vest upon the occurrence of any of the following events: completion of three years of credited service; attaining age 65; total disability while employed by the Employer or death while employed by the Employer.
- e. **Payment of Benefits** On termination of service due to death, disability or retirement, a participant may elect to receive the value of the vested interest in his or her account in either a lump-sum distribution or a fixed period that may not exceed the participant's life expectancy. For termination of service for other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.
- f. **Loans to Participants** Loans to participants are not permitted.
- g.

Forfeited Accounts Employer contributions that are not vested upon termination of employment are forfeited and may be used to reduce future contributions to the Plan by the Employer. For the

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year ended December 31, 2003, forfeitures totaling \$129,847 were used to off-set current year Employer matches.

- h. **Plan Termination** Although it has not expressed any intent to do so, the Employer has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants will become 100% vested in their employer contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following are the significant accounting policies followed by the Plan:

- a. **Basis of Presentation** The financial statements of the Plan are prepared under the accrual method of accounting and in conformity with accounting principles generally accepted in the United States of America.
- b. **Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect the participant account balances and the reported amounts of net assets available for benefits and changes therein. Actual results could differ from those estimates.
- c. **Risks and Uncertainties** The Plan utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for plan benefits.
- d. **Investments Valuation and Income Recognition** The Plan's investments are stated at fair value. Shares of mutual funds and common stock are valued at quoted closing market prices, which, for mutual funds, represent the Net Asset Value (NAV) of shares held by the Plan at year-end. Money market funds and time deposits are stated at fair value, which approximates cost plus accumulated interest earnings less distributions to date.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

- e. **Payment of Benefits** Benefits are recorded when paid.
- f. **Plan Expenses** All mutual funds incur expenses that reduce earnings in the fund and are reflected in the daily NAV. The amount of these expenses, stated as a percentage of assets is called an expense ratio. The NAVs for the mutual funds are listed publicly and the same NAV applies whether the mutual fund is purchased on the open market or through the Plan. Expense ratios charged by mutual funds cover costs relating to investing, such as the mutual fund managers' asset management fees and cost related to administration of the fund. Examples of administrative costs include issuing quarterly statements, operating a service center and having toll-free numbers available for the participants. Expenses incurred by the mutual funds are netted against earnings of the respective funds in the accompanying statement of changes in net assets available for benefits.

Administrative expenses, including trustee, legal, auditing and other fees, may be paid out of the invested assets unless paid by the Employer.

Table of Contents**3. INVESTMENTS**

The following presents investments as of December 31, 2003 and 2002 that represent five percent or more of the Plan's net assets.

	<u>2003</u>	<u>2002</u>
Oriental Financial Group Inc. common stock; 189,126 and 164,776 shares, respectively	\$4,860,546	\$4,050,194
Fidelity Advisor Growth Opportunities Fund Class T; 22,188 and 21,641 units, respectively	635,456	480,209
Fidelity Advisor Equity Growth Fund Class T; 12,356 and 10,911 units, respectively	550,075	368,481

During 2003, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$1,586,678 as follows:

Oriental Financial Group Inc. common stock	\$1,199,808
Mutual funds	<u>386,870</u>
Total	<u>\$1,586,678</u>

Certain plan assets are invested in shares of mutual funds as directed by participants. Oriental Bank & Trust, Inc. (the Bank), the Trustee of the Plan, accumulates all investment income (interest and dividends) together with the appreciation in fair value of the fund investments and reports the accumulation in the single unit value of each share. Since the amount of investment income is not significant, separate disclosure of investment income and appreciation in fair value of the fund investments is not presented for the mutual funds.

4. NONPARTICIPANT DIRECTED INVESTMENTS

Information about the net assets and the significant components of the changes in net assets relating to the nonparticipant directed investment (the Employer's matching contributions that are invested in Oriental Financial Group, Inc. common stock) is as follows:

	<u>2003</u>	<u>2002</u>
Net assets at December 31, 2003 and 2002 Oriental Financial Group Inc. common stock 94,935 and 82,317 shares, respectively	<u>\$2,439,834</u>	<u>\$2,023,362</u>
Changes in net assets for the year ended December 31, 2003:		
Contributions, net of forfeitures totaling \$129,847	\$ 37,553	
Dividends	49,287	

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Net appreciation	586,860
Benefits paid to participants	<u>(257,228)</u>
Net increase in net assets	<u>\$ 416,472</u>

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5. RELATED PARTY TRANSACTIONS

Certain Plan investments are shares of Oriental Financial Group Inc. common stock. Oriental Financial Group Inc. is the Plan sponsor and therefore qualifies as a related party. At December 31, 2003 and 2002, the Plan held an investment of 189,126 and 164,776 shares of Oriental Financial Group Inc. common stock, respectively. The fair value of the common stock fund at December 31, 2003 and 2002 was \$4,860,546 and \$4,050,194, respectively. For the year ended December 31, 2003, the Plan purchased 5,894 shares of Oriental Financial Group Inc. common stock at a cost of \$144,585. For the year ended December 31, 2003, the Plan sold 27,664 shares of Oriental Financial Group Inc. common stock with proceeds of \$678,715. For the year ended December 31, 2003, the Plan received dividends income and a twenty-five percent (25%) stock split effected in the form of a dividend on common stock from Oriental Financial Group Inc. of \$102,893 and 41,210 shares, respectively.

The money market account amounted to \$107,525 at December 31, 2002 and consists of a time deposit at the Bank, earning interest at 3.00%. The Bank is a subsidiary of the Plan sponsor and therefore qualifies as a related party.

6. INCOME TAXES

The Plan is exempt from Puerto Rico income taxes under the provisions of the Puerto Rico Internal Revenue Code of 1994 (PRIRC), as amended. The Plan is not qualified under Section 401(a) of the Internal Revenue Code, but it is exempt from United States taxation under Section 1022 of the Employee Retirement Income Security Act of 1974. The Plan is required to operate in conformity with the PRIRC to maintain its qualification.

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(FORM 5500, SCHEDULE H, LINE 4i)**

Identity of Issue	Shares/Units Par Value	Fair Value
Oriental Financial Group Inc. Common Stock (Cost of \$1,973,100)**	189,126	\$4,860,546
Mutual Funds:		
Fidelity Advisor Growth Opportunities Fund Class T*	22,188	635,456
Fidelity Advisor Equity Growth Fund Class T*	12,356	550,075
Fidelity Advisor Government Investment Fund Class T*	18,317	184,448
Fidelity Advisor Growth & Income Fund Class T*	8,282	131,680
Fidelity Advisor Mid Cap Fund Class T*	4,983	111,683
Fidelity Advisor Global Equity Fund Class T*	8,630	97,960
Fidelity Advisor Equity Value Fund Class T*	7,225	78,319
Fidelity Advisor Small Cap Fund Class T*	3,519	70,165
Fidelity Advisor International Capital Appreciation Fund Class T*	4,514	68,975
Fidelity Advisor Technology Fund Class T*	1,762	27,523
Fidelity Advisor Intermediate Bond Fund Class T*	1,703	19,232
U.S. Treasury Money Fund of America earning interest at .26%	131,630	131,630
Cash Account	14,284	14,284
		<hr/>
Total		\$6,981,976
		<hr/>

* Registered Investment Company

** Party-in-interest

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SCHEDULE II

ORIENTAL GROUP CODA PROFIT SHARING PLAN

**SCHEDULE OF REPORTABLE TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2003
(FORM 5500, SCHEDULE H, LINE 4j)**

SINGLE TRANSACTIONS None.

SERIES OF TRANSACTIONS:

Description of Asset	Number		Purchase Amount	Selling Amount	Expense Incurred with Transaction	Cost of Asset	Current Value of Asset on Transaction Date	Net Gain on Sale
	of Purchases	of Sales						
Oriental Financial Group Inc. common stock	32	45	\$144,585	\$678,715	None	\$289,382	\$678,715	\$389,333

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SCHEDULE III

ORIENTAL GROUP CODA PROFIT SHARING PLAN

**SCHEDULE OF NONEXEMPT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2003
(FORM 5500, SCHEDULE H, LINE 4a)**

Identity of Party Involved	Relationship to Plan	Description of Transaction	Cost of Asset
Oriental Financial Group Inc.	Plan Sponsor	Certain participant contributions for the year ended December 31, 2003 were remitted to the Plan after the maximum time period described in 29 CFR 2510.3-102	\$ 19,593