

R&G FINANCIAL CORP  
Form 424B5  
November 29, 2004

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Filed Pursuant to Rule 424(b)(5)  
 Registration No. 333-118920  
 Registration No. 333-118920-03

PROSPECTUS SUPPLEMENT (TO PROSPECTUS DATED SEPTEMBER 28, 2004)

## 5,000,000 Trust Preferred Securities

### R&G Capital Trust VI

#### 6.62% Cumulative Monthly Income Trust Preferred Securities

**(Liquidation Amount \$25 Per Preferred Security)**

**Fully, irrevocably and unconditionally guaranteed**

**on a subordinated basis, as described in this prospectus, by**

**R&G Financial Corporation**

R&G Capital Trust VI is offering 5,000,000 trust preferred securities with a \$25 liquidation amount per security. The trust preferred securities represent an indirect interest in the 6.62% junior subordinated debt securities of R&G Financial Corporation. The junior subordinated debt securities of R&G Financial Corporation have the same payment terms as the trust preferred securities and will be purchased by the trust using the proceeds received from its offering of the trust preferred securities. The junior subordinated debt securities of R&G Financial Corporation will mature and be paid on December 12, 2034 and the trust must redeem the trust preferred securities at such date.

We have authorized the underwriters for the Puerto Rico Conservation Trust Fund secured notes to deliver a copy of this prospectus supplement and the accompanying prospectus relating to the trust preferred securities offered hereby to purchasers of the secured notes of the Puerto Rico Conservation Trust Fund. This prospectus supplement and the accompanying prospectus relates only to R&G Capital Trust VI, R&G Financial Corporation and the trust preferred securities and does not relate to the Puerto Rico Conservation Trust Fund or the secured notes. You should only rely on this prospectus supplement and the accompanying prospectus for a description of R&G Capital Trust VI, R&G Financial Corporation and the trust preferred securities. Our responsibilities, liabilities and obligations are limited solely to the information contained or specifically incorporated by reference in this prospectus supplement and the accompanying prospectus and to our obligations under the trust preferred securities.

**Investing in the trust preferred securities involves risks. See Risk Factors beginning on page S-8.**

	Per Preferred Security	Total
Public offering price	\$24.3308	\$ 121,653,750
Placement agents' fee	\$ 0.0625	\$ 312,500
Proceeds to the trust	\$24.2683	\$ 121,341,250

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement and the accompanying prospectus. Any representation to the contrary is a criminal offense.

The trust preferred securities are being offered ultimately to the purchasers of the secured notes of the Puerto Rico Conservation Trust Fund, which are being offered simultaneously by the Puerto Rico Conservation Trust Fund through the underwriters named below. As a result, each underwriter referred to below, for federal securities law purposes, is a statutory underwriter within the meaning of the Securities Act of 1933 with respect to sales of the trust preferred securities.

The trust preferred securities are not savings accounts, deposits or obligations of any bank, and are not insured by the FDIC or any other governmental agency and are subject to investment risks, including possible loss of principal amount invested.

UBS Financial Services Incorporated  
of Puerto Rico

R-G Investments Corporation

The date of this Prospectus Supplement is November 26, 2004.

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Prospective investors may rely only on the information incorporated by reference or contained in this prospectus supplement and the accompanying prospectus. Neither R&G Financial Corporation nor any underwriter or agent has authorized anyone to provide prospective investors with information different from that incorporated by reference or contained in this prospectus supplement and the accompanying prospectus. This prospectus supplement and the accompanying prospectus is not an offer to sell, nor is it seeking an offer to buy, the trust preferred securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus supplement and the accompanying prospectus is complete and accurate only as of the date set forth on the front cover of this prospectus supplement, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or any sale of these securities.

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**Prospectus supplement summary**

The following information concerning R&G Financial Corporation, the trust, the trust preferred securities to be issued by the trust, the guarantee to be issued by R&G Financial Corporation with respect to the trust preferred securities and the 6.62% junior subordinated debt securities due 2034 to be issued by R&G Financial Corporation supplement, and should be read in conjunction with, the information contained in or incorporated by reference into the accompanying prospectus. If the information set forth in this prospectus supplement differs in any way from the information set forth in the accompanying prospectus, you should rely on the information set forth in this prospectus supplement. The reader should also read the more detailed information set out under Risk Factors herein. The words we, our, us and R&G Financial refer to R&G Financial Corporation, unless we indicate otherwise.

**R&G FINANCIAL CORPORATION**

We are a Puerto Rico chartered, financial holding company that operates R-G Premier Bank of Puerto Rico, or Premier Bank, a Puerto Rico commercial bank, and R-G Crown Bank, or R-G Crown, a federal savings bank. We also operate R&G Mortgage Corp, the second largest mortgage company in Puerto Rico, The Mortgage Store of Puerto Rico, Inc., and Continental Capital Corp., a mortgage banking company doing business in the continental United States. We also conduct an insurance agency business and offer broker dealer services through Home & Property Insurance Corp. and R-G Investments Corporation, respectively.

We are a separate and distinct legal entity from our banking and other subsidiaries. Our principal source of funds to pay our obligations, including service on our debt, is dividends from our subsidiaries. Various federal, Puerto Rico and state statutes and regulations limit the amount of dividends that our banking and other subsidiaries may pay to us without regulatory approval.

On October 11, 2004, we and R-G Crown Bank entered into a purchase and assumption agreement with SouthTrust Bank to acquire 18 SouthTrust branches located in three banking markets in Florida and one banking market in Georgia with deposits and other liabilities totaling approximately \$600 million. The acquisition results from the required divestiture of certain SouthTrust branches, together with the assets, deposits and other liabilities of such branches, to facilitate regulatory approval of Wachovia Corporation's previously announced acquisition of SouthTrust Corporation, the parent of SouthTrust Bank. The merger of SouthTrust Corporation and Wachovia Corporation was completed on November 1, 2004.

Our principal executive offices are located at 280 Jesus T. Piñero Avenue, San Juan, Puerto Rico 00918 and our telephone number is (787) 758-2424.

**R&G CAPITAL TRUST VI**

R&G Capital Trust VI, referred to as the trust or Trust VI, is a statutory trust created under Delaware law. We created the trust to offer the trust preferred securities and to purchase the junior subordinated debt securities. The trust has a term of 30 years, but may be dissolved earlier as provided in the trust agreement. Upon issuance of the trust preferred securities offered by this prospectus, the purchasers in this offering will own all of the issued and outstanding trust preferred securities of the trust. We will own all of the common securities of the trust.

We have previously formed five statutory trusts which issued trust preferred securities and which are substantially similar to Trust VI. Two of these trusts, R&G Capital Trust III and R&G Capital Trust V, in October 2003 and March 2004 each issued \$100 million of trust preferred securities to the Puerto Rico Conservation Trust Fund, a non-affiliated charitable trust, in transactions that were substantially similar to the offering contemplated by this prospectus. The Puerto Rico Conservation Trust Fund used our trust preferred securities to secure concurrent offerings to the public undertaken by the Puerto Rico Conservation Trust Fund of its secured notes.

The trust's principal offices are located at c/o R&G Financial Corporation, 280 Jesus T. Piñero Avenue, San Juan, Puerto Rico 00918, telephone number (787) 758-2424.

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**The Offering**

The issuer	R&G Capital Trust VI
Securities being offered	5,000,000 trust preferred securities, which represent preferred undivided beneficial interests in the assets of the trust. Those assets will consist solely of the junior subordinated debt securities and payments received on the junior subordinated debt securities.
Offering price	\$24.3308 per preferred security.
When distributions will be paid to the holders	The holders of the trust preferred securities will be entitled to receive cumulative cash distributions at an annual rate of 6.62% of the liquidation amount, which is \$25.00 per preferred security. Distributions will accumulate from the date the trust issues the trust preferred securities and are to be paid monthly in arrears on the twelfth day of each month, beginning January 12, 2005. The record date for distributions on the trust preferred securities will be the fifteenth day of the month immediately preceding the relevant distribution date. We may defer the payment of cash distributions, as described below.
When the trust preferred securities must be redeemed	The junior subordinated debt securities will mature and the trust preferred securities must be redeemed on December 12, 2034.
Redemption of the trust preferred securities before December 12, 2034 is possible	<p>The trust must redeem the trust preferred securities when the junior subordinated debt securities are paid at maturity or upon any earlier redemption of the junior subordinated debt securities. All the junior subordinated debt securities may be redeemed at 100% of the principal amount outstanding, plus accrued and unpaid interest, if there is a Tax Event (as defined herein), an Investment Company Event (as defined herein) or a Regulatory Capital Event (as defined herein).</p> <p>Other than in connection with a Tax Event, Investment Company Event or Regulatory Capital Event, we have the option to redeem the junior subordinated debt securities (in which case, the trust must also redeem the trust preferred securities) at any time on or after December 12, 2009 at 105% of the principal amount, declining 1% per year thereafter to 100% of the principal amount outstanding. We will not redeem the junior subordinated debt securities prior to December 12, 2034 unless we have received the prior approval of the Board of Governors of the Federal Reserve System, or its district reserve bank, hereinafter referred to as the Federal Reserve.</p> <p>Although it is unlikely to happen, we may also redeem junior subordinated debt securities at any time, and from time to time, in an amount equal to the liquidation amount of any trust preferred securities we may purchase from the holders, plus a proportionate amount of common securities, but only in exchange</p>

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for a like amount of the trust preferred securities and common securities then owned by us.

We have the option to extend the interest payment period

The trust will rely solely on payments made by us under the junior subordinated debt securities to pay distributions on the trust preferred securities. As long as we are not in default under the indenture relating to the junior subordinated debt securities, we may, at one or more times, defer interest payments on the junior subordinated debt securities for up to 60 consecutive months, but not beyond December 12, 2034.

If we defer interest payments on the junior subordinated debt securities:

the trust will also defer distributions on the trust preferred securities;

the distributions the holders are entitled to will accumulate; and

these accumulated distributions will earn interest at an annual rate of 6.62%, compounded monthly, until paid.

If we exercise our right to defer payments of interest on the junior subordinated debt securities, the holders of the trust's trust preferred securities may be required to accrue income (as original issue discount) on the deferred stated interest allocable to the trust preferred securities for federal income tax purposes, even though such interest will not be distributed to such holders. At the end of any deferral period, we will pay to the trust all accrued and unpaid interest under the junior subordinated debt securities. The trust will then pay all accumulated and unpaid distributions to the holders.

At the end of any deferral period, we will pay to the trust all accrued and unpaid interest under the junior subordinated debt securities. The trust will then pay all accumulated and unpaid distributions to the holders.

Our full and unconditional guarantee of payment

Our obligations described in this prospectus supplement and the accompanying prospectus, in the aggregate, constitute a full, irrevocable and unconditional guarantee by us on a subordinated basis, of the obligations of the trust under the trust preferred securities. We have entered into a guarantee agreement whereby we have guaranteed that the trust will use its assets to pay the distributions on the trust preferred securities and the liquidation amount upon liquidation of the trust. However, the guarantee does not apply when the trust does not have sufficient funds to make the payments. If we do not make payments on the junior subordinated debt securities, the trust will not have sufficient funds to make payments on the trust preferred securities and the holder will not receive its dividends. In this event, the holders' remedy is to institute a legal proceeding directly against us for enforcement of payments under the junior subordinated debt securities.

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We may distribute the junior subordinated debt securities directly to the holders

We may, under certain circumstances, dissolve the trust and distribute the junior subordinated debt securities to the holders, subject to the prior approval of the Federal Reserve, if required.

How the securities will rank in right of payment

Our obligations under the trust preferred securities, junior subordinated debt securities and guarantee are unsecured and will rank as follows with regard to right of payment:

our obligations under the junior subordinated debt securities will rank senior to the four series of Preferred Stock we have issued and outstanding, which are shown under Capitalization below, as well as to any preferred stock we may issue in the future;

the trust preferred securities will rank equally with the common securities of the trust. The trust will pay distributions on the trust preferred securities and the common securities pro rata. However, if we default with respect to the junior subordinated debt securities, then no distributions on the common securities of the trust or our common stock will be paid until all accumulated and unpaid distributions on the trust preferred securities have been paid;

our obligations under the junior subordinated debt securities and the guarantee are unsecured and generally will rank junior in priority to our existing and future senior and subordinated indebtedness. At September 30, 2004, we had senior indebtedness outstanding of \$3.8 billion, comprised of securities sold under agreements to repurchase, Federal Home Loan Bank advances, notes payable and federal funds purchased. Our obligations under the junior subordinated debt securities will rank equal to other junior subordinated debt securities issued by us to similar trusts, including the junior subordinated debt securities previously sold to five (5) statutory trusts which issued trust preferred securities.

because we are a holding company, the junior subordinated debt securities and the guarantee will effectively be subordinated to all depositors' claims, as well as existing and future liabilities of our subsidiaries.

Voting rights of the trust preferred securities

Except in limited circumstances, the holders of the trust preferred securities will have no voting rights.

How the proceeds of this offering will be used

The trust will invest all of the proceeds from the sale of the trust preferred securities in the junior subordinated debt securities. We estimate that the net proceeds to us from the sale of the junior subordinated debt securities to the trust, after deducting offering expenses and placement agent's fees, will be approximately \$121.1 million. We are conducting the offering to take advantage of present market rates of interest available for

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financings of this type in order to support our ongoing and future anticipated growth. We expect to contribute the proceeds to one or more of our Puerto Rico subsidiaries to bolster their capital for such future expansion.

The rights of the holder of CT Notes against us

The trust preferred securities will be used as collateral for a simultaneous offering by the Puerto Rico Conservation Trust Fund of its secured notes, which we refer to as the CT Notes, as described in the offering circular dated November 26, 2004 to which this prospectus supplement and the accompanying prospectus is attached. Under the trust agreement for the CT Notes, the Puerto Rico Conservation Trust Fund and the trustee for the CT Notes have assigned to the holders of the CT Notes their rights against Trust VI and R&G Financial Corporation and the underwriters of the CT Notes under the federal and applicable state securities laws with respect to the trust preferred securities. Accordingly, purchasers of the CT Notes may proceed directly against Trust VI and R&G Financial Corporation and the underwriters of the CT Notes to enforce those rights without first proceeding against the Puerto Rico Conservation Trust Fund, the trustee for the CT Notes or any other entity. We and the underwriters of the CT Notes have acknowledged the existence of such assignment and agreed not to contest its enforceability.

Trustee and Paying Agent

Wilmington Trust Company, Wilmington, Delaware.

**Before purchasing the trust preferred securities, holders should refer to Risk Factors.**

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The reader should read the summary consolidated financial information presented below, together with our Consolidated Financial Statements and notes which are incorporated by reference into this prospectus supplement and accompanying prospectus. Historical results are not necessarily indicative of future results, and results for the nine-month period ended September 2004 and 2003 are unaudited and not necessarily indicative of our expected results for the full year ending December 31, 2004. The balance sheet and income statement data for the years ended December 31, 2003, 2002, 2001, 2000 and 1999 are derived from our audited Consolidated Financial Statements.

	Nine Months Ended September 30,		Year Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
(unaudited (dollars in thousands, except per share data))							
<b>Balance Sheet Data:</b>							
Total assets	\$ 9,188,847	7,835,001	\$ 8,198,880	\$ 6,277,246	\$ 4,664,394	\$ 3,539,444	\$ 2,911,993
Deposits	4,143,938	3,431,976	3,555,764	2,802,324	2,061,224	1,676,062	1,330,506
Borrowings	4,029,248	3,498,478	3,721,324	2,670,156	2,064,623	1,505,448	1,272,891
Stockholders equity	825,753	725,132	750,353	662,218	459,121	308,836	269,535
Common stockholders equity	612,753	512,132	537,353	449,218	315,121	233,836	194,535
Common stockholders equity per share(1)	11.99	10.03	10.52	8.81	6.71	5.44	4.53
<b>Income Statement Data:</b>							
Revenues	306,606	289,426	393,227	284,239	194,967	138,546	122,864
Net income (income before cumulative effect from change in accounting principle in 2001, net of taxes)	116,302	94,883	131,023	96,342	66,294	43,633	41,335
Net income available to common stockholders	104,389	82,970	115,139	81,387	56,051	37,995	37,581
Diluted earnings per common share (before cumulative effect of change in accounting principle in 2001)(1)	2.03	1.62	2.25	1.66	1.23	0.86	0.85
Cash dividends declared per share	0.284	0.212	0.294	0.224	0.176	0.135	0.099
<b>Operating Data:</b>							
Loan production	3,359,756	3,384,123	4,464,099	2,942,684	2,473,168	1,729,373	1,977,322
Loan servicing portfolio	11,115,070	10,924,263	10,942,821	10,991,944	7,224,571	6,634,059	6,177,511
<b>Performance Ratios(2):</b>							
Return on average assets	1.78%	1.79%	1.80%	1.76%	1.63%	1.34%	1.72%
Return on average common equity	24.35	23.08	23.45	21.77	20.77	18.00	20.23
Net interest margin(3)	2.81	2.75	2.78	2.98	2.59	2.16	2.60
<b>Asset Quality Ratios(4):</b>							

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Non-performing assets to total assets at end of period	1.32	1.36	1.29	1.50	1.78	2.96	2.26
Non-performing loans to total loans at end of period	1.93	2.21	1.98	2.66	3.79	5.52	3.66
Allowance for loan losses to total loans at end of period	0.94	0.90	0.92	1.11	0.91	0.67	0.55
Allowance for loan losses to total non-performing loans at end of period	48.70	40.69	46.38	41.79	24.05	12.21	15.11
Net charge-offs to average loans outstanding	0.27	0.38	0.32	0.41	0.32	0.17	0.25
<b>Earnings to fixed charges(5):</b>							
Including interest on deposits	1.80x	1.74x	1.75x	1.56x	1.42x	1.29x	1.45x
Excluding interest on deposits	2.37x	2.31x	2.35x	2.03x	1.81x	1.54x	1.86x

(1) Per share information presented takes into consideration a 3 for 2 stock split paid by us in January 2004.

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- (2) *The return on average assets ratio is computed by dividing net income by average total assets for the period. The return on average common equity ratio is computed by dividing net income less preferred stock dividends by average common stockholders' equity for the period. With the exception of end of period ratios, all ratios for mortgage subsidiaries are based on the average of month end balances while all ratios for banking subsidiaries are based on average daily balances.*
- (3) *Net interest margin represents net interest income as a percent of average interest earning assets.*
- (4) *Non-performing loans consist of our non-accrual loans and non-performing assets consist of our non-performing loans and real estate acquired by foreclosure or deed-in-lieu thereof.*
- (5) *For purposes of computing the ratios of earnings to fixed charges, earnings represent income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle in 2001, plus fixed charges. Fixed charges represent total interest expense (including interest expense on securities sold under agreements to repurchase, FHLB advances, trust preferred securities, and notes payable), dividend payments on our outstanding preferred stock and a reasonable approximation of the interest component of rental expense, and is presented both including and excluding interest on deposits.*

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## Risk factors

*An investment in our trust preferred securities involves a number of risks. In evaluating an investment in the trust, a reader should consider all of the information contained in this prospectus supplement and accompanying prospectus, including the following factors.*

*Because the trust will rely on the payments it receives on the junior subordinated debt securities to fund all payments on the trust preferred securities, and because the trust may distribute the junior subordinated debt securities in exchange for the trust preferred securities, the holders of the trust preferred securities will be making an investment decision that relates to the junior subordinated debt securities being issued by us as well as the trust preferred securities.*

### **RISKS RELATING TO AN INVESTMENT IN THE TRUST PREFERRED SECURITIES**

#### **Recent accounting changes may entitle R&G Financial to redeem the junior subordinated debt securities, which would result in a mandatory redemption of the trust preferred securities and a loss of potential interest income to holders.**

Historically, issuer trusts, such as Trust VI, have been consolidated by their parent companies for accounting purposes. In addition, bank holding companies have been permitted to treat the trust preferred securities as Tier 1 capital under Federal Reserve rules and regulations relating to minority interests in equity accounts of consolidated subsidiaries. In January 2003, the Financial Accounting Standards Board, or FASB, issued an accounting interpretation that will not allow issuer trusts to continue to be consolidated. As a result of this interpretation, we deconsolidated two of our trusts as of July 1, 2003 and have not consolidated subsequent trusts. See Accounting and Regulatory Treatment Accounting Treatment. If issuer trusts are no longer consolidated, the trust preferred securities issued by issuer trusts would not be considered a minority interest in equity accounts of a consolidated subsidiary.

The Federal Reserve, in reacting to the issuance of the FASB interpretation, in May 2004 published a notice of proposed rulemaking on proposed amendments to its current risk-based capital guidelines. In its proposed amendments, the Federal Reserve indicated that qualifying trust preferred securities will continue to constitute Tier 1 capital for capital adequacy purposes, subject to stricter standards with respect to how much qualifying trust preferred securities may be included in their parent company's core capital elements. See Accounting and Regulatory Treatment Regulatory Treatment of Trust Preferred Securities. There can be no assurance that the Federal Reserve will amend its current risk-based capital guidelines as proposed, or whether it will ultimately prohibit bank holding companies from including any qualifying trust preferred securities in its Tier 1 regulatory capital. If Tier 1 capital treatment were to be disallowed in the future, we would be able to redeem the junior subordinated debt securities, thereby causing a mandatory redemption of capital securities pursuant to the special regulatory capital event redemption described under Description of the Trust Preferred Securities Redemption or Exchange Redemption upon a Tax Event, Investment Company Event or Regulatory Capital Event. Under such circumstances, no additional cash distributions would be paid on the trust preferred securities after they were redeemed and holders would lose whatever future potential income they may have expected to receive as a holder of the trust preferred securities.

#### **If we do not make interest payments under the junior subordinated debt securities, the trust will be unable to pay distributions and liquidation amounts and holders will not receive dividends.**

The trust will depend solely on our payments on the junior subordinated debt securities to pay amounts due to the holders on the trust preferred securities. If we default on our obligation to pay the principal or interest on the junior subordinated debt securities, the trust will not have sufficient funds to pay distribu-

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**Risk factors**

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tions or the liquidation amount on the trust preferred securities and holders of trust preferred securities will not receive dividends. In that case, the holders of trust preferred securities will not be able to rely on the guarantee for payment of these amounts because the guarantee only applies if the trust has sufficient funds to make distributions on or to pay the liquidation amount of the trust preferred securities. Instead, the holders of trust preferred securities or the property trustee will have to institute a direct action against us to enforce the property trustee's rights under the indenture relating to the junior subordinated debt securities.

**Our ability to make interest payments on the junior subordinated debt securities to the trust may be restricted so we cannot assure holders that they will receive dividends.**

We are a bank holding company and substantially all of our assets are held by our subsidiaries. Our ability to make payments on the junior subordinated debt securities when due will depend primarily on our available cash resources and dividends from our subsidiaries. Dividend payments or extensions of credit from Premier Bank and R-G Crown, collectively referred to as our banking subsidiaries, are subject to regulatory limitations, generally based on capital levels and current and retained earnings, imposed by the various regulatory agencies with authority over our banking subsidiaries. The ability of our banking subsidiaries to pay dividends is also subject to their profitability, financial condition, capital expenditures and other cash flow requirements. We cannot assure the holders that our subsidiaries will be able to pay dividends in the future.

We could also be precluded from making interest payments on the junior subordinated debt securities by our regulators if in the future they were to perceive deficiencies in our liquidity or regulatory capital levels. If this were to occur, we may be required to obtain the consent of our regulators prior to paying dividends on our common stock or interest on the junior subordinated debt securities. If consent became required and our regulators were to withhold their consent, we would likely exercise our right to defer interest payments on the junior subordinated debt securities, and the trust would not have funds available to make distributions on the trust preferred securities during such period.

**The junior subordinated debt securities and the guarantee rank lower than most of our other indebtedness so if we were to experience financial difficulties, we are required to satisfy our senior obligations before we may pay dividends to holders.**

Our obligations under the junior subordinated debt securities and the guarantee are unsecured and will rank junior in priority of payment to our existing and future senior and subordinated indebtedness. At September 30, 2004, we had senior indebtedness outstanding of \$3.8 billion, comprised of securities sold under agreements to repurchase, FHLB advances and notes payable. Our obligations under the junior subordinated debt securities will rank equal to other junior subordinated debt securities issued by us to similar trusts, including the junior subordinated debt securities previously sold to our prior five statutory trusts. Except in certain circumstances, our ability to incur additional indebtedness is not limited.

**If we were to liquidate, the creditors of our subsidiaries would have priority in payment of claims, making it less likely that holders of trust preferred securities would receive payments.**

Because we are a bank holding company, the creditors of our subsidiaries, including depositors, will have priority over the holders in any distribution of our subsidiaries' assets in liquidation, reorganization or otherwise. Accordingly, the junior subordinated debt securities and the guarantee will be effectively subordinated to all existing and future liabilities of our subsidiaries, and the holders of trust preferred securities should look only to our assets for payments on the trust preferred securities and the junior subordinated debt securities.

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**Risk factors**

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**We have the option to defer interest payments on the junior subordinated debt securities for substantial periods.**

We may, at one or more times, defer interest payments on the junior subordinated debt securities for up to 60 consecutive months. If we defer interest payments on the junior subordinated debt securities, the trust will defer distributions on the trust preferred securities during any deferral period. In the event that we exercise our right to defer interest payments on the junior subordinated debt securities, we will be prohibited from paying dividends on our common stock and preferred stock during the deferral period. We do not currently intend to exercise our right to defer interest payments on the junior subordinated debt securities. However, if we exercise our right in the future, the market price of the trust preferred securities would likely be adversely affected.

**If we defer interest payments on the junior subordinated debt securities, a holder of trust preferred securities may be required to pay income taxes on the deferred dividends even though no dividends will be received.**

If we exercise our right to defer payments of interest on the junior subordinated debt securities, a holder of trust preferred securities may be required to accrue income (as original issue discount) in respect of the deferred stated interest allocable to the trust preferred securities for federal income tax purposes, even though such interest will not be distributed. If a holder disposes of the trust preferred securities between the record date for payments on the trust preferred securities, the holder may also have adverse tax consequences. See Federal Income Tax Consequences.

**Federal income tax exposure if R&G Financial ceases to meet the source of income tests for Puerto Rico income tax purposes.**

To the extent interest payments on the junior subordinated debt securities do not constitute income from Puerto Rico sources, the distributions on the trust preferred securities will be subject to U.S. income taxation to Puerto Rico holders. Interest on the junior subordinated debt securities will not be taxable for federal tax purposes to U.S. citizens who are bona fide residents of Puerto Rico during the entire taxable year ( Puerto Rico U.S. Holders ) so long as interest payments on the junior subordinated debt securities are considered to be Puerto Rico source income for purposes of the United States Internal Revenue Code of 1986, as amended (the Code ). Under the current source of income rules of the Code, the interest payments or accruals (including original issue discount, if any) on the junior subordinated debt securities will be considered Puerto Rico source income if the following conditions are met: (1) such interest is not treated as paid by a trade or business conducted by R&G Financial outside of Puerto Rico, including, for these purposes, the United States, such determination to be made under Section 884(f)(1)(A) of the Code and the regulations thereunder; and (2) for the three year period ending with the close of R&G Financial s taxable year immediately preceding the payment of the interest on the junior subordinated debt securities (or such part of such period as may be applicable), R&G Financial derived more than 20% of its gross income from either sources within Puerto Rico or from the active conduct of a trade or business in Puerto Rico, with such test applied under the provisions of Section 861(c)(1)(B) of the Code, which require, among other things, that the gross income received by R&G Financial from a 50% owned subsidiary (determined in voting interest or value) will retain the source and character that such income had in the hands of the subsidiary. R&G Financial believes that the interest payments on the junior subordinated debt securities will not be deemed to be paid by a trade or business outside Puerto Rico. For the three-year period ended December 31, 2003, more than 99% of R&G Financial s gross income was derived from the conduct of a trade business in Puerto Rico, which was determined by applying the rules established in Section 861(c)(1)(B) of the Code. However, there can be no assurance that R&G Financial or any legal successor to R&G Financial will be able to meet the Puerto Rico source of income requirements during the time that the junior subordinated debt securities and the trust preferred securities are outstanding, which can be as long as 30 years. If R&G Financial or any legal successor fails to meet the Puerto Rico source of

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income requirements, then distributions on the trust preferred securities will be taxable for United States federal income tax purposes to Puerto Rico Holders.

**The indenture and the trust agreement do not protect your investment in any meaningful manner.**

We are not required to maintain any financial ratios or specified levels of net worth, revenues, income, cash flow or liquidity by the indenture or trust agreement. Therefore, if we were to experience significant adverse changes in our financial condition or results of operations, holders of trust preferred securities would not be protected. Neither the indenture nor the trust agreement limits our ability or the ability of any of our subsidiaries to incur other additional indebtedness that is senior in right of payment to the junior subordinated debt securities. Therefore, the holders of trust preferred securities should not consider the provisions of these governing instruments as a significant factor in evaluating whether we will be able to comply with our obligations under the junior subordinated debt securities or the guarantee.

**We may redeem the junior subordinated debt securities before December 12, 2034 and thus holders should not assume that the trust preferred securities will be outstanding for the entire thirty year term.**

Subject to the approval of the Federal Reserve, under the following circumstances we may redeem the junior subordinated debt securities before their stated maturity:

In whole or in part, at any time on or after December 12, 2009 at 105% of the principal amount of the junior subordinated debt securities, declining 1% per year thereafter to 100% of the principal amount outstanding at or after December 12, 2014;

In whole, but not in part, within 180 days after certain specified occurrences at any time during the life of the trust. These occurrences may include adverse tax, investment company or bank regulatory capital developments; or

At any time, and from time to time, to the extent of any trust preferred securities we purchase, plus a proportionate amount of the common securities we hold.

Holders of trust preferred securities should assume that an early redemption may be attractive to us if we are able to obtain capital at a lower cost than we must pay on the junior subordinated debt securities or if it is otherwise in our interest to redeem the junior subordinated debt securities. If the junior subordinated debt securities are redeemed, the trust must redeem the trust preferred securities having an aggregate liquidation amount equal to the aggregate principal amount of junior subordinated debt securities redeemed, and holders of trust preferred securities may be required to reinvest their principal at a time when they may not be able to earn a return that is as high as they were earning on the trust preferred securities.

**We can distribute the junior subordinated debt securities to the holders of trust preferred securities so the investment decision of holders of trust preferred securities will also be an investment decision with regard to the junior subordinated debt securities.**

The trust may be dissolved at any time before maturity of the junior subordinated debt securities on December 12, 2034. As a result, and subject to the terms of the trust agreement, the trustees may distribute the junior subordinated debt securities to the holders of trust preferred securities. Because the holders may receive junior subordinated debt securities, the holders' investment decision with regard to the trust preferred securities will also be an investment decision with regard to the junior subordinated debt securities which could be distributed in connection with a dissolution of the trust.

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#### **Holders of trust preferred securities may only enforce their rights against us directly if there is an event of default under the indenture and the property trustee fails to enforce the rights of such holders.**

The holders of trust preferred securities may not be able to directly enforce their rights against us if an event of default under the indenture occurs. If an event of default under the indenture occurs and is continuing, this event will also be an event of default under the trust agreement. In that case, the holders of trust preferred securities must rely on the enforcement by the property trustee of its rights as holder of the junior subordinated debt securities against us. The amended declaration of trust provides that the holders of a majority in liquidation amount of the trust preferred securities will have the right to direct the property trustee to enforce its rights. If the property trustee does not enforce its rights following an event of default and a request by the record holders of a majority in liquidation amount of the trust preferred securities to do so, any record holder may, to the extent permitted by applicable law, take action directly against us to enforce the property trustee's rights. If an event of default occurs under the trust agreement that is attributable to our failure to pay interest or principal on the junior subordinated debt securities, or if we default under the guarantee, the holders of trust preferred securities may proceed directly against us. The holders of trust preferred securities will not be able to exercise directly any other remedies available to the holders of the junior subordinated debt securities unless the property trustee fails to do so.

#### **The holders of the trust preferred securities have limited voting rights.**

The holders of the trust preferred securities have limited voting rights. The holders' voting rights pertain primarily to amendments to the trust agreement. In general, only we can replace or remove any of the trustees. However, if an event of default under the trust agreement occurs and is continuing, the holders of at least a majority in aggregate liquidation amount of the trust preferred securities may replace the property trustee and the Delaware trustee.

#### **The trust preferred securities may be assessable so the holders could have additional monetary obligations under Delaware law.**

The trust preferred securities may be assessable in that the holders will be responsible for any tax or governmental charge that may be imposed in connection with a transfer or exchange of the trust preferred securities. In addition, if the holders of the trust preferred securities specifically request the property trustee to take certain action, the property trustee may, before taking such action, ask for indemnity from the holders of the trust preferred securities. Accordingly, the holders of the trust preferred securities may have additional monetary obligations under Delaware law.

## **RISKS RELATING TO R&G FINANCIAL**

### **Increases in interest rates reduce demand for new mortgage loan originations and refinancings.**

Higher interest rates increase the cost of mortgage loans to consumers and reduce demand for mortgage loans, which negatively impacts our profits. Based on our historical experience, we expect a decrease in demand for our mortgage loans as interest rates increase. Reduced demand for mortgage loans results in reduced loan originations and lower gain on sale of loans. Demand for refinancings is particularly sensitive to increases in interest rates.

### **Increases in interest rates reduce net interest income.**

Increases in short-term interest rates reduce net interest income, which is an important part of our earnings. Net interest income is the difference between the interest we receive on our earning assets and the interest paid on our borrowings. Most of our assets, like our mortgage loans and mortgage-backed-securities, are long-term assets. In contrast, a large portion of our borrowings are short-term. When



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interest rates rise, we must pay more in interest on our borrowings while interest earned on our assets does not rise as quickly, which causes profits to decrease.

#### **Increases in interest rates may reduce or eliminate gain on sale of mortgage loans.**

If long-term interest rates increase between the time we commit to or establish an interest rate on a mortgage loan and the time we sell the loan, we may realize a reduced gain or a loss on such sale.

#### **Increases in interest rates may reduce the value of mortgage loans and securities holdings.**

Increases in interest rates may reduce the value of our financial assets and have an adverse impact on our earnings and financial condition. We own a substantial portfolio of mortgage loans and mortgage-backed securities, which have both fixed and adjustable interest rates. The market value of an obligation with a fixed interest rate generally decreases when prevailing interest rates rise, which may have an adverse effect on our earnings and financial condition. In addition, the market value of an obligation with an adjustable interest rate can be adversely affected when interest rates increase due to a lag in the implementation of repricing terms as well as due to caps, which may limit the amount of increase in the obligation's interest rate.

#### **Decreases in interest rates may adversely affect the value of our servicing asset.**

Decreases in interest rates lead to increases in the prepayment of mortgages by borrowers, which may reduce the value of our servicing asset. The servicing asset is the estimated present value of the fees we expect to receive on the mortgages we service over their expected term. If prepayments increase above expected levels, the value of the servicing asset decreases because the amount of future fees expected to be received by us decreases. We may be required to recognize this decrease in value by taking a charge against our earnings, which would cause our profits to decrease. We have experienced an increase in prepayments of mortgages as interest rates have decreased dramatically during the past two years, which has impacted the value of our servicing asset. Accordingly, we recognized impairment charges on our servicing portfolio of \$37.7 million and \$7.8 million for the year ended December 31, 2003 and the nine months ended September 30, 2004. We believe, based on historical experience, that the amount of prepayments and related impairment charges should decrease as interest rates increase.

#### **The hedging transactions which we enter into may not be effective in managing our exposure to interest rate risk.**

We use derivatives to manage our exposure to interest rate risk caused by changes in interest rates. Derivatives include interest rate swaps, interest rate collars, futures, forwards and options. Derivatives are generally either privately-negotiated over-the-counter ( OTC ) or standard contracts transacted through regulated exchanges. OTC contracts generally consist of swaps, collars, forwards and options. Exchange-traded derivatives include futures and options. The derivative instruments that we may utilize also have their own risks, which include (1) basis risk, which consists of 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 consists of the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder; and (3) legal risk, which consists of the risk that we are unable to enforce certain terms of such instruments. All or any of such risks could expose us to losses. Consequently, our profitability may be adversely affected during any period as a result of the use of derivatives in a hedging transaction.

For financial reporting purposes, our general policy is to account for derivative instruments on a marked-to-market basis with gains or losses charged to current operations as they occur. Contracts with positive fair value are reported as assets and contracts with negative fair values are reported as liabilities, after the

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application of netting arrangements, with unrealized gains and losses recorded either in other comprehensive income in our consolidated statements of financial condition or in our consolidated statements of income, depending on the purpose for which the derivative is held. Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as subsequently amended ( SFAS No. 133 ), we may designate a derivative as a hedge of the fair value of a recognized fixed rate asset or liability ( fair value hedge). Certain hedging activities related to certain beneficial interests retained on financial asset transfers accounted for as sales are reported as fair value hedges. In a qualifying fair value hedge, both the changes in fair value of the hedged item (in this case beneficial interests retained on financial asset transfers accounted for as sales) and changes in fair value of the derivative are included in trading activities in our consolidated statements of income. As a result, any hedge ineffectiveness is reflected immediately in our earnings. During the quarter ended September 30, 2004, the yield curve remained flat and interest rates did not rise as anticipated, thus causing a decrease in the fair value of certain hedging instruments with respect to our beneficial interests retained in connection with financial asset transfers accounted for as sales. As a consequence, we recognized pre-tax losses of \$10.0 million on such fair value hedges during the quarter ended September 30, 2004.

**Our future earnings could be adversely affected if we are not successful in consummating loan sales transactions.**

A significant component of the earnings of the Company is gain on sale of mortgage loans. A substantial portion of the Company's non-conforming loan sale transactions have been made to local financial institutions in Puerto Rico. The Company has often retained a beneficial interest in such transactions, which in certain cases must be treated as trading derivatives under SFAS No. 133. To the extent that the buyer of such loans would also have to recognize a derivative under SFAS No. 133, it is possible that such transactions will be less attractive to some counterparties. While we believe that we will be able to structure these loan sale transactions on a going forward basis in a manner that will permit us to continue to consummate such transactions, no assurance can be given that we will be successful in this endeavor, in whole or in part. If we are not successful in this endeavor, our sale of loan production could be reduced, which could adversely affect our future earnings.

**We are subject to default and recourse risk in connection with our loan originations.**

From the time that we fund the mortgage loans we originate for third parties to the time we sell them, we are generally at risk for any mortgage loan defaults. Once we sell the mortgage loan, 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. If a borrower defaults on a mortgage loan and there has been a breach of any of these representations or warranties, we may become liable for the unpaid principal and interest on the defaulted mortgage loan and may be required to repurchase the mortgage loan and bear any subsequent loss on the mortgage loan. In addition, with respect to the non-conventional mortgage loans originated by us, which are subsequently securitized and sold, from time to time, we provide recourse in the event of mortgage loan defaults and/or foreclosures or certain documentation deficiencies. At September 30, 2004, there were \$1.7 billion of loans subject to such recourse provisions.

**We are subject to default risk in connection with loan originations of our banking subsidiaries.**

Both Premier Bank and R-G Crown are subject to the risk of loss from mortgage loan defaults and foreclosures with respect to the loans originated for their respective portfolios. Notwithstanding the care with which loans are originated, industry experience indicates that a portion of a bank's loans will become delinquent and a portion of the loans will require partial or entire charge-off. Regardless of the underwriting criteria utilized by Premier Bank and R-G Crown, losses may be experienced as a result of various

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factors beyond each bank's control, including, among others, changes in market conditions affecting the value of collateral and problems affecting the credit of the borrower. Due to the concentration of Premier Bank and R-G Crown's loans in Puerto Rico and Florida, respectively, adverse economic conditions in Puerto Rico and Florida could result in a decrease in the value of either bank's loan portfolio and underlying collateral. Although loan delinquencies have historically been higher in Puerto Rico than in the continental United States, loan charge-offs have historically been lower than in the continental United States.

Each of Premier Bank and R-G Crown has established provisions for loan losses, which are charged to operations, in order to maintain the allowance for loan losses at a level which is deemed to be appropriate by management based upon an assessment of prior loss experience, the volume and type of lending being conducted, industry standards, past due loans, general economic conditions in their market area and other factors related to the collectibility of the loan portfolio. Although each bank's management utilizes its best judgment in providing for loan losses, there can be no assurance that either bank will not have to increase its provisions for loan losses in the future as a result of future increases in non-performing loans or for other reasons beyond the control of either bank. Any such increases in either bank's provisions for loan losses or any loan losses in excess of its provisions with respect thereto could have a negative impact on our future financial condition and/or results of operations.

#### **Our exposure to larger credit risk will increase as a consequence of the increase in construction and commercial lending activities.**

Premier Bank has increased its emphasis on residential construction, commercial real estate and commercial business lending, which is likely to increase overall credit risk. We have continued this business plan with R-G Crown in Florida, particularly in light of the commercial loans R-G Crown is acquiring in connection with the SouthTrust Bank branch acquisition. Banks generally charge higher interest rates on commercial and residential construction loans than on residential mortgage loans, because larger loan losses are expected in this business line. Generally, commercial and construction loans are considered to be riskier than residential mortgage loans, because they have larger balances to a single borrower or group of related borrowers. In addition, the borrower's ability to repay a commercial and a construction loan depends, in the case of a commercial loan, on the successful operation of the business or the property securing the loan and, in the case of a construction loan, on the successful completion and sale or operation of the project. If Premier Bank or R-G Crown experienced loan losses that are higher than its allowance for loan losses, our profits and financial condition would be adversely affected.

#### **We are subject to risks in servicing loans for others.**

We are also affected by mortgage loan delinquencies and defaults on mortgage loans that we service for third parties. Under certain types of servicing contracts, the servicer must forward all or part of the scheduled payments to the owner of the mortgage loan, even when mortgage loan payments are delinquent. Also, to protect their liens on mortgaged properties, owners of mortgage loans usually require the servicer to advance mortgage and hazard insurance and tax payments on schedule even though sufficient escrow funds may not be available. The servicer will generally recover its advances from the mortgage owner or from liquidation proceeds when the mortgage loan is foreclosed. However, in the interim, the servicer must absorb the cost of funds advanced during the time the advance is outstanding. Further, the servicer must bear the increased costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a default is not cured, the mortgage loan will be repaid as a result of foreclosure proceedings. As a consequence, we are required to forego servicing income from the time such loan becomes delinquent, and into the future.

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#### **Our business has historically been concentrated in Puerto Rico, and adverse conditions in Puerto Rico could negatively impact our operations.**

Our business activities and credit exposure have historically been concentrated with customers in Puerto Rico. Accordingly, our financial condition and results of operations have been dependent to a significant extent upon the economic conditions prevailing in Puerto Rico, including the effect of such economic conditions on real estate values. Any significant adverse economic developments in Puerto Rico, and, in particular, any decline in real estate values, could result in a downturn in loan originations, an increase in the level of nonperforming assets and a reduction in the value of our loans, real estate owned and mortgage servicing portfolio. While the acquisition and subsequent growth of R-G Crown has facilitated a diversification of overall lending concentration, R-G Crown is subject to similar concentration risks in the Florida markets in which it operates.

#### **Our origination business could be adversely affected if it cannot maintain access to stable funding sources.**

Our business requires continuous access to various funding sources. While Premier Bank and R-G Crown are able to fund their operations through deposits as well as through longer-term borrowings from the Federal Home Loan Bank, and other alternative sources, the business of R&G Mortgage has been significantly dependent upon short-term borrowings under warehousing lines. Certain of these warehousing lines of credit require the maintenance of minimum levels of net worth and debt service and limit the amount of indebtedness and dividends that may be declared.

While we expect to have continued access to credit from the foregoing sources of funds, there can be no assurance that such financing sources will continue to be available or will be available on favorable terms. In the event that the warehousing lines of credit of our subsidiaries were reduced or eliminated and we were not able to replace such lines on a cost-effective basis, we would be forced to curtail or cease our mortgage origination business, which would have a material adverse effect on our operations and financial condition. Although our subsidiaries could also potentially access borrowings from its banks, any such borrowings would be subject to and limited by certain regulatory restrictions which apply to transactions between banks and its affiliates, including certain of our subsidiaries.

#### **Our loan portfolio has significantly increased in recent years and many of our commercial real estate and commercial construction loans are relatively unseasoned, and defaults on such loans could adversely affect our financial condition and results of operations.**

Our total loan portfolio has grown significantly in recent years, from \$1.6 billion at December 31, 2000 to \$4.8 billion at September 30, 2004. While over fifty percent of our loan portfolio continues to be secured by residential properties, an increasing amount of our loan portfolio is comprised of commercial real estate loans and commercial construction and land acquisition loans.

At September 30, 2004, our commercial real estate, land acquisition and construction portfolios amounted to an aggregate of \$1.9 billion or 36.3% of our loan portfolio. Because such loans are relatively unseasoned, many of the loans may be too new to demonstrate problems. While we attempt to mitigate these risks in commercial real estate lending through stringent underwriting criteria and in the case of construction loans, by limiting originations to primarily residential properties, no assurance can be made that an increase in delinquencies and defaults will not occur. Defaults on these loans could negatively effect our financial condition and results of operations.

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**If we were to lose the services of our key individuals, our business would suffer.**

Our success has been largely dependent on Víctor J. Galán, Chairman of the Board and Chief Executive Officer, and Ramon Prats, Vice Chairman of the Board and President. Our future success will also depend, to a great extent, upon the services of Mr. Galán and Mr. Prats. We believe that the prolonged unavailability or the unexpected loss of the services of Mr. Galán and/or Mr. Prats could have a material adverse effect upon us, as attracting suitable replacements may involve significant time and/or expense.

**Changes in statutes and regulations could adversely affect us.**

R&G Financial, as a Puerto Rico chartered financial holding company, and its various subsidiaries, are each subject to federal and local governmental supervision and regulation. There are laws and regulations which restrict transactions between us and our various subsidiaries. Any change in such regulations, whether by applicable regulators or as a result of legislation subsequently enacted by the Congress of the United States or the applicable local legislatures, could have a substantial impact on our operations.

**Use of proceeds**

The trust will invest all of the proceeds from the sale of the trust preferred securities in the junior subordinated debt securities. We anticipate that the net proceeds from the sale of the junior subordinated debt securities, after deduction of offering expenses and placement agent's fees, will be approximately \$121.1 million.

We are conducting the offering to take advantage of present market rates of interest available for financings of this type in order to support our ongoing and future anticipated growth. We expect to contribute the proceeds to one or more of our Puerto Rico subsidiaries to bolster their capital for such future expansion.

**Table of Contents****Capitalization**

The following table sets forth R&G Financial's unaudited consolidated capitalization at September 30, 2004 and as adjusted for the offering and the application of the estimated net proceeds from the corresponding sale of the junior subordinated debt securities as if such sale had been consummated on September 30, 2004. In addition to the indebtedness reflected below, R&G Financial had total deposits of \$4.1 billion at September 30, 2004. This table should be read in conjunction with R&G Financial's Consolidated Financial Statements and related notes incorporated by reference into this prospectus supplement and the accompanying prospectus.

	<b>September 30, 2004</b>	
	<b>Actual</b>	<b>As Adjusted</b>
(dollars in thousands, except per share amounts)		
<b>Borrowings:</b>		
Securities sold under agreements to repurchase	\$ 2,539,620	\$ 2,539,620
Notes payable	98,800	98,800
Advances from FHLB	1,110,600	1,110,600
Subordinated debt(1)	257,732	386,598
Other borrowings	22,496	22,496
<b>Total borrowings:</b>	<b>\$ 4,029,248</b>	<b>\$ 4,158,114</b>
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value, 20,000,000 shares authorized:		
2,000,000 Series A Preferred Stock issued and outstanding	\$ 50,000	\$ 50,000
1,000,000 Series B Preferred Stock issued and outstanding	25,000	25,000
2,760,000 Series C Preferred Stock issued and outstanding	69,000	69,000
2,760,000 Series D Preferred Stock issued and outstanding	69,000	69,000
Common stock, \$.01 par value(2):		
Class A shares, 80,000,000 shares authorized; 21,559,584 shares issued and outstanding	216	216
Class B Shares, 120,000,000 shares authorized; 29,561,190 shares issued and outstanding	296	296
Additional paid-in capital	115,618	115,618
Retained earnings	476,937	476,937
Capital reserves of Premier Bank	25,103	25,103
Accumulated other comprehensive income	(5,417)	(5,417)
<b>Total stockholders' equity</b>	<b>\$ 825,753</b>	<b>\$ 825,753</b>
<b>Common stockholders' equity per share</b>	<b>\$ 11.99</b>	<b>\$ 11.99</b>

(1) Reflects junior subordinated debt issued previously to five unconsolidated statutory trust subsidiaries and which are substantially similar to Trust VI. The junior subordinated debt securities we are issuing to Trust VI is reflected in the As Adjusted column.

(2) Per share information presented takes into consideration a 3 for 2 stock split paid by us in January 2004.



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## Accounting and regulatory treatment

### ACCOUNTING TREATMENT

Historically, issuer trusts that issued trust preferred securities have been consolidated by their parent companies and the accounts of such issuer trusts have been included in the consolidated financial statements of such parent companies. However, in January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, or FIN 46, which provides guidance for determining when an entity should consolidate another entity that meets the definition of a variable interest entity. FIN 46 requires a variable interest entity to be consolidated if the company will absorb a majority of the expected losses, will receive a majority of the expected residual returns, or both. FIN 46 was effective immediately for interests in variable interest entities acquired after January 31, 2003, and, as originally issued, was effective in the first interim period after June 15, 2003 to interests in variable interest entities acquired before February 1, 2003. As of October 9, 2003, the FASB deferred compliance with FIN 46 from July 1, 2003 to the first period ending after December 15, 2003 for variable interest entities created prior to February 1, 2003. However, we adopted FIN 46 on July 1, 2003, as originally issued, and de-consolidated two of our trusts at that time. We also did not consolidate our three subsequent trusts when they were formed. For financial reporting purposes, we treat the trusts as unconsolidated subsidiaries and report the aggregate principal amount of the junior subordinated debt securities we issue to the various trusts as liabilities, record the assets related to the cash and common securities received from the trusts in our consolidated balance sheet, and report interest payable on the junior subordinated debt securities as an interest expense in our consolidated statements of operations.

Our reports filed under the Securities Exchange Act of 1934, or the Exchange Act, include a note to the financial statements stating that:

the various trusts are unconsolidated subsidiaries;

the sole assets of the trusts are our junior subordinated debt securities (specifying the principal amount, interest rate and maturity date of such junior subordinated debt securities); and

the guarantees, in the aggregate, constitute a full and unconditional guarantee by us of the obligations of the trusts under the trust preferred securities we have issued.

The staff of the Securities and Exchange Commission has informally indicated that it will not require our trusts to provide separate financial statements and reports under the Exchange Act, by reference to Exchange Act Rule 12h-5, notwithstanding the fact that our trusts are not consolidated in our financial statements. Consequently, our trusts do not intend to file separate reports under the Exchange Act.

### REGULATORY TREATMENT OF TRUST PREFERRED SECURITIES

We are required by the Federal Reserve to maintain certain levels of capital for bank regulatory purposes. Since 1996, it has been the position of the Federal Reserve that certain qualifying amounts of cumulative trust preferred securities having the characteristics of the trust preferred securities could be included as Tier 1 regulatory capital for bank holding companies; however, capital received from the sale of such cumulative trust preferred securities, including the trust preferred securities, cannot constitute, as a whole, more than 25% of total Tier 1 regulatory capital. We call this the 25% capital limitation. Amounts in excess of the 25% capital limitation would constitute Tier 2 or supplementary capital. The percentage of our Tier 1 regulatory capital represented by our existing trust preferred securities was 23.12% at September 30, 2004. As adjusted for the issuance of the trust preferred securities in this offering, the percentage of our Tier 1 regulatory capital represented by the aggregate of our existing trust preferred securities and the trust preferred securities to be issued in this offering would be 31.09%. Under these guidelines, we expect that 25.00% of our Tier 1 regulatory capital will be represented by our aggregate trust preferred



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**Accounting and regulatory treatment**

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securities outstanding after this offering, and the excess of our trust preferred securities which can not be counted towards our Tier 1 regulatory capital will be treated as Tier 2 regulatory capital. However, the de-consolidation required by FIN 46 has caused the Federal Reserve to review the regulatory capital treatment of trust preferred securities issued by bank holding companies.

On May 6, 2004, the Federal Reserve issued proposed rules that would continue to allow trust preferred securities to be included in Tier 1 regulatory capital, subject to stricter quantitative and qualitative limits. Currently, trust preferred securities and qualifying perpetual preferred stock are limited in the aggregate to no more than 25% of a bank holding company's core capital elements. As proposed, the Federal Reserve's rule would retain trust preferred securities as an element of Tier 1 regulatory capital, but with stricter quantitative limitations following a three-year transition period. Under the proposed rule, as of March 31, 2007, the aggregate amount of trust preferred securities and cumulative perpetual preferred stock, as well as certain additional elements of Tier 1 capital which are identified in the proposed rule, may not exceed 25% of a bank holding company's Tier 1 capital, net of goodwill. As of the date of this prospectus supplement, the 25% limitation is limited to the aggregate amount of only trust preferred securities and cumulative perpetual preferred stock, and is calculated on a basis that includes goodwill. The Federal Reserve also indicated that it expected internationally active banking organizations to limit the amount of restricted core capital elements included in Tier 1 capital to 15% of the sum of all core capital elements, net of goodwill. The proposed rules do not clarify what constitutes an internationally active banking organization. Both we and other Puerto Rico banks through our trade organization, the Puerto Rico Bankers Association, have asked the Federal Reserve to clarify that for purposes of this rule, Puerto Rico banks are not considered internationally active banking organizations. Whether or not this change is addressed in a final rule, the proposed rule, if adopted, would effectively limit the amount of trust preferred securities that may be included in Tier 1 capital.

There can be no assurance that the Federal Reserve will adopt a final rule as proposed or at all. If Tier 1 regulatory capital treatment were disallowed, there would be a reduction in our consolidated capital ratios. As of September 30, 2004, approximately \$250.0 million in aggregate liquidation amount of trust preferred securities were outstanding that we treated as Tier 1 regulatory capital for regulatory capital purposes. If all of our outstanding trust preferred securities at September 30, 2004 were not treated as Tier 1 regulatory capital at that date, our Tier 1 leverage capital ratio would have declined from 11.27% to 8.49%, our Tier 1 risk-based capital ratio would have declined from 17.19% to 12.96%, and our total risk-based capital ratio would have declined from 18.03% to 13.79%. These reduced capital ratios would continue to meet the applicable Federal Reserve capital requirements for a well-capitalized institution. Pending a change in regulatory treatment, the outstanding trust preferred securities of our trusts will be treated as Tier 1 regulatory capital by us.

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## Description of the preferred securities

*The following, together with Description of Trust Preferred Securities on page 9 of the accompanying prospectus, is a description of the material terms of the trust preferred securities. If the description of the trust preferred securities set forth in this prospectus supplement differs in any way from the description set forth in the accompanying prospectus, you should rely on the description set forth in this prospectus supplement. You should also read the declaration of trust and amended and restated declaration of trust which we intend to enter into in connection with the closing of the transaction contemplated by this prospectus supplement (the trust agreement), the Delaware Statutory Trust Act and the Trust Indenture Act. The form of the trust agreement is on file at the Securities and Exchange Commission as an exhibit to the registration statement pertaining to this prospectus supplement.*

The trust preferred securities will be issued pursuant to the trust agreement. Wilmington Trust Company will act as property trustee for the trust preferred securities under the trust agreement for purposes of complying with the provisions of the Trust Indenture Act. The terms of the trust preferred securities will include those stated in the trust agreement and those made part of the trust agreement by the Trust Indenture Act.

### GENERAL

The trust agreement authorizes the administrative trustees, on behalf of the trust, to issue the trust securities, which are comprised of the trust preferred securities to be sold in connection with the offering contemplated by this prospectus supplement, and the common securities. We will own all of the common securities issued by the trust. The trust is not permitted to issue any securities other than the trust securities or incur any other indebtedness.

The trust preferred securities will represent preferred undivided beneficial interests in the assets of the trust. The holders of the trust preferred securities will be entitled to a preference over the common securities upon an event of default with respect to distributions and amounts payable on redemption or liquidation. The trust preferred securities will rank equally, and payments on the trust preferred securities will be made proportionally, with the common securities, except as described under Subordination of Common Securities. Upon issuance, the trust preferred securities will be fully paid. The trust preferred securities will be non-assessable except that a holder of a preferred security will be responsible for any tax or governmental charge that may be imposed in connection with a transfer or exchange of the preferred security. In addition, if the holders of the trust preferred securities specifically request the property trustee to take certain action, the property trustee may, before taking such action, ask for indemnity from the holders of the trust preferred securities.

The property trustee will hold legal title to the junior subordinated debt securities in trust for the benefit of the holders of the trust securities. We will guarantee the payment of distributions out of money held by the trust, and payments upon redemption of the trust preferred securities or liquidation of the trust, to the extent described under Description of the Guarantee. The guarantee does not cover the payment of any distribution or the liquidation amount when the trust does not have sufficient funds available to make these payments.

### DISTRIBUTIONS

#### Source of distributions

The funds of the trust available for distribution to the holders of the trust preferred securities will be limited to payments made under the junior subordinated debt securities. If we do not make interest payments on the junior subordinated debt securities, the property trustee will not have funds available to pay distributions on the trust preferred securities. Distributions will be paid through the property trustee,

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which will hold the amounts received from our interest payments on the junior subordinated debt securities in the property trustee account for the benefit of the holders of the trust securities.

### **Enforcement of distributions**

If an event of default under the indenture has occurred and is continuing and is attributable to the failure by us to pay interest on or principal of the junior subordinated debt securities, then the holders of not less than 25% in aggregate principal amount of the trust preferred securities may institute a direct action against us to compel us to make the payment. We may not amend the indenture to remove this right without the prior written consent of the holders of a majority in aggregate principal amount of the trust preferred securities. If the right to bring a direct action is removed, the trust may become subject to the reporting obligations under the Exchange Act.

### **Payment of distributions**

Distributions on the trust preferred securities will be payable at the annual rate of 6.62% of the \$25 stated liquidation amount, payable monthly in arrears on the twelfth day of each month. The record date will be the fifteenth day of the month immediately preceding the relevant distribution date. The first distribution date for the trust preferred securities will be January 12, 2005.

Distributions will accumulate from the date of issuance, will be cumulative and will be computed on the basis of a 360-day year of twelve 30-day months. If the distribution date is not a business day, then payment of the distributions will be made on the next day that is a business day, without any additional interest or other payment for the delay. However, if the next business day is in the next calendar year, payment of the distribution will be made on the business day immediately preceding the scheduled distribution date. When we use the term "business day," we mean any day other than a Saturday, a Sunday, or a day on which banking institutions in San Juan, Puerto Rico and New York, New York, are authorized or required by law or executive order to close.

### **Extended interest payment period**

We have the right to defer the payment of interest on the junior subordinated debt securities at any time for a period not exceeding 60 consecutive months as long as we are not in default under the indenture. We refer to this period of deferral as an "extended interest payment period." No extended interest payment period may extend beyond December 12, 2034 or end on a date other than an interest payment date. If we defer the payment of interest, monthly distributions on the trust preferred securities will also be deferred during any such extended interest payment period. Any deferred distributions under the trust preferred securities will accumulate additional amounts at the annual rate of 6.62%, compounded monthly from the relevant distribution date. The term "distributions" as used in this prospectus includes those accumulated amounts.

During an extended interest payment period, we may not:

declare or pay any dividends or distributions on, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our capital stock, including our outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock (other than, among other things, stock dividends, dividends of, or the redemption or repurchase of rights, in either case in connection with the implementation of a shareholder rights plan, purchases of common stock in connection with employee benefit plans or in connection with the reclassification of any class of our capital stock into another class of capital stock and payments under the trust preferred securities guaranty agreement (the "Exception"));

make any payment of principal, premium, if any, or interest on, or repay, repurchase or redeem any debt securities that rank equally with, or junior in interest to, the junior subordinated debt securities; or

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make any guarantee payments with respect to any other guarantee by us of any other debt securities of any of our subsidiaries if the guarantee ranks equally with or junior to the junior subordinated debt securities (other than the Exceptions).

After the termination of any extended interest payment period and the payment of all amounts due, we may elect to begin a new extended interest payment period, subject to the above requirements.

We do not currently intend to exercise our right to defer distributions on the trust preferred securities by deferring the payment of interest on the junior subordinated debt securities.

**REDEMPTION OR EXCHANGE****General**

Subject to the prior approval of the Federal Reserve, if required, we will have the right to redeem the junior subordinated debt securities:

in whole at any time, or in part from time to time, on or after December 12, 2009;

at any time, in whole but not in part, within 180 days following the occurrence of a Tax Event, an Investment Company Event or a Regulatory Capital Event, which terms we define below; or

at any time, and from time to time, to the extent of any trust preferred securities we purchase, plus a proportionate amount of the common securities we hold.

**Mandatory redemption**

Upon our repayment or redemption of any junior subordinated debt securities, the property trustee will apply the proceeds to redeem the same amount of the trust securities, upon not less than 35 days nor more than 60 days notice, at the applicable redemption price.

On or after December 12, 2014, the redemption price will equal 100% of the aggregate liquidation amount of the trust securities plus accumulated but unpaid distributions to the date of redemption. Prior to December 12, 2014, the redemption price will equal the following percentages of the aggregate liquidation amounts of the trust securities:

Year	Percentage
On or after December 12, 2009	105%
On or after December 12, 2010	104%
On or after December 12, 2011	103%
On or after December 12, 2012	102%
On or after December 12, 2013	101%

plus accrued and unpaid distributions to the date of redemption.

**Distribution of junior subordinated debt securities in exchange for trust preferred securities**

We will have the right at any time to dissolve the trust subject to the receipt of all required regulatory approvals. The holders of the trust preferred securities will be entitled to thirty days notice prior to the dissolution of the trust. If we dissolve the trust, the junior subordinated debt securities will be distributed directly to the holders of trust securities, subject to the payment of the trust's liabilities, unless such distribution is determined by the property trustee not to be practicable, in which event such holders will be entitled to receive pro rata out of the assets of the trust available for distribution, after payment of the trust's liabilities, an amount equal to the aggregate of the liquidation amount of the junior subordinated debt securities plus accumulated and unpaid distributions thereon to the date of payment. See Liquidation Distribution Upon Dissolution.

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We cannot make any statements as to the valuation of the trust preferred securities or the junior subordinated debt securities that may be distributed if a dissolution and liquidation of the trust were to occur. The trust preferred securities that are being sold pursuant to this prospectus or the junior subordinated debt securities that may be received on dissolution and liquidation of the trust, may be valued at a discount to the price that was paid to purchase the trust preferred securities.

### **Redemption upon a tax event, investment company event or regulatory capital event**

If a Tax Event, an Investment Company Event or a Regulatory Capital Event occurs, we will have the right to redeem the junior subordinated debt securities in whole, but not in part. Our redemption of the debentures will cause a mandatory redemption of all of the trust securities at 100% of the aggregate liquidation amount of the trust securities plus accumulated but unpaid distributions to the date of redemption. If one of these events occurs and we do not elect to redeem the junior subordinated debt securities, or to dissolve the trust and cause the junior subordinated debt securities to be distributed to holders of the trust securities, then the trust preferred securities will remain outstanding and interest may continue to be payable on the junior subordinated debt securities.

**Tax Event** means the receipt by the trust and us of an opinion of counsel experienced in such matters stating that, as a result of any amendment to or change or prospective change in the laws or regulations of, the United States, any political subdivision thereof or Puerto Rico, or taxing authority of the United States or Puerto Rico, or as a result of any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations, there is more than an insubstantial risk that:

the trust is, or will be within 90 days after the date of the opinion, subject to the United States Federal or Puerto Rico income tax with respect to income received or accrued on the junior subordinated debt securities;

interest payable by us on the junior subordinated debt securities is not, or within 90 days of the date of the opinion will not be, deductible by us, in whole or in part, for Puerto Rico tax purposes or for U.S. income tax purposes; or

the trust is, or will be within 90 days after the date of the opinion, subject to more than a de minimus amount of other taxes, duties or other governmental charges.

**Investment Company Event** means the receipt by the trust and us of an opinion of counsel experienced in such matters, to the effect that, as a result of change in law or regulation or a change in interpretation or application of law or regulation, the trust is or will be considered an investment company that is required to be registered under the Investment Company Act.

**Regulatory Capital Event** means the receipt by us of an opinion of independent bank regulatory counsel experienced in such matters to the effect that, as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws or any regulations of the United States or any rules, guidelines or policies of applicable regulatory agencies or (b) any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or such pronouncement or decision is announced on or after the date of the indenture, the trust preferred securities do not constitute, or within 90 days of the date thereof, will not constitute, Tier I capital (or its then equivalent) for purposes of the capital adequacy guidelines of the Federal Reserve (or any successor regulatory authority with jurisdiction over bank holding companies), or any capital adequacy guidelines as then in effect and applicable to R&G Financial. For the avoidance of doubt, the adoption by the Federal Reserve as a final rule of any of the proposals set forth in its notice of proposed rule making dated May 6, 2004 shall not constitute a Regulatory Capital Event.

For all of the events described above, we or the trust must request and receive an opinion with regard to the event within a reasonable period of time after we become aware of the possible occurrence of an event of this kind.

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**Redemption of junior subordinated debt securities in exchange for trust preferred securities we purchase**

Although it is unlikely to happen, subject to the prior approval of the Federal Reserve, if required, we will also have the right at any time, and from time to time, to redeem junior subordinated debt securities in exchange for any trust preferred securities we may have purchased from the holders. If we elect to surrender any trust preferred securities beneficially owned by us in exchange for redemption of a like amount of junior subordinated debt securities, we will also surrender a proportionate amount of common securities in exchange for junior subordinated debt securities. Preferred securities owned by other holders will not be called for redemption at any time when we elect to exchange trust securities we own to redeem junior subordinated debt securities.

The common securities we surrender will be in the same proportion to the trust preferred securities we surrender as is the ratio of common securities purchased by us to the trust preferred securities issued by the trust. In exchange for the trust securities surrendered by us, the property trustee will cause to be released to us for cancellation junior subordinated debt securities with a principal amount equal to the liquidation amount of the trust securities, plus any accumulated but unpaid distributions, if any, then held by the property trustee allocable to those trust securities. After the date of redemption involving an exchange by us, the trust securities we surrender will no longer be deemed outstanding and the junior subordinated debt securities redeemed in exchange will be cancelled.

**REDEMPTION PROCEDURES**

Preferred securities will be redeemed at the applicable redemption price with the proceeds from our contemporaneous redemption of the junior subordinated debt securities. Redemptions of the trust preferred securities will be made, and the redemption price will be payable, on each redemption date only to the extent that the trust has funds available for the payment of the applicable redemption price.

Notice of any redemption will be mailed at least 35 days, but not more than 60 days, before the date of redemption to the holders of the trust securities to be redeemed at their registered address. Unless we default in payment of the redemption price on the junior subordinated debt securities, interest will cease to accumulate on the junior subordinated debt securities called for redemption on and after the date of redemption.

If the trust gives notice of redemption of its trust securities, then the property trustee, to the extent funds are available, will pay the applicable redemption price to the holders of the trust securities, upon surrender of the certificates evidencing the trust preferred securities. Distributions payable on or prior to the date of redemption for any trust securities called for redemption will be payable to the holders of the trust securities on the relevant record dates for the related distribution dates.

If notice of redemption has been given and we have deposited funds as required, then on the date of the deposit, all rights of the holders of the trust securities called for redemption will cease, except the right to receive the applicable redemption price, but without interest on such redemption price after the date of redemption. The trust securities will also cease to be outstanding on the date of the deposit. If any date fixed for redemption of trust securities is not a business day, then payment of the redemption price payable on that date will be made on the next day that is a business day without any additional interest or other payment in respect of the delay. However, if the next business day is in the next succeeding calendar year, payment will be made on the immediately preceding business day.

If payment of the redemption price in respect of trust securities called for redemption is improperly withheld or refused and not paid by the trust or by us pursuant to the guarantee, distributions on the trust securities will continue to accumulate at the applicable rate from the date of redemption originally established by the trust for the trust securities to the date the applicable redemption price is actually paid.

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In this case, the actual payment date will be considered the date fixed for redemption for purposes of calculating the redemption price.

If less than all of the trust securities are to be redeemed, then the aggregate liquidation amount of the trust securities to be redeemed will be allocated pro rata to those trust securities based upon the relative liquidation amounts. The particular trust preferred securities to be redeemed will be selected by the property trustee from the outstanding trust preferred securities not previously called for redemption by a method the property trustee deems fair and appropriate.

Subject to applicable law, and if we are not exercising our right to defer interest payments on the junior subordinated debt securities, we may, at any time, purchase outstanding trust preferred securities.

### **SUBORDINATION OF COMMON SECURITIES**

If we default under the indenture, no distributions may be made on the common securities unless all payments (either distributions or redemptions, as applicable) have been made on the trust preferred securities. Absent a default under the indenture, the common securities and trust preferred securities will be treated equally with regard to the payment of distributions and in the event of a redemption.

In the case of the occurrence and continuance of any event of default under the trust agreement resulting from an event of default under the indenture, we, as holder of the common securities, will be deemed to have waived any right to act with respect to that event of default under the trust agreement until the effect of the event of default with respect to the trust preferred securities has been cured, waived or otherwise eliminated. Until the event of default under the trust agreement has been so cured, waived or otherwise eliminated, the property trustee will act solely on behalf of the holders of the trust preferred securities and not on our behalf, and only the holders of the trust preferred securities will have the right to direct the property trustee to act on their behalf.

### **LIQUIDATION DISTRIBUTION UPON DISSOLUTION**

We will have the right at any time to dissolve the trust and cause the junior subordinated debt securities to be distributed to the holders of the trust preferred securities. This right is subject, however, to us receiving all required regulating approvals, and to providing thirty days notice to the holders of the trust preferred securities.

In addition, the trust will automatically dissolve upon expiration of its term and will dissolve earlier on the first to occur of, among other things:

our bankruptcy, dissolution or liquidation;

the distribution of a like amount of the junior subordinated debt securities to the holders of trust securities, if we have given written direction to the property trustee to terminate the trust;

redemption of all of the trust preferred securities as described under **Redemption or Exchange** **Mandatory Redemption** ; or

the entry of a court order for the dissolution of the trust.

With the exception of a redemption as described under **Redemption or Exchange** **Mandatory Redemption**, if an early dissolution of the trust occurs, the trust will be liquidated by the administrative trustees as expeditiously as they determine to be possible. After satisfaction of liabilities to creditors of the trust as provided by applicable law, the trustees will distribute to the holders of trust securities, junior subordinated debt securities:

in an aggregate stated principal amount equal to the aggregate stated liquidation amount of the trust securities;

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with an interest rate identical to the distribution rate on the trust securities; and

with accrued and unpaid interest equal to accumulated and unpaid distributions on the trust securities.

However, if the property trustee determines that the distribution is not practical, then the holders of trust securities will be entitled to receive, instead of junior subordinated debt securities, a proportionate amount of the liquidation distribution. The liquidation distribution will be the amount equal to the aggregate of the liquidation amount plus accumulated and unpaid distributions to the date of payment. If the liquidation distribution can be paid only in part because the trust has insufficient assets available to pay in full the aggregate liquidation distribution, then the amounts payable directly by the trust on the trust securities will be paid on a proportional basis, based on liquidation amounts, to us, as the holder of the common securities, and to the holders of the trust preferred securities. However, if an event of default under the indenture has occurred and is continuing, the trust preferred securities will have a priority over the common securities. See Subordination of Common Securities.

If we do not elect to redeem the junior subordinated debt securities prior to maturity or to liquidate the trust and distribute the junior subordinated debt securities to the holders of the trust preferred securities, the trust preferred securities will remain outstanding until the repayment of the junior subordinated debt securities. If we elect to dissolve the trust and thus cause the junior subordinated debt securities to be distributed to the holders of the trust preferred securities in liquidation of the trust, we will continue to have the right to shorten the maturity of the junior subordinated debt securities.

### **LIQUIDATION VALUE**

The amount of the liquidation distribution payable on the trust preferred securities in the event of any liquidation of the trust is \$25 per preferred security plus accumulated and unpaid distributions to the date of payment, which may be in the form of a distribution of junior subordinated debt securities having a liquidation value and accrued interest of an equal amount.

### **EVENTS OF DEFAULT; NOTICE**

The trust agreement provides that those actions which constitute an event of default under the indenture shall constitute an event of default under the trust agreement. See Description of the Junior Subordinated Debt Securities Events of Default for a discussion of the events of default under the indenture.

Within 90 business days after the occurrence of any event of default actually known to the property trustee, the property trustee will notify the holders of the trust preferred securities, the administrative trustees and us of the default, unless the event of default has been cured or waived. We and the administrative trustees are required to file annually with the property trustee a certificate as to whether or not we and they are in compliance with all the conditions and covenants applicable to each of us under the trust agreement.

If an event of default under the indenture has occurred and is continuing, the trust preferred securities will have preference over the common securities upon dissolution of the trust.

### **REMOVAL OF THE TRUSTEES**

We may remove any trustee at any time. However, if an event of default under the indenture has occurred and is continuing, only the holders of a majority in liquidation amount of the outstanding trust preferred securities may remove the property trustee or the Delaware trustee. The holders of the trust preferred securities have no right to vote to appoint, remove or replace the administrative trustees. These rights are vested exclusively with us as the holder of the common securities. No resignation or removal of a property trustee or Delaware trustee and no appointment of a successor property trustee or Delaware trustee will



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be effective until such successor trustee or trustees accepts the appointment in accordance with the trust agreement.

**CO-TRUSTEES AND SEPARATE PROPERTY TRUSTEE**

If required by the Trust Indenture Act or other applicable law, or as requested by us as the holders of the common securities, the administrative trustees or the property trustee, we will appoint one or more persons or entities either

to act as a co-trustee, jointly with the property trustee, of all or any part of the trust property, or

to act as separate trustee of any trust property.

In either case, these trustees will have the powers that may be provided in the instrument of appointment, and will have vested in them any property, title, right or power deemed necessary or desirable, subject to the provisions of the trust agreement. In case an event of default under the indenture has occurred and is continuing, the property trustee alone will have power to make the appointment.

**MERGER OR CONSOLIDATION OF TRUSTEES**

Generally, any person or successor to any of the trustees may be a successor trustee to any of the trustees, including a successor resulting from a merger or consolidation. However, any successor trustee must meet all of the qualifications and eligibility standards to act as a trustee.

**MERGERS, CONSOLIDATIONS, AMALGAMATIONS OR REPLACEMENTS OF THE TRUST**

The trust may not merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any corporation or other person, except as described below or as described in Liquidation Distribution Upon Dissolution. For these purposes, if we consolidate or merge with another entity, or transfer or sell substantially all of our assets to another entity, in some cases that transaction may be considered to involve a replacement of the trust, and the conditions set forth below would apply to such transaction. The trust may, at our request, with the consent of the administrative trustees and without the consent of the holders of the trust preferred securities, the property trustee or the Delaware trustee, undertake a transaction listed above if the following conditions are met:

the successor entity either

expressly assumes all of the obligations of the trust with respect to the trust preferred securities, or

substitutes for the trust preferred securities other securities having substantially the same terms as the trust preferred securities (referred to as successor securities ) so long as the successor securities rank the same in priority as the trust preferred securities with respect to distributions and payments upon liquidation, redemption and otherwise;

we appoint a trustee of the successor entity possessing the same powers and duties as the property trustee in its capacity as the holder of the junior subordinated debt securities;

the merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the holders of the trust preferred securities (including any successor securities) in any material respect;

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prior to the merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, we have received an opinion from independent counsel experienced in such matters that

any transaction of this kind does not adversely affect the rights, preferences and privileges of the holders of the trust preferred securities (including any successor securities) in any material respect, and

following the transaction, neither the trust nor the successor entity will be required to register as an investment company under the Investment Company Act; and

we own all of the common securities of the successor entity and guarantee the obligations of the successor entity under the successor securities at least to the extent provided by the guarantee.

Notwithstanding the foregoing, the trust may not, except with the consent of the holders of the trust preferred securities, enter into any transaction of this kind if the transaction would affect the trust's status as a grantor trust for federal or Puerto Rico income tax purposes.

### **VOTING RIGHTS; AMENDMENT OF TRUST AGREEMENT**

Except as described below and under Description of the Guarantee Amendments and as otherwise required by the Trust Indenture Act and the trust agreement, the holders of the trust preferred securities will have no voting rights. The trust agreement may be amended from time to time by us, the property trustee and the administrative trustees, without the consent of the holders of the trust preferred securities, in the following circumstances:

with respect to acceptance of appointment by a successor trustee;

to cure any ambiguity, correct or supplement any provision in the trust agreement that may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the trust agreement, as long as the amendment is not inconsistent with the other provisions of the trust agreement; and

to modify, eliminate or add to any provisions of the trust agreement if necessary to ensure that the trust will be classified as a grantor trust for federal or Puerto Rico income tax purposes at all times that any trust securities are outstanding or to ensure that the trust will not be required to register as an investment company under the Investment Company Act; provided, however, in each case, such action may not adversely effect the interests of the holders of the trust securities.

Certain provisions in the trust agreement described below provide additional protection to the holders of the trust preferred securities. With the consent of the holders of a majority of the aggregate liquidation amount of the outstanding trust securities, we and the administrative trustees may amend the trust agreement if the trustees receive an opinion of counsel to the effect that the amendment or the exercise of any power granted to the trustees in accordance with the amendment will not affect the trust's status as a grantor trust for United States federal or Puerto Rico income tax purposes or the trust's exemption from status as an investment company under the Investment Company Act. However, without the consent of each holder of trust securities, the trust agreement may not be amended to

change the amount or timing of any distribution on the trust securities or otherwise adversely affect the amount of any distribution required to be made in respect of the trust securities as of a specified date, or

restrict the right of a holder of trust securities to institute suit for the enforcement of the payment on or after that date.

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As long as the property trustee holds any junior subordinated debt securities, the trustees will not, without obtaining the prior approval of the holders of at least a majority in aggregate liquidation amount of all outstanding trust preferred securities:

direct the time, method and place of conducting any proceeding for any remedy available to the indenture trustee, or executing any trust or power conferred on the property trustee with respect to the junior subordinated debt securities;

waive any past default that is waivable under the indenture;

exercise any right to rescind or annul a declaration that the principal of all the junior subordinated debt securities will be due and payable; or

consent to any amendment or termination of the indenture or the junior subordinated debt securities, where the property trustee's consent is required. However, where a consent under the indenture requires the consent of each holder of the affected junior subordinated debt securities, no consent will be given by the property trustee without the prior consent of each holder of the trust preferred securities.

The trustees may not revoke any action previously authorized or approved by a vote of the holders of the trust preferred securities except by subsequent vote of the holders of the trust preferred securities. The property trustee will notify the holders of trust preferred securities of any notice of default with respect to the junior subordinated debt securities. In addition to obtaining the foregoing approvals of the holders of the trust preferred securities, prior to taking any of the foregoing actions, the trustees must obtain an opinion of counsel experienced in these matters to the effect that the trust will not be classified as an association taxable as a corporation for United States federal or Puerto Rico income tax purposes on account of the action.

Any required approval of the holders of trust securities may be given at a meeting or by written consent. The administrative trustees will cause a notice of any meeting at which the holders of the trust securities are entitled to vote, or of any matter upon which action by written consent of the holders is to be taken, to be given to each holder of record of trust securities.

No vote or consent of the holders of trust preferred securities will be required for the trust to redeem and cancel its trust preferred securities or to distribute the junior subordinated debt securities in accordance with the trust agreement.

Notwithstanding the fact that the holders of trust preferred securities are entitled to vote or consent under any of the circumstances described above, any of the trust preferred securities that are owned by us or any affiliate of us will, for purposes of the vote or consent, be treated as if they were not outstanding.

**CERTIFICATES FOR TRUST PREFERRED SECURITIES; PAYMENT AND PAYING AGENCY**

The trust preferred securities will be issued in definitive form, in denominations of \$25 and integral multiples of \$25 and may be transferred or exchanged at the offices described below.

Payments in respect of the trust preferred securities will be made by check mailed or by wire transfer to the account of each holder of the trust preferred securities, on the relevant distribution dates. The paying agent for the trust preferred securities will initially be the property trustee. The paying agent for the trust preferred securities may resign as paying agent upon 30 days written notice to the administrative trustees. If the property trustee no longer is the paying agent for the trust preferred securities, the administrative trustees will appoint a successor to act as paying agent.

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**REGISTRAR AND TRANSFER AGENT**

The property trustee will act as the registrar and the transfer agent for the trust preferred securities. Registration of transfers of trust preferred securities will be effected without charge by or on behalf of the trust, but upon payment of any tax or other governmental charges that may be imposed in connection with any transfer or exchange.

**INFORMATION CONCERNING THE PROPERTY TRUSTEE**

The property trustee undertakes to perform only the duties set forth in the trust agreement. After the occurrence of an event of default that is continuing, the property trustee must exercise the same degree of care and skill as a prudent person exercises or uses in the conduct of its own affairs. The property trustee is under no obligation to exercise any of the powers vested in it by the trust agreement at the request of the holders of trust preferred securities unless it is offered reasonable indemnity against the costs, expenses and liabilities that might be incurred. If no event of default under the trust agreement has occurred and is continuing and the property trustee is required to decide between alternative causes of action, construe ambiguous or inconsistent provisions in the trust agreement or is unsure of the application of any provision of the trust agreement, and the matter is not one on which the holders of trust preferred securities are entitled to vote upon, then the property trustee will take the action directed in writing by us. If the property trustee is not so directed, then it will take the action it deems advisable and in the best interests of the holders of the trust securities and will have no liability except for its own bad faith, negligence or willful misconduct.

**MISCELLANEOUS**

The administrative trustees are authorized and directed to conduct the affairs of and to operate the trust in such a way that:

the trust will not be deemed to be an investment company required to be registered under the Investment Company Act;

the trust will not be classified for United States federal or Puerto Rico income tax purposes as a grantor trust or causing each holder to be treated as owning an undivided beneficial interest in the junior subordinated debt securities; and

the interest payable on junior subordinated debt securities will be deductible by us for Puerto Rico income tax purposes.

In this regard, we and the administrative trustees are authorized to take any action not inconsistent with applicable law or the trust agreement, that we and the administrative trustees determine to be necessary or desirable for these purposes.

The holders of the trust preferred securities have no preemptive or similar rights. The trust agreement and the trust securities will be governed by Delaware law.

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**Description of the junior subordinated debt securities**

*The junior subordinated debt securities are a series of junior subordinated debt securities as described in the accompanying prospectus. The following, together with the description applicable to junior subordinated debt securities under Description of Junior Subordinated Debt Securities on page 5 in the accompanying prospectus, describes the material terms of the junior subordinated debt securities. If the description of the junior subordinated debt securities set forth in this prospectus supplement differs in any way from the description set forth in the accompanying prospectus, you should rely on the description set forth in this prospectus supplement. The form of the indenture is on file at the Securities and Exchange Commission as an exhibit to the registration statement pertaining to this prospectus supplement. A supplemental indenture containing specific terms of the junior subordinated debt securities will be filed with the Securities and Exchange Commission under cover of a Form 8-K upon closing of the issuance of such securities. The term indenture refers where applicable to the indenture as amended by the supplemental indenture.*

Concurrently with the issuance of the trust preferred securities, the trust will invest the proceeds from the sale of the trust securities in the junior subordinated debt securities issued by us. The junior subordinated debt securities will be issued as unsecured debt under the indenture between us and the Wilmington Trust Company, as trustee. The indenture will be qualified under the Trust Indenture Act.

**GENERAL**

The junior subordinated debt securities will be limited in aggregate principal amount to \$128,866,000. This amount represents the sum of the aggregate stated liquidation amounts of the trust securities. The junior subordinated debt securities will bear interest at the annual rate of 6.62% of the principal amount. The interest will be payable monthly in arrears on the twelfth day of each month, beginning January 12, 2005, to the person in whose name each debenture is registered at the close of business on the 15th day of the month preceding the month that the distribution occurs. It is anticipated that, until the liquidation, if any, of the trust, the junior subordinated debt securities will be held in the name of the property trustee in trust for the benefit of the holders of the trust securities.

The amount of interest payable for any period will be computed on the basis of a 360-day year of twelve 30-day months. If any date on which interest is payable on the junior subordinated debt securities is not a business day, then payment of interest will be made on the next day that is a business day without any additional interest or other payment in respect of the delay. However, if the next business day is in the next calendar year, payment of interest will be made on the immediately preceding business day. Accrued interest that is not paid on the applicable interest payment date will bear additional interest on the amount due at the annual rate of 6.62%, compounded monthly.

The junior subordinated debt securities will mature on December 12, 2034, the stated maturity date. We may shorten this date at any time to any date not earlier than December 12, 2009, subject to the prior approval of the Federal Reserve, if required. We will give notice to the trustee and the holders of the junior subordinated debt securities, no more than 60 days and no less than 35 days prior to the effectiveness of any change in the stated maturity date. We will not have the right to redeem the junior subordinated debt securities from the trust until after December 12, 2009, except if there has occurred a Tax Event, an Investment Company Event or a Regulatory Capital Event, which terms are defined under Description of the Trust Preferred Securities Redemption or Exchange Redemption upon a Tax Event, Investment Company Event or a Regulatory Capital Event.

The junior subordinated debt securities will be unsecured and will rank junior to all of our senior and subordinated debt, including indebtedness we may incur in the future. Because we are a bank holding company, our right to participate in any distribution of assets of any of our subsidiaries, upon any

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subsidiary's liquidation or reorganization or otherwise, and thus the ability of holders of the junior subordinated debt securities to benefit indirectly from any distribution by a subsidiary, is subject to the prior claim of creditors of the subsidiary, except to the extent that we may be recognized as a creditor of the subsidiary. The junior subordinated debt securities will, therefore, be effectively subordinated to all existing and future liabilities of our subsidiaries, and holders of junior subordinated debt securities should look only to our assets for payment. The indenture does not limit our ability to incur or issue secured or unsecured senior and junior debt.

Except in limited circumstances, the indenture does not contain provisions that afford holders of the junior subordinated debt securities protection in the event of a highly leveraged transaction or other similar transaction involving us, nor does it require us to maintain or achieve any financial performance levels or to obtain or maintain any credit rating on the junior subordinated debt securities.

### **OPTION TO EXTEND INTEREST PAYMENT PERIOD**

As long as no event of default under the indenture has occurred and is continuing, we have the right under the indenture to defer the payment of interest on the junior subordinated debt securities at any time for a period not exceeding 60 consecutive months. However, no extended interest payment period may extend beyond the stated maturity of the junior subordinated debt securities or end on a date other than a date interest is normally due. At the end of an extended interest payment period, we must pay all interest then accrued and unpaid, together with interest thereon at the annual rate of 6.62%, compounded monthly.

Prior to the termination of any extended interest payment period, so long as no event of default under the indenture is continuing, we may further defer the payment of interest subject to the above stated requirements. Upon the termination of any extended interest payment period and the payment of all amounts then due, we may elect to begin a new extended interest payment period at any time. We do not currently intend to exercise our right to defer payments of interest on the junior subordinated debt securities.

We must give the property trustee, the administrative trustees and the trustee notice of our election of an extended interest payment period at least five business days prior to the next date on which distributions on the trust securities would have been payable or the date the trust is required to give notice of the record date, or the date the distributions are payable, to any national securities exchange. If the property trustee is not the only registered holder of the junior subordinated debt securities, then the notice must also be given to the other holders of the junior subordinated debt securities.

Other than as described above, there is no limitation on the number of times that we may elect to begin an extended interest payment period.

### **RESTRICTIONS ON PAYMENTS**

We are restricted from making certain payments (as described below) if we have chosen to defer payment of interest on the junior subordinated debt securities, if an event of default has occurred and is continuing under the indenture, or if we are in default with respect to our obligations under the guarantee.

If any of these events occur, we will not:

declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of our capital stock, including our outstanding Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock (other than, among other things, stock dividends, dividends of, or the redemption of rights, in either case, in connection with the implementation of a shareholder rights plan, purchases of common stock in connection with employee benefit plans or in connection with the reclassification of any class of our capital stock into another class of capital stock or payments under the guarantee (the "Exceptions")) or allow any of our

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