



13012467

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	April 30, 2013
Estimated average burden hours per response.....	12.00

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC
Mail Process
Section

MAR 1 - 2013
Washington DC
400

SEC FILE NUMBER
8- 44516

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/12 AND ENDING 12/31/12
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Oriental Financial Services Corp.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

Professional Office Park VI 997 San Roberto Street 9th Floor
(No. and Street)

San Juan Puerto Rico 00926
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Ana R. Suarez (787) 993-4288
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG, LLP
(Name - if individual, state last, first, middle name)

250 Munoz Rivera Avenue, Suite 1100 San Juan Puerto Rico 00918
(Address) (City) (State) (Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

DD
3/4/13



SEC
Mail Processing
Section
MAR 1 - 2013
Washington DC
400

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)



KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

**SEC
Mail Processing
Section**
MAR 1 - 2013
**Washington DC
400**

**Report of Independent Registered Public Accounting Firm on
Applying Agreed-Upon Procedures Pursuant to SEC Rule 17a-5(e)(4)**

The Board of Directors
Oriental Financial Services Corp., Inc.:

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments [General Assessment Reconciliation (Form SIPC-7)] to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2012, which were agreed to by Oriental Financial Services Corp., Inc. (the Company) and the Securities and Exchange Commission and Financial Industry Regulatory Authority, Inc., SIPC solely to assist you and the other specified parties in evaluating the Company's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). The Company's management is responsible for the Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2012, as applicable, with the amounts reported in Form SIPC-7 for the year ended December 31, 2012 noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers noting no differences;
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments noting no differences; and
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7 on which it was originally computed noting no differences.



We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

License No. 21
Expires December 1, 2013

February 28, 2013



SIPC-7

(33-REV 7/10)

SECURITIES INVESTOR PROTECTION CORPORATION
P.O. Box 92185 Washington, D.C. 20090-2185
202-371-8300

General Assessment Reconciliation

SIPC-7

(33-REV 7/10)

For the fiscal year ended 12/31/2012

(Read carefully the instructions in your Working Copy before completing this Form)

TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

044516 FINRA DEC
ORIENTAL FINANCIAL SERVICES CORP 11*11
997 SAN ROBERTO STREET
ORIENTAL GROUP TOWER 9TH FLR
SAN JUAN PR 00926

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

Ana Suarez (787) 993-4288

2. A. General Assessment (item 2e from page 2)

\$ 21,045

B. Less payment made with SIPC-6 filed (exclude interest)

(8,369)

7/31/2012

Date Paid

C. Less prior overpayment applied

(_____)

D. Assessment balance due or (overpayment)

12,676

E. Interest computed on late payment (see instruction E) for _____ days at 20% per annum

F. Total assessment balance and interest due (or overpayment carried forward)

\$ 12,676

G. PAID WITH THIS FORM:

Check enclosed, payable to SIPC
Total (must be same as F above)

\$ 12,676

H. Overpayment carried forward

\$(0)

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

Oriental Financial Services

(Name of Corporation, Partnership or other organization)

Ana R. Suarez

(Authorized Signature)

Dated the 28 day of February, 20 13.

Chief Compliance Officer

(Title)

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

SIPC REVIEWER

Dates:

Postmarked _____

Received _____

Reviewed _____

Calculations _____

Documentation _____

Forward Copy _____

Exceptions:

Disposition of exceptions:

**DETERMINATION OF "SIPC NET OPERATING REVENUES"
AND GENERAL ASSESSMENT**

Amounts for the fiscal period
beginning 1/1/2012
and ending 12/31/2012

Item No.

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

Eliminate cents
\$ 11,780,431

2b. Additions:

- | | |
|---|---------------------|
| (1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above. | <u>0</u> |
| (2) Net loss from principal transactions in securities in trading accounts. | <u>4,537</u> |
| (3) Net loss from principal transactions in commodities in trading accounts. | <u>0</u> |
| (4) Interest and dividend expense deducted in determining Item 2a. | <u>0</u> |
| (5) Net loss from management of or participation in the underwriting or distribution of securities. | <u>0</u> |
| (6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities. | <u>0</u> |
| (7) Net loss from securities in investment accounts. | <u>0</u> |
| Total additions | <u>4,537</u> |

2c. Deductions:

- | | |
|---|------------------|
| (1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products. | <u>2,915,010</u> |
| (2) Revenues from commodity transactions. | <u>0</u> |
| (3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions. | <u>292,011</u> |
| (4) Reimbursements for postage in connection with proxy solicitation. | <u>0</u> |
| (5) Net gain from securities in investment accounts. | <u>0</u> |
| (6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date. | <u>55,620</u> |
| (7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act). | <u>104,274</u> |
| (8) Other revenue not related either directly or indirectly to the securities business.
(See Instruction C): | <u>0</u> |
| <hr/> | |
| (Deductions in excess of \$100,000 require documentation) | |

- | | |
|--|----------|
| (9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income. | \$ _____ |
| (ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960). | \$ _____ |

Enter the greater of line (i) or (ii)

Total deductions

0
3,366,915

2d. SIPC Net Operating Revenues

\$ 8,418,053

2e. General Assessment @ .0025

\$ 21,045

(to page 1, line 2.A.)

OATH OR AFFIRMATION

I, Ana R. Suarez, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Oriental Financial Services Corp., as of December 31, 20 12, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Sworn and subscribed before me by Ana Suarez, of legal age, married, in her capacity of Chief Compliance Officer of Oriental Financial Services and Resident of Guaynabo, whom I personally know. In San Juan, Puerto Rico, this 28th day of May, 2013.

Ana R. Suarez
Signature

Chief Compliance Officer
Title

[Signature]
Notary Public



This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Report of Independent Registered Public Accounting Firm

The Board of Directors
Oriental Financial Services Corp.:

We have audited the accompanying financial statements of Oriental Financial Services Corp. (a wholly owned subsidiary of Oriental Financial Group Inc.) (the Company), which comprise the statements of financial condition as of December 31, 2012 and 2011, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended, that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information contained in schedules I, II, and III is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information in schedules I, II, and III has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in schedules I, II, and III is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

February 28, 2013

Stamp No. E49462 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group, Inc.)

Statements of Financial Condition

December 31, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	\$ 5,579,350	\$ 2,893,127
Deposit with clearing organization	1,150,000	1,150,000
Securities owned – at fair value	145,881	410,086
Receivables from broker-dealers and other	286,429	294,068
Deferred tax asset, net	226,762	519,236
Due from affiliates	107,068	105,580
Property and equipment, net	365,335	329,072
Prepaid expenses and other assets, including prepaid income tax of \$0 and \$129,780 in 2012 and 2011, respectively	835,930	1,148,109
Total assets	<u>\$ 8,696,755</u>	<u>\$ 6,849,278</u>
Liabilities and Stockholder's Equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,302,858	\$ 1,076,371
Unearned revenue	301,243	410,786
Securities failed to receive	—	229,750
Total liabilities	<u>1,604,101</u>	<u>1,716,907</u>
Stockholder's equity:		
Common stock, \$1 par value. Authorized, issued, and outstanding 1,000 shares	1,000	1,000
Additional paid-in capital	4,921,456	4,790,231
Retained earnings	2,170,198	341,140
Total stockholder's equity	<u>7,092,654</u>	<u>5,132,371</u>
Commitments and contingencies		
Total liabilities and stockholder's equity	<u>\$ 8,696,755</u>	<u>\$ 6,849,278</u>

See accompanying notes to financial statements.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group, Inc.)

Statements of Income

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenue:		
Commissions	\$ 11,384,855	\$ 9,065,611
Interest and dividends	22,355	29,239
Investment banking fees	250,233	38,271
Other income	122,983	95,675
Total revenue	<u>11,780,426</u>	<u>9,228,796</u>
Expenses:		
Employee compensation and benefits	5,775,744	4,957,979
Management and service fees	1,022,538	1,127,759
Clearing broker fees	495,795	657,530
Claims and settlements	338,675	544,990
Occupancy and equipment	465,846	395,963
Wrap fees	267,661	327,328
Professional services	364,955	247,795
Advertising and promotion	76,074	224,754
Taxes other than payroll and income taxes	146,714	106,452
Communications	32,289	35,548
Other	170,036	169,678
Total expenses	<u>9,156,327</u>	<u>8,795,776</u>
Income before income tax expense	<u>2,624,099</u>	<u>433,020</u>
Income tax expense	795,041	322,999
Net income	<u>\$ 1,829,058</u>	<u>\$ 110,021</u>

See accompanying notes to financial statements.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group, Inc.)

Statements of Changes in Stockholder's Equity

Years ended December 31, 2012 and 2011

	<u>Common stock</u>	<u>Additional paid- in capital</u>	<u>Retained earnings</u>	<u>Total</u>
Balances at December 31, 2010	\$ 1,000	\$ 4,739,861	\$ 231,119	\$ 4,971,980
Net income	—	—	110,021	110,021
Group allocation of equity based compensation	—	50,370	—	50,370
Balances at December 31, 2011	1,000	4,790,231	341,140	5,132,371
Net income	—	—	1,829,058	1,829,058
Group allocation of equity based compensation	—	131,225	—	131,225
Balances at December 31, 2012	<u>\$ 1,000</u>	<u>\$ 4,921,456</u>	<u>\$ 2,170,198</u>	<u>\$ 7,092,654</u>

See accompanying notes to financial statements.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group, Inc.)

Statements of Cash Flows

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net income	\$ 1,829,058	\$ 110,021
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax expense	292,474	317,373
Stock-based compensation	131,225	50,370
Depreciation and amortization	78,902	32,797
Changes in operating assets and liabilities:		
Deposit with clearing organization	—	(1,000,000)
Receivables from broker-dealers and other	7,639	(88,394)
Securities owned – net	264,205	920,040
Prepaid expenses and other assets	312,179	(276,736)
Due from affiliates	(1,488)	287,745
Accounts payable and accrued expenses	226,487	324,183
Unearned revenue	(109,543)	(109,542)
Securities failed to receive	(229,750)	(103,775)
Net cash provided by operating activities	<u>2,801,388</u>	<u>464,082</u>
Cash flows from investing activity:		
Capital expenditures on leasehold improvements	(115,165)	(361,869)
Net cash used in investing activity	<u>(115,165)</u>	<u>(361,869)</u>
Net increase in cash and cash equivalents	2,686,223	102,213
Cash and cash equivalents – beginning of year	<u>2,893,127</u>	<u>2,790,914</u>
Cash and cash equivalents – end of year	<u>\$ 5,579,350</u>	<u>\$ 2,893,127</u>

See accompanying notes to financial statements.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

Notes to Financial Statements

December 31, 2012 and 2011

(1) Organization and Summary of Significant Accounting Policies

Organization and Description of Business

Oriental Financial Services Corp. (the Company) is a wholly owned subsidiary of Oriental Financial Group Inc. (the Group) and is incorporated under the laws of the Commonwealth of Puerto Rico. The Company is engaged in brokerage, underwriter syndicate and offerings, and investment advisory services in Puerto Rico and is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation. The Company is approved as a registered broker-dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934 and does not carry customer accounts; accordingly, it is exempt from the Customer Protection Rule (Securities and Exchange Commission (SEC) Rule 15c3-3) pursuant to Provision K(2)(ii) of such rule.

The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles (GAAP). The following is a summary of the Company's most significant accounting policies:

(a) *Basis of Presentation*

The financial statements of the Company are prepared for the purpose of complying with statutory requirements of the Commonwealth of Puerto Rico, the SEC, and the FINRA.

(b) *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies in the statements of financial condition and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the valuation of deferred tax assets, receivables from broker-dealers and others, securities owned, the useful lives of property and equipment, share-based compensation, and accruals for claims and settlements.

(c) *Cash Equivalents*

The Company has defined cash equivalents as highly liquid investments, with original maturities of less than 90 days, that are not held for sale in the ordinary course of business. Cash equivalents include money market investments amounting to \$5,399,350 and \$2,713,127 as of December 31, 2012 and 2011, respectively, and are valued using Level 1 inputs, as defined below.

(d) *Securities Transactions*

Proprietary securities transactions in regular-way trades are recorded on the trade date, as if they had settled. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade-date basis. Customers' securities transactions, including the related commission income and expenses, are reported on a trade-date basis.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statements of financial condition.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

Notes to Financial Statements

December 31, 2012 and 2011

Securities owned are carried at fair value and the changes in fair value are included as income (loss) for the reporting period.

(e) Commissions

Commissions and related clearing broker expenses are recorded on a trade-date basis.

(f) Investment Banking Revenue

Investment banking revenue includes gains, losses, and fees, net of syndicate expenses arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenue also includes fees earned from providing merger-and-acquisition and financial restructuring advisory services. Investment banking management fees are recorded on the offering date, sales concessions on the settlement date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable.

(g) Other Income and Expenses

Other income and expenses are accounted for on the accrual basis.

(h) Property and Equipment

Property and equipment are stated at cost. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful lives of the assets, which range from five to ten years. Depreciation on equipment is calculated on the straight-line method over the estimated useful lives of the assets, which range from three to five years. Total depreciation and amortization for the years ended December 31, 2012 and 2011 amounted to \$78,902 and \$32,797, respectively.

(i) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

(j) Accounting for Transfers of Financial Assets and Extinguishments of Liabilities

The Company recognizes the financial assets it controls and the liabilities it has incurred. At the same time, it derecognizes financial assets when control has been surrendered and liabilities when they are extinguished.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

Notes to Financial Statements

December 31, 2012 and 2011

(k) Concentrations of Credit Risk

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

(l) Fair Value Measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04 Fair Value Measurement (FASB ASC Topic 820) – *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it is already required or permitted under International Financial Reporting Standards (IFRS) or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. The ASU also requires additional disclosures for nonpublic entities to provide quantitative information about significant unobservable inputs used for all Level 3 measurements and a description of the valuation process used. The provisions of the ASU are effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the Company's financial statements.

(m) Group of Related Entities

The Internal Revenue Code for a New Puerto Rico (the 2011 Code) requires that entities exceeding a predefined volume of business issue audited financial statements for filing with local taxing

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

Notes to Financial Statements

December 31, 2012 and 2011

authorities. This predefined volume of business is determined in a “controlled group” basis, as defined in the 2011 Code. Among the requirements imposed by the 2011 Code, domestic entities that are part of a controlled group should file audited consolidated financial statements, including a consolidating schedule presenting the financial condition and results of operations of each entity comprising the controlled group. The Department of the Treasury of the Commonwealth of Puerto Rico recently issued Administrative Determination No. 11-13 to provide an alternative requirement in lieu of filing the audited consolidated financial statements. Only for tax year 2012, entities required to file audited financial statements with its income tax return, may file stand-alone audited financial statements and, in lieu of providing audited consolidated financial statements, should disclose in the notes to the financial statements the names of the related entities engaged in active trade or business in Puerto Rico, as defined by the 2011 Code. The following related entities, as defined by the 2011 Code, are engaged in active trade or business within Puerto Rico:

- Oriental Financial Services Corp.,
- Oriental Bank and Trust,
- Oriental International Bank, Inc.,
- Oriental Insurance Inc.,
- Oriental Financial Group,
- EB Operating Number One, Inc.,
- OFS Securities, Inc., and
- Oriental Seguros, Inc.

(n) *Recently Issued Accounting Pronouncements*

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position, and to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under IFRS. The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. The Company will implement the provisions of ASU 2011-11 as of January 1, 2013. The adoption of this guidance is not expected to have a material effect on the Company’s financial statements.

Other accounting standards that have been issued by FASB or other standards-setting bodies are not expected to have a material impact on the Company’s financial position, results of operations, or cash flows.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

Notes to Financial Statements

December 31, 2012 and 2011

(2) Securities Owned

The following table sets forth the Company's securities owned recorded at fair value as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Puerto Rico government securities	\$ 65,096	273,481
Other equity securities	80,785	136,605
Total	<u>\$ 145,881</u>	<u>410,086</u>

The following tables present the classification in the fair value hierarchy of securities that are measured at fair value on a recurring basis at December 31, 2012 and 2011:

	<u>Fair value measurements at reporting date using</u>			
	<u>December 31, 2012</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Puerto Rico government securities	\$ 65,096	—	65,096	—
Other equity securities	80,785	—	80,785	—
Total	<u>\$ 145,881</u>	<u>—</u>	<u>145,881</u>	<u>—</u>

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

Notes to Financial Statements

December 31, 2012 and 2011

	<u>December 31, 2011</u>	Fair value measurements at reporting date using		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Puerto Rico government securities	\$ 273,481	—	273,481	—
Other equity securities	<u>136,605</u>	<u>—</u>	<u>136,605</u>	<u>—</u>
Total	<u>\$ 410,086</u>	<u>—</u>	<u>410,086</u>	<u>—</u>

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended December 31, 2012 and 2011, respectively.

(3) Prepaid Expenses and Other Assets

Prepaid expenses and other assets at December 31, 2012, and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Prepaid retainer bonus	\$ 720,647	910,395
Prepaid municipal taxes	65,985	59,686
Prepaid income taxes	—	129,780
Other assets	<u>49,298</u>	<u>48,248</u>
	<u>\$ 835,930</u>	<u>1,148,109</u>

Prepaid retainer bonus is comprised of amounts advanced to new brokers under promissory note agreements that require the brokers to repay the Company the amounts advanced by making annual payments on the anniversary dates established in the agreements. Under the terms of the agreements, the brokers are not required to repay the Company if at the anniversary date (date of scheduled repayment), the brokers achieve certain milestones and comply with the conditions established in the promissory note.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

Notes to Financial Statements

December 31, 2012 and 2011

(4) Property and Equipment

Property and equipment at December 31, 2012 and 2011 consist of the following:

	Estimated useful lives (in years)	2012	2011
Leasehold improvements	5 – 10	\$ 368,568	253,403
Furniture, fixtures, and equipment	3 – 5	100,419	100,419
Computer and communication equipment	3	8,047	8,047
Total		477,034	361,869
Less accumulated depreciation and amortization		111,699	32,797
Total		\$ 365,335	329,072

(5) Clearing Agreement

The Company has a clearing agreement (the Agreement) with Pershing LLC (Pershing). Pershing is a member of various stock exchanges and is subject to the rules and regulations of such organizations as well as those of the SEC. Under the terms of the Agreement, Pershing clears and executes the brokerage transactions of the Company's customers on a fully disclosed basis. The Agreement states that the Company will assume customer obligations if a customer of the Company defaults. Also, under the terms of the agreement, the Company is required to maintain a minimum deposit with Pershing at all times. This deposit amounted to \$1,150,000 as of December 31, 2012, and 2011.

In October 2010, the Company received a payment from Pershing amounting to \$750,000 to cover the costs of conversion from National Financial Services Corp. (NFSC) and as an incentive for entering into a new clearing agreement with Pershing. The remaining portion of this payment that has not been recognized as revenue, which amounts to approximately \$301,243 and \$410,786 as of December 31, 2012 and 2011, respectively, is presented in the accompanying statements of financial condition as unearned revenue.

(6) Transactions with Affiliated Companies

The Company receives technical, operational, and consulting services from Oriental Bank and Trust (the Bank), for which it is charged a management and service fee. In addition, the Company is also charged by the Bank for the use of facilities and equipment. For the years ended December 31, 2012 and 2011, the Company was charged \$1,022,538 and \$1,127,759, respectively, by the Bank for these services.

The Company's employees participate in the Group's equity-based compensation plans. During the years ended December 31, 2012 and 2011, the Group allocated stock compensation expense of \$131,225 and \$50,370, respectively, to the Company. The Group follows the fair value method of recording stock-based compensation.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

Notes to Financial Statements

December 31, 2012 and 2011

The Company also maintains an operating cash account with the Bank amounting to \$180,000 as of December 31, 2012 and 2011, respectively.

(7) Net Capital Requirements

The Company is subject to the SEC Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, will not exceed the 15.00 to 1.00. At December 31, 2012 and 2011, the Company had net capital of \$5,077,105 and \$2,492,863, respectively, which is \$4,827,105 and \$2,242,863, respectively, in excess of its required net capital of \$250,000. The Company's ratio of aggregate indebtedness to net capital at December 31, 2012 and 2011 is 0.32 to 1.00 and 0.69 to 1.00, respectively.

(8) Income Taxes

On January 31, 2011, the Governor of Puerto Rico signed into law the 2011 Code, which was subsequently amended. As such, the Puerto Rico Internal Revenue Code of 1994, as amended, (the 1994 Code) would be gradually repealed by the 2011 Code as its provisions started to take effect, with some exceptions, as of January 1, 2011. For corporate taxpayers, the 2011 Code retains the 20% regular income tax rate but establishes significantly lower surtax rates. The 2011 Code provides a surtax rate from 5% to 10% for years starting after December 31, 2010, but before January 1, 2014. That surtax rate may be reduced to 5% after December 31, 2013, if certain economic and budgetary control tests are met by the Government of Puerto Rico. If such economic tests are not met, the reduction of the surtax rate will be postponed until the year when such economic tests are met. In the case of a controlled group of corporations, the determination of which surtax rate applies will be made by adding the net taxable income of each of the entities that are members of the controlled group reduced by the surtax deduction. The 2011 Code also provides a surtax deduction of \$750,000. In the case of a controlled group of corporations, the surtax deduction should be distributed among the members of the controlled group. The alternative minimum tax (AMT) is 20%. The 2011 Code eliminates the 5% additional surtax that was established by Act No. 7 of March 9, 2009, and the 5% recapture of the benefit of the income tax tables. Under the 2011 Code, a corporate taxpayer has an irrevocable one-time election to defer the application of the 2011 Code for five years. This election must be made with the filing of the 2011 income tax return and, once made, is irrevocable for the taxable year when the election is made and for each of the next four taxable years. The Company has elected to apply the provisions of the 2011 Code. Under the 2011 Code, all companies are treated as separate taxable entities and are not entitled to file consolidated returns. The Company is subject to Puerto Rico regular income tax or AMT on income earned from all sources. The AMT is payable if it exceeds regular income tax. The excess of AMT over regular income tax paid in any one year may be used to offset regular income tax in future years, subject to certain limitations.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

Notes to Financial Statements

December 31, 2012 and 2011

The components of income tax expense for the year ended December 31, 2012 and 2011 are as follows:

	December 31	
	2012	2011
Current income tax expense	\$ 502,567	5,626
Deferred income tax expense	292,474	317,373
Income tax expense	\$ 795,041	322,999

The Company's income tax expense differs from amounts computed by applying the applicable statutory rate to income before income taxes as follows:

	Years ended December 31			
	2012		2011	
	Amount	Rate	Amount	Rate
Tax at statutory rate	\$ 787,230	30.00%	129,906	30.00%
Effect of change in statutory rate from 40.95% to 30%	—	—	182,942	42.25
Other items, net	7,811	0.30	10,151	2.34
Income tax expense	\$ 795,041	30.30%	322,999	74.59%

The components of the Company's deferred tax assets at December 31, 2012 and 2011 are as follows:

	December 31	
	2012	2011
Deferred tax assets:		
Net operating loss carryforward	\$ —	251,995
Unearned revenue	90,373	123,236
Stock-based compensation	54,478	15,111
AMT credit	—	29,585
Accrual for claims and settlements and other	81,911	99,309
Total deferred tax asset	\$ 226,762	519,236

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

Notes to Financial Statements

December 31, 2012 and 2011

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the projections for future taxable income over the periods in which the deferred tax assets are expected to reverse, management believes it is more likely than not that the Company will realize the benefits of these deductible differences at December 31, 2012. The amount of the deferred tax asset considered realizable; however, could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced.

The Company follows a two-step approach for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation process, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. There are no uncertain tax positions recognized in the financial statements as of December 31, 2012 and 2011.

(9) Contingencies

In the normal course of business, the Company executes, settles, and finances customer, correspondent, and proprietary securities transactions. These activities may expose the Company to off-balance-sheet risk arising from the potential that the customer or counterparty may fail to satisfy its obligations and the collateral will be insufficient. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers and counterparties.

The Company is subject to examinations from its regulators. Such examinations could result in fines and penalties against the Company. No provision has been made for any liabilities that may arise from such examinations since the amount, if any, cannot be determined at this date.

The Company is also involved in various claims and legal actions arising in the ordinary course of business. The aggregate amounts claimed were approximately \$775,000 and \$1,946,000 as of December 31, 2012 and 2011, respectively. It is management's opinion that the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

(10) Subsequent Events

The Company submitted an application to FINRA to merge with OFS Securities, Inc., a registered broker-dealer and an affiliate by common ownership. The merger is currently pending FINRA's approval. The Company has evaluated subsequent events from the date of the statement of financial condition through February 28, 2013, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group, Inc.)

Computation of Net Capital Pursuant to Rule 15c3-1

Under the Securities Exchange Act of 1934

December 31, 2012

Computation of Net Capital

Total stockholder's equity from statement of financial condition	\$ 7,092,654
Deduct stockholder's equity not allowable for net capital	—
Total stockholder's equity qualified for net capital	7,092,654
Add other deductions or allowable credits	—
Total capital and allowable subordinated liabilities	7,092,654
Deductions and/or charges:	
Total nonallowable assets	(1,821,524)
Other additions and/or allowable credits	—
Net capital before haircuts on securities positions	5,271,130
Haircuts on securities:	
Contractual commitments	—
Subordinated debt	—
Exempt investment securities	—
Debt securities	4,181
Other securities, including money market funds	189,844
Undue concentration	—
Other	—
	(194,025)
Net capital	\$ 5,077,105

Computation of Basic Net Capital Requirement

Minimum net capital required (based on aggregate indebtedness) (15 to 1 ratio)	\$ 106,940
Minimum dollar requirement	250,000
Net capital requirement (greater of two amounts above)	250,000
Net capital	5,077,105
Excess net capital	4,827,105
Excess net capital at 1,000% (net capital less 10% of aggregate indebtedness)	4,777,105

Note: No material difference exists between the audited Computation of Net Capital and the corresponding schedules in the Company's unaudited December 31, 2012, Form X-17A-5, Part II-A filing.

(Continued)

Schedule I**ORIENTAL FINANCIAL SERVICES CORP.**
(A Wholly Owned Subsidiary of Oriental Financial Group, Inc.)

Computation of Net Capital Pursuant to Rule 15c3-1

Under the Securities Exchange Act of 1934

December 31, 2012

Computation of Aggregate Indebtedness

Aggregate indebtedness from statement of financial condition	\$	1,604,101
Add:		
Draft for immediate credit		—
Market value of securities borrowed where no equivalent is paid or credited		—
Other		—
		<hr/>
Total aggregate indebtedness	\$	<u>1,604,101</u>
Ratio – aggregate indebtedness to net capital		0.32 to 1

Schedule of Nonallowable Assets

Receivables from broker-dealers and other	\$	286,429
Prepaid expenses and other assets		835,930
Deferred tax asset, net		226,762
Property and equipment		365,335
Due from affiliates		107,068
		<hr/>
Total nonallowable assets	\$	<u>1,821,524</u>

See accompanying report of independent registered public accounting firm.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)

Computation for Determination of Reserve Requirements and
Information Relating to Possession or Control Requirements for
Brokers and Dealers Pursuant to Rule 15c3-3
Under the Securities Exchange Act of 1934

Years ended December 31, 2012 and 2011

The Company has a clearing agreement (the Agreement) with Pershing LLC (Pershing). Under the terms of the Agreement, Pershing LLC clears and executes the brokerage transactions of the Company's customers on a fully disclosed basis. In management's opinion, the Company has complied with the exemptive provisions under Rule 15c3-3 for the years ended December 31, 2012 and 2011.

See accompanying report of independent registered public accounting firm.

ORIENTAL FINANCIAL SERVICES CORP.
(A Wholly Owned Subsidiary of Oriental Financial Group Inc.)
Statement of Changes in Liabilities Subordinated to Claims of General Creditors
Years ended December 31, 2012 and 2011

There were no liabilities subordinated to claims of general creditors during the years ended December 31, 2012 and 2011.

See accompanying report of independent registered public accounting firm.



KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

**Report of Independent Registered Public Accounting Firm
on Internal Control Pursuant to Securities and Exchange Commission Rule 17a-5**

The Board of Directors
Oriental Financial Services Corp.:

In planning and performing our audit of the financial statements of Oriental Financial Services Corp. (the Company), as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13, and
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's previously mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.



Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2012, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority (FINRA), and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 28, 2013

Stamp No. E49463 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.