R&G FINANCIAL CORP
Form 10-Q
May 15, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____________ TO _____________.

Commission file number: 000-21137

R&G FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Puerto Rico	66-0532217
(State of incorporation or organization)	(I.R.S. Employer Identification No.)
280 Jesus T. Pinero Avenue Hato Rey, San Juan, Puerto Rico	00918
(Address of principal executive offices)	(Zip Code)

(787) 758-2424

(Registrant's telephone number, including area code)

Indicate by checkmark whether Registrant (a) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such report (s) and (b) has been subject to such filing requirements for at least 90 days.

YES [X] NO [ ]

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). [X] Yes [ ] No

Number of shares of Class B Common Stock outstanding as of March 31, 2003: 19,486,665 (Does not include 14,553,056 Class A Shares of Common Stock which are exchangeable into Class B Shares of Common Stock at the option of the holder.)

R&G FINANCIAL CORPORATION

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PART 1-FINANCIAL INFORMATION

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R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS

Cash and due from banks

Money market investments:

- Securities purchased under agreements to resell
- Time deposits with other banks
- Short-term investments

Mortgage loans held for sale, at lower of cost or market

Mortgage-backed and investment securities held for trading, at fair value

Trading securities pledged on repurchase agreements, at fair value

Mortgage-backed and investment securities available for sale, at fair value

Available for sale securities pledged on repurchase agreements, at fair value

Mortgage-backed and investment securities held to maturity, at amortized cost (estimated market value: 2003 - $31,349; 2002 - $30,885)

Held to maturity securities pledged on repurchase agreements, at amortized cost (estimated market value: 2003 - $44,573; 2002 - $45,926)

Loans receivable, net

Accounts receivable, including advances to investors, net

Accrued interest receivable

Servicing asset

Premises and equipment

Other assets

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:

- Deposits
- Securities sold under agreements to repurchase
- Notes payable
- Advances from FHLB
- Other borrowings
- Accounts payable and accrued liabilities
- Other liabilities

Stockholders' equity:

- Preferred stock, $.01 par value, 20,000,000 shares authorized:
  - Non-cumulative perpetual Monthly Income Preferred Stock, $25 liquidation value:
  - 7.40% Series A, 2,000,000 shares authorized, issued and outstanding
  - 7.75% Series B, 1,000,000 shares authorized, issued and outstanding
  - 7.60% Series C, 2,760,000 shares authorized, issued and outstanding
  - 7.25% Series D, 2,760,000 shares authorized, issued and outstanding
- Common stock:
  - Class A - $.01 par value, 40,000,000 shares authorized, 14,553,056 issued and outstanding
  - Class B - $.01 par value, 60,000,000 shares authorized, 19,486,665 issued and outstanding (2002-19,440,206)
- Additional paid-in capital
- Retained earnings
- Capital reserves of the Bank
- Accumulated other comprehensive income

The accompanying notes are an integral part of these statements.

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R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three month period ended March 31,	
	2003	2
	(Unaudited) (Dollars in thousands except per sh	
Interest income:		
Loans	$ 51,955	$
Money market and other investments	8,618	
Mortgage-backed securities	27,683	
Total interest income	88,256	
Interest expense:		
Deposits	21,693	
Securities sold under agreements to repurchase	12,771	
Notes payable	1,870	
Other	9,701	
Total interest expense	46,035	
Net interest income	42,221	
Provision for loan losses	(4,220)	
Net interest income after provision for loan losses	38,001	
Other income:		
Net gain on origination and sale of loans and sales of securities available for sale	33,017	
Loan administration and servicing fees	13,201	
Service charges, fees and other	5,721	
	51,939	
Total revenues	89,940	
Operating expenses:		
Employee compensation and benefits	15,147	
Office occupancy and equipment	5,702	
Other administrative and general	30,543	
	51,392	

Income before income taxes	38,548	
Income tax expense:		
Current	5,940	
Deferred	3,467	
	9,407	
Net income	$ 29,141	$
Earnings per common share - Basic	$ 0.74	$
- Diluted	$ 0.74	$
Weighted average number of shares outstanding - Basic	34,022,719	31,
- Diluted	34,180,759	31,

The accompanying notes are an integral part of these statements.

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R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three month period March 31,
	2003
	(Unaudited (Dollars in thou
Net income	$ 29,141
Other comprehensive income, before tax:	
Unrealized gains (losses):	
Derivative instruments	340
Investment securities:	
Arising during period	(4,728)
Less: Reclassification adjustments for gains included in net income	(106)
	(4,834)
	(4,494)

Income tax benefit related to items of other comprehensive income	1,757
Other comprehensive loss, net of tax	(2,737)
Comprehensive income, net of tax	$ 26,404

The accompanying notes are an integral part of these statements.

R&G FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Thr
Cash flows from operating activities:	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	
Amortization of premium on investments and mortgage-backed securities, net	
Amortization of servicing rights	
Provision for (reversal of) impairment reserves	
Provision for loan losses	
Gain on sales of mortgage-backed and investment securities available for sale	
Unrealized loss (gain) on trading securities and derivative instruments, net	
Increase in mortgage loans held for sale	
Net decrease in securities held for trading	
Increase in receivables	
Increase in other assets	
Increase (decrease) increase in notes payable and other borrowings	
Increase in accounts payable and accrued liabilities	
Increase (decrease) in other liabilities	
Total adjustments	
Net cash provided by operating activities	
Cash flows from investing activities:	
Purchases of investment securities	(
Proceeds from sales of securities available for sale	
Principal repayments on mortgage-backed securities and redemption of securities available for sale	
Proceeds from sales of loans	
Net originations of loans	(
Purchases of FHLB stock, net	

Acquisition of premises and equipment	
Acquisition of servicing rights	
Net cash used in investing activities	(
Cash flows from financing activities:	
Increase (decrease) in deposits - net	
Increase in securities sold under agreements to repurchase - net	
Advances from FHLB, net	
Net proceeds from issuance of preferred stock	
Proceeds from issuance of common stock	
Cash dividends:	
Common stock	
Preferred stock	
Net cash provided by financing activities	
Net decrease in cash and cash equivalents	
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	$
Cash and cash equivalents include:	
Cash and due from banks	$
Short-term investments	
Securities purchased under agreements to resell	
Time deposits with other banks	
	$

The accompanying notes are an integral part of these statements.

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R&G FINANCIAL CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

REPORTING ENTITY

The accompanying unaudited consolidated financial statements include the accounts of R&G Financial Corporation (the "Company"), a diversified financial services company, and its wholly-owned subsidiaries, R-G Premier Bank of Puerto Rico (the "Premier Bank"), a Puerto Rico commercial bank, Crown Bank, F.S.B. ("Crown Bank"), a Florida-based federal savings bank, R&G Mortgage Corp. ("R&G Mortgage"), Puerto Rico's second largest mortgage banker, R-G Investments Corporation, a Puerto Rico licensed securities broker-dealer, and Home & Property Insurance Corp., a Puerto Rico insurance agency. The Company, currently in its 31st year of operations, operates as a financial holding company, pursuant to the provisions of the Gramm-Leach-Biley Act of 1999, and is primarily engaged in banking, mortgage banking, and securities and insurance brokerage through its subsidiaries.

Premier Bank and Crown Bank provide a full range of banking services, including residential, commercial and personal loans and a variety of deposit products. Premier Bank operates through thirty branches located mainly in the northeastern part of the Commonwealth of Puerto Rico. Crown Bank operates in the Orlando and Tampa/St. Petersburg metropolitan areas through fifteen full service branches and six commercial lending offices. Premier Bank also provides private banking and trust and other financial services to its customers. Premier Bank and Crown Bank are subject to the regulations of certain federal and local agencies, and undergo periodic examinations by those regulatory agencies.

Crown Bank is also engaged in the origination of FHA insured, VA guaranteed and privately insured first and second mortgage loans on residential real estate (1 to 4 families) in the States of New York, New Jersey, Connecticut, North Carolina and Florida, through its wholly-owned subsidiary, Continental Capital Corporation ("Continental Capital").

R&G Mortgage is engaged primarily in the business of originating FHA-insured, VA-guaranteed, and privately insured first and second mortgage loans on residential real estate (1 to 4 families). R&G Mortgage pools FHA and VA loans into GNMA mortgage-backed securities and collateralized mortgage obligation certificates for sale to investors. After selling the loans, it retains the service on the loans. R&G Mortgage is also a FNMA and FHLMC Seller-Servicer of conventional loans.

R&G Mortgage also originates FHA insured, VA guaranteed and privately insured first and second mortgage loans on residential real estate (1 to 4 families), through its wholly-owned subsidiary, Mortgage Store of Puerto Rico, Inc.

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. However, in the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (principally consisting of normal recurring accruals) necessary for a fair presentation of the Company's financial condition as of March 31, 2003 and the results of operations and changes in its cash flows for the three months ended March 31, 2003 and 2002.

The results of operations for the three month period ended March 31, 2003 are not necessarily indicative of the results to be expected for the year ending December 31, 2003. The unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2002.

BASIS OF CONSOLIDATION

All significant intercompany balances and transactions have been eliminated in the accompanying unaudited financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2002 the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of

Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," it retains many of the fundamental provisions of that Statement. SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. However, it retains the requirement in Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of by sale, abandonment, or in a distribution to owners or is classified as held for sale. The adoption of this Statement did not have an effect on the consolidated financial position or results of operations of the Company.

On January 1, 2002 the Company adopted also SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over the respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144. The initial adoption of this Statement on January 1, 2002 had no effect on the consolidated financial position or results of operations of the Company.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees of Indebtedness of Others (an interpretation of FASB Statements No. 5, 57, 107 and rescission of FASB Interpretation No. 34)" ("FIN No. 45"). FIN No. 45 clarifies the requirements of FASB Statement No. 5, "Accounting for Contingencies," relating to a guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN No. 45 requires a guarantor of certain guarantees to recognize at its inception a liability for the fair value of the obligation undertaken when issuing the guarantee, and also expands the related disclosures. The provisions of initial recognition are effective for guarantees issued and modified after December 31, 2002. The adoption of FIN No. 45 on January 1, 2003 did not have a significant impact on the Company's consolidated financial statements.

On April 30, 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 or Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivatives instruments embedded in other contracts, and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement is effective for contracts entered into or modified after June 30, 2003. The adoption of this statement is not expected to have a significant effect in the consolidated financial position or results of operations of the Company.

NOTE 2 - EARNINGS PER SHARE

Basic earnings per common share are computed by dividing net income (less preferred stock dividends) by the weighted average number of shares of common stock outstanding. The weighted average of outstanding stock options granted in connection with the Company's Stock Option Plan (158,040 and 358,760 during the quarters ended March 31, 2003 and 2002, respectively), are included in the weighted average number of shares for purposes of the diluted earnings per share computation. No other adjustments are made to the computation of basic earnings per share to arrive at diluted earnings per share.

Dividends per share on common stock declared and paid by the Company were as follows:

Quarter ended March 31, 2003	2002
(Unaudited)	
$0.0980	$0.0765

NOTE 3 - INVESTMENT AND MORTGAGE-BACKED SECURITIES

The carrying value and estimated fair value of investment and mortgage-backed securities by category are shown below. The fair value of investment securities is based on quoted market prices and dealer quotes, except for the investment in Federal Home Loan Bank (FHLB) stock which is valued at its redemption value.

	March 31, 2003 (Unaudited)	December 31, 2002
	(Dollars in thousands)	
MORTGAGE-BACKED SECURITIES HELD FOR TRADING:		
GNMA certificates	$ --	$ 9,741
FHLMC certificates	44,880	65,016
	44,880	74,757
Investment securities held for trading:		
Corporate preferred stock	940	--
Other	5	--
	945	--
	$45,825	$93,948

	March 31, 2003	
	Amortized cost	Fair value
	(Unaudited)	
	(Dollars in th	

MORTGAGE-BACKED SECURITIES AVAILABLE FOR SALE:		
Collaterized mortgage obligations (CMO):		
Due within one year	$ --	$ --
Due from one to five years	15,400	15,630
Due from five to ten years	20,121	20,546
Due over ten years	657,392	662,528
	692,913	698,704
CMO residuals (interest only), and interest only strips (IO's)	45,649	49,255
FNMA certificates:		
Due from one to five years	25,397	25,523
Due from five to ten years	5,460	5,490
Due over ten years	319,785	327,854
	350,642	358,867
FHLMC certificates:		
Due within one year	4	5
Due from one to five years	10	10
Due from five to ten years	732	773
Due over ten years	692,963	707,432
	693,709	708,220
GNMA certificates:		
Due from one to five years	25	25
Due from five to ten years	15,633	16,004
Due over ten years	405,303	413,472
	420,961	429,501
	2,203,874	2,244,547
INVESTMENT SECURITIES AVAILABLE FOR SALE:		
Mortgage securities portfolio mutual fund	--	--
U.S. Government and Agencies securities:		
Due within one year	32,389	32,854
Due from one to five years	377,599	380,997
Due from five to ten years	118,819	123,463
	528,807	537,314
Corporate debt obligations:		
Due within one year	12,427	12,865
Due from one to five years	41,162	43,284
Due from five to ten years	--	--
Due over ten years	7,810	7,478
	61,399	63,627
US Municipal debt obligations-		
Due over ten years	11,869	11,651

FHLB Stock	98,956	98,956
Other	--	--
	701,031	711,548
	$2,904,905	$2,956,095

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	March 31, 2003		D
	Amortized cost	Fair value	Amor co
	(Unaudited)		
		(Dollars in thousa	
MORTGAGE-BACKED SECURITIES HELD TO MATURITY:			
GNMA certificates:			
Due from five to ten years	$ 5,190	$ 5,243	$ 5
Due over ten years	32,349	33,307	33
	37,539	38,550	38
FNMA certificates:			
Due over ten years	6,030	6,384	6
FHLMC certificates:			
Due over ten years	97	95	
	43,666	45,029	45
INVESTMENT SECURITIES HELD TO MATURITY:			
United States Government and Agencies obligations:			
Due within one year	2,882	2,882	
Due from one to five years	--	--	1
	2,882	2,882	2
Puerto Rico Government and Agencies obligations:			
Due from one to five years	26,586	26,906	26
Due from five to ten years	1,000	1,005	1
	27,586	27,911	27

Other:			
Due from one to five years	100	100	---
	30,568	30,893	30
	$74,234	$75,922	$75

In addition to the investment and mortgage-backed securities pledged on repurchase agreements and reported as pledged assets in the statement of financial condition, at March 31, 2003 the Company had investment securities pledged as collateral on repurchase agreements where the counterparties do not have the right to sell or repledge the assets as follows:

	Carrying Amount (Unaudited) (Dollars in thousan
Mortgage-backed securities held for trading, at fair value	$ 8,767
Mortgage-backed and investment securities available for sale, at fair value	1,124,908
Mortgage-backed securities held to maturity, at amortized cost	360
	$1,134,035

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NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consist of the following:

	March 31, 2003 (Unaudited)	December 31, 2002
	(Dollars in thousands)	
Real estate loans:		
Residential - first mortgage	$ 1,661,520	$ 1,473,051
Residential - second mortgage	37,953	40,429
Land	37,361	27,521
Construction	465,936	355,367
Commercial	661,473	633,233
	2,864,243	2,529,601
Undisbursed portion of loans in process	(166,418)	(90,432)
Net deferred loan costs (fees)	241	(45)

	2,698,066	2,439,124
Other loans:		
Commercial	141,651	152,743
Consumer:		
Secured by deposits	28,326	28,070
Secured by real estate	64,354	68,156
Other	107,295	104,715
Unearned interest	(459)	(444)
	341,167	352,240
Total loans	3,039,233	2,792,364
Allowance for loan losses	(33,342)	(32,675)
	$ 3,005,891	$ 2,759,689

The changes in the allowance for loan losses follow:

	Three months ended March 31,	
	2003	2002
	(Unaudited) (Dollars in thousands)	
Balance, beginning of period	$ 32,675	$ 17,428
Provision for loan losses	4,220	5,000
Loans charged-off	(3,672)	(3,989)
Recoveries	312	104
Transfers to loans held for sale	(193)	--
Balance, end of period	$ 33,342	$ 18,543

The following table sets forth the amounts and categories of R&G Financial's non-performing assets at the dates indicated.

	March 31, 2003	December 31, 2002
	(Unaudited) (Dollars in thousands)	
Non-accruing loans:		
Residential real estate	$49,215	$43,281
Residential construction	1,128	1,512

Commercial real estate	24,584	29,375
Commercial business	2,940	2,197
Consumer unsecured	562	802
Total	78,429	77,167
Accruing loans greater than 90 days delinquent:		
Residential real estate	343	104
Residential construction	--	--
Commercial real estate	--	--
Commercial business	321	261
Consumer	554	667
Total accruing loans greater than 90 days delinquent	1,218	1,032
Total non-performing loans	79,647	78,199
Real estate owned, net of reserves (1)	19,479	15,544
Other repossessed assets	212	292
	19,691	15,836
Total non-performing assets	$99,338	$94,035
Total non-performing loans as a percentage of total loans (2)	2.48%	2.71%
Total non-performing assets as a percentage of total assets	1.44%	1.50%
Allowance for loan losses as a percentage of total non-performing loans (3)	41.86%	41.79%
Allowance for loan losses as a percentage of total loans outstanding (3)	1.04%	1.13%
Net charge-offs to average loans outstanding	0.43%	0.41%

(1) Consists primarily of residential real estate foreclosed by the Company.

(2) While the ratio of non-performing loans to total loans decreased from 2.71% to 2.48% from December 31, 2002 to March 31, 2003, the ratio was nevertheless larger than it would otherwise have been due to loan securitizations during 2000, 2001 and 2002 and the first three months of 2003, which reduced the amount of loans held in portfolio considered in the calculation of the ratio. Without giving effect to

loan securitizations, as of March 31, 2003 and December 31, 2002, the ratio of non-performing loans to total loans would have been 1.89% and 1.98%, respectively.

(3) Because of the nature of the collateral, R&G Financial's historical charge-offs with respect to residential real estate loans have been low. Excluding R&G Financial's residential loan portfolio, the allowance for loan losses to total loans and to total non-performing loans at March 31, 2003 and December 31, 2002 would have been 2.21% and 109.6%, respectively, and 2.39% and 93.6%, respectively.

NOTE 5 - MORTGAGE LOAN SERVICING

The changes in the servicing asset of the Company follows:

	For the three month period ended March 31, 2003	2002
	(Unaudited) (Dollars in thousands)	
Balance at beginning of period	$ 142,334	$ 105,146
Rights originated	6,492	5,078
Rights purchased	1,429	238
Scheduled amortization	(5,597)	(3,513)
Unscheduled amortization	(6,708)	(1,973)
(Provision) reversal of impairment reserves	(4,120)	459
Other adjustments	--	(619)
Balance at end of period	$ 133,830	$ 104,816

The portion of the Company's mortgage loans servicing portfolio consisting of the servicing asset that was originated by the Company prior to the adoption of SFAS No. 122 is not reflected as an asset on the Company's consolidated financial statements, and is not subject to amortization or impairment.

NOTE 6 - DEPOSITS

Deposits are summarized as follows:

	March 31, 2003	December 31, 2002
	(Unaudited) (Dollars in thousands)	
Passbook savings	$ 327,286	$ 329,489

NOW accounts	109,953	100,031
Super NOW accounts	323,880	335,015
Regular checking accounts (non-interest bearing)	131,489	107,586
Commercial checking accounts (non-interest bearing)	288,276	282,769
	853,598	825,401
Certificates of deposit:		
Under $100,000	660,303	652,065
$100,000 and over	1,155,819	991,504
	1,816,122	1,643,569
Accrued interest payable	4,928	3,865
	$3,001,934	$2,802,324

NOTE 7 - COMMITMENTS AND CONTINGENCIES

COMMITMENTS TO BUY AND SELL GNMA CERTIFICATES

As of March 31, 2003, the Company had open commitments to issue GNMA certificates of approximately $65.9 million.

COMMITMENTS TO SELL MORTGAGE LOANS

As of March 31, 2003 the Company had commitments to sell mortgage loans to third party investors amounting to approximately $196.5 million.

LEASE COMMITMENTS

The Company is obligated under several noncancellable leases for office space and equipment rentals, all of which are accounted for as operating leases. The leases expire at various dates with options for renewals.

OTHER

At March 31, 2003, the Company is liable under limited recourse provisions resulting from the sale of loans to several investors, principally FHLMC. The principal balance of these loans, which are serviced by the Company, amounts to approximately $868.7 million at March 31, 2003. At March 31, 2003, the Company has an allowance for recourse provisions of $1.8 million. Historical losses on recourse obligations have not been significant.

In April 2002, R&G Acquisition Holdings Corporation (a wholly-owned subsidiary of R&G Financial) ("RAC"), a Florida corporation and savings and loan holding company, formed R&G Capital Trust I ("R&G Capital Trust"), a Delaware statutory business trust. R&G Capital Trust issued $25.0 million of trust preferred securities in a private placement. The Company has guaranteed certain obligations of RAC to R&G Capital Trust.

NOTE 8 - SUPPLEMENTAL INCOME STATEMENT INFORMATION

Employee costs and other administrative and general expenses are shown in the Consolidated Statements of Income net of direct loan origination costs. Direct loan origination costs are capitalized as part of the carrying cost of mortgage loans and are offset against mortgage loan sales and fees when the loans are sold, or amortized as a yield adjustment to interest income on loans held for investment.

Total employee costs and other expenses before capitalization follows:

	Three month period ended March 31,	
	2003	2002
	(Unaudited) (Dollars in thousands)	
Employee costs	$23,102	$16,243
Other administrative and general expenses	$32,707	$17,171

NOTE 9 - INDUSTRY SEGMENTS

The following summarized information presents the results of the Company's operations for its traditional banking and mortgage banking activities:

	(Dollars in thousands) Three month period ended March 3					
	2003					
	(Unaudited)					
	Banking	Mortgage Banking	Other	Segment Totals	Banking	M B
Revenues	$41,425	$45,663	$3,269	$90,357	$32,509	$
Non-interest expenses	23,375	27,607	1,198	52,180	14,668	
Income before income taxes	$18,050	$18,056	$2,071	$38,177	$17,841	$

The following is a reconciliation of reportable segment revenues and income before income taxes to the Company's consolidated amounts (unaudited):

	Three month period ended March 31, 2003	2002
	(Dollars in thousands)	
Revenues:		
Total revenues for reportable segments	$ 90,357	$ 58,624
Elimination of intersegment revenues	(904)	(1,340)
Corporate revenues	487	607
Total consolidated revenues	$ 89,940	$ 57,891
Income before income taxes:		
Total income before income taxes for reportable segments	$ 38,177	$ 27,228
Elimination of intersegment profits	102	(17)
Unallocated corporate income, net	269	484
Income before income taxes, consolidated	$ 38,548	$ 27,695

Total assets of the Company among its industry segments and a reconciliation of reportable segment assets to the Company's consolidated total assets as of March 31, 2003 and December 31, 2002 follows:

	March 31, 2003	December 31, 2002
	(Unaudited) (Dollars in thousands)	
Assets:		
Banking	$ 6,055,740	$ 5,453,321
Mortgage Banking	898,095	908,660
Other	120,365	111,005
Total assets for reportable segments	7,074,200	6,472,986
Parent company assets	62,364	62,971
Elimination of intersegment balances	(246,429)	(258,711)
Consolidated total assets	$ 6,890,135	$ 6,277,246

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

A number of the presentations and disclosures in this Form 10-Q, including, without limitation, statements regarding the level of allowance for loan losses, the rate of delinquencies and amounts of charge-offs, and the rates of loan growth, and any statements preceded by, followed by or which include the words "may," "could," "should," "will," "would," "hope," "might," "believe," "expect," "anticipate," "estimate," "intend," "plan," "assume" or similar expressions constitute forward-looking statements. These forward-looking statements, implicitly and explicitly, include the assumptions underlying the statements and other information with respect to our beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business, including our expectations and estimates with respect to our revenues, expenses, earnings, return on equity, return on assets, efficiency ratio, asset quality and other financial data and capital and performance ratios.

Although we believe that the expectations reflected in our forward-looking statements are reasonable, these statements involve risks and uncertainties that are subject to change based on various important factors (some of which are beyond our control). The following factors, among others, could cause our financial performance to differ materially from our goals, plans, objectives, intentions, expectations and other forward-looking statements:

- the strength of the United States economy in general and the strength of the regional and local economies within our markets;

- adverse changes in the local real estate market, as most of the Company's loans are concentrated in Puerto Rico and Florida and a substantial portion of these loans have real estate as collateral;

- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;

- inflation, interest rate, market and monetary fluctuations;

- adverse changes in asset quality and the resulting credit risk-related losses and expenses;

- our timely development of new products and services in a changing environment, including the features, pricing and quality of our products and services compared to the products and services of our competitors;

- the willingness of users to substitute competitors' products and services for our products and services; o the impact of changes in financial services policies, laws and regulations, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;

- technological changes;

- changes in consumer spending and savings habits; and

- regulatory or judicial proceedings.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Form 10-Q. Therefore, we caution you not to place undue reliance on our forward-looking information and statements.

We do not intend to update our forward-looking information and statements, whether written or oral, to reflect change. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

GENERAL

R&G Financial Corporation (the "Company") is a Puerto Rico chartered diversified financial holding company that, through its wholly-owned subsidiaries, is engaged in banking, mortgage banking, securities and insurance brokerage activities. The Company, currently in its 31st year of operations, operates 30 bank branches mainly located in the northeastern section of Puerto Rico, 15 bank branches in the Orlando and Tampa/St. Petersburg Florida markets, 6 mortgage and 6 commercial lending offices in the continental United States, and 43 mortgage offices in Puerto Rico, including 24 facilities located within Premier Bank's branches.

The Company is engaged in providing a full range of banking services through R-G Premier Bank of Puerto Rico ("Premier Bank"), a Puerto Rico commercial bank, and Crown Bank, F.S.B. ("Crown Bank"), its Florida-based federal savings bank acquired in June 2002. Banking activities include commercial banking services, corporate and construction lending, consumer lending and credit cards, offering a variety of deposit products and, to a lesser extent, trust and investment services through private banking.

The Company is also engaged in mortgage banking activities. Mortgage banking activities are conducted through R&G Mortgage Corp., a Puerto Rico mortgage company, The Mortgage Store of Puerto Rico, Inc., also a Puerto Rico mortgage company, and Continental Capital Corporation, a New York mortgage banking subsidiary of Crown Bank with offices in New York, North Carolina and Florida. Mortgage banking activities include the origination, purchase, sale and servicing of mortgage loans on single-family residences, the issuance and sale of various types of mortgage-backed securities, the holding of mortgage loans, mortgage-backed securities and other investment securities for sale or investment, and the purchase and sale of servicing rights associated with such mortgage loans and, to a lesser extent, the origination of construction loans and mortgage loans secured by income producing real estate and land (the "mortgage banking business").

The Company is also engaged in insurance brokerage through Home & Property Insurance Corp., a Puerto Rico insurance agency, and securities brokerage through R-G Investments Corporation, a Puerto Rico licensed broker-dealer.

The Company is the second largest mortgage loans originator and servicer of mortgage loans on single family residences in Puerto Rico. R&G Financial's mortgage servicing portfolio increased to approximately $10.9 billion as of March 31, 2003, from $7.3 billion as of the same date a year ago, an increase of 48.8%. The Company's servicing portfolio at March 31, 2003 includes approximately $2.6 billion acquired through the acquisition of Crown Bank in June 2002. R&G Financial's strategy is to increase the size of its mortgage servicing portfolio by relying principally on internal loan originations.

As part of its strategy to maximize net interest income, R&G Financial maintains a substantial portfolio of mortgage-backed and investment securities. At March 31, 2003, the Company held securities available for sale with a fair market value of $3.0 billion, which included $2.2 billion of mortgage-backed securities, of which $394.7 million consisted primarily of Puerto Rico GNMA securities, the interest on which is tax-exempt to the Company. These securities are generally held by the Company for longer periods prior to sale in order to maximize the tax-exempt interest received thereon. R&G Financial's lower effective tax rates compared to the maximum statutory rates reflect the exemption under Puerto Rico law of the net interest income derived from such securities. In addition, the Company invests in certain U.S. agency securities that are exempt from Puerto Rico taxation and are not subject to federal income taxation because the Company is entitled to rely on the portfolio interest deduction. Finally, R&G Financial's international banking entities may invest in various U.S. securities, the income on which is exempt from Puerto Rico income taxation and is also not subject to federal income taxation on the basis of the portfolio interest deduction.

A substantial portion of R&G Financial's total mortgage loan originations has been comprised of refinance loans. R&G Financial's future results could be adversely affected by a significant increase in mortgage interest rates that reduces refinancing activity. However, the Company believes that refinancing activity is less sensitive to interest rate changes in Puerto Rico than in the mainland United States because a significant amount of refinance loans are made for debt consolidation purposes.

R&G Financial customarily sells or securitizes into mortgage-backed securities substantially all the loans it originates, except for certain non-conforming conventional mortgage loans and certain consumer, construction, land, and commercial loans which are held for investment and classified as loans receivable.

FINANCIAL CONDITION

At March 31, 2003, total assets amounted to $6.9 billion, as compared to $6.3 billion at December 31, 2002. The $612.9 million or 9.8% increase in total assets between the comparable periods was primarily the result of a $399.2 million or 15.6% increase in mortgage-backed and investment securities available for sale, and a $246.2 million or 8.9% increase in loans receivable, net, due to record loan production during the quarter ended March 31, 2003.

At March 31, 2003, R&G Financial had $3.1 billion of borrowings (consisting of securities sold under agreements to repurchase, notes payable, FHLB advances and other borrowings), compared to $2.7 billion at December 31, 2002. R&G Financial utilized repurchase agreements and deposits to fund its growth during the period; total deposits grew $7.1% from $2.8 billion at December 31, 2002 to $3.0 billion at March 31, 2003, whereas repurchase agreements increased by $341.6 million or 22.9%.

At March 31, 2003, R&G Financial's allowance for loan losses totaled $33.3 million, which represented a $667,000 or 2.0% increase from the level maintained at December 31, 2002. At March 31, 2003, R&G Financial's allowance represented approximately 2.48% of the total loan portfolio and 41.86% of total non-performing loans. However, excluding R&G Financial's residential loan portfolio, which has minimal charge-off experience, the allowance for loan losses to total loans and to total non-performing loans would have been 2.21% and 109.56%, respectively, at March 31, 2003.

Non-performing loans amounted to $79.6 million at March 31, 2003, an increase of $1.4 million when compared to $78.2 million at December 31, 2002. At March 31, 2003, $49.2 million or 61.8% of non-performing loans consisted of residential mortgage loans. Because of the nature of the real estate collateral, R&G Financial has historically recognized a low level of loan charge-offs. R&G Financial's aggregate charge-offs as a percentage of average loans outstanding amounted to 0.41% during 2002 and 0.32% during 2001. Although loan delinquencies have historically been higher in Puerto Rico than in the United States, actual foreclosures and any resulting loan charge-offs have historically been lower than in the United States. While the ratio of non-performing loans to total loans decreased from 2.71% to 2.48% from December 31, 2002 to March 31, 2003, the decrease in the ratio was nevertheless larger than it would otherwise have been due to significant loan securitizations during 2000, 2001 and 2002, which reduced the amount of loans held in portfolio considered in the calculation of the ratio. Without giving effect to loan securitizations, as of March 31, 2003 and December 31, 2002, the ratio of non-performing loans to total loans would have been 1.89% and 1.98%, respectively.

Stockholders' equity increased from $662.2 million at December 31, 2002 to $681.5 million at March 31, 2003. The $19.3 million or 2.9% increase was due primarily to the net income recognized during the period, net of dividends paid.

RESULTS OF OPERATIONS

During the three months ended March 31, 2003, R&G Financial reported net income of $29.1 million or $0.74 of earnings per diluted share, compared to $21.5 or $0.58 of earnings per diluted share for the comparative three month period ended March 31, 2002.

Net interest income increased by $10.2 million or 31.9% during the comparable period to $42.2 million, primarily due to a $1.6 billion increase in the average balance of interest-earning assets, partially offset by a 9 basis point decrease in the net interest margin, from 2.92% to 2.81%. Included in earning assets of the Company at March 31, 2003 were the assets of Crown Bank, the Company's Florida-based banking subsidiary acquired during the second quarter of 2002. The provision for loan losses amounted to $4.2 million during the three months ended March 31, 2003, a 15.6% decrease compared to the prior comparable period, reflecting R&G Financial's level of non-performing loans of $79.6 million at March 31, 2003 compared to $78.2 million at December 31, 2002, respectively.

R&G Financial also experienced an increase in non-interest income during the three months ended March 31, 2003 over the comparable period. Net gain on sale of loans increased by $15.3 million or 86.4% over the prior comparable period, as a result of record loan production and sales. Total loan production during the quarter ended March 31, 2003 amounted to $1.0 billion compared to $577.7 million during the prior comparable period. Loan administration and servicing fees also increased by $3.9 million or 41.9% over the comparable periods, due to the growth in the loan servicing portfolio from $7.3 billion as of March 31, 2002 to $10.9 billion at March 31, 2003, or an increase of $3.6 billion. Such increase includes $2.6 billion acquired in connection with the acquisition of Crown Bank. Other fee income also increased by $1.9 million or 47.8%. Such increase reflects the added contributions made by the Company's insurance agency and broker-dealer subsidiaries.

Total expenses increased by $21.2 million or 70.2% during the three months ended March 31, 2003 over the comparable 2002 period, partially due to a $5.1 million or 51.3% increase in employee compensation and benefits associated with general growth in Company operations, including expenses associated with the operations of Crown Bank, as well as to increased commissions and bonus payments associated with increased loan production. The increase in total expenses was also due to a $14.6 million or 91.8% increase in other administrative and general expenses, which includes a $11.4 million increase in expenses associated with impairment charges (including unscheduled amortization) of the Company's servicing asset, as well as increased expenses related to the operations of Crown Bank.

INTEREST RATE RISK MANAGEMENT

The following table summarizes the anticipated maturities or repricing or R&G Financial's interest-earning assets and interest-bearing liabilities as of March 31, 2003, based on the information and assumptions set forth in the notes below. For purposes of this presentation, the interest earning components of loans held for sale and mortgage-backed securities held in connection with the Company's mortgage banking business as well as all securities held for trading, are assumed to mature within one year. In addition, investments held by the Company which have call features are presented according to their contractual maturity date.

(Dollars in thousands)	Within Three Months	Four to Twelve Months	More Than One Year to Three Years	More Tha Three Ye to Five Y
Interest-earning assets(1):				
Loans receivable	$1,194,847	$ 273,414	$ 424,681	$ 282,6
Mortgage loans held for sale	53,003	33,718	76,586	61,4
Mortgage-backed securities(2)(3)	155,697	432,437	424,119	289,2
Investment securities(3)	185,439	331,897	185,676	34,3
Other interest-earning assets(4)	67,014	--	--	
Total	$1,656,000	$ 1,071,466	$ 1,111,062	$ 667,7
Interest bearing liabilities:				
Deposits(5)				

NOW and Super NOW accounts	$ 21,693	$ 60,737	$ 66,767	$ 54,0
Passbook savings accounts	8,181	23,727	59,075	47,2
Regular and commercial checking	20,988	58,766	64,602	52,3
Certificates of deposit	446,167	496,736	474,816	396,1
FHLB advances	208,000	109,125	295,100	206,5
Securities sold under agreements to repurchase(6)	868,234	336,193	248,708	240,0
Other borrowings(7)				
Total	1,573,263	1,085,284	1,209,068	996,3
Effect of hedging instruments	180,000	(10,000)	--	(90,0
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 262,737	($ 23,818)	($ 98,006)	($418,6
Cummulative excess (deficiency) of interest-earning assets over interest-bearing liabilities	$ 262,737	$ 238,919	$ 140,913	($277,6
Cummulative excess (deficiency) of interest-earning assets over interest-bearing liabilities as a percent of total assets	3.81%	3.47%	2.05%	(4.

(footnotes on following page)

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(1) Adjustable-rate loans are included in the period in which interest rates are next scheduled to adjust rather that in the period in which they are due, and fixed-rate loans are included in the periods in which they are scheduled to be repaid, based on scheduled amortization, in each case as adjusted to take into account estimated prepayments.

(2) Reflects estimated prepayments in the current interest rate environment.

(3) Includes securities held for trading, available for sale and held to maturity.

(4) Includes securities purchased under agreement to resell, time deposits with other banks and federal funds sold.

(5) Does not include non-interest-bearing deposit accounts.

(6) Includes federal funds purchased, if any

(7) Comprised of warehousing lines, notes payable and other borrowings.

As of March 31, 2003, the Company had a one year positive gap of approximately $238.9 million which constituted 3.5% of total assets at such date, compared to a positive gap of approximately $498.1 million or 7.9% of total assets at December 31, 2002. R&G Financial's positive gap within one year at March 31, 2003 and December 31, 2002 is due primarily to an increasing amount of adjustable rate loans resulting from greater emphasis in commercial and construction lending as well as to the extension during 2001 and 2002 of the maturity dates of certain borrowings of the Company into longer-term maturities at very attractive rates, taking advantage of consecutive reductions in interest rates during such years. The Company estimates that as of March 31, 2003, close to 43% of all borrowings of the Company had maturity dates longer than one year.

While the above table presents the Company's loans receivable portfolio held for investment purposes according to its maturity date, from time to time the Company may negotiate special transactions with FHLMC and/or FNMA or other third party investors for the sale of such loans. There can be no assurance, however, that the Company will be successful in consummating any such transactions.

The following table presents for the periods indicated R&G Financial's total dollar amount of interest from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities expressed both in dollars and rates, and the net interest margin. The table does not reflect any effect of income taxes. All average balances are based on the average of month-end balances for non-banking subsidiaries and average daily balances for banking subsidiaries in each case during the periods presented.

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	For the three month period			
	2003			
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Av Ba
Interest-Earning Assets:				
Cash and cash equivalents(1)	$ 77,931	$ 265	1.36%	$
Investment securities available for sale	588,445	6,128	4.17	5
Investment securities held to maturity	30,466	399	5.24	
Mortgage-backed securities held for trading	112,665	974	3.46	
Mortgage-backed securities available for sale	1,961,327	26,819	5.47	1,4
Mortgage-backed securities held to maturity	45,129	854	5.80	
Loans receivable, net (2)	3,106,837	51,955	6.69	2,0
FHLB of New York Stock	92,117	1,062	4.61	
Total interest-earning assets	6,014,917	$88,256	5.87%	4,3
Non-interest-earning assets	568,773			3

Total assets	$6,583,690			$4,7
Interest-Bearing Liabilities:				
Deposits	$2,844,890	$21,693	3.05%	$2,0
Securities sold under agreements to repurchase (3)	1,720,267	12,771	2.97	1,3
Notes payable	230,702	1,870	3.24	2
Other borrowings(4)	987,288	9,701	3.93	4
Total interest-bearing liabilities	5,783,147	$46,035	3.18%	4,1
Non-interest-bearing liabilities	128,688			1
Total liabilities	5,911,835			4,2
Stockholders' equity	671,855			4
Total liabilities and stockholders' equity	$6,583,690			$4,7
Net interest income; interest rate spread(5)		$42,221	2.69%	
Net interest margin			2.81%	
Average interest-earning assets to average interest-bearing liabilities			104.01%	

(footnotes on page 25)

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(1) Comprised of cash and due from banks, securities purchased under agreements to resell, time deposits with other banks and other short term investments.

(2) Includes mortgage loans held for sale and non-accrual loans.

(3) Includes federal funds purchased, if any

(4) Comprised of long-term debt, advances from the FHLB and other borrowings.

(5) Interest rate spread represents the difference between R&G Financial's weighted average yield on interest-earning assets and the weighted average rate on interest-bearing liabilities. Net interest margin represents net interest income as a percent of average interest-earning

assets.

MORTGAGE LOAN SERVICING

The following table sets forth certain information regarding the mortgage loan servicing portfolio of R&G Financial for the periods indicated.

	At or for the three month period ended March 31,	
	2003	2002
	(Dollars in thousands)	
Composition of Servicing Portfolio at period end:		
GNMA	$ 2,559,133	$ 2,873,566
FNMA/FHLMC	5,425,414	2,562,129
Other mortgage loans(3)	2,892,433	1,875,371
Total servicing portfolio(3)	$ 10,876,980	$ 7,311,066
Activity in the Servicing Portfolio:		
Beginning servicing portfolio	$ 10,991,945	$ 7,224,571
Add: Loan originations and purchases	676,109	457,818
Servicing of portfolio loans acquired	165,851	1,798
Less: Sale of servicing rights(1)	(71,531)	(55,423)
Run-offs(2)	(885,394)	(317,698)
Ending servicing portfolio(3)	$ 10,876,980	$ 7,311,066
Number of loans serviced	155,824	113,456
Average loan size	$ 70	$ 64
Average servicing fee rate	0.48%	0.52%

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(1) Corresponds to loans sold, servicing released, by Continental Capital.

(2) Run-off refers to regular amortization of loans, prepayments and foreclosures.

(3) At the dates shown, included $1.3 billion and $942.6 million serviced for Premier Bank, respectively, which constituted 12.4% and 12.9% of the total servicing portfolio, respectively. At March 31, 2003, the servicing portfolio also includes $86.5 million serviced for Crown Bank, which constituted 0.79% of the total servicing portfolio at such date.

Substantially all of the mortgage loans in R&G Financial's servicing portfolio are secured by single (one-to-four) family residences secured by real estate located in Puerto Rico. At March 31, 2003, approximately 32% of the Company's mortgage servicing portfolio was related to mortgages secured by real property located outside Puerto Rico.

The Company reduces the sensitivity of its servicing income to increases in prepayment rates through a strong retail origination network that has increased or maintained the size of R&G Financial's servicing portfolio even during periods of high prepayments. In addition, a substantial portion of the Company's servicing portfolio consists of tax-exempt FHA/VA mortgage loans which carry lower interest rates than those on conventional loans, which tends to reduce risks related to R&G Financial's servicing portfolio. During the quarter ended March 31, 2003 and 2002, the Company recognized $6,708,000 and $1,973,000, respectively, of unscheduled amortization on mortgage servicing rights.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY - Liquidity refers to the Company's ability to generate sufficient cash to meet the funding needs of current loan demand, savings deposit withdrawals, principal and interest payments with respect to outstanding borrowings and to pay operating expenses. It is management's policy to maintain greater liquidity than required in order to be in a position to fund loan purchases and originations, to meet withdrawals from deposit accounts, to make principal and interest payments with respect to outstanding borrowings and to make investments that take advantage of interest rate spreads. The Company monitors its liquidity in accordance with guidelines established by the Company and applicable regulatory requirements. The Company's need for liquidity is affected by loan demand, net changes in deposit levels and the scheduled maturities of its borrowings. The Company can minimize the cash required during the times of heavy loan demand by modifying its credit policies or reducing its marketing efforts. Liquidity demand caused by net reductions in deposits are usually caused by factors over which the Company has limited control. The Company derives its liquidity from both its assets and liabilities. Liquidity is derived from assets by receipt of interest and principal payments and prepayments, by the ability to sell assets at market prices and by utilizing unpledged assets as collateral for borrowings. Liquidity is derived from liabilities by maintaining a variety of funding sources, including deposits, advances from the FHLB of New York and Atlanta (the "FHLB") and other short and long-term borrowings.

The Company's liquidity management is both a daily and long-term function of funds management. Liquid assets are generally invested in short-term investments such as securities purchased under agreements to resell, federal funds sold and certificates of deposit in other financial institutions. If the Company requires funds beyond its ability to generate them internally, various forms of both short and long-term borrowings provide an additional source of funds. At March 31, 2003, the Company had $91.5 million in borrowing capacity under unused warehousing and other lines of credit, $880.2 million in borrowings capacity under unused lines of credit with the FHLB and $25 million under unused fed funds lines of credit. The Company has generally not relied upon brokered deposits as a source of liquidity.

At March 31, 2003, the Company had outstanding commitments to originate and/or purchase mortgage and non-mortgage loans of $531.4 million (including unused lines of credit). Certificates of deposit which are scheduled to mature within one year totaled $865.2 million at March 31, 2003, and borrowings that are scheduled to mature within the same period amounted to $1.7 billion. The Company anticipates that it will have sufficient funds available to meet its current loan commitments.

CAPITAL RESOURCES - The FDIC's capital regulations establish a minimum 3.0 % Tier I leverage capital requirement for the most highly-rated state-chartered, non-member banks, with an additional cushion of at least 100 to 200 basis points for all other state-chartered, non-member banks, which effectively will increase the minimum Tier 1 leverage ratio for such other banks from 4.0% to 5.0% or more. Under the FDIC's regulations, the highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, which are considered a strong banking organization and are rated composite 1 under the Uniform Financial Institutions Rating System. Leverage or core capital is defined as the sum of common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill and certain purchased mortgage servicing rights.

The FDIC also requires that banks meet a risk-based capital standard. The risk-based capital standard for banks requires the maintenance of total capital (which is defined as Tier I capital and supplementary (Tier 2) capital) to risk weighted assets of 8%. In determining the amount of risk-weighted assets, all assets, plus certain off-balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item. The components of Tier 1 capital are equivalent to those discussed above under the 3% leverage capital standard. The components of supplementary capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and general allowances for loan and lease losses. Allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital. At March 31, 2003, Premier Bank met each of its capital requirements, with Tier 1 leverage capital, Tier 1 risk-based capital and total risk-based capital ratios of 6.61%, 11.90% and 12.89%, respectively. At March 31, 2003 Crown Bank also met each of its capital requirements, with Tier 1 leverage capital, Tier 1 risk-based capital and total risk-based capital ratios of 8.23%, 12.26% and 13.30%, respectively.

In addition, the Federal Reserve Board has promulgated capital adequacy guidelines for bank holding companies which are substantially similar to those adopted by FDIC regarding state-chartered banks, as described above. R&G Financial is currently in compliance with such regulatory capital requirements, with Tier 1 leverage capital, Tier 1 risk-based capital and total risk based capital ratios of 9.60%, 17.37% and 18.29%, respectively, as of March 31, 2003.

Effective December 31, 2002, the federal banking regulatory agencies imposed a new dollar for dollar capital requirement on residual interests retained in sale or securitization transactions and a 25% limit on Tier 1 capital that may consist of credit enhancing IO's. The capital ratios set forth above include the impact of this new capital rule.

INFLATION AND CHANGING PRICES

The unaudited consolidated financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars (except with respect to securities which are carried at market value), without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risks at December 31, 2002 are presented in Item 7A of the Company's Annual report on Form 10-K. Information at March 31, 2003 is presented on page 21 of this Report. Management believes there have been no material changes in the Company's market risk since December 31, 2002.

ITEM 4: CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 ("Exchange Act") Rule 13a-14. Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic Securities and Exchange Commission ("SEC") filings. There have been no significant changes in the Company's internal controls or in other factors which could significantly affect these controls subsequent to the date the Company carried out its evaluation.

Disclosure controls and procedures are Company controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

ITEM 1: Legal Proceedings

The Registrant is involved in routine legal proceedings occurring in the ordinary course of business which, in the aggregate, are believed by management to be immaterial to the financial condition and results of operations of the Registrant.

ITEM 2: Changes in Securities

Not applicable.

ITEM 3: Defaults Upon Senior Securities

Not applicable.

ITEM 4: Submission of Matters to a Vote of Security Holders

Not applicable.

ITEM 5: Other Information

Not applicable.

ITEM 6: Exhibits and Reports on Form 8-K.

(a) Item 601 Exhibits.

No.	Description
2.1	Amended and Restated Agreement and Plan of Merger by and between R&G Financial Corporation, R-G Premier Bank of Puerto Rico and R-G Interim Premier Bank, dated as of September 27, 1996 (1)
2.2.0	Agreement and Plan of Reorganization among R&G Financial Corporation, R&G Acquisition Holdings Corporation, The Crown Group, Inc. and Crown Bank, a Federal Savings Bank dated as of December 19, 2001 (2)
2.2.1	Amendment No. 2 to Agreement and Plan of Reorganization among R&G Financial Corporation, R&G Acquisition Holdings Corporation, The Crown Group, Inc. and Crown Bank, a Federal Savings Bank dated as of February 27, 2002 (3)
3.1.0	Certificate of Incorporation of R&G Financial Corporation (4)
3.1.1	Certificate of Amendment to Certificate of Incorporation of R&G Financial Corporation (4) 3.1.2 Amended and Restated Certificate of Incorporation of R&G Financial Corporation (5) 3.1.3 Certificate of Amendment to Amended and Restated Certificate of Incorporation of R&G Financial Corporation (6)
3.1.4	Second Certificate of Amendment to Amended and Restated Certificate of Incorporation of R&G Financial Corporation (15)
3.1.5	Certificate of Resolution designating the terms of the Series A Preferred Stock (7)
3.1.6	Certificate of Resolution designating the terms of the Series B Preferred Stock (8)
3.1.7	Certificate of Designation for Series C Preferred Stock (12)
3.1.8	Certificate of Designation for Series D Preferred Stock (13)
3.2	Bylaws of R&G Financial Corporation (4)
4.0	Form of Stock Certificate of R&G Financial Corporation (4)

4.1	Form of Series A Preferred Stock Certificate of R&G Financial Corporation (9)
4.2	Form of Series B Preferred Stock Certificate of R&G Financial Corporation (10)
4.3	Form of Series C Preferred Stock Certificate of R&G Financial Corporation (11)

4.4	Form of Series D Preferred Stock Certificate of R&G Financial Corporation (14)
10.1	Master Purchase, Servicing and Collection Agreement between R&G Mortgage Corporation and R-G Premier Bank of Puerto Rico dated February 16, 1990, as amended on April 1, 1991, December 1, 1991, February 1, 1994 and July 1, 1994 (4)
10.2	Master Custodian Agreement between R&G Mortgage Corporation and R-G Premier Bank of Puerto Rico dated February 16, 1990, as amended on June 27, 1996 (4)
10.3	Master Production Agreement between R&G Mortgage and R-G Premier Bank of Puerto Rico dated February 16, 1990, as amended on August 30, 1991 and March 31, 1995 (4)
10.4	Data Processing Computer Service Agreement between R&G Mortgage and R-G Premier Bank of Puerto Rico dated December 1, 1994 (4)
10.5	Securitization Agreement by and between R&G Mortgage and R-G Premier Bank of Puerto Rico, dated as of July 1, 1995 (4)
10.6	R&G Financial Corporation Stock Option Plan (4)(*)
10.7	Guarantee Agreement between R&G Financial Corporation, R&G Acquisition Holdings Corporation and Wilmington Trust as Guarantee Trustee with respect to the Capital Securities issued by R&G Capital Trust I, dated as of April 10, 2002 (16)
99.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act

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(1) Incorporated by reference from the Registration Statement on Form S-4 (Registration No. 333-13199) filed by the Registrant with the Securities and Exchange Commission ("SEC") on October 1, 1996.

(2) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on December 20, 2001.

(3) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on February 28, 2002.

(4) Incorporated by reference from the Registration Statement on Form S-1

(Registration No. 333-06245) filed by the Registrant with the SEC on June 18, 1996, as amended.

(5) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on November 19, 1999.

(6) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on June 12, 2001.

(7) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on August 31, 1998.

(8) Incorporated by reference from the Registrant's Form 10-K filed with the SEC on April 13, 2000.

(9) Incorporated by reference from the Registrant's Registration Statement on Form S-3 (Registration No. 333-60923) filed with the SEC on August 7, 1998.

(10) Incorporated by reference from the Registrant's Registration Statement on Form S-3 (Registration No. 333-90463) filed with the SEC on November 5, 1999.

(11) Incorporated by reference from the Registrant's Registration Statement on Form S-3 (File No. 333-55834) filed with the SEC on February 16, 2001.

(12) Incorporated by reference from the Registrant's Form 10-K filed with the SEC on April 2, 2001.

(13) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on March 7, 2002.

(14) Incorporated by reference from the Registrant's Registration Statement on Form S-3 (File No. 333-81214) filed with the SEC on January 22, 2002.

(15) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on June 18, 2002.

(16) Incorporated by reference from the Registrant's Form 10-Q filed with the SEC on November 14, 2002.

(*) Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K.

The Registrant filed the following Reports on Form 8-K during the quarter ended March 31, 2003:

(1) Form 8-K filed on January 22, 2003 with an attached press release announcing the Registrant's earnings for the fourth quarter and year ended December 31, 2002.

(2) Form 8-K filed on March 31, 2003 in conjunction with the filing of the Registrant's Form 10-K for the year ended December 31, 2002, containing the certification required pursuant to Section 906 of the Sarbanes-Oxley Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

R&G FINANCIAL CORPORATION

Date: May 15, 2003

By: /S/ VICTOR J. GALAN

Victor J. Galan, Chairman
and Chief Executive Officer
(Principal Executive Officer)

By: /S/ JOSEPH R. SANDOVAL

Joseph R. Sandoval
Executive Vice President
and Chief Financial Officer
(Principal Financial and
Accounting Officer)

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CERTIFICATIONS

I, Victor J. Galan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of R&G Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the periodic report is being prepared;

(b) Evaluated the effectiveness of the registrant 's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Victor J. Galan

Victor J. Galan
Chairman of the Board and Chief
Executive Officer

I, Joseph R. Sandoval, certify that:

1. I have reviewed this quarterly report on Form 10-Q of R&G Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light

of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the periodic report is being prepared;

   (b) Evaluated the effectiveness of the registrant 's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   (c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls;

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Joseph R. Sandoval

Joseph R. Sandoval
Executive Vice President and Chief
Financial Officer

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