

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

In re R&G FINANCIAL CORPORATION
DERIVATIVE LITIGATION

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X 05 Civ. 5547 (JES)
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X

**NOTICE OF PROPOSED SETTLEMENT OF STOCKHOLDER
DERIVATIVE ACTION AND SETTLEMENT HEARING**

TO: ALL RECORD OWNERS AND BENEFICIAL OWNERS OF COMMON STOCK OF R&G FINANCIAL CORPORATION, AS OF JULY 1, 2008.

IF YOU HOLD R&G FINANCIAL CORPORATION COMMON STOCK FOR THE BENEFIT OF ANOTHER, PLEASE PROMPTLY TRANSMIT THIS NOTICE TO SUCH BENEFICIAL OWNER.

PLEASE READ THIS NOTICE CAREFULLY. THIS NOTICE RELATES TO THE PENDENCY AND PROPOSED SETTLEMENT OF THIS STOCKHOLDER DERIVATIVE LITIGATION.

This Notice is being sent to you pursuant to an Order of the United States District Court for the Southern District of New York. It describes the proposed settlement (the "Settlement") of this stockholder derivative action (the "Action"), which has been brought in the name of, and for the benefit of R&G Financial Corporation ("R&G Financial" or the "Company"), against certain present or former officers and directors of R&G Financial and PricewaterhouseCoopers LLP, R&G Financial's independent registered public accountants. Subject to Court approval, the parties to the Action have entered into a Stipulation of Settlement dated as of June 11, 2008 (the "Stipulation") that sets forth the terms and conditions of the Settlement.

A hearing (the "Settlement Hearing") will be held on September 16, at 3:00 p.m. before United States District Judge John E. Sprizzo, in Courtroom 14C, of the United States Courthouse, at 500 Pearl Street, New York, New York 10007, for the purpose of determining: (1) whether to approve the proposed settlement of this action, and (2) if the settlement is approved, to consider an application by plaintiffs' counsel for an award of their reasonable attorneys' fees and expenses. This Notice describes the nature of the Action, the terms of the proposed settlement and what you need to do in case you wish to object to the settlement or the application by plaintiffs' counsel for an award of attorneys' fees and expenses.

THE FOLLOWING RECITATION DOES NOT CONSTITUTE THE FINDINGS OF THE COURT. IT IS BASED ON THE STATEMENTS OF THE PARTIES AND SHOULD NOT BE UNDERSTOOD AS AN EXPRESSION OF ANY OPINION OF THE COURT AS TO THE MERITS OF ANY OF THE CLAIMS OR DEFENSES ASSERTED BY ANY OF THE PARTIES.

What is the Lawsuit About?

The Action that is the subject of this Notice is brought by plaintiffs who are stockholders of R&G Financial. It seeks to recover damages on behalf of R&G Financial based on certain claims plaintiffs have asserted against certain present or former officers and directors of R&G Financial and PricewaterhouseCoopers LLP, R&G Financial's independent registered public accountants.

R&G Financial is a bank holding company incorporated under the laws of Puerto Rico with its principal place of business in Hato Rey, Puerto Rico. On April 25, 2005, R&G Financial announced that it would restate its previously reported interim and year-end financial statements for the years ended December 31, 2003 and 2004 based on a reexamination of the valuation assumptions used in accounting for residual interests retained in securitization transactions of the Company. On July 27, 2005, R&G Financial announced that it would also restate its previously reported interim and audited financial statements for the year ended December 31, 2002.

Beginning on June 13, 2005, a total of five separate stockholder derivative complaints were filed in the United States District Court for the Southern District of New York (the "Court") and the United States District Court for the District of Puerto Rico, putatively on behalf of R&G Financial. The original actions were styled *Asbestos Workers Local 24 Pension Fund v. Galán, et al.*, No. 05 Civ. 5547 (JES) (S.D.N.Y.); *Okimi v. Carús Abarca, et al.*, No. 05-CV-1623 (HL) (D.P.R.); *Glassburn v. Carús Abarca, et al.*, No. 05-CV-1624 (HL) (D.P.R.); *Kendall Trust v. Galán, et al.*, No. 05 Civ. 5817 (JES) (S.D.N.Y.); and *Roussey v. Galán*, No. 06-CV-4955 (HL) (D.P.R.). The actions that were initially filed in Puerto Rico were transferred to New York. The actions were consolidated under the caption *In re R&G Financial Corp. Derivative Litigation*, Master File No. 05 Civ. 5547 (JES).

The complaints in the constituent actions asserted claims derivatively on behalf of R&G Financial against a number of defendants. The defendants who were named in one or more of the constituent complaints included Laureno Carús Abarca, Ileana Colón-Carlo, Benigno Fernández, Melba Figueroa, Victor J. Galán, Victor L. Galán, Roberto Gorbea, Eduardo McCormack, Ivan Mendez, Rafael Nin, Jose L. Ortiz, Ramón Prats, Gilberto Rivera Arreaga, Joseph R. Sandoval, Enrique Umpierre Suarez, Steven Velez and PricewaterhouseCoopers LLP ("PwC"). R&G Financial was named as a nominal defendant.

Plaintiffs alleged in the complaints that the Company's financial statements issued between 2003 and March 25, 2005 were false or misleading because of the Company's alleged use of aggressive assumptions to generate gain on sale income, the Company's alleged use of an incorrect methodology to calculate the fair value of interest only ("IO") residuals in securitization transactions, the Company's failure to prepare its financial statements in accordance with generally accepted accounting principles and the Company's alleged failure to maintain adequate internal controls.

Plaintiffs alleged that the officers and directors of the Company who were named as defendants breached their fiduciary duties by participating in the allegedly improper accounting that was the subject of the restatement or by failing in their duties of oversight to detect or prevent that mistaken accounting. Plaintiffs also asserted claims for waste and unjust enrichment with respect to incentive compensation paid to unspecified officers of R&G Financial during the period of the restatement and sought recovery pursuant to section 304 of the Sarbanes-Oxley Act of bonus and incentive-based compensation paid

to defendants Victor J. Galán and Joseph R. Sandoval, the Company's chief executive officer and chief financial officer, respectively, during the periods being restated. Plaintiffs also alleged generally that certain defendants had engaged in transactions in R&G Financial common stock while in possession of material non-public information and that the director defendants had violated section 14A of the Securities Exchange Act of 1934 by making, or permitting to be made, materially false and misleading statements in the Company's proxy statement filed on April 11, 2005. Plaintiff in the *Kendall Trust* action alleged claims against PwC for breach of contract, professional negligence and accounting malpractice.

On November 2, 2007, R&G Financial filed an amended annual report on Form 10-K/A with the Securities and Exchange Commission reporting the restatement of its financial statements for the years ended December 31, 2004 and prior periods. In the Form 10-K/A, the Company discussed in detail the results of an investigation by the audit committee of its board of directors into the events surrounding the restatement. As a result of that investigation and other efforts undertaken by the Company's board of directors and senior management since the April 25, 2005 announcement, a number of additional changes were made in the Company's previously reported financial statements. In addition, the Company identified a number of previous weaknesses in the Company's internal control over financial reporting and the steps that the Company and the board of directors had taken to remediate those weaknesses, which also were described in the Form 10-K/A.

What Are the Terms of the Proposed Settlement?

Under the proposed Settlement of the Action, which is subject to Court approval, R&G Financial will be paid \$2,700,000 in cash by its directors and officers liability insurance carrier, less an amount for attorneys' fees and expenses awarded by the Court to Plaintiffs' counsel (as discussed below). R&G Financial's board of directors also will amend the Company's Corporate Governance Guidelines in a number of ways, including:

- further defining the circumstances under which a director will not be considered independent,
- delineating the responsibilities of an independent chairman of the board of directors,
- providing for an independent lead director to be appointed if the chairman is not an independent director and delineating the responsibilities of such an independent lead director, and
- requiring each duly made stockholder proposal to be evaluated by a committee of at least three independent directors, including either the chairman or the lead director.

If the Settlement is approved, the Company, for itself and its affiliates, subsidiaries, successors and assigns, and Plaintiffs on behalf of themselves, their heirs, executors, administrators, successors and assigns and all other stockholders of R&G Financial at any time from January 1, 2002 through and including the Effective Date (the "Releasers"), shall be deemed to have fully, finally and forever released, relinquished and discharged each and every derivative claim, right, cause of action and right to seek recovery for liabilities, damages, losses, attorneys' fees, costs or expenses, whether known or unknown, suspected or unsuspected, matured or unmatured, and whether based upon federal, state, Commonwealth of Puerto Rico, or local statutory or common law, or any other rule or regulation, that has been, or could have been, asserted in the Action by the Company or derivatively by Plaintiffs or by any other holder of any R&G Financial security, option or warrant, or that arises out of, or is in any way based upon, connected with or related to any allegations of the complaints in the Action, the R&G Financial Form 10-K/A dated November 2, 2007 or the facts described therein, or any prospectus, registration statement, proxy statement, annual report (initial or restated), quarterly earnings report (initial or restated), press release or other publicly disseminated documents or public statements of R&G Financial during or relating to any period prior to June 11, 2008 (the "Settled Claims"), against any of the individual defendants in the Action and each of their respective families, heirs, executors, trustees, personal representatives, estates or administrators, attorneys, counselors, financial or investment advisors, against R&G Financial, its present or former officers, directors, employees, co-venturers, agents, attorneys, representatives and affiliates (within the meaning of Rule 12b-2 of the Securities Exchange Act of 1934), successors and assigns, or against PricewaterhouseCoopers LLP and its affiliate in Puerto Rico and their respective present or former partners, principals, directors, officers, employees, attorneys, agents or representatives (the "Released Parties"). Notwithstanding the foregoing, the Settled Claims shall not include any non-derivative claims that were or could have been asserted against any of the Released Parties by members of the putative class in the Class Action.

If the Court approves the Settlement, then the Action will be dismissed with prejudice and without costs other than as provided in the Stipulation.

The foregoing is only a summary of the terms of the Settlement. If you are interested in additional information, copies of the Stipulation and of other submissions in the Action are on file with the Clerk of the Court, United States Courthouse, 500 Pearl Street, New York, New York 10007.

What Are the Reasons for the Settlement?

Plaintiffs, through their counsel, have conducted a thorough investigation relating to the claims and the underlying events alleged in the complaints. As a result, Plaintiffs and Plaintiffs' counsel have concluded that they have obtained sufficient information to enter into the settlement contemplated by this Stipulation on a fully informed basis.

Although Plaintiffs believe their claims have merit, they recognize the expense and length of continued proceedings necessary to prosecute such claims through trial would be considerable. Moreover, in settlement discussions, counsel for certain defendants outlined substantial arguments in support of motions to dismiss Plaintiffs' derivative claims that they would file if the Action were to proceed, thereby rendering the outcome of the Action uncertain. Plaintiffs' counsel also have taken into account the costs and risks inherent in proceeding further in this Action even if motions to dismiss were denied. Plaintiffs and Plaintiffs' counsel therefore desire to enter into the Settlement on the terms and conditions hereinafter set forth, believing it to be fair, reasonable, adequate and in the best interests of R&G Financial and its stockholders.

For their part, the defendants and the Company as nominal defendant have denied, and continue to deny, each and every allegation of liability and wrongdoing on their part and assert that the claims asserted against them in the complaints are without merit and fail to state a cause of action; deny that they breached any duty, violated any law or engaged in wrongdoing of any form; and believe that they have strong factual and legal defenses to all claims alleged. The defendants have agreed

to this Stipulation and the Settlement provided herein in order to fully and finally settle and dispose of all claims that have been or could have been raised in the Action and to avoid the continuing burden, expense, inconvenience and distraction of this protracted litigation.

What Attorneys' Fees and Expenses Will Be Paid?

At the Settlement Hearing, Plaintiffs' counsel intend to request Court approval of an award of attorneys' fees and expenses not to exceed in the aggregate \$1,000,000. R&G Financial has agreed to pay to Plaintiffs' counsel the amount awarded, up to this limit, out of the proceeds it will receive from the insurance companies under the Settlement. The defendants have agreed not to oppose this application.

What Will Happen at the Settlement Hearing and How Do I Participate?

As mentioned above, the Settlement Hearing will be held on September 16, at 3:00 p.m. before United States District Judge John E. Sprizzo, in Courtroom 14C, of the United States Courthouse, at 500 Pearl Street, New York, New York 10007. At the Settlement Hearing, the Court will consider whether the proposed Settlement is fair, reasonable, adequate and in the best interests of R&G Financial, on whose behalf the Action was brought by plaintiffs. In addition, the Court will consider plaintiffs' counsel's application for an award of attorneys' fees and expenses, as described in the preceding section.

YOU ARE NOT REQUIRED TO PARTICIPATE IN OR ATTEND THE SETTLEMENT HEARING.

If you wish to participate in the Settlement Hearing, you may do so if you beneficially owned the shares of R&G Financial common stock as of July 1, 2008, and continue to own such shares. At the Settlement Hearing you can be heard as to whether (i) the proposed Settlement should be approved and the Action dismissed with prejudice; and/or (ii) the application of Plaintiffs' counsel for reasonable attorneys' fees and expenses should be granted. In order to be heard at the Settlement Hearing, however, you must have been a stockholder at those times and you must serve your written objection to the Settlement and/or the award of attorneys' fees and expenses, on or before September 2, 2008.

Your written objection and any supporting papers and briefs must include the name and index number of the Action, *In re R&G Financial Corp. Derivative Litigation*, Master File No. 05 Civ. 5547 (JES), and must include a sworn statement setting forth the date on which you purchased R&G Financial common stock and stating that you still own shares of such stock. The papers also must set forth the reasons why you object to the proposed Settlement or the application for attorneys' fees and expenses.

Copies of your papers must be filed by mail with the Clerk of the Court, U.S. District Court for the Southern District of New York, 500 Pearl Street, New York, New York 10007 and be served on the following attorneys:

Jeffrey G. Smith
Wolf Haldenstein Adler
Freeman & Herz LLP
270 Madison Avenue
New York, New York 10016

Maite Aquino
Sullivan & Cromwell LLP
125 Broad Street
New York, New York 10004

Diana L. Weiss
Orrick Herrington & Sutcliffe LLP
1152 15th Street, N.W.
Washington, D.C. 20005-1706

Attorneys for Plaintiffs

Attorneys for R&G Financial

*Attorneys for
PricewaterhouseCoopers LLP*

Any R&G Financial stockholder who does not make his or her objection or opposition in this manner will be deemed to have waived any right to appear and object and will not be heard as to the fairness, reasonableness and adequacy of the proposed Settlement or to the request of Plaintiffs' counsel for reasonable attorneys' fees and expenses.

NOTICE TO BROKERAGE FIRMS, BANKS AND OTHER NOMINEES

Brokerage firms, banks or other persons or entities who held shares of R&G Financial common stock as of July 1, 2008 for the benefit of others are directed promptly to send this Notice to all of their respective beneficial owners. R&G Financial will reimburse nominees for the cost of forwarding this Notice to the beneficial owners. Beneficial owners may request additional copies of the Notice, or may supply mailing labels for the purpose of mailing copies of the Notice to such beneficial owners, by written inquiry to the following address:

In re R&G Financial Corporation
Derivative Litigation
c/o Heffler, Radetich & Saitta LLP
P.O. Box 1200
Philadelphia, PA 19105-1200

Where Can I Learn More?

For a more detailed statement of the matters involved in this Action, reference is made to the pleadings, to the Stipulation and to all other papers filed in the Action, filed under *In re R&G Financial Corp. Derivative Litigation*, Master File No. 05 Civ. 5547 (JES), which may be inspected at the Office of the Clerk for the United States District Court for the Southern District of New York, 500 Pearl Street, New York, New York 10007, during regular business hours of each business day.

Any inquiry concerning the Action should be addressed to plaintiff's counsel:

Jeffrey G. Smith
Wolf Haldenstein Adler
Freeman & Herz LLP
270 Madison Avenue
New York, New York 10016

PLEASE DO NOT ADDRESS INQUIRIES TO THE COURT.

BY ORDER OF THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

In re R&G Financial Corporation
Derivative Litigation
c/o Heffler, Radetich & Saitta LLP
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