

OFG BANCORP
Form 10-Q
August 10, 2015

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

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2015

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 001-12647

OFG Bancorp

Incorporated in the Commonwealth of Puerto Rico, IRS Employer Identification No. 66-0538893

Principal Executive Offices:

254 Muñoz Rivera Avenue

San Juan, Puerto Rico 00918

Telephone Number: (787) 771-6800

Indicate by check mark whether the registrant (1) 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 reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares outstanding of the registrant's common stock, as of the latest practicable date:

43,867,909 common shares (\$1.00 par value per share) outstanding as of July 31, 2015

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FORWARD-LOOKING STATEMENTS

The information included in this quarterly report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to the financial condition, results of operations, plans, objectives, future performance and business of OFG Bancorp (“we,” “our,” “us” or the “Company”), including, but not limited to, statements with respect to the adequacy of the allowance for loan losses, delinquency trends, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity, and the effect of legal proceedings and new accounting standards on the Company’s financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words “anticipate,” “believe,” “continues,” “expect,” “estimate,” “intend,” “project” and similar expressions and future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” “may,” or similar expressions are generally intended to identify forward-looking statements.

These statements are not guarantees of future performance and involve certain risks, uncertainties, estimates and assumptions by management that are difficult to predict. Various factors, some of which by their nature are beyond the Company’s control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- the rate of growth in the economy and employment levels, as well as general business and economic conditions;
- changes in interest rates, as well as the magnitude of such changes;
- the fiscal and monetary policies of the federal government and its agencies;
- a credit default or potential restructuring by the Commonwealth of Puerto Rico or any of its agencies, municipalities or instrumentalities;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) on the Company’s businesses, business practices and cost of operations;
- the relative strength or weakness of the consumer and commercial credit sectors and of the real estate market in Puerto Rico;
- the performance of the securities markets;
- competition in the financial services industry;
- additional Federal Deposit Insurance Corporation (“FDIC”) assessments; and

- possible legislative, tax or regulatory changes.

Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following: negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of non-performing assets, charge-offs and provision expense; changes in interest rates and market liquidity which may reduce interest margins, impact funding sources and affect the ability to originate and distribute financial products in the primary and secondary markets; adverse movements and volatility in debt and equity capital markets; changes in market rates and prices which may adversely impact the value of financial assets and liabilities; liabilities resulting from litigation and regulatory investigations; changes in accounting standards, rules and interpretations; increased competition; the Company's ability to grow its core businesses; decisions to downsize, sell or close units or otherwise change the Company's business mix; and management's ability to identify and manage these and other risks.

All forward-looking statements included in this quarterly report on Form 10-Q are based upon information available to the Company as of the date of this report, and other than as required by law, including the requirements of applicable securities laws, the Company assumes no obligation to update or revise any such forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

ITEM 1. FINANCIAL STATEMENTS

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF JUNE 30, 2015 AND DECEMBER 31, 2014

ASSETS

Cash and cash equivalents:

Cash and due from banks

Money market investments

Total cash and cash equivalents

Restricted cash

Investments:

Trading securities, at fair value, with amortized cost of \$1,327 (December 31, 2014 - \$2,419)

Investment securities available-for-sale, at fair value, with amortized cost of \$1,023,573 (December 31, 2014 - \$1,187,679)

Investment securities held-to-maturity, at amortized cost, with fair value of \$547,776 (December 31, 2014 - \$164,154)

Federal Home Loan Bank (FHLB) stock, at cost

Other investments

Total investments

Loans:

Mortgage loans held-for-sale, at lower of cost or fair value

Non-covered loans, net of allowance for loan and lease losses of \$102,877 (December 31, 2014 - \$69,517)

Covered loans, net of allowance for loan and lease losses of \$71,452 (December 31, 2014 - \$64,245)

Total loans, net

Other assets:

FDIC indemnification asset

Foreclosed real estate covered under shared-loss agreements with the FDIC

Foreclosed real estate not covered under shared-loss agreements with the FDIC

Accrued interest receivable

Deferred tax asset, net

Premises and equipment, net

Customers' liability on acceptances

Servicing assets

Derivative assets

Goodwill

Other assets

Total assets

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:

Demand deposits

Savings accounts

Time deposits

Total deposits

Borrowings:

Securities sold under agreements to repurchase

Advances from FHLB

Subordinated capital notes

Other borrowings

Total borrowings

Other liabilities:

Derivative liabilities

Acceptances executed and outstanding

Accrued expenses and other liabilities

Total liabilities

Commitments and contingencies (See Note 20)

Stockholders' equity:

Preferred stock; 10,000,000 shares authorized;

1,340,000 shares of Series A, 1,380,000 shares of Series B, and 960,000 shares of Series D

issued and outstanding, (December 31, 2014 - 1,340,000; 1,380,000; and 960,000) \$25 liquidation value

84,000 shares of Series C issued and outstanding (December 31, 2014 - 84,000); \$1,000 liquidation value

Common stock, \$1 par value; 100,000,000 shares authorized; 52,625,869 shares issued:

44,367,909 shares outstanding (December 31, 2014 - 52,625,869; 44,613,615)

Additional paid-in capital

Legal surplus

Retained earnings

Treasury stock, at cost, 8,257,960 shares (December 31, 2014 - 8,012,254 shares)

Accumulated other comprehensive income, net of tax of -\$185 (December 31, 2014 \$447)

Total stockholders' equity

Total liabilities and stockholders' equity

\$

See notes to unaudited consolidated financial statements.

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2015 AND 2014

	Quarter Ended June 30,		Six-Month Period	
	2015	2014	2015	2014
	(In thousands, except per share data)		(In thousands, except per share data)	
Interest income:				
Non-covered loans	\$ 77,746	\$ 88,064	\$ 159,725	\$ 173,307
Covered loans	12,758	24,879	28,262	48,267
Total interest income from loans	90,504	112,943	187,987	221,574
Mortgage-backed securities	7,998	11,984	16,587	24,400
Investment securities and other	911	973	1,840	3,000
Total interest income	99,413	125,900	206,414	248,974
Interest expense:				
Deposits	6,604	9,165	13,708	18,143
Securities sold under agreements to repurchase	7,394	7,372	14,558	14,784
Advances from FHLB and other borrowings	2,248	2,289	4,483	4,583
Subordinated capital notes	875	996	1,738	1,988
Total interest expense	17,121	19,822	34,487	39,498
Net interest income	82,292	106,078	171,927	209,476
Provision for non-covered loan and lease losses	15,644	13,220	53,027	23,282
(Recovery) Provision for covered loan and lease losses	(105)	1,595	4,705	3,224
Total provision for loan and lease losses	15,539	14,815	57,732	26,506
Net interest income after provision for loan and lease losses	66,753	91,263	114,195	182,970
Non-interest income:				
Banking service revenue	10,212	9,995	20,417	20,552
Wealth management revenue	7,285	7,336	14,440	14,203
Mortgage banking activities	1,862	1,554	3,725	3,249
Total banking and financial service revenues	19,359	18,885	38,582	38,004
FDIC shared-loss expense, net:				
FDIC indemnification asset expense	(22,512)	(17,499)	(34,733)	(35,121)
Change in true-up payment obligation	(733)	(856)	(1,596)	(1,721)
	(23,245)	(18,355)	(36,329)	(36,842)
Net gain (loss) on:				
Sale of securities	-	-	2,572	4,366
Derivatives	77	(247)	(13)	(470)
Other non-interest (loss) income	(847)	224	(2,587)	678
Total non-interest (loss) income, net	(4,656)	507	2,225	5,736
Non-interest expense:				
Compensation and employee benefits	19,260	20,707	39,440	42,494
Professional and service fees	4,143	3,512	8,324	7,719
Occupancy and equipment	8,883	8,605	17,519	16,914
Insurance	2,251	2,333	4,204	4,407
Electronic banking charges	5,851	4,796	11,218	9,449
Information technology expenses	1,543	1,485	2,997	3,300

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Advertising, business promotion, and strategic initiatives	1,558	1,669	3,186	3,450
Foreclosure, repossession and other real estate expenses	10,337	6,656	15,783	13,043
Loan servicing and clearing expenses	2,594	1,669	4,947	3,728
Taxes, other than payroll and income taxes	2,703	3,776	4,182	7,511
Communication	770	813	1,460	1,770
Printing, postage, stationary and supplies	582	645	1,219	1,200
Director and investor relations	289	293	583	544
Other	3,673	2,889	5,707	5,723
Total non-interest expense	64,437	59,848	120,769	121,252
(Loss) income before income taxes	(2,340)	31,922	(4,349)	67,454
Income tax expense	769	10,613	1,748	22,398
Net (loss) income	(3,109)	21,309	(6,097)	45,056
Less: dividends on preferred stock	(3,466)	(3,466)	(6,931)	(6,931)
Net (loss) income available to common shareholders	\$ (6,575)	\$ 17,843	\$ (13,028)	\$ 38,125
(Loss) earnings per common share:				
Basic	\$ (0.15)	\$ 0.40	\$	\$