

OFG BANCORP
Form 10-Q
November 06, 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 September 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 October 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 SEPTEMBER 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 \$1,324 (December 31, 2014 - \$2,419)

Investment securities available-for-sale, at fair value, with amortized cost of \$982,754 (December 31, 2014 - \$1,187,679)

Investment securities held-to-maturity, at amortized cost, with fair value of \$595,148 (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

Loans held for investment, net of allowance for loan and lease losses of \$196,142 (December 31, 2014 - \$133,762)

Total loans

Other assets:

FDIC indemnification asset

Foreclosed real estate

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:

43,867,909 shares outstanding (December 31, 2014 - 52,625,869; 44,613,615)

Additional paid-in capital

Legal surplus

Retained earnings

Treasury stock, at cost, 8,757,960 shares (December 31, 2014 - 8,012,254 shares)

Accumulated other comprehensive income, net of tax of \$284 (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 NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014

	Quarter Ended September 30, 2015 2014 (In thousands, except per share data)		Nine-Month Period Ended September 30, 2015 2014 (In thousands, except per share data)	
Interest income:				
Loans	\$ 97,264	\$ 108,548	\$ 285,251	\$ 330,122
Mortgage-backed securities	9,137	10,842	25,724	35,243
Investment securities and other	846	911	2,686	3,910
Total interest income	107,247	120,301	313,661	369,275
Interest expense:				
Deposits	6,651	7,661	20,359	25,804
Securities sold under agreements to repurchase	7,605	7,453	22,163	22,238
Advances from FHLB and other borrowings	2,283	2,314	6,766	6,896
Subordinated capital notes	885	1,002	2,623	2,990
Total interest expense	17,424	18,430	51,911	57,928
Net interest income	89,823	101,871	261,750	311,347
Provision for loan and lease losses, net	51,579	17,257	109,311	43,763
Net interest income after provision for loan and lease losses	38,244	84,614	152,439	267,584
Non-interest income:				
Banking service revenue	10,826	9,753	31,243	30,305
Wealth management revenue				