

OFG BANCORP
Form 10-Q
November 12, 2013

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, 2013

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 " Accelerated Filer x Non-Accelerated Filer " Smaller Reporting Company "
(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 x

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

45,660,537 common shares (\$1.00 par value per share) outstanding as of October 31, 2013

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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, formerly known as Oriental Financial Group Inc. (“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,” “continue,” “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 by the U.S. or Puerto Rico governments or a downgrade in the credit ratings of the U.S. or Puerto Rico governments;
- 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 stock and bond 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, 2013 AND DECEMBER 31, 2012

		September 30,		December 31,
		2013		2012
		(In thousands, except share data)		
ASSETS				
Cash and cash equivalents:				
Cash and due from banks	\$	645,869	\$	855,490
Money market investments		11,651		13,205
Total cash and cash equivalents		657,520		868,695
Securities purchased under agreements to resell		85,000		80,000
Investments:				
Trading securities, at fair value, with amortized cost of \$2,606 (December 31, 2012 - \$508)		2,124		495
Investment securities available-for-sale, at fair value, with amortized cost of \$1,654,133 (December 31, 2012 - \$2,118,825)		1,677,248		2,194,286
Federal Home Loan Bank (FHLB) stock, at cost		24,470		38,411
Other investments		65		73
Total investments		1,703,907		2,233,265
Loans:				
Mortgage loans held-for-sale, at lower of cost or fair value		47,085		64,145
Loans not covered under shared-loss agreements with the FDIC, net of allowance for loan and lease losses of \$49,614 (December 31, 2012 - \$39,921)		4,720,174		4,698,185
Loans covered under shared-loss agreements with the FDIC, net of allowance for loan and lease losses of \$56,555 (December 31, 2012 - \$54,124)		361,564		395,307
Total loans, net		5,128,823		5,157,637
Other assets:				
FDIC shared-loss indemnification asset		207,908		286,799
Foreclosed real estate covered under shared-loss agreements with the FDIC		28,022		22,283
Foreclosed real estate not covered under shared-loss agreements with the FDIC		56,432		51,890
Accrued interest receivable		19,456		14,654
Deferred tax asset, net		147,968		126,652
Premises and equipment, net		83,145		84,997
Customers' liability on acceptances		31,881		26,996

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Servicing assets			13,651			10,795
Derivative assets			21,345			21,889
Goodwill			86,069			86,069
Other assets			109,098			123,641
Total assets		\$	8,380,225		\$	9,196,262
LIABILITIES AND STOCKHOLDERS' EQUITY						
Deposits:						
Demand deposits		\$	2,177,090			2,447,151
Savings accounts			1,083,953			634,819
Time deposits			2,349,394			2,608,597
Total deposits			5,610,437			5,690,567
Borrowings:						
Short term borrowings			-			92,210
Securities sold under agreements to repurchase			1,267,423			1,695,247
Advances from FHLB			336,578			536,542
Subordinated capital notes			99,486			146,038
Other borrowings			16,634			16,627
Total borrowings			1,720,121			2,486,664
Other liabilities:						
Derivative liabilities			16,741			26,260
Acceptances executed and outstanding			31,881			26,996
Accrued expenses and other liabilities			121,319			102,169
Total liabilities			7,500,499			8,332,656
Commitments and contingencies (See Note 16)						
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, 2012 - 1,340,000; 1,380,000; and 960,000) \$25 liquidation value			92,000			92,000
84,000 shares of Series C issued and outstanding (December 31, 2012 - 84,000); \$1,000 liquidation value			84,000			84,000
Common stock, \$1 par value; 100,000,000 shares authorized; 52,690,623 shares issued; 45,660,522 shares outstanding (December 31, 2012 - 52,670,878; 45,580,281)			52,691			52,671
Additional paid-in capital			538,231			537,453
Legal surplus			59,867			52,143
Retained earnings			122,747			70,734
Treasury stock, at cost, 7,030,101 shares (December 31, 2012 - 7,090,597 shares)			(80,642)			(81,275)
Accumulated other comprehensive income, net of tax of \$786 (December 31, 2012 - \$1,802)			10,832			55,880

Total stockholders' equity			879,726			863,606
Total liabilities and stockholders' equity		\$	8,380,225		\$	9,196,262
See notes to unaudited consolidated financial statements.						

OFG BANCORP

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2013 AND 2012

	Quarter Ended September 30,				Nine-Month Period Ended September 30,			
	2013		2012		2013		2012	
	(In thousands, except per share data)							
Interest income:								
Loans not covered under shared-loss agreements with the FDIC	\$	87,196	\$	17,964	\$	258,070	\$	53,308
Loans covered under shared-loss agreements with the FDIC		21,657		22,283		65,884		64,167
Total interest income from loans		108,853		40,247		323,954		117,475
Mortgage-backed securities		9,662		23,986		29,559		73,622
Investment securities and other		2,127		1,453		6,564		5,296
Total interest income		120,642		65,686		360,077		196,393
Interest expense:								
Deposits		11,334		6,714		30,756		22,592
Securities sold under agreements to repurchase		7,211		15,344		21,569		49,414
Advances from FHLB and other borrowings		2,321		2,561		6,275		8,595
FDIC-guaranteed term notes		-		-		-		909
Subordinated capital notes		1,144		323		3,973		972
Total interest expense		22,010		24,942		62,573		82,482
Net interest income		98,632		40,744				