

OFG BANCORP  
Form 10-Q  
August 04, 2017

**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, 2017**

**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  
Company

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting

(Do not check if a smaller reporting company)

Emerging Growth Company

If an Emerging Growth Company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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:**

43,947,442 common shares (\$1.00 par value per share) outstanding as of July 31, 2017

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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:

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

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***

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## OFG BANCORP

## UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF JUNE 30, 2017 AND DECEMBER 31, 2016

	June 30, 2017	December 31, 2016
	(In thousands)	
<b>ASSETS</b>		
<b>Cash and cash equivalents:</b>		
Cash and due from banks	\$ 470,841	\$ 504,833
Money market investments	6,467	5,606
<b>Total cash and cash equivalents</b>	<b>477,308</b>	<b>510,439</b>
<b>Restricted cash</b>	<b>3,030</b>	<b>3,030</b>
<b>Investments:</b>		
Trading securities, at fair value, with amortized cost of \$667 (December 31, 2016 - \$667)	294	347
Investment securities available-for-sale, at fair value, with amortized cost of \$649,280 (December 31, 2016 - \$749,867)	649,327	751,484
Investment securities held-to-maturity, at amortized cost, with fair value of \$549,595 (December 31, 2016 - \$592,763)	555,407	599,884
Federal Home Loan Bank (FHLB) stock, at cost	16,616	10,793
Other investments	3	3
<b>Total investments</b>	<b>1,221,647</b>	<b>1,362,511</b>
<b>Loans:</b>		
Loans held-for-sale, at lower of cost or fair value	47,691	12,499
Loans held for investment, net of allowance for loan and lease losses of \$132,295 (December 31, 2016 - \$115,937)	4,044,175	4,135,193
<b>Total loans</b>	<b>4,091,866</b>	<b>4,147,692</b>
<b>Other assets:</b>		
FDIC indemnification asset	-	14,411
Foreclosed real estate	50,223	47,520
Accrued interest receivable	19,798	20,227
Deferred tax asset, net	116,199	124,200
Premises and equipment, net	69,836	70,407
Customers' liability on acceptances	22,739	23,765
Servicing assets	9,866	9,858
Derivative assets	957	1,330
Goodwill	86,069	86,069
Other assets	66,288	80,365
<b>Total assets</b>	<b>\$ 6,235,826</b>	<b>\$ 6,501,824</b>

See notes to unaudited financial statements





## OFG BANCORP

## UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF JUNE 30, 2017 AND DECEMBER 31, 2016 (CONTINUED)

	June 30, 2017		December 31, 2016
	(In thousands)		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Deposits:</b>			
Demand deposits	\$ 1,844,996	\$	1,939,764
Savings accounts	1,169,002		1,196,232
Time deposits	1,568,688		1,528,491
<b>Total deposits</b>	<b>4,582,686</b>		<b>4,664,487</b>
<b>Borrowings:</b>			
Securities sold under agreements to repurchase	453,492		653,756
Advances from FHLB	137,540		105,454
Subordinated capital notes	36,083		36,083
Other borrowings	177		61
<b>Total borrowings</b>	<b>627,292</b>		<b>795,354</b>
<b>Other liabilities:</b>			
Derivative liabilities	1,881		2,437
Acceptances executed and outstanding	22,739		23,765
Accrued expenses and other liabilities	62,259		95,370
<b>Total liabilities</b>	<b>5,296,857</b>		<b>5,581,413</b>
<b>Commitments and contingencies (See Note 18)</b>			
<b>Stockholders' equity:</b>			
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, 2016 - 1,340,000 shares; 1,380,000 shares; and 960,000			
shares) \$25 liquidation value	92,000		92,000
84,000 shares of Series C issued and outstanding (December 31, 2016 -			
84,000 shares); \$1,000 liquidation value	84,000		84,000
Common stock, \$1 par value; 100,000,000 shares authorized; 52,625,869 shares			
issued: 43,947,442 shares outstanding (December 31, 2016 - 52,625,869; 43,914,844)	52,626		52,626
Additional paid-in capital	541,005		540,948

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Legal surplus		79,460		76,293
Retained earnings		194,687		177,808
Treasury stock, at cost, 8,678,427 shares (December 31, 2016 - 8,711,025 shares)		(104,502)		(104,860)
Accumulated other comprehensive (loss) income, net of tax of \$569  (December 31, 2016 \$983)		(307)		1,596
<b>Total stockholders' equity</b>		<b>938,969</b>		<b>920,411</b>
<b>Total liabilities and stockholders' equity</b>	\$	<b>6,235,826</b>	\$	<b>6,501,824</b>

See notes to unaudited financial statements

## OFG BANCORP

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
<b>Interest income:</b>				
Loans	\$ 77,238	\$ 79,675	\$ 154,888	\$ 160,827
Mortgage-backed securities	7,276	7,220	14,482	16,217
Investment securities and other	1,426	1,013	2,748	2,170
<b>Total interest income</b>	<b>85,940</b>	<b>87,908</b>	<b>172,118</b>	<b>179,214</b>
<b>Interest expense:</b>				
Deposits	7,652	7,367	15,005	14,491
Securities sold under agreements to repurchase	1,734	4,258	4,979	10,358
Advances from FHLB and other borrowings	607	2,098	1,202	4,337
Subordinated capital notes	384	873	751	1,741
<b>Total interest expense</b>	<b>10,377</b>	<b>14,596</b>	<b>21,937</b>	<b>30,927</b>
<b>Net interest income</b>	<b>75,563</b>	<b>73,312</b>	<b>150,181</b>	<b>148,287</b>
Provision for loan and lease losses, net	26,536	14,445	44,190	28,234
<b>Net interest income after provision for loan and lease losses</b>	<b>49,027</b>	<b>58,867</b>	<b>105,991</b>	<b>120,053</b>
<b>Non-interest income:</b>				
Banking service revenue	10,458	10,219	21,084	20,337
Wealth management revenue	6,516	7,041	12,731	13,193
Mortgage banking activities	959	1,024	1,546	1,879
<b>Total banking and financial service revenues</b>	<b>17,933</b>	<b>18,284</b>	<b>35,361</b>	<b>35,409</b>
FDIC shared-loss benefit (expense), net	-	(3,420)	1,403	(7,449)
Net gain (loss) on:				
Sale of securities	6,891	211	6,891	12,207
Derivatives	22	(10)	103	(13)
Early extinguishment of debt	(80)	-	(80)	(12,000)
Other non-interest income	120	90	282	504
<b>Total non-interest income, net</b>	<b>24,886</b>	<b>15,155</b>	<b>43,960</b>	<b>28,658</b>

See notes to unaudited financial statements

## OFG BANCORP

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016 (CONTINUED)

	Quarter Ended June 30,		Six-Month Period Ended June 30,	
	2017	2016	2017	2016
	(In thousands, except per share data)			
<b>Non-interest expense:</b>				
Compensation and employee benefits	19,317	18,441	39,664	38,696
Professional and service fees	3,225	2,810	6,462	5,795
Occupancy and equipment	8,690	8,107	16,057	15,929
Insurance	1,183	3,155	2,783	6,305
Electronic banking charges	5,450	4,947	10,352	10,536
Information technology expenses	2,069	1,606	4,068	3,262
Advertising, business promotion, and strategic initiatives	1,361	1,294	2,722	2,588
Loss on sale of foreclosed real estate and other repossessed assets	1,787	4,163	3,113	6,094
Loan servicing and clearing expenses	1,270	1,966	2,459	4,096
Taxes, other than payroll and income taxes	2,393	2,330	4,764	5,001
Communication	761	581	1,506	1,400
Printing, postage, stationary and supplies	665	600	1,303	1,325
Director and investor relations	274	301	554	579
Credit related expenses	2,217	2,203	4,843	4,458
Other	2,154	1,321	3,850	2,618
<b>Total non-interest expense</b>	<b>52,816</b>	<b>53,825</b>	<b>104,500</b>	<b>108,682</b>
<b>Income before income taxes</b>	<b>21,097</b>	<b>20,197</b>	<b>45,451</b>	<b>40,029</b>
Income tax expense	3,993	5,858	13,197	11,519
<b>Net income</b>	<b>17,104</b>	<b>14,339</b>	<b>32,254</b>	