

FIRST BANCORP /PR/
Form 10-Q
November 09, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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

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 001-14793

First BanCorp.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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Puerto Rico
(State or other jurisdiction of

66-0561882
(I.R.S. employer

incorporation or organization)

identification number)

1519 Ponce de León Avenue, Stop 23

00908

Santurce, Puerto Rico

(Zip Code)

(Address of principal executive offices)

(787) 729-8200

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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 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 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

b

Non-accelerated filer (Do not check if a smaller reporting company) 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock: 215,011,486 shares outstanding as of October 31, 2015.

FIRST BANCORP.

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SIGNATURES

Forward Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the safe harbors created by such sections. When used in this Form 10-Q or future filings by First BanCorp. (the “Corporation”) with the U.S. Securities and Exchange Commission (“SEC”), in the Corporation’s press releases or in other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the word or phrases “would be,” “will allow,” “intends to,” “will likely result,” “are expected to,” “should,” “anticipate” and similar statements of a future or forward-looking nature that reflect our current views with respect to future events and financial performance are meant to identify “forward-looking statements.”

First BanCorp. wishes to caution readers not to place undue reliance on any such “forward-looking statements,” which speak only as of the date made, and to advise readers that various factors, including but not limited to the following, could cause actual results to differ materially from those expressed in, or implied by, such “forward-looking statements”:

- uncertainty about whether the Corporation will be able to continue to fully comply with the written agreement dated June 3, 2010 (the “Written Agreement”) that the Corporation entered into with the Federal Reserve Bank of New York (the “New York FED” or “Federal Reserve”) that, among other things, requires the Corporation to serve as a source of strength to FirstBank Puerto Rico (“FirstBank” or “the Bank”) and that, except with the consent generally of the New York FED and the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”), prohibits the Corporation from paying dividends to stockholders or receiving dividends from FirstBank, making payments on trust preferred securities or subordinated debt and incurring, increasing or guaranteeing debt or repurchasing any capital securities;
- the ability of the Puerto Rico government or any of its public corporations or other instrumentalities to repay its respective debt obligations, including the effect of the recent payment default of a government public corporation, and recent and any future downgrades of the long-term and short-term debt ratings of the Puerto Rico government, which could exacerbate Puerto Rico’s adverse economic conditions;
- a decrease in demand for the Corporation’s products and services and lower revenues and earnings because of the continued recession in Puerto Rico;
- uncertainty as to the availability of certain funding sources, such as retail brokered certificates of deposit (“brokered CDs”);

- the Corporation's reliance on brokered CDs to fund operations and provide liquidity;
- the risk of not being able to fulfill the Corporation's cash obligations or resume paying dividends to the Corporation's stockholders in the future due to the Corporation's need to receive approval from the New York FED and the Federal Reserve Board to declare or pay any dividends and to take dividends or any other form of payment representing a reduction in capital from FirstBank or FirstBank's failure to generate sufficient cash flow to make a dividend payment to the Corporation;
- the strength or weakness of the real estate markets and of the consumer and commercial sectors and their impact on the credit quality of the Corporation's loans and other assets, which has contributed and may continue to contribute to, among other things, high levels of non-performing assets, charge-offs and provisions for loan and lease losses and may subject the Corporation to further risk from loan defaults and foreclosures;

- the ability of FirstBank to realize the benefits of its deferred tax assets subject to the remaining valuation allowance;
- adverse changes in general economic conditions in Puerto Rico, the United States (“U.S.”), and the U.S. Virgin Islands (“USVI”), and British Virgin Islands (“BVI”), including the interest rate environment, market liquidity, housing absorption rates, real estate prices, and disruptions in the U.S. capital markets, which have reduced interest margins and affected funding sources, and has affected demand for all of the Corporation’s products and services and reduced the Corporation’s revenues and earnings, and the value of the Corporation’s assets, and may once again have these effects;
- an adverse change in the Corporation’s ability to attract new clients and retain existing ones;
- the risk that additional portions of the unrealized losses in the Corporation’s investment portfolio is determined to be other-than-temporary, including additional impairments on the Puerto Rico government’s obligations;
- uncertainty about regulatory and legislative changes for financial services companies in Puerto Rico, the U.S., the USVI and the BVI, which could affect the Corporation’s financial condition or performance and could cause the Corporation’s actual results for future periods to differ materially from prior results and anticipated or projected results;
- changes in the fiscal and monetary policies and regulations of the U.S. federal government and the Puerto Rico and other governments, including those determined by the Federal Reserve Board, the New York FED, the Federal Deposit Insurance Corporation (“FDIC”), government-sponsored housing agencies, and regulators in Puerto Rico, the USVI and the BVI;
- the risk of possible failure or circumvention of controls and procedures and the risk that the Corporation’s risk management policies may not be adequate;
- the risk that the FDIC may increase the deposit insurance premium and/or require special assessments to replenish its insurance fund, causing an additional increase in the Corporation’s non-interest expenses;

- the impact on the Corporation's results of operations and financial condition of acquisitions and dispositions, including the acquisition of loans and branches of Doral Bank as well as the assumption of deposits at the branches acquired from Doral during the first quarter of 2015;
- a need to recognize impairments on financial instruments, goodwill or other intangible assets relating to acquisitions;
- the risk that downgrades in the credit ratings of the Corporation's long-term senior debt will adversely affect the Corporation's ability to access necessary external funds;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") on the Corporation's businesses, business practices and cost of operations; and
- general competitive factors and industry consolidation.

The Corporation does not undertake, and specifically disclaims any obligation, to update any "forward-looking statements" to reflect occurrences or unanticipated events or circumstances after the date of such statements, except as required by the federal securities laws.

Investors should refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014, as well as "Part II, Item 1A, Risk Factors," in this quarterly report on Form 10-Q, for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

FIRST BANCORP.**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(Unaudited)**

	September 30, 2015		December 31, 2014	
	(In thousands, except for share information)			
ASSETS				
Cash and due from banks	\$	742,251	\$	779,147
Money market investments:				
Time deposits with other financial institutions		3,000		300
Other short-term investments		216,486		16,661
Total money market investments		219,486		16,961
Investment securities available for sale, at fair value:				
Securities pledged that can be repledged		796,998		1,025,966
Other investment securities		1,110,869		939,700
Total investment securities available for sale		1,907,867		1,965,666
Other equity securities		26,319		25,752
Loans, net of allowance for loan and lease losses of \$228,966				
(2014 - \$222,395)		9,072,979		9,040,041
Loans held for sale, at lower of cost or market		34,587		76,956
Total loans, net		9,107,566		9,116,997
Premises and equipment, net		162,673		166,926
Other real estate owned		124,442		124,003
Accrued interest receivable on loans and investments		46,568		50,796
Other assets		483,817		481,587
Total assets	\$	12,820,989	\$	12,727,835
LIABILITIES				
Non-interest-bearing deposits	\$	1,402,807	\$	900,616
Interest-bearing deposits		8,313,654		8,583,329
Total deposits		9,716,461		9,483,945
Securities sold under agreements to repurchase		700,000		900,000
Advances from the Federal Home Loan Bank (FHLB)		325,000		325,000
Other borrowings		226,492		231,959
Accounts payable and other liabilities		152,086		115,188
Total liabilities		11,120,039		11,056,092
STOCKHOLDERS' EQUITY				

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Preferred stock, authorized, 50,000,000 shares:					
Non-cumulative Perpetual Monthly Income Preferred Stock: issued 22,004,000					
shares, outstanding 1,444,146 shares, aggregate liquidation value of \$36,104		36,104			36,104
Common stock, \$0.10 par value, authorized, 2,000,000,000 shares:					
issued, 215,903,829 shares (2014 - 213,724,749 shares issued)		21,590			21,372
Less: Treasury stock (at par value)		(92)			(74)
Common stock outstanding, 214,982,131 shares outstanding (2014 - 212,984,700					
shares outstanding)		21,498			21,298
Additional paid-in capital		925,063			916,067
Retained earnings, includes legal surplus reserve of \$40.0 million		722,955			716,625
Accumulated other comprehensive loss, net of tax of \$7,752		(4,670)			(18,351)
Total stockholders' equity		1,700,950			1,671,743
Total liabilities and stockholders' equity	\$	12,820,989		\$	12,727,835

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Quarter Ended				Nine-Month Period Ended			
	September 30,				September 30,			
	2015		2014		2015		2014	
(In thousands, except per share information)								
Interest and dividend income:								
Loans	\$	138,417	\$	144,295	\$	417,641	\$	433,379
Investment securities		10,985		11,894		34,831		40,850
Money market investments		410		473		1,457		1,427
Total interest income		149,812		156,662		453,929		475,656
Interest expense:								
Deposits		16,851		19,344		51,525		59,109
Securities sold under agreements to repurchase		5,216		6,857		16,997		19,655
Advances from FHLB		955		949		2,833		2,606
Notes payable and other borrowings		1,861		1,818		5,521		5,365
Total interest expense		24,883		28,968		76,876		86,735
Net interest income		124,929		127,694		377,053		388,921
Provision for loan and lease losses		31,176		26,999		138,412		85,658
Net interest income after provision for loan and lease losses		93,753		100,695		238,641		303,263
Non-interest income:								
Service charges on deposit accounts		5,082		4,205		14,856		12,554
Mortgage banking activities		4,270		3,809		12,651		10,213
Net gain on sale of investments		-		-		-		291
Other-than-temporary impairment losses on available-for-sale debt securities:								
Total other-than-temporary impairment losses		-		-		(29,521)		-
Noncredit-related impairment portion on debt securities not expected to be sold								
(recognized in other comprehensive income)		(231)		(245)		16,037		(245)
Net impairment losses on available-for-sale debt securities		(231)		(245)		(13,484)		(245)

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Equity in loss of unconsolidated entity		-		-		-		(7,280)
Insurance commission income		1,265		1,290		5,809		5,328
Bargain purchase gain		-		-		13,443		-
Other non-interest income		8,372		7,115		24,882		22,594
Total non-interest income		18,758		16,174		58,157		43,455
Non-interest expenses:								
Employees' compensation and benefits		37,284		33,877		110,883		101,568
Occupancy and equipment		15,248		14,727		44,656		43,527
Business promotion		4,097		3,925		10,899		12,040
Professional fees		10,709		12,054		44,932		34,502
Taxes, other than income taxes		3,065		4,528		9,197		13,607
Insurance and supervisory fees		6,590		9,493		20,246		31,267
Net loss on other real estate owned (OREO) and OREO operations		4,345		4,326		11,847		16,941
Credit and debit card processing expenses		4,283						