

FIRST BANCORP /PR/
Form 10-Q
August 09, 2018

**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 June 30, 2018

**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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(State or other jurisdiction of
incorporation or organization)

(I.R.S. employer

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
company

(Do not check if a smaller reporting company)

Smaller reporting

Emerging

growth company

If an emerging growth company, indicate by check mark if the registered 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

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

Common stock: 217,183,977 shares outstanding as of July 31, 2018.

**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 harbor 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 words or phrases “would,” “intends,” “will likely result,” “expect,” “should,” “anticipate,” “look forward,” “believes,” and other terms of similar meaning or import in connection with any discussion of future operating, financial or other 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 these forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, estimates, and assumptions by us that are difficult to predict. Various factors, some of which are beyond our control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements.

The two hurricanes that affected the Corporation’s service areas in 2017 are discussed below in Note 2 to the financial statements and in various sections of “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These events caused significant uncertainties, the outcome of which will impact the Corporation’s future results.

Factors that could cause actual results to differ from those expressed in the Corporation’s forward-looking statements include, but are not limited to, risks described or referenced below in Part II, Item 1A. “Risk Factors” and the following:

- the actual pace and magnitude of economic recovery in the Corporation’s service areas that were affected by two hurricanes during 2017 compared to Management’s current views on the economic recovery;
- uncertainties about the effectiveness and the timing of the completion of the rebuilding taking place in the regions affected by the hurricanes, including the rebuilding of the public infrastructure, such as Puerto Rico’s power grid, how and the extent to which government, private or philanthropic funds will be invested in the affected communities, how many displaced individuals will return to their homes in both the short- and long-term, and what other demographic changes will take place, if any;

- uncertainty as to the ultimate outcomes of actions taken, or those that may be taken, by the Puerto Rico government, or the oversight board established by the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) to address Puerto Rico’s financial problems, including the filing of a form of bankruptcy under Title III of PROMESA, which provides a court debt restructuring process similar to U.S. bankruptcy protection, and the effects of measures included in the Puerto Rico government fiscal plan, or any revisions to it, on our clients and loan portfolios;
- 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 payment defaults on the Puerto Rico government general obligations, bonds of the Government Development Bank for Puerto Rico (the “GDB”) and certain bonds of government public corporations, 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 and, in turn, further adversely impact the Corporation;

- uncertainty about whether the Federal Reserve Bank of New York (the “New York FED” or “Federal Reserve”) will continue to provide approvals for receiving dividends from the Corporation’s subsidiary, FirstBank Puerto Rico (“FirstBank” or the “Bank”), or making payments of dividends on non-cumulative perpetual preferred stock, or payments on trust preferred securities or subordinated debt, incurring, increasing or guaranteeing debt or repurchasing any capital securities, despite the consents that have enabled the Corporation to receive quarterly dividends from FirstBank since the second quarter of 2016, to pay quarterly interest payments on the Corporation’s subordinated debentures associated with its trust preferred securities since the second quarter of 2016, and to pay monthly dividends on the non-cumulative perpetual preferred stock since December 2016;
- 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 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 common stockholders in the future due to the Corporation’s need to receive regulatory approvals 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 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 have 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 net deferred tax assets;
- adverse changes in general economic conditions in Puerto Rico, the United States (“U.S.”), the U.S. Virgin Islands (“USVI”), and the 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 reduced interest margins and affected funding sources, and have 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 continue to 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 are determined to be other-than-temporary, including additional impairments on the Corporation's remaining \$8.1 million of the Puerto Rico government's debt securities;
- 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 Board of the Governors of the Federal Reserve System (the “Federal Reserve Board”), the New York FED, the Federal Deposit Insurance Corporation (“FDIC”), government-sponsored housing agencies, and regulators in Puerto Rico, and the USVI and 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;
- a need to recognize impairments on the Corporation’s 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 effect on the Corporation’s businesses, business practices and results of operations of a potential higher interest rate environment;
- uncertainty as to whether FirstBank will be able to satisfy its regulators regarding, among other things, its asset quality, liquidity plans, maintenance of capital levels and compliance with applicable laws, regulations and related requirements; 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, 2017, 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)

	June 30,	December
	2018	31, 2017
(In thousands, except for share information)		
ASSETS		
Cash and due from banks	\$ 790,809	\$ 705,980
Money market investments:		
Time deposits with other financial institutions	300	3,126
Other short-term investments	97,290	7,289
Total money market investments	97,590	10,415
Investment securities available for sale, at fair value:		
Securities pledged that can be repledged	241,378	350,123
Other investment securities	1,794,632	1,540,893
Total investment securities available for sale	2,036,010	1,891,016
Investment securities held to maturity, at amortized cost:		
Securities pledged that can be repledged	-	-
Other investment securities	150,486	150,627
Total investment securities held to maturity, fair value of \$135,430 (2017- \$131,032)	150,486	150,627
Other investment securities	43,400	43,119
Loans, net of allowance for loan and lease losses of \$222,035 (2017 - \$231,843)	8,418,256	8,618,633
Loans held for sale, at lower of cost or market	80,815	32,980
Total loans, net	8,499,071	8,651,613
Premises and equipment, net	144,507	141,895
Other real estate owned	143,355	147,940
Accrued interest receivable on loans and investments	47,171	57,172
Other assets	432,463	461,491
Total assets	\$ 12,384,862	\$ 12,261,268
LIABILITIES		
Non-interest-bearing deposits	\$ 2,317,149	\$ 1,833,665
Interest-bearing deposits	6,900,934	7,188,966
Total deposits	9,218,083	9,022,631
Securities sold under agreements to repurchase	200,000	300,000
Advances from the Federal Home Loan Bank (FHLB)	715,000	715,000
Other borrowings	184,150	208,635
Accounts payable and other liabilities	165,950	145,905
Total liabilities	10,483,183	10,392,171
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, 221,724,062 shares (2017 - 220,382,343 shares issued)	22,172	22,038
Less: Treasury stock (at par value)	(453)	(410)
Common stock outstanding, 217,185,449 shares outstanding (2017 - 216,278,040 shares outstanding)	21,719	21,628
Additional paid-in capital	937,919	936,772
Retained earnings, includes legal surplus reserve of \$59,693	958,044	895,208
Accumulated other comprehensive loss, net of tax of \$7,752	(52,107)	(20,615)
Total stockholders equity	1,901,679	1,869,097
Total liabilities and stockholders equity	\$ 12,384,862	\$ 12,261,268

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Quarter Ended		Six-Month Pe	
	June 30,		Ended	
	2018	2017	2018	2017
(In thousands, except per share information)				
Interest and dividend income:				
Loans	\$ 137,538	\$ 132,697	\$ 270,713	\$ 266,819
Investment securities	14,732	13,950	28,719	27,819
Money market investments and interest-bearing cash accounts	3,363	727	5,619	5,619
Total interest income	155,633	147,374	305,051	299,257
Interest expense:				
Deposits	16,974	16,348	33,945	33,945
Securities sold under agreements to repurchase	2,543	2,765	4,840	4,840
Advances from FHLB	3,410	2,292	6,782	6,782
Other borrowings	2,235	2,065	4,320	4,320
Total interest expense	25,162	23,470	49,887	49,887
Net interest income	130,471	123,904	255,164	249,370
Provision for loan and lease losses				
Net interest income after provision for loan and lease losses	110,935	105,808	215,084	209,483
Non-interest income:				
Service charges and fees on deposit accounts	5,344	5,803	10,432	10,432
Mortgage banking activities	4,835	4,846	9,000	9,000
Net gain on sale of investments	-	371	-	-
Other-than-temporary impairment (“OTTI”) losses on available-for-sale debt securities:				
Total OTTI losses	-	-	-	(12,316)
Portion of OTTI recognized in other comprehensive income (“OCI”)	-	-	-	-
Net impairment losses on available-for-sale debt securities	-	-	-	(12,316)
Gain on early extinguishment of debt	-	-	2,316	-
Insurance commission income	1,780	1,855	5,135	5,135
Other non-interest income	8,513	7,674	16,373	16,373
Total non-interest income	20,472	20,549	43,256	43,256
Non-interest expenses:				
Employees' compensation and benefits	39,555	38,409	80,239	79,239
Occupancy and equipment	13,746	13,759	28,851	28,851
Business promotion	4,016	3,192	6,592	6,592
Professional fees	10,193	11,800	20,253	20,253
Taxes, other than income taxes	3,637	3,745	7,493	7,493
Insurance and supervisory fees	3,701	4,855	7,556	7,556
Net loss on other real estate owned (“OREO”) and OREO operations	5,655	3,369	5,845	5,845
Credit and debit card processing expenses	3,766	3,566	7,303	7,303
Communications	1,582	1,628	3,064	3,064
Other non-interest expenses	4,365	4,746	9,047	9,047
Total non-interest expenses	90,216	89,069	176,243	176,243
Income before income taxes	41,191	37,288	82,097	52,240
Income tax expense	(10,159)	(9,290)	(17,917)	(17,917)

Net income	\$ 31,032	\$ 27,998	\$ 64,180	\$ 5
Net income attributable to common stockholders	\$ 30,363	\$ 27,329	\$ 62,842	\$ 5
Net income per common share:				
Basic	\$ 0.14	\$ 0.13	\$ 0.29	\$
Diluted	\$ 0.14	\$ 0.13	\$ 0.29	\$
Dividends declared per common share	\$ -	\$ -	\$ -	\$

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Quarter Ended		Six-Month Period	
	June 30,		Ended	
	2018	2017	2018	2017
(In thousands)				
Net income	\$ 31,032	\$ 27,998	\$ 64,180	\$ 53,539
Amount reclassified out of accumulated other comprehensive loss per Accounting Standards Update (“ASU”) 2016-01	-	-	6	-
Other comprehensive (loss) income:				
Unrealized (loss) gain on debt securities on which an OTTI has been recognized	(294)	1,127	202	(1,803)
Reduction of non-credit OTTI component on securities sold	-	5,678	-	5,678
Reclassification adjustments for net gain included in net income	-	(371)	-	(371)
Reclassification adjustment for other-than-temporary impairment on debt securities included in net income	-	-	-	12,231
All other unrealized holding (losses) gains on available-for-sale securities arising during the period	(7,151)	2,631	(31,700)	4,026
Other comprehensive (loss) income for the period	(7,445)	9,065	(31,492)	19,761
Total comprehensive income	\$ 23,587	\$ 37,063	\$ 32,688	\$ 73,300

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six-Month Period Ended	
	June 30,	June 30,
	2018	2017
(In thousands)		
Cash flows from operating activities:		
Net income	\$ 64,180	\$ 53,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,686	8,230
Amortization of intangible assets	1,868	2,242
Provision for loan and lease losses	40,080	43,538
Deferred income tax expense	11,479	728
Stock-based compensation	3,983	3,599
Gain on sale of investments	-	(371)
OTTI on debt securities	-	12,231
Unrealized loss (gain) on derivative instruments	103	(307)
Gain on early extinguishment of debt	(2,316)	-
Net gain on sales of premises and equipment and other assets	(840)	(133)
Net gain on sales of loans	(2,921)	(3,696)
Net amortization/accretion of premiums, discounts and deferred loan fees and costs	(3,937)	(4,235)
Originations and purchases of loans held for sale	(160,584)	(182,678)
Sales and repayments of loans held for sale	173,977	188,890
Loans held for sale valuation adjustments	558	-
Amortization of broker placement fees	676	1,007
Net amortization/accretion of premium and discounts on investment securities	1,090	40
Decrease in accrued interest receivable	9,948	10
Increase in accrued interest payable	115	567
Decrease in other assets	11,536	4,225
Increase in other liabilities	1,591	4,148
Net cash provided by operating activities	158,272	131,574
Cash flows from investing activities:		
Principal collected on loans	1,282,545	1,362,537
Loans originated and purchased	(1,217,117)	(1,498,967)
Proceeds from sales of loans held for investment	33,709	53,245
Proceeds from sales of repossessed assets	24,484	20,999
Proceeds from sales of available-for-sale securities	-	23,408
Purchases of available-for-sale securities	(352,576)	(12,440)
Proceeds from principal repayments and maturities of available-for-sale securities	174,574	119,664
Proceeds from principal repayments of held-to-maturity securities	141	141
Additions to premises and equipment	(10,305)	(5,269)
Proceeds from sale of premises and equipment and other assets	1,857	1,109
Net redemptions/purchase of other investment securities	132	(80)
Proceeds from the settlement of insurance claims	5,118	-
Net cash (used in) provided by investing activities	(57,438)	64,347
Cash flows from financing activities:		
Net increase (decrease) in deposits	196,687	(64,810)

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Repayment of securities sold under agreements to repurchase	(100,000)	-
Net FHLB advances proceeds	-	5,000
Repayment of junior subordinated debentures	(21,434)	-
Repurchase of outstanding common stock	(2,745)	(1,894)
Dividends paid on preferred stock	(1,338)	(1,338)
Net cash provided by (used in) financing activities	71,170	(63,042)
Net increase in cash and cash equivalents	172,004	132,879
Cash and cash equivalents at beginning of period	716,395	299,685
Cash and cash equivalents at end of period	\$ 888,399	\$ 432,564
Cash and cash equivalents include:		
Cash and due from banks	\$ 790,809	\$ 422,150
Money market instruments	97,590	10,414
	\$ 888,399	\$ 432,564

The accompanying notes are an integral part of these statements.

FIRST BANCORP.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Six-Month Period Ended	
	June 30,	June 30,
	2018	2017
(In thousands)		
Preferred Stock	\$ 36,104	\$ 36,104
Common Stock outstanding:		
Balance at beginning of period	21,628	21,745
Common stock issued as compensation	27	27
Common stock issued for exercised warrants	73	-
Common stock withheld for taxes	(42)	(33)
Restricted stock grants	34	95
Restricted stock forfeited	(1)	(238)
Balance at end of period	21,719	21,596
Additional Paid-In-Capital:		
Balance at beginning of period	936,772	931,856
Stock-based compensation	3,983	3,599
Common stock issued for exercised warrants	(73)	