

FIRST BANCORP /PR/
Form 10-Q
August 11, 2008

Table of Contents

**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, 2008

**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)

Puerto Rico
(State or other jurisdiction of
incorporation or organization)

66-0561882
(I.R.S. employer
identification number)

1519 Ponce de León Avenue, Stop 23
Santurce, Puerto Rico
(Address of principal executive offices)

00908
(Zip Code)

(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 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. (Check one):

Large accelerated filer Accelerated filer 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

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

Common stock: 92,510,506 outstanding as of July 31, 2008.

**FIRST BANCORP.
INDEX PAGE**

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements:	
<u>Consolidated Statements of Financial Condition (Unaudited) as of June 30, 2008 and December 31, 2007</u>	4
<u>Consolidated Statements of Income (Unaudited) - Quarters ended June 30, 2008 and June 30, 2007 and Six-months ended June 30, 2008 and June 30, 2007</u>	5
<u>Consolidated Statements of Cash Flows (Unaudited) - Six-months ended June 30, 2008 and June 30, 2007</u>	6
<u>Consolidated Statements of Changes in Stockholders' Equity (Unaudited) - Six-months ended June 30, 2008 and June 30, 2007</u>	7
<u>Consolidated Statements of Comprehensive (Loss) Income (Unaudited) - Quarters ended June 30, 2008 and June 30, 2007 and Six-months ended June 30, 2008 and June 30, 2007</u>	8
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	81
<u>Item 4. Controls and Procedures</u>	81
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	82
<u>Item 1A. Risk Factors</u>	82
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	82
<u>Item 3. Defaults Upon Senior Securities</u>	82
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	83
<u>Item 5. Other Information</u>	83
<u>Item 6. Exhibits</u>	83
SIGNATURES	
<u>Section 302 Certification of the CEO</u>	
<u>Section 302 Certification of the CFO</u>	
<u>Section 906 Certification of the CEO</u>	
<u>Section 906 Certification of the CFO</u>	

Table of Contents

Forward Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this Form 10-Q or future filings by First BanCorp (the Corporation) with the Securities and Exchange Commission (SEC), in the Corporation's press releases or in other public or shareholder 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 expressions 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 represent First BanCorp's expectations of future conditions or results and are not guarantees of future performance. First BanCorp advises readers that various factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, the following:

risks arising from credit and other risks of the Corporation's lending and investment activities, including the condo conversion loans in its Miami Agency and the construction loan portfolio in Puerto Rico;

an adverse change in the Corporation's ability to attract new clients and retain existing ones;

general economic conditions, including the current interest rate scenario and the performance of the financial markets, which may affect demand for the Corporation's products and services and the value of the Corporation's assets, including the value of the interest rate swaps that economically hedge the interest rate risk mainly relating to brokered certificates of deposit and medium-term notes as well as other derivative instruments used for protection from interest rate fluctuations;

risks arising from worsening economic conditions in Puerto Rico and the United States;

changes in the Corporation's expenses associated with acquisitions and dispositions;

developments in technology;

the impact of Doral Financial Corporation's and R&G Financial Corporation's financial condition on the repayment of their outstanding secured loans to the Corporation;

the Corporation's ability to issue brokered certificates of deposit and fund operations;

risks associated with any downgrades in the credit ratings of the Corporation's securities;

general competitive factors and industry consolidation; and

risks associated with regulatory and legislative changes for financial services companies in Puerto Rico, the United States, and the U.S. and British Virgin Islands and changes in the regulation of housing government-sponsored enterprises.

The Corporation does not undertake, and specifically disclaims any obligation, to update any of the 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 carefully consider these factors and the risk factors outlined under Item 1A, Risk Factors, in this Quarterly Report on Form 10-Q.

Table of Contents

FIRST BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

(In thousands, except for share information)	June 30, 2008	December 31, 2007
Assets		
Cash and due from banks	\$ 122,979	\$ 195,809
Money market instruments	121,415	148,579
Federal funds sold	10,810	7,957
Time deposits with other financial institutions	16,646	26,600
Total money market investments	148,871	183,136
Investment securities available for sale, at fair value:		
Securities pledged that can be repledged	3,006,577	789,271
Other investment securities	1,052,652	497,015
Total investment securities available for sale	4,059,229	1,286,286
Investment securities held to maturity, at amortized cost:		
Securities pledged that can be repledged	1,336,541	2,522,509
Other investment securities	459,571	754,574
Total investment securities held to maturity, fair value of \$1,779,015 (2007 - \$3,261,934)	1,796,112	3,277,083
Other equity securities	82,126	64,908
Loans, net of allowance for loan and lease losses of \$222,272 (2007 - \$190,168)	11,998,579	11,588,654
Loans held for sale, at lower of cost or market	29,194	20,924
Total loans, net	12,027,773	11,609,578
Premises and equipment, net	170,733	162,635
Other real estate owned	38,620	16,116
Accrued interest receivable on loans and investments	97,971	107,979
Due from customers on acceptances	652	747
Other assets	283,720	282,654
Total assets	\$ 18,828,786	\$ 17,186,931

Liabilities & Stockholders Equity

Liabilities:

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Non-interest-bearing deposits	\$ 690,451	\$ 621,884
Interest-bearing deposits (including \$1,689,208 and \$4,186,563 measured at fair value as of June 30, 2008 and December 31, 2007, respectively)	10,837,333	10,412,637
Federal funds purchased and securities sold under agreements to repurchase	3,999,590	3,094,646
Advances from the Federal Home Loan Bank (FHLB)	1,460,000	1,103,000
Notes payable (including \$13,407 and \$14,306 measured at fair value as of June 30, 2008 and December 31, 2007, respectively)	27,944	30,543
Other borrowings	231,865	231,817
Bank acceptances outstanding	652	747
Accounts payable and other liabilities	179,258	270,011
Total liabilities	17,427,093	15,765,285

Commitments and contingencies (Note 19)

Stockholders' equity:

Preferred stock, authorized 50,000,000 shares: issued and outstanding 22,004,000 shares at \$25 liquidation value per share	550,100	550,100
Common stock, \$1 par value, authorized 250,000,000 shares; issued 102,408,306 as of June 30, 2008 (2007 - 102,402,306)	102,408	102,402
Less: Treasury stock (at par value)	(9,898)	(9,898)
Common stock outstanding	92,510	92,504
Additional paid-in capital	108,326	108,279
Legal surplus	286,049	286,049
Retained earnings	443,473	409,978
Accumulated other comprehensive loss, net of tax benefit of \$977 (2007 - \$227)	(78,765)	(25,264)
Total stockholders' equity	1,401,693	1,421,646
Total liabilities and stockholders' equity	\$ 18,828,786	\$ 17,186,931

The accompanying notes are an integral part of these statements.

Table of Contents

FIRST BANCORP
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share data)	Quarter Ended		Six-Month Period Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Interest income:				
Loans	\$ 204,794	\$ 228,911	\$ 418,605	\$ 454,550
Investment securities	70,001	71,672	132,018	139,344
Money market investments	1,813	5,288	5,072	10,562
Total interest income	276,608	305,871	555,695	604,456
Interest expense:				
Deposits	99,767	133,882	205,964	257,972
Federal funds purchased and repurchase agreements	28,969	39,390	62,908	81,160
Advances from FHLB	9,572	9,001	20,720	17,198
Notes payable and other borrowings	3,694	6,383	7,039	13,476
Total interest expense	142,002	188,656	296,631	369,806
Net interest income	134,606	117,215	259,064	234,650
Provision for loan and lease losses	41,323	24,628	87,116	49,542
Net interest income after provision for loan and lease losses	93,283	92,587	171,948	185,108
Non-interest income:				
Other service charges on loans	1,418	2,418	2,731	4,209
Service charges on deposit accounts	3,191	3,185	6,555	6,376
Mortgage banking activities	804	351	1,123	1,113
Net (loss) gain on investments and impairments	(679)	(1,436)	15,514	(3,595)
Net gain on partial extinguishment and recharacterization of a secured commercial loan to a local financial institution				2,497
Rental income	579	669	1,122	1,333
Gain on sale of credit card portfolio				2,819
Other non-interest income	6,689	5,716	14,337	11,973
Total non-interest income	12,002	10,903	41,382	26,725

Non-interest expenses:

Employees compensation and benefits	34,994	33,352	71,320	69,724
Occupancy and equipment	15,541	14,496	30,520	28,878
Business promotion	4,802	4,864	9,067	9,794
Professional fees	4,919	5,608	9,978	12,005
Taxes, other than income taxes	3,988	3,653	8,014	7,234
Insurance and supervisory fees	3,945	1,799	7,929	3,491
Foreclosure-related expenses	3,172	266	6,428	541
Other non-interest expenses	10,402	9,416	20,694	21,151
Total non-interest expenses	81,763	73,454	163,950	152,818
Income before income taxes	23,522	30,036	49,380	59,015
Income tax benefit (provision)	9,472	(6,241)	17,203	(12,388)
Net income	\$ 32,994	\$ 23,795	\$ 66,583	\$ 46,627
Net income attributable to common stockholders	\$ 22,925	\$ 13,726	\$ 46,445	\$ 26,489
Net income per common share:				
Basic	\$ 0.25	\$ 0.16	\$ 0.50	\$ 0.32
Diluted	\$ 0.25	\$ 0.16	\$ 0.50	\$ 0.32
Dividends declared per common share	\$ 0.07	\$ 0.07	\$ 0.14	\$ 0.14

The accompanying notes are an integral part of these statements.

Table of Contents

FIRST BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<i>(In thousands)</i>	Six-Month Period Ended	
	June 30, 2008	June 30, 2007
Cash flows from operating activities:		
Net income	\$ 66,583	\$ 46,627
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,165	8,394
Amortization of core deposit intangible	1,695	1,660
Provision for loan and lease losses	87,116	49,542
Deferred income tax benefit	(15,068)	(2,013)
Stock-based compensation recognized		2,848
(Gain) loss on sale of investments, net	(16,003)	732
Other-than-temporary impairments on available-for-sale securities	489	2,863
Derivative instruments and hedging activities (gain) loss	(27,599)	363
Net gain on sale of loans and impairments	(617)	(606)
Net gain on partial extinguishment and recharacterization of a secured commercial loan to a local financial institution		(2,497)
Net amortization of premiums and discounts and deferred loan fees and costs	(539)	(1,043)
Amortization of broker placement fees	7,079	4,765
Accretion of basis adjustments on fair value hedges		(2,061)
Net accretion of premium and discounts on investment securities	(7,900)	(18,246)
Gain on sale of credit card portfolio		(2,819)
(Decrease) increase in accrued income tax payable	(4,715)	9,963
Decrease (increase) in accrued interest receivable	10,205	(2,451)
Decrease in accrued interest payable	(31,588)	(26,809)
Decrease in other assets	12,365	622
Decrease in other liabilities	(23,244)	(4,017)
Total adjustments	841	19,190
Net cash provided by operating activities	67,424	65,817
Cash flows from investing activities:		
Principal collected on loans	1,446,537	1,607,937
Loans originated	(1,948,093)	(1,807,982)
Purchase of loans	(116,864)	(99,533)
Proceeds from sale of loans	70,601	69,844
Proceeds from sale of repossessed assets	37,190	27,904
Purchase of servicing assets	(621)	(1,036)
Proceeds from sale of available for sale securities	389,784	3,125
Purchase of securities held to maturity	(99)	(254,586)
Purchase of securities available for sale	(3,351,675)	

Edgar Filing: FIRST BANCORP /PR/ - Form 10-Q

Principal repayments and maturities of securities held to maturity	1,489,215	318,094
Principal repayments of securities available for sale	165,658	112,921
Additions to premises and equipment	(15,088)	(11,553)
Proceeds from sale of other investment securities	9,342	
Increase in other equity securities	(17,106)	(3,419)
Net cash inflow on acquisition of business	5,154	
Net cash used in investing activities	(1,836,065)	(38,284)
Cash flows from financing activities:		
Net increase in deposits	432,637	785,821
Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements	904,944	(421,961)
Net FHLB advances taken	357,000	65,000
Repayments of notes payable and other borrowings		(150,000)
Dividends paid	(33,088)	(31,793)
Exercise of stock options	53	
Net cash provided by financing activities	1,661,546	247,067
Net (decrease) increase in cash and cash equivalents	(107,095)	274,600
Cash and cash equivalents at beginning of period	378,945	568,811
Cash and cash equivalents at end of period	\$ 271,850	\$ 843,411
Cash and cash equivalents include:		
Cash and due from banks	\$ 122,979	\$ 134,955
Money market instruments	148,871	708,456
	\$ 271,850	\$ 843,411

The accompanying notes are an integral part of these statements.

Table of Contents

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

	Six-Month Period Ended	
	June 30, 2008	June 30, 2007
Preferred Stock	\$ 550,100	\$ 550,100
Common Stock outstanding:		
Balance at beginning of period	92,504	83,254
Common stock issued under stock option plan	6	
Balance at end of period	92,510	83,254
Additional Paid-In-Capital:		
Balance at beginning of period	108,279	22,757
Shares issued under stock option plan	47	
Stock-based compensation recognized		2,848
Balance at end of period	108,326	25,605
Legal Surplus	286,049	276,848
Retained Earnings:		
Balance at beginning of period	409,978	326,761
Net income	66,583	46,627
Cash dividends declared on common stock	(12,950)	(11,655)
Cash dividends declared on preferred stock	(20,138)	(20,138)
Cumulative adjustment for accounting change (adoption of FIN 48)		(2,615)
Cumulative adjustment for accounting change (adoption of SFAS No. 159)		91,778
Balance at end of period	443,473	430,758
Accumulated Other Comprehensive Loss, net of tax:		
Balance at beginning of period	(25,264)	(30,167)
Other comprehensive loss, net of tax	(53,501)	(30,086)
Balance at end of period	(78,765)	(60,253)