



Puerto Rico Banks Defy Economic Headwinds in 2024, Driving Birling PR Stock Index to 8.83% Returns

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Challenges Faced in 2024 by Puerto Rico and U.S. Banks

Puerto Rico's banking sector operates within a unique economic and regulatory environment, which presents opportunities and risks. During 2024, banks on the island faced several challenges:

- 1. Interest Rate Volatility & Loan Growth Constraints:** While higher interest rates have supported net interest margins, they have also slowed loan demand, particularly in commercial and real estate lending. The Federal Open Market Committee (FOMC), which met last week to leave interest rates unchanged as most everyone expected, confirms a more gradual loosening of monetary policy, boosting investor confidence and lifting markets following its latest meeting. The updated federal funds rate projections suggest a measured decline in borrowing costs over the next few years. The median forecast for the Fed Funds Rate is 3.9% for 2025 and 3.4% for 2026. We should expect 50-basis-point reduction in 2025.
- 2. Economic and Fiscal Pressures:** Despite Puerto Rico's economic recovery, bank credit growth remains sluggish due to structural factors, including government debt restructuring and population decline. Fiscal policy uncertainty influences bank performance, including the island's dependency on federal funds, which are under threat by changes in vision in the Trump 2.0 administration. In December, the Puerto Rico Planning Board lowered its economic growth projection for 2024 to 2.40% GDP from 2.80% in December, and its 2025 forecast was from 1.50% GDP to 1.20% GDP. The PR Economic Activity Index fell to -1.10% using November 2024 data, its ninth consecutive contraction, and has decreased 375% since March 2024.
- 3. Regulatory and Compliance Costs:** Puerto Rico's banks are subject to strict oversight by U.S. regulators, particularly regarding anti-money laundering (AML) and compliance requirements. The cost of compliance continues to weigh on profitability, especially for banks focused on international banking and correspondent banking relationships.
- 4. Housing Market & Credit Risks:** Most home prices have become unreachable for most citizens; a market readjustment is looming with a potential cooling in real estate transactions could affect mortgage lending growth. Rising delinquencies in consumer loans, primarily auto loans and credit cards, could lead to increased loan loss provisions.

The Broader Challenges for U.S. Banks

The U.S. banking sector faced a different set of pressures in 2024 that continues into 2025.

- 1. Depositor Flight to Higher Yields:** Customers have shifted deposits to higher-yielding money market funds and Treasury securities, leading to higher bank funding costs. With Regional banks have struggled to maintain stable deposit bases.

2. **Commercial Real Estate (CRE) Exposure:** remains a significant risk, with declining office space demand impacting banks with heavy commercial loan portfolios. As of December 2024, U.S. commercial banks held approximately \$3 trillion in commercial real estate loans. On average, CRE loans constitute about 11% of the total loan portfolios of major U.S. banks. In contrast, smaller banks have a higher exposure, with CRE loans accounting for approximately 21.6% of their total loans. Large banks have tightened lending standards, leading to slower credit expansion.
3. **Bank Consolidation & Competitive Pressures:** The failure of several regional banks in 2023 has led to increased regulatory scrutiny and consolidation in the sector. Large banks dominate market share, making it harder for smaller institutions to compete on digital banking innovation and operational efficiencies.
4. **Federal Reserve & Interest Rate Risks:** While the Fed has paused rate hikes, uncertainty over potential cuts in 2025 could impact bank earnings. A steeper yield curve could help net interest margins, but banks must navigate market volatility and credit risks.

Despite facing a myriad of economic and regulatory obstacles, Puerto Rico's banking sector remains resilient, adapting to the new gradual interest rate decrease regime, fiscal pressures, and shifting conditions. On the other hand, the U.S. banking sector is grappling with deposit outflows, particularly from smaller to larger banks, commercial real estate risks, and competitive pressures, and continues to navigate an evolving landscape shaped by monetary policy and market forces.

Looking ahead, 2025 will be a critical year, with interest rate cuts expected to provide some relief, but economic uncertainty and regulatory oversight will remain key factors influencing bank performance. Puerto Rico's financial institutions focus on prudent risk management, operational efficiency, and strategic growth initiatives to thrive in an increasingly complex environment. Below, we discuss their 2024 results in detail.

The top five indices for 2024, ranked by returns:

- Birling U.S. Bank Index: **43.75%**
- Nasdaq Composite: **28.64%**
- S&P 500: **23.31%**
- Dow Jones Industrial: **12.88%**
- Birling Puerto Rico Stock Index: **8.83%**



Dow Jones, S&P 500, Nasdaq Composite, Birling PR Stock Index & Birling US Bank Index 2024 Returns



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Examining the top three banks provides insights into their performance in 2024:



Oriental, Firstbank, Popular and Evertec Returns for 2024

1. **Popular, Inc. (BPOP):** reported 4Q24 revenues of \$755,462 million, up 7.47%, net income of \$177,817 million, up 14.48%, and earnings per share of \$2.51, surpassing estimates. Popular has a Tier 1 Capital Ratio of 16.08%, a stock price objective of \$108.44, and its stock closed on 1/31/25 at \$86.20.

Popular delivered a total return for 2024 of 14.61%, which underperformed the S&P, Nasdaq, and the Birling U.S. Bank Index. It beat the Birling PR Stock Index and the Dow Jones.

- **Full-year 2024 Results:** Revenues were \$2,941 billion, up 5.71%, and net income was \$612,800, up 13.50%.
- **Market Capitalization** as of 1.31.25: \$7,220 billion.

2. **First Bancorp (FBP):** reported 4Q24 revenues of \$241.5 million, up 4.81%, net income of \$75,701 million, down 4.76%, and earnings per share of \$0.46, surpassing estimates. FBP has a Tier 1 Capital Ratio of 16.30% and a stock price objective of \$23.00. First Bancorp closed 1/31/25 at \$20.76. **FirstBank achieved a total return of 13.01%**, beating the Dow Jones and Birling PR Stock Index, while lagging the Birling U.S. Bank Index, the Nasdaq and S&P 500.

- **Full-year 2024 Results:** Revenues were \$938,201 million, up 0.93%, and net income was \$298,724, down 1.35%.
- **Market Capitalization** as of 1.31.25: \$3,402 billion.

3. **OFG Bancorp. (OFG):** reported 4Q24 revenues of \$181.9 million, up 3.58%, net income of \$50,347 million, up 7.21%, and earnings per share of \$1.09, surpassing estimates. OFG has a Tier 1 Capital Ratio of 14.26% and a stock price objective of \$49.38. OFG closed on 1/31/25 at \$42.71. **Oriental achieved a total return of 12.91%**, beating the Dow Jones and Birling PR Stock Index, while lagging the Birling U.S. Bank Index, the Nasdaq and S&P 500.

- **Full-year 2024 Results:** Revenues were \$709,621 million, up 3.93%, and net income was \$198,170, up 8.96%.
- **Market Capitalization** as of 1.31.25: \$1,941 billion.

4. **Evertec, Inc. (EVTC):** has not reported its 4Q24 earnings; however, we estimate it will release earnings on **Feb. 28, 2025**. Evertec closed on 1/31/25 at \$32.47 and has a stock price objective of \$36.00. **Evertec achieved a total return of -15.66%**, lagging all indexes with a **Market Capitalization** as of 1.31.25: \$2,066 billion.



The Last Word: Spotlight on Tier 1 Capital Ratios in U.S. and Puerto Rican Banks

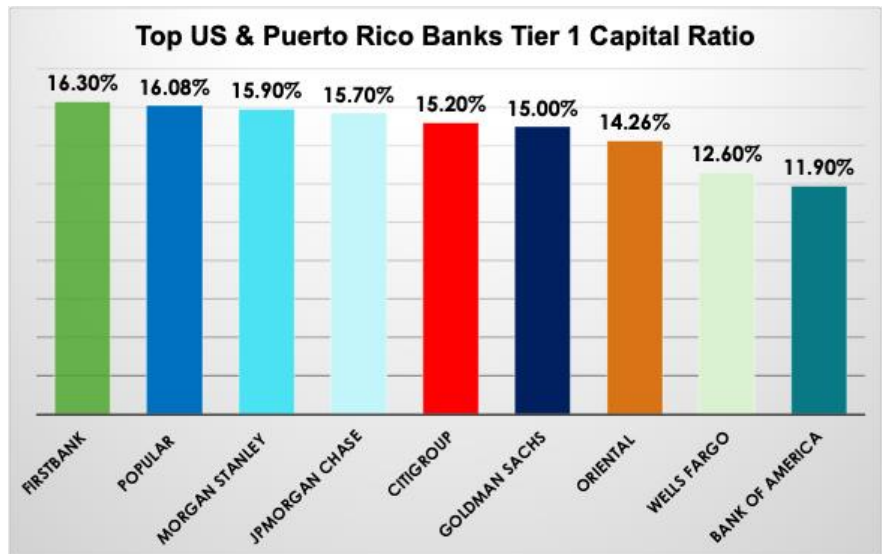
Analyzing Puerto Rico's leading public bank holding companies and their placement within the Birling Capital Puerto Rico Stock Index paints a vivid picture of resilience and investor confidence. These institutions, amidst global uncertainties, continue demonstrating financial strength and adaptability, key factors that set them apart in the banking sector.

The Consolidated Market Capitalization of these firms stands at an impressive \$14.63 billion. While the Birling Capital Puerto Rico Stock Index returned 8.83% in 2024—down from a remarkable 32.63% in 2023—it remains a testament to the enduring trust investors place in Puerto Rican banks even under challenging economic conditions.

Tier 1 Capital: A Key Metric of Stability

One of the most striking aspects of this analysis is the Tier 1 Capital Ratio, a critical measure of a bank's financial health and ability to absorb potential losses. An unexpected trend emerges when comparing Puerto Rican banks with the top-tier U.S. banks: Puerto Rican institutions are leading the way.

- **FirstBank** ranks first with an impressive Tier 1 Capital Ratio of **16.30%**.
- **Popular**, closely follows with **16.08%**.
- **Oriental**, also outperforming some of the largest U.S. banks, secures the seventh position at **14.26%**.



These results highlight the superior capitalization of Puerto Rico's leading banks, surpassing several globally recognized institutions deemed "Too Big to Fail." In contrast U.S. giants such as **Morgan Stanley** with **15.90%**, **JPMorgan Chase** with **15.70%**, and **Citigroup** with **15.20%** trail behind Firstbank and Popular. While the Tier 1 Capital Ratios of **Wells Fargo** with **12.60%** and **Bank of America** with **11.90%**, trail behind Oriental. These results underscore the strategic positioning of Puerto Rican banks as financially robust institutions with strong capitalization capable of weathering economic headwinds. Their ability to outperform U.S. banking powerhouses in Tier 1 Capital Ratios signals resilience and significant growth potential, making them attractive to domestic and international investors. In conclusion, the impressive Tier 1 Capital Ratios of Puerto Rico's banking leaders reinforce their status as formidable players in the financial landscape, inspiring confidence and solidifying their role as pivotal components of the island's economic stability and growth.

"The greatest risk in times of change is not the change itself but acting using ideas that failed in the past".



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