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CATHAY GENERAL BANCORP  
Form 10-Q  
November 09, 2012  
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 September 30, 2012

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 0-18630

CATHAY GENERAL BANCORP  
(Exact name of registrant as specified in its charter)

Delaware  
(State of other jurisdiction of incorporation or organization)

95-4274680  
(I.R.S. Employer Identification No.)

777 North Broadway, Los Angeles, California  
(Address of principal executive offices)

90012  
(Zip Code)

Registrant's telephone number, including area code: (213) 625-4700

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

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

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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, \$.01 par value, 78,751,638 shares outstanding as of October 31, 2012.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES  
3RD QUARTER 2012 REPORT ON FORM 10-Q  
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Forward-Looking Statements

In this Quarterly Report on Form 10-Q, the term “Bancorp” refers to Cathay General Bancorp and the term “Bank” refers to Cathay Bank. The terms “Company,” “we,” “us,” and “our” refer to Bancorp and the Bank collectively. The statements in this report include forward-looking statements within the meaning of the applicable provisions of the Private Securities Litigation Reform Act of 1995 regarding management’s beliefs, projections, and assumptions concerning future results and events. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements in these provisions. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, growth plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, financial expectations, regulatory and competitive outlook, investment and expenditure plans, financing needs and availability, and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as “aims,” “anticipates,” “believes,” “can,” “could,” “estimates,” “expects,” “hopes,” “intends,” “projects,” “seeks,” “shall,” “should,” “will,” “predicts,” “potential,” “continue,” “possible,” “optimistic,” and variations of the similar expressions are intended to identify these forward-looking statements. Forward-looking statements by us are based on estimates, beliefs, projections, and assumptions of management and are not guarantees of future performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Such risks and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

- U.S. and international business and economic conditions;
- credit risks of lending activities and deterioration in asset or credit quality;
- current and potential future supervisory action by bank supervisory authorities;
- increased costs of compliance and other risks associated with changes in regulation and the current regulatory environment, including the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), and the potential for substantial changes in the legal, regulatory, and enforcement framework and oversight applicable to financial institutions in reaction to recent adverse financial market events, including changes pursuant to the Dodd-Frank Act;
  - potential goodwill impairment;
  - liquidity risk;
  - fluctuations in interest rates;
  - inflation and deflation;
- risks associated with acquisitions and the expansion of our business into new markets;
  - real estate market conditions and the value of real estate collateral;
  - environmental liabilities;
- the effect of repeal of the federal prohibition on payment of interest on demand deposit accounts;
  - our ability to compete with larger competitors;

- the possibility of higher capital requirements, including implementation of the Basel III capital standards of the Basel Committee;
  - our ability to retain key personnel;
  - successful management of reputational risk;
  - natural disasters and geopolitical events;
- general economic or business conditions in California, Asia, and other regions where the Bank has operations;
- restrictions on compensation paid to our executives as a result of our participation in the TARP Capital Purchase Program;
  - failures, interruptions or security breaches of systems or data breaches;
- our ability to adapt our systems to technological changes, including successfully implementing our core system conversion;
  - changes in accounting standards or tax laws and regulations;
  - market disruption and volatility;
- restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;
- successfully raising additional capital, if needed, and the resulting dilution of interests of holders of our common stock; and
  - the soundness of other financial institutions.

These and other factors are further described in Bancorp's Annual Report on Form 10-K for the year ended December 31, 2011 (Item 1A in particular), other reports and registration statements filed with the Securities and Exchange Commission ("SEC"), and other filings it makes with the SEC from time to time. Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which speak to the date of this report. We have no intention and undertake no obligation to update any forward-looking statement or to publicly announce any revision of any forward-looking statement to reflect future developments or events, except as required by law.

Bancorp's filings with the SEC are available at the website maintained by the SEC at <http://www.sec.gov>, or by request directed to Cathay General Bancorp, 9650 Flair Drive, El Monte, California 91731, Attention: Investor Relations (626) 279-3286.

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (Unaudited)

CATHAY GENERAL BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	September 30, 2012	December 31, 2011
	(In thousands, except share and per share data)	
<b>Assets</b>		
Cash and due from banks	\$ 114,646	\$ 117,888
Short-term investments and interest bearing deposits	426,456	294,956
Securities held-to-maturity (market value of \$908,067 in 2012 and \$1,203,977 in 2011)	849,376	1,153,504
Securities available-for-sale (amortized cost of \$1,290,212 in 2012 and \$1,309,521 in 2011)	1,293,571	1,294,478
Trading securities	4,619	4,542
Loans held for sale	-	760
Loans	7,259,930	7,059,212
Less: Allowance for loan losses	(184,438 )	(206,280 )
Unamortized deferred loan fees, net	(9,036 )	(8,449 )
Loans, net	7,066,456	6,844,483
Federal Home Loan Bank stock	45,493	52,989
Other real estate owned, net	60,642	92,713
Affordable housing investments, net	87,076	78,358
Premises and equipment, net	103,456	105,961
Customers' liability on acceptances	30,553	37,300
Accrued interest receivable	29,542	32,226
Goodwill	316,340	316,340
Other intangible assets, net	7,638	11,598
Other assets	168,660	206,768
<b>Total assets</b>	<b>\$ 10,604,524</b>	<b>\$ 10,644,864</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Deposits</b>		
Non-interest-bearing demand deposits	\$ 1,245,312	\$ 1,074,718
<b>Interest-bearing deposits:</b>		
NOW deposits	569,708	451,541
Money market deposits	1,083,917	951,516
Savings deposits	460,182	420,030
Time deposits under \$100,000	668,051	832,997
Time deposits of \$100,000 or more	3,325,871	3,498,329
<b>Total deposits</b>	<b>7,353,041</b>	<b>7,229,131</b>
Securities sold under agreements to repurchase	1,350,000	1,400,000
Advances from the Federal Home Loan Bank	21,200	225,000

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Other borrowings from financial institutions	-	880
Other borrowings for affordable housing investments	18,746	18,920
Long-term debt	171,136	171,136
Acceptances outstanding	30,553	37,300
Other liabilities	53,912	46,864
Total liabilities	8,998,588	9,129,231
Commitments and contingencies	-	-
Stockholders' Equity		
Preferred stock, 10,000,000 shares authorized, 258,000 issued and outstanding in 2012 and 2011	253,678	250,992
Common stock, \$0.01 par value, 100,000,000 shares authorized, 82,951,885 issued and 78,744,320 outstanding at September 30, 2012, and 82,860,122 issued and 78,652,557 outstanding at December 31, 2011	830	829
Additional paid-in-capital	768,169	765,641
Accumulated other comprehensive income/(loss), net	1,947	(8,732 )
Retained earnings	698,601	624,192
Treasury stock, at cost (4,207,565 shares at September 30, 2012, and at December 31, 2011)	(125,736 )	(125,736 )
Total Cathay General Bancorp stockholders' equity	1,597,489	1,507,186
Noncontrolling interest	8,447	8,447
Total equity	1,605,936	1,515,633
Total liabilities and equity	\$10,604,524	\$10,644,864

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
	(In thousands, except share and per share data)			
<b>INTEREST AND DIVIDEND INCOME</b>				
Loans receivable, including loan fees	\$90,024	\$92,590	\$269,486	\$272,940
Investment securities- taxable	15,157	20,304	50,046	65,274
Investment securities- nontaxable	1,036	1,054	3,127	3,165
Federal Home Loan Bank stock	57	38	190	134
Federal funds sold and securities purchased under agreements to resell	2	33	18	81
Deposits with banks	471	360	1,596	901
Total interest and dividend income	106,747	114,379	324,463	342,495
<b>INTEREST EXPENSE</b>				
Time deposits of \$100,000 or more	7,970	10,496	26,152	32,115
Other deposits	3,261	4,777	11,045	15,871
Securities sold under agreements to repurchase	13,734	14,840	42,987	45,903
Advances from Federal Home Loan Bank	74	2,101	196	10,592
Long-term debt	1,291	1,208	3,895	3,630
Short-term borrowings	-	4	-	11
Total interest expense	26,330	33,426	84,275	108,122
Net interest income before provision for credit losses	80,417	80,953	240,188	234,373
Provision/(credit) for loan losses	-	9,000	(9,000 )	25,000
Net interest income after provision for loan losses	80,417	71,953	249,188	209,373
<b>NON-INTEREST INCOME</b>				
Securities gains, net	8,652	8,833	13,241	20,243
Letters of credit commissions	1,728	1,440	4,873	4,113
Depository service fees	1,342	1,341	4,114	4,101
Other operating income	3,900	5,213	12,077	13,449
Total non-interest income	15,622	16,827	34,305	41,906
<b>NON-INTEREST EXPENSE</b>				
Salaries and employee benefits	18,451	17,481	58,426	53,411
Occupancy expense	3,853	3,714	10,926	10,709
Computer and equipment expense	2,340	2,139	7,194	6,437
Professional services expense	5,273	4,846	15,224	13,534
FDIC and State assessments	2,094	2,642	6,554	9,864
Marketing expense	519	908	3,408	2,420
Other real estate owned expense	1,794	6,120	13,548	8,603
	476	2,102	4,387	6,055

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Operations of affordable housing investments, net				
Amortization of core deposit intangibles	1,404	1,461	4,265	4,402
Cost associated with debt redemption	3,450	4,540	6,200	18,527
Other operating expense	8,190	2,430	12,925	7,614
Total non-interest expense	47,844	48,383	143,057	141,576
Income before income tax expense	48,195	40,397	140,436	109,703
Income tax expense	17,686	14,162	50,852	36,802
Net income	30,509	26,235	89,584	72,901
Less: net income attributable to noncontrolling interest	151	151	452	452
Net income attributable to Cathay General Bancorp	30,358	26,084	89,132	72,449
Dividends on preferred stock	(4,123 )	(4,111 )	(12,361 )	(12,323 )
Net income attributable to common stockholders	26,235	21,973	76,771	60,126
Other comprehensive income, net of tax				
Unrealized holding gain/(loss) arising during the period	10,650	(4,753 )	18,353	7,264
Less: reclassification adjustments included in net income	5,015	5,120	7,674	11,733
Total other comprehensive gain/(loss), net of tax	5,635	(9,873 )	10,679	(4,469 )
Total comprehensive income	\$35,993	\$16,211	\$99,811	\$67,980
Net income per common share:				
Basic	\$0.33	\$0.28	\$0.98	\$0.76
Diluted	\$0.33	\$0.28	\$0.98	\$0.76
Cash dividends paid per common share	\$0.01	\$0.01	\$0.03	\$0.03
Average common shares outstanding				
Basic	78,729,272	78,640,308	78,706,150	78,628,477
Diluted	78,731,180	78,641,142	78,711,235	78,637,977

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine months ended September 30	
	2012	2011
	(In thousands)	
<b>Cash Flows from Operating Activities</b>		
Net income	\$89,584	\$72,901
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Provision (credit) for loan losses	(9,000 )	25,000
Provision for losses on other real estate owned	10,362	9,088
Deferred tax liability	5,901	4,380
Depreciation	4,435	4,577
Net gains on sale and transfer of other real estate owned	(700 )	(4,842 )
Net gains on sale of loans	(618 )	(2,851 )
Proceeds from sales of loans	58,505	20,699
Originations of loans held-for-sale	(57,861 )	(10,992 )
Increase in trading securities, net	(79 )	(153,440 )
Write-downs on venture capital investments	226	57
Gain on sales and calls of securities	(13,241 )	(20,243 )
Decrease in unrealized loss from interest rate swaps mark-to-market	(2,634 )	(2,580 )
Amortization/accretion of security premiums/discounts, net	3,800	2,903
Amortization of other intangible assets	4,368	4,475
Excess tax short-fall from share-based payment arrangements	679	276
Stock based compensation expense	1,801	1,278
Stock issued to officers as compensation	450	-
Decrease in deferred loan fees, net	587	739
Decrease in accrued interest receivable	2,684	5,463
Decrease in other assets, net	28,475	7,297
(Decrease)/increase in other liabilities	(1,365 )	4,214
Net cash provided by/(used in) operating activities	126,359	(31,601 )
<b>Cash Flows from Investing Activities</b>		
(Increase)/decrease in short-term investments	(131,500 )	172,629
Increase in securities purchased under agreements to resell	-	30,000
Purchase of investment securities available-for-sale	(317,597 )	(371,116 )
Proceeds from maturities and calls of investment securities available-for-sale	494,199	385,000
Proceeds from sale of investment securities available-for-sale	60,951	503,561
Purchase of mortgage-backed securities available-for-sale	(654,386 )	(403,123 )
Proceeds from repayment of mortgage-backed securities available-for-sale	78,758	83,594
Proceeds from sale of mortgage-backed securities available-for-sale	368,972	759,654
Purchase of mortgage-backed securities held-to-maturity	-	(480,083 )
Proceeds from maturities and calls of investment securities held-to-maturity	301,981	