

CATHAY GENERAL BANCORP
Form 10-Q
August 09, 2018

Table of Contents

UNITED STATES

securities and exchange commission

Washington, D.C. 20549

form 10-q

quarterly report pursuant to section 13 or 15(d) of THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

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 001-31830

Cathay General Bancorp

(Exact name of registrant as specified in its charter)

Delaware	95-4274680
(State of other jurisdiction of incorporation	(I.R.S.
or organization)	Employer
	Identification
	No.)

777 North Broadway, Los Angeles, California	90012
(Address of principal executive offices)	(Zip Code)

Edgar Filing: CATHAY GENERAL BANCORP - Form 10-Q

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

(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, smaller reporting company, or an 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	(Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant 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, \$.01 par value, 81,255,708 shares outstanding as of July 31, 2018.

Table of Contents

CATHAY GENERAL BANCORP AND SUBSIDIARIES

2ND quarter 2018 REPORT ON FORM 10-Q

table of contents

<u>PART I – FINANCIAL INFORMATION</u>	3
Item 1. <u>FINANCIAL STATEMENTS (Unaudited)</u>	3
<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)</u>	6
Item 2. <u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	40
Item 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	63
Item 4. <u>CONTROLS AND PROCEDURES</u>	64
<u>PART II – OTHER INFORMATION</u>	65
Item 1. <u>LEGAL PROCEEDINGS</u>	65
Item 1A. <u>RISK FACTORS</u>	66
Item 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	66
Item 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	67
Item 4. <u>MINE SAFETY DISCLOSURES</u>	67
Item 5. <u>OTHER INFORMATION</u>	67
Item 6. <u>EXHIBITS</u>	67
<u>SIGNATURES</u>	68

Table of Contents

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, loan and deposit growth, investment and expenditure plans, financing needs and availability, level of nonperforming assets, and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as “aims,” “anticipates,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “hopes,” “intends,” “may,” “optimistic,” “plans,” “potential,” “possible,” “seeks,” “shall,” “should,” “will,” and variations of these words and 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;
- possible additional provisions for loan losses and charge-offs;
- credit risks of lending activities and deterioration in asset or credit quality;
- extensive laws and regulations and supervision that we are subject to, including potential supervisory action by bank supervisory authorities;
- increased costs of compliance and other risks associated with changes in regulation, including the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”);
- higher capital requirements from the implementation of the Basel III capital standards;
- compliance with the Bank Secrecy Act and other money laundering statutes and regulations;
- potential goodwill impairment;
- liquidity risk;
- fluctuations in interest rates;
- risks associated with acquisitions and the expansion of our business into new markets;
- inflation and deflation;
- real estate market conditions and the value of real estate collateral;
- environmental liabilities;

our ability to compete, including against larger competitors;

1

Table of Contents

our ability to retain key personnel;
successful management of reputational risk;
natural disasters and geopolitical events;
general economic or business conditions in Asia, and other regions where the Bank has operations;
failures, interruptions, or security breaches of our information systems;
our ability to adapt our systems to technological changes;
risk management processes and strategies;
adverse results in legal proceedings;
the impact of regulatory enforcement actions, if any;
certain provisions in our charter and bylaws that may affect acquisition of the Company;
changes in accounting standards or tax laws and regulations;
market disruption and volatility;
fluctuations in the Bancorp's stock price;
restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;
issuances of preferred stock;
capital level requirements and 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, 2017 (Item 1A in particular), other reports and registration statements filed with the Securities and Exchange Commission ("SEC"), and other filings Bancorp 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) 279-3296.

Table of Contents**PART I – FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS (Unaudited)****CATHAY GENERAL BANCORP AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In thousands, except share and per share data)	June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	\$ 195,392	\$ 247,056
Short-term investments and interest bearing deposits	208,749	292,745
Cash and cash equivalents	404,141	539,801
Securities available-for-sale (amortized cost of \$1,510,142 at June 30, 2018 and \$1,336,345 at December 31, 2017)	1,475,949	1,333,626
Loans held for sale	-	8,000
Loans	13,348,737	12,870,290
Less: Allowance for loan losses	(121,899)	(123,279)
Unamortized deferred loan fees, net	(3,248)	(3,245)
Loans, net	13,223,590	12,743,766
Equity securities	23,131	-
Federal Home Loan Bank stock	17,250	23,085
Other real estate owned, net	8,220	9,442
Affordable housing investments and alternative energy partnerships, net	308,464	272,871
Premises and equipment, net	102,415	103,064
Customers' liability on acceptances	22,366	13,482
Accrued interest receivable	48,178	45,307
Goodwill	372,189	372,189
Other intangible assets, net	7,462	8,062
Other assets	184,391	167,491
Total assets	\$ 16,197,746	\$ 15,640,186
Liabilities and Stockholders' Equity		
Deposits		
Non-interest-bearing demand deposits	\$ 2,835,314	\$ 2,783,127
Interest-bearing deposits:		
Demand deposits	1,381,617	1,410,519

Edgar Filing: CATHAY GENERAL BANCORP - Form 10-Q

Money market deposits	2,263,991	2,248,271
Savings deposits	790,125	857,199
Time deposits	5,833,499	5,390,777
Total deposits	13,104,546	12,689,893
Securities sold under agreements to repurchase	50,000	100,000
Advances from the Federal Home Loan Bank	480,000	430,000
Other borrowings of affordable housing investments	17,382	17,481
Long-term debt	194,136	194,136
Deferred payments from acquisition	36,015	35,404
Acceptances outstanding	22,366	13,482
Other liabilities	228,468	186,486
Total liabilities	14,132,913	13,666,882
Commitments and contingencies	-	-
Stockholders' Equity		
Common stock, \$0.01 par value, 100,000,000 shares authorized, 89,466,326 issued and 81,255,683 outstanding at June 30, 2018, and 89,104,022 issued and 80,893,379 outstanding at December 31, 2017	895	891
Additional paid-in-capital	937,224	932,874
Accumulated other comprehensive loss, net	(22,921)	(2,511)
Retained earnings	1,389,224	