

Fitch Affirms Cathay's Ratings Following Peer Review at 'BB+/'B'; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed Cathay General Bancorp's (CATY) ratings at 'BB+/'B'. The Rating Outlook is Stable.

The rating affirmation and Stable Outlook reflect improving asset quality, solid earnings and elevated capital levels. These strengths are balanced by CATY's liquidity profile, which is relatively weaker than the majority of the mid-tier banks and higher levels of longer duration mortgages on balance sheet.

A full list of rating actions follows at the end of this press release.

KEY RATING DRIVERS - IDRS, VRs, AND SENIOR DEBT CATY's ratings rank near the bottom of the mid-tier bank peer group primarily due to its relatively weaker liquidity profile. CATY is more reliant on both wholesale borrowings and high-cost time deposits than its peers. CATY's wholesale borrowings include structured repurchase agreements with a weighted average cost of over 3.8%. However, Fitch expects the majority of the structured repurchase agreements to mature or be unwound by the end of 2015 and be replaced by lower cost wholesale funding sources.

Fitch notes improved liquidity profiles throughout the banking sector due to lack of loan growth, quantitative easing and excess cash on corporate and personal balance sheets. CATY, like most banks, has benefited from the robust levels of liquidity in the banking system as measured by declining net non-core funding, non-interest bearing deposit growth and improving funding costs. These trends could generate positive momentum over the medium term if CATY can continue to maintain its improving liquidity risk profile even as systemic liquidity reverts to its mean.

CATY's core earnings are solid and rank in the middle of the peer group on a pre-tax, pre-provision basis. Earnings in 2013 have benefitted from negative provisions. Fitch believes CATY has the potential to conduct further reserve releases in the near term. Over the medium term, Fitch believes core profitability improvement could be realized at a relatively faster rate than its peer banks once its high cost repos mature.

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Asset quality continues to improve with NPAs and NCOs declining. However, NPA levels remain in the top half of the group. Fitch expects continued reduction of NPAs, while credit costs remain low in the near term. Reserve levels are strong, especially given recent loss history.

CATY is a \$10.8 billion bank holding company headquartered in Los Angeles. The company has a solid presence in the niche Asian American demographics. Its primary operations are located in California; however, the company has branches in New York, Texas, Massachusetts, Washington, Illinois, New Jersey and Hong Kong.

RATING SENSITIVITIES - IDRS, VRs, AND SENIOR DEBT Fitch believes CATY's ratings could move higher if the company demonstrates the ability to maintain an improved liquidity risk profile while maintaining a solid earnings profile. Although not anticipated, a reversal of asset quality trends could result in negative ratings pressure. Over the medium term, interest rate risk could be a negative ratings driver. CATY has kept some 30-year mortgages on-balance sheet. Continued proliferation of long duration assets could pressure ratings. Currently loans and securities at Cathay Bank with a 15-year maturity or longer represent over 15% of assets compared to an industry peer average of 4.69%.

KEY RATING DRIVERS - HYBRID SECURITIES CATY's preferred stock is rated five notches below its VR to reflect loss severity and an assessment of increment non-performance risk.

RATING SENSITIVITIES - HYBRID SECURITIES CATY's Preferred stock rating is sensitive to changes in CATY's VR. Rating sensitivities for the VR are listed above.

SUBSIDIARY AND AFFILIATED COMPANY KEY RATING DRIVERS Cathay Bank is a wholly owned subsidiary of CATY. Cathay Bank's ratings are aligned with CATY reflecting Fitch's view that the bank subsidiary is core to the franchise.

SUBSIDIARY AND AFFILIATED COMPANY RATING SENSITIVITIES Cathay Bank's ratings are sensitive to changes to CATY's VR or any changes to Fitch's view of structural subordination between bank subsidiary and holding company. Rating sensitivities for the VR are listed above.

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KEY RATING DRIVERS - SUPPORT RATING AND SUPPORT RATING FLOOR

CATHY's Support Rating and Support Rating Floor of '5' and 'NF' reflect Fitch's view that the company is unlikely to procure extraordinary support should such support be needed.

KEY RATING SENSITIVITIES - SUPPORT RATING AND SUPPORT RATING FLOOR

CATHY's Support Rating and Support Rating Floor are sensitive to Fitch's assumption around capacity to procure extraordinary support in case of need.

Fitch reviewed CATHY's ratings as part of the mid-tier regional bank review. The 19 banks in today's review include: Associated Banc-Corp (ASBC), BOK Financial Corp (BOKF), Cathay General Bancorp (CATHY), City National Bancorp (CYN), Cullen/Frost Bankers, Inc (CFR), East West Bancorp, Inc. (EWBC), First Horizon National Corp (FHN), First National of Nebraska, Inc. (FNNI), First Niagara Financial Group, Inc. (FNFG), First Republic Bank (FRC), First Merit (FMER), Fulton Financial Corp (FULT), Hancock Holding Company (HBHC), People's United Financial, Inc. (PBCT), Synovus Financial Corp (SNV), TCF Financial Corp (TCB), UMB Financial Corporation (UMB), Webster Financial Corp (WBS), Wintrust (WTFC).

Fitch has affirmed the following ratings:

Cathay General Bancorp--Long-term at 'BB+';--Short-term IDR at 'B';--Viability Rating at 'bb+';--Preferred stock at 'B-';--Support Floor at 'NF';--Support affirmed at '5'.

Cathay Bank--Long-term IDR at 'BB+';--Long-term deposit at 'BBB-';--Short-term IDR at 'B';--Short-term deposit at 'F3';--Viability Rating at 'bb+';--Support Floor at 'NF';--Support at '5'.

The Rating Outlook is Stable.

Additional information is available at 'www.fitchratings.com'.

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Applicable Criteria and Related Research:--2014 Outlook: U.S. Banks (Nov. 21, 2013)--U.S. Banks: Liquidity and Deposit Funding (Aug. 8, 2013)--U.S. Banks: Interest Rate Risks (What Happens When Rates Rise) (June 18, 2013)--U.S. Bank Mergers and Acquisitions -- When Will The Catalysts Kick In? (July 11, 2013)--Global Trading and Universal Banks - Periodic Review (Dec. 12, 2013)--Fitch Fundamentals Index - U.S.; Index Trend Analysis 4Q13 (Jan. 15, 2014)--Risk Radar Global - Q313 (Sept. 5, 2013)--Fitch Global Corporate Rating Activity – Third Quarter 2013 (Dec. 5, 2013)--U.S. Banking Quarterly Comment: 4Q13 (Earnings Continue to Tick Up, but Challenges Remain) (Jan. 27, 2014)--Global Financial Institutions Rating Criteria (Jan. 31, 2014)--Assessing and Rating Bank Subordinated and Hybrid Securities (Jan. 31, 2014)

Applicable Criteria and Related Research:2014 Outlook: U.S. Banks http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=723989
U.S. Banks: Liquidity and Deposit Funding http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=714196
U.S. Banks: Interest Rate Risks (What Happens When Rates Rise) http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=710875
U.S. Bank Mergers and Acquisitions -- When Will The Catalysts Kick In? http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=712539
Fitch Fundamentals Index http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=729196
Risk Radar Global - Q313 http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=717023
Fitch Global Corporate Rating Activity – Third-Quarter 2013 http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720480
U.S. Banking Quarterly Comment: 4Q13 (Earnings Continue to Tick Up, but Challenges Remain) http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732295
Global Financial Institutions Rating Criteria http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397
Assessing and Rating Bank Subordinated and Hybrid Securities Criteria http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732137

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IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS

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