

CATHAY GENERAL BANCORP  
Form 10-Q  
November 07, 2016  
**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, 2016

**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 or organization)	(I.R.S. Employer Identification No.)
777 North Broadway, Los Angeles, California	90012
(Address of principal executive offices)	(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

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, 78,890,065 shares outstanding as of October 31, 2016.

**CATHAY GENERAL BANCORP AND SUBSIDIARIES**

**3<sup>RD</sup> quarter 2016 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,” “continue,” “could,” “estimates,” “expects,” “hopes,” “is,” “may,” “might,” “plans,” “potential,” “possible,” “predicts,” “projects,” “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;

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our ability to compete with larger competitors;

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;

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;

restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;

issuance of preferred stock;

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, 2015 (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.

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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)**

(In thousands, except share and per share data)	September 30, 2016	December 31, 2015
<b>Assets</b>		
Cash and due from banks	\$203,877	\$180,130
Short-term investments and interest bearing deposits	791,757	536,880
Securities available-for-sale (amortized cost of \$1,283,808 in 2016 and \$1,595,723 in 2015)	1,298,469	1,586,352
Loans held for sale	4,750	6,676
Loans	11,010,457	10,163,452
Less: Allowance for loan losses	(117,942 )	(138,963 )
Unamortized deferred loan fees, net	(5,519 )	(8,262 )
Loans, net	10,886,996	10,016,227
Federal Home Loan Bank stock	18,900	17,250
Other real estate owned, net	20,986	24,701
Affordable housing investments and alternative energy partnerships, net	225,535	182,943
Premises and equipment, net	106,885	108,924
Customers' liability on acceptances	13,339	40,335
Accrued interest receivable	31,868	30,558
Goodwill	372,189	372,189
Other intangible assets, net	3,158	3,677
Other assets	120,080	147,284
Total assets	\$14,098,789	\$13,254,126
<b>Liabilities and Stockholders' Equity</b>		
Deposits		
Non-interest-bearing demand deposits	\$2,246,661	\$2,033,048
Interest-bearing deposits:		
Demand deposits	1,073,436	966,404
Money market deposits	2,131,190	1,905,719
Savings deposits	633,345	618,164
Time deposits	4,854,064	4,985,752

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Total deposits	10,938,696	10,509,087
Securities sold under agreements to repurchase	350,000	400,000
Advances from the Federal Home Loan Bank	700,000	275,000
Other borrowings for affordable housing investments	17,705	18,593
Long-term debt	119,136	119,136
Acceptances outstanding	13,339	40,335
Other liabilities	166,474	144,197
Total liabilities	12,305,350	11,506,348
Commitments and contingencies	-	-
Stockholders' Equity		
Common stock, \$0.01 par value, 100,000,000 shares authorized, 87,090,319 issued and 78,879,676 outstanding at September 30, 2016, and 87,002,931 issued and 80,806,116 outstanding at December 31, 2015	871	870
Additional paid-in-capital	886,081	880,822
Accumulated other comprehensive income/(loss), net	1,903	(8,426 )
Retained earnings	1,144,173	1,059,660
Treasury stock, at cost (8,210,643 shares at September 30, 2016, and 6,196,815 shares at December 31, 2015)	(239,589 )	(185,148 )
Total equity	1,793,439	1,747,778
Total liabilities and equity	\$ 14,098,789	\$ 13,254,126

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,	
	2016	2015	2016	2015
	(In thousands, except share and per share data)			
<b>Interest and Dividend Income</b>				
Loans receivable, including loan fees	\$ 118,500	\$ 109,943	\$ 349,212	\$ 315,038
Investment securities	4,850	6,142	16,974	15,262
Federal Home Loan Bank stock	393	524	1,122	2,782
Deposits with banks	412	258	1,094	1,105
Total interest and dividend income	124,155	116,867	368,402	334,187
<b>Interest Expense</b>				
Time deposits	10,701	10,407	32,177	28,321
Other deposits	4,212	3,217	11,783	9,010
Securities sold under agreements to repurchase	3,828	3,977	11,696	11,836
Advances from Federal Home Loan Bank	134	164	442	374
Long-term debt	1,456	1,456	4,336	4,320
Total interest expense	20,331	19,221	60,434	53,861
Net interest income before reversal for credit losses	103,824	97,646	307,968	280,326
Reversal for loan losses	-	(1,250)	(15,650)	(8,400)
Net interest income after reversal for credit losses	103,824	98,896	323,618	288,726
<b>Non-Interest Income</b>				
Securities gains/(losses), net	1,692	(16)	3,141	(3,369)
Letters of credit commissions	1,212	1,455	3,698	4,114
Depository service fees	1,401	1,409	4,109	4,003
Other operating income	4,506	6,308	14,461	18,576
Total non-interest income	8,811	9,156	25,409	23,324
<b>Non-Interest Expense</b>				
Salaries and employee benefits	22,881	20,725	71,313	67,804
Occupancy expense	4,734	4,412	13,587	12,419
Computer and equipment expense	2,337	3,893	7,360	8,783
Professional services expense	4,999	3,792	13,981	11,408
Data processing service expense	2,279	1,895	6,556	5,822
FDIC and State assessments	2,288	2,403	7,640	6,907
Marketing expense	1,516	1,436	3,314	3,577

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Other real estate owned expense/(income)	(176	) 250	612	(1,053	)
Amortization of investments in low income housing and alternative energy partnerships	5,432	15,427	35,626	23,277	
Amortization of core deposit intangibles	172	169	517	493	
Other operating expense	4,275	3,069	10,681	9,750	
Total non-interest expense	50,737	57,471	171,187	149,187	
Income before income tax expense	61,898	50,581	177,840	162,863	
Income tax expense	15,808	12,098	50,756	43,200	
Net income	\$46,090	\$38,483	\$127,084	\$119,663	
Other comprehensive income, net of tax					
Unrealized holding gain on securities available-for-sale	938	2,733	15,748	2,837	
Less: reclassification adjustments for gains/(losses) included in net income	981	(10	) 1,821	(1,953	)
Unrealized holding gain/(loss) on cash flow hedge derivatives	804	(2,558	) (3,598	) (1,818	)
Total other comprehensive gain, net of tax	761	185	10,329	2,972	
Total comprehensive income	\$46,851	\$38,668	\$137,413	\$122,635	
Net income per common share:					
Basic	\$0.58	\$0.47	\$1.61	\$1.49	
Diluted	\$0.58	\$0.47	\$1.59	\$1.48	
Cash dividends paid per common share	\$0.18	\$0.14	\$0.54	\$0.38	
Average common shares outstanding					
Basic	78,865,860	81,475,288	79,147,839	80,422,711	
Diluted	79,697,069	82,285,478	79,902,846	81,105,190	

See accompanying notes to unaudited condensed consolidated financial statements

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

	<b>Nine months ended</b>	
	<b>September 30</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>	
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 127,084	\$ 119,663
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Credit for loan losses	(15,650 )	(8,400 )
Provision for losses on other real estate owned	176	547
Deferred tax liability	22,483	14,327
Depreciation and amortization	5,684	5,745
Net gains on sale and transfer of other real estate owned	(476 )	(2,006 )
Net gains on sale of loans	(285 )	(845 )
Proceeds from sales of loans	13,525	28,507
Originations of loans held-for-sale	(12,665 )	(26,689 )
Amortization on alternative energy partnerships, venture capital and other investments	27,282	16,993
Net gain on sales and calls of securities	(3,347 )	(506 )
Amortization/accretion of security premiums/discounts, net	5,193	3,542
Loss on sales or disposal of fixed assets	19	138
Write-down on impaired securities	206	3,875
Excess tax short-fall from share-based payment arrangements	-	5,602
Stock based compensation and stock issued to officers as compensation	3,804	3,923
Net change in accrued interest receivable and other assets	2,101	(30,929 )
Net change in other liabilities	(4,537 )	(9,432 )
Net cash provided by operating activities	170,597	124,055
<b>Cash Flows from Investing Activities</b>		
Decrease/(increase) in short-term investments	(254,877 )	119,785
Purchase of investment securities available-for-sale	(690,966 )	(1,323,149)
Proceeds from sale of investment securities available-for-sale	415,543	1,033,195
Proceeds from repayments, maturities and calls of investment securities available-for-sale	585,285	232,253
Purchase of Federal Home Loan Bank stock	(1,650 )	-
Redemptions of Federal Home Loan Bank stock	-	13,535
Net increase in loans	(853,453 )	(702,595 )
Purchase of premises and equipment	(3,166 )	(2,628 )
Proceeds from sales of premises and equipment	11	-
Proceeds from sales of other real estate owned	6,713	10,524
Investment in affordable housing and alternative energy partnerships	(59,844 )	(46,349 )
Acquisition, net of cash acquired	-	6,572

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Net cash used in investing activities (856,404 ) (658,857 )

**Cash Flows from Financing Activities**

Net increase in deposits	429,976	1,034,442
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(50,000 )	(50,000 )
Advances from Federal Home Loan Bank	2,730,000	4,842,000
Repayment of Federal Home Loan Bank borrowings	(2,305,000)	(5,192,000)
Cash dividends paid	(42,570 )	(30,690 )
Purchases of treasury stock	(54,441 )	(50,701 )
Proceeds from shares issued under Dividend Reinvestment Plan	1,643	3,636
Proceeds from exercise of stock options	49	3,433
Taxes paid related to net share settlement of RSUs	(103 )	(204 )
Excess tax short-fall from share-based payment arrangements	-	(5,602 )
Net cash provided by financing activities	709,554	554,314
Increase in cash and cash equivalents	23,747	19,512
Cash and cash equivalents, beginning of the period	180,130	176,830
Cash and cash equivalents, end of the period	\$203,877	\$196,342

Supplemental disclosure of cash flow information

Cash paid during the period:

Interest	\$61,212	\$52,614
Income taxes paid	\$31,717	\$67,776
Non-cash investing and financing activities:		
Net change in unrealized holding gain on securities available-for-sale, net of tax	\$13,927	\$4,790
Net change in unrealized holding loss on cash flow hedge derivatives	\$(3,598 )	\$(1,818 )
Transfers of investment securities to available-for-sale from other assets	\$-	\$520
Transfers to other real estate owned from loans held for investment	\$2,698	\$3,914
Loans transferred from held for sale to held for investment, net	\$1,351	\$-
Loans to facilitate the sale of other real estate owned	\$2,616	\$-
Issuance of stock related to acquisition	\$-	\$82,857

See accompanying notes to unaudited condensed consolidated financial statements.

## CATHAY GENERAL BANCORP AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### 1. Business

Cathay General Bancorp (“Bancorp”) is the holding company for Cathay Bank (the “Bank” and, together, the “Company”), six limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc. Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of September 30, 2016, the Bank operated 22 branches in Southern California, 12 branches in Northern California, 12 branches in New York State, three branches in Illinois, three branches in Washington State, two branches in Texas, one branch in Massachusetts, one branch in New Jersey, one branch in Maryland, one branch in Nevada, one branch in Hong Kong, and a representative office in Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the “FDIC”).

#### 2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. For further information, refer to the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

The preparation of the condensed consolidated financial statements in accordance with GAAP requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The most significant estimates subject to change are the allowance for loan losses, goodwill impairment, and other-than-temporary impairment.



### **3. Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new guidance replaces existing revenue recognition guidance for contracts to provide goods or services to customers and amends existing guidance related to recognition of gains and losses on the sale of certain nonfinancial assets such as real estate. ASU 2014-09 clarifies the principles for recognizing revenue and replaces nearly all existing revenue recognition guidance in U.S. GAAP. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. ASU 2014-09 as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2016-12, is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. Adoption of ASU 2014-09 and its subsequent amendments is not expected to have a significant impact on the Company's Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.*" This update requires an entity to measure equity investments with readily determinable fair values at fair value with changes in fair value recognized in net income. Equity investment without readily determinable fair values will be measured at fair value either upon the occurrence of an observable price change or upon identification of an impairment and any amount by which the carrying value exceeding the fair value will be recognized as an impairment in net income. This update also requires an entity to disclose fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price option. In addition, this update requires separate presentation in comprehensive income for changes in the fair value of a liability and in the balance sheet by measurement category and form of financial asset. ASU 2016-01 becomes effective for interim and annual periods beginning after December 15, 2017. Adoption of ASU 2016-01 is not expected to have a significant impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which is intended to increase transparency and comparability in the accounting for lease transactions. ASU 2016-02 requires lessees to recognize all leases longer than twelve months on the Consolidated Balance Sheet as lease assets and lease liabilities and quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years with an option to early adopt. The Company is currently evaluating the impact on its Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-06, "*Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments.*" This update requires an entity to perform a four-step decision sequence when assessing whether contingent call or put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The four-step decision sequence is: the payoff is adjusted based on changes in an index; the payoff is indexed to an underlying other than interest rates or credit risk; the debt involves a substantial premium or discount; and the call or put option is contingently exercisable. ASU 2016-06 becomes effective for

interim and annual periods beginning after December 15, 2016. Adoption of ASU 2016-06 is not expected to have a significant impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, “*Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.*” This update eliminates the requirement to retroactively adopt the equity method of accounting. It requires that an equity method investor add the cost of acquiring the additional interest to the current basis of the previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The retroactive adjustment of the investment is no longer required. ASU 2016-07 becomes effective for interim and annual periods beginning after December 15, 2016. Adoption of ASU 2016-07 is not expected to have a significant impact on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “*Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.*” This update simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 becomes effective for interim and annual periods beginning after December 15, 2016. Adoption of ASU 2016-09 is not expected to have a significant impact on the Company’s consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*” This update requires an entity to use a broader range of reasonable and supportable forecasts, in addition to historical experience and current conditions, to develop an expected credit loss estimate for financial assets and net investments that are not accounted for at fair value through net income. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses to the amount by which fair value is below amortized cost. ASU 2016-13 becomes effective for interim and annual periods beginning after December 15, 2019. The Company is currently evaluating the impact on the Company’s consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments.*” This update provides guidance on eight cash flow issues with the objective of reducing the existing diversity in practice related to debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interest in securitization transactions, separately identifiable cash flows and application of the predominance principle. The amendments reduce current and potential future diversity in practice. The amendments in this update apply to all entities that are required to present a statement of cash flows under Topic 230. ASU 2016-15 becomes effective for interim and annual periods beginning after December 15, 2017. The Company is currently evaluating the impact on the Company’s consolidated financial statements.



**4. Earnings per Share**

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and resulted in the issuance of common stock that then shared in earnings. Outstanding stock options with anti-dilutive effect were not included in the computation of diluted earnings per share. The following table sets forth earnings per common share calculations:

(Dollars in thousands, except share and per share data)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income	\$46,090	\$38,483	\$127,084	\$119,663
Weighted-average shares:				
Basic weighted-average number of common shares outstanding	78,865,860	81,475,288	79,147,839	80,422,711
Dilutive effect of weighted-average outstanding common share equivalents				
Warrants	569,949	606,803	520,686	507,002
Options	95,850	123,910	90,461	124,135
Restricted stock units	165,410	79,477	143,860	51,343
Diluted weighted-average number of common shares outstanding	79,697,069	82,285,478	79,902,846	81,105,191
Average stock options and warrants with anti-dilutive effect	207,183	760,291	247,974	1,082,400
Earnings per common share:				
Basic	\$0.58	\$0.47	\$1.61	\$1.49
Diluted	\$0.58	\$0.47	\$1.59	\$1.48

**5. Stock-Based Compensation**

Under the Company's equity incentive plans, directors and eligible employees may be granted incentive or non-statutory stock options and/or restricted stock units, or awarded non-vested stock. As of September 30, 2016, the

only options granted by the Company were non-statutory stock options to selected Bank officers and non-employee directors at exercise prices equal to the fair market value of a share of the Company's common stock on the date of grant. Such options have a maximum ten-year term and vest in 20% annual increments (subject to early termination in certain events) except certain options granted to the Chief Executive Officer of the Company in 2005 and 2008. There were no options granted during the first nine months of 2016 or 2015.

Option compensation expense was zero for the three months and for the nine months ended September 30, 2016, and September 30, 2015. Stock-based compensation was fully recognized over the requisite service period for all awards. There were 2,110 and 147,350 stock option shares exercised in the nine months ended September 30, 2016 and 2015, respectively. The Company received \$49,000 with an aggregate intrinsic value of \$9,000 from the exercise of stock options during the nine months ended September 30, 2016 compared to \$3.4 million with an aggregate intrinsic value of \$1.3 million during the nine months ended September 30, 2015. The table below summarizes stock option activity for the periods indicated:

	<b>Shares</b>	<b>Weighted-average Exercise Price</b>	<b>Weighted-average Remaining Contractual Life (in years)</b>	<b>Aggregate Intrinsic Value (in thousands)</b>
Balance, December 31, 2015	1,031,170	\$ 31.27	0.9	\$ 3,268
Exercised	(2,110 )	23.37		
Forfeited	(608,670 )	36.46		
Balance, March 31, 2016	420,390	\$ 23.80	1.8	\$ 2,026
Forfeited	(12,000 )	38.26		
Balance, June 30, 2016	408,390	\$ 23.37	1.6	\$ 1,973
Exercised	-	-		
Forfeited	-	-		
Balance, September 30, 2016	408,390	\$ 23.37	1.4	\$ 3,026
Exercisable, September 30, 2016	408,390	\$ 23.37	1.4	\$ 3,026

In addition to stock options, the Company also grants restricted stock units to eligible employees that vest subject to continued employment at the vesting dates.

The Company granted restricted stock units for 88,693 shares at an average closing price of \$30.37 per share in the first nine months of 2016. The Company granted restricted stock units for 72,900 shares at an average closing price for \$28.11 per share in the first nine months of 2015.

In December 2013, the Company granted performance share unit awards in which the number of units earned is calculated based on the relative total shareholder return (TSR) of the Company's common stock as compared to the TSR of the KBW Regional Banking Index. In addition, the Company granted performance share unit awards in which the number of units earned is determined by comparison to the targeted earnings per share (EPS) as defined in the award for the 2014 to 2016 period. Performance TSR restricted stock units for 119,840 shares and performance EPS restricted stock units for 116,186 shares were granted to eight executive officers in 2013. In December 2014, the Company granted additional performance TSR restricted stock units for 60,456 shares and performance EPS restricted stock units for 57,642 shares to seven executive officers. In December 2015, the Company granted additional performance TSR restricted stock units for 61,209 shares and performance EPS restricted stock units for 57,409 shares to seven executive officers. Both the performance TSR and performance EPS units awarded are scheduled to vest three years from grant date.

The following table presents restricted stock unit activity during the nine months ended September 30, 2016:

	<b>Units</b>
Balance at December 31, 2015	542,375
Granted	88,693
Vested	(13,780 )
Forfeited	(3,290 )
Balance at September 30, 2016	613,998

The compensation expense recorded for restricted stock units was \$1.2 million for the three months ended September 30, 2016, compared to \$1.2 million in the same period a year ago. For the nine months ended September 30, 2016 and 2015, compensation expense recorded related to the restricted stock units was \$3.3 million and \$3.4 million, respectively. Unrecognized stock-based compensation expense related to restricted stock units was \$6.9 million as of September 30, 2016, and is expected to be recognized over the next 2.1 years.

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As of September 30, 2016, 3,716,379 shares were available under the Company's 2005 Incentive Plan (as Amended and Restated) for future grants.

The following table summarizes the tax benefit (short-fall) from share-based payment arrangements:

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Tax benefit/(short-fall) of tax deductions in excess of grant-date fair value	\$ -	\$ 17	\$(3,366)	\$(5,602)
Benefit of tax deductions on grant-date fair value	-	275	3,370	6,421
Total benefit of tax deductions	\$ -	\$ 292	\$ 4	\$ 819

The short-fall amount from share-based payment arrangements was charged against income tax expense. In addition, as of September 30, 2016, \$140,000 was offset against additional paid-in capital that resulted from previously realized excess tax benefits.

**6. Investment Securities**

Investment securities were \$1.30 billion as of September 30, 2016, compared to \$1.59 billion as of December 31, 2015. The following tables reflect the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of investment securities as of September 30, 2016, and December 31, 2015:

	<b>September 30, 2016</b>			
	<b>Amortized</b>	<b>Gross</b>	<b>Gross</b>	
	<b>Cost</b>	<b>Unrealized</b>	<b>Unrealized</b>	<b>Fair Value</b>
	<b>(In thousands)</b>			
<b>Securities Available-for-Sale</b>				
U.S. treasury securities	\$389,921	\$ 112	\$ 24	\$390,009
U.S. government sponsored entities	250,000	79	69	250,010
Mortgage-backed securities	556,454	7,186	2	563,638
Collateralized mortgage obligations	52	-	22	30
Corporate debt securities	74,962	444	937	74,469
Mutual funds	6,000	-	74	5,926
Preferred stock of government sponsored entities	2,811	565	188	3,188
Other equity securities	3,608	7,591	-	11,199
<b>Total</b>	<b>\$1,283,808</b>	<b>\$ 15,977</b>	<b>\$ 1,316</b>	<b>\$1,298,469</b>

	<b>December 31, 2015</b>			
	<b>Amortized</b>	<b>Gross</b>	<b>Gross</b>	
	<b>Cost</b>	<b>Unrealized</b>	<b>Unrealized</b>	<b>Fair Value</b>
	<b>(In thousands)</b>			
<b>Securities Available-for-Sale</b>				
U.S. treasury securities	\$284,678	\$ 5	\$ 395	\$284,288
U.S. government sponsored entities	150,000	-	1,840	148,160
Mortgage-backed securities	1,073,108	560	11,399	1,062,269
Collateralized mortgage obligations	63	-	27	36
Corporate debt securities	74,955	425	1,525	73,855
Mutual funds	6,000	-	167	5,833

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Preferred stock of government sponsored entities	2,811	633	228	3,216
Other equity securities	4,108	4,929	342	8,695
Total	\$1,595,723	\$ 6,552	\$ 15,923	\$1,586,352

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The amortized cost and fair value of investment securities as of September 30, 2016, by contractual maturities, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties.

	<b>Securities Available-For-Sale</b>	
	<b>Amortized cost</b>	<b>Fair value</b>
	<b>(In thousands)</b>	
Due in one year or less	\$289,859	\$289,923
Due after one year through five years	353,931	353,682
Due after five years through ten years	75,117	75,076
Due after ten years <sup>(1)</sup>	564,901	579,788
Total	\$1,283,808	\$1,298,469

<sup>(1)</sup> Equity securities are reported in this category

Proceeds of \$415.3 million were received from the sales transactions of mortgage-backed securities during the first nine months of 2016. Proceeds of \$648.0 million were received from the sale of mortgage-backed securities during the first nine months of 2015. Proceeds from repayments, maturities and calls of mortgage-backed securities were \$125.3 million and \$67.3 million for the nine months ended September 30, 2016 and 2015, respectively. There were no sales transactions of other investment securities during the nine months ended September 30, 2016. Proceeds of \$385.2 million were received from the sale of other investment securities during the nine months ended September 30, 2015. Proceeds from maturities and calls of other investment securities were \$460.0 million during the nine months ended September 30, 2016 compared to \$165.0 million during the same period a year ago. Gains of \$3.3 million and zero losses were realized on sales of investment securities in addition to a permanent impairment write-down of \$206,000 that was recorded during the nine months ended September 30, 2016 compared to gains of \$2.4 million and losses of \$1.9 million realized during the same period a year ago.

The tables below show the fair value and unrealized losses of the temporarily impaired securities in our investment securities portfolio as of September 30, 2016, and December 31, 2015:

**September 30, 2016**  
**Temporarily impaired securities**

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
<b>Securities Available-for-Sale</b>						
U.S. treasury securities	\$149,983	\$ 24	\$-	\$ -	\$149,983	\$ 24
U.S. government sponsored entities	149,931	69	-	-	149,931	69
Mortgage-backed securities	44	1	265	1	309	2
Collateralized mortgage obligations	-	-	30	22	30	22
Corporate debt securities	-	-	54,063	937	54,063	937
Mutual funds	-	-	5,926	74	5,926	74
Preferred stock of government sponsored entities	2,528	188	-	-	2,528	188
<b>Total</b>	<b>\$302,486</b>	<b>\$ 282</b>	<b>\$60,284</b>	<b>\$ 1,034</b>	<b>\$362,770</b>	<b>\$ 1,316</b>

**December 31, 2015**  
**Temporarily impaired securities**

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
<b>Securities Available-for-Sale</b>						
U.S. treasury securities	\$224,289	\$ 395	\$-	\$ -	\$224,289	\$ 395
U.S. government sponsored entities	148,160	1,840	-	-	148,160	1,840
Mortgage-backed securities	1,025,342	11,398	6	1	1,025,348	11,399
Collateralized mortgage obligations	-	-	36	27	36	27
Corporate debt securities	9,950	50	43,525	1,475	53,475	1,525
Mutual funds	-	-	5,833	167	5,833	167
	2,488	228	-	-	2,488	228

Preferred stock of government sponsored entities						
Other equity securities	158	342	-	-	158	342
Total	\$1,410,387	\$ 14,253	\$49,400	\$ 1,670	\$1,459,787	\$ 15,923

As of September 30, 2016, the Company had unrealized losses of \$1.3 million. The unrealized losses on these securities were primarily attributed to yield curve movement, together with the widened liquidity spread and credit spread. The issuers have not, to the Company's knowledge, established any cause for default on these securities. Management believes the impairment was temporary and, accordingly, no impairment loss on these securities has been recognized in our condensed consolidated statements of operations. The Company expects to recover the amortized cost basis of its debt securities, and has no intent to sell and will not be required to sell available-for-sale debt securities that have declined below their cost before their anticipated recovery.

Investment securities having a carrying value of \$505.9 million as of September 30, 2016, and \$449.6 million as of December 31, 2015, were pledged to secure public deposits, other borrowings, treasury tax and loan, and securities sold under agreements to repurchase.

**7. Loans**

Most of the Company's business activity is with Asian customers located in Southern and Northern California; New York City, New York; Houston and Dallas, Texas; Seattle, Washington; Boston, Massachusetts; Chicago, Illinois; Edison, New Jersey; Rockville, Maryland; Las Vegas, Nevada, and Hong Kong. The Company has no specific industry concentration, and generally its loans are secured by real property or other collateral of the borrowers. Loans are generally expected to be paid off from the operating profits of the borrowers, from refinancing by other lenders, or through sale by the borrowers of the secured collateral.

The types of loans in the condensed consolidated balance sheets as of September 30, 2016, and December 31, 2015, were as follows:

	September 30, 2016	December 31, 2015
	<b>(in thousands)</b>	
Commercial loans	\$2,248,996	\$2,316,863
Residential mortgage loans	2,329,402	1,932,355
Commercial mortgage loans	5,743,991	5,301,218
Real estate construction loans	515,236	441,543
Equity lines	170,022	168,980
Installment & other loans	2,810	2,493
Gross loans	\$11,010,457	\$10,163,452
Allowance for loan losses	(117,942 )	(138,963 )
Unamortized deferred loan fees	(5,519 )	(8,262 )
Total loans, net	\$10,886,996	\$10,016,227
Loans held for sale	\$4,750	\$6,676

As of September 30, 2016, recorded investment in impaired loans totaled \$130.9 million and was comprised of non-accrual loans of \$44.4 million and accruing troubled debt restructured loans (TDRs) of \$86.6 million. As of December 31, 2015, recorded investment in impaired loans totaled \$133.8 million and was comprised of non-accrual loans of \$52.1 million and accruing TDRs of \$81.7 million. For impaired loans, the amounts previously charged off represent 7.7% as of September 30, 2016, and 22.4% as of December 31, 2015, of the contractual balances for impaired loans.

The following table presents the average balance and interest income recognized related to impaired loans for the periods indicated:

	<b>Impaired Loans</b>				<b>Interest Income Recognized</b>			
	<b>Average Recorded Investment</b>							
	Three months ended		Nine months ended		Three months ended		Nine months ended	
	September 30, 2016	2015	September 30, 2016	2015	September 30, 2016	2015	September 30, 2016	2015
	<b>(In thousands)</b>							
Commercial loans	\$28,091	\$23,894	\$18,602	\$24,974	\$170	\$170	\$488	\$519
Real estate construction loans	5,869	22,392	12,005	22,056	66	66	196	196
Commercial mortgage loans	81,005	97,557	86,456	104,508	776	777	2,124	2,126
Residential mortgage loans and equity lines	18,256	16,506	17,456	16,934	148	139	401	380
Total impaired loans	\$133,221	\$160,349	\$134,519	\$168,472	\$1,160	\$1,152	\$3,209	\$3,221

The following table presents impaired loans and the related allowance for loan losses as of the dates indicated:

	Impaired Loans September 30, 2016			December 31, 2015		
	Unpaid Principal Balance (In thousands)	Recorded Investment	Allowance	Unpaid Principal Balance	Recorded Investment	Allowance
<b>With no allocated allowance</b>						
Commercial loans	\$29,794	\$ 29,414	\$ -	\$15,493	\$ 6,721	\$ -
Real estate construction loans	5,776	5,507	-	51,290	22,002	-
Commercial mortgage loans	72,319	64,298	-	59,954	54,625	-
Residential mortgage loans and equity lines	4,832	4,675	-	3,233	3,026	-
Subtotal	\$112,721	\$ 103,894	\$ -	\$129,970	\$ 86,374	\$ -
<b>With allocated allowance</b>						
Commercial loans	\$3,315	\$ 3,217	\$ 1,320	\$7,757	\$ 6,847	\$ 530
Commercial mortgage loans	10,425	10,289	1,248	28,258	27,152	6,792
Residential mortgage loans and equity lines	14,637	13,514	375	14,383	13,437	427
Subtotal	\$28,377	\$ 27,020	\$ 2,943	\$50,398	\$ 47,436	\$ 7,749
<b>Total impaired loans</b>	<b>\$141,098</b>	<b>\$ 130,914</b>	<b>\$ 2,943</b>	<b>\$180,368</b>	<b>\$ 133,810</b>	<b>\$ 7,749</b>

The following tables present the aging of the loan portfolio by type as of September 30, 2016, and as of December 31, 2015:

September 30, 2016						
30-59 Days	60-89 Days	90 Days or More Past	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total

	<b>Due</b>						
	<b>(In thousands)</b>						
<b>Type of Loans:</b>							
Commercial loans	\$45,409	\$6,807	\$ -	\$ 9,251	\$61,467	\$2,187,529	\$2,248,996
Real estate construction loans	-	-	-	5,507	5,507	509,729	515,236
Commercial mortgage loans	12,949	12,205	-	21,077	46,231	5,697,760	5,743,991
Residential mortgage loans and equity lines	-	477	-	8,524	9,001	2,490,423	2,499,424
Installment and other loans	-	-	-	-	-	2,810	2,810
Total loans	\$58,358	\$19,489	\$ -	\$ 44,359	\$122,206	\$10,888,251	\$11,010,457

	<b>December 31, 2015</b>						
	<b>30-59</b>	<b>60-89</b>	<b>90</b>				
	<b>Days</b>	<b>Days</b>	<b>Days</b>	<b>or</b>	<b>Non-accrual</b>	<b>Total</b>	<b>Loans Not</b>
	<b>Past</b>	<b>Past</b>	<b>Past</b>	<b>More</b>	<b>Loans</b>	<b>Past</b>	<b>Past</b>
	<b>Due</b>	<b>Due</b>	<b>Due</b>	<b>Past</b>		<b>Due</b>	<b>Due</b>
	<b>(In thousands)</b>						
<b>Type of Loans:</b>							
Commercial loans	\$8,367	\$221	\$ -	\$ 3,545	\$12,133	\$2,304,730	\$2,316,863
Real estate construction loans	7,285	-	-	16,306	23,591	417,952	441,543
Commercial mortgage loans	2,243	2,223	-	25,231	29,697	5,271,521	5,301,218
Residential mortgage loans and equity lines	4,959	1,038	-	7,048	13,045	2,088,290	2,101,335
Installment and other loans	-	-	-	-	-	2,493	2,493
Total loans	\$22,854	\$3,482	\$ -	\$ 52,130	\$78,466	\$10,084,986	\$10,163,452

The determination of the amount of the allowance for loan losses for impaired loans is based on management's current judgment about the credit quality of the loan portfolio and takes into consideration known relevant internal and external factors that affect collectability when determining the appropriate level for the allowance for loan losses. The nature of the process by which the Bank determines the appropriate allowance for loan losses requires the exercise of considerable judgment. This allowance evaluation process is also applied to troubled debt restructurings since they are considered to be impaired loans.

A troubled debt restructuring is a formal modification of the terms of a loan when the lender, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower it would not otherwise consider. The concessions may be granted in various forms, including a change in the stated interest rate, a reduction in the loan balance or accrued interest, or an extension of the maturity date that causes significant delay in payment.

TDRs on accrual status are comprised of the loans that have, pursuant to the Bank's policy, performed under the restructured terms and have demonstrated sustained performance under the modified terms for six months before being returned to accrual status. The sustained performance considered by management pursuant to its policy includes the periods prior to the modification if the prior performance met or exceeded the modified terms. This would include cash paid by the borrower prior to the restructure to set up interest reserves.

As of September 30, 2016, accruing TDRs were \$86.6 million and non-accrual TDRs were \$20.9 million compared to accruing TDRs of \$81.7 million and non-accrual TDRs of \$39.9 million as of December 31, 2015. The Company allocated specific reserves of \$1.3 million to accruing TDRs and \$0.3 million to non-accrual TDRs as of September 30, 2016, and \$2.0 million to accruing TDRs and \$5.4 million to non-accrual TDRs as of December 31, 2015. The following tables present TDRs that were modified during the three and nine months ended September 30, 2016 and 2015, their specific reserves as of September 30, 2016 and 2015 and charge-offs for the three and nine months ended September 30, 2016 and 2015:

	Three months ended September 30, 2016		Charge-offs	September 30, 2016 Specific Reserve
	No. of Outstanding Contracts Recorded	Outstanding Investment Recorded (Dollars in thousands)		
Commercial loans	7	\$ 18,258	\$ -	\$ 208
Commercial mortgage loans	1	738	-	-
<b>Total</b>	<b>8</b>	<b>\$ 18,996</b>	<b>\$ -</b>	<b>\$ 208</b>

	Three months ended September 30, 2015		Charge-offs	September 30, 2015 Specific Reserve
	No. of Outstanding Contracts Recorded	Outstanding Investment Recorded		

		<b>Investment</b>		<b>Investment</b>					
		<b>(Dollars in thousands)</b>							
Commercial loans	2	\$	306	\$	306	\$	-	\$	1
Commercial mortgage loans	15		1,918		1,918		-		-
<b>Total</b>	17	\$	2,224	\$	2,224	\$	-	\$	1

	Nine months ended September 30, 2016			September 30, 2016	
	Pre-Modification		Post-Modification	Charge-offs	Specific Reserve
	No. of Contracts	Outstanding Recorded	Outstanding Recorded		
		Investment (Dollars in thousands)	Investment		
Commercial loans	11	\$ 23,102	\$ 23,102	\$ -	\$ 222
Commercial mortgage loans	1	738	738	-	-
Residential mortgage loans and equity lines	2	367	367	-	-
<b>Total</b>	14	\$ 24,207	\$ 24,207	\$ -	\$ 222

	Nine months ended September 30, 2015			September 30, 2015	
	Pre-Modification		Post-Modification	Charge-offs	Specific Reserve
	No. of Contracts	Outstanding Recorded	Outstanding Recorded		
		Investment (Dollars in thousands)	Investment		
Commercial loans	3	\$ 1,156	\$ 1,156	\$ -	\$ 1
Commercial mortgage loans	19	16,329	16,329	-	38
Residential mortgage loans and equity lines	5	1,522	1,374	148	45
<b>Total</b>	27	\$ 19,007	\$ 18,859	\$ 148	\$ 84

Modifications of the loan terms during the first nine months of 2016 were in the form of changes in the stated interest rate, extensions of maturity dates, and/or reductions in monthly payment amounts. The length of time for which modifications involving a reduction of the stated interest rate or changes in payment terms that were documented ranged from three to ten months from the modification date.

We expect that the TDRs on accruing status as of September 30, 2016, which were all performing in accordance with their restructured terms, will continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. A summary of TDRs by type of concession and by type of loan, as of September 30, 2016, and December 31, 2015, is shown below:

Accruing TDRs	September 30, 2016		Rate Reduction and Deferral Payment	Total
	Payment Rate Deferral	Reduction		
	<b>(In thousands)</b>			
Commercial loans	\$22,019	\$ -	\$ 1,360	\$23,379
Commercial mortgage loans	26,835	5,986	20,690	53,511
Residential mortgage loans	5,048	989	3,628	9,665
Total accruing TDRs	\$53,902	\$ 6,975	\$ 25,678	\$86,555

**September 30, 2016**

<b>Non-accrual TDRs</b>	<b>Rate Reduction</b>		<b>Total</b>
	<b>Payment and Deferral</b>	<b>Payment</b>	
	<b>Deferral</b>		
	<b>(In thousands)</b>		
Commercial loans	\$3,477	\$ 90	\$3,567
Commercial mortgage loans	1,508	15,260	16,768
Residential mortgage loans	364	171	535
Total non-accrual TDRs	\$5,349	\$ 15,521	\$20,870

**December 31, 2015**

<b>Accruing TDRs</b>	<b>Payment Rate</b>		<b>Rate Reduction and Deferral</b>	<b>Total</b>
	<b>Deferral</b>	<b>Reduction</b>		
	<b>Deferral</b>			
	<b>(In thousands)</b>			
Commercial loans	\$8,298	\$ -	\$ 1,726	\$10,024
Real estate construction loans	-	-	5,696	5,696
Commercial mortgage loans	16,701	6,045	33,800	56,546
Residential mortgage loans	5,201	999	3,214	9,414
Total accruing TDRs	\$30,200	\$ 7,044	\$ 44,436	\$81,680

**December 31, 2015**

<b>Non-accrual TDRs</b>	<b>Payment Rate</b>	<b>Total</b>
	<b>Reduction and Deferral</b>	

	<b>Payment Deferral</b>		
	<b>(In thousands)</b>		
Commercial loans	\$1,033	\$ 90	\$1,123
Real estate construction loans	9,981	5,825	15,806
Commercial mortgage loans	1,544	20,362	21,906
Residential mortgage loans	388	700	1,088
Total non-accrual TDRs	\$12,946	\$ 26,977	\$39,923

The activity within our TDRs for the periods indicated are shown below:

<b>Accruing TDRs</b>	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>			
Beginning balance	\$74,708	\$100,011	\$81,680	\$104,355
New restructurings	18,347	427	20,412	16,853
Restructured loans restored to accrual status	-	723	10,303	723
Charge-offs	-	-	-	(148 )
Payments	(6,500 )	(11,280 )	(9,816 )	(21,714 )
Restructured loans placed on non-accrual status	-	-	(1,138 )	(10,188 )
Expiration of loan concession upon renewal	-	-	(14,886)	-
Ending balance	\$86,555	\$89,881	\$86,555	\$89,881

<b>Non-accrual TDRs</b>	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>			
Beginning balance	\$25,442	\$42,595	\$39,923	\$41,618
New restructurings	649	1,796	3,794	2,006
Restructured loans placed on non-accrual status	-	-	1,138	10,188
Charge-offs	(3,407 )	(3 )	(4,352 )	(3,246 )
Payments	(1,814 )	(1,859 )	(9,330 )	(8,037 )
Restructured loans restored to accrual status	-	(723 )	(10,303)	(723 )
Ending balance	\$20,870	\$41,806	\$20,870	\$41,806

A loan is considered to be in payment default once it is 60 to 90 days contractually past due under the modified terms. The Company did not have any loans that were modified as a TDR during the previous twelve months and which subsequently defaulted as of September 30, 2016.

Under the Company's internal underwriting policy, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification in order to determine whether a borrower is experiencing financial difficulty.

As of September 30, 2016, there were no commitments to lend additional funds to those borrowers whose loans had been restructured, were considered impaired, or were on non-accrual status.

As part of the on-going monitoring of the credit quality of our loan portfolio, the Company utilizes a risk grading matrix to assign a risk grade to each loan. The risk rating categories can be generally described by the following grouping for non-homogeneous loans:

**Pass/Watch** – These loans range from minimal credit risk to lower than average, but still acceptable, credit risk.

**Special Mention** – Borrower is fundamentally sound and loan is currently protected but adverse trends are apparent that, if not corrected, may affect ability to repay. Primary source of loan repayment remains viable but there is increasing reliance on collateral or guarantor support.

**Substandard** – These loans are inadequately protected by current sound net worth, paying capacity, or collateral. Well-defined weaknesses exist that could jeopardize repayment of debt. Loss may not be imminent, but if weaknesses are not corrected, there is a good possibility of some loss.

**Doubtful** – The possibility of loss is extremely high, but due to identifiable and important pending events (which may strengthen the loan), a loss classification is deferred until the situation is better defined.

**Loss** – These loans are considered uncollectible and of such little value that to continue to carry the loan as an active asset is no longer warranted.

The following tables present the loan portfolio by risk rating as of September 30, 2016, and as of December 31, 2015:

	<b>September 30, 2016</b>				
	<b>Pass/Watch</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
	<b>(In thousands)</b>				
Commercial loans	\$2,027,815	\$133,858	\$ 86,806	\$ 517	\$2,248,996
Real estate construction loans	489,473	20,256	5,507	-	515,236
Commercial mortgage loans	5,391,701	219,081	133,209	-	5,743,991
Residential mortgage loans and equity lines	2,488,495	391	10,538	-	2,499,424
Installment and other loans	2,810	-	-	-	2,810
Total gross loans	\$10,400,294	\$373,586	\$ 236,060	\$ 517	\$11,010,457
Loans held for sale	\$-	\$-	\$ -	\$ 4,750	\$4,750

	<b>December 31, 2015</b>				
	<b>Pass/Watch</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
	<b>(In thousands)</b>				
Commercial loans	\$2,143,270	\$110,338	\$ 61,297	\$ 1,958	\$2,316,863
Real estate construction loans	413,765	5,776	21,502	500	441,543
Commercial mortgage loans	5,018,199	155,553	118,196	9,270	5,301,218
Residential mortgage loans and equity lines	2,091,434	399	9,502	-	2,101,335
Installment and other loans	2,493	-	-	-	2,493
Total gross loans	\$9,669,161	\$272,066	\$ 210,497	\$ 11,728	\$10,163,452
Loans held for sale	\$732	\$-	\$ 5,944	\$-	\$6,676



The allowance for loan losses and the reserve for off-balance sheet credit commitments are significant estimates that can and do change based on management's process in analyzing the loan portfolio and on management's assumptions about specific borrowers, underlying collateral, and applicable economic and environmental conditions, among other factors.

The following table presents the balance in the allowance for loan losses by portfolio segment and based on impairment method as of September 30, 2016, and as of December 31, 2015:

	<b>Commercial Loans</b>	<b>Real Estate Construction Loans</b>	<b>Commercial Mortgage Loans</b>	<b>Residential Mortgage Loans and Equity Lines</b>	<b>Installment and Other Loans</b>	<b>Total</b>
<b>(In thousands)</b>						
<b>September 30, 2016</b>						
<b>Loans individually evaluated for impairment</b>						
Allowance	\$ 1,320	\$ -	\$ 1,248	\$ 375	\$ -	\$ 2,943
Balance	\$ 32,631	\$ 5,507	\$ 74,587	\$ 18,189	\$ -	\$ 130,914
<b>Loans collectively evaluated for impairment</b>						
Allowance	\$ 52,379	\$ 9,245	\$ 43,685	\$ 9,682	\$ 8	\$ 114,999
Balance	\$ 2,216,365	\$ 509,729	\$ 5,669,404	\$ 2,481,235	\$ 2,810	\$ 10,879,543
Total allowance	\$ 53,699	\$ 9,245	\$ 44,933	\$ 10,057	\$ 8	\$ 117,942
Total balance	\$ 2,248,996	\$ 515,236	\$ 5,743,991	\$ 2,499,424	\$ 2,810	\$ 11,010,457
<b>December 31, 2015</b>						
<b>Loans individually evaluated for impairment</b>						
Allowance	\$ 530	\$ -	\$ 6,792	\$ 427	\$ -	\$ 7,749
Balance	\$ 13,568	\$ 22,002	\$ 81,776	\$ 16,464	\$ -	\$ 133,810
<b>Loans collectively evaluated for impairment</b>						
Allowance	\$ 55,669	\$ 22,170	\$ 42,648	\$ 10,718	\$ 9	\$ 131,214
Balance	\$ 2,303,295	\$ 419,541	\$ 5,219,442	\$ 2,084,871	\$ 2,493	\$ 10,029,642
Total allowance	\$ 56,199	\$ 22,170	\$ 49,440	\$ 11,145	\$ 9	\$ 138,963

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Total balance	\$2,316,863	\$ 441,543	\$5,301,218	\$2,101,335	\$ 2,493	\$10,163,452
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The following tables detail activity in the allowance for loan losses by portfolio segment for the three months and nine months ended September 30, 2016, and September 30, 2015. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

**Three months ended September 30, 2016 and 2015**

	<b>Commercial Loans</b>	<b>Real Estate Construction Loans</b>	<b>Commercial Mortgage Loans</b>	<b>Residential Mortgage Loans and Equity Lines</b>	<b>Installment and Other Loans</b>	<b>Total</b>
<b>(In thousands)</b>						
June 30, 2016 Ending Balance	\$50,590	\$ 10,753	\$ 46,090	\$ 15,503	\$ 12	122,948
Provision/(credit) for possible credit losses	4,380	(2,056 )	3,132	(5,452 )	(4 )	-
Charge-offs	(3,277 )	-	(4,626 )	-	-	(7,903 )
Recoveries	2,006	548	337	6	-	2,897
Net (charge-offs)/recoveries	(1,271 )	548	(4,289 )	6	-	(5,006 )
September 30, 2016 Ending Balance	\$53,699	\$ 9,245	\$ 44,933	\$ 10,057	\$ 8	\$117,942
June 30, 2015 Ending Balance	\$47,540	\$ 26,304	\$ 67,245	\$ 12,323	\$ 25	\$153,437
Provision/(credit) for possible credit losses	10,040	121	(11,762 )	353	(2 )	(1,250 )
Charge-offs	(3,310 )	-	(97 )	-	-	(3,407 )
Recoveries	607	41	647	1	-	1,296
Net (charge-offs)/recoveries	(2,703 )	41	550	1	-	(2,111 )
September 30, 2015 Ending Balance	\$54,877	\$ 26,466	\$ 56,033	\$ 12,677	\$ 23	\$150,076

**Nine months ended September 30, 2016 and 2015**

	<b>Commercial Loans</b>	<b>Real Estate Construction Loans</b>	<b>Commercial Mortgage Loans</b>	<b>Residential Mortgage Loans and Equity Lines</b>	<b>Installment and Other Loans</b>	<b>Total</b>
<b>(In thousands)</b>						
2016 Beginning Balance	\$56,199	\$ 22,170	\$ 49,440	\$ 11,145	\$ 9	\$138,963
	5,815	(20,796 )	295	(963 )	(1 )	(15,650 )

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Provision/(credit) for possible credit losses

Charge-offs	(12,035)	-	(5,681 )	(149 )	-	(17,865 )
Recoveries	3,720	7,871	879	24		12,494
Net (charge-offs)/recoveries	(8,315 )	7,871	(4,802 )	(125 )	-	(5,371 )
September 30, 2016 Ending Balance	\$53,699	\$ 9,245	\$ 44,933	\$ 10,057	\$ 8	\$117,942
Reserve for impaired loans	\$1,320	\$ -	\$ 1,248	\$ 375	\$ -	\$2,943
Reserve for non-impaired loans	\$52,379	\$ 9,245	\$ 43,685	\$ 9,682	\$ 8	\$114,999
Reserve for off-balance sheet credit commitments	\$2,112	\$ -	\$ 35	\$ 80	\$ 2	\$2,229
2015 Beginning Balance	\$47,501	\$ 27,652	\$ 74,673	\$ 11,578	\$ 16	\$161,420
Provision/(credit) for possible credit losses	11,045	(1,349 )	(19,342 )	1,239	7	(8,400 )
Charge-offs	(6,754 )	-	(3,613 )	(161 )	-	(10,528 )
Recoveries	3,085	163	4,315	21	-	7,584
Net (charge-offs)/recoveries	(3,669 )	163	702	(140 )	-	(2,944 )
September 30, 2015 Ending Balance	\$54,877	\$ 26,466	\$ 56,033	\$ 12,677	\$ 23	\$150,076
Reserve for impaired loans	\$7,561	\$ -	\$ 6,389	\$ 373	\$ -	\$14,323
Reserve for non-impaired loans	\$47,316	\$ 26,466	\$ 49,644	\$ 12,304	\$ 23	\$135,753
Reserve for off-balance sheet credit commitments	\$703	\$ 477	\$ 202	\$ 37	\$ 1	\$1,420

### **8. Commitments and Contingencies**

The Company is involved in various litigation concerning transactions entered into in the normal course of business. Management, after consultation with legal counsel, does not believe that the resolution of such litigation will have a material effect upon its consolidated financial condition, results of operations, or liquidity taken as a whole. Although the Company establishes accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, the Company does not have accruals for all legal proceedings where there is a risk of loss. In addition, amounts accrued may not represent the ultimate loss to the Company from the legal proceedings in question. Thus, ultimate losses may be higher or lower, and possibly significantly so, than the amounts accrued for legal loss contingencies.

In the normal course of business, the Company becomes a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans, or through commercial or standby letters of credit and financial guarantees. These instruments represent varying degrees of exposure to risk in excess of the amounts included in the accompanying condensed consolidated balance sheets. The contractual or notional amount of these instruments indicates a level of activity associated with a particular class of financial instrument and is not a reflection of the level of expected losses, if any.

### **9. Borrowed Funds**

*Securities Sold Under Agreements to Repurchase.* Securities sold under agreements to repurchase were \$350 million with a weighted average rate of 4.06% as of September 30, 2016, compared to \$400 million with a weighted average rate of 3.89% as of December 31, 2015. As of September 30, 2016, four floating-to-fixed rate agreements totaling \$200 million with a weighted average rate of 5.0% and final maturity in January 2017 had initial floating rates for one year, with floating rates of the three-month LIBOR rate minus 340 basis points. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.89% to 5.07%. As of September 30, 2016, three fixed rate non-callable securities sold under agreements to repurchase totaled \$150 million with a weighted average rate of 2.81%, compared to four fixed rate non-callable securities sold under agreements to repurchase totaling \$200 million with a weighted average rate of 2.78% as of December 31, 2015. Final maturity for the three fixed rate non-callable securities sold under agreements to repurchase was \$50.0 million in July 2017, \$50.0 million in June 2018, and \$50.0 million in July 2018.

These transactions are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The Company may have to provide additional collateral for the repurchase agreements, as necessary. The underlying collateral pledged for the repurchase agreements consists of U.S. Treasury securities and mortgage-backed securities with a fair value of \$383 million as of September 30, 2016, and \$430 million as of December 31, 2015.

*Borrowing from the FHLB.* As of September 30, 2016, over-night borrowings from the FHLB were \$300 million at a rate of 0.38% compared to \$250 million at a rate of 0.27% as of December 31, 2015. As of September 30, 2016, the advances from the FHLB were \$400 million at a rate of 0.47% compared to \$25 million at a rate of 1.13% as of December 31, 2015. As of September 30, 2016, FHLB advances of \$375 million will mature in October 2016 and \$25 million will mature in March 2018.

## **10. Income Taxes**

Income tax expense totaled \$50.8 million, or an effective tax rate of 28.5%, for the nine months ended September 30, 2016, compared to an income tax expense of \$43.2 million, or an effective tax rate of 26.5%, for the same period in 2015. The effective tax rate includes the impact of the utilization of low income housing tax credits, the utilization of alternative energy tax credits, and the write-off of deferred tax assets related to stock options that expired unexercised during the first quarter of 2016.

As of December 31, 2015, the Company had income tax refunds receivable of \$28.9 million. These income tax receivables are included in other assets in the accompanying condensed consolidated balance sheets.

The Company's tax returns are open for audit by the Internal Revenue Service back to 2012 and by the California Franchise Tax Board back to 2008. As the Company is presently under audit by a number of tax authorities, it is reasonably possible that unrecognized tax benefits could change significantly over the next twelve months. The Company does not expect that any such changes would have a material impact on its annual effective tax rate.

## **11. Fair Value Measurements**

The Company adopted ASC Topic 820 on January 1, 2008, and determined the fair values of our financial instruments based on the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable prices in active markets for similar assets or liabilities; prices for identical or similar assets or liabilities in markets that are not active; directly observable market inputs for substantially the full term of the asset and liability; market inputs that are not directly observable but are derived from or corroborated by observable market data.

Level 3 – Unobservable inputs based on the Company's own judgment about the assumptions that a market participant would use.

The Company uses the following methodologies to measure the fair value of its financial assets and liabilities on a recurring basis:

*Securities Available for Sale.* For certain actively traded agency preferred stock, mutual funds, and U.S. Treasury securities, the Company measures the fair value based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement. The Company also measures securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement. This category generally includes U.S. Government agency securities, state and municipal securities, mortgage-backed securities (“MBS”), commercial MBS, collateralized mortgage obligations, asset-backed securities, corporate bonds and trust preferred securities.

*Warrants.* The Company measures the fair value of warrants based on unobservable inputs based on assumptions and management judgment, a Level 3 measurement.

*Foreign Exchange Contracts.* The Company measures the fair value of foreign exchange contracts based on dealer quotes, a Level 2 measurement.

*Interest Rate Swaps.* Fair value of interest rate swaps is derived from third party models with observable market data, a Level 2 measurement.

The valuation techniques for the assets and liabilities valued on a nonrecurring basis are as follows:

*Impaired Loans.* The Company does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on either the current appraised value of the collateral, a Level 2 measurement, or management's judgment and estimation of value reported on older appraisals that are then adjusted based on recent market trends, a Level 3 measurement.

*Goodwill.* The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The two-step impairment testing process, if needed, begins by assigning net assets and goodwill to the two reporting units—Commercial Lending and Retail Banking. The Company then completes “step one” of the impairment test by comparing the fair value of each reporting unit (as determined based on the discussion below) with the recorded book value (or “carrying amount”) of its net assets, with goodwill included in the computation of the carrying amount. If the fair value of a reporting unit exceeds its carrying amount, goodwill of that reporting unit is not considered impaired, and “step two” of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, step two of the impairment test is performed to determine the amount of impairment. Step two of the impairment test compares the carrying amount of the reporting unit's goodwill to the “implied fair value” of that goodwill. The implied fair value of goodwill is computed by assuming that all assets and liabilities of the reporting unit would be adjusted to the current fair value, with the offset as an adjustment to goodwill. This adjusted goodwill balance is the implied fair value used in step two. An impairment charge is recognized for the amount by which the carrying amount of goodwill exceeds its implied fair value. In connection with the determination of fair value, certain data and information is utilized, including earnings forecasts at the reporting unit level for the next four years. Other key assumptions include terminal values based on future growth rates and discount rates for valuing the cash flows, which have inputs for the risk-free rate, market risk premium, and adjustments to reflect inherent risk and required market returns. Because of the significance of unobservable inputs in the valuation of goodwill impairment, goodwill subject to nonrecurring fair value adjustments is classified as a Level 3 measurement.

*Core Deposit Intangibles.* Core deposit intangibles is initially recorded at fair value based on a valuation of the core deposits acquired and is amortized over its estimated useful life to its residual value in proportion to the economic benefits consumed. The Company assesses the recoverability of this intangible asset on a nonrecurring basis using the core deposits remaining at the assessment date and the fair value of cash flows expected to be generated from the core deposits, a Level 3 measurement.

*Other Real Estate Owned.* Real estate acquired in the settlement of loans is initially recorded at fair value based on the appraised value of the property on the date of transfer, less estimated costs to sell, a Level 2 measurement. From time to time, nonrecurring fair value adjustments are made to other real estate owned based on the current updated appraised value of the property, also a Level 2 measurement, or management's judgment and estimation of value reported on older appraisals that are then adjusted based on recent market trends, a Level 3 measurement.

*Investments in Venture Capital.* The Company periodically reviews its investments in venture capital for other-than-temporary impairment on a nonrecurring basis. Investments in venture capital were written down to their fair value based on available financial reports from venture capital partnerships and management's judgment and estimation, a Level 3 measurement.

*Equity Investments.* The Company records equity investments at fair value on a nonrecurring basis based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement.

The following tables present the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of September 30, 2016, and December 31, 2015:

<b>September 30, 2016</b>	Fair Value Measurements			Total at Fair Value
	Using Level 1	Level 2	Level 3	
	(In thousands)			
<b>Assets</b>				
Securities available-for-sale				
U.S. Treasury securities	\$ 390,009	\$ -	\$ -	\$ 390,009
U.S. government sponsored entities	-	250,010	-	250,010
Mortgage-backed securities	-	563,638	-	563,638
Collateralized mortgage obligations	-	30	-	30
Corporate debt securities	-	74,469	-	74,469
Mutual funds	5,926	-	-	5,926
Preferred stock of government sponsored entities	-	3,188	-	3,188
Other equity securities	-	11,199	-	11,199
Total securities available-for-sale	395,935	902,534	-	1,298,469
Warrants	-	-	75	75
Foreign exchange contracts	-	1,711	-	1,711
Total assets	\$ 395,935	\$ 904,245	\$ 75	\$ 1,300,255
<b>Liabilities</b>				
Interest rate swaps	\$ -	\$ 15,186	\$ -	\$ 15,186
Foreign exchange contracts	-	712	-	712
Total liabilities	\$ -	\$ 15,898	\$ -	\$ 15,898

December 31, 2015	Fair Value Measurements Using			Total at Fair Value
	Level 1	Level 2	Level 3	
(In thousands)				
<b>Assets</b>				
Securities available-for-sale				
U.S. Treasury securities	\$284,288	\$-	\$ -	\$284,288
U.S. government sponsored entities	-	148,160	-	148,160
Mortgage-backed securities	-	1,062,269	-	1,062,269
Collateralized mortgage obligations	-	36	-	36
Corporate debt securities	-	73,855	-	73,855
Mutual funds	5,833	-	-	5,833
Preferred stock of government sponsored entities	-	3,216	-	3,216
Other equity securities	-	8,695	-	8,695
Total securities available-for-sale	290,121	1,296,231	-	1,586,352
Warrants	-	-	62	62
Foreign exchange contracts	-	3,339	-	3,339
Total assets	\$290,121	\$1,299,570	\$ 62	\$1,589,753
<b>Liabilities</b>				
Option contracts	\$-	\$28	\$ -	\$28
Interest rate swaps	-	6,496	-	6,496
Foreign exchange contracts	-	4,124	-	4,124
Total liabilities	\$-	\$10,648	\$ -	\$10,648

The Company measured the fair value of its warrants on a recurring basis using significant unobservable inputs. The fair value of warrants was \$75,000 as of September 30, 2016, compared to \$62,000 as of December 31, 2015. The fair value adjustment of warrants was included in other operating income in the third quarter of 2016. The significant unobservable inputs in the Black-Scholes option pricing model for the fair value of warrants are their expected life ranging from 1 to 7 years, risk-free interest rate from 0.73% to 1.38%, and stock volatility from 12.4% to 15.1%.

For financial assets measured at fair value on a nonrecurring basis that were still reflected in the condensed consolidated balance sheets as of September 30, 2016, the following tables provide the level of valuation assumptions used to determine each adjustment, the carrying value of the related individual assets as of September 30, 2016, and December 31, 2015, and the total losses for the periods indicated:

	September 30, 2016 Fair Value Measurements Using			Total at September 30, 2016	Total (Gains)/Losses			
	Level 1		Level 2		Three Months Ended		Nine Months Ended	
	Level 1	Level 2			September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(In thousands)							
<b>Assets</b>								
Impaired loans by type:								
Commercial loans	\$-	\$-	\$1,897	\$1,897	\$-	\$ 575	\$-	\$ 3,380
Commercial mortgage loans	-	-	9,041	9,041	-	-	-	654
Residential mortgage loans and equity lines	-	-	13,139	13,139	-	-	-	146
Total impaired loans	-	-	24,077	24,077	-	575	-	4,180
Other real estate owned <sup>(1)</sup>	-	3,095	4,372	7,467	(206)	179	9	404
Investments in venture capital and private company stock	-	-	4,291	4,291	187	81	419	408
Total assets	\$-	\$3,095	\$32,740	\$35,835	\$(19 )	\$ 835	\$428	\$ 4,992

<sup>(1)</sup> Other real estate owned balance of \$21.0 million in the condensed consolidated balance sheet

is net of  
estimated  
disposal  
costs.

	December 31, 2015			Total at Fair Value	Total Losses Twelve Months Ended	
	Level 1	Level 2	Level 3		December 31, 2015	December 31, 2014
	(In thousands)					
<b>Assets</b>						
Impaired loans by type:						
Commercial loans	\$-	\$-	\$6,317	\$6,317	\$806	\$ 17
Commercial mortgage loans	-	-	20,359	20,359	598	3,914
Residential mortgage loans and equity lines	-	-	13,009	13,009	146	27
Total impaired loans	-	-	39,685	39,685	1,550	3,958
Other real estate owned <sup>(1)</sup>	-	10,047	4,235	14,282	404	202
Investments in venture capital and private company stock	-	-	4,922	4,922	553	436
Total assets	\$-	\$10,047	\$48,842	\$58,889	\$2,507	\$ 4,596

<sup>(1)</sup> Other real estate owned balance of \$24.7 million in the condensed consolidated balance sheet is net of estimated disposal costs.

The significant unobservable (Level 3) inputs used in the fair value measurement of collateral for collateral-dependent impaired loans was primarily based on the appraised value of collateral adjusted by estimated sales cost and commissions. The Company generally obtains new appraisal reports every nine months. As the Company's primary objective in the event of default would be to monetize the collateral to settle the outstanding balance of the loan, less marketable collateral would receive a larger discount. During the reported periods, collateral discounts ranged from 55% in the case of accounts receivable collateral to 65% in the case of inventory collateral.

The significant unobservable inputs used in the fair value measurement of loans held for sale was primarily based on the quoted price or sale price adjusted by estimated sales cost and commissions. The significant unobservable inputs used in the fair value measurement of other real estate owned (“OREO”) was primarily based on the appraised value of OREO adjusted by estimated sales cost and commissions.

The Company applies estimated sales cost and commissions ranging from 3% to 6% to collateral value of impaired loans, quoted price, or loan sale price of loans held for sale, and appraised value of OREO.

## **12. Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

*Cash and Cash Equivalents.* For cash and cash equivalents, the carrying amount was assumed to be a reasonable estimate of fair value, a Level 1 measurement.

*Short-term Investments.* For short-term investments, the carrying amount was assumed to be a reasonable estimate of fair value, a Level 1 measurement.

*Securities Purchased under Agreements to Resell.* The fair value of securities purchased under agreements to resell is based on dealer quotes, a Level 2 measurement.

*Securities.* For securities, including securities held-to-maturity, available-for-sale, and for trading, fair values were based on quoted market prices at the reporting date. If a quoted market price was not available, fair value was estimated using quoted market prices for similar securities or dealer quotes. For certain actively traded agency preferred stock and U.S. Treasury securities, the Company measures the fair value based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement. The Company also measures securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement. This category generally includes U.S. Government agency securities, state and municipal securities, mortgage-backed securities ("MBS"), commercial MBS, collateralized mortgage obligations, asset-backed securities, and corporate bonds.

*Loans Held for Sale.* The Company records loans held for sale at fair value based on quoted prices from third party sources, or appraisal reports adjusted by sales commission assumptions.

*Loans.* Fair values were estimated for portfolios of loans with similar financial characteristics. Each loan category was further segmented into fixed and adjustable rate interest terms and by performing and non-performing categories.

The fair value of performing loans was calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan, a Level

3 measurement.

The fair value of impaired loans was calculated based on the net realizable fair value of the collateral or the observable market price of the most recent sale or quoted price from loans held for sale. The Company does not record loans at fair value on a recurring basis. Nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on the current appraised value or adjusted appraised value of the collateral, a Level 2 or Level 3 measurement.

*Deposit Liabilities.* The fair value of demand deposits, savings accounts, and certain money market deposits was assumed to be the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit was estimated using the rates currently offered for deposits with similar remaining maturities, a Level 3 measurement.

*Securities Sold under Agreements to Repurchase.* The fair value of securities sold under agreements to repurchase is based on dealer quotes, a Level 2 measurement.

*Advances from Federal Home Loan Bank ("FHLB").* The fair value of the advances is based on quotes from the FHLB to settle the advances, a Level 2 measurement.

*Other Borrowings.* This category includes borrowings from other financial institutions. The fair value of other borrowings is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk, a Level 3 measurement.

*Long-term Debt.* The fair value of long-term debt is estimated based on the quoted market prices or dealer quotes, a Level 2 measurement.

*Foreign Exchange Contracts.* The Company measures the fair value of foreign exchange contracts based on dealer quotes, a Level 2 measurement.

*Interest Rate Swaps.* Fair value of interest rate swaps is derived from third party models with observable market data, a Level 2 measurement.



*Off-Balance-Sheet Financial Instruments.* The fair value of commitments to extend credit, standby letters of credit, and financial guarantees written were estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The fair value of guarantees and letters of credit was based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. The fair value of off-balance-sheet financial instruments was based on the assumptions that a market participant would use, a Level 3 measurement.

Fair value was estimated in accordance with ASC Topic 825. Fair value estimates were made at specific points in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates were based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates were subjective in nature and involved uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following table presents the carrying and notional amounts and estimated fair value of financial instruments as of September 30, 2016, and as of December 31, 2015:

<b>September</b>	<b>December</b>
<b>30, 2016</b>	<b>31, 2015</b>
<b>Carrying</b>	<b>Carrying</b>