CATHAY GENERAL BANCORP
Form 10-Q
November 09, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________

Commission file number 0-18630

CATHAY GENERAL BANCORP

(Exact name of registrant as specified in its charter)

Delaware	**95-4274680**
(State of other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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

(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 x 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	x
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 x

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, 78,526,059 shares outstanding as of October 29, 2010.

Table of Contents

CATHAY GENERAL BANCORP AND SUBSIDIARIES

3RD QUARTER 2010 REPORT ON FORM 10-Q

TABLE OF CONTENTS

Table of Contents

Forward-Looking Statements

In this quarterly Report on Form 10-Q, the term Bancorp refers to Cathay General Bancorp and the term Bank refers to Cathay Bank. The terms Company, we, us, and our refer to Bancorp and the Bank collectively. The statements in this report include forward-looking statements within the meaning of the applicable provisions of the Private Securities Litigation Reform Act of 1995 regarding management s beliefs, projections, and assumptions concerning future results and events. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements in these provisions. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, growth plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, financial expectations, regulatory and competitive outlook, 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, could, estimates, expects, hopes, intends, may, plans, projects, seek predicts, potential, continue, 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 economic and market conditions;
- market disruption and volatility;
- current and potential future supervisory action by bank supervisory authorities and changes in laws and regulations, or their interpretations;
- restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;
- credit losses and deterioration in asset or credit quality;
- availability of capital;
- potential goodwill impairment;
- liquidity risk;
- fluctuations in interest rates;
- past and future acquisitions;

inflation and deflation;

success of expansion, if any, of our business in new markets;

the soundness of other financial institutions;

real estate market conditions;

our ability to compete with competitors;

increased costs of compliance and other risks associated with changes in regulation and the current regulatory environment, including the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the potential for substantial changes in the legal, regulatory, and enforcement framework and oversight applicable to financial institutions in reaction to recent adverse financial market events, including changes pursuant to the Dodd-Frank Act;

Table of Contents

- the short term and long term impact of the Basel II and the proposed Basel III capital standards;
- our ability to retain key personnel;
- successful management of reputational risk;
- natural disasters and geopolitical events;
- general economic or business conditions in California, Asia, and other regions where the Bank has operations;
- restrictions on compensation paid to our executives as a result of our participation in the TARP Capital Purchase Program;
- our ability to adapt to our information technology systems; and
- changes in accounting standards or tax laws and regulations.

These and other factors are further described in Cathay General Bancorp s Annual Report on Form 10-K for the year ended December 31, 2009 (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. Cathay General Bancorp has no intention and undertakes 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.

Cathay General 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.

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2010	December 31, 2009
	(In thousands, except share and per share data)	
ASSETS		
Cash and due from banks	$ 74,524	$ 100,124
Short-term investments and interest bearing deposits	248,555	254,726
Securities held-to-maturity (market value of $618,371 in 2010 $628,908 in 2009)	603,467	635,015
Securities available-for-sale (amortized cost of $2,719,555 in 2010 and $2,916,491 in 2009)	2,761,515	2,915,099
Trading securities	24	18
Loans held for sale	6,164	54,826
Loans	6,907,395	6,899,142
Less: Allowance for loan losses	(257,706)	(211,889)
Unamortized deferred loan fees	(7,740)	(8,339)
Loans, net	6,641,949	6,678,914
Federal Home Loan Bank stock	66,508	71,791
Other real estate owned, net	79,957	71,014
Investments in affordable housing partnerships, net	90,820	95,853
Premises and equipment, net	108,826	108,635
Customers liability on acceptances	17,129	26,554
Accrued interest receivable	33,673	35,982
Goodwill	316,340	316,340
Other intangible assets	18,590	23,157
Other assets	185,141	200,184
Total assets	$ 11,253,182	$ 11,588,232
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Non-interest-bearing demand deposits	$ 928,970	$ 864,551
Interest-bearing accounts:		
NOW accounts	409,109	337,304
Money market accounts	974,572	943,164
Saving accounts	375,640	347,724
Time deposits under $100,000	1,150,633	1,529,954
Time deposits of $100,000 or more	3,268,831	3,482,343
Total deposits	7,107,755	7,505,040
Securities sold under agreements to repurchase	1,566,000	1,557,000
Advances from the Federal Home Loan Bank	864,362	929,362

Other borrowings from financial institutions	8,351	7,212
Other borrowings for affordable housing investments	19,150	19,320
Long-term debt	171,136	171,136
Acceptances outstanding	17,129	26,554
Other liabilities	52,457	59,864
Total liabilities	9,806,340	10,275,488
Commitments and contigencies		
Stockholders equity		
Preferred stock, 10,000,000 shares authorized, 258,000 issued and outstanding in 2010 and in 2009	246,578	243,967
Common stock, $0.01 par value; 100,000,000 shares authorized, 82,733,469 issued and 78,525,904 outstanding at September 30, 2010, and 67,667,155 issued and 63,459,590 outstanding at December 31, 2009	827	677
Additional paid-in-capital	761,954	634,623
Accumulated other comprehensive income/(loss), net	24,318	(875)
Retained earnings	530,401	551,588
Treasury stock, at cost (4,207,565 shares at September 30, 2010, and at December 31, 2009)	(125,736)	(125,736)
Total Cathay General Bancorp stockholders equity	1,438,342	1,304,244
Noncontrolling Interest	8,500	8,500
Total equity	1,446,842	1,312,744
Total liabilities and equity	$ 11,253,182	$ 11,588,232

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)

(Unaudited)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	(In thousands, except share and per share data)			
INTEREST AND DIVIDEND INCOME				
Loan receivable, including loan fees	$ 95,255	$ 99,588	$ 286,077	$ 302,232
Investment securities- taxable	24,749	31,589	83,788	94,104
Investment securities- nontaxable	19	167	195	620
Federal Home Loan Bank stock	77	149	171	149
Federal funds sold and securities purchased under agreements to resell		35		1,338
Deposits with banks	406	119	1,031	250
Total interest and dividend income	120,506	131,647	371,262	398,693
INTEREST EXPENSE				
Time deposits of $100,000 or more	12,754	20,224	42,418	65,337
Other deposits	6,603	10,622	23,689	40,196
Securities sold under agreements to repurchase	16,667	16,555	49,469	48,527
Advances from Federal Home Loan Bank	10,090	10,664	30,110	31,781
Long-term debt	1,046	1,067	2,902	3,891
Short-term borrowings	5		5	24
Total interest expense	47,165	59,132	148,593	189,756
Net interest income before provision for credit losses	73,341	72,515	222,669	208,937
Provision for credit losses	17,900	76,000	146,900	216,000
Net interest income/(loss) after provision for credit losses	55,441	(3,485)	75,769	(7,063)
NON-INTEREST INCOME				
Securities gains, net	484	2,883	9,112	52,319
Letters of credit commissions	1,253	1,150	3,280	3,159
Depository service fees	1,277	1,272	3,870	3,940
Other operating (loss)/income	872	4,982	(180)	10,964
Total non-interest income	3,886	10,287	16,082	70,382
NON-INTEREST EXPENSE				
Salaries and employee benefits	14,436	14,410	44,445	46,369
Occupancy expense	2,801	3,999	10,432	12,126
Computer and equipment expense	2,011	2,052	6,132	5,938
Professional services expense	4,460	3,694	14,099	10,021

FDIC and State assessments	4,599	4,464	15,527	15,372
Marketing expense	749	669	2,469	2,153
Other real estate owned expense, net	453	4,135	5,346	20,150
Operations of affordable housing investments , net	1,166	1,407	5,391	5,255
Amortization of core deposit intangibles	1,484	1,689	4,476	5,089
Other operating expense	2,722	2,288	11,046	7,863
Total non-interest expense	34,881	38,807	119,363	130,336
Income/(loss) before income tax expense/(benefit)	24,446	(32,005)	(27,512)	(67,017)
Income tax expense/(benefit)	7,023	(14,482)	(21,418)	(35,362)
Net income/(loss)	17,423	(17,523)	(6,094)	(31,655)
Less: net income attributable to noncontrolling interest	(151)	(156)	(452)	(457)
Net income/(loss) attributable to Cathay General Bancorp	17,272	(17,679)	(6,546)	(32,112)
Dividends on preferred stock	(4,098)	(4,086)	(12,286)	(12,249)
Net income/(loss) attributable to common stockholders	13,174	(21,765)	(18,832)	(44,361)
Other comprehensive income (loss) , net of tax				
Unrealized holding gain/(loss) arising during the period	290	29,233	29,024	15,109
Less: reclassification adjustments included in net income	203	1,212	3,831	21,995
Total other comprehensive gain/(loss), net of tax	87	28,021	25,193	(6,886)
Total comprehensive income/(loss) attributable to Cathay General Bancorp	$ 17,359	$ 10,342	$ 18,647	$ (38,998)
Net income/(loss) per common share:				
Basic	$ 0.17	$ (0.43)	$ (0.25)	$ (0.89)
Diluted	$ 0.17	$ (0.43)	$ (0.25)	$ (0.89)
Cash dividends paid per common share	$ 0.010	$ 0.010	$ 0.030	$ 0.195
Basic average common shares outstanding	78,520,612	50,183,296	76,584,138	49,758,833
Diluted average common shares outstanding	78,520,612	50,183,296	76,584,138	49,758,833

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30 2010	2009
	(In thousands)	
Cash Flows from Operating Activities		
Net loss	$ (6,094)	$ (31,655)
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Provision for loan losses	146,900	216,000
Provision for losses on other real estate owned	8,062	18,050
Deferred tax benefit	(14,713)	(42,630)
Depreciation	4,753	5,753
Net gains on sale and transfer of other real estate owned	(7,049)	(779)
Net gains on sale of loans held for sale	(149)	(3,949)
Proceeds from sale of loans held for sale	12,681	29,267
Originations of loans held for sale	(7,332)	(5,350)
Write-downs on loans held for sale	3,160	
Write-downs on venture capital investments	392	1,573
Write-downs on impaired securities	492	82
Gain on sales and calls of securities	(9,603)	(52,401)
(Increase)/decrease in fair value of warrants	(17)	47
Other non-cash interest	(562)	
Amortization/accretion of security premiums/discounts, net	4,073	1,699
Amortization of intangibles	4,534	5,134
Excess tax short-fall from share-based payment arrangements	362	195
Stock based compensation expense	2,690	4,123
Decrease in deferred loan fees, net	(599)	
Decrease in accrued interest receivable	2,309	10,144
Decrease in income tax payable		(12,491)
Decrease/(increase) in other assets, net	15,559	(8,067)
Decrease in other liabilities	(5,231)	(19,974)
Net cash provided by operating activities	154,618	114,771
Cash Flows from Investing Activities		
Decrease/(Increase) in short-term investments	6,171	(306,767)
Decrease in securities purchased under agreements to resell		201,000
Purchase of investment securities available-for-sale	(3,047,136)	(1,048,251)
Proceeds from maturity and calls of investment securities available-for-sale	2,272,239	1,036,522
Proceeds from sale of investment securities available-for-sale	65,073	4,989
Purchase of mortgage-backed securities available-for-sale		(2,487,276)
Proceeds from repayment and sale of mortgage-backed securities available-for-sale	913,226	2,321,756
Purchase of investment securities held-to-maturity	(30,541)	(99,858)
Proceeds from maturity, call and prepayment of investment securities held-to-maturity	60,660	
Redemption of Federal Home Loan Bank stock	5,284	
Net (increase)/decrease in loans	(147,884)	118,747
Purchase of premises and equipment	(4,484)	(11,016)
Proceeds from sale of other real estate owned	68,791	25,675

Net increase in investment in affordable housing	(2,767)	(11,159)
Net cash provided by/(used in) investing activities	158,632	(255,638)
Cash Flows from Financing Activities		
Net increase in demand deposits, NOW accounts, money market and saving deposits	195,548	505,149
Net (decrease)/increase in time deposits	(592,296)	366,846
Net increase/(decrease) in federal funds purchased and securities sold under agreement to repurchase	9,000	(112,000)
Advances from Federal Home Loan Bank		816,000
Repayment of Federal Home Loan Bank borrowings	(65,000)	(1,336,000)
Cash dividends paid on common stock	(2,355)	(9,657)
Cash dividend paid on preferred stock	(9,675)	(9,675)
Issuance of common stock	124,922	31,390
Proceeds from other borrowings	1,139	17,765
Repayment of other borrowings		(16,452)
Proceeds from shares issued to Dividend Reinvestment Plan	229	1,102
Proceeds from exercise of stock options		13
Excess tax short-fall from share-based payment arrangements	(362)	(195)
Net cash (used in)/ provided by financing activities	(338,850)	254,286
(Decrease)/increase in cash and cash equivalents	(25,600)	113,419
Cash and cash equivalents, beginning of the period	100,124	84,818
Cash and cash equivalents, end of the period	$ 74,524	$ 198,237
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	$ 154,195	$ 200,507
Income taxes (refunded)/paid	$ (3,942)	$ 24,749
Non-cash investing and financing activities:		
Net change in unrealized holding gain/(loss) on securities available-for-sale, net of tax	$ 25,193	$ (6,886)
Adjustment to initially apply SFAS No. 160	$	$ 8,500
Transfers to other real estate owned from loans held for investment	$ 69,727	$ 87,687
Transfers to other real estate owned from loans held for sale	$ 20,922	$
Loans transfers from investment to held for sale	$ 1,329	$
Loans to facilitate the sale of other real estate owned	$ 11,775	$ 18,335
Loans to facilitate sale of loans held for investment	$ 2,700	$
Loans to facilitate sale of loans held for sale	$ 20,800	$

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business

Cathay General Bancorp (the Bancorp) is the holding company for Cathay Bank (the Bank), six limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc. The 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, 2010, the Bank operates twenty branches in Southern California, eleven branches in Northern California, eight 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 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, 2010. For further information, refer to the audited consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

The preparation of the 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 June 2009, the FASB issued ASC Topic 860, formerly SFAS 166, *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140.* ASC Topic 860 removes the concept of a qualifying special-purpose entity and the provisions for guaranteed mortgage securitizations in earlier FASB pronouncements. A transferor should account for the transfer as a sale only if it transfers an entire financial asset and surrenders control over the entire transferred assets in accordance with the conditions in ASC Topic 860. ASC Topic 860 limits the circumstances in which a financial asset should be derecognized. ASC Topic 860 is effective for annual financial statements covering the first fiscal year ending after November 15, 2009. Adoption of ASC Topic 860 as of January 1, 2010, did not have a material impact on the Company s consolidated financial statements.

Table of Contents

In June 2009, the FASB issued ASC Topic 810, formerly SFAS 167, *Amendments to FASB Interpretation No. 46(R).* ASC Topic 810 eliminates the quantitative approach previously required under FIN 46(R) for determining whether an entity is a variable interest entity. ASC Topic 810 requires an entity to perform ongoing assessments to determine whether an entity is the primary beneficiary of a variable interest entity. The ongoing assessments identify the power to direct the activities of a variable interest entity, the obligation to absorb losses of the entity and the right to receive benefits from the entity that could potentially be significant to the variable interest entity. ASC Topic 810 is effective for annual financial statements covering the first fiscal year ending after November 15, 2009. Adoption of ASC Topic 810 as of January 1, 2010, did not have a significant impact on the Company s consolidated financial statements.

The FASB issued ASU 2010-06 *Improving Disclosures about Fair Value Measurements* in January 2010 to improve disclosure requirements related to ASC Topic 820. ASU 2010-06 requires an entity to report separately significant transfers in and out of Level 1 and Level 2 fair value measurements and to explain the transfers. It also requires an entity to present separately information about purchases, sales, issuances, and settlements for Level 3 fair value measurements. ASU 2010-06 is effective for fiscal years beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements for Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. Adoption of ASU 2010-06 as of January 1, 2010, did not have a significant impact on the Company s consolidated financial statements. The Company does not expect a material impact on its consolidated financial statements from adoption of ASU 2010-06 for the disclosures about purchases, sales, issuances, and settlements for Level 3 fair value measurements after December 15, 2010.

The FASB issued ASU 2010-20 *Disclosure about Credit Quality and the Allowance for Credit Losses* in July 2010 to provide disclosures that facilitate financial statement users evaluation of (i) the nature of credit risk inherent in the entity s portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and (iii) the changes and reasons for those changes in the allowance for credit losses. An entity should provide disclosures on two levels of disaggregation- portfolio segment and class of financing receivable. The disclosure requirements include, among other things, a roll-forward schedule of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 will be effective for the entity s financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period will be required for the entity s financial statements that include periods beginning on or after January 1, 2011. The Company does not expect a material impact on its consolidated financial statements from adoption of ASU 2010-20 beginning December 31, 2010.

4. Earnings/Loss 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. Potential dilution is excluded from computation of diluted per-share amounts when a net loss from operation exists.

Table of Contents

Outstanding stock options with anti-dilutive effect were not included in the computation of diluted earnings per share. The following table sets forth loss per common stock share calculations:

(Dollars in thousands, except share and per share data)	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
Net income/(loss) attributable to Cathay General Bancorp	$ 17,272	($ 17,679)	($ 6,546)	($ 32,112)
Dividends on preferred stock	(4,098)	(4,086)	(12,286)	(12,249)
Net income/(loss) attributable to common stockholders	$ 13,174	($ 21,765)	($ 18,832)	($ 44,361)
Weighted-average number of common shares outstanding:				
Basic	78,520,612	50,183,296	76,584,138	49,758,833
Diluted effect of weighted-average outstanding common shares equivalents				
Stock Options				
Restricted Stock				
Diluted weighted-average number of common shares outstanding	78,520,612	50,183,296	76,584,138	49,758,833
Average shares of stock options and warrants with anti-dilutive effect	6,911,096	7,077,632	6,946,976	7,029,494
Earnings/(Loss) per common stock share:				
Basic	$ 0.17	($ 0.43)	($ 0.25)	($ 0.89)
Diluted	$ 0.17	($ 0.43)	($ 0.25)	($ 0.89)

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, 2010, 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. If such options expire or terminate without having been exercised, any shares not purchased will again be available for future grants or awards. Stock options are typically granted in the first quarter of the year. There were no options granted during 2009 and during the first nine months of 2010.

Stock-based compensation expense for stock options is calculated based on the fair value of the award at the grant date for those options expected to vest, and is recognized as an expense over the vesting period of the grant. The Company uses the Black-Scholes option pricing model to estimate the value of granted options. This model takes into account the option exercise price, the expected life, the current price of the underlying stock, the expected volatility of the Company s stock, expected dividends on the stock and a risk-free interest rate. The Company estimates the expected volatility based on the Company s historical stock prices for the period corresponding to the expected life of the stock options. Based on Staff Accounting Bulletin (SAB) 107 and SAB 110, the Company has estimated the expected life of the options based on the average of the contractual period and the vesting period and has consistently applied the simplified method to all options granted starting from 2005.

Table of Contents

Option compensation expense totaled $694,000 for the three months ended September 30, 2010, and $1.2 million for the three months ended September 30, 2009. For the nine months ended September 30, option compensation expense totaled $2.4 million for 2010 and $3.9 million for 2009. Stock-based compensation is recognized ratably over the requisite service period for all awards. Unrecognized stock-based compensation expense related to stock options totaled $2.5 million at September 30, 2010, and is expected to be recognized over the next 1.9 years.

No stock options were exercised during the first nine months of 2010. Cash received totaled $13,000 and the aggregate intrinsic value totaled $8,000 from the exercise of stock options on 1,280 shares during the nine months ended September 30, 2009. No options were vested during the third quarter of 2010 and during the third quarter of 2009. The table below summarizes stock option activity for the periods indicated:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2009	5,169,653	$ 27.71	4.6	$
Forfeited	(102,232)	$ 10.75		
Balance at March 31, 2010	5,067,421	$ 28.05	4.4	$ 3
Forfeited	(11,119)	33.18		
Balance at June 30, 2010	5,056,302	$ 28.04	4.2	$
Forfeited	(65,822)	34.62		
Balance at September 30, 2010	4,990,480	$ 27.97	3.9	$ 6
Exercisable at September 30, 2010	4,512,042	$ 28.06	3.6	$ 6

In addition to stock options above, in February 2008, the Company granted restricted stock units on 82,291 shares of the Company s common stock to its eligible employees. On the date of granting these restricted stock units, the closing price of the Company s stock was $23.37 per share. Such restricted stock units have a maximum term of five years and vest in approximately 20% annual increments subject to employees continued employment with the Company. On February 21, 2009, restricted stock units on 15,828 shares were vested at the closing price of $8.94 per share. Among the 15,828 restricted stock units, 2,865 shares were cancelled immediately for employees who elected to satisfy income tax withholding amounts through cancellation of restricted stock units. As a result, a total of 12,963 shares of the Company s common stock were issued on these restricted stock units as of February 21, 2009. On February 21, 2010 an additional restricted stock units on 15,006 shares were vested and issued at the closing price of $9.64 per share. The following table presents information relating to the restricted stock units as of September 30, 2010:

	Units
Balance at December 31, 2009	60,021
Vested	(15,006)
Forfeited	(5,622)
Balance at September 30, 2010	39,393

The compensation expense recorded related to the restricted stock units above was $82,000 for the three months ended September 30, 2010, and for the three months ended September 30, 2009. For the nine months ended September 30, compensation expense recorded was $245,000 in

2010 and in 2009. Unrecognized stock-based compensation expense related to restricted stock units was $790,000 at September 30, 2010, and is expected to be recognized over the next 2.4 years.

Table of Contents

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

(Dollars in thousands)	For the three months ended September 30, 2010	2009	For the nine months ended September 30, 2010	2009
Short-fall of tax deductions in excess of grant-date fair value	$ (263)	$ (64)	$ (362)	$ (195)
Benefit of tax deductions on grant-date fair value	263	64	362	198
Total benefit of tax deductions	$	$	$	$ 3

6. Investment Securities

The following table reflects the amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment securities as of September 30, 2010, and December 31, 2009:

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Held-to-Maturity				
U.S. government sponsored entities	$ 99,909	$ 3,205	$	$ 103,114
State and municipal securities	10,576	12	$ 46	$ 10,542
Mortgage-backed securities	483,016	11,733		494,749
Other securities-foreign	9,966			9,966
Total securities held-to-maturity	$ 603,467	$ 14,950	$ 46	$ 618,371
Securities Available-for-Sale				
U.S. government sponsored entities	$ 1,384,479	$ 5,285	$ 310	$ 1,389,454
Mortgage-backed securities	1,053,176	37,226	66	1,090,336
Collateralized mortgage obligations	28,753	815	111	29,457
Asset-backed securities	251		4	247
Corporate bonds	206,813	1,068	1,705	206,176
Mutual fund	4,000	18		4,018
Preferred stock of government sponsored entities	569			569
Trust Preferred Securities	3,887	35	5	3,917
Other foreign securities	36,530	61	110	36,481
Other equity securities	1,097		237	860
Total securities available-for-sale	$ 2,719,555	$ 44,508	$ 2,548	$ 2,761,515
Total investment securities	$ 3,323,022	$ 59,458	$ 2,594	$ 3,379,886

Table of Contents

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Held-to-Maturity				
U.S. government sponsored entities	$ 99,876	$ 1,187	$	$ 101,063
Mortgage-backed securities	535,139		7,294	527,845
Total securities held-to-maturity	$ 635,015	$ 1,187	$ 7,294	$ 628,908
Securities Available-for-Sale				
U.S. treasury securities	$ 13,825	$	$ 77	$ 13,748
U.S. government sponsored entities	873,290	1,284	3,230	871,344
State and municipal securities	12,750	109	36	12,823
Mortgage-backed securities	1,939,821	9,730	7,375	1,942,176
Collateralized mortgage obligations	49,161	266	1,638	47,789
Asset-backed securities	312		63	249
Corporate bonds	10,246		489	9,757
Preferred stock of government sponsored entities	1,061	211		1,272
Other securities-foreign	14,975		84	14,891
Other equity securities	1,050			1,050
Total securities available-for-sale	$ 2,916,491	$ 11,600	$ 12,992	$ 2,915,099
Total investment securities	$ 3,551,506	$ 12,787	$ 20,286	$ 3,544,007

The amortized cost and fair value of investment securities at September 30, 2010, 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.

	Securities Available-for-Sale		Securities Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$ 111,723	$ 112,419	$	$
Due after one year through five years	1,031,425	1,034,607	99,909	103,114
Due after five years through ten years	628,850	636,063	9,966	9,966
Due after ten years (1)	947,557	978,426	493,592	505,291
Total	$ 2,719,555	$ 2,761,515	$ 603,467	$ 618,371

(1) Equity securities are reported in this category

Proceeds from sales and repayments of mortgage-backed securities were $913.2 million during the first nine months of 2010 compared to $2.3 billion during the same period a year ago. Proceeds from sales and repayments of other investment securities were $65.1 million during the first nine months of 2010 compared to $5.0 million during the nine months of 2009. Proceeds from maturity and calls of investment securities were $2.3 billion during the first nine months of 2010 compared to $1.0 billion during the same period a year ago. Gains of $9.7 million and losses of $67,000 were realized on sales and calls of investment securities during the first nine months of 2010 compared to $52.4 million in gains and no losses realized for the same period a year ago.

ASC Topic 320 requires an entity to assess whether it has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, an entity must recognize an other-than-temporary impairment (OTTI). If an entity does not intend to sell the debt security and will not be required to sell the debt security,

Table of Contents

the entity must consider whether it will recover the amortized cost basis of the security. If the present value of expected cash flows is less than the amortized cost basis of the security, OTTI shall be considered to have occurred. OTTI is then separated into the amount of the total impairment related to credit losses and the amount of the total impairment related to all other factors. An entity determines the impairment related to credit losses by comparing the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. OTTI related to the credit loss is thereafter recognized in earnings. OTTI related to all other factors is recognized in other comprehensive income. OTTI not related to the credit loss for a held-to-maturity security should be recognized separately in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the carrying value of the security only when the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its remaining amortized cost basis. 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.

The Company has investments in perpetual floating rate preferred securities issued by Freddie Mac and Fannie Mae with an aggregate par value of $1.1 million as of September 30, 2010. Based on an evaluation of the financial condition and prospects of the issuers, the Company recorded other-than-temporary impairment charges of $492,000 in the third quarter of 2010 to write down the value of these securities to their market value. As of September 30, 2010, the Company held agency preferred stock with a carrying value of $569,000.

The temporarily impaired securities represent 11.0% of the fair value of investment securities as of September 30, 2010. Unrealized losses for securities with unrealized losses for less than twelve months represent 0.7%, and securities with unrealized losses for twelve months or more represent 1.4%, of the historical cost of these securities. Unrealized losses on these securities generally resulted from increases in interest rate spreads subsequent to the date that these securities were purchased. All of these securities are investment grade as of September 30, 2010. At September 30, 2010, 11 issues of securities had unrealized losses for twelve months or longer and 33 issues of securities had unrealized losses of less than twelve months. At September 30, 2010, management believed the impairment was temporary and, accordingly, no impairment loss has been recognized in our consolidated statements of operations. The table below shows the fair value, unrealized losses, and number of issuances of the temporarily impaired securities in our investment securities portfolio as of September 30, 2010, and December 31, 2009:

Table of Contents

As of September 30, 2010
Temporarily Impaired Securities
(Dollars in thousands)

	Less than 12 months			12 months or longer			Total		
	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances
Securities Held-to-Maturity									
State and municipal securities	$ 6,602	$ 46	7				$ 6,602	$ 46	7
Total securities held-to-maturity	$ 6,602	$ 46	$ 7	$	$	$	$ 6,602	$ 46	$ 7
Securities Available-for-Sale									
U.S. government sponsored entities	$ 224,689	$ 310	$ 4	$	$		$ 224,689	$ 310	$ 4
Mortgage-backed securities	358	5	7	32	1	1	390	6	8
Mortgage-backed securities-Non-agency				11,175	60	3	11,175	60	3
Collateralized mortgage obligations				1,239	111	6	1,239	111	6
Asset-backed securities				247	4	1	247	4	1
Corporate bonds	103,266	1,705	11				103,266	1,705	11
Trust preferred securities	1,253	5	1				1,253	5	1
Other securities-foreign organization	19,890	110	2				19,890	110	2
Other equity securities	860	237	1				860	237	1
Total securities available-for-sale	$ 350,316	$ 2,372	$ 26	$ 12,693	$ 176	$ 11	$ 363,009	$ 2,548	$ 37
Total investment securities	$ 356,918	$ 2,418	33	$ 12,693	$ 176	11	$ 369,611	$ 2,594	44

As of December 31, 2009
Temporarily Impaired Securities
(Dollars in thousands)

	Less than 12 months			12 months or longer			Total		
	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances
Securities Held-to-Maturity									
Mortgage-backed securities	$ 527,845	$ 7,294	12				$ 527,845	$ 7,294	12
Total securities held-to-maturity	$ 527,845	$ 7,294	$ 12	$	$	$	$ 527,845	$ 7,294	$ 12
Securities Available-for-Sale									
U.S. Treasury entities	$ 13,748	$ 77	2	$	$		$ 13,748	$ 77	2
U.S. government sponsored entities	408,888	3,230	9				408,888	3,230	9
State and municipal securities				659	36	1	659	36	1
Mortgage-backed securities	1,050,968	6,216	32	855	3	5	1,051,823	6,219	37
Mortgage-backed securities-Non-agency				12,302	1,156	3	12,302	1,156	3
Collateralized mortgage obligations	30,870	955	4	8,304	683	8	39,174	1,638	12
Asset-backed securities				249	63	1	249	63	1
Corporate bonds	249	1	1	9,508	488	3	9,757	489	4
Other securities-foreign organization	14,891	84	3				14,891	84	3
Total securities available-for-sale	$ 1,519,614	$ 10,563	$ 51	$ 31,877	$ 2,429	$ 21	$ 1,551,491	$ 12,992	$ 72
Total investment securities	$ 2,047,459	$ 17,857	63	$ 31,877	$ 2,429	21	$ 2,079,336	$ 20,286	84

Investment securities having a carrying value of $1.95 billion at September 30, 2010, and $1.97 billion at December 31, 2009, were pledged to secure public deposits, other borrowings, treasury tax and loan, Federal Home Loan Bank advances, securities sold under agreements to repurchase, and foreign exchange transactions.

7. Investments in Affordable Housing

The Company has invested in certain limited partnerships that were formed to develop and operate housing for lower-income tenants throughout the United States. The Company s investments in these partnerships were $90.8 million at September 30, 2010, and $95.9 million at December 31, 2009. At September 30, 2010, and December 31, 2009, six of the limited partnerships in which the Company has an equity interest were determined to be variable interest entities for which the Company is the primary beneficiary. The consolidation of these limited partnerships in the Company s consolidated financial statements increased total assets and liabilities by $22.9 million at September 30, 2010, and by $22.8 million at December 31, 2009. Other borrowings for affordable housing limited partnerships were $19.1 million at September 30, 2010, and $19.2 million at December 31, 2009; recourse is limited to the assets of the limited partnerships. Unfunded commitments for affordable housing limited partnerships of $4.6 million as of September 30, 2010, and $8.1 million as of December 31, 2009, were recorded under other liabilities.

8. Commitments and 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.

The Company s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The following table summarizes the outstanding commitments as of the dates indicated:

(In thousands)	At September 30, 2010	At December 31, 2009
Commitments to extend credit	$ 1,337,180	$ 1,591,019
Standby letters of credit	53,959	61,488
Other letters of credit	65,847	49,257
Bill of lading guarantees		300
Total	$ 1,456,986	$ 1,702,064

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the commitment agreement. These commitments generally have fixed expiration dates and the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management s credit evaluation of the borrower. Letters of credit, including standby letters of credit and bill of lading guarantees, are conditional

Table of Contents

commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing these types of instruments is essentially the same as that involved in making loans to customers.

9. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase were $1.6 billion with a weighted average rate of 4.17% at September 30, 2010, compared to $1.6 billion with a weighted average rate of 4.19% at December 31, 2009. Seventeen floating-to-fixed rate agreements totaling $900.0 million are with initial floating rates for a period of time ranging from six months to one year, with floating rates ranging from the three-month LIBOR minus 100 basis points to three-month LIBOR minus 340 basis points. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.29% to 5.07%. After the initial floating rate term, the counterparties have the right to terminate the transaction at par at the fixed rate reset date and quarterly thereafter. Thirteen fixed-to-floating rate agreements totaling $650.0 million have initial fixed rates ranging from 1.00% and 3.50% with initial fixed rate terms ranging from six months to eighteen months. For the remainder of the seven year term, the rates float at 8% minus the three-month LIBOR rate with a maximum rate ranging from 3.25% to 3.75% and minimum rate of 0.0%. After the initial fixed rate term, the counterparties have the right to terminate the transaction at par at the floating rate reset date and quarterly thereafter. At September 30, 2010, there was one short-term security sold under an agreement to repurchase of $16.0 million at the rate of 1.00% which matured on October 1, 2010. The table below provides summary data for long-term securities sold under agreements to repurchase as of September 30, 2010:

Securities Sold Under Agreements to Repurchase

(Dollars in millions)	Fixed-to-floating				Floating-to-fixed				Total
Callable	All callable at September 30, 2010				All callable at September 30, 2010				
Rate type	Float Rate				Fixed Rate				
Rate index	8% minus 3 month LIBOR								
Maximum rate	3.75%	3.50%	3.50%	3.25%					
Minimum rate	0.0%	0.0%	0.0%	0.0%					
No. of agreements	3	5	4	1	2	1	10	4	30
Amount	$ 150.0	$ 250.0	$ 200.0	$ 50.0	$ 100.0	$ 50.0	$ 550.0	$ 200.0	$ 1,550.0
Weighted average rate	3.75%	3.50%	3.50%	3.25%	4.77%	4.83%	4.54%	5.00%	4.20%
Final maturity	2014	2014	2015	2015	2011	2012	2014	2017	

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, U.S. government agency security debt, and mortgage-backed securities with a fair value of $1.9 billion as of September 30, 2010, and $1.8 billion as of December 31, 2009.

10. Advances from the Federal Home Loan Bank

Total advances from the FHLB decreased $65.0 million to $864.4 million at September 30, 2010, from $929.4 million at December 31, 2009. During the first quarter of 2010, the Company prepaid a $65.0 million advance from the FHLB and incurred a

Table of Contents

prepayment penalty of $909,000. Non-puttable advances totaled $164.4 million with a weighted rate of 5.27% and puttable advances totaled $700.0 million with a weighted average rate of 4.42% at September 30, 2010. The FHLB has the right to terminate the puttable transaction at par at each three-month anniversary after the first puttable date. As of September 30, 2010, all puttable FHLB advances were puttable, but the FHLB had not exercised its right to terminate any of the puttable transactions. At September 30, 2010, the Company had unused borrowing capacity from the FHLB of $459.3 million and expects to be able to access this source of funding, if required, in the near term.

In addition to the prepayment of $65.0 million in the first quarter of 2010, between October 5, 2010, and November 4, 2010, the Company prepaid $264.4 million in advances from the FHLB and incurred additional prepayment penalties of $10.7 million.

11. Subordinated Note and Junior Subordinated Note

On September 29, 2006, the Bank issued $50.0 million in subordinated debt in a private placement transaction (Bank Subordinated Securities). The debt has a maturity term of 10 years, is unsecured and bears interest at a rate of three-month LIBOR plus 110 basis points, payable on a quarterly basis. At September 30, 2010, the per annum interest rate on the subordinated debt was 1.39% compared to 1.35% at December 31, 2009. The subordinated debt was issued through the Bank and qualifies as Tier 2 capital for regulatory reporting purposes and is included in long-term debt in the accompanying condensed consolidated balance sheets.

The Bancorp established three special purpose trusts in 2003 and two in 2007 for the purpose of issuing trust preferred securities to outside investors (Capital Securities). These trusts exist for the purpose of issuing the Capital Securities and investing the proceeds thereof, together with proceeds from the purchase of the common stock of the trusts by the Bancorp in junior subordinated notes issued by the Bancorp (Junior Subordinated Notes). The five special purpose trusts are considered variable interest entities under FIN 46R. Because the Bancorp is not the primary beneficiary of the trusts, the financial statements of the trusts are not included in the consolidated financial statements of the Company. At September 30, 2010, Junior Subordinated Notes totaled $121.1 million with a weighted average interest rate of 2.45% compared to $121.1 million with a weighted average rate of 2.41% at December 31, 2009. The Junior Subordinated Notes have a stated maturity term of 30 years and are currently included in the Tier 1 capital of the Bancorp for regulatory capital purposes.

12. Income Taxes

Income tax benefit totaled $21.4 million, or an effective tax benefit rate of 76.6% for the first nine months of 2010 compared to an income tax benefit of $35.4 million, or an effective tax rate of 52.4%, for the same period a year ago. Income tax benefit results in effective tax rates that differ from the statutory Federal income tax rate for the periods indicated as follows:

	Nine Months Ended September 30, 2010		2009	
	(In thousands)			
Tax provision at Federal statutory rate	$ (9,787)	35.0%	$ (23,616)	35.0%
State income taxes, net of Federal income tax benefit	(3,127)	11.2	(3,856)	5.7
Interest on obligations of state and political subdivisions, which are exempt from Federal taxation	(68)	0.2	(212)	0.3
Low income housing tax credit	(7,927)	28.4	(8,089)	12.0
Other, net	(509)	1.8	411	(0.6)
Total income tax benefit	$ (21,418)	76.6%	$ (35,362)	52.4%

Table of Contents

As previously disclosed, on December 31, 2003, the California Franchise Tax Board (FTB) announced its intent to list certain transactions that in its view constitute potentially abusive tax shelters. Included in the transactions subject to this listing were transactions utilizing regulated investment companies (RICs) and real estate investment trusts (REITs). While the Company continues to believe that the tax benefits recorded in 2000, 2001, and 2002 with respect to its regulated investment company were appropriate and fully defensible under California law, the Company participated in Option 2 of the Voluntary Compliance Initiative of the Franchise Tax Board, and paid all California taxes and interest on these disputed 2000 through 2002 tax benefits, and at the same time filed a claim for refund for these years while avoiding certain potential penalties. The Company expects to resolve the California tax audits of its 2000 through 2002 tax years without any additional accruals.

The Company recognizes accrued interest and penalties relating to unrecognized tax benefits as an income tax provision expense. The Company had approximately $0.3 million of accrued interest and penalties as of September 30, 2010, and $0.2 million of accrued interest and penalties as of December 31, 2009.

The Company s tax returns are open for audits by the Internal Revenue Service back to 2006 and by the Franchise Tax Board of the State of California back to 2000. The Company is currently under audit by the California Franchise Tax Board for the years 2000 to 2004 and by the Internal Revenue Service for the years 2007 to 2009.

13. Sale of Common Stock

On February 1, 2010, the Company raised $125.2 million in additional capital through the sale of 15.0 million shares of common stock.

14. 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.

Table of Contents

Level 3 Unobservable inputs based on the Company s own judgments 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 stocks 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.

Trading Securities. The Company measures the fair value of trading securities based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement.

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

Currency Option Contracts and Foreign Exchange Contracts. The Company measures the fair value of currency option and foreign exchange contracts based on dealer quotes on a recurring basis, a Level 2 measurement.

Interest Rate Swaps. Fair value of interest rate swaps was derived from observable market prices for similar assets on a recurring basis, 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 old appraisals which are then adjusted based on recent market trends, a Level 3 measurement.

Loans Held for sale. The Company records loans held for sale at fair value based on quoted prices from third party sale analysis, existing sale agreements or appraisal reports adjusted by sales commission assumption, a Level 3 measurement.

Goodwill. The Company 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 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 then recognized for the amount by which the carrying amount of goodwill exceeds its implied fair value. In connection with obtaining the independent valuation, management provided certain data and information that was utilized by the third party in its determination of fair value, including earnings forecast 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 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 old appraisals which are then adjusted based on recent market trends, a Level 3 measurement.

Investments in Venture Capital. The Company periodically reviews for OTTI 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 market at the reporting date, a Level 1 measurement.

The following table presents the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis at September 30, 2010, and at December 31, 2009:

As of September 30, 2010	Fair Value Measurements Using Level 1	Level 2	Level 3	Total at Fair Value
		(In thousands)		
Assets				
Securities available-for-sale				
U.S. government sponsored entities	$	$ 1,389,454	$	$ 1,389,454
Mortgage-backed securities		1,090,336		1,090,336
Collateralized mortgage obligations		29,457		29,457
Asset-backed securities		247		247
Corporate bonds		206,176		206,176
Mutual fund		4,018		4,018
Preferred stock of government sponsored entities		569		569
Trust preferred securities		3,917		3,917
Other foreign securities		36,481		36,481
Other equity securities	860			860
Total securities available-for-sale	860	2,760,655		2,761,515
Trading securities	24			24
Warrants			44	44
Option contracts		181		181
Foreign exchange contracts		5,725		5,725
Total assets	$ 884	$ 2,766,561	$ 44	$ 2,767,489
Liabilities				
Interest rate swaps	$	$ 7,840	$	$ 7,840
Option contracts		80		80
Foreign exchange contracts		1,352		1,352
Total liabilities	$	$ 9,272	$	$ 9,272

As of December 31, 2009	Fair Value Measurements Using Level 1	Level 2	Level 3	Total at Fair Value
		(In thousands)		
Assets				
Securities available-for-sale				
U.S. Treasury entities	$ 13,748	$	$	$ 13,748
U.S. government sponsored entities		871,344		871,344
State and municipal securities		12,823		12,823
Mortgage-backed securities		1,942,176		1,942,176
Collateralized mortgage obligations		47,789		47,789
Asset-backed securities		249		249
Corporate bonds		9,757		9,757
Preferred stock of government sponsored entities		1,272		1,272
Other foreign securities		14,891		14,891
Other equity securities	1,050			1,050

Total securities available-for-sale	14,798	2,900,301		2,915,099
Trading securities	18			18
Warrants			50	50
Option contracts		18		18
Foreign exchange contracts		3,565		3,565
Total assets	$ 14,816	$ 2,903,884	$ 50	$ 2,918,750
Liabilities				
Interest rate swaps	$	$ 694	$	$ 694
Option contracts		8		8
Foreign exchange contracts		967		967
Total liabilities	$	$ 1,669	$	$ 1,669

22

Table of Contents

The Company measured the fair value of its warrants on a recurring basis using significant unobservable inputs. The fair value of warrants was $44,000 at September 30, 2010, compared to $50,000 at December 31, 2009. The fair value adjustment of $6,000 was included in other operating income of 2010.

For financial assets measured at fair value on a nonrecurring basis that were still reflected in the balance sheet at September 30, 2010, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets at September 30, 2010, and at December 31, 2009, and the total losses for the periods indicated:

	As of September 30, 2010				Total Losses/(Gains)			
	Fair Value Measurements Using				For the Three Months Ended		For the Nine Months Ended	
	Level 1	Level 2	Level 3	Total at Fair Value	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(In thousands)							
Assets								
Impaired loans by type:								
Commercial loans	$	$ 9,965	$ 2,138	$ 12,103	$ 2,642	$ 4,467	$ 4,079	$ 7,305
Construction- residential		21,340		21,340	1,009	7,522	4,635	15,249
Construction- other		26,453	359	26,812	7,188	1,668	21,919	2,274
Real Estate loans		92,736	49,058	141,794	(127)	5,901	17,485	9,507
Land loans		11,178	1,047	12,225	6,638	2,457	9,728	2,482
Residential mortgage loans		2,929	4,930	7,859	87	871	915	2,687
Total impaired loans		164,601	57,532	222,133	17,437	22,886	58,761	39,504
Loans held-for-sale			6,164	6,164	176		3,160	
Other real estate owned (1)		76,186	9,174	85,360	(425)	2,548	1,739	18,050
Investments in venture capital			8,332	8,332	231	506	553	1,573
Equity investments	826			826				
Total assets	$ 826	$ 240,787	$ 81,202	$ 322,815	$ 17,419	$ 25,940	$ 64,213	$ 59,127

(1) Other real estate owned balance of $80.0 million in the consolidated balance sheet is net of estimated disposal costs.

Table of Contents

	As of December 31, 2009 Fair Value Measurements Using			Total at Fair Value	Total Losses For the Twelve Months Ended	
	Level 1	Level 2	Level 3	(In thousands)	December 31, 2009	December 31, 2008
Assets						
Impaired loans by type:						
Commercial loans	$	$ 16,129	$ 1,369	$ 17,498	$ 16,293	$ 5,312
Construction- residential		27,797	24,290	52,087	23,234	12,979
Construction- other		18,904	742	19,646	12,493	
Real Estate loans		25,901		25,901	27,350	3,699
Land loans		21,262		21,262	11,639	5,225
Total impaired loans		109,993	26,401	136,394	91,009	27,215
Loans held-for-sale			54,826	54,826	19,252	
Other real estate owned (1)		62,602	13,206	75,808	28,216	3,604
Investments in venture capital			8,147	8,147	1,794	11
Equity investments	826			826		1,042
Total assets	$ 826	$ 172,595	$ 102,580	$ 276,001	$ 140,271	$ 31,872

(1) Other real estate owned balance of $71.0 million in the consolidated balance sheet is net of estimated disposal costs.

15. 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.

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

Securities Purchased under Agreements to Resell. The fair value of the agreements to resell is based on dealer quotes.

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.

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

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.

The fair value of impaired loans was calculated based on the market price of the most recent sale or quoted price from loans held for sale.

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.

Securities Sold under Agreements to Repurchase. The fair value of repurchase agreements is based on dealer quotes.

Advances from Federal Home Loan Bank. The fair value of the advances is based on quotes from the FHLB to settle the advances.

Other Borrowings. This category includes federal funds purchased, revolving line of credit, and other short-term borrowings. The fair value of other borrowings is based on current market rates for borrowings with similar remaining maturities.

Long-term debt. The fair value of long-term debt is estimated based on the current spreads to LIBOR for long-term debt.

Currency Option Contracts and Foreign Exchange Contracts. The Company measures the fair value of currency option and foreign exchange contracts based on dealer quotes.

Interest Rate Swaps. Fair value of interest rate swaps was derived from observable market prices for similar assets.

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 counter parties. 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 counter parties at the reporting date.

Fair value was estimated in accordance with ASC Topic 825, formerly SFAS 107. 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.

Table of Contents

Fair Value of Financial Instruments

	As of September 30, 2010		As of December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial Assets				
Cash and due from banks	$ 74,524	$ 74,524	$ 100,124	$ 100,124
Short-term investments	248,555	248,555	254,726	254,726
Securities held-to-maturity	603,467	618,371	635,015	628,908
Securities available-for-sale	2,761,515	2,761,515	2,915,099	2,915,099
Trading securities	24	24	18	18
Loans held-for-sale	6,164	6,164	54,826	54,826
Loans, net	6,641,949	6,565,080	6,678,914	6,528,170
Investment in Federal Home Loan Bank stock	66,508	66,508	71,791	71,791
Warrants	44	44	50	50
	Notional Amount	Fair Value	Notional Amount	Fair Value
Option contracts	32,168	181	4,671	18
Foreign exchange contracts	108,450	5,725	60,725	3,565
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
Deposits	7,107,755	7,124,466	7,505,040	7,520,604
Securities sold under agreement to repurchase	1,566,000	1,740,390	1,557,000	1,695,130
Advances from Federal Home Loan Bank	864,362	915,038	929,362	993,243
Other borrowings	27,501	27,492	26,532	26,410
Long-term debt	171,136	99,944	171,136	92,553
	Notional Amount	Fair Value	Notional Amount	Fair Value
Option contracts	80	80	8	8
Interest rate swaps	300,000	7,840	300,000	694
Foreign exchange contracts	41,528	1,352	60,846	967
	Notional Amount	Fair Value	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$ 1,337,180	$ (414)	$ 1,591,019	$ (621)
Standby letters of credit	53,959	(248)	61,488	(200)
Other letters of credit	65,847	(31)	49,257	(22)
Bill of lading guarantees			300	(1)

16. Goodwill and Goodwill Impairment

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of ASC Topic 350. ASC Topic 350 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with ASC Topic 360, formerly, SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

The Company s policy is to assess goodwill for impairment at the reporting unit level on an annual basis or between annual assessments if a triggering event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Impairment is

the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Accounting standards require management to estimate the fair value of each reporting unit in making the assessment of impairment at least annually.

The impairment testing process conducted by the Company begins by assigning net assets and goodwill to its three reporting units Commercial Lending, Retail Banking, and East Coast Operations. 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 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.

The Commercial Lending Unit did not have any goodwill allocated to the unit and accordingly no goodwill impairment testing was performed for that unit. The reporting unit fair values for the Retail Banking Unit and the East Coast Operations Unit were determined based on an equal weighting of (1) the fair value determined using a market approach using a combination of price to earnings multiples determined based on a representative peer group applied to 2011 and 2012 forecasted earnings, and if appropriate, 2010 net earnings and a price to book multiple and (2) the fair value determined using a dividend discount model with the discount rate determined using the same representative peer group. A control premium was then applied to the unit fair values so determined.

In determining the forecasted earnings for the Retail Banking Unit and the East Coast Operations Unit, the financial forecasts assume some recovery from the current business downturn beginning in the final quarter of 2010 and then muted growth thereafter. It should be noted, however, that these reporting units have already been performing at a satisfactory level given the environment. The principal driver of the Company s negative operating results has been the Commercial Lending Unit where the vast majority of the Company s loan losses are incurred. The forecasts reflect an assumption that interest rates will increase steadily beginning in the first quarter of 2012 until December 2013. A summary of the respective unit fair value, carrying amounts and unit goodwill as well as the percentage by which fair value exceed carrying value of each reporting unit is shown below:

As of September 30, 2010

Reporting Units	**Carrying Amount**	**Fair Value**	**Fair Value in Excess of Carrying Amount**	**Allocated Goodwill**
	(Dollars in thousands)			
Commercial Lending	$ 577,564	$ 101,527		
Retail Banking	420,201	650,653	54.8%	235,195
East Coast Operations	184,944	284,194	53.7%	81,145
Total	$ 1,182,709	$ 1,036,374		$ 316,340

If economic conditions were to worsen instead of improve as assumed in the key assumptions, then the forecasted earnings for the Retail Banking Unit and the East Coast Operations Unit could be significantly lower than projected. In addition, a worsening of economic conditions could potentially reduce the price to earnings multiples and price to book multiples of peer groups for Retail Banking Unit and East Coast Operations Unit and result in a reduction in the fair value of these units even if the forecasted earnings were achieved.

17. Financial Derivatives

It is the policy of the Company not to speculate on the future direction of interest rates. However, the Company enters into financial derivatives in order to seek mitigation of exposure to interest rate risks related to our interest-earning assets and interest-bearing liabilities. We believe that these transactions, when properly structured and managed, may provide a hedge against inherent interest rate risk in the Company s assets or liabilities and against risk in specific transactions. In such instances, the Company may protect its position through the purchase or sale of interest rate futures contracts for a specific cash or interest rate risk position. Other hedge transactions may be implemented using interest rate swaps, interest rate caps, floors, financial futures, forward rate agreements, and options on futures or bonds. Prior to considering any hedging activities, we seek to analyze the costs and benefits of the hedge in comparison to other viable alternative strategies. All hedges will require an assessment of basis risk and must be approved by the Bank s Investment Committee.

The Company follows ASC Topic 815 which established accounting and reporting standards for financial derivatives, including certain financial derivatives embedded in other contracts, and hedging activities. It requires the recognition of all financial derivatives as assets or liabilities in the Company s consolidated balance sheet and measurement of those financial derivatives at fair value. The accounting treatment of changes in fair value is dependent upon whether or not a financial derivative is designated as a hedge and if so, the type of hedge.

As of September 30, 2010, we had entered into five interest rate swap agreements with two major financial institutions in the notional amount of $300.0 million for a period of three years. These interest rate swaps were not structured to hedge against inherent interest rate risks related to our interest-earning assets and interest-bearing liabilities. At September 30, 2010, the Company paid a fixed rate at a weighted average of 1.95% and received a floating 3-month LIBOR rate at a weighted average of 0.31% on these agreements. The net amount accrued on these interest rate swaps of $3.6 million for the first nine months of 2010 was recorded as a reduction to other non-interest income. At September 30, 2010, the Company recorded $7.8 million within other liabilities to recognize the negative fair value of these interest rate swaps.

The Company enters into foreign exchange forward contracts and foreign currency option contracts with various counterparties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit, foreign exchange contracts or foreign currency option contracts entered into with our clients. These contracts are not designated as hedging instruments and are recorded at fair value in our consolidated balance sheets. Changes in the fair value of these contracts as well as the related foreign exchange certificates of deposit, foreign exchange contracts or foreign currency option contracts are recognized immediately in net income as a component of non-interest income. Period end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities. At September 30, 2010, the notional amount of option contracts totaled $32.2 million with a net positive fair value of $181,000. Spot and forward contracts in the total notional amount of $108.4 million had positive fair value of $5.7 million, at September 30, 2010. Spot and forward contracts in the total notional amount of $41.5 million had a negative fair value of $1.4 million, at September 30, 2010. At December 31, 2009, the notional amount of option contracts totaled $4.7 million with a net positive fair value of $18,000. Spot and forward contracts in the total notional amount of $60.7 million had positive fair value of $3.6 million, at December 31, 2009. Spot and forward contracts in the total notional amount of $60.8 million had a negative fair value of $967,000, at December 31, 2009.

18. Subsequent Events

Management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-Q or would be required to be recognized in the Consolidated Financial Statements.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion is given based on the assumption that the reader has access to and has read the Annual Report on Form 10-K for the year ended December 31, 2009, of Cathay General Bancorp (Bancorp) and its wholly-owned subsidiary Cathay Bank (the Bank and, together, the Company or we , us, or our).

Recent Legislation Impacting the Financial Services Industry

On July 21, 2010, financial regulatory reform legislation entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act implements extensive changes across the financial regulatory landscape, including provisions that, among other things, will:

- Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing, examining, and enforcing compliance with federal consumer financial laws.

- Apply to most bank holding companies the same leverage and risk-based capital requirements applicable to insured depository institutions. The Bancorp s existing trust preferred securities will continue to be treated as Tier 1 capital.

- Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the Deposit Insurance Fund (DIF) and increase the floor of the size of the DIF, which generally will require an increase in the level of assessments for institutions, such as the Bank, with assets in excess of $10 billion.

Table of Contents

Impose comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself.

Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all public companies, not just financial institutions.

Make permanent the $250,000 limit for federal deposit insurance and increase the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000 and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions.

Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactions and other accounts.

Increase the authority of the Federal Reserve to examine the Bank and its non-bank subsidiaries.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits, and interchange fees could increase the costs associated with deposits as well as place limitations on certain revenues that those deposits may generate.

In addition, recent proposals published by the Basel Committee on Banking Supervision, if adopted, could lead to significantly higher capital requirements, higher capital charges and more restrictive leverage and liquidity ratios. In July and December 2009, the Basel Committee published proposals relating to, respectively, enhanced capital requirements for market risk and new capital and liquidity risk requirements for banks. In July 2010, the Basel Committee announced that it had reached broad agreement on the December 2009 proposals and published a set of amendments to these proposals. In September 2010, the Group of Governors and Heads of Supervisors of the Basel Committee on Banking Supervision, the oversight body of the Basel Committee, published its calibrated capital standards for major banking institutions (Basel III). Under these standards, when fully phased-in on January 1, 2019, banking institutions will be required to maintain heightened Tier 1 common equity, Tier 1 capital, and total capital ratios, as well as maintaining a capital conservation buffer. The Tier 1 common equity and Tier 1 capital ratio requirements will be phased-in incrementally between January 1, 2013 and January 1, 2015; the deductions from common equity made in calculating Tier 1 common equity will be phased-in incrementally over a four-year period commencing on January 1, 2014; and the capital conservation buffer will be phased-in incrementally between January 1, 2016 and January 1, 2019. The Basel Committee also announced that a countercyclical buffer of 0% to 2.5% of common equity or other fully loss-absorbing capital will be implemented according to national circumstances as an extension of the conservation buffer. The September 2010 release did not address the Basel Committee s two liquidity measures initially proposed in December 2009 and amended in July 2010, the liquidity coverage ratio and the net stable funding ratio, other than to state that the liquidity coverage ratio will be introduced on January 1, 2015, and the net stable funding ratio will be

Table of Contents

significantly revised and moved to a minimum standard by January 1, 2018. The final package of Basel III reforms will be considered in November 2010 by the leaders of the Group of 20, and then will be subject to individual adoption by member nations, including the U.S. The ultimate impact of the new capital and liquidity standards on the Corporation cannot be determined at this time and will depend on a number of factors, including the treatment and implementation by the U.S. banking regulators.

Critical Accounting Policies

The discussion and analysis of the Company s unaudited condensed consolidated balance sheets and results of operations are based upon its unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Management of the Company considers the following to be critical accounting policies:

Accounting for the allowance for credit losses involves significant judgments and assumptions by management, which have a material impact on the carrying value of net loans. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances as described under the heading Accounting for the Allowance for Loan Losses in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Accounting for investment securities involves significant judgments and assumptions by management, which have a material impact on the carrying value of securities and the recognition of any other-than-temporary impairment to our investment securities. The judgments and assumptions used by management are described under the heading Investment Securities in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Accounting for income taxes involves significant judgments and assumptions by management, which have a material impact on the amount of taxes currently payable and the income tax expense recorded in the financial statements. The judgments and assumptions used by management are described under the heading Income Taxes in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Accounting for goodwill and goodwill impairment involves significant judgments and assumptions by management, which have a material impact on the amount of goodwill recorded and noninterest expense recorded in the financial statements. The judgments and assumptions used by management are described under the heading Goodwill and Goodwill Impairment in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

HIGHLIGHTS

Improved profitability Third quarter net income was $17.3 million compared to net income of $1.9 million in the second quarter of 2010 and compared to a net loss of $17.7 million in the same quarter a year ago.

Table of Contents

Decrease in net charge-offs Net charge-offs decreased $4.6 million, or 20.2%, to $18.0 million in the third quarter of 2010 from $22.6 million in the second quarter of 2010 and decreased $39.0 million, or 68.4%, from $57.0 million in the same quarter a year ago. The provision for credit losses was $17.9 million for the third quarter of 2010 compared to $45.0 million in the second quarter of 2010 and $76.0 million in the same quarter a year ago.

Decrease in nonaccrual loans Total nonaccrual loans decreased to $283.7 million at September 30, 2010, from $313.4 million at June 30, 2010, and $360.5 million at September 30, 2009.

Statement of Operations Review

Net Income

Net income attributable to common stockholders for the three months ended September 30, 2010, was $13.2 million, an increase of $35.0 million, or 161%, compared to net loss attributable to common stockholders of $21.8 million for the same period a year ago. Diluted earnings per share attributable to common stockholders for the three months ended September 30, 2010, was $0.17 compared to a loss per share of $0.43 for the same period a year ago due primarily to decreases in the provision for credit losses and lower other real estate owned expenses.

Return on average stockholders equity was 4.76% and return on average assets was 0.61% for the three months ended September 30, 2010, compared to a return on average stockholders equity of negative 5.58 % and a return on average assets of negative 0.60% for the same period of 2009.

Financial Performance

	Third Quarter 2010	Third Quarter 2009
Net income/(loss)	$ 17.3 million	$ (17.7) million
Net income/(loss) attributable to common stockholders	$ 13.2 million	$ (21.8) million
Basic earnings/(Loss) per common share	$ 0.17	$ (0.43)
Diluted earnings/(Loss) per common share	$ 0.17	$ (0.43)
Return on average assets	0.61%	-0.60%
Return on average total stockholders equity	4.76%	-5.58%
Efficiency ratio	45.17%	46.87%

Net Interest Income Before Provision for Credit Losses

Net interest income before provision for credit losses increased to $73.3 million during the third quarter of 2010, an increase of $826,000, or 1.1%, compared to $72.5 million during the same quarter a year ago. The increase was due primarily to the decrease in interest expense paid on time certificates of deposit.

The net interest margin, on a fully taxable-equivalent basis, was 2.74% for the third quarter of 2010, compared to 2.73% for the second quarter of 2010 and an increase of 9 basis points from 2.65% for the third quarter of 2009. The decrease in the rate on interest bearing deposits contributed to the increase in the net interest margin from the corresponding quarter of the prior year.

For the third quarter of 2010, the yield on average interest-earning assets was 4.51%, on a fully taxable-equivalent basis, the cost of funds on average interest-bearing liabilities equaled 2.11%, and the cost of interest bearing deposits was 1.23%. In comparison, for the third quarter of 2009, the yield on average interest-earning assets was 4.82%, on a fully taxable-equivalent basis, cost of funds on average interest-bearing liabilities equaled 2.48%, and the cost of interest bearing deposits was 1.80%. The interest spread, defined as the difference between the yield on average interest-earning assets and the cost of funds on average interest-bearing liabilities, increased 6 basis points to 2.40% for the third quarter ended September 30, 2010, from 2.34% for the same quarter a year ago, primarily due to the reasons discussed above.

The cost of deposits, including demand deposits, decreased 11 basis points to 1.07% in the third quarter of 2010 compared to 1.18% in the second quarter of 2010 and decreased 55 basis points from 1.62% in the third quarter of 2009 due primarily to the decrease in the rates paid on certificates of deposit upon renewal and on money market accounts as a result of the decline in market interest rates.

Table of Contents

Average daily balances, together with the total dollar amounts, on a taxable-equivalent basis, of interest income and interest expense, and the weighted-average interest rate and net interest margin are as follows:

Interest-Earning Assets and Interest-Bearing Liabilities

Three months ended September 30, Taxable-equivalent basis	2010			2009		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)
Interest Earning Assets						
Commercial loans	$ 1,365,143	$ 16,162	4.70%	$ 1,428,143	$ 17,104	4.75%
Residential mortgage	974,989	12,748	5.23	838,268	11,059	5.28
Commercial mortgage	4,017,561	60,205	5.95	4,142,771	62,858	6.02
Real estate construction loans	506,832	5,994	4.69	782,817	8,390	4.25
Other loans and leases	16,065	146	3.61	19,972	177	3.52
Total loans and leases (1)	6,880,590	95,255	5.49	7,211,971	99,588	5.48
Taxable securities	3,368,420	24,749	2.91	3,385,904	31,589	3.70
Tax-exempt securities (3)	2,130	28	5.22	18,590	257	5.48
Federal Home Loan Bank Stock	67,855	77	0.45	71,819	149	0.82
Interest bearing deposits	293,015	406	0.55	57,297	119	0.82
Federal funds sold & securities purchased under agreements to resell				104,946	35	0.13
Total interest-earning assets	10,612,010	120,515	4.51	10,850,527	131,737	4.82
Non-interest earning assets						
Cash and due from banks	88,715			127,493		
Other non-earning assets	874,050			840,826		
Total non-interest earning assets	962,765			968,319		
Less: Allowance for loan losses	(266,893)			(183,000)		
Deferred loan fees	(7,699)			(9,206)		
Total assets	$ 11,300,183			$ 11,626,640		
Interest bearing liabilities:						
Interest bearing demand accounts	$ 400,750	$ 201	0.20	$ 310,047	$ 312	0.40
Money market accounts	972,665	2,129	0.87	967,839	3,751	1.54
Savings accounts	374,113	158	0.17	338,053	182	0.21
Time deposits	4,491,273	16,869	1.49	5,175,066	26,602	2.04
Total interest-bearing deposits	6,238,801	19,357	1.23	6,791,005	30,847	1.80
Federal funds purchased				163	1	0.45
Securities sold under agreements to repurchase	1,558,625	16,667	4.24	1,556,343	16,555	4.22
Other borrowings	892,652	10,095	4.49	957,558	10,662	4.42
Long-term debt	171,136	1,046	2.42	171,136	1,067	2.47
Total interest-bearing liabilities	8,861,214	47,165	2.11	9,476,205	59,132	2.48

Non-interest bearing liabilities				
Demand deposits	916,345		783,799	
Other liabilities	75,981		101,772	
Total equity	1,446,643		1,264,864	
Total liabilities and equity	$ 11,300,183		$ 11,626,640	
Net interest spread (4)		2.40%		2.34%
Net interest income (4)		$ 73,350		$ 72,605
Net interest margin (4)		2.74%		2.65%

(1) Yields and amounts of interest earned include loan fees. Non-accrual loans are included in the average balance.
(2) Calculated by dividing net interest income by average outstanding interest-earning assets
(3) The average yield has been adjusted to a fully taxable-equivalent basis for certain securities of states and political subdivisions and other securities held using a statutory Federal income tax rate of 35%
(4) Net interest income, net interest spread, and net interest margin on interest-earning assets have been adjusted to a fully taxable-equivalent basis using a statutory Federal income tax rate of 35%

Table of Contents

The following table summarizes the changes in interest income and interest expense attributable to changes in volume and changes in interest rates:

Taxable-Equivalent Net Interest Income Changes Due to Rate and Volume(1)

	Three months ended September 30, 2010-2009		
	Increase (Decrease) in Net Interest Income Due to:		
(Dollars in thousands)	**Changes in Volume**	**Changes in Rate**	**Total Change**
Interest-Earning Assets:			
Loans and leases	(4,583)	250	(4,333)
Taxable securities	(162)	(6,678)	(6,840)
Tax-exempt securities (2)	(217)	(12)	(229)
Federal Home Loan Bank Stock	(8)	(64)	(72)
Deposits with other banks	338	(51)	287
Federal funds sold and securities purchased under agreements to resell	(35)		(35)
Total decrease in interest income	(4,667)	(6,555)	(11,222)
Interest-Bearing Liabilities:			
Interest bearing demand accounts	73	(184)	(111)
Money market accounts	18	(1,640)	(1,622)
Savings accounts	18	(42)	(24)
Time deposits	(3,203)	(6,530)	(9,733)
Federal funds purchased	(1)		(1)
Securities sold under agreements to repurchase	24	88	112
Other borrowed funds	(730)	163	(567)
Long-term debts		(21)	(21)
Total increase/(decrease) in interest expense	(3,801)	(8,166)	(11,967)
Changes in net interest income	$ (866)	$ 1,611	$ 745

(1) Changes in interest income and interest expense attributable to changes in both volume and rate have been allocated proportionately to changes due to volume and changes due to rate.

(2) The amount of interest earned on certain securities of states and political subdivisions and other securities held has been adjusted to a fully taxable-equivalent basis, using a statutory federal income tax rate of 35%.

Provision for Loan Losses

The provision for credit losses was $17.9 million for the third quarter of 2010 compared to $45.0 million for the second quarter of 2010 and compared to $76.0 million in the third quarter of 2009. The provision for credit losses was based on the review of the adequacy of the allowance for loan losses at September 30, 2010. The provision for credit losses represents the charge against current earnings that is determined by management, through a credit review process, as the amount needed to establish an allowance that management believes to be sufficient to absorb credit losses inherent in the Company s loan portfolio, including unfunded commitments. The following table summarizes the charge-offs and recoveries for the periods as indicated:

Table of Contents

	For the three months ended September 30, 2010	2009	For the nine months ended September 30, 2010	2009
	(In thousands)			
Charge-offs:				
Commercial loans	$ 5,588	$ 27,492	$ 17,501	$ 49,657
Construction loans- residential	5,170	13,126	15,979	58,535
Construction loans- other	3,844	1,966	22,234	10,734
Real estate loans (1)	(393)	12,094	37,677	26,550
Real estate- land loans	7,138	3,865	19,820	7,599
Installment and other loans				4
Total charge-offs	21,347	58,543	113,211	153,079
Recoveries:				
Commercial loans	963	219	3,332	523
Construction loans- residential	1,909	598	4,405	772
Construction loans- other	36		453	1
Real estate loans (1)	8	46	930	46
Real estate- land loans	421	685	463	686
Installment and other loans		2	2	19
Total recoveries	3,337	1,550	9,585	2,047
Net Charge-offs	$ 18,010	$ 56,993	$ 103,626	$ 151,032

(1) Real estate loans include commercial mortgage loans, residential mortgage loans, and equity lines.

Non-Interest Income

Non-interest income, which includes revenues from depository service fees, letters of credit commissions, securities gains (losses), gains (losses) on loan sales, wire transfer fees, and other sources of fee income, was $3.9 million for the third quarter of 2010, a decrease of $6.4 million compared to non-interest income of $10.3 million for the third quarter of 2009. The decrease in non-interest income in the third quarter of 2010 was primarily due to a decrease in gains on sale of loans of $3.5 million, a decrease in securities gains of $2.4 million, and an increase of $1.7 million loss from interest rate swaps compared to the third quarter of 2009. Offsetting the above non-interest income decreases were a $534,000 increase in commissions fro