CATHAY GENERAL BANCORP
Form 10-Q
May 09, 2016
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 March 31, 2016
OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-31830
CATHAY GENERAL BANCORP
(Exact name of registrant as specified in its charter)

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

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

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

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, $.01 par value, 78,844,013 shares outstanding as of April 29, 2016.

CATHAY GENERAL BANCORP AND SUBSIDIARies

1ST quarter 2016 REPORT ON FORM 10-Q

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,” “can,” “continue,” “could,” “estimates,” “expects,” “hopes,” “i
“optimistic,” “plans,” “potential,” “possible,” “predicts,” “projects,” “seeks,” “shall,” “should,” “will,” and variations of these
similar expressions are intended to identify these forward-looking statements. Forward-looking statements by us are based on estimates, beliefs, projections, and assumptions of management and are not guarantees of future performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Such risks and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

- U.S. and international business and economic conditions;
- possible additional provisions for loan losses and charge-offs;
- credit risks of lending activities and deterioration in asset or credit quality;
- extensive laws and regulations and supervision that we are subject to, including potential supervisory action by bank supervisory authorities;
- increased costs of compliance and other risks associated with changes in regulation, including the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”);
- higher capital requirements from the implementation of the Basel III capital standards;

compliance with the Bank Secrecy Act and other money laundering statutes and regulations;

potential goodwill impairment;

liquidity risk;

fluctuations in interest rates;

risks associated with acquisitions and the expansion of our business into new markets;

inflation and deflation;

real estate market conditions and the value of real estate collateral;

environmental liabilities;

our ability to compete with larger competitors;

our ability to retain key personnel;

successful management of reputational risk;

natural disasters and geopolitical events;

general economic or business conditions in Asia, and other regions where the Bank has operations;

failures, interruptions, or security breaches of our information systems;

our ability to adapt our systems to technological changes;

risk management processes and strategies;

adverse results in legal proceedings;

certain provisions in our charter and bylaws that may affect acquisition of the Company;

changes in accounting standards or tax laws and regulations;

market disruption and volatility;

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

issuance of preferred stock;

successfully raising additional capital, if needed, and the resulting dilution of interests of holders of our common stock; and

the soundness of other financial institutions.

These and other factors are further described in Bancorp's Annual Report on Form 10-K for the year ended December 31, 2015 (Item 1A in particular), other reports and registration statements filed with the Securities and Exchange Commission ("SEC"), and other filings it makes with the SEC from time to time. Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which speak to the date of this report. We have no intention and undertake no obligation to update any forward-looking statement or to publicly announce any revision of any forward-looking statement to reflect future developments or events, except as required by law.

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

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)	March 31, 2016	December 31, 2015
Assets		
Cash and due from banks	$192,642	$180,130
Short-term investments and interest bearing deposits	432,384	536,880
Securities available-for-sale (amortized cost of $1,476,424 in 2016 and $1,595,723 in 2015)	1,485,124	1,586,352
Loans held for sale	-	6,676
Loans	10,363,647	10,163,452
Less: Allowance for loan losses	(134,552)	(138,963)
Unamortized deferred loan fees, net	(7,585)	(8,262)
Loans, net	10,221,510	10,016,227
Federal Home Loan Bank stock	17,250	17,250
Other real estate owned, net	27,271	24,701
Affordable housing investments and alternative energy partnerships, net	212,795	182,943
Premises and equipment, net	108,231	108,924
Customers' liability on acceptances	26,843	40,335
Accrued interest receivable	32,517	30,558
Goodwill	372,189	372,189
Other intangible assets, net	3,497	3,677
Other assets	129,766	147,284
Total assets	$13,262,019	$13,254,126
Liabilities and Stockholders' Equity		
Deposits		
Non-interest-bearing demand deposits	$2,059,073	$2,033,048
Interest-bearing deposits:		
NOW deposits	992,278	966,404
Money market deposits	1,923,114	1,905,719
Savings deposits	602,154	618,164

Time deposits	4,747,497	4,985,752
Total deposits	10,324,116	10,509,087
Securities sold under agreements to repurchase	400,000	400,000
Advances from the Federal Home Loan Bank	475,000	275,000
Other borrowings for affordable housing investments	17,792	18,593
Long-term debt	119,136	119,136
Acceptances outstanding	26,843	40,335
Other liabilities	164,459	144,197
Total liabilities	11,527,346	11,506,348
Commitments and contingencies	-	-
Stockholders' Equity		
Common stock, $0.01 par value, 100,000,000 shares authorized, 87,047,371 issued and 78,836,728 outstanding at March 31, 2016, and 87,002,931 issued and 80,806,116 outstanding at December 31, 2015	870	870
Additional paid-in-capital	882,825	880,822
Accumulated other comprehensive loss, net	(1,073)	(8,426)
Retained earnings	1,091,640	1,059,660
Treasury stock, at cost (8,210,643 shares at March 31, 2016, and 6,196,815 shares at December 31, 2015)	(239,589)	(185,148)
Total equity	1,734,673	1,747,778
Total liabilities and equity	$ 13,262,019	$ 13,254,126

See accompanying notes to unaudited condensed consolidated financial statements

3

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME

(Unaudited)

	Three months ended March 31,	
	2016	2015
	(In thousands, except share and per share data)	
Interest and Dividend Income		
Loans receivable, including loan fees	$114,890	$100,100
Investment securities	6,859	3,774
Federal Home Loan Bank stock	347	581
Deposits with banks	249	479
Total interest and dividend income	122,345	104,934
Interest Expense		
Time deposits	10,857	6,773
Other deposits	3,640	4,793
Securities sold under agreements to repurchase	3,934	3,925
Advances from Federal Home Loan Bank	106	93
Long-term debt	1,440	1,424
Total interest expense	19,977	17,008
Net interest income before reversal for credit losses	102,368	87,926
Reversal for loan losses	(10,500)	(5,000)
Net interest income after reversal for credit losses	112,868	92,926
Non-Interest Income		
Securities losses, net	(206)	(21)
Letters of credit commissions	1,281	1,268
Depository service fees	1,323	1,301
Other operating income	5,143	6,001
Total non-interest income	7,541	8,549
Non-Interest Expense		
Salaries and employee benefits	26,931	22,616
Occupancy expense	4,369	4,021

Computer and equipment expense	2,580	2,502
Professional services expense	4,368	3,370
Data processing service expense	2,250	1,982
FDIC and State assessments	2,589	2,260
Marketing expense	796	820
Other real estate owned expense	295	483
Amortization of investments in low income housing and alternative energy partnerships	2,794	2,383
Amortization of core deposit intangibles	172	177
Other operating expense	4,427	3,517
Total non-interest expense	51,571	44,131
Income before income tax expense	68,838	57,344
Income tax expense	22,675	21,364
Net income	$46,163	35,980
Other comprehensive income, net of tax		
Unrealized holding gain on securities available-for-sale	10,354	6,499
Less: reclassification adjustments included in net income	(119)	(12)
Unrealized holding loss on cash flow hedge derivatives	(3,120)	(1,588)
Total other comprehensive gain, net of tax	7,353	4,923
Total comprehensive income	$53,516	$40,903
Net income per common share:		
Basic	$0.58	$0.45
Diluted	$0.57	$0.45
Cash dividends paid per common share	$0.18	$0.10
Average common shares outstanding		
Basic	79,734,519	79,835,628
Diluted	80,393,849	80,309,383

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended March 31	
	2016	2015
	(In thousands)	
Cash Flows from Operating Activities		
Net income	$46,163	$35,980
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Credit for loan losses	(10,500)	(5,000)
Provision for losses on other real estate owned	128	181
Deferred tax liability	13,315	6,840
Depreciation and amortization	1,923	1,929
Net losses on sale and transfer of other real estate owned	-	154
Net gains on sale of loans	(102)	(596)
Proceeds from sales of loans	3,391	10,360
Originations of loans held-for-sale	(3,289)	(8,791)
Amortization on alternative energy partnerships, venture capital and other investments	1,304	224
Net losses on sales and calls of securities	-	21
Amortization/accretion of security premiums/discounts, net	1,527	502
Write-down on impaired securities	206	-
Excess tax short-fall from share-based payment arrangements	-	4,395
Stock based compensation and stock issued to officers as compensation	1,578	1,570
Net change in accrued interest receivable and other assets	(7,328)	6,631
Net change in other liabilities	(7,207)	1,379
Net cash provided by operating activities	41,109	55,779
Cash Flows from Investing Activities		
Decrease/(increase) in short-term investments	104,496	(129,112)
Purchase of investment securities available-for-sale	(25,898)	(703,305)
Proceeds from sale of investment securities available-for-sale	-	741,992
Proceeds from repayments, maturities and calls of investment securities available-for-sale	143,464	12,102
Redemptions of Federal Home Loan Bank stock	-	5,785
Net increase in loans	(174,402)	(305,651)
Purchase of premises and equipment	(1,063)	(562)
Proceeds from sales of other real estate owned	-	1,043
Investment in affordable housing and alternative energy partnerships	(22,326)	(1,351)
Net cash provided by/(used in) investing activities	24,271	(379,059)
Cash Flows from Financing Activities		
Net (decrease)/increase in deposits	(184,803)	329,724

Net decrease in federal funds purchased and securities sold under agreements to repurchase	-	(50,000)
Advances from Federal Home Loan Bank	450,000	2,242,000
Repayment of Federal Home Loan Bank borrowings	(250,000)	(2,182,000)
Cash dividends paid	(14,183)	(7,983)
Purchase of treasury stock	(54,441)	-
Proceeds from shares issued under Dividend Reinvestment Plan	545	1,289
Proceeds from exercise of stock options	49	88
Taxes paid related to net share settlement of RSUs	(35)	(114)
Excess tax short-fall from share-based payment arrangements	-	(4,395)
Net cash provided by/(used in) financing activities	(52,868)	328,609
Increase in cash and cash equivalents	12,512	5,329
Cash and cash equivalents, beginning of the period	180,130	176,830
Cash and cash equivalents, end of the period	$192,642	$182,159
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	$20,310	$17,370
Income taxes paid	$4,789	$11,884
Non-cash investing and financing activities:		
Net change in unrealized holding gain on securities available-for-sale, net of tax	$10,473	$6,511
Net change in unrealized holding loss on cash flow hedge derivatives	$(3,120)	$(1,588)
Transfers to other real estate owned from loans held for investment	$2,698	$701
Loans transferred from held for sale to held for investment, net	$6,676	$-

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business

Cathay General Bancorp ("Bancorp") is the holding company for Cathay Bank (the "Bank" and, together, the "Company"), six limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc. Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of March 31, 2016, the Bank operated 21 branches in Southern California, 12 branches in Northern California, 12 branches in New York State, three branches in Illinois, three branches in Washington State, two branches in Texas, one branch in Massachusetts, one branch in New Jersey, one branch in Maryland, one branch in Nevada, one branch in Hong Kong, and a representative office in Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the "FDIC").

2. Basis of Presentation

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

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

3. Recent Accounting Pronouncements

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

In March 2016, the FASB issued ASU 2016-06, "*Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments*." This update requires an entity to perform a four-step decision sequence when assessing whether contingent call or put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The four-step decision sequence is: the payoff is adjusted based on changes in an index; the payoff is indexed to an underlying other than interest rates or credit risk; the debt involves a substantial premium or discount; and the call or put option is contingently exercisable. ASU 2016-06 becomes effective for interim and annual periods beginning after December 15, 2016. Adoption of ASU 2016-06 is not expected to have a significant impact on the Company's consolidated financial statements.

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

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

4. Earnings per Share

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and resulted in the issuance of common stock that then shared in earnings.

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

	Three months ended March 31,	
(Dollars in thousands, except share and per share data)	2016	2015
Net income	$46,163	$35,980
Weighted-average shares:		
Basic weighted-average number of common shares outstanding	79,734,519	79,835,628
Dilutive effect of weighted-average outstanding common share equivalents		
Warrants	452,368	344,919
Options	83,018	108,457
Restricted stock units	123,944	20,379
Diluted weighted-average number of common shares outstanding	80,393,849	80,309,383
Average stock options and warrants with anti-dilutive effect	359,544	1,670,231
Earnings per common share:		
Basic	$0.58	$0.45
Diluted	$0.57	$0.45

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 March 31, 2016, the only options granted by the Company were non-statutory stock options to selected Bank officers and non-employee directors at exercise prices equal to the fair market value of a share of the Company’s common stock on the date of grant. Such options have a maximum ten-year term and vest in 20% annual increments (subject to early termination in certain events) except certain options granted to the Chief Executive Officer of the Company in 2005 and 2008. There were no options granted during the first quarter of 2016 or 2015.

Option compensation expense was zero for the three months ended March 31, 2016, and March 31, 2015. Stock-based compensation was fully recognized over the requisite service period for all awards. There were 2,110 and 3,750 stock option shares exercised in the first quarter ended March 31, 2016 and 2015, respectively. The Company received $49,000 with an aggregate intrinsic value of $9,000 from the exercise of stock options during the first quarter ended March 31, 2016 compared to $88,000 with an aggregate intrinsic value of $10,000 during the first quarter of March 31, 2015. The table below summarizes stock option activity for the periods indicated:

Shares	Weighted-average	Weighted-average	Aggregate

		Exercise Price	Remaining Contractual Life (in years)	Intrinsic Value (in thousands)
Balance, December 31, 2015	1,031,170	$ 31.27	0.9	$ 3,268
Exercised	(2,110)	23.37		
Forfeited	(608,670)	36.46		
Balance, March 31, 2016	420,390	$ 23.80	1.8	$ 2,026
Exercisable, March 31, 2016	420,390	$ 23.80	1.8	$ 2,026

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

The Company did not grant any restricted stock units in the first quarter of 2016. The Company granted restricted stock units for 37,675 shares at an average closing price for $27.53 per share in 2015.

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

The following table presents restricted stock unit activity during the three months ended March 31, 2016:

	Units
Balance at December 31, 2015	542,375
Vested	(4,812)
Balance at March 31, 2016	537,563

The compensation expense recorded for restricted stock units was $1.0 million for the first quarter ended March 31, 2016, compared to $1.1 million in the same period a year ago. Unrecognized stock-based compensation expense related to restricted stock units was $6.5 million as of March 31, 2016, and is expected to be recognized over the next 2.2 years.

As of March 31, 2016, 3,789,782 shares were available under the Company's 2005 Incentive Plan (as Amended and Restated) for future grants.

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

	Three months ended March 31,	
(Dollars in thousands)	2016	2015

Tax benefit/(short-fall) of tax deductions in excess of grant-date fair value	$(3,298)	$(4,395)
Benefit of tax deductions on grant-date fair value	3,302	4,442
Total benefit of tax deductions	$4	$47

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

6. Investment Securities

Investment securities were $1.49 billion as of March 31, 2016, compared to $1.59 billion as of December 31, 2015. The following tables reflect the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of investment securities as of March 31, 2016, and December 31, 2015:

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	$224,750	$ 61	$ 7	$224,804
U.S. government sponsored entities	100,000	10	-	100,010
Mortgage-backed securities	1,063,944	6,553	4	1,070,493
Collateralized mortgage obligations	60	-	26	34
Corporate debt securities	74,957	413	2,267	73,103
Mutual funds	6,000	-	85	5,915
Preferred stock of government sponsored entities	2,811	478	486	2,803
Other equity securities	3,902	4,060	-	7,962
Total	$1,476,424	$ 11,575	$ 2,875	$1,485,124

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	$284,678	$ 5	$ 395	$284,288
U.S. government sponsored entities	150,000	-	1,840	148,160
Mortgage-backed securities	1,073,108	560	11,399	1,062,269
Collateralized mortgage obligations	63	-	27	36
Corporate debt securities	74,955	425	1,525	73,855
Mutual funds	6,000	-	167	5,833
Preferred stock of government sponsored entities	2,811	633	228	3,216
Other equity securities	4,108	4,929	342	8,695
Total	$1,595,723	$ 6,552	$ 15,923	$1,586,352

The amortized cost and fair value of investment securities as of March 31, 2016, by contractual maturities, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties.

	Securities Available-For-Sale	
	Amortized cost	**Fair value**
	(In thousands)	
Due in one year or less	$154,963	$154,978
Due after one year through five years	104,879	105,470
Due after five years through ten years	145,501	143,358
Due after ten years (1)	1,071,081	1,081,318
Total	$1,476,424	$1,485,124

(1) Equity securities are reported in this category

There were no sales transactions of mortgage-backed securities during the first quarter of 2016. Proceeds of $406.9 million were received from the sale of mortgage-backed securities during the three months ended March 31, 2015. Proceeds from repayments, maturities and calls of mortgage-backed securities were $33.5 million and $12.1 million for the three months ended March 31, 2016 and 2015, respectively. There were no sales transactions of other investment securities during the three months ended March 31, 2016. Proceeds of $335.1 million were received from the sale of other investment securities during the three months ended March 31, 2015. Proceeds from maturities and calls of other investment securities were $110.0 million during the three months ended March 31, 2016 compared to zero during the same period a year ago. No gains and losses were realized on sales of investment securities but a permanent impairment write-down of $206,000 was recorded during the three months ended March 31, 2016 compared to gains of $1.7 million and losses of $1.7 million realized during the same period a year ago.

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

	March 31, 2016 Temporarily impaired securities					
	Less than 12 months		**12 months or longer**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
	(Dollars in thousands)					
Securities Available-for-Sale						
U.S. treasury securities	$29,965	$ 7	$-	$ -	$29,965	$ 7
Mortgage-backed securities	389	3	46	1	435	4
Collateralized mortgage obligations	-	-	34	26	34	26
Corporate debt securities	9,950	50	42,783	2,217	52,733	2,267
Mutual funds	-	-	5,915	85	5,915	85
Preferred stock of government sponsored entities	2,230	486	-	-	2,230	486
Total	$42,534	$ 546	$48,778	$ 2,329	$91,312	$ 2,875

December 31, 2015 Temporarily impaired securities					
Less than 12 months		**12 months or longer**		**Total**	
Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**

	(Dollars in thousands)					
Securities Available-for-Sale						
U.S. treasury securities	$ 224,289	$ 395	$ -	$ -	$ 224,289	$ 395
U.S. government sponsored entities	148,160	1,840	-	-	148,160	1,840
Mortgage-backed securities	1,025,342	11,398	6	1	1,025,348	11,399
Collateralized mortgage obligations	-	-	36	27	36	27
Corporate debt securities	9,950	50	43,525	1,475	53,475	1,525
Mutual funds	-	-	5,833	167	5,833	167
Preferred stock of government sponsored entities	2,488	228	-	-	2,488	228
Other equity securities	158	342	-	-	158	342
Total	$ 1,410,387	$ 14,253	$ 49,400	$ 1,670	$ 1,459,787	$ 15,923

As of March 31, 2016, the Company had unrealized losses of $2.9 million. The unrealized losses on these securities were primarily attributed to yield curve movement, together with the widened liquidity spread and credit spread. The issuers have not, to the Company’s knowledge, established any cause for default on these securities. Management believes the impairment was temporary and, accordingly, no impairment loss on these securities has been recognized in our condensed consolidated statements of operations. The Company expects to recover the amortized cost basis of its debt securities, and has no intent to sell and will not be required to sell available-for-sale debt securities that have declined below their cost before their anticipated recovery.

Investment securities having a carrying value of $445.6 million as of March 31, 2016, and $449.6 million as of December 31, 2015, were pledged to secure public deposits, other borrowings, treasury tax and loan, and securities sold under agreements to repurchase.

7. Loans

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

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

	March 31, 2016	**December 31, 2015**
	(In thousands)	
Type of Loans:		
Commercial loans	$2,251,187	$2,316,863
Residential mortgage loans	2,043,789	1,932,355
Commercial mortgage loans	5,445,575	5,301,218
Real estate construction loans	453,469	441,543
Equity lines	168,283	168,980
Installment and other loans	1,344	2,493
Gross loans	$10,363,647	$10,163,452
Less:		
Allowance for loan losses	(134,552)	(138,963)
Unamortized deferred loan fees	(7,585)	(8,262)
Total loans, net	$10,221,510	$10,016,227
Loans held for sale	$-	$6,676

As of March 31, 2016, recorded investment in impaired loans totaled $134.8 million and was comprised of non-accrual loans of $44.6 million and accruing troubled debt restructured loans (TDRs) of $90.2 million. As of December 31, 2015, recorded investment in impaired loans totaled $133.8 million and was comprised of non-accrual loans of $52.1 million and accruing TDRs of $81.7 million. For impaired loans, the amounts previously charged off represent 14.2% as of March 31, 2016, and 22.4% as of December 31, 2015, of the contractual balances for impaired loans. The following table presents the average balance and interest income recognized related to impaired loans for the periods indicated:

	Impaired Loans			
	Average Recorded Investment		**Interest Income Recognized**	
	Three months ended		Three months ended	
	March 31,		March 31,	
	2016	2015	2016	2015
Commercial loans	$12,670	$25,426	$120	$229
Real estate construction loans	20,292	22,990	65	65
Commercial mortgage loans	87,452	110,293	890	917
Residential mortgage loans and equity lines	16,991	17,280	132	124
Total impaired loans	$137,405	$175,989	$1,207	$1,335

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

	Impaired Loans					
	March 31, 2016			**December 31, 2015**		
	Unpaid Principal Balance	**Recorded Investment**	**Allowance**	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance**
	(In thousands)					
With no allocated allowance						
Commercial loans	$10,912	$ 8,968	$ -	$15,493	$ 6,721	$ -
Real estate construction loans	33,009	11,857	-	51,290	22,002	-
Commercial mortgage loans	74,480	67,988	-	59,954	54,625	-
Residential mortgage loans and equity lines	4,929	4,784	-	3,233	3,026	-
Subtotal	$123,330	$ 93,597	$ -	$129,970	$ 86,374	$ -
With allocated allowance						

Commercial loans	$4,188	$ 2,718	$ 225	$7,757	$ 6,847	$ 530
Commercial mortgage loans	27,369	26,157	6,593	28,258	27,152	6,792
Residential mortgage loans and equity lines	13,334	12,343	372	14,383	13,437	427
Subtotal	$44,891	$ 41,218	$ 7,190	$50,398	$ 47,436	$ 7,749
Total impaired loans	$168,221	$ 134,815	$ 7,190	$180,368	$ 133,810	$ 7,749

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

	March 31, 2016						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
Type of Loans:	(In thousands)						
Commercial loans	$35,329	$7,920	$ -	$ 2,645	$45,894	$2,205,293	$2,251,187
Real estate construction loans	1,529	-	-	6,179	7,708	445,761	453,469
Commercial mortgage loans	17,136	1,144	-	28,537	46,817	5,398,758	5,445,575
Residential mortgage loans and equity lines	6,087	-	-	7,282	13,369	2,198,703	2,212,072
Installment and other loans	-	-	-	-	-	1,344	1,344
Total loans	$60,081	$9,064	$ -	$ 44,643	$113,788	$10,249,859	$10,363,647

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

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

A troubled debt restructuring is a formal modification of the terms of a loan when the lender, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including a change in the stated interest rate, a reduction in the loan balance or accrued interest, or an extension of the maturity date that causes significant delay in payment.

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

As of March 31, 2016, accruing TDRs were $90.2 million and non-accrual TDRs were $23.2 million compared to accruing TDRs of $81.7 million and non-accrual TDRs of $39.9 million as of December 31, 2015. The Company allocated specific reserves of $1.5 million to accruing TDRs and $5.3 million to non-accrual TDRs as of March 31, 2016, and $2.0 million to accruing TDRs and $5.4 million to non-accrual TDRs as of December 31, 2015. There were no TDRs that were modified during the first quarter of 2016. The following table presents TDRs that were modified during the first quarter of 2015, their specific reserves as of March 31, 2015, and charge-offs during the first quarter of 2015:

	Three months ended March 31, 2015				**March 31, 2015**
	No. of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Charge-offs**	**Specific Reserve**
	(Dollars in thousands)				
Commercial loans	1	$ 850	$ 850	$ -	$ -
Commercial mortgage loans	3	8,613	8,613	-	-
Residential mortgage loans and equity lines	4	1,522	1,374	148	46
Total	8	$ 10,985	$ 10,837	$ 148	$ 46

Modifications of the loan terms during the first quarter of 2015 were in the form of changes in the stated interest rate, an extension of maturity dates, and/or a reduction in monthly payment amounts. The length of time for which modifications involving a reduction of the stated interest rate or changes in payment terms that were documented ranged from six months to three years from the modification date.

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

	March 31, 2016			
Accruing TDRs	**Payment Deferral**	**Rate Reduction**	**Rate Reduction and Payment Deferral**	**Total**

	(In thousands)			
Commercial loans	$7,446	$ -	$ 1,595	$9,041
Real estate construction loans	-	-	5,679	5,679
Commercial mortgage loans	26,393	6,025	33,189	65,607
Residential mortgage loans	5,154	996	3,695	9,845
Total accruing TDRs	$38,993	$ 7,021	$ 44,158	$90,172

	March 31, 2016		
Non-accrual TDRs	**Payment Deferral**	**Rate Reduction and Payment Deferral**	**Total**
	(In thousands)		
Commercial loans	$1,001	$ 90	$1,091
Commercial mortgage loans	1,532	20,028	21,560
Residential mortgage loans	381	177	558
Total non-accrual TDRs	$2,914	$ 20,295	$23,209

15

Accruing TDRs	December 31, 2015 Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
Commercial loans	$8,298	$ -	$ 1,726	$10,024
Real estate construction loans	-	-	5,696	5,696
Commercial mortgage loans	16,701	6,045	33,800	56,546
Residential mortgage loans	5,201	999	3,214	9,414
Total accruing TDRs	$30,200	$ 7,044	$ 44,436	$81,680

Non-accrual TDRs	December 31, 2015 Payment Deferral	Rate Reduction and Payment Deferral	Total
	(In thousands)		
Commercial loans	$1,033	$ 90	$1,123
Real estate construction loans	9,981	5,825	15,806
Commercial mortgage loans	1,544	20,362	21,906
Residential mortgage loans	388	700	1,088
Total non-accrual TDRs	$12,946	$ 26,977	$39,923

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

Accruing TDRs	Three months ended March 31, 2016	2015
	(In thousands)	
Beginning balance	$81,680	$104,356
New restructurings	-	10,628
Restructured loans restored to accrual status	10,303	-
Charge-offs	-	(148)
Payments	(1,811)	(4,254)
Restructured loans placed on non-accrual status	-	(10,189)
Ending balance	$90,172	$100,393

Non-accrual TDRs	Three months ended March 31, 2016	2015
	(In thousands)	
Beginning balance	$39,923	$41,618
New restructurings	-	209
Restructured loans placed on non-accrual status	-	10,189
Charge-offs	-	(2,754)
Payments	(6,411)	(4,721)
Restructured loans restored to accrual status	(10,303)	-
Ending balance	$23,209	$44,541

A loan is considered to be in payment default once it is 60 to 90 days contractually past due under the modified terms. The Company did not have any loans that were modified as a TDR during the previous twelve months and which subsequently defaulted as of March 31, 2016.

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

As of March 31, 2016, there were no commitments to lend additional funds to those borrowers whose loans had been restructured, were considered impaired, or were on non-accrual status.

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

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

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

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

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

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

The Company had no loans held for sale as of March 31, 2016. The following tables present the loan portfolio by risk rating as of March 31, 2016, and as of December 31, 2015:

	March 31, 2016				
	Pass/Watch	**Special Mention**	**Substandard**	**Doubtful**	**Total**
	(In thousands)				
Commercial loans	$2,081,780	$92,891	$ 75,461	$ 1,055	$2,251,187
Real estate construction loans	436,415	5,197	11,357	500	453,469
Commercial mortgage loans	5,131,844	187,237	117,324	9,170	5,445,575
Residential mortgage loans and equity lines	2,200,400	1,931	9,741	-	2,212,072
Installment and other loans	1,344	-	-	-	1,344
Total gross loans	$9,851,783	$287,256	$ 213,883	$ 10,725	$10,363,647

17

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

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

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

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
March 31, 2016						
Loans individually evaluated for impairment						
Allowance	$225	$ -	$6,593	$372	$ -	$7,190
Balance	$11,686	$ 11,857	$94,145	$17,127	$ -	$134,815
Loans collectively evaluated for impairment						
Allowance	$56,156	$ 12,744	$43,858	$14,597	$ 7	$127,362
Balance	$2,239,501	$ 441,612	$5,351,430	$2,194,945	$ 1,344	$10,228,832
Total allowance	$56,381	$ 12,744	$50,451	$14,969	$ 7	$134,552

Total balance	$2,251,187	$ 453,469	$5,445,575	$2,212,072	$ 1,344	$10,363,647