

CATHAY GENERAL BANCORP  
Form 10-Q  
May 10, 2018

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**UNITED STATES**

**securities and exchange commission**

Washington, D.C. 20549

**form 10-q**

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

For the quarterly period ended March 31, 2018  
**OR**

**transition report pursuant to section 13 or 15 (d) of the SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-31830

Cathay General Bancorp

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(Exact name of registrant as specified in its charter)

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

|   |                     |
|---|---------------------|
| 777 North Broadway, Los Angeles, California<br>(Address of principal executive offices) | 90012<br>(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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

|                         |                          |   |  |
|-------------------------|--------------------------|---|--|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer                             | <input type="checkbox"/>                           |
| Non-accelerated filer   | <input type="checkbox"/> | (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |
| Emerging growth company | <input type="checkbox"/> |   |  |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

Common stock, \$.01 par value, 81,240,422 shares outstanding as of April 30, 2018.

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**CATHAY GENERAL BANCORP AND SUBSIDIARIES**

**1<sup>ST</sup> quarter 2018 REPORT ON FORM 10-Q**

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**Forward-Looking Statements**

In this Quarterly Report on Form 10-Q, the term “Bancorp” refers to Cathay General Bancorp and the term “Bank” refers to Cathay Bank. The terms “Company,” “we,” “us,” and “our” refer to Bancorp and the Bank collectively.

The statements in this report include forward-looking statements within the meaning of the applicable provisions of the Private Securities Litigation Reform Act of 1995 regarding management’s beliefs, projections, and assumptions concerning future results and events. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements in these provisions. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, growth plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, financial expectations, regulatory and competitive outlook, loan and deposit growth, investment and expenditure plans, financing needs and availability, level of nonperforming assets, and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as “aims,” “anticipates,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “hopes,” “intends,” “may,” “optimistic,” “plans,” “potential,” “possible,” “seeks,” “shall,” “should,” “will,” and variations of these words and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by us are based on estimates, beliefs, projections, and assumptions of management and are not guarantees of future performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Such risks and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

- U.S. and international business and economic conditions;
- possible additional provisions for loan losses and charge-offs;
- credit risks of lending activities and deterioration in asset or credit quality;
- extensive laws and regulations and supervision that we are subject to, including potential supervisory action by bank supervisory authorities;
- increased costs of compliance and other risks associated with changes in regulation, including the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”);
- higher capital requirements from the implementation of the Basel III capital standards;
- compliance with the Bank Secrecy Act and other money laundering statutes and regulations;
- potential goodwill impairment;
- liquidity risk;
- fluctuations in interest rates;
- risks associated with acquisitions and the expansion of our business into new markets;
- inflation and deflation;
- real estate market conditions and the value of real estate collateral;
- environmental liabilities;

our ability to compete, including against larger competitors;

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our ability to retain key personnel;  
successful management of reputational risk;  
natural disasters and geopolitical events;  
general economic or business conditions in Asia, and other regions where the Bank has operations;  
failures, interruptions, or security breaches of our information systems;  
our ability to adapt our systems to technological changes;  
risk management processes and strategies;  
adverse results in legal proceedings;  
the impact of regulatory enforcement actions, if any;  
certain provisions in our charter and bylaws that may affect acquisition of the Company;  
changes in accounting standards or tax laws and regulations;  
market disruption and volatility;  
fluctuations in the Bancorp's stock price;  
restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;  
issuances of preferred stock;  
capital level requirements and successfully raising additional capital, if needed, and the resulting dilution of interests of holders of our common stock; and  
the soundness of other financial institutions.

These and other factors are further described in Bancorp's Annual Report on Form 10-K for the year ended December 31, 2017 (Item 1A in particular), other reports and registration statements filed with the Securities and Exchange Commission ("SEC"), and other filings Bancorp makes with the SEC from time to time. Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which speak to the date of this report. We have no intention and undertake no obligation to update any forward-looking statement or to publicly announce any revision of any forward-looking statement to reflect future developments or events, except as required by law.

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

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

| (In thousands, except share and per share data)  | March 31,<br>2018 | December<br>31, 2017 |
|--|-------------------|----------------------|
| <b>Assets</b>  |                   |                      |
| Cash and due from banks  | \$ 199,713        | \$ 247,056           |
| Short-term investments and interest bearing deposits   | 524,012           | 292,745              |
| Cash and cash equivalents  | 723,725           | 539,801              |
| Securities available-for-sale (amortized cost of \$1,271,291 at March 31, 2018 and \$1,336,345 at December 31, 2017) | 1,241,105         | 1,333,626            |
| Loans held for sale  | -                 | 8,000                |
| Loans  | 13,014,539        | 12,870,290           |
| Less: Allowance for loan losses  | (122,084 )        | (123,279 )           |
| Unamortized deferred loan fees, net  | (3,289 )          | (3,245 )             |
| Loans, net   | 12,889,166        | 12,743,766           |
| Equity securities  | 24,154            | -                    |
| Federal Home Loan Bank stock   | 17,250            | 23,085               |
| Other real estate owned, net   | 9,291             | 9,442                |
| Affordable housing investments and alternative energy partnerships, net  | 271,780           | 272,871              |
| Premises and equipment, net  | 101,926           | 103,064              |
| Customers' liability on acceptances  | 15,074            | 13,482               |
| Accrued interest receivable  | 45,386            | 45,307               |
| Goodwill   | 372,189           | 372,189              |
| Other intangible assets, net   | 7,803             | 8,062                |
| Other assets   | 163,488           | 167,491              |
| Total assets   | \$ 15,882,337     | \$ 15,640,186        |
| <b>Liabilities and Stockholders' Equity</b>  |                   |                      |
| Deposits   |                   |                      |
| Non-interest-bearing demand deposits   | \$ 2,741,321      | \$ 2,783,127         |
| Interest-bearing deposits:   |                   |                      |
| Demand deposits  | 1,398,076         | 1,410,519            |

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|  |              |              |
|--|--------------|--------------|
| Money market deposits  | 2,203,948    | 2,248,271    |
| Savings deposits   | 801,054      | 857,199      |
| Time deposits  | 5,867,852    | 5,390,777    |
| Total deposits   | 13,012,251   | 12,689,893   |
| Securities sold under agreements to repurchase   | 100,000      | 100,000      |
| Advances from the Federal Home Loan Bank   | 325,000      | 430,000      |
| Other borrowings of affordable housing investments   | 17,434       | 17,481       |
| Long-term debt   | 194,136      | 194,136      |
| Deferred payments from acquisition   | 35,744       | 35,404       |
| Acceptances outstanding  | 15,074       | 13,482       |
| Other liabilities  | 172,906      | 186,486      |
| Total liabilities  | 13,872,545   | 13,666,882   |
| Commitments and contingencies  | -            | -            |
| Stockholders' Equity   |              |              |
| Common stock, \$0.01 par value, 100,000,000 shares authorized, 89,417,641 issued and 81,206,998 outstanding at March 31, 2018, and 89,104,022 issued and 80,893,379 outstanding at December 31, 2017 | 894          | 891          |
| Additional paid-in-capital   | 934,335      | 932,874      |
| Accumulated other comprehensive loss, net  | (20,906 )    | (2,511 )     |
| Retained earnings  | 1,335,058    | 1,281,639    |
| Treasury stock, at cost (8,210,643 shares at March 31, 2018, and at December 31, 2017)   | (239,589 )   | (239,589 )   |
| Total equity   | 2,009,792    | 1,973,304    |
| Total liabilities and equity   | \$15,882,337 | \$15,640,186 |

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****(Unaudited)**

|   | Three months ended March<br>31,                    |            |
|---|--|------------|
|   | 2018   | 2017       |
|   | (In thousands, except share<br>and per share data) |            |
| <b>Interest and Dividend Income</b>                   |  |            |
| Loans receivable, including loan fees                 | \$ 151,290   | \$ 124,910 |
| Investment securities                                 | 6,458  | 4,406      |
| Federal Home Loan Bank stock                          | 396  | 412        |
| Deposits with banks                                   | 1,556  | 1,076      |
| Total interest and dividend income                    | 159,700  | 130,804    |
| <b>Interest Expense</b>                               |  |            |
| Time deposits   | 15,728   | 10,982     |
| Other deposits  | 4,586  | 4,446      |
| Securities sold under agreements to repurchase        | 714  | 1,550      |
| Advances from Federal Home Loan Bank                  | 971  | 288        |
| Long-term debt  | 2,082  | 1,424      |
| Deferred payments from acquisition                    | 276  | -          |
| Total interest expense                                | 24,357   | 18,690     |
| Net interest income before reversal for credit losses | 135,343  | 112,114    |
| Reversal for credit losses                            | (3,000)  | (2,500)    |
| Net interest income after reversal for credit losses  | 138,343  | 114,614    |
| <b>Non-Interest Income</b>                            |  |            |
| Net losses from equity securities                     | (3,847)  | -          |
| Securities gains/(losses), net                        | -  | (466)      |
| Letters of credit commissions                         | 1,275  | 1,123      |
| Depository service fees                               | 1,445  | 1,508      |
| Gain from acquisition                                 | 340  | -          |
| Other operating income                                | 6,097  | 4,553      |
| Total non-interest income                             | 5,310  | 6,718      |
| <b>Non-Interest Expense</b>                           |  |            |
| Salaries and employee benefits                        | 30,377   | 25,871     |
| Occupancy expense                                     | 5,452  | 4,699      |

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|   |            |            |
|---|------------|------------|
| Computer and equipment expense  | 3,094      | 2,724      |
| Professional services expense   | 6,039      | 4,256      |
| Data processing service expense   | 3,219      | 2,532      |
| FDIC and regulatory assessments   | 2,035      | 2,520      |
| Marketing expense   | 858        | 871        |
| Other real estate owned (income)/expense  | (212)      | ) 61       |
| Amortization of investments in low income housing and alternative energy partnerships | 5,761      | 4,850      |
| Amortization of core deposit intangibles  | 234        | 172        |
| Acquisition and integration costs   | 169        | -          |
| Other operating expense   | 3,945      | 3,330      |
| Total non-interest expense  | 60,971     | 51,886     |
| <br>  |            |            |
| Income before income tax expense  | 82,682     | 69,446     |
| Income tax expense  | 18,866     | 20,505     |
| Net income  | \$63,816   | \$48,941   |
| <br>  |            |            |
| Other comprehensive income, net of tax  |            |            |
| Unrealized holding losses on securities available-for-sale                            | (11,514)   | ) (496)    |
| Unrealized holding gain on cash flow hedge derivatives                                | 2,193      | 299        |
| Less: reclassification adjustments for gains/(losses) included in net income          | -          | (270)      |
| Total other comprehensive gain, net of tax  | (9,321)    | ) 73       |
| Total other comprehensive income  | \$54,495   | \$49,014   |
| <br>  |            |            |
| Net income per common share:  |            |            |
| Basic   | \$0.79     | \$0.61     |
| Diluted   | \$0.78     | \$0.61     |
| Cash dividends paid per common share  | \$0.24     | \$0.21     |
| Average common shares outstanding   |            |            |
| Basic   | 81,123,380 | 79,703,593 |
| Diluted   | 81,680,445 | 80,413,178 |

See accompanying notes to unaudited condensed consolidated financial statements.

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|   | <b>Three months ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31</b>           |             |
|   | <b>2018</b>               | <b>2017</b> |
|   | <b>(In thousands)</b>     |             |
| <b>Cash Flows from Operating Activities</b>   |                           |             |
| Net income  | \$63,816                  | \$48,941    |
| Adjustments to reconcile net income to net cash provided by operating activities:               |                           |             |
| Reversal for credit losses  | (3,000 )                  | (2,500 )    |
| Provision for losses on other real estate owned   | 33                        | 272         |
| Deferred tax liability  | 3,597                     | 14,283      |
| Depreciation and amortization   | 2,009                     | 1,769       |
| Net gains on sale and transfer of other real estate owned                                       | (258 )                    | (219 )      |
| Proceeds from sales of loans  | 8,000                     | 7,500       |
| Amortization on alternative energy partnerships, venture capital and other investments          | (12 )                     | 187         |
| Net loss/(gain) on sales and calls of securities  | -                         | 438         |
| Amortization/accretion of security premiums/discounts, net                                      | 882                       | 727         |
| Unrealized loss on equity securities  | 3,847                     | -           |
| Write-down on impaired securities   | -                         | 28          |
| Stock based compensation and stock issued to officers as compensation                           | 1,499                     | 1,183       |
| Net change in accrued interest receivable and other assets                                      | 7,870                     | (5,617 )    |
| Gain on acquisition   | (340 )                    | -           |
| Net change in other liabilities   | (2,995 )                  | (12,926 )   |
| Net cash provided by operating activities   | 84,948                    | 54,066      |
| <b>Cash Flows from Investing Activities</b>   |                           |             |
| Purchase of investment securities available-for-sale  | (125,714 )                | (99,965 )   |
| Proceeds from sale of investment securities available-for-sale                                  | -                         | 99,541      |
| Proceeds from repayments, maturities and calls of investment securities available-for-sale      | 173,915                   | 85,439      |
| Redemptions of Federal Home Loan Bank stock   | 5,835                     | -           |
| Net increase in loans   | (141,205 )                | (170,843 )  |
| Purchase of premises and equipment  | (638 )                    | (1,016 )    |
| Proceeds from sales of other real estate owned  | 1,480                     | 878         |
| Net (increase)/decrease in investment in affordable housing and alternative energy partnerships | (10,673 )                 | 565         |
| Net cash used for investing activities  | (97,000 )                 | (85,401 )   |
| <b>Cash Flows from Financing Activities</b>   |                           |             |
| Net increase/(decrease) in deposits   | 322,166                   | (87,333 )   |

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|  |             |            |
|--|-------------|------------|
| Net decrease in federal funds purchased and securities sold under agreements to repurchase | -           | (200,000 ) |
| Advances from Federal Home Loan Bank   | 1,150,000   | 250,000    |
| Repayment of Federal Home Loan Bank borrowings   | (1,255,000) | (275,000 ) |
| Cash dividends paid  | (19,469 )   | (16,756 )  |
| Proceeds from shares issued under Dividend Reinvestment Plan                               | 664         | 617        |
| Proceeds from exercise of stock options  | 838         | 421        |
| Taxes paid related to net share settlement of RSUs   | (3,223 )    | (5,118 )   |
| Net cash provided by (used in) financing activities  | 195,976     | (333,169 ) |
| <br>   |             |            |
| Increase/(decrease) in cash and cash equivalents   | 183,924     | (364,504 ) |
| Cash and cash equivalents, beginning of the period   | 539,801     | 1,185,084  |
| Cash and cash equivalents, end of the period   | \$723,725   | \$820,580  |
| <br>   |             |            |
| Supplemental disclosure of cash flow information   |             |            |
| Cash paid during the period:   |             |            |
| Interest   | \$22,509    | \$20,495   |
| Income taxes paid  | \$3,658     | \$15,896   |
| Non-cash investing and financing activities:   |             |            |
| Net change in unrealized holding loss on securities available-for-sale, net of tax         | \$(11,514 ) | \$(226 )   |
| Net change in unrealized holding loss on cash flow hedge derivatives                       | \$2,193     | \$299      |
| Transfers to other real estate owned from loans held for investment                        | \$715       | \$726      |
| Loans transferred from held for investment to held for sale, net                           | \$-         | \$5,835    |

See accompanying notes to unaudited condensed consolidated financial statements.

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**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, with Bancorp, the “Company”), *eight* limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, Asia Realty Corp. 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, 2018*, the Bank operates *26* branches in Southern California, *15* 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, New Jersey, Maryland, and Nevada, *one* branch in Hong Kong, and a representative office in Beijing, 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, 2018*. 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, 2017*.

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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The Company expects that the most significant estimates subject to change are the allowance for loan losses, goodwill impairment, and other-than-temporary impairment.

In the condensed consolidated statement of cash flows, the amounts for the three months ended March 31, 2017 have been corrected in the current year and differ from the previously reported amounts of \$251.6 million for net cash provided by investing activities, (\$27.5) million for decrease in cash and cash equivalents, \$218.0 million for cash and cash equivalents, beginning of period and \$190.5 million for cash and cash equivalents, end of period.

Table of Contents**3. Recent Accounting Pronouncements*****Accounting Standards adopted in 2018***

In *May 2014*, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") *2014-09*, "Revenue from Contracts with Customers (Topic 606)." The new guidance replaces existing revenue recognition guidance for contracts to provide goods or services to customers and amends existing guidance related to recognition of gains and losses on the sale of certain nonfinancial assets such as real estate. ASU *2014-09* clarifies the principles for recognizing revenue and replaces nearly all existing revenue recognition guidance in U.S. GAAP. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. ASU *2014-09* as amended by ASU *2015-14*, ASU *2016-08*, ASU *2016-10* and ASU *2016-12*, is effective for interim and annual periods beginning after *December 15, 2017* and is applied on either a modified retrospective or full retrospective basis. Our revenue is primarily comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU *2014-09*, and non-interest income. Accordingly, the majority of the Company's revenues will not be affected. In addition, the new standard does not materially impact the timing or measurement of the Company's revenue recognition as it is consistent with the Company's existing accounting for contracts within the scope of the new standard. The Company adopted this guidance as of January 1, 2018 using the modified retrospective method where there was no cumulative effect adjustment to retained earnings as a result of adopting this new standard. In addition, the standard did not have a material impact on our consolidated financial statements. The Company has provided a disaggregation of the significant categories of revenues within the scope of this guidance and expanded the qualitative disclosures of the Company's noninterest income. See footnote 17 - Revenue from Contracts with Customers for additional information.

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*. The adoption of the amendment resulted in approximately \$8.6 million being reclassified from accumulated other comprehensive income to retained earnings, representing an increase to retained earnings as of *January 1, 2018* and reduced pre-tax income by \$3.8 million for the quarter ended *March 31, 2018*. See footnote 7 – Investment Securities. Also, beginning in the *first* quarter of *2018*, the Company is adopting the exit price notion on fair value measurement of its loan portfolio. As a result of this fair value change, the prior-year figures shown for loans on footnote *13* for comparative purposes will *no* longer be comparable.

In *February 2018*, FASB issued ASU 2018-02 to help organizations address certain stranded income tax effects in accumulated other comprehensive income (“AOCI”) resulting from the Tax Legislation. The amendment provides financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the changes in the U.S. federal corporate income tax rate in the Tax Legislation (or portion thereof) is recorded. The amendment also includes disclosure requirements regarding the issuer’s accounting policy for releasing income tax effects from AOCI. The amendment is effective for annual periods, and interim periods within those annual periods, beginning after *December 15, 2018*. Early adoption is permitted, and organizations should apply the provisions of the amendment either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Legislation is recognized. The Company has elected to reclassify the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings effective *January 1, 2018*. This resulted in the reclassification of *\$515,000* from accumulated other comprehensive income to retained earnings, representing a decrease to retained earnings as of *January 1, 2018*. See footnote 18 – Stockholders Equity.



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***Other Accounting Standards***

In *February 2016*, the FASB issued ASU 2016-02, "Leases (Topic 842)", which is intended to increase transparency and comparability in the accounting for lease transactions. ASU 2016-02 requires lessees to recognize all leases longer than *twelve* months on the consolidated balance sheet as lease assets and lease liabilities and quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. ASU 2016-02 is effective for fiscal years beginning after *December 15, 2018*, including interim periods within those fiscal years with an option to early adopt. ASU 2016-02 mandates a modified retrospective transition method for all entities. The Company is evaluating the impact of ASU 2016-02 and has determined that the majority of our leases are operating leases. We expect, upon adoption, that the Company will record a liability for the remaining obligation under the lease agreements and a corresponding right-of-use asset in its consolidated financial statements. ASU 2016-02 will be effective for us on *January 1, 2019* and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements.

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

In *January 2017*, the FASB issued ASU 2017-04, "Intangibles—Goodwill and Other (Topic 350)": Simplifying the Test for Goodwill Impairment." This update simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Adoption of this update is on a prospective basis and the amendments in this update are to be applied to annual periods beginning after *December 15, 2019*. Adoption of ASU 2017-04 is *not* expected to have a significant impact on the Company's consolidated financial statements.

In *March 2017*, the FASB issued ASU 2017-08, "Receivables- Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities" This update amends the amortization period for certain purchased callable debt securities held at a premium. The amendments require the premium to be amortized to the earliest call date. The amendments do *not* require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. This update affects all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after *December*

15, 2018. The Company is currently evaluating the impact on its consolidated financial statements.

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In *July 2017*, the FASB issued ASU 2017-11, “Earnings per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815).” There are *two* parts to this update. Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments that result in the strike price being reduced on the basis of the pricing of future equity offerings. Part II of this update addresses the difficulty in navigating topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in this update are effective for fiscal years beginning after *December 15, 2020*. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in part I of this update should be applied in either of the following ways: (i) Retrospectively to outstanding financial instruments with a down round feature by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the *first* fiscal year and interim periods in which the pending content that links to this paragraph is effective; or (ii) Retrospectively to outstanding financial instruments with a down round feature for each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10. The amendments to Part II of this update do *not* require any transition guidance because those amendments do *not* have an accounting effect. The Company is currently evaluating the impact on its consolidated financial statements.

In *August 2017*, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815)”, which targeted improvements to accounting for hedging activities. The amendments in this update better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. For public business entities, the amendments in this update are effective for fiscal years beginning after *December 15, 2018*, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after *December 15, 2019*, and interim periods within fiscal years beginning after *December 15, 2020*. The Company is currently evaluating the impact on its consolidated financial statements.

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**4. Acquisition**

On *July 14, 2017*, the Company completed the acquisition of SinoPac Bancorp, the parent of Far East National Bank ("FENB"), pursuant to a Stock Purchase Agreement, dated as of *July 8, 2016*, by and between the Company and Bank SinoPac Co. Ltd. Under the terms of the Stock Purchase Agreement, the Company purchased all of the issued and outstanding share capital of SinoPac Bancorp for an aggregate purchase price of \$351.6 million plus additional post closing payments based on the realization of certain assets of FENB. The Company issued 926,192 shares of common stock as consideration and the remainder of the consideration is payable in cash of which \$100 million was deferred and paid on *November 14, 2017* and \$35.4 million was deferred and will be released over the next *three* years. On *December 12, 2017*, additional cash consideration of \$4.1 million was paid based on the realized gain from the sale of the building that housed FENB's former Alhambra, California branch. SinoPac Bancorp was merged into Cathay General Bancorp on *July 17, 2017* and subsequently, on *October 27, 2017*, FENB was merged into Cathay Bank. The acquisition allowed the Company to expand its number of branches in California. Prior to the closing of the acquisition, FENB operated *nine* branches in California, and a representative office in Beijing. The acquisition is accounted for as a business combination, subject to the provisions of ASC 805-10-50, Business Combinations.

The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the *July 14, 2017* acquisition date. We have included the financial results of the business combinations in the condensed consolidated statement of income beginning on the acquisition date. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. We made significant estimates and exercised significant judgement in estimating fair values and accounting for such acquired assets and liabilities. The assets acquired, and liabilities assumed have been accounted for under the acquisition method of accounting.

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The fair value of the assets and the liabilities acquired as of *July 14, 2017* are shown below:

|  | SinoPac<br>Bancorp |
|--|--------------------|
| <b>Assets acquired:</b>                        |                    |
| Cash and cash equivalents                      | \$ 166,932         |
| Short-term investments                         | 122,000            |
| Securities available-for-sale                  | 88,044             |
| FHLB and FRB stock                             | 19,890             |
| Loans  | 705,792            |
| Premises and equipment                         | 6,239              |
| Cash surrender value of life insurance         | 46,083             |
| Deferred tax assets, net                       | 40,690             |
| Core deposit intangible                        | 6,122              |
| Accrued interest receivable and other assets   | 10,689             |
| <b>Total assets acquired</b>                   | <b>1,212,481</b>   |
| <b>Liabilities assumed:</b>                    |                    |
| Deposits                                       | 813,888            |
| Advances from the Federal Home Loan Bank       | 30,000             |
| Accrued interest payable and other liabilities | 8,512              |
| <b>Total liabilities assumed</b>               | <b>852,400</b>     |
| <b>Net assets acquired</b>                     | <b>\$ 360,081</b>  |
|  |                    |
| Cash paid                                      | \$ 284,984         |
| Fair value of common stock issued              | 34,862             |
| <b>Total consideration paid</b>                | <b>\$ 319,846</b>  |
|  |                    |
| Purchase price payable to SinoPac              | 34,267             |
| <b>Total consideration</b>                     | <b>\$ 354,113</b>  |
| <b>Gain from acquisition</b>                   | <b>\$ 5,968</b>    |

The table above reflects net purchase price adjustments of \$340,000 related to contingent compensation and imputed interest adjustments made during the quarter ended *March 31, 2018*. *The purchase price allocations reflected in the table above are preliminary for up to 12 months after the acquisition date and subject to revision as more detailed analyses are completed and additional information about fair value of assets and liabilities becomes available.*

Table of Contents**5. 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 and restricted stock units with anti-dilutive effect were *not* included in the computation of diluted earnings per share. The following table sets forth earnings per common share calculations:

| (Dollars in thousands, except share and per share data)                    | Three months ended March |            |
|--|--------------------------|------------|
|  | 31,<br>2018              | 2017       |
| Net income   | \$63,816                 | \$48,941   |
| Weighted-average shares:   |                          |            |
| Basic weighted-average number of common shares outstanding                 | 81,123,380               | 79,703,593 |
| Dilutive effect of weighted-average outstanding common share equivalents   |                          |            |
| Warrants   | 295,453                  | 416,607    |
| Options  | -                        | 33,888     |
| Restricted stock units   | 261,612                  | 259,090    |
| Diluted weighted-average number of common shares outstanding               | 81,680,445               | 80,413,178 |
| Average stock options and restricted stock units with anti-dilutive effect | 38,906                   | 19,900     |
| Earnings per common share:   |                          |            |
| Basic  | \$0.79                   | \$0.61     |
| Diluted  | \$0.78                   | \$0.61     |

**6. 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, 2018*, there were *no* stock options outstanding.

There were 35,880 and 18,040 stock option shares exercised in the *first* quarter ended *March 31, 2018* and *2017*, respectively. The Company received \$838,000 from the exercise of stock options for 35,880 shares at \$23.37 per share

which had an aggregate intrinsic value of \$718,000 during the *first* quarter ended *March 31, 2018* compared to \$422,000 from the exercise of stock options which had an aggregate intrinsic value of \$262,000 during the *first* quarter ended *March 31, 2017*.

The Company granted restricted stock units for 122,674 shares at an average closing price of \$43.50 per share in the *first* quarter of 2018. The Company granted restricted stock units for 87,781 shares at an average closing price of \$38.59 per share in 2017.

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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. In *December 2016*, in addition to TSR and EPS awards, the Company granted performance share unit awards in which the number of units earned is determined by comparison to the targeted return of assets ROA as defined in the award for *December 2016*. In *December 2014*, the Company granted additional performance TSR restricted stock units for *60,456* shares and performance EPS restricted stock units for *57,642* shares to *seven* executive officers. In *December 2015*, the Company granted additional performance TSR restricted stock units for *61,209* shares and performance EPS restricted stock units for *57,409* shares to *seven* executive officers. In *December 2016*, the Company granted additional performance TSR restricted stock units for *30,319* shares, performance EPS restricted stock units for *58,241* shares, and performance ROA restricted stock units for *29,119* shares to *seven* executive officers. In *December 2017*, the Company granted additional performance TSR restricted stock units for *23,556* shares and performance ROA restricted stock units for *22,377* shares to *six* executive officers. In *March 2018*, the Company granted performance EPS restricted stock units for *55,455* shares to *six* executive officers. Performance TSR, performance EPS, and performance ROA share 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, 2018*:

|                              | <b>Units</b> |
|------------------------------|--------------|
| Balance at December 31, 2017 | 561,610      |
| Granted                      | 178,129      |
| Distributed                  | (109,454)    |
| Forfeited                    | (4,010 )     |
| Balance at March 31, 2018    | 626,275      |

The compensation expense recorded for restricted stock units was *\$1.5* million for the *three* months ended *March 31, 2018*, compared to *\$1.2* million in the same period a year ago. Unrecognized stock-based compensation expense related to restricted stock units was *\$15.1* million as of *March 31, 2018* and is expected to be recognized over the next *2.3* years.

As of *March 31, 2018*, *2,608,672* shares were available under the Company’s *2005* Incentive Plan (as Amended and Restated) for future grants.

Tax benefit from share-based payment arrangements of *\$0.7* million reduced income tax expense in the *first* quarter of *2018* compared to *\$2.6* million in the same period a year ago.





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Securities available-for-sale were \$1.2 billion as of *March 31, 2018*, compared to \$1.3 billion as of *December 31, 2017*.

The following tables reflect the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of securities available-for-sale as of *March 31, 2018*, and investment securities as of *December 31, 2017*:

|   | <b>March 31, 2018</b> |                               |                                |                   |
|---|-----------------------|-------------------------------|--------------------------------|-------------------|
|   | <b>Amortized Cost</b> | <b>Gross Unrealized Gains</b> | <b>Gross Unrealized Losses</b> | <b>Fair Value</b> |
|   | <b>(In thousands)</b> |                               |                                |                   |
| <b>Debt Securities Available-for-Sale</b> |                       |                               |                                |                   |
| U.S. treasury securities                  | \$124,842             | \$ -                          | \$ 247                         | \$124,595         |
| U.S. government agency entities           | 8,794                 | -                             | 99                             | 8,695             |
| U.S. government sponsored entities        | 400,000               | -                             | 14,080                         | 385,920           |
| State and municipal securities            | 924                   |                               | 20                             | 904               |
| Mortgage-backed securities                | 655,327               | 226                           | 17,194                         | 638,359           |
| Collateralized mortgage obligations       | 1,398                 | -                             | 27                             | 1,371             |
| Corporate debt securities                 | 80,006                | 1,280                         | 25                             | 81,261            |
| Total                                     | \$1,271,291           | \$ 1,506                      | \$ 31,692                      | \$1,241,105       |

|                                      | <b>December 31, 2017</b> |                               |                                |                   |
|--------------------------------------|--------------------------|-------------------------------|--------------------------------|-------------------|
|                                      | <b>Amortized Cost</b>    | <b>Gross Unrealized Gains</b> | <b>Gross Unrealized Losses</b> | <b>Fair Value</b> |
|                                      | <b>(In thousands)</b>    |                               |                                |                   |
| <b>Securities Available-for-Sale</b> |                          |                               |                                |                   |
| U.S. treasury securities             | \$249,877                | \$ -                          | \$ 357                         | \$249,520         |
| U.S. government agency entities      | 9,047                    | 11                            | 70                             | 8,988             |

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|  |             |           |           |             |
|--|-------------|-----------|-----------|-------------|
| U.S. government sponsored entities               | 400,000     | -         | 9,664     | 390,336     |
| State and municipal securities                   | 1,944       | -         | 30        | 1,914       |
| Mortgage-backed securities                       | 577,987     | 241       | 6,259     | 571,969     |
| Collateralized mortgage obligations              | 1,533       | -         | 17        | 1,516       |
| Corporate debt securities                        | 80,007      | 1,291     | 17        | 81,281      |
| Mutual funds                                     | 6,500       | -         | 270       | 6,230       |
| Preferred stock of government sponsored entities | 5,842       | 4,260     | -         | 10,102      |
| Other equity securities                          | 3,608       | 8,162     | -         | 11,770      |
| Total  | \$1,336,345 | \$ 13,965 | \$ 16,684 | \$1,333,626 |

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The amortized cost and fair value of investment securities as of *March 31, 2018*, by contractual maturities, are shown below. Actual maturities *may* differ from contractual maturities because borrowers *may* have the right to call or repay obligations with or without call or repayment penalties.

|  | <b>Securities</b>         |                   |
|--|---------------------------|-------------------|
|  | <b>Available-For-Sale</b> |                   |
|  | <b>Amortized</b>          | <b>Fair value</b> |
|  | <b>cost</b>               |                   |
|  | <b>(In thousands)</b>     |                   |
| Due in one year or less                | \$140,165                 | \$139,922         |
| Due after one year through five years  | 466,090                   | 453,280           |
| Due after five years through ten years | 5,783                     | 5,624             |
| Due after ten years                    | 659,253                   | 642,279           |
| Total                                  | \$1,271,291               | \$1,241,105       |

There were *no* sales of mortgage-backed securities during the *first* quarter of 2018 and the *first* quarter of 2017. Proceeds from repayments, maturities and calls of mortgage-backed securities were \$22.9 million and \$15.4 million for the *three* months ended *March 31, 2018* and 2017, respectively. There were *no* sales of other investment securities during the *first* quarter of 2018 compared to proceeds from the sale of \$99.5 million during the *first* quarter of 2017. Proceeds from maturities and calls of other investment securities were \$151.0 million during the *three* months ended *March 31, 2018* compared to \$70.0 million during the same period a year ago. There were *no* gains or losses on sales of investment securities during the *three* months ended *March 31, 2018*, compared to \$438,000 of losses in the same quarter a year ago. There were *no* other than temporary impairment write-downs recorded during the *first* quarter of 2018 compared to \$28,000 recorded during the *first* quarter of 2017.

The adoption of ASU 2016-01 resulted in approximately \$8.6 million being reclassified from accumulated other comprehensive income to retained earnings, representing an increase to retained earnings as of *January 1, 2018*. At *March 31, 2018*, the Company recognized a net loss of \$3.8 million due to the decrease in fair value of equity investments with readily determinable fair values at *March 31, 2018*. Equity securities were \$24.2 million as of *March 31, 2018*, compared to \$28.1 million as of *December 31, 2017*.

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The tables below show the fair value and unrealized losses of the temporarily impaired securities in our investment securities portfolio as of *March 31, 2018*, and *December 31, 2017*:

| <b>March 31, 2018</b>                            |                            |                          |                            |                          |                   |                          |
|--|----------------------------|--------------------------|----------------------------|--------------------------|-------------------|--------------------------|
| <b>Temporarily impaired securities</b>           |                            |                          |                            |                          |                   |                          |
|  | <b>Less than 12 months</b> |                          | <b>12 months or longer</b> |                          | <b>Total</b>      |                          |
|  | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| <b>(In thousands)</b>                            |                            |                          |                            |                          |                   |                          |
| <b>Debt Securities Available-for-Sale</b>        |                            |                          |                            |                          |                   |                          |
| U.S. treasury securities                         | \$74,829                   | \$ 19                    | \$49,766                   | \$ 228                   | \$124,595         | \$ 247                   |
| U.S. government agency entities                  | 8,695                      | 99                       | -                          | -                        | 8,695             | 99                       |
| U.S. government sponsored entities               | -                          | -                        | 385,920                    | 14,080                   | 385,920           | 14,080                   |
| State and municipal securities                   | 903                        | 20                       | -                          | -                        | 903               | 20                       |
| Mortgage-backed securities                       | 437,818                    | 11,042                   | 167,958                    | 6,152                    | 605,776           | 17,194                   |
| Collateralized mortgage obligations              | 1,371                      | 27                       | -                          | -                        | 1,371             | 27                       |
| Corporate debt securities                        | 5,003                      | 25                       | -                          | -                        | 5,003             | 25                       |
| Total debt securities                            | \$528,619                  | \$ 11,232                | \$603,644                  | \$ 20,460                | \$1,132,263       | \$ 31,692                |
| <b>Equity Securities</b>                         |                            |                          |                            |                          |                   |                          |
| Preferred stock of government sponsored entities | 6,691                      | 3,411                    | -                          | -                        | 6,691             | 3,411                    |
| Mutual funds                                     | -                          | -                        | 6,129                      | 371                      | 6,129             | 371                      |
| Other equity securities                          | 11,334                     | 436                      | -                          | -                        | 11,334            | 436                      |
| Total equity securities                          | \$18,025                   | \$ 3,847                 | \$6,129                    | \$ 371                   | \$24,154          | \$ 4,218                 |

| <b>December 31, 2017</b>               |                            |                          |                            |                          |                   |                          |
|--|----------------------------|--------------------------|----------------------------|--------------------------|-------------------|--------------------------|
| <b>Temporarily impaired securities</b> |                            |                          |                            |                          |                   |                          |
|  | <b>Less than 12 months</b> |                          | <b>12 months or longer</b> |                          | <b>Total</b>      |                          |
|  | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| <b>(In thousands)</b>                  |                            |                          |                            |                          |                   |                          |
| <b>Securities Available-for-Sale</b>   |                            |                          |                            |                          |                   |                          |
| U.S. treasury securities               | \$199,823                  | \$ 62                    | \$49,697                   | \$ 295                   | \$249,520         | \$ 357                   |
| U.S. government agency entities        | 5,711                      | 70                       | -                          | -                        | 5,711             | 70                       |
| U.S. government sponsored entities     | -                          | -                        | 390,336                    | 9,664                    | 390,336           | 9,664                    |
| State and municipal securities         | 1,914                      | 30                       | -                          | -                        | 1,914             | 30                       |
| Mortgage-backed securities             | 342,436                    | 3,147                    | 178,617                    | 3,112                    | 521,053           | 6,259                    |
| Collateralized mortgage obligations    | 1,516                      | 17                       | -                          | -                        | 1,516             | 17                       |

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|                           |           |          |           |           |             |           |
|---------------------------|-----------|----------|-----------|-----------|-------------|-----------|
| Corporate debt securities | 5,015     | 17       | -         | -         | 5,015       | 17        |
| Mutual funds              | -         | -        | 6,230     | 270       | 6,230       | 270       |
| Total                     | \$556,415 | \$ 3,343 | \$624,880 | \$ 13,341 | \$1,181,295 | \$ 16,684 |

As of *March 31, 2018*, the Company had unrealized losses on available-for-sale securities of \$31.7 million. The unrealized losses on these securities were primarily attributed to yield curve movement, together with widened liquidity spreads and credit spreads. 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 securities and has *no* intent to sell, and will *not* be required to sell, available-for-sale securities that have declined below their cost before their anticipated recovery.

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Investment securities having a carrying value of \$231.0 million as of *March 31, 2018*, and \$272.2 million as of *December 31, 2017*, were pledged to secure public deposits, other borrowings, treasury tax and loan, and securities sold under agreements to repurchase.

**8. Loans**

Most of the Company's business activities are with customers located in the high-density Asian-populated areas of Southern and Northern California; New York City, New York; Dallas and Houston, 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 Company's condensed consolidated balance sheets as of *March 31, 2018*, and *December 31, 2017*, were as follows:

|                                | March 31,<br>2018     | December<br>31, 2017 |
|--------------------------------|-----------------------|----------------------|
|                                | <b>(In thousands)</b> |                      |
| Commercial loans               | \$2,436,421           | \$2,461,266          |
| Residential mortgage loans     | 3,198,750             | 3,062,050            |
| Commercial mortgage loans      | 6,610,254             | 6,482,695            |
| Real estate construction loans | 587,927               | 678,805              |
| Equity lines                   | 176,714               | 180,304              |
| Installment & other loans      | 4,473                 | 5,170                |
| Gross loans                    | \$13,014,539          | \$12,870,290         |
| Allowance for loan losses      | (122,084 )            | (123,279 )           |
| Unamortized deferred loan fees | (3,289 )              | (3,245 )             |
| Total loans, net               | \$12,889,166          | \$12,743,766         |
| Loans held for sale            | \$-                   | \$8,000              |

As of *March 31, 2018*, recorded investment in impaired loans totaled \$132.1 million and was comprised of non-accrual loans, excluding loans held for sale, of \$49.3 million and accruing troubled debt restructured loans ("TDRs") of \$82.8 million. As of *December 31, 2017*, recorded investment in impaired loans totaled \$117.4 million and was comprised of non-accrual loans, excluding loans held for sale, of \$48.8 million and accruing TDRs of \$68.6 million. For impaired loans, the amounts previously charged off represent 6.4% as of *March 31, 2018*, and 7.2% as of

*December 31, 2017*, of the contractual balances for impaired loans.



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

|   | <b>Impaired Loans</b>              |                  |                                   |                |
|---|------------------------------------|------------------|-----------------------------------|----------------|
|   | <b>Average Recorded Investment</b> |                  | <b>Interest Income Recognized</b> |                |
|   | Three months ended                 |                  | Three months ended                |                |
|   | March 31, 2018                     | 2017             | March 31, 2018                    | 2017           |
| Commercial loans                            | \$45,183                           | \$23,335         | \$334                             | \$83           |
| Real estate construction loans              | 8,137                              | 16,930           | -                                 | 340            |
| Commercial mortgage loans                   | 58,598                             | 61,405           | 644                               | 445            |
| Residential mortgage loans and equity lines | 13,709                             | 16,543           | 100                               | 132            |
| <b>Total impaired loans</b>                 | <b>\$125,627</b>                   | <b>\$118,213</b> | <b>\$1,078</b>                    | <b>\$1,000</b> |

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

|   | <b>Impaired Loans<br/>March 31, 2018</b> |                            |                  | <b>December 31, 2017</b>        |                            |                  |
|---|--|----------------------------|------------------|---------------------------------|----------------------------|------------------|
|   | <b>Unpaid Principal Balance</b>          | <b>Recorded Investment</b> | <b>Allowance</b> | <b>Unpaid Principal Balance</b> | <b>Recorded Investment</b> | <b>Allowance</b> |
|   | <b>(In thousands)</b>                    |                            |                  |                                 |                            |                  |
| <b>With no allocated allowance</b>          |  |                            |                  |                                 |                            |                  |
| Commercial loans                            | \$45,698                                 | \$44,680                   | \$-              | \$43,483                        | \$42,702                   | \$-              |
| Real estate construction loans              | 8,821                                    | 8,113                      | -                | 8,821                           | 8,185                      | -                |
| Commercial mortgage loans                   | 44,486                                   | 37,471                     | -                | 37,825                          | 31,029                     | -                |
| Residential mortgage loans and equity lines | 6,377                                    | 6,377                      | -                | 1,301                           | 1,301                      | -                |
| Subtotal                                    | \$105,382                                | \$96,641                   | \$-              | \$91,430                        | \$83,217                   | \$-              |
| <b>With allocated allowance</b>             |  |                            |                  |                                 |                            |                  |
| Commercial loans                            | \$258                                    | \$231                      | \$11             | \$891                           | \$793                      | \$43             |
| Commercial mortgage loans                   | 27,315                                   | 27,276                     | 1,145            | 21,733                          | 21,635                     | 1,738            |
| Residential mortgage loans and equity lines | 9,091                                    | 7,965                      | 346              | 13,022                          | 11,708                     | 353              |
| Subtotal                                    | \$36,664                                 | \$35,472                   | \$1,502          | \$35,646                        | \$34,136                   | \$2,134          |
| <b>Total impaired loans</b>                 | <b>\$142,046</b>                         | <b>\$132,113</b>           | <b>\$1,502</b>   | <b>\$127,076</b>                | <b>\$117,353</b>           | <b>\$2,134</b>   |



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The following tables present the aging of the loan portfolio by type as of *March 31, 2018*, and as of *December 31, 2017*:

|   | <b>March 31, 2018</b>                  |  |   |                              |                               |                               |              |
|---|--|--|---|------------------------------|-------------------------------|-------------------------------|--------------|
|   | <b>30-59<br/>Days<br/>Past<br/>Due</b> | <b>60-89<br/>Days<br/>Past<br/>Due</b> | <b>90<br/>Days<br/>or<br/>More<br/>Past<br/>Due</b> | <b>Non-accrual<br/>Loans</b> | <b>Total<br/>Past<br/>Due</b> | <b>Loans Not<br/>Past Due</b> | <b>Total</b> |
| <b>Type of Loans:</b>                       | <b>(In thousands)</b>                  |  |   |                              |                               |                               |              |
| Commercial loans                            | \$15,571                               | \$146                                  | \$ -  | \$ 15,916                    | \$31,633                      | \$2,404,788                   | \$2,436,421  |
| Real estate construction loans              | 920                                    | -                                      | -   | 8,113                        | 9,033                         | 578,894                       | 587,927      |
| Commercial mortgage loans                   | 26,015                                 | -                                      | -   | 17,780                       | 43,795                        | 6,566,459                     | 6,610,254    |
| Residential mortgage loans and equity lines | 4,094                                  | -                                      | -   | 7,519                        | 11,613                        | 3,363,851                     | 3,375,464    |
| Installment and other loans                 | 170                                    | 95                                     | -   | -                            | 265                           | 4,208                         | 4,473        |
| Total loans                                 | \$46,770                               | \$241                                  | \$ -  | \$ 49,328                    | \$96,339                      | \$12,918,200                  | \$13,014,539 |

|   | <b>December 31, 2017</b>               |  |   |                              |                               |                               |              |
|---|--|--|---|------------------------------|-------------------------------|-------------------------------|--------------|
|   | <b>30-59<br/>Days<br/>Past<br/>Due</b> | <b>60-89<br/>Days<br/>Past<br/>Due</b> | <b>90<br/>Days<br/>or<br/>More<br/>Past<br/>Due</b> | <b>Non-accrual<br/>Loans</b> | <b>Total<br/>Past<br/>Due</b> | <b>Loans Not<br/>Past Due</b> | <b>Total</b> |
| <b>Type of Loans:</b>                       | <b>(In thousands)</b>                  |  |   |                              |                               |                               |              |
| Commercial loans                            | \$11,079                               | \$5,192                                | \$ -  | \$ 14,296                    | \$30,567                      | \$2,430,699                   | \$2,461,266  |
| Real estate construction loans              | 3,028                                  | -                                      | -   | 8,185                        | 11,213                        | 667,592                       | 678,805      |
| Commercial mortgage loans                   | 17,573                                 | 5,602                                  | -   | 19,820                       | 42,995                        | 6,439,700                     | 6,482,695    |
| Residential mortgage loans and equity lines | 6,613                                  | 732                                    | -   | 6,486                        | 13,831                        | 3,228,523                     | 3,242,354    |
| Installment and other loans                 | 103                                    | -                                      | -   | -                            | 103                           | 5,067                         | 5,170        |
| Total loans                                 | \$38,396                               | \$11,526                               | \$ -  | \$ 48,787                    | \$98,709                      | \$12,771,581                  | \$12,870,290 |

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. 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.

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.

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As of *March 31, 2018*, accruing TDRs were \$82.8 million and non-accrual TDRs were \$31.2 million compared to accruing TDRs of \$68.6 million and non-accrual TDRs of \$33.4 million as of *December 31, 2017*. The Company allocated specific reserves of \$1.2 million to accruing TDRs and \$75,000 to non-accrual TDRs as of *March 31, 2018*, and \$1.9 million to accruing TDRs and \$83,000 to non-accrual TDRs as of *December 31, 2017*. The following tables present TDRs that were modified during the *first* quarter ended *March 31, 2018* and *2017*, their specific reserves as of *March 31, 2018* and *2017*, and charge-offs for the *first* quarter ended *March 31, 2018* and *2017*:

|   | Three months ended March 31, 2018 |   |   |             | March 31, 2018   |
|---|-----------------------------------|---|---|-------------|------------------|
|   | No. of Contracts                  | Pre-Modification Outstanding Recorded Investment (Dollars in thousands) | Post-Modification Outstanding Recorded Investment | Charge-offs | Specific Reserve |
| Commercial loans                            | 3                                 | \$ 2,463  | \$ 2,463  | \$ -        | \$ -             |
| Commercial mortgage loans                   | 6                                 | 14,287  | 14,287  | -           | 134              |
| Residential mortgage loans and equity lines | 2                                 | 801   | 801   | -           | 8                |
| <b>Total</b>                                | <b>11</b>                         | <b>\$ 17,551</b>  | <b>\$ 17,551</b>                                  | <b>\$ -</b> | <b>\$ 142</b>    |

|                                | Three months ended March 31, 2017 |   |   | March 31, 2017 |                  |
|--------------------------------|-----------------------------------|---|---|----------------|------------------|
|                                | No. of Contracts                  | Pre-Modification Outstanding Recorded Investment (Dollars in thousands) | Post-Modification Outstanding Recorded Investment | Charge-offs    | Specific Reserve |
| Real estate construction loans | 2                                 | \$ 27,683   | \$ 27,683   | \$ -           | \$ -             |
| <b>Total</b>                   | <b>2</b>                          | <b>\$ 27,683</b>  | <b>\$ 27,683</b>                                  | <b>\$ -</b>    | <b>\$ -</b>      |