TTM TECHNOLOGIES INC
Form DEF 14A
March 26, 2009

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SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o	Preliminary Proxy Statement	o	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ	Definitive Proxy Statement		
o	Definitive Additional Materials		
o	Soliciting Material pursuant to Rule 14a-11(c) or Rule 14a-12		

TTM TECHNOLOGIES, INC.

(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(3) Filing Party:

(4) Date Filed:

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 7, 2009

To our Stockholders:

The 2009 Annual Meeting of Stockholders of TTM Technologies, Inc. will be held at 10:00 a.m., local time, on Thursday, May 7, 2009 at our corporate offices located at 2630 South Harbor Blvd., Santa Ana, California 92704, for the following purposes:

1. To elect two class III directors for a term expiring in 2012;

2. To ratify the appointment of KPMG LLP, an independent registered public accounting firm, as our independent registered public accountants for the fiscal year ending December 31, 2009; and

3. To consider any other matters that properly come before the meeting and any postponement or adjournment thereof.

We are pleased this year to take advantage of the Securities and Exchange Commission rule allowing companies to furnish proxy materials to their stockholders over the Internet. We believe that this e-proxy process expedites stockholders receipt of proxy materials, saves us the cost of printing and mailing these materials, and reduces the environmental impact of our annual meeting by conserving natural resources.

Stockholders of record as of the close of business on March 9, 2009 are entitled to notice of, and to vote at, the meeting and any postponement or adjournment thereof. Whether or not you expect to be present, please vote your shares using the Internet or the telephone by following the instructions in this proxy statement. Of course, you may also vote by signing, dating, and returning the enclosed proxy card in the enclosed pre-addressed envelope if you received a paper copy of this proxy statement. No postage is required if mailed in the United States.

By Order of the Board of Directors,

Santa Ana, California
March 27, 2009

Steven W. Richards, Secretary

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 7, 2009

The proxy statement and annual report to stockholders and the means to vote via the Internet are available at *www.ttmtech.com/annualstockholdermeeting*. **Your Vote is Important** - Please vote as promptly as possible by using the Internet or telephone or by signing, dating, and returning the proxy card if you received a paper copy of this proxy statement.

All stockholders are invited to attend the annual meeting in person. Stockholders who vote their proxy online, by telephone, or by executing a proxy card may nevertheless attend the meeting, revoke their proxy, and vote their shares in person.

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TTM TECHNOLOGIES, INC.
ANNUAL MEETING OF STOCKHOLDERS

PROXY STATEMENT

This proxy statement contains information related to our annual meeting of stockholders to be held on Thursday, May 7, 2009, beginning at 10:00 a.m. local time at our corporate offices located at 2630 South Harbor Boulevard, Santa Ana, California 92704, and at any adjournments or postponements of the meeting. The purpose of this proxy statement is to solicit proxies from the holders of our common stock for use at the meeting. On or about March 27, 2009, we began mailing a notice containing instructions on how to access this proxy statement and our annual report online, and we began mailing a full set of the proxy materials to shareholders who had previously requested delivery of the materials in paper copy. For information on how to vote your shares, see the instructions included on the proxy card and under *How do I vote?* on page 2.

ABOUT THE MEETING

What is the purpose of the annual meeting?

At the annual meeting, stockholders will vote to (1) elect two class III directors and (2) ratify the appointment of KPMG LLP as our independent registered public accountants. In addition, our management will report on our performance during 2008 and respond to questions from our stockholders.

Who is entitled to vote at the meeting?

Only stockholders of record at the close of business on March 9, 2009, the record date for the meeting, are entitled to receive notice of the annual meeting and to vote the shares of our common stock that they held on that date at the meeting, or any postponements or adjournments of the meeting. Each outstanding share of common stock entitles its holder to cast one vote on each matter to be voted upon at the meeting.

Who may attend the meeting?

All stockholders as of the record date, or their duly appointed proxies, may attend the meeting. Please note that if you hold shares in street name (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date.

What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of a majority of all of the shares of common stock outstanding on the record date will constitute a quorum, permitting the conduct of business at the meeting. As of the record date, 42,997,386 shares of our common stock were outstanding. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

If less than a majority of the outstanding shares of common stock entitled to vote are represented at the meeting, a majority of the shares present at the meeting may adjourn the meeting to another date, time, or place, and notice need not be given of the new date, time, or place if the new date, time, or place is announced at the meeting before an adjournment is taken.

How do I vote?

If you are the stockholder of record (that is, the shares are held in your name), you may vote your proxy in one of three convenient ways:

By the Internet

Go to *www.ttmtech.com/annualstockholdermeeting* and follow the instructions. You will need the 11-digit control number that appears in the Notice Regarding The Availability Of Proxy Materials you received or on your proxy card included in this proxy statement. This method of voting will be available until 11:59 p.m., Eastern Time, on May 6, 2009.

By telephone

On a touch-tone telephone, call toll-free 1-866-540-5760 and follow the instructions. You will need the 11-digit control number that appears in the box on the front of your proxy card included in this proxy statement. This method of voting will be available until 11:59 p.m., Eastern Time, on May 6, 2009.

By mail

If you wish to vote by traditional proxy card, you can receive a full set of materials at no charge through the Internet at *www.ttmtech.com/annualstockholdermeeting*, by telephone at 1-888-313-0164, or by sending an email to *shrrelations@bnymellon* (your email should contain the 11-digit control number from your proxy card in the subject line). If you vote by traditional proxy card, mark your selections on the proxy card, date the card, and sign your name exactly as it appears on the card, then mail it in the postage-paid envelope enclosed with the materials. You should mail the proxy card in plenty of time to allow delivery to our transfer agent prior to the meeting.

If you are a stockholder of record and attend the meeting, you may deliver your completed proxy card in person. If you are not the stockholder of record (that is, your shares are held in the name of a bank, broker, or other holder of record, which is often referred to as held in street name) then you will receive instructions from the holder of record that you must follow to ensure that your shares are voted as you wish. You will not be able to vote those shares at the meeting unless you have received, in advance, a proxy card from the record holder (that is, the bank, broker, or other holder of record).

If you complete and properly sign and return a proxy card to us or complete your proxy by telephone or online, your shares will be voted as you direct.

Can I revoke my proxy and change my vote?

Yes. You may revoke your proxy and change your vote at any time before the annual meeting by submitting to our corporate secretary at our corporate offices a notice of revocation or a duly executed proxy bearing a later date (or voting by means of the telephone or Internet). The powers of the proxy holders will be suspended if you attend the meeting in person and so request, although attendance at the meeting will not by itself revoke a previously granted proxy.

What does it mean if I receive more than one notice?

This means that your shares are registered differently and are held in more than one account. To ensure that all shares are voted, please either vote each account over the Internet or by telephone, or sign and return by mail all proxy cards. We encourage you to register all of your shares in the same name and address by contacting the Shareholder Services Department at our transfer agent, BNY Mellon Shareowner Services. If you hold your shares through an account with a bank or broker, you should contact your bank or broker and request consolidation of your accounts.

What are the board s recommendations?

If you sign and return your proxy card but do not specify how you want your shares voted, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of our board of directors. Each of our board of directors recommendations is set forth together with the description of each item in this proxy statement. In summary, our board of directors recommends a vote (1) FOR the election of each of its nominees for Class III director, and (2) FOR the ratification of the appointment of KPMG LLP as our independent registered public accountants for the fiscal year ending December 31, 2009.

Our board of directors does not know of any other matters that may be brought before the meeting nor does it foresee or have reason to believe that the proxy holders will have to vote for a substitute or alternate board nominee for director. In the event that any other matter should properly come before the meeting or any nominee for director is not available for election, the proxy holders will vote as recommended by the board of directors or, if no recommendation is given, in accordance with their best judgment.

What vote is required to approve each item?

Election of Directors. The affirmative vote of a majority of the shares of our common stock present in person or represented by proxy at the meeting and entitled to vote is required for the election of each director. A properly executed proxy marked WITHHOLD AUTHORITY with respect to the election of a director will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, withholding authority will have the effect of a negative vote. Stockholders do not have the right to cumulate their votes for directors.

Appointment of Auditor. The affirmative vote of a majority of the shares of our common stock present in person or represented by proxy at the meeting and entitled to vote will be required for approval of the ratification of the appointment of KPMG LLP as our independent registered public accountants for the fiscal year ending December 31, 2009. A properly executed proxy marked ABSTAIN with respect to the appointment of KPMG LLP will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

Other Items. For each other item, the affirmative vote of a majority of the shares of our common stock present in person or represented by proxy at the meeting and entitled to vote will be required for approval. A properly executed proxy marked ABSTAIN with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

What are the effects of broker non-votes ?

If you hold your shares in street name through a bank, broker or other nominee, your bank, broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if you do not give your bank, broker or nominee specific instructions, your shares may not be voted on those matters.

Who will pay for the preparation of the proxy?

We will pay the cost of soliciting proxies. In addition to the use of mail, our employees may solicit proxies personally, by email, facsimile, and by telephone. Our employees will receive no compensation for soliciting proxies other than their regular salaries. We may request banks, brokers, and other custodians, nominees, and fiduciaries to forward copies of the proxy materials to the beneficial owners of our common stock and to request authority for the execution of proxies, and we may reimburse such persons for their expenses incurred in connection with these activities.

Our principal executive offices are located at 2630 S. Harbor Blvd., Santa Ana, California 92704, and our telephone number is (714) 327-3000. A list of stockholders entitled to vote at the annual meeting

will be available at our offices for a period of 10 days prior to the meeting and at the meeting itself for examination by any stockholder.

PROPOSAL ONE
ELECTION OF DIRECTORS

Directors and Nominees

Our board of directors is divided into three classes with each class of directors serving for a three-year term or until successors of that class have been elected and qualified. At the annual meeting, our stockholders will elect two class III directors, each of whom will serve a term expiring at the 2012 annual meeting or until his successor has been duly elected and qualified.

Our board of directors has nominated Robert E. Klatell and John G. Mayer, each of whom currently serves as a director, to stand for re-election. If Messrs. Klatell and Mayer are re-elected, they will serve three-year terms expiring at the annual meeting of stockholders in 2012. Our board of directors recommends a vote FOR the nominees for Class III director. Kenton K. Alder and Richard P. Beck serve as class II directors and their terms will expire at the annual meeting of stockholders in 2011. James K. Bass and Thomas T. Edman serve as class I directors, and their terms will expire at the annual meeting of stockholders in 2010.

Our board of directors has no reason to believe that any of its nominees will refuse or be unable to accept election. However, if any nominee is unable to accept election or if any other unforeseen contingencies should arise, our board of directors may designate a substitute nominee. If our board of directors designates a substitute nominee, the persons named as proxies will vote for the substitute nominee designated by our board of directors.

The following table, together with the accompanying text, sets forth certain information with respect to each of our directors.

Name	Age	Position(s) Held
Robert E. Klatell	63	Chairman and Director
Kenton K. Alder	59	Chief Executive Officer, President, and Director
James K. Bass	52	Director
Richard P. Beck	75	Director
Thomas T. Edman	46	Director
John G. Mayer	58	Director

Robert E. Klatell has served as a Director of our company since September 2004 and our Chairman of the Board since May 2005. Mr. Klatell is presently retired. From December 2005 to December 2007, Mr. Klatell served as Chief Executive Officer and a director of DICOM Group plc, a publicly held company (London Stock Exchange) that provides information capture and communications solutions. Mr. Klatell served as a consultant to Arrow Electronics, Inc. from January 2004 to December 2004. Mr. Klatell served in various executive capacities at Arrow Electronics, Inc. from February 1976 to December 2003, most recently as Executive Vice President from July 1995 to December 2003. Mr. Klatell holds a Bachelor of Arts degree in History from Williams College and a Juris Doctor from New York University School of Law. Our board of directors has determined that Mr. Klatell is an independent director.

Kenton K. Alder has served as our Chief Executive Officer, President, and Director since March 1999. From January 1997 to July 1998, Mr. Alder served as Vice President of Tyco Printed Circuit Group, Inc., a printed circuit board manufacturer. Prior to that time, Mr. Alder served as President and Chief Executive Officer of ElectroStar, Inc., previously a publicly held printed circuit board manufacturing company, from December 1994 to December 1996. From January 1987 to November 1994, Mr. Alder

served as President of Lundahl Astro Circuits Inc., a predecessor company to ElectroStar, Inc. Mr. Alder holds a Bachelor of Science degree in Finance and a Bachelor of Science degree in Accounting from Utah State University. Mr. Alder is an employee director.

James K. Bass has served as a Director of our company since September 2000. Mr. Bass is currently the Chief Executive Officer and a director of Piper Aircraft, Inc., a general aviation manufacturing company, and has served in such capacities since September 2005. He served as the Chief Executive Officer and a director of Suntron Corporation, a provider of high mix electronic manufacturing services, from its incorporation in May 2001 until May 2005, and as Chief Executive Officer of EFTC Corporation, a subsidiary of Suntron Corporation, from July 2000 until April 2001. From 1992 to July 2000, Mr. Bass was a Senior Vice President of Sony Corporation. Prior to that, Mr. Bass spent 15 years in various manufacturing management positions at the aerospace group of General Electric Corporation. Mr. Bass holds a B.S.M.E. degree from Ohio State University. Our board of directors has determined that Mr. Bass is an independent director.

Richard P. Beck has served as a Director of our company since February 2001. Mr. Beck is presently retired. From November 2001 to May 2002, Mr. Beck served as Senior Vice President of Advanced Energy Industries, Inc., a publicly held manufacturer of power conversion systems and integrated technology solutions. From February 1998 to November 2001, Mr. Beck served as Senior Vice President and Chief Financial Officer of Advanced Energy Industries and continues to serve as a director of that company, and is the chairman of its audit committee and chairman of its nominating and governance committee. From March 1992 until February 1998, Mr. Beck served as Vice President and Chief Financial Officer of Advanced Energy. From November 1987 to March 1992, Mr. Beck served as Executive Vice President and Chief Financial Officer for Cimage Corporation, a computer software company. Mr. Beck holds a Bachelor of Science degree in Accounting and Finance and a Master of Business Administration from Babson College. Our board of directors has determined that Mr. Beck is an independent director and an audit committee financial expert as described in applicable Securities and Exchange Commission rules.

Thomas T. Edman has served as a Director of our company since September 2004. Since July 2006, Mr. Edman has served as Vice President of Corporate Business Development of Applied Materials, Inc., a publicly held provider of nanomanufacturing technology solutions. Prior to that, Mr. Edman served as President and Chief Executive Officer of Applied Films Corporation from May 1998 until Applied Materials, Inc. acquired Applied Films Corporation in July 2006. From June 1996 until May 1998, Mr. Edman served as Chief Operating Officer and Executive Vice President of Applied Films Corporation. From 1993 until joining Applied Films, he served as General Manager of the High Performance Materials Division of Marubeni Specialty Chemicals, Inc., a subsidiary of a major Japanese trading corporation. Mr. Edman serves on the Governing Board of the USDC (United States Display Consortium). Mr. Edman holds a Bachelor of Arts degree in East Asian studies (Japan) from Yale University and a Master s degree in Business Administration from The Wharton School at the University of Pennsylvania. Our board of directors has determined that Mr. Edman is an independent director.

John G. Mayer has served as a Director of our company since September 2000. Mr. Mayer is presently retired. From January 1997 to November 1999, Mr. Mayer served as Vice President of Tyco Printed Circuit Group, Inc., a printed circuit board manufacturer. Mr. Mayer served as Chief Operating Officer of ElectroStar, Inc., previously a publicly held printed circuit board manufacturing company, from December 1994 to December 1996. From April 1986 to November 1994, Mr. Mayer served as President of Electro-Etch Circuits, Inc., a predecessor company to ElectroStar, Inc. Mr. Mayer holds a Bachelor of Arts degree in History, the Arts and Letters from Yale University and a Juris Doctor from UCLA School of Law. Our board of directors has determined that Mr. Mayer is an independent director.

There are no family relationships among any of our directors or executive officers.

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Information Relating to Corporate Governance and the Board of Directors

A majority of the members of our board of directors are independent. Our board of directors has determined, after considering all the relevant facts and circumstances, that Messrs. Bass, Beck, Edman, Klatell, and Mayer are independent directors, as independence is defined by the listing standards of the Nasdaq Stock Market, or Nasdaq, and by the Securities and Exchange Commission, or the SEC.

Our bylaws authorize our board of directors to appoint among its members one or more committees, each consisting of one or more directors. Our board of directors has established three standing committees: an audit committee, a compensation committee, and a nominating and corporate governance committee. Each of our committees is comprised entirely of independent directors, as independence is defined by the listing standards of Nasdaq and by the SEC. Our board of directors holds executive sessions following all in-person board meetings at which the independent directors meet without the presence or participation of management.

Our board of directors has adopted charters for the audit, compensation, and nominating and corporate governance committees describing the authority and responsibilities delegated to the committee by the board of directors. Our board of directors has also adopted corporate governance guidelines, a whistle blower policy, and a code of ethics for our chief executive officer and senior financial officers. We post on our website, at *www.ttmtechnologies.com*, the charters of our audit, compensation, and nominating and corporate governance committees; our corporate governance guidelines; our whistle blower policy; our code of ethics for our chief executive officer and senior financial officers, and any amendments or waivers thereto; and any other corporate governance materials contemplated by SEC or Nasdaq regulations. These documents are also available in print to any stockholder requesting a copy in writing from our corporate secretary at 2630 South Harbor Boulevard, Santa Ana, California 92704.

Interested parties may communicate with our board of directors or specific members of our board of directors, including the members of our various board committees, by submitting a letter addressed to the board of directors of TTM Technologies, Inc. c/o any specified individual director or directors at 2630 South Harbor Boulevard, Santa Ana, California 92704. We will forward any such letters to the indicated directors.

Meetings of the Board of Directors

Our board of directors held six meetings during the year ended December 31, 2008. All of our directors attended more than 75% of the aggregate of (i) total number of meetings of the board of directors held during fiscal year 2008, and (ii) the total number of meetings held by all committees of our board of directors on which such person served during 2008. We have adopted a policy encouraging each of our directors to attend each annual meeting of stockholders and, to the extent reasonably practicable, we regularly schedule a meeting of the board of directors on the same day as the annual meeting of stockholders.

Committees of the Board of Directors

Audit Committee. Our audit committee reviews and monitors our corporate financial reporting and our external audit, including, among other things, our internal control functions, the results and scope of the annual audit, and other services provided by our independent registered public accounting firm and our compliance with legal requirements that have a significant impact on our financial reports. Our audit committee also consults with our management and our independent registered public accounting firm regarding the preparation of financial statements and, as appropriate, initiates inquiries into aspects of our financial affairs. In addition, our audit committee has the responsibility to consider and recommend the appointment of, and to pre-approve services provided by, and fee arrangements with, our independent registered public accounting firm. The current members of our audit committee are Messrs. Bass, Beck, and Mayer, each of whom is an independent director of our company under Nasdaq listing standards as well as under rules adopted by the SEC pursuant to the Sarbanes-Oxley Act of 2002. The board of directors has determined that Mr. Beck, who serves as chairman of our audit committee, qualifies as an audit committee financial expert in accordance with applicable rules and regulations of the SEC. Our audit committee held eight meetings during 2008.

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Nominating and Corporate Governance Committee. The nominating and corporate governance committee oversees the structure, compensation, and composition of our board of directors and oversees the management continuity planning processes. It establishes, monitors, and recommends the purpose, structure, and operations of the various committees of our board of directors, the criteria and qualifications for membership of each board committee, and recommends whether rotations or term limits are appropriate for the chair or committee members of the various committees. In addition, the nominating and corporate governance committee recommends individuals to stand for election as directors and recommends directors to serve on each committee as a member or as chair of the committee. Finally, the nominating and corporate governance committee reviews and makes recommendations regarding our governing documents (including our certificate of incorporation and bylaws) and our corporate governance principles.

The nominating and corporate governance committee will consider persons recommended by stockholders for inclusion as nominees for election to our board of directors if the names, biographical data, and qualifications of such persons are submitted in writing in a timely manner addressed and delivered to our company s secretary at 2630 South Harbor Boulevard, Santa Ana, California 92704. The nominating and corporate governance committee identifies and evaluates nominees for our board of directors, including nominees recommended by stockholders, based on numerous factors it considers appropriate, some of which may include strength of character, mature judgment, career specialization, relevant technical skills, diversity, and the extent to which the nominee would fill a present need on our board of directors. The nominating and corporate governance committee currently consists of three members, Messrs. Klatell (chairman), Beck, and Bass. The nominating and corporate governance committee held five meetings during 2008.

Compensation Committee. The compensation committee provides a general review of our compensation and benefit plans to ensure that they meet our corporate objectives. The compensation committee reviews and recommends our chief executive officer s compensation to our board of directors. In addition, our compensation committee reviews our chief executive officer s recommendations on compensation of our other officers, and recommends adopting and changing major compensation policies and practices to our board of directors for approval and authorization. The compensation committee may, from time to time, delegate any or all of its responsibilities to a subcommittee consisting solely of independent directors.

In discharging its responsibilities, our compensation committee is empowered to investigate any matter of concern that it deems appropriate and has the sole authority, without seeking approval from the entire board of directors, to retain outside consultants for this purpose, including the authority to approve any terms of retention. Additional information regarding the role of compensation consultants and executive officers in assisting our compensation committee in determining the amount or form of executive compensation may be found in Compensation Discussion and Analysis below. The compensation committee also administers our equity incentive plans and is currently comprised of Messrs. Edman (chairman), Klatell, and Mayer. The compensation committee held five meetings during 2008.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the amount of each class of common stock beneficially owned as of January 31, 2009, by (a) each of our directors and named executive officers, (b) all of our directors and current executive officers as a group, and (c) each person known by us to own beneficially more than five percent of our outstanding common stock.

	Shares Beneficially Owned	
Name of Beneficial Owner (1)	**Number**	**Percent (2)**
Directors and Named Executive Officers:		
Kenton K. Alder (3)	536,188	1.2%
Steven W. Richards (4)	122,839	*
Douglas L. Soder (5)	52,074	*
O. Clay Swain(6)	214,507	*
Shane S. Whiteside (7)	214,943	*
James K. Bass (8)	42,667	*
Richard P. Beck (9)	43,667	*
Thomas T. Edman (8)	26,667	*
Robert E. Klatell (8)	26,667	*
John G. Mayer (8)	42,667	*
All directors and executive officers as a group (9 persons)	1,108,379	2.5%
5% Stockholders:		
Royce & Associates, LLC (10)	4,910,135	11.5%
Barclays Global Investors, NA (11)	3,316,097	7.7%
Wellington Management Company, LLP (12)	2,911,806	6.8%
Wells Fargo & Company (13)	2,340,611	5.5%
Fidelity Management & Research, LLC (14)	2,326,250	5.4%

* Represents less than 1% of our outstanding common stock.

(1) Except as otherwise indicated, the address of each person listed on the table is 2630 S. Harbor Blvd, Santa Ana, CA, 92704.

(2) We have determined beneficial ownership in accordance with the rules of the

SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included the shares of common stock subject to options, restricted stock units, and warrants held by that person that are currently exercisable or will become exercisable within 60 days after January 31, 2009, but we have not included those shares for purposes of computing percentage ownership of any other person. We have assumed unless otherwise indicated that the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws where

applicable. Beneficial ownership is based on 42,811,614 shares of our common stock outstanding as of January 31, 2009.

(3) Includes 1,500 shares held by Mr. Alder s children for which he disclaims beneficial ownership. Also includes 525,219 shares issuable upon the exercise of stock options that are currently vested or will become vested within 60 days after January 31, 2009 and upon the delivery of shares underlying restricted stock units deliverable within 60 days after January 31, 2009.

(4) Includes 120,339 shares issuable upon the exercise of stock options that are currently vested or will become vested within 60 days after January 31,

2009 and upon the delivery of shares underlying restricted stock units deliverable within 60 days after January 31, 2009.

(5) Represents shares issuable upon the exercise of stock options that are currently vested or will become vested within 60 days after January 31, 2009 and upon the delivery of shares underlying restricted stock units deliverable within 60 days after January 31, 2009.

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(6) Includes 213,507 shares issuable upon the exercise of stock options that are currently vested or will become vested within 60 days after January 31, 2009 and upon the delivery of shares underlying restricted stock units deliverable within 60 days after January 31, 2009. Although Mr. Swain was classified as a named executive officer for purposes of this proxy statement, because of his current role, he is no longer classified as an executive officer and therefore is not included in the calculation of the number of shares of stock held by our directors and executive officers as a group.

(7) Includes 206,943 shares issuable upon the exercise of stock options that are currently vested or will become vested within

60 days after January 31, 2009 and upon the delivery of shares underlying restricted stock units deliverable within 60 days after January 31, 2009.

(8) Represents shares issuable upon the exercise of stock options that are currently vested or will become vested within 60 days after January 31, 2009.

(9) Includes 38,667 shares issuable upon the exercise of stock options that are currently vested or will become vested within 60 days after January 31, 2009.

(10) Represents shares of our common stock held by Royce & Associates, LLC, referred to as Royce, in its capacity as investment advisor for its clients that have the right to receive or power to direct the receipt of

dividends from, or the proceeds from the sale of such shares. Such information is as reported on Schedule 13G/A filed by Royce with the SEC on January 30, 2009. The address for Royce is 1414 Avenue of the Americas, New York, New York 10019.

(11) Represents shares of our common stock held by Barclays Global Investors, NA and certain of its affiliates, referred to as Barclays. Such information is as reported on Schedule 13G filed by Barclays with the SEC on February 5, 2009. The address for Barclays is 400 Howard Street, San Francisco, California 94105.

(12) Represents shares of our common stock held by Wellington Management Company, LLP, referred to as Wellington, in its capacity as

investment advisor for its clients that have the right to receive or power to direct the receipt of dividends from, or the proceeds from the sale of such shares. Such information is as reported on Schedule 13G/A filed by Wellington with the SEC on February 17, 2009. The address for Wellington is 75 State Street, Boston, Massachusetts 02109

(13) Represents shares of our common stock held by Wells Fargo & Company, referred to as Wells Fargo, on behalf of itself and its affiliates. Such information is as reported on Schedule 13G filed by Wells Fargo with the SEC on January 29, 2009. The address for Wells Fargo is 420 Montgomery Street, San Francisco, CA 94163.

(14) Represents shares of our common stock held by Fidelity Management & Research, LLC, referred to as FMR LLC, on behalf of itself and its affiliates. Such information is as reported on Schedule 13G filed by FMR LLC with the SEC on February 17, 2009. The address for FMR LLC is 82 Devonshire Street, Boston, Massachusetts 02109.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors, officers, and persons who own more than 10% of a registered class of our securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Directors, officers, and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely upon our review of the copies of such forms that we received during the year ended December 31, 2008, and written representations that no other reports were required, we believe that each person who at any time during such year was a director, officer, or beneficial owner of more than 10% of our common stock complied with all Section 16(a) filing requirements during 2008.

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COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy and Objectives

Our executive compensation program, which is established by the compensation committee of our board of directors, is intended to attract, motivate, and retain executives and key employees and reward the creation of stockholder value. We seek to provide executive compensation packages that are competitive with other similarly situated companies in our industry and reward the achievement of short-term and long-term performance goals.

Prior to 2007, our general objective was to target total compensation (base salary plus annual cash bonus plus the value of long-term incentive awards), taken as a whole, at approximately the 50th percentile of comparable companies, with somewhat below market median levels of salary and somewhat above market median levels of bonus opportunity and long-term incentives. However, the implementation of this philosophy generally resulted in total compensation over time that was below market levels of pay. In addition, in October 2006 we acquired a substantial number of employees through the acquisition of Tyco Printed Circuit Group, or TPCG, which had a compensation philosophy that was different from us. As a result, our compensation committee and our board of directors reassessed and revised our compensation philosophy to enhance the effectiveness of our compensation programs and to assist in the integration of employees acquired through the TPCG acquisition. Our revised compensation philosophy generally targets salary, total cash compensation (base pay plus annual cash bonus), and total compensation each at the 50th percentile of comparable companies. However, our compensation committee s decisions on target compensation for specific individuals are also influenced by a variety of additional factors, including company and individual performance.

For 2009, our compensation committee has decided not to increase the target 2009 total compensation for any of our executive officers in light of the current economic downturn and the cost containment initiatives we have implemented in 2009, including wide spread salary freezes and the previously announced closure of our Redmond, Washington facility and reductions in force. The compensation committee has frozen the base salaries and target cash bonus awards and reduced stock-based compensation for our executive officers.

Role of the Compensation Committee

General. The compensation committee, which is comprised of three independent members of our board of directors, as discussed in greater detail under Information Relating to Corporate Governance and the Board of Directors is responsible for, among other things,

- the review and approval of our compensation philosophy;
- the review of all executive compensation plans and structures, including that of our executive officers and other members of senior management;
- the approval of individual compensation for our executive officers and other members of senior management, other than our chief executive officer;
- the review and recommendation of compensation for our chief executive officer to our board of directors;
- the approval of annual and long-term incentive performance metrics, as well as payouts thereunder; and
- the review of other executive benefit plans, including perquisites.

The compensation committee, in consultation with Pearl Meyer & Partners, the independent executive compensation consultant retained by our compensation committee, also analyzes the reasonableness of our overall executive compensation package.

While our chief executive officer and other executive officers may attend meetings of the compensation committee or our board of directors from time to time, the ultimate decisions regarding executive officer compensation are made solely by the members of our compensation committee or our

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board of directors. These decisions are based not only on our compensation committee s or the board of directors deliberations, but also from input requested from outside advisors, including our compensation committee s independent compensation consultant, with respect to, among other things, market data analyses. The final decisions relating to our chief executive officer s compensation are made in executive session by our board of directors without the presence of management. Decisions regarding the other executive officers are typically made by our compensation committee after considering recommendations from our chief executive officer.

Compensation Consultants. The compensation committee periodically engages the services of independent compensation consultants to provide advice in connection with making executive compensation determinations. The Chairman of our compensation committee, in consultation with the other members of our compensation committee, defines the scope of any consultant s engagement and related responsibilities. These responsibilities may include, among other things, advising on issues of executive compensation, equity compensation structure or preparing compensation disclosure for inclusion in our SEC filings. In fulfilling its responsibilities, the independent compensation consultants may interact with management or our other outside advisors to the extent necessary or appropriate.

The compensation committee retained Pearl Meyer & Partners as its independent compensation consultant for 2008. Pearl Meyer & Partners has not been retained to perform any consulting or advisory services for our management team.

Compensation Structure

Although the final structure may vary from year to year and officer to officer, our compensation committee utilizes three main components for executive officer compensation:

Base Salary fixed pay that takes into account an individual s duties and responsibilities, experience, expertise, and individual performance;

Annual Cash Bonus variable cash compensation that takes into account both our and the individual s performance; and

Long-Term Incentives stock-based awards, including stock options or restricted stock units that reflect the performance of our common stock and align executive officer and stockholder interests.

For 2008, the final level and mix of compensation was based on our compensation committee s understanding of the objective data relating to the competitive environment and our performance, as well as the subjective factors outlined below.

Pay Mix. In determining the allocation each year among current cash compensation, short-term cash compensation, and long-term equity incentive compensation our compensation committee considers the following factors: our short and long-term business objectives, competitive trends within our industry, and the importance of creating a performance-based environment that ties a significant portion of each executive officer s compensation to the achievement of performance targets and corporate objectives. When considering a proposed compensation package for an executive officer, our compensation committee considers the compensation package as a whole, including each element of total compensation.

The compensation committee believes that the particular elements of compensation identified above produce a well-balanced mix of stock-based compensation, retention value, and at-risk compensation that provide the executive officer with both short-term and long-term performance incentives. Base pay provides the executive officer with a measure of security as to the minimum level of compensation he or she will receive while the annual and long-term incentive components motivate the executive officer to focus on the business metrics that will produce a high level of company performance over the long-term. The compensation committee believes that this approach not only leads to increases in stockholder value and provides an appropriate reward for our executive officers, but also reduces the risk of loss of executive officers to competitors.

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The compensation committee believes the components of executive compensation should be weighted towards at-risk pay. The aggregate base pay for our executive officers comprised less than 35% of the value of the aggregate compensation opportunities (base pay, cash bonuses, long-term incentives, and other compensation) provided them for the 2008 fiscal year. This allocation is consistent with our compensation committee s overall pay-for-performance philosophy with respect to our executive officers, as defined under Executive Compensation Fiscal Year 2008 Summary Compensation Table.

Compensation Levels and Benchmarking. Overall compensation levels for executive officers are determined based on one or more of the following factors: the individual s duties and responsibilities within our company, the individual s experience and expertise, the compensation levels for the individual s peers within our company, compensation levels for similar positions in the industry or in the technology industry more generally, performance of the individual and our company as a whole, and the levels of compensation necessary to recruit new executive officers.

In order to determine competitive compensation practices, our compensation committee relies on compensation data provided by Pearl Meyer & Partners. The data is derived principally from surveys of compensation practices of comparable companies, including general survey data and data developed from public filings by selected companies that our compensation committee considers appropriate comparables for the purposes of developing executive compensation benchmarks. The selection of the comparable companies is reviewed by our compensation committee.

In computing salary changes, cash bonus opportunities, and long-term incentive awards for 2008, our compensation committee worked with its compensation consultant, with input from management, to develop a list of comparable companies for the purpose of benchmarking executive compensation. Numerous factors went into the selection of the comparable companies, including targeting businesses with operations in the electronic components industry with comparable financial measures, such as revenues (generally between $300 million and $900 million) and market capitalization (generally between $150 million and $1.5 billion). The following 19 companies, along with survey data, were used for benchmarking purposes:

§ Adaptec, Inc.

§ Advanced Energy Industries

§ Black Box Corporation

§ Ceradyne, Inc.

§ CTS Corporation

§ EMS Technologies, Inc.

§ Hutchinson Tech

§ Merix Corporation

§ Methode Electronics, Inc.

§ Multi-Fineline Electronix, Inc.

§ Netgear, Inc.

§ OSI Systems, Inc.

§ Newport Corporation

§ Plexus

§ Powerwave Technologies

§ RF Micro Devices, Inc.

§ SMART Modular Technologies

§ STEC, Inc.

§ Stone Ridge, Inc.

After consideration of the data collected on external competitive levels of compensation and each executive s role within the executive team, our compensation committee makes decisions regarding each individual executive s target total compensation opportunities based on company and individual performance and the need to attract, motivate, and retain an experienced and effective executive team. The compensation committee examines the relationship of each executive officer s base salary, target annual incentive opportunity, and long-term equity incentives to the comparable market data at the 50th and 75th percentiles. Total compensation for specific individuals will vary based on a number of factors in addition to company and individual performance, including scope of duties, tenure, institutional knowledge, and/or level of difficulty in recruiting a replacement executive.

In making compensation decisions for 2008 for our executive officers, our compensation committee s general objective was to set target salary, target total cash compensation (base pay plus annual cash bonus), and target total compensation (which includes the value of long-term equity awards) for these officers each at approximately the 50th percentile of the comparable market data. Actual compensation decisions for our executive officers were, however, influenced by a variety of additional factors, including considerations of each individual s experience and expertise, our performance, and horizontal equity among our executive officers.

In making compensation decisions for 2009, our compensation committee, its independent compensation consultant, and management reviewed the peer group to determine if any changes were appropriate. Among the peers, two companies no longer met the revenue criteria. As a result, Adaptec, Inc. and STEC, Inc. were removed from the peer group. Although our compensation committee s general objective remains to target total compensation for executive officers at approximately the 50th percentile, executive compensation decisions for 2009 were influenced significantly by the current economic downturn, our decision to implement a wide spread salary freeze, and our previously announced plant closure and reductions in force. Accordingly, our compensation committee did not increase the overall target compensation or any individual element of compensation for our executive officers for 2009.

The compensation committee intends to continue its practice of retaining executive compensation consultants from time to time, as our compensation committee deems appropriate, to advise our compensation committee with respect to its compensation policies and provide compensation data from comparable companies.

Individual Named Executive Officer Compensation

Total executive compensation is comprised of the following components:

***Base Salary for Fiscal Year 2008*:** Base salaries are set with regard to the level of the position within our company and the individual s current and sustained performance. The base salary levels, and any increases or decreases to those levels for each executive, are reviewed and approved each year by our compensation committee. Such adjustments may be based on factors such as the overall performance of our company, new roles and responsibilities assumed by the executive, the performance of the executive officer s area of responsibility, the executive officer s impact on strategic goals, the length of service with our company, or revisions to our compensation philosophy. However, there is no specific weighting applied to any one factor in setting the level of base salary, and the process ultimately relies on the subjective exercise of our compensation committee s judgment. Although salaries are generally targeted at market median, based on our peer group and relevant compensation survey data, our compensation committee may also take into account historical compensation, potential as a key contributor, and special recruiting situations. We believe that providing base salaries at or near the industry median will enable us to remain competitive for qualified executive officers while avoiding paying amounts in excess of what we believe necessary to attract and retain such executive officers.

Base pay deliberations for 2008 were conducted from November 2007 to February 2008. Mr. Alder, our chief executive officer, met with our compensation committee to present recommendations for each of the executive officers (other than himself). After reviewing the market study data and individual performance evaluations for each such executive officer and discussing them with Mr. Alder, our compensation committee approved the recommended base salary increases with some modifications, after determining that the increases were generally consistent with the intention to target the 50th percentile for the peer group, as adjusted to reflect each individual s past and expected contribution to our success.

Our compensation committee similarly reviewed the chief executive officer compensation market data as well as performance evaluations for Mr. Alder from his direct reports and members of our board of directors. The compensation committee ultimately recommended, and our board of directors approved, increasing the base salary for Mr. Alder in 2008 to approximately the 50th percentile for the peer group. The increases in base pay for the executive officers, including Mr. Alder, approved in February 2008, became effective for the pay period ending April 8, 2008. A summary of base salary increases made for fiscal year 2008 is outlined below for each of our chief executive officer, chief financial officer and three other most highly compensated executive officers who were serving as executive officers during 2008, which we refer to collectively as our named executive officers.

Name	Base Salary 2007	2008
Kenton K. Alder	$520,000	$586,000
Steven W. Richards	$270,000	$280,000
Shane S. Whiteside	$320,000	$345,000
Douglas L. Soder	$330,000	$345,000
O. Clay Swain	$195,000	$200,000

Base Salary for Fiscal Year 2009: Base pay deliberations during the 2009 fiscal year were conducted from November 2008 to February 2009 and followed a similar process as for fiscal year 2008. However, our compensation committee ultimately decided to freeze the base salaries for each of our executive officers (which in 2009 does not include Mr. Swain, who was classified as a named executive officer for purposes of this proxy statement but, because of his current role, is no longer classified as an executive officer).

Name	Base Salary 2008	2009
Kenton K. Alder	$586,000	$586,000
Steven W. Richards	$280,000	$280,000
Shane S. Whiteside	$345,000	$345,000
Douglas L. Soder	$345,000	$345,000

***Annual Cash Bonus Program*:** In addition to base salaries, our compensation committee believes that annual performance-based cash bonuses play an important role in providing incentives to our executive officers to achieve near-term performance goals. Each year, our compensation committee determines a target bonus amount for our management, including our executive officers. The target percentages are set at levels that, upon achievement of 100% of corporate and individual performance goals, are likely to result in bonus payments that our compensation committee believes to be at the median for target bonus amounts for comparable executives at peer companies. The compensation committee then reviews a detailed set of overall corporate and individual performance goals prepared by management for each executive officer (other than our chief executive officer). The compensation committee then sets the final corporate performance goals at a level our compensation committee believes are challenging, but reasonable, for management to achieve. Each year, the board of directors, upon recommendation of our compensation committee, establishes a target bonus amount for our chief executive officer as well as corporate performance goals. The bonus amount for our chief executive officer is similarly targeted at approximately the 50th percentile for the peer group.

At the end of each year, our compensation committee determines the level of achievement for each corporate and individual performance goal and awards credit for the achievement of goals as a percentage of the target bonus. Final determinations as to bonus levels are then based on the achievement of applicable corporate and individual goals, as well as a subjective evaluation of each executive as determined by our compensation committee. Actual bonuses are generally paid to the executives in the first quarter of the subsequent fiscal year.

***2008 Annual Cash Bonus Program*:** For 2008, our compensation committee established target bonus awards (as a percentage of base salary) of 55% (with a maximum of 120%) for Messrs. Richards, Soder, and Whiteside and a target bonus award (as a percentage of base salary) of 45% (with a maximum of 75%) for Mr. Swain. Our board of directors, upon recommendation by our compensation committee, established a target bonus award for Mr. Alder of 70% (with a maximum of 170%) of his base salary.

In 2008, the corporate goals identified by our compensation committee and our board of directors included achieving budgeted operating income of $66.8 million, after excluding any non-recurring extraordinary charges. The compensation committee believes operating income is a good indicator in

capturing our success given the market in which we compete and is a measure that management can easily track and communicate to employees throughout the performance period.

The compensation committee uses annual cash incentive compensation to reward our executives for company-wide performance by tying bonus awards to financial performance as well as specific personal and operational goals within the functional areas under their management. For Messrs. Richards, Soder, and Whiteside, 80% of their 2008 bonus was determined based on our 2008 budgeted operating income, 10% was based on individual performance goals and 10% was subject to our compensation committee s discretion. For Mr. Swain, 70% of his 2008 bonus was determined based on our 2008 budgeted operating income, 20% was based on individual performance goals and 10% was subject to our compensation committee s discretion. Our board of directors bases our chief executive officer s cash incentive bonus awards exclusively on our company-wide performance. Accordingly, 100% of Mr. Alder s bonus was determined based on our 2008 budgeted operating income. A summary of the performance opportunity and relative payout for each of our named executive officers is outlined below:

	2008	**Bonus Levels as % of Base Salary**			
Name	**Base Salary**	**50% of Target (1)**	**80% of Target**	**100% of Target**	**120% of Target (2)**
Kenton K. Alder	$586,000	10%	35.0%	70%	170%
Steven W. Richards	$280,000	10%	27.5%	55%	120%
Shane Whiteside	$345,000	10%	27.5%	55%	120%
Douglas L. Soder	$345,000	10%	27.5%	55%	120%
O. Clay Swain	$200,000	10%	22.5%	45%	75%

(1) Represents the percentage of 2008 base salary that the executive was eligible to receive (assuming applicable individual performance goals are met and discretionary portion is paid in full) if we achieve 50% of the operating income target established by our board of directors. Bonuses would not have been earned if

operating income had been less than 50% of target.

(2) Represents maximum potential bonus payout for 2008.

The individual performance component of the bonus is based on our compensation committee s subjective evaluation of the overall performance of each executive. The compensation committee reviews the executive s individual contributions and efforts during the year as well as recommendations of our chief executive officer.

For fiscal year 2008, we earned operating income of $73.5 million (after excluding one-time, non-recurring goodwill and long-lived asset impairment charges), or 110% of the target, resulting in a payout of 70% of base salary for each of our named executive officers (other than Mr. Alder, who received a payout of 120% of his base salary and Mr. Swain who received 42% of his base salary). The compensation committee determined that between 80% and 100% of the individual performance goals were achieved in 2008 for Messrs. Richards, Soder, Swain, and Whiteside as determined by our chief executive officer and our compensation committee. The compensation committee awarded 100% of the discretionary component of bonus to these named executive officers. Combined, bonus payments varied between 60% to 120% of their 2008 base salary for our named executive officers (other than Mr. Alder, whose entire bonus payment is tied to our corporate performance).

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Name	2008 Actual Bonus
Kenton K. Alder	$703,200
Steven W. Richards	$240,198
Shane S. Whiteside	$301,875
Douglas L. Soder	$301,513
O. Clay Swain	$120,000

2009 Annual Cash Bonus Program. The compensation committee determined that it would not increase the target bonuses for our executive officers for 2009, as described above. Accordingly, our compensation committee maintained the target bonus awards (as a percentage of base salary) of 55% for Messrs. Richards, Soder, and Whiteside. Our board of directors, upon recommendation by our compensation committee, similarly maintained the target bonus award of 70% of base salary for Mr. Alder. The compensation committee also maintained the maximum amounts payable, as a percentage of base salary, for each of our executive officers at the 2008 levels. Actual bonus payouts for 2009 performance will be determined by our compensation committee and our board or directors and paid in early 2010, and may be above or below target bonus levels.

In addition, our compensation committee believes that in light of the current economic downturn and our current stock price that the potential bonus payments for 2009 for our executive officers should be based solely on our company s financial performance, as measured by operating income. As a result, 100% of the 2009 bonus for Messrs. Richards, Soder, and Whiteside will be determined based on our operating income for 2009. The board of directors bases our chief executive officer s cash incentive bonus award exclusively on company-wide performance. Accordingly, 100% of Mr. Alder s bonus will be determined based on operating income.

The table below lists the 2009 base salaries and bonus levels for each of our executive officers.

Acceptances outstanding	13,339	40,335
Other liabilities	166,474	144,197
Total liabilities	12,305,350	11,506,348
Commitments and contingencies	-	-
Stockholders' Equity		
Common stock, $0.01 par value, 100,000,000 shares authorized, 87,090,319 issued and 78,879,676 outstanding at September 30, 2016, and 87,002,931 issued and 80,806,116 outstanding at December 31,	871	870

2015		
Additional paid-in-capital	886,081	880,822
Accumulated other comprehensive income/(loss), net	1,903	(8,426)
Retained earnings	1,144,173	1,059,660
Treasury stock, at cost (8,210,643 shares at September 30, 2016, and 6,196,815 shares at December 31, 2015)	(239,589)	(185,148)
Total equity	1,793,439	1,747,778
Total liabilities and equity	$ 14,098,789	$ 13,254,126

See accompanying notes to unaudited condensed consolidated financial statements

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands, except share and per share data)			
Interest and Dividend Income				
Loans receivable, including loan fees	$118,500	$109,943	$349,212	$315,038
Investment securities	4,850	6,142	16,974	15,262
Federal Home Loan Bank stock	393	524	1,122	2,782
Deposits with banks	412	258	1,094	1,105
Total interest and dividend income	124,155	116,867	368,402	334,187
Interest Expense				
Time deposits	10,701	10,407	32,177	28,321
Other deposits	4,212	3,217	11,783	9,010
Securities sold under agreements to repurchase	3,828	3,977	11,696	11,836
Advances from Federal Home Loan Bank	134	164	442	374
Long-term debt	1,456	1,456	4,336	4,320
Total interest expense	20,331	19,221	60,434	53,861
Net interest income before reversal for credit losses	103,824	97,646	307,968	280,326
Reversal for loan losses	-	(1,250)	(15,650)	(8,400)
Net interest income after reversal for credit losses	103,824	98,896	323,618	288,726
Non-Interest Income				
Securities gains/(losses), net	1,692	(16)	3,141	(3,369)
Letters of credit commissions	1,212	1,455	3,698	4,114
Depository service fees	1,401	1,409	4,109	4,003
Other operating income	4,506	6,308	14,461	18,576
Total non-interest income	8,811	9,156	25,409	23,324
Non-Interest Expense				
Salaries and employee benefits	22,881	20,725	71,313	67,804
Occupancy expense	4,734	4,412	13,587	12,419
Computer and equipment expense	2,337	3,893	7,360	8,783
Professional services expense	4,999	3,792	13,981	11,408
Data processing service expense	2,279	1,895	6,556	5,822
FDIC and State assessments	2,288	2,403	7,640	6,907
Marketing expense	1,516	1,436	3,314	3,577

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

See accompanying notes to unaudited condensed consolidated financial statements

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

Net cash used in investing activities	(856,404)	(658,857)
Cash Flows from Financing Activities		
Net increase in deposits	429,976	1,034,442
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(50,000)	(50,000)
Advances from Federal Home Loan Bank	2,730,000	4,842,000
Repayment of Federal Home Loan Bank borrowings	(2,305,000)	(5,192,000)
Cash dividends paid	(42,570)	(30,690)
Purchases of treasury stock	(54,441)	(50,701)
Proceeds from shares issued under Dividend Reinvestment Plan	1,643	3,636
Proceeds from exercise of stock options	49	3,433
Taxes paid related to net share settlement of RSUs	(103)	(204)
Excess tax short-fall from share-based payment arrangements	-	(5,602)
Net cash provided by financing activities	709,554	554,314
Increase in cash and cash equivalents	23,747	19,512
Cash and cash equivalents, beginning of the period	180,130	176,830
Cash and cash equivalents, end of the period	$203,877	$196,342
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	$61,212	$52,614
Income taxes paid	$31,717	$67,776
Non-cash investing and financing activities:		
Net change in unrealized holding gain on securities available-for-sale, net of tax	$13,927	$4,790
Net change in unrealized holding loss on cash flow hedge derivatives	$(3,598)	$(1,818)
Transfers of investment securities to available-for-sale from other assets	$-	$520
Transfers to other real estate owned from loans held for investment	$2,698	$3,914
Loans transferred from held for sale to held for investment, net	$1,351	$-
Loans to facilitate the sale of other real estate owned	$2,616	$-
Issuance of stock related to acquisition	$-	$82,857

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business

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

2. Basis of Presentation

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

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

3. Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

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

4. Earnings per Share

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

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

5. Stock-Based Compensation

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

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

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

	Shares	**Weighted-average Exercise Price**	**Weighted-average Remaining Contractual Life (in years)**	**Aggregate 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
Forfeited	(12,000)	38.26		
Balance, June 30, 2016	408,390	$ 23.37	1.6	$ 1,973
Exercised	-	-		
Forfeited	-	-		
Balance, September 30, 2016	408,390	$ 23.37	1.4	$ 3,026
Exercisable, September 30, 2016	408,390	$ 23.37	1.4	$ 3,026

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

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

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

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

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

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

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

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

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

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

6. Investment Securities

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

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

	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

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

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

[1] Equity securities are reported in this category

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

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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 September 30, 2016, and December 31, 2015:

	September 30, 2016 Temporarily impaired securities					
	Less than 12 months		**12 months or longer**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
	(in thousands)					
Securities Available-for-Sale						
U.S. treasury securities	$149,983	$ 24	$-	$ -	$149,983	$ 24
U.S. government sponsored entities	149,931	69	-	-	149,931	69
Mortgage-backed securities	44	1	265	1	309	2
Collateralized mortgage obligations	-	-	30	22	30	22
Corporate debt securities	-	-	54,063	937	54,063	937
Mutual funds	-	-	5,926	74	5,926	74
Preferred stock of government sponsored entities	2,528	188	-	-	2,528	188
Total	$302,486	$ 282	$60,284	$ 1,034	$362,770	$ 1,316

	December 31, 2015 Temporarily impaired securities					
	Less than 12 months		**12 months or longer**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
	(in thousands)					
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
	2,488	228	-	-	2,488	228

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

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

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

7. Loans

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

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

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

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

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

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

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

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

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

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

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

	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**
	(In thousands)						
Type of Loans:							
Commercial loans	$8,367	$221	$ -	$ 3,545	$12,133	$2,304,730	$2,316,863
Real estate construction loans	7,285	-	-	16,306	23,591	417,952	441,543
Commercial mortgage loans	2,243	2,223	-	25,231	29,697	5,271,521	5,301,218
Residential mortgage loans and equity lines	4,959	1,038	-	7,048	13,045	2,088,290	2,101,335
Installment and other loans	-	-	-	-	-	2,493	2,493
Total loans	$22,854	$3,482	$ -	$ 52,130	$78,466	$10,084,986	$10,163,452

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

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

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

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

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

	Three months ended September 30, 2015				**September 30, 2015**
	No. of Contracts	**Pre-Modification Outstanding Recorded**	**Post-Modification Outstanding Recorded**	**Charge-offs**	**Specific Reserve**

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

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

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

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

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

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

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September 30, 2016

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

December 31, 2015

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

December 31, 2015

Non-accrual TDRs	**Payment Deferral**	**Rate Reduction and**	**Total**

		Payment Deferral	
	(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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	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

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

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

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

Total balance	$2,316,863	$ 441,543	$5,301,218	$2,101,335	$ 2,493	$10,163,452

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The following tables detail activity in the allowance for loan losses by portfolio segment for the three months and nine months ended September 30, 2016, and September 30, 2015. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Three months ended September 30, 2016 and 2015

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

Nine months ended September 30, 2016 and 2015

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

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

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8. Commitments and Contingencies

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

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

9. Borrowed Funds

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

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

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

10. Income Taxes

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

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

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

11. Fair Value Measurements

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

Level 1 - Quoted prices in active markets for identical assets or liabilities.
Level 2 - Observable prices in active markets for similar assets or liabilities; prices for identical or similar assets or liabilities in markets that are not active; directly observable market inputs for substantially the full term of the asset and liability; market inputs that are not directly observable but are derived from or corroborated by observable market data.
Level 3 – Unobservable inputs based on the Company's own judgment about the assumptions that a market participant would use.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[(1)] Other real estate owned balance of $21.0 million in the condensed consolidated balance sheet

is net of estimated disposal costs.

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

[1] Other real estate owned balance of $24.7 million in the condensed consolidated balance sheet is net of estimated disposal costs.

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

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

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

12. Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

3 measurement.

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

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

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

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

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

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

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

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

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

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

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

	September 30, 2016		**December 31, 2015**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(In thousands)			
Financial Assets				
Cash and due from banks	$203,877	$203,877	$180,130	$180,130
Short-term investments	791,757	791,757	536,880	536,880
Securities available-for-sale	1,298,469	1,298,469	1,586,352	1,586,352
Loans held for sale	4,750	4,750	6,676	6,676
Loans, net	10,886,996	10,825,059	10,016,227	9,938,810
Investment in Federal Home Loan Bank stock	18,900	18,900	17,250	17,250
Warrants	75	75	62	62

	Notional Amount	**Fair Value**	**Notional Amount**	**Fair Value**
Foreign exchange contracts.	$107,064	$1,711	$100,602	$3,339

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
Deposits	$10,938,696	$10,946,853	$10,509,087	$10,509,879
Securities sold under agreements to repurchase	350,000	355,422	400,000	413,417
Advances from Federal Home Loan Bank	700,000	700,130	275,000	274,488
Other borrowings	17,705	15,903	18,593	16,684
Long-term debt	119,136	62,628	119,136	58,420

	Notional Amount	Fair Value	Notional Amount	Fair Value
Option contracts	$-	$-	$9,396	$28
Foreign exchange contracts	44,985	712	115,418	4,124
Interest rate swaps	477,479	15,186	459,416	6,496

	Notional Amount	Fair Value	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$1,950,756	$(5,844)	$1,971,848	$(5,570)
Standby letters of credit	74,612	(839)	49,081	(194)
Other letters of credit	31,331	(69)	38,131	(22)
Bill of lading guarantees	-	-	454	(1)

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The following tables present the level in the fair value hierarchy for the estimated fair values of financial instruments as of September 30, 2016, and December 31, 2015.

	September 30, 2016 Estimated Fair Value Measurements (In thousands)	Level 1	Level 2	Level 3
Financial Assets				
Cash and due from banks	$203,877	$203,877	$-	$-
Short-term investments	791,757	791,757	-	-
Securities available-for-sale	1,298,469	395,935	902,534	-
Loans held-for-sale	4,750	-	-	4,750
Loans, net	10,825,059	-	-	10,825,059
Investment in Federal Home Loan Bank stock	18,900	-	18,900	-
Warrants	75	-	-	75
Financial Liabilities				
Deposits	10,946,853	-	-	10,946,853
Securities sold under agreements to repurchase	355,422	-	355,422	-
Advances from Federal Home Loan Bank	700,130	-	700,130	-
Other borrowings .	15,903	-	-	15,903
Long-term debt	62,628	-	62,628	-

	December 31, 2015 Estimated Fair Value Measurements (In thousands)	Level 1	Level 2	Level 3
Financial Assets				
Cash and due from banks	$180,130	$180,130	$-	$-
Short-term investments	536,880	536,880	-	-
Securities available-for-sale	1,586,352	290,121	1,296,231	-
Loans held-for-sale	6,676	-	-	6,676
Loans, net	9,938,810	-	-	9,938,810
Investment in Federal Home Loan Bank stock	17,250	-	17,250	-
Warrants	62	-	-	62
Financial Liabilities				
Deposits	10,509,879	-	-	10,509,879
Securities sold under agreements to repurchase	413,417	-	413,417	-
Advances from Federal Home Loan Bank	274,488	-	-	274,488
Other borrowings	16,684	-	-	16,684
Long-term debt	58,420	-	58,420	-

13. Goodwill and Goodwill Impairment

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

The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The two-step impairment testing process, if needed, begins by assigning net assets and goodwill to our two reporting units—Commercial Lending and Retail Banking. The Company then completes "step one" of the impairment test by comparing the fair value of each reporting unit (as determined based on the discussion below) with the recorded book value (or "carrying amount") of its net assets, with goodwill included in the computation of the carrying amount. If the fair value of a reporting unit exceeds its carrying amount, goodwill of that reporting unit is not considered impaired, and "step two" of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, step two of the impairment test is performed to determine the amount of impairment. Step two of the impairment test compares the carrying amount of the reporting unit's goodwill to the "implied fair value" of that goodwill. The implied fair value of goodwill is computed by assuming that all assets and liabilities of the reporting unit would be adjusted to the current fair value, with the offset as an adjustment to goodwill. This adjusted goodwill balance is the implied fair value used in step two. An impairment charge is recognized for the amount by which the carrying amount of goodwill exceeds its implied fair value.

As of September 30, 2016, the Company's market capitalization was above book value and there was no triggering event that required the Company to assess goodwill for impairment as of an interim date.

14. Financial Derivatives

It is the policy of the Company not to speculate on the future direction of interest rates. However, the Company enters into financial derivatives in order to seek mitigation of exposure to interest rate risks related to our interest-earning assets and interest-bearing liabilities. We believe that these transactions, when properly structured and managed, may provide a hedge against inherent interest rate risk in the Company's assets or liabilities and against risk in specific transactions. In such instances, the Company may enter into interest rate swap contracts or other types of financial derivatives. Prior to considering any hedging activities, we seek to analyze the costs and benefits of the hedge in comparison to other viable alternative strategies. All hedges must be approved by the Bank's Investment Committee.

The Company follows ASC Topic 815 that establishes accounting and reporting standards for financial derivatives, including certain financial derivatives embedded in other contracts, and hedging activities. It requires the recognition of all financial derivatives as assets or liabilities in the Company's consolidated balance sheet and measurement of those financial derivatives at fair value. The accounting treatment of changes in fair value is dependent upon whether or not a financial derivative is designated as a hedge and, if so, the type of hedge. Fair value is determined using third-party models with observable market data. For derivatives designated as cash flow hedges, changes in fair value are recognized in other comprehensive income and are reclassified to earnings when the hedged transaction is

reflected in earnings. For derivatives designated as fair value hedges, changes in the fair value of the derivatives are reflected in current earnings, together with changes in the fair value of the related hedged item if there is a highly effective correlation between changes in the fair value of the interest rate swaps and changes in the fair value of the underlying asset or liability that is intended to be hedged. If there is not a highly effective correlation between changes in the fair value of the interest rate swap and changes in the fair value of the underlying asset or liability that is intended to be hedged, then only the changes in the fair value of the interest rate swaps are reflected in the Company's consolidated financial statements.

In May 2014, Bancorp entered into interest rate swap contracts in the notional amount of $119.1 million for a period of ten years. The objective of these interest rate swap contracts, which were designated as hedging instruments in cash flow hedges, was to hedge on Bancorp's $119.1 million of Junior Subordinated Debentures that had been issued to five trusts, with the quarterly interest payments throughout the ten-year period beginning in June 2014 and ending in June 2024, from the risk of variability of these payments resulting from changes in the three-month LIBOR interest rate. Bancorp pays a weighted average fixed interest rate of 2.61% and receives a variable interest rate of the three-month LIBOR at a weighted average rate of 0.85%. As of September 30, 2016, the notional amount of cash flow interest rate swaps was $119.1 million and their unrealized loss of $6.6 million, net of taxes, was included in other comprehensive income. The amount of periodic net settlement of interest rate swaps included in interest expense was $588,000 for the three months ended September 30, 2016 compared to $706,000 for the same quarter a year ago. For the nine months ended September 30, 2016, the periodic net settlement of interest rate swaps included in interest expense was $1.8 million compared to $2.1 million for the same period in 2015.

As of September 30, 2016, the Bank has entered into interest rate swap contracts with various terms from four to eight years. These interest rate swap contracts are matched to individual fixed-rate commercial real estate loans in the Bank's loan portfolio. These contracts have been designated as hedging instruments to hedge the risk of changes in the fair value of the underlying commercial real estate loan due to changes in interest rates. The swap contracts are structured so that the notional amounts reduce over time to match the contractual amortization of the underlying loan and allow prepayments with the same pre-payment penalty amounts as the related loan. The Bank pays a weighted average fixed rate of 4.63% and receives a variable rate at the one month LIBOR rate plus a weighted average spread of 318 basis points, or at a weighted average rate of 3.70%. As of September 30, 2016, the notional amount of fair value interest rate swaps was $358.3 million and their unrealized loss of $3.8 million was included in other non-interest income. The amount of periodic net settlement of interest rate swaps reducing interest income was $879,000 for the three months ended September 30, 2016, compared to $831,000 for the same quarter a year ago. The amount of periodic net settlement of interest rate swaps reducing interest income was $2.8 million for the nine months ended September 30, 2016, compared to $2.2 million for the same period a year ago. As of September 30, 2016, the ineffective portion of these interest rate swaps was not significant.

Interest rate swap contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have a strong credit profile and be approved by the Company's Board of Directors. The Company's credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. Bancorp's interest rate swaps have been assigned by the counterparties to a derivatives clearing organization and daily margin is indirectly maintained with the derivatives clearing organization. Cash posted as collateral by Bancorp related to derivative contracts totaled $14.8 million as of September 30, 2016.

The Company enters into foreign exchange forward contracts with various counterparties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit or foreign exchange contracts entered into with our clients. These contracts are not designated as hedging instruments and are recorded at fair value in our condensed consolidated balance sheets. Changes in the fair value of these contracts as well as the related foreign exchange certificates of deposit and foreign exchange contracts are recognized immediately in net income as a component of non-interest income. Period end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities. As of September 30, 2016, there were no option contracts outstanding. As of September 30, 2016, spot, forward, and swap contracts with a total notional amount of $107.1 million had a positive fair value of $1.7 million. Spot, forward, and swap contracts with a total notional amount of $45.0 million had a negative fair value of $712,000 as of September 30, 2016. As of December 31, 2015, the notional amount of option contracts totaled $9.4 million with a net negative fair value of $28,000. As of December 31, 2015, spot, forward, and swap contracts with a total notional amount of $100.6 million had a positive fair value of $3.3 million. Spot, forward, and swap contracts with a total notional amount of $115.4 million had a negative fair value of $4.1 million as of December 31, 2015.

15. Balance Sheet Offsetting

Certain financial instruments, including resell and repurchase agreements, securities lending arrangements and derivatives, may be eligible for offset in the condensed consolidated balance sheets and/or subject to master netting arrangements or similar agreements. The Company's securities sold with agreements to repurchase and derivative transactions with upstream financial institution counterparties are generally executed under International Swaps and Derivative Association master agreements which include "right of set-off" provisions. In such cases there is generally a legally enforceable right to offset recognized amounts and there may be an intention to settle such amounts on a net basis. Nonetheless, the Company does not generally offset such financial instruments for financial reporting purposes.

Financial instruments that are eligible for offset in the condensed consolidated balance sheets, as of September 30, 2016, and December 31, 2015, are presented in the following table:

				Gross Amounts Not Offset in the Balance Sheet		
	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Financial Instruments	Collateral Posted	Net Amount
	(In thousands)					
September 30, 2016						
Liabilities:						
Securities sold under agreements to repurchase	$350,000	$ -	$350,000	$-	$(350,000)	$ -
Derivatives	$15,186	$ -	$15,186	$-	$(15,186)	$ -
December 31, 2015						
Liabilities:						
Securities sold under agreements to repurchase	$400,000	$ -	$400,000	$-	$(400,000)	$ -
Derivatives	$6,496	$ -	$6,496	$-	$(6,496)	$ -

16. Stockholders' Equity

Total equity was $1.79 billion as of September 30, 2016, an increase of $45.7 million, from $1.75 billion as of December 31, 2015, primarily due to net income of $127.1 million and other comprehensive income of $10.3 million offset by purchases of treasury stock of $54.4 million and common stock cash dividends of $42.6 million.

Activity in accumulated other comprehensive income, net of tax, and reclassification out of accumulated other comprehensive income for the three months and nine months ended September 30, 2016, and September 30, 2015, was as follows:

	Three months ended September 30, 2016			Three months ended September 30, 2015		
	Pre-tax	Tax expense/ (benefit)	Net-of-tax	Pre-tax	Tax expense/ (benefit)	Net-of-tax
	(In thousands)					
Beginning balance, gain/(loss), net of tax						
Securities available-for-sale			$ 8,539			$ (1,125)
Cash flow hedge derivatives			(7,397)			(1,657)
Total			$ 1,142			$ (2,782)
Net unrealized gains/(losses) arising during the period						
Securities available-for-sale	$ 1,618	$ 680	$ 938	$ 4,717	$ 1,984	$ 2,733
Cash flow hedge derivatives	1,387	583	804	(4,413)	(1,855)	(2,558)
Total	3,005	1,263	1,742	304	129	$ 175
Reclassification adjustment for net (gains)/losses in net income						
Securities available-for-sale	(1,692)	(711)	(981)	16	6	10
Cash flow hedge derivatives	-	-	-	-	-	-
Total	(1,692)	(711)	(981)	16	6	10
Total other comprehensive income/(loss)						
Securities available-for-sale	(74)	(31)	(43)	4,733	1,990	2,743
Cash flow hedge derivatives	1,387	583	804	(4,413)	(1,855)	(2,558)
Total	$ 1,313	$ 552	$ 761	$ 320	$ 135	$ 185
Ending balance, gain/(loss), net of tax						
Securities available-for-sale			$ 8,496			$ 1,618
Cash flow hedge derivatives			(6,593)			(4,215)
Total			$ 1,903			$ (2,597)

	Nine months ended September 30, 2016			Nine months ended September 30, 2015		
	Pre-tax	Tax expense/ (benefit)	Net-of-tax	Pre-tax	Tax expense/ (benefit)	Net-of-tax
	(In thousands)					

Beginning balance, loss, net of tax						
Securities available-for sale			$ (5,431)			$ (3,172)
Cash flow hedge derivatives			(2,995)			(2,397)
Total			$ (8,426)			$ (5,569)
Net unrealized gains/(losses) arising during the period						
Securities available-for sale	$27,170	$ 11,422	$ 15,748	$4,895	$ 2,058	$ 2,837
Cash flow hedge derivatives	(6,208)	(2,610)	(3,598)	(3,137)	(1,319)	(1,818)
Total	20,962	8,812	12,150	1,758	739	$ 1,019
Reclassification adjustment for net (gains)/losses in net income						
Securities available-for sale	(3,141)	(1,320)	(1,821)	3,369	1,416	1,953
Cash flow hedge derivatives	-	-	-	-	-	-
Total	(3,141)	(1,320)	(1,821)	3,369	1,416	1,953
Total other comprehensive income/(loss)						
Securities available-for sale	24,029	10,102	13,927	8,264	3,474	4,790
Cash flow hedge derivatives	(6,208)	(2,610)	(3,598)	(3,137)	(1,319)	(1,818)
Total	$17,821	$ 7,492	$ 10,329	$5,127	$ 2,155	$ 2,972
Ending balance, gain/(loss), net of tax						
Securities available-for sale			$ 8,496			$ 1,618
Cash flow hedge derivatives			(6,593)			(4,215)
Total			$ 1,903			$ (2,597)

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17. Stock Repurchase Program

In February 2016, the Company completed the repurchase of the remaining 633,250 shares of its common stock under the August 2015 repurchase program, for $17.0 million, or a $26.82 average price per share.

On February 1, 2016, the Board of Directors of the Company adopted a new stock repurchase program to repurchase up to $45.0 million of the Company's common stock. In February 2016, the Company repurchased 1,380,578 shares of its common stock for $37.5 million, or a $27.13 average price per share under the February 2016 repurchase program. As of September 30, 2016, $7.5 million of the Company's common stock could be purchased in the future under the February 2016 repurchase program.

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

The following discussion is based on the assumption that the reader has access to and has read the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Critical Accounting Policies

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

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

Accounting for the allowance for loan losses involves significant judgments and assumptions by management, which have a material impact on the carrying value of net loans. The judgments and assumptions used by management are

based on historical experience and other factors, which are believed to be reasonable under the circumstances as described in “*Allowance for Credit Losses*” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Accounting for investment securities involves significant judgments and assumptions by management, which have a material impact on the carrying value of securities and the recognition of any “other-than-temporary” impairment to our investment securities. The judgments and assumptions used by management are described in “*Investment Securities*” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Accounting for income taxes involves significant judgments and assumptions by management, which have a material impact on the amount of taxes currently payable and the income tax expense recorded in the financial statements. The judgments and assumptions used by management are described in “*Income Taxes*” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Accounting for goodwill and goodwill impairment involves significant judgments and assumptions by management, which have a material impact on the amount of goodwill and noninterest expense recorded in the financial statements. The judgments and assumptions used by management are described in "*Goodwill and Goodwill Impairment*" under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Highlights

Diluted earnings per share increased 23.4% to $0.58 per share for the third quarter of 2016 compared to $0.47 per share for the same quarter a year ago.

Total loans increased $487.4 million for the quarter, or 18.5% annualized, to $11.0 billion compared to $10.5 billion at June 30, 2016.

Quarterly Statement of Operations Review

Net Income

Net income for the quarter ended September 30, 2016, was $46.1 million, an increase of $7.6 million, or 19.8%, compared to net income of $38.5 million for the same quarter a year ago. Diluted earnings per share for the quarter ended September 30, 2016, was $0.58 compared to $0.47 for the same quarter a year ago.

Return on average stockholders' equity was 10.30% and return on average assets was 1.38% for the quarter ended September 30, 2016, compared to a return on average stockholders' equity of 8.80% and a return on average assets of 1.23% for the same quarter a year ago. The increase is primarily due to the $11.7 million decrease in amortization of investments in alternative energy partnerships.

Financial Performance

	Three months ended September 30,	
	2016	2015
Net income (million)	$46.1	$38.5
Basic earnings per common share	$0.58	$0.47
Diluted earnings per common share	$0.58	$0.47
Return on average assets	1.38 %	1.23 %
Return on average total stockholders' equity	10.30%	8.80 %
Efficiency ratio	45.05%	53.81%

Net Interest Income Before Provision for Credit Losses

Net interest income before provision for credit losses increased $6.2 million, or 6.3%, to $103.8 million during the third quarter of 2016 compared to $97.6 million during the same quarter a year ago. The increase was due primarily to an increase in interest income from loans, partially offset by an increase in interest expense from time and other deposits.

The net interest margin was 3.36% for the third quarter of 2016 and 3.37% for the third quarter of 2015. The decrease in the net interest margin for the third quarter of 2016 from 3.38% in the second quarter of 2016, was primarily due to lower interest recoveries and prepayment penalties during the third quarter of 2016.

For the third quarter of 2016, the yield on average interest-earning assets was 4.02%, the cost of funds on average interest-bearing liabilities was 0.89%, and the cost of interest-bearing deposits was 0.70%. In comparison, for the third quarter of 2015, the yield on average interest-earning assets was 4.03%, the cost of funds on average interest-bearing liabilities was 0.87%, and the cost of interest-bearing deposits was 0.67%. The net interest spread, defined as the difference between the yield on average interest-earning assets and the cost of funds on average interest-bearing liabilities, was 3.13% for the quarter ended September 30, 2016, compared to 3.16% for the same quarter a year ago.

The following table sets forth information concerning average interest-earning assets, average interest-bearing liabilities, and the average yields and rates paid on those assets and liabilities for the three months ended September 30, 2016, and 2015. Average outstanding amounts included in the table are daily averages.

Interest-Earning Assets and Interest-Bearing Liabilities

	Three months ended September 30,					
	2016			2015		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)
Interest earning assets:						
Commercial loans	$2,203,278	$21,277	3.84 %	$2,411,560	$22,651	3.73 %
Residential mortgage loans	2,381,931	26,038	4.37	1,936,100	21,835	4.51
Commercial mortgage loans	5,579,186	63,888	4.56	5,110,278	59,652	4.63
Real estate construction loans	502,943	7,279	5.76	392,579	5,779	5.84
Other loans and leases	2,915	18	2.46	4,933	26	2.09
Total loans and leases (1)	10,670,253	118,500	4.42	9,855,450	109,943	4.43
Taxable securities	1,303,598	4,850	1.48	1,488,655	6,142	1.64
Federal Home Loan Bank stock	17,268	393	9.05	17,250	524	12.05
Interest bearing deposits	294,292	412	0.56	149,153	258	0.69
Total interest-earning assets	12,285,411	124,155	4.02	11,510,508	116,867	4.03
Non-interest earning assets:						
Cash and due from banks	223,925			223,295		
Other non-earning assets	884,006			866,217		
Total non-interest earning assets	1,107,931			1,089,512		
Less: Allowance for loan losses	(123,609)			(153,762)		
Deferred loan fees	(6,348)			(9,977)		
Total assets	$13,263,385			$12,436,281		
Interest bearing liabilities:						
Interest bearing demand accounts	$1,060,065	$441	0.17	$880,209	$367	0.17
Money market accounts	2,117,831	3,511	0.66	1,721,394	2,616	0.60
Savings accounts	627,912	260	0.16	632,466	235	0.15
Time deposits	4,651,593	10,701	0.92	4,868,908	10,406	0.85
Total interest-bearing deposits	8,457,401	14,913	0.70	8,102,977	13,624	0.67
Securities sold under agreements to repurchase	378,261	3,828	4.03	400,000	3,977	3.94
Other borrowings	107,203	134	0.50	114,998	164	0.57
Long-term debt	119,136	1,456	4.86	119,136	1,456	4.85
Total interest-bearing liabilities	9,062,001	20,331	0.89	8,737,111	19,221	0.87
Non-interest bearing liabilities:						
Demand deposits	2,254,123			1,795,938		

Other liabilities	167,409			168,083		
Total equity	1,779,852			1,735,149		
Total liabilities and equity	$13,263,385			$12,436,281		
Net interest spread			3.13 %			3.16 %
Net interest income		$103,824			$97,646	
Net interest margin			3.36 %			3.37 %

(1) Yields and amounts of interest earned include loan fees. Non-accrual loans are included in the average balance.
(2) Calculated by dividing net interest income by average outstanding interest-earning assets.

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

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

(In thousands)	Three months ended September 30, 2016-2015 Increase (Decrease) in Net Interest Income Due to:		
	Changes in Volume	Changes in Rate	Total Change
Interest-earning assets:			
Loans and leases	$8,753	$(196)	$8,557
Taxable securities	(730)	(562)	(1,292)
Federal Home Loan Bank stock	1	(132)	(131)
Deposits with other banks	210	(56)	154
Total changes in interest income	8,234	(946)	7,288
Interest-bearing liabilities:			
Interest bearing demand accounts	74	-	74
Money market accounts.	636	259	895
Savings accounts	(2)	27	25
Time deposits	(483)	778	295
Securities sold under agreements to repurchase	(226)	77	(149)
Other borrowed funds	(11)	(19)	(30)
Total changes in interest expense	(12)	1,122	1,110
Changes in net interest income	$8,246	$(2,068)	$6,178

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

to volume and changes due to rate.

Reversal for Credit Losses

Reversal for credit losses was zero for the third quarter of 2016 compared to $1.3 million for the third quarter of 2015. This was based on a review of the appropriateness of the allowance for loan losses at September 30, 2016. A provision or reversal for credit losses represents a charge against or benefit toward current earnings that is determined by management, through a credit review process, as the amount needed to establish an allowance that management believes to be sufficient to absorb credit losses inherent in the Company’s loan portfolio, including unfunded commitments. The following table summarizes the charge-offs and recoveries for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Charge-offs:				
Commercial loans	$3,278	$3,310	$12,035	$6,754
Real estate loans [1]	4,626	97	5,830	3,774
Total charge-offs	7,904	3,407	17,865	10,528
Recoveries:				
Commercial loans	$2,006	606	3,720	3,084
Construction loans	548	41	7,871	163
Real estate loans [1]	343	648	903	4,336
Total recoveries	2,897	1,295	12,494	7,583
Net charge-offs	$5,007	$2,112	$5,371	$2,945

[1] Real estate loans include commercial mortgage loans, residential mortgage loans, and equity lines.

Non-Interest Income

Non-interest income, which includes revenues from depository service fees, letters of credit commissions, securities gains (losses), gains (losses) on loan sales, wire transfer fees, and other sources of fee income, was $8.8 million for the third quarter of 2016, a decrease of $400,000, or 3.8%, compared to $9.2 million for the third quarter of 2015.

Non-Interest Expense

Non-interest expense decreased $6.8 million, or 11.7%, to $50.7 million in the third quarter of 2016 compared to $57.5 million in the same quarter a year ago. The decrease in non-interest expense in the third quarter of 2016 was primarily due to decreases of $11.7 million in amortization of investments in alternative energy partnerships. The efficiency ratio was 45.05% in the third quarter of 2016 compared to 53.81% for the same quarter a year ago.

Income Taxes

The effective tax rate for the third quarter of 2016 was 25.5% compared to 23.9% for the third quarter of 2015. The effective tax rate includes the impact of the utilization of low income housing tax credits and alternative energy tax credits.

Year-to-Date Statement of Operations Review

Net income for the nine months ended September 30, 2016, was $127.1 million, an increase of $7.4 million, or 6.2%, compared to net income of $119.7 million for the same period a year ago. Diluted earnings per share was $1.59 compared to $1.48 per share for the same period a year ago. The net interest margin for the nine months ended September 30, 2016, was 3.39% compared to 3.43% for the same period a year ago.

Return on average stockholders' equity was 9.66% and return on average assets was 1.29% for the nine months ended September 30, 2016, compared to a return on average stockholders' equity of 9.56% and a return on average assets of 1.36% for the same period of 2015. The efficiency ratio for the nine months ended September 30, 2016, was 51.35% compared to 49.13% for the same period a year ago.

The following table sets forth information concerning average interest-earning assets, average interest-bearing liabilities, and the average yields and rates paid on those assets and liabilities for the nine months ended September 30, 2016, and 2015. Average outstanding amounts included in the table are daily averages.

Interest-Earning Assets and Interest-Bearing Liabilities

	Nine months ended September 30,					
	2016			2015		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)	Average Balance	Interest Income/ Expense	Average Yield/ Rate (1)(2)
Interest earning assets:						
Commercial loans	$2,248,025	$65,244	3.88 %	$2,417,306	$68,969	3.81 %
Residential mortgage loans	2,260,806	75,128	4.43	1,837,912	62,731	4.55
Commercial mortgage loans	5,477,646	186,567	4.55	4,810,426	167,646	4.66
Real estate construction loans	479,235	22,227	6.20	355,520	15,619	5.87
Other loans and leases	2,616	46	2.35	4,541	73	2.15
Total loans and leases [1]	10,468,328	349,212	4.46	9,425,705	315,038	4.47
Taxable securities	1,384,019	16,974	1.64	1,337,791	15,262	1.53
Federal Home Loan Bank stock	17,256	1,122	8.69	22,905	2,782	16.24
Interest bearing deposits	272,690	1,094	0.54	147,206	1,105	1.00
Total interest-earning assets	12,142,293	368,402	4.05	10,933,607	334,187	4.09
Non-interest earning assets:						
Cash and due from banks	215,415			202,080		
Other non-earning assets	891,974			798,587		
Total non-interest earning assets	1,107,389			1,000,667		
Less: Allowance for loan losses	(133,232)			(157,939)		
Deferred loan fees	(7,225)			(10,736)		
Total assets	$13,109,225			$11,765,599		
Interest bearing liabilities:						
Interest bearing demand accounts	$1,013,129	$1,256	0.17	$838,976	$1,025	0.16
Money market accounts	2,020,725	9,768	0.65	1,634,848	7,340	0.60
Savings accounts	626,200	759	0.16	582,632	646	0.15
Time deposits	4,752,938	32,177	0.90	4,541,376	28,320	0.83
Total interest-bearing deposits	8,412,992	43,960	0.70	7,597,832	37,331	0.66
Securities sold under agreements to repurchase	392,701	11,696	3.98	401,099	11,836	3.95
Other borrowings	119,348	442	0.49	118,091	374	0.42
Long-term debt	119,136	4,336	4.86	119,136	4,320	4.85
Total interest-bearing liabilities	9,044,177	60,434	0.89	8,236,158	53,861	0.87
Non-interest bearing liabilities:						
Demand deposits	2,131,742			1,710,823		

Other liabilities	175,714				144,664		
Total equity	1,757,592				1,673,954		
Total liabilities and equity	$13,109,225				$11,765,599		
Net interest spread			3.16	%			3.22	%
Net interest income		$307,968				$280,326		
Net interest margin			3.39	%			3.43	%

(1) Yields and amounts of interest earned include loan fees. Non-accrual loans are included in the average balance.
(2) Calculated by dividing net interest income by average outstanding interest-earning assets.

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

Taxable-Equivalent Net Interest Income — Changes Due to Volumn and Rate[(1)]

(Dollars in thousands)	Nine months ended September 30, 2016-2015 Increase (Decrease) in Net Interest Income Due to:		
	Changes in Volume	Changes in Rate	Total Change
Interest-earning assets:			
Loans and leases	$ 35,069	$ (895)	$ 34,174
Taxable securities	545	1,167	1,712
Federal Home Loan Bank stock	(575)	(1,085)	(1,660)
Deposits with other banks	661	(672)	(11)
Total changes in interest income	35,700	(1,485)	34,215
Interest-bearing liabilities:			
Interest bearing demand accounts	217	14	231
Money market accounts	1,839	589	2,428
Savings accounts	51	62	113
Time deposits	1,369	2,488	3,857
Securities sold under agreements to repurchase	(242)	102	(140)
Other borrowed funds	4	64	68
Long-term debt	-	16	16
Total changes in interest expense	3,238	3,335	6,573
Changes in net interest income	$ 32,462	$ (4,820)	$ 27,642

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

to changes due to volume and changes due to rate.

Balance Sheet Review

Assets

Total assets were $14.10 billion as of September 30, 2016, an increase of $844.7 million, or 6.4%, from $13.25 billion as of December 31, 2015, primarily due to a $847.0 million increase in loans and a $254.9 million increase in short-term investments and interest bearing deposits offset by a $287.9 million decrease in securities available-for-sale.

Investment Securities

Investment securities represented 9.2% of total assets as of September 30, 2016, compared to 12.0% of total assets as of December 31, 2015. The carrying value of investment securities as of September 30, 2016, was $1.30 billion compared to $1.59 billion as of December 31, 2015. Securities available-for-sale are carried at fair value and had a net unrealized gain, net of tax, of $8.5 million as of September 30, 2016, compared to a net unrealized loss, net of tax, of $5.4 million as of December 31, 2015.

The following tables reflect the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of investment securities as of September 30, 2016, and December 31, 2015:

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

	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

For additional information, see Note 6 to the Company’s condensed consolidated financial statements presented elsewhere in this report.

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

Loans

Gross loans, excluding loans held for sale, were $11.0 billion at September 30, 2016, an increase of $847.0 million, or 8.3%, from $10.2 billion at December 31, 2015, primarily due to increases of $442.8 million, or 8.4%, in commercial mortgage loans, $397.0 million, or 20.5%, in residential mortgage loans, and $73.7 million, or 16.7%, in real estate construction loans partially offset by decreases of $67.9 million, or 2.9%, in commercial loans. The following table sets forth the classification of loans by type, mix, and percentage change as of the dates indicated:

	September 30, 2016	% of Gross Loans		December 31, 2015	% of Gross Loans		% Change	
	(Dollars in thousands)							
Type of Loans								
Commercial loans	$2,248,996	20.4	%	$2,316,863	22.8	%	(2.9	%)
Residential mortgage loans	2,329,402	21.2		1,932,355	19.0		20.5	
Commercial mortgage loans	5,743,991	52.2		5,301,218	52.2		8.4	
Equity lines	170,022	1.5		168,980	1.7		0.6	
Real estate construction loans	515,236	4.7		441,543	4.3		16.7	
Installment and other loans	2,810	0.0		2,493	0.0		12.7	
Gross loans	$11,010,457	100	%	$10,163,452	100	%	8.3	%
Allowance for loan losses	(117,942)			(138,963)			(15.1	)
Unamortized deferred loan fees	(5,519)			(8,262)			(33.2	)
Total loans, net	$10,886,996			$10,016,227			8.7	%
Loans held for sale	$4,750			$6,676			(28.8	%)

Non-performing Assets

Non-performing assets include loans past due 90 days or more and still accruing interest, non-accrual loans, and other real estate owned (“OREO”). The Company’s policy is to place loans on non-accrual status if interest and/or principal is past due 90 days or more, or in cases where management deems the full collection of principal and interest unlikely. After a loan is placed on non-accrual status, any previously accrued but unpaid interest is reversed and charged against current income and subsequent payments received are generally first applied towards the outstanding principal balance of the loan. Depending on the circumstances, management may elect to continue the accrual of interest on certain past due loans if partial payment is received and/or the loan is well collateralized and in the process of collection. The loan

is generally returned to accrual status when the borrower has brought the past due principal and interest payments current and, in the opinion of management, the borrower has demonstrated the ability to make future payments of principal and interest as scheduled.

Management reviews the loan portfolio regularly for problem loans. During the ordinary course of business, management becomes aware of borrowers that may not be able to meet the contractual requirements of the loan agreements. Such loans are placed under closer supervision with consideration given to placing the loans on non-accrual status, the need for an additional allowance for loan losses, and (if appropriate) partial or full charge-off.

The ratio of non-performing assets, excluding non-accrual loans held for sale, to total assets was 0.5% at September 30, 2016, compared to 0.6% at December 31, 2015. Total non-performing assets decreased $11.5 million, or 15.0%, to $65.3 million at September 30, 2016, compared to $76.8 million at December 31, 2015, primarily due to a decrease of $7.7 million, or 14.9%, in non-accrual loans and a decrease of $3.8 million, or 15.0%, in OREO.

As a percentage of gross loans plus OREO, our non-performing assets was 0.59% as of September 30, 2016, compared to 0.75% as of December 31, 2015. The non-performing portfolio loan coverage ratio, defined as the allowance for credit losses to non-performing loans, increased to 270.9% as of September 30, 2016, from 269.4% as of December 31, 2015.

The following table presents the changes in non-performing assets and troubled debt restructurings ("TDRs") as of September 30, 2016, compared to December 31, 2015, and to September 30, 2015:

(Dollars in thousands)	September 30, 2016	December 31, 2015	% Change	September 30, 2015	% Change
Non-performing assets					
Accruing loans past due 90 days or more	$-	$-	-	$2,573	(100)
Non-accrual loans:					
Construction loans	5,507	16,306	(66)	16,579	(67)
Commercial mortgage loans	21,077	25,231	(16)	33,214	(37)
Commercial loans	9,251	3,545	161	14,758	(37)
Residential mortgage loans	8,524	7,048	21	6,690	27
Total non-accrual loans:	$44,359	$52,130	(15)	$71,241	(38)
Total non-performing loans	44,359	52,130	(15)	73,814	(40)
Other real estate owned	20,986	24,701	(15)	26,326	(20)
Total non-performing assets	$65,345	$76,831	(15)	$100,140	(35)
Accruing troubled debt restructurings	$86,555	$81,680	6	$89,881	(4)
Non-accrual loans held for sale	$4,750	$5,944	(20)	$-	100
Allowance for loan losses	$117,942	$138,963	(15)	$150,076	(21)
Total gross loans outstanding, at period-end [1]	$11,010,457	$10,163,452	8	$10,039,932	10
Allowance for loan losses to non-performing loans, at period-end [2]	265.88 %	266.57 %		203.32 %	
Allowance for loan losses to gross loans, at period-end [1]	1.07 %	1.37 %		1.49 %	

[1] Excludes loans held for sale at period-end.
[2] Excludes non-accrual loans held for sale at period-end.

Non-accrual Loans

At September 30, 2016, total non-accrual loans were $44.4 million, a decrease of $26.8 million, or 37.7%, from $71.2 million at September 30, 2015, and a decrease of $7.7 million, or 14.9%, from $52.1 million at December 31, 2015. The allowance for the collateral-dependent loans is calculated based on the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals, sales contracts, or other available market price information. The allowance for collateral-dependent loans varies from loan to loan based on the collateral

coverage of the loan at the time of designation as non-performing. We continue to monitor the collateral coverage of these loans, based on recent appraisals, on a quarterly basis and adjust the allowance accordingly. Non-accrual loans also include those TDRs that do not qualify for accrual status.

The following tables present the type of properties securing the non-accrual portfolio loans and the type of businesses the borrowers engaged in as of the dates indicated:

	September 30, 2016		**December 31, 2015**	
	Real Estate [1]	**Commercial**	**Real Estate** [1]	**Commercial**
	(In thousands)			
Type of Collateral				
Single/multi-family residence	$9,471	$ -	$8,727	$ -
Commercial real estate	20,728	2,416	30,588	834
Land	4,909	-	9,270	-
Personal property (UCC)	-	6,835	-	2,711
Total	$35,108	$ 9,251	$48,585	$ 3,545

[1] Real estate includes commercial mortgage loans, real estate construction loans, residential mortgage loans and equity lines.

	September 30, 2016		**December 31, 2015**	
	Real Estate [1]	**Commercial**	**Real Estate** [1]	**Commercial**
	(In thousands)			
Type of Business				
Real estate development	$10,004	$ -	$29,174	$ 834
Wholesale/Retail	17,174	3,597	13,414	780
Food/Restaurant	156	-	293	-
Import/Export	-	4,422	-	1,931
Other	7,774	1,232	5,704	-

Total	$35,108	$ 9,251	$48,585	$ 3,545

[1] Real estate includes commercial mortgage loans, real estate construction loans, residential mortgage loans and equity lines.

Other Real Estate Owned

As of September 30, 2016, OREO totaled $21.0 million, which decreased $3.7 million, or 15.0%, compared to $24.7 million as of December 31, 2015, and increased $5.3 million, or 20.3%, compared to $26.3 million as of September 30, 2015.

Impaired Loans

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement based on current circumstances and events. The assessment for impairment occurs when and while such loans are on non-accrual as a result of delinquency status of over 90 days or receipt of information indicating that full collection of principal is doubtful, or when the loan has been restructured in a troubled debt restructuring. Those loans with a balance less than our defined selection criteria, generally a loan amount less than $500,000, are treated as a homogeneous portfolio. If loans meeting the defined criteria are not collateral dependent, we measure the impairment based on the present value of the expected future cash flows discounted at the loan's effective interest rate. If loans meeting the defined criteria are collateral dependent, we measure the impairment by using the loan's observable market price or the fair value of the collateral. We obtain an appraisal to determine the amount of impairment at the date that the loan becomes impaired. The appraisals are based on "as is" or bulk sale valuations. To ensure that appraised values remain current, we generally obtain an updated appraisal every twelve months from qualified independent appraisers. If the fair value of the collateral, less cost to sell, is less than the recorded amount of the loan, we then recognize impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses. If an impaired loan is expected to be collected through liquidation of the collateral, the amount of impairment, excluding disposal costs, which range

between 3% to 6% of the fair value, depending on the size of the impaired loan, is charged off against the allowance for loan losses. Non-accrual impaired loans, including TDRs, are not returned to accrual status unless the unpaid interest has been brought current and full repayment of the recorded balance is expected or if the borrower has made six consecutive monthly payments of the scheduled amounts due, and TDRs are reviewed for continued impairment until they are no longer reported as TDRs.

As of September 30, 2016, recorded investment in impaired loans totaled $130.9 million and was comprised of non-accrual loans of $44.4 million and accruing TDRs of $86.6 million. As of December 31, 2015, recorded investment in impaired loans totaled $133.8 million and was comprised of non-accrual loans of $52.1 million and accruing TDRs of $81.7 million. For impaired loans, the amounts previously charged off represent 7.7% as of September 30, 2016, and 22.4% as of December 31, 2015, of the contractual balances for impaired loans. As of September 30, 2016, $35.1 million, or 79.1%, of the $44.4 million of non-accrual loans, excluding loans held for sale, was secured by real estate compared to $48.6 million, or 93.2%, of the $52.1 million of non-accrual loans, excluding loans held for sale, that was secured by real estate as of December 31, 2015. The Bank obtains current appraisals, sales contracts, or other available market price information which provide updated factors in evaluating potential loss.

As of September 30, 2016, $2.9 million of the $117.9 million allowance for loan losses was allocated for impaired loans and $115.0 million was allocated to the general allowance. As of December 31, 2015, $7.8 million of the $139.0 million allowance for loan losses was allocated for impaired loans and $131.2 million was allocated to the general allowance.

The allowance for loan losses to non-accrual loans decreased to 265.9% as of September 30, 2016, from 266.6% as of December 31, 2015, primarily due to a decrease in the allowance for loan losses. Non-accrual loans also include those TDRs that do not qualify for accrual status.

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

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

Loan Interest Reserves

In accordance with customary banking practice, construction loans and land development loans are originated where interest on the loan is disbursed from pre-established interest reserves included in the total original loan commitment. Our construction and land development loans generally include optional renewal terms after the maturity of the initial loan term. New appraisals are obtained prior to extension or renewal of these loans in part to determine the appropriate interest reserve to be established for the new loan term. Loans with interest reserves are underwritten to the same criteria, including loan to value and, if applicable, pro forma debt service coverage ratios, as loans without interest reserves. Construction loans with interest reserves are monitored on a periodic basis to gauge progress towards completion. Interest reserves are frozen if it is determined that additional draws would result in a loan to value ratio that exceeds policy maximums based on collateral property type. Our policy limits in this regard are consistent with supervisory limits and range from 65% in the case of land to 85% in the case of one to four family residential construction projects.

As of September 30, 2016, construction loans of $465.5 million were disbursed with pre-established interest reserves of $56.1 million compared to $371.4 million of such loans disbursed with pre-established interest reserves of $49.5 million at December 31, 2015. The balance for construction loans with interest reserves which have been extended was $120.1 million with pre-established interest reserves of $3.7 million at September 30, 2016, compared to $67.8 million with pre-established interest reserves of $2.6 million at December 31, 2015. Land loans of $49.5 million were disbursed with pre-established interest reserves of $1.5 million at September 30, 2016, compared to $87.3 million land loans disbursed with pre-established interest reserves of $1.8 million at December 31, 2015. The balance for land loans with interest reserves which have been extended was $1.3 million at September 30, 2016 with pre-established interest reserves of $42,000 compared to $73.2 million land loans with pre-established interest reserves of $1.3 million at December 31, 2015.

At September 30, 2016, the Bank had no loans on non-accrual status with available interest reserves. At September 30, 2016, $5.5 million of non-accrual non-residential construction loans and $9.7 million of non-accrual land loans had been originated with pre-established interest reserves. At December 31, 2015, the Bank had no loans on non-accrual status with available interest reserves. At December 31, 2015, $0.5 million of non-accrual residential construction loans, $15.8 million of non-accrual non-residential construction loans, and $13.9 million of non-accrual land loans had been originated with pre-established interest reserves. While loans with interest reserves are typically expected to be repaid in full according to the original contractual terms, some loans require one or more extensions beyond the original maturity. Typically, these extensions are required due to construction delays, delays in the sale or lease of property, or some combination of these two factors.

Loan Concentration

Most of the Company's business activities are with customers located in the predominantly Asian 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 collateralized with real property or other pledged collateral of the borrowers. Loans are generally expected to be paid off from the operating profits of the borrowers, refinancing by another lender, or through sale by the borrowers of the collateral. There were no loan concentrations to multiple borrowers in similar activities which exceeded 10% of total loans as of September 30, 2016, or as of December 31, 2015.

The federal banking regulatory agencies issued final guidance on December 6, 2006, regarding risk management practices for financial institutions with high or increasing concentrations of commercial real estate ("CRE") loans on their balance sheets. The regulatory guidance reiterates the need for sound internal risk management practices for those institutions that have experienced rapid growth in CRE lending, have notable exposure to specific types of CRE, or are approaching or exceeding the supervisory criteria used to evaluate the CRE concentration risk, but the guidance is not to be construed as a limit for CRE exposure. The supervisory criteria are: (1) total reported loans for construction, land development, and other land represent 100% of the institution's total risk-based capital, and (2) both total CRE loans represent 300% or more of the institution's total risk-based capital and the institution's CRE loan portfolio has increased 50% or more within the last thirty-nine months. Total loans for construction, land development, and other land represented 38.6% of the Bank's total risk-based capital as of September 30, 2016, and 35.8% as of December 31, 2015. Total CRE loans represented 304% of total risk-based capital as of September 30, 2016, and 286% as of December 31, 2015 and were below the Bank's internal limit for CRE loans of 400% of total capital at both dates.

Allowance for Credit Losses

The Bank maintains the allowance for credit losses at a level that is considered appropriate to absorb the estimated and known risks in the loan portfolio and off-balance sheet unfunded credit commitments. Allowance for credit losses is comprised of the allowance for loan losses and the reserve for off-balance sheet unfunded credit commitments. With this risk management objective, the Bank’s management has an established monitoring system that is designed to identify impaired and potential problem loans, and to permit periodic evaluation of impairment and the appropriate level of the allowance for credit losses in a timely manner.

In addition, the Bank’s Board of Directors has established a written credit policy that includes a credit review and control system which it believes should be effective in ensuring that the Bank maintains an appropriate allowance for credit losses. The Board of Directors provides oversight for the allowance evaluation process, including quarterly evaluations, and determines whether the allowance is appropriate to absorb losses in the credit portfolio. The determination of the amount of the allowance for credit losses and the provision for credit losses 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 credit losses. The nature of the process by which the Bank determines the appropriate allowance for credit losses requires the exercise of considerable judgment. Additions to the allowance for credit losses are made by charges to the provision for credit losses. While management utilizes its best judgment based on the information available, the ultimate appropriateness of the allowance is dependent upon a variety of factors beyond the Bank’s control, including the performance of the Bank’s loan portfolio, the economy, changes in interest rates, and the view of the regulatory authorities toward loan classifications. Identified credit exposures that are determined to be uncollectible are charged against the allowance for credit losses. Recoveries of previously charged off amounts, if any, are credited to the allowance for credit losses. A weakening of the economy or other factors that adversely affect asset quality could result in an increase in the number of delinquencies, bankruptcies, or defaults, and a higher level of non-performing assets, net charge-offs, and provision for credit losses in future periods.

The allowance for loan losses was $117.9 million and the allowance for off-balance sheet unfunded credit commitments was $2.2 million at September 30, 2016, which represented the amount believed by management to be appropriate to absorb credit losses inherent in the loan portfolio, including unfunded commitments. The $117.9 million allowance for loan losses at September 30, 2016, decreased $21.1 million, or 15.1%, from $139.0 million at December 31, 2015. The allowance for loan losses represented 1.07% of period-end gross loans, excluding loans held for sale, and 265.9% of non-performing loans at September 30, 2016. The comparable ratios were 1.37% of period-end gross loans, excluding loans held for sale, and 266.6% of non-performing loans at December 31, 2015. The following table sets forth information relating to the allowance for loan losses, charge-offs, recoveries, and the reserve for off-balance sheet credit commitments for the periods indicated:

	Three months ended September 30,		**Nine months ended September 30,**	
	2016	**2015**	**2016**	**2015**
Allowance for loan losses	**(Dollars in thousands)**			
Balance at beginning of period	$122,948	$153,437	$138,963	$161,420
Reversal for credit losses .	-	(1,250)	(15,650)	(8,400)
Transfers to reserve for off-balance sheet credit commitments	-	1	-	1
Charge-offs :				
Commercial loans	(3,278)	(3,310)	(12,036)	(6,754)
Real estate loans	(4,625)	(97)	(5,829)	(3,774)
Total charge-offs	(7,903)	(3,407)	(17,865)	(10,528)
Recoveries:				
Commercial loans	2,006	606	3,720	3,084
Construction loans	548	41	7,871	163
Real estate loans	343	648	903	4,336
Total recoveries	2,897	1,295	12,494	7,583
Balance at end of period	$117,942	$150,076	$117,942	$150,076
Reserve for off-balance sheet credit commitments				
Balance at beginning of period	$2,124	$1,574	$1,494	$1,949
Provision/(reversal) for credit losses	100	(153)	730	(528)
Balance at end of period	$2,224	$1,421	$2,224	$1,421
Average loans outstanding during the period [(1)].	$10,668,341	$9,857,196	$10,466,764	$9,426,293
Total gross loans outstanding, at period-end [(1)]	$11,010,457	$10,039,932	$11,010,457	$10,039,932
Total non-performing loans, at period-end [(2)]	$44,359	$73,814	$44,359	$73,814
Ratio of net charge-offs to average loans outstanding during the period [(1)]	0.19%	0.09%	0.07%	0.04%

Provision for credit losses to average loans outstanding during the period [1]	0.00 %	(0.06%)	(0.19%)	(0.13%)
Allowance for credit losses to non-performing loans, at period-end [2]	270.89 %	205.24 %	270.89 %	205.24 %
Allowance for credit losses to gross loans, at period-end [1]	1.09 %	1.51 %	1.09 %	1.51 %

(1) Excluding loans held for sale.
(2) Excluding non-accrual loans held for sale.

Our allowance for loan losses consists of the following:

- Specific allowance: For impaired loans, we provide specific allowances for loans that are not collateral dependent based on an evaluation of the present value of the expected future cash flows discounted at the loan's effective interest rate and for loans that are collateral dependent based on the fair value of the underlying collateral determined by the most recent valuation information received, which may be adjusted based on factors such as changes in market conditions from the time of valuation. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses or, alternatively, a specific allocation will be established.

- General allowance: The unclassified portfolio is segmented on a group basis. Segmentation is determined by loan type and common risk characteristics. The non-impaired loans are grouped into 19 segments: two commercial segments, ten commercial real estate segments, one residential construction segment, one non-residential construction segment, one SBA segment, one installment loans segment, one residential mortgage segment, one equity lines of credit segment, and one overdrafts segment. The allowance is provided for each segmented group based on the group's historical loan loss experience aggregated based on loan risk classifications which take into account the current financial condition of the borrowers and guarantors, the prevailing value of the underlying collateral if collateral dependent, charge-off history, management's knowledge of the portfolio, general economic conditions, environmental factors including the trends in delinquency and non-accrual, and other significant factors, such as the national and local economy, volume and composition of the portfolio, strength of management and loan staff, underwriting standards, and concentration of credit. In addition, management reviews reports on past-due loans to ensure appropriate classification.

The table set forth below reflects management's allocation of the allowance for loan losses by loan category and the ratio of each loan category to the average gross loans as of the dates indicated:

	September 30, 2016			December 31, 2015		
	Amount	Percentage of Loans in Each Category to Average Gross Loans		Amount	Percentage of Loans in Each Category to Average Gross Loans	
	(Dollars in thousands)					
Type of Loan:						
Commercial loans	$53,699	21.5	%	$56,199	24.9	%
Residential mortgage loans [(1)]	10,057	21.6		11,145	19.7	
Commercial mortgage loans	44,933	52.3		49,440	51.5	
Real estate construction loans	9,245	4.6		22,170	3.9	
Installment and other loans	8	0.0		9	0.0	
Total	$117,942	100	%	$138,963	100	%

(1) Residential mortgage loans includes equity lines.

The allowance allocated to real estate construction loans decreased from $22.2 million as of December 31, 2015, to $9.2 million as of September 30, 2016, which was primarily due to updated loss factors, recoveries of $7.9 million in the first nine months of 2016 and a decrease in the amount of loans classified as substandard. The overall allowance for total construction loans was 1.8% as of September 30, 2016, and 3.1% as of December 31, 2015.

The allowance allocated to commercial loans was $53.7 million at September 30, 2016, compared to $56.2 million at December 31, 2015. The decrease is due primarily to updated loss factors.

The allowance allocated to commercial mortgage loans decreased $4.5 million to $44.9 million at September 30, 2016, from $49.4 million at December 31, 2015, as a result of reduced historical loan loss experience for commercial mortgage loans.

The allowance allocated for residential mortgage loans decreased $1.0 million, or 8.8%, to $9.8 million as of September 30, 2016, compared to $10.1 million as of December 31, 2015.

Deposits

Total deposits were $10.9 billion at September 30, 2016, an increase of $700 million, or 6.8%, from $10.2 billion at September 30, 2015, and an increase of $430 million, or 4.1% from $10.5 billion at December 31, 2015. The following table displays the deposit mix as of the dates indicated:

Deposits	September 30, 2016	% of Total	December 31, 2015	% of Total
	(Dollars in thousands)			
Non-interest-bearing demand deposits	$2,246,661	20.5 %	$2,033,048	19.4 %
Interest bearing demand deposits	1,073,436	9.8	966,404	9.2
Money market deposits	2,131,190	19.5	1,905,719	18.1
Savings deposits	633,345	5.8	618,164	5.9
Time deposits	4,854,064	44.4	4,985,752	47.4
Total deposits	$10,938,696	100.0%	$10,509,087	100.0%

The following table shows the maturity distribution of time deposits, as of September 30, 2016:

	At September 30, 2016		
	Time Deposits -under $100,000	**Time Deposits - $100,000 and over**	**Total Time Deposits**
	(In thousands)		
Less than three months	$632,895	$1,553,263	$2,186,158
Three to six months	200,056	585,738	785,794
Six to twelve months	266,166	955,799	1,221,965
Over one year	217,494	442,653	660,147
Total	$1,316,611	$3,537,453	$4,854,064
Percent of total deposits	12.1 %	32.3 %	44.4 %

Borrowings

Borrowings include federal funds purchased, securities sold under agreements to repurchase, funds obtained as advances from the Federal Home Loan Bank (“FHLB”) of San Francisco, and borrowings from other financial institutions.

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

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

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

Long-term Debt

Long-term debt was $119.1 million as of September 30, 2016, compared to $119.1 million as of December 31, 2015. Long-term debt is comprised of Junior Subordinated Notes, which qualify as Tier I capital for regulatory purposes, issued in connection with our various pooled trust preferred securities offerings.

Off-Balance-Sheet Arrangements and Contractual Obligations

The following table summarizes the Company's contractual obligations to make future payments as of September 30, 2016. Payments for deposits and borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts.

	Payment Due by Period				
	1 year or less	**More than 1 year but less than 3 years**	**3 years or more but less than 5 years**	**5 years or more**	**Total**
	(In thousands)				
Contractual obligations:					
Deposits with stated maturity dates	$4,193,917	$656,761	$3,375	$11	$4,854,064
Securities sold under agreements to repurchase [1]	200,000	-	-	-	200,000
Securities sold under agreements to repurchase [2]	50,000	100,000	-	-	150,000
Advances from the Federal Home Loan Bank	675,000	25,000	-	-	700,000
Other borrowings	-	-	-	17,705	17,705
Long-term debt	-	-	-	119,136	119,136
Operating leases	8,565	13,017	6,938	8,465	36,985
Total contractual obligations and other commitments	$5,127,482	$794,778	$10,313	$145,317	$6,077,890

[1] These repurchase agreements have a final maturity of 10-years from origination date but are callable on a quarterly basis after one year.
[2] These repurchase

agreements
are
non-callable.

In the normal course of business, we enter into various transactions, which, in accordance with U.S. generally accepted accounting principles, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the condensed consolidated balance sheets.

Loan Commitments. We enter into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of our commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. We minimize our exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for credit losses.

Standby Letters of Credit. Standby letters of credit are written conditional commitments issued by us to secure the obligations of a customer to a third party. In the event the customer does not perform in accordance with the terms of an agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek reimbursement from the customer. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

Capital Resources

Total equity was $1.79 billion as of September 30, 2016, an increase of $45.7 million, from $1.75 billion as of December 31, 2015, primarily due to net income of $127.1 million and other comprehensive income of $10.3 million offset by purchases of treasury stock of $54.4 million and common stock cash dividends of $42.6 million.

The following table summarizes changes in total equity for the nine months ended September 30, 2016:

(In thousands)	Nine months ended September 30, 2016
Net income	$ 127,084
Stock issued to directors	550
Stock options exercised	49
Proceeds from shares issued through the Dividend Reinvestment Plan	1,643
Shares withheld related to net share settlement of RSUs	(103)
Net tax short-fall from stock-based compensation expense	(134)
Share-based compensation	3,254
Other comprehensive income	10,329
Purchase of treasury stock	(54,441)
Cash dividends paid to common stockholders	(42,570)
Net increase in total equity	$ 45,661

Capital Adequacy Review

Management seeks to maintain the Company's capital at a level sufficient to support future growth, protect depositors and stockholders, and comply with various regulatory requirements.

Both Bancorp's and the Bank's regulatory capital continued to exceed the regulatory minimum requirements under Basel III rules that became effective January 1, 2015, with transitional provisions as of September 30, 2016. In addition, the capital ratios of the Bank place it in the "well capitalized" category, which is defined as institutions with a common equity tier 1 capital ratio equal to or greater than 6.5%, a Tier 1 risk-based capital ratio equal to or greater than 8%, a total risk-based capital ratio equal to or greater than 10%, and a Tier 1 leverage capital ratio equal to or greater than 5%.

The following table presents Bancorp's and the Bank's capital and leverage ratios as of September 30, 2016, and December 31, 2015:

	Cathay General Bancorp				Cathay Bank			
	September 30, 2016		December 31, 2015		September 30, 2016		December 31, 2015	
(Dollars in thousands)	Balance	%	Balance	%	Balance	%	Balance	%
Common equtiy Tier 1 capital (to risk-weighted assets)	$1,418,573	12.64	$1,383,377	12.95	$1,479,539	13.22	$1,443,159	13.54
Common equtiy Tier 1 capital minimum requirement	504,845	4.50	480,830	4.50	503,684	4.50	479,801	4.50
Excess	$913,728	8.14	$902,547	8.45	$975,855	8.72	$963,358	9.04
Tier 1 capital (to risk-weighted assets)	$1,534,028	13.67	$1,498,810	14.03	$1,479,539	13.22	$1,443,159	13.54
Tier 1 capital minimum requirement	673,127	6.00	641,107	6.00	671,578	6.00	639,735	6.00
Excess	$860,901	7.67	$857,703	8.03	$807,961	7.22	$803,424	7.54
Total capital (to risk-weighted assets)	$1,657,746	14.78	$1,634,631	15.30	$1,599,705	14.29	$1,576,525	14.79
Total capital minimum requirement	897,502	8.00	854,809	8.00	895,438	8.00	852,980	8.00
Excess	$760,244	6.78	$779,822	7.30	$704,267	6.29	$723,545	6.79
Tier 1 capital (to average assets) – Leverage ratio	$1,534,028	11.91	$1,498,810	11.95	$1,479,539	11.52	$1,443,159	11.53
Minimum leverage requirement	515,283	4.00	501,875	4.00	513,622	4.00	500,455	4.00
Excess	$1,018,745	7.91	$996,935	7.95	$965,917	7.52	$942,704	7.53
Risk-weighted assets	$11,218,777		$10,685,115		$11,192,971		$10,662,248	
Total average assets [(1)]	$12,882,078		$12,546,879		$12,840,543		$12,511,382	

[(1)] The quarterly total average assets reflect all debt securities at amortized cost, equity securities

with readily determinable fair values at the lower of cost or fair value, and equity securities without readily determinable fair values at historical cost.

In July 2013, the federal bank regulatory agencies adopted final regulations which revised their risk-based and leverage capital requirements for banking organizations to meet requirements of the Dodd-Frank Act and to implement international agreements reached by the Basel Committee on Banking Supervision that were intended to improve both the quality and quantity of banking organizations' capital ("Basel III"). Although many of the rules contained in these final regulations are applicable only to large, internationally active banks, some of them will apply on a phased-in basis to all banking organizations, including Bancorp and the Bank.

The following are among the new requirements that are being phased in beginning January 1, 2015:

- An increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets.
- A new category and a required 4.50% of risk-weighted assets ratio is established for "common equity Tier 1" as a subset of Tier 1 capital limited to common equity.
- A minimum non-risk-based leverage ratio is set at 4.00%, eliminating a 3.00% exception for higher rated banks.
- Changes in the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets, and to include unrealized gains and losses on available-for-sale debt and equity securities.
- A new additional capital conservation buffer of 2.5% of risk-weighted assets over each of the required capital ratios that will be phased in from 2016 to 2019 and must be met to avoid limitations in the ability of the Company to pay dividends, repurchase shares, or pay discretionary bonuses.

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- The risk-weights of certain assets for purposes of calculating the risk-based capital ratios are changed for high volatility commercial real estate acquisition, development, and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures.

- An additional “countercyclical capital buffer” is required for larger and more complex institutions.

Dividend Policy

Holders of common stock are entitled to dividends as and when declared by our Board of Directors out of funds legally available for the payment of dividends. Although we have historically paid cash dividends on our common stock, we are not required to do so. The amount of future dividends will depend on our earnings, financial condition, capital requirements and other factors, and will be determined by our Board of Directors. Our Board of Directors increased the common stock dividend to $0.14 per share in June 2015, and $0.18 per share in December 2015. The terms of our Junior Subordinated Notes also limit our ability to pay dividends.

The Company declared a cash dividend of $0.18 per share on 78,863,064 shares outstanding on September 1, 2016, for distribution to holders of our common stock on September 12, 2016, on 78,844,500 shares outstanding on June 1, 2016, for distribution to holders of our common stock on June 13, 2016, and on 78,794,528 shares outstanding on March 1, 2016, for distribution to holders of our common stock on March 11, 2016. Total cash dividends of $42.6 million were paid during the first nine months of 2016.

Country Risk Exposures

The Company’s total assets were $14.1 billion and total foreign country risk net exposures were $516.1 million as of September 30, 2016. Total foreign country risk net exposures as of September 30, 2016, were comprised primarily of $300.1 million from Hong Kong, $78.4 million from China, $34.5 million from Germany, $29.3 million from Australia, $24.8 million from France, $20.0 million from the Philippines, $13.9 million from Singapore, $5.4 million from Macau, $4.7 million from England, $1.1 million from Indonesia, $1.1 million from Switzerland, $1.0 million from Japan, and $0.8 million from Taiwan. Risk is determined based on location of the borrowers, issuers, and counterparties.

All foreign country risk net exposures as of September 30, 2016 were to non-sovereign counterparties, except $14.3 million due from the Hong Kong Monetary Authority.

Unfunded loans to foreign entities exposures were $20.1 million as of September 30, 2016, primarily due to a $20.0 million unfunded loan to a financial institution in China

Financial Derivatives

It is the policy of the Company not to speculate on the future direction of interest rates. However, the Company enters into financial derivatives in order to seek mitigation of exposure to interest rate risks related to our interest-earning assets and interest-bearing liabilities. We believe that these transactions, when properly structured and managed, may provide a hedge against inherent interest rate risk in the Company’s assets or liabilities and against risk in specific transactions. In such instances, the Company may enter into interest rate swap contracts or other types of financial derivatives. Prior to considering any hedging activities, we seek to analyze the costs and benefits of the hedge in comparison to other viable alternative strategies. All hedges must be approved by the Bank’s Investment Committee.

The Company follows ASC Topic 815 that establishes accounting and reporting standards for financial derivatives, including certain financial derivatives embedded in other contracts, and hedging activities. It requires the recognition of all financial derivatives as assets or liabilities in the Company’s consolidated balance sheet and measurement of those financial derivatives at fair value. The accounting treatment of changes in fair value is dependent upon whether or not a financial derivative is designated as a hedge and, if so, the type of hedge. Fair value is determined using third-party models with observable market data. For derivatives designated as cash flow hedges, changes in fair value are recognized in other comprehensive income and are reclassified to earnings when the hedged transaction is reflected in earnings. For derivatives designated as fair value hedges, changes in the fair value of the derivatives are reflected in current earnings, together with changes in the fair value of the related hedged item if there is a highly effective correlation between changes in the fair value of the interest rate swaps and changes in the fair value of the underlying asset or liability that is intended to be hedged. If there is not a highly effective correlation between changes in the fair value of the interest rate swap and changes in the fair value of the underlying asset or liability that is intended to be hedged, then only the changes in the fair value of the interest rate swaps are reflected in the Company’s consolidated financial statements.

In May 2014, Bancorp has entered into interest rate swap contracts in the notional amount of $119.1 million for a period of ten years. The objective of these interest rate swap contracts, which were designated as hedging instruments in cash flow hedges, was to hedge on Bancorp's $119.1 million of Junior Subordinated Debentures that had been issued to five trusts, with the quarterly interest payments throughout the ten-year period beginning in June 2014 and ending in June 2024, from the risk of variability of these payments resulting from changes in the three-month LIBOR interest rate. Bancorp pays a weighted average fixed interest rate of 2.61% and receives a variable interest rate of the three-month LIBOR at a weighted average rate of 0.85%. As of September 30, 2016, the notional amount of cash flow interest rate swaps was $119.1 million and their unrealized loss of $6.6 million, net of taxes, was included in other comprehensive income. The amount of periodic net settlement of interest rate swaps included in interest expense was $588,000 for the three months ended September 30, 2016 compared to $706,000 for the same quarter a year ago. For the nine months ended September 30, 2016, the periodic net settlement of interest rate swaps included in interest expense was $1.8 million compared to $2.1 million for the same period in 2015.

As of September 30, 2016, the Bank entered into interest rate swap contracts with various terms from four to eight years. These interest rate swap contracts are matched to individual fixed-rate commercial real estate loans in the Bank's loan portfolio. These contracts have been designated as hedging instruments to hedge the risk of changes in the fair value of the underlying commercial real estate loan due to changes in interest rates. The swap contracts are structured so that the notional amounts reduce over time to match the contractual amortization of the underlying loan and allow prepayments with the same pre-payment penalty amounts as the related loan. The Bank pays a weighted average fixed rate of 4.63% and receives a variable rate at the one month LIBOR rate plus a weighted average spread of 318 basis points, or at a weighted average rate of 3.70%. As of September 30, 2016, the notional amount of fair value interest rate swaps was $358.3 million and their unrealized loss of $3.8 million was included in other non-interest income. The amount of periodic net settlement of interest rate swaps reducing interest income was $879,000 for the three months ended September 30, 2016, compared to $831,000 for the same quarter a year ago. The amount of periodic net settlement of interest rate swaps reducing interest income was $2.8 million for the nine months ended September 30, 2016, compared to $2.2 million for the same period a year ago. As of September 30, 2016, the ineffective portion of these interest rate swaps was not significant.

Interest rate swap contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have a strong credit profile and be approved by the Company's Board of Directors. The Company's credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. Bancorp's interest rate swaps have been assigned by the counterparties to a derivatives clearing organization and daily margin is indirectly maintained with the derivatives clearing organization. Cash posted as collateral by Bancorp related to derivative contracts totaled $14.8 million as of September 30, 2016.

The Company enters into foreign exchange forward contracts with various counterparties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit or foreign exchange contracts entered into with our clients. These contracts are not designated as hedging instruments and are recorded at fair value in our condensed consolidated balance sheets. Changes in the fair value of these contracts as well as the related foreign exchange certificates of deposit and foreign exchange contracts are recognized immediately in net income as a component of non-interest income. Period end gross positive fair values are recorded in other assets and

gross negative fair values are recorded in other liabilities. As of September 30, 2016, there were no option contracts outstanding. As of September 30, 2016, spot, forward, and swap contracts with a total notional amount of $107.1 million had a positive fair value of $1.7 million. Spot, forward, and swap contracts with a total notional amount of $45.0 million had a negative fair value of $712,000 as of September 30, 2016. As of December 31, 2015, the notional amount of option contracts totaled $9.4 million with a net negative fair value of $28,000. As of December 31, 2015, spot, forward, and swap contracts with a total notional amount of $100.6 million had a positive fair value of $3.3 million. Spot, forward, and swap contracts with a total notional amount of $115.4 million had a negative fair value of $4.1 million as of December 31, 2015.

Liquidity

Liquidity is our ability to maintain sufficient cash flow to meet maturing financial obligations and customer credit needs, and to take advantage of investment opportunities as they are presented in the marketplace. Our principal sources of liquidity are growth in deposits, proceeds from the maturity or sale of securities and other financial instruments, repayments from securities and loans, federal funds purchased, securities sold under agreements to repurchase, and advances from the FHLB. For September 2016, our average monthly liquidity ratio (defined as net cash plus short-term and marketable securities to net deposits and short-term liabilities) was 12.0% compared to 15.8% as of December 31, 2015.

The Bank is a shareholder of the FHLB of San Francisco, enabling it to have access to lower cost FHLB financing when necessary. As of September 30, 2016, the Bank had an approved credit line with the FHLB totaling $5.2 billion. Advances from the FHLB were $700.0 million and standby letter of credits issued by FHLB on the Company’s behalf were $27.4 million as of September 30, 2016. The Bank expects to be able to access this source of funding, if required, in the near term. The Bank has pledged a portion of its commercial loans to the Federal Reserve Bank’s Discount Window under the Borrower-in-Custody program to secure these borrowings. As of September 30, 2016, the borrowing capacity under the Borrower-in-Custody program was $24.2 million.

Liquidity can also be provided through the sale of liquid assets, which consist of federal funds sold, securities sold under agreements to repurchase, and unpledged investment securities. As of September 30, 2016, investment securities totaled $1.30 billion, with $505.9 million pledged as collateral for borrowings and other commitments. The remaining $792.5 million was available as additional liquidity or to be pledged as collateral for additional borrowings.

Approximately 86.4% of the Company's time deposits mature within one year or less as of September 30, 2016. Management anticipates that there may be some outflow of these deposits upon maturity due to the keen competition in the Bank's marketplace. However, based on our historical run-off experience, we expect that the outflow will be minimal and can be replenished through our normal growth in deposits. Management believes the above-mentioned sources will provide adequate liquidity to the Bank to meet its daily operating needs.

The business activities of Bancorp consist primarily of the operation of the Bank and limited activities in other investments. The Bank paid dividends to Bancorp totaling $163.3 million in 2015 and $98.4 million in the first nine months of 2016.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We use a net interest income simulation model to measure the extent of the differences in the behavior of the lending and funding rates to changing interest rates, so as to project future earnings or market values under alternative interest rate scenarios. Interest rate risk arises primarily through the Company's traditional business activities of extending loans and accepting deposits. Many factors, including economic and financial conditions, movements in interest rates, and consumer preferences affect the spread between interest earned on assets and interest paid on liabilities. The net interest income simulation model is designed to measure the volatility of net interest income and net portfolio value, defined as net present value of assets and liabilities, under immediate rising or falling interest rate scenarios in 100 basis point increments.

Although the modeling is very helpful in managing interest rate risk, it does require significant assumptions for the projection of loan prepayment rates on mortgage related assets, loan volumes and pricing, and deposit and borrowing volume and pricing, that might prove inaccurate. Because these assumptions are inherently uncertain, the model cannot precisely estimate net interest income, or precisely predict the effect of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to the timing, magnitude, and frequency of interest rate changes, the differences between actual experience and the assumed volume, changes in market conditions, and management strategies, among other factors. The Company monitors its interest rate sensitivity and attempts to reduce the risk of a significant decrease in net interest income caused by a change in interest rates.

We have established a tolerance level in our policy to define and limit net interest income volatility to a change of plus or minus 5% when the hypothetical rate change is plus or minus 200 basis points. When the net interest rate simulation projects that our tolerance level will be met or exceeded, we seek corrective action after considering, among other things, market conditions, customer reaction, and the estimated impact on profitability. The Company's simulation model also projects the net economic value of our portfolio of assets and liabilities. We have established a tolerance level in our policy to limit the loss in the net economic value of our portfolio of assets and liabilities to zero

when the hypothetical rate change is plus or minus 200 basis points.

The table below shows the estimated impact of changes in interest rates on net interest income and market value of equity as of September 30, 2016:

Change in Interest Rate (Basis Points)	Net Interest Income Volatility [1]	Market Value of Equity Volatility [2]
+200	9.0	1.4
+100	4.2	1.1
-100	-2.6	3.0
-200	-2.8	6.5

(1) The percentage change in this column represents net interest income of the Company for 12 months in a stable interest rate environment versus the net interest income in the various rate scenarios.

(2) The percentage change in this column represents the net portfolio value of the Company in a stable interest rate environment versus the net portfolio value in the various rate scenarios.

Item 4. CONTROLS AND PROCEDURES.

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this quarterly report. Based upon their evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There has not been any change in our internal control over financial reporting that occurred during the third quarter of 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

Bancorp's wholly-owned subsidiary, Cathay Bank, is a party to ordinary routine litigation from time to time incidental to various aspects of its operations. Management does not believe that any such litigation is expected to have a material adverse impact on the Company's consolidated financial condition or results of operations.

Item 1A. RISK FACTORS.

There is no material change in the risk factors as previously disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, in response to Item 1A in Part I of Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	**(a) Total Number of Shares (or Units) Purchased**	**(b) Average Price Paid per Share (or Unit)**	**(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs**	**(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)**
Month #1 (July 1, 2016 - July 31, 2016)	0	$ 0	0	$ 7,543,008
Month #2 (August 1, 2016 - August 31, 2016)	0	$ 0	0	$ 7,543,008
Month #3 (September 1, 2016 - September 30, 2016)	0	$ 0	0	$ 7,543,008
Total	0	$ 0	0	$ 7,543,008

For a discussion of limitations on the payment of dividends, see “*Dividend Policy*” and “*Liquidity”* under Part I—Item 2—“Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Item 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

Item 5. OTHER INFORMATION.

None.

Item 6. EXHIBITS.

Exhibit 31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
Exhibit 31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
Exhibit 32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++
Exhibit 32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++
Exhibit 101.INS	XBRL Instance Document *
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document*
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

+ Filed herewith.

++ Furnished herewith.

* XBRL (Extensible Business Reporting Language) information shall not be deemed to be filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, shall not be

deemed to be filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise shall not be subject to liability under these sections, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, except as expressly set forth by specific reference in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cathay General Bancorp
(Registrant)

Date: November 7, 2016

/s/ Pin Tai
Pin Tai

Chief Executive Officer and

President

Date: November 7, 2016

/s/ Heng W. Chen
Heng W. Chen

Executive Vice President and

Chief Financial Officer

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