CATHAY GENERAL BANCORP
Form 10-Q
May 10, 2018

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UNITED STATES

securities and exchange commission

Washington, D.C. 20549

form 10-q

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

For the quarterly period ended March 31, 2018
OR

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

For the transition period from to

Commission file number 001-31830

Cathay General Bancorp

(Exact name of registrant as specified in its charter)

Delaware	95-4274680
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
777 North Broadway, Los Angeles, California	90012
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (213) 625-4700
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

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

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

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CATHAY GENERAL BANCORP AND SUBSIDIARies

1ST quarter 2018 REPORT ON FORM 10-Q

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Forward-Looking Statements

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

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

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

our ability to compete, including against larger competitors;

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

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

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

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (Unaudited)

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME

(Unaudited)

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business

Cathay General Bancorp ("Bancorp") is the holding company for Cathay Bank (the "Bank" and, together, with Bancorp, the "Company"), *eight* limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, Asia Realty Corp. and GBC Venture Capital, Inc. Bancorp also owns *100%* of the common stock of *five* statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in *1962* and offers a wide range of financial services. As of *March 31, 2018,* the Bank operates *26* branches in Southern California, *15* branches in Northern California, *12* branches in New York State, *three* branches in Illinois, *three* branches in Washington State, *two* branches in Texas, *one* branch in Massachusetts, New Jersey, Maryland, and Nevada, *one* branch in Hong Kong, and a representative office in Beijing, Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are *not* insured by the Federal Deposit Insurance Corporation (the "FDIC").

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form *10*-Q and Article *10* of Regulation S-*X.* Accordingly, they do *not* include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are *not* necessarily indicative of the results that *may* be expected for the year ending *December 31, 2018.* For further information, refer to the audited consolidated financial statements and notes included in the Company's Annual Report on Form *10*-K for the year ended *December 31, 2017.*

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

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

3. Recent Accounting Pronouncements

Accounting Standards adopted in 2018

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

In *January 2016,* the FASB issued ASU *2016-01,* "Financial Instruments Overall (Subtopic *825-10*): Recognition and Measurement of Financial Assets and Financial Liabilities." This update requires an entity to measure equity investments with readily determinable fair values at fair value with changes in fair value recognized in net income. Equity investment without readily determinable fair values will be measured at fair value either upon the occurrence of an observable price change or upon identification of an impairment and any amount by which the carrying value exceeding the fair value will be recognized as an impairment in net income. This update also requires an entity to disclose fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price option. In addition, this update requires separate presentation in comprehensive income for changes in the fair value of a liability and in the balance sheet by measurement category and form of financial asset. ASU *2016-01* becomes effective for interim and annual periods beginning after *December 15, 2017.* The adoption of the amendment resulted in approximately *$8.6* million being reclassified from accumulated other comprehensive income to retained earnings, representing an increase to retained earnings as of *January 1, 2018* and reduced pre-tax income by *$3.8* million for the quarter ended *March 31, 2018.* See footnote *7* – Investment Securities. Also, beginning in the *first* quarter of *2018,* the Company is adopting the exit price notion on fair value measurement of its loan portfolio. As a result of this fair value change, the prior-year figures shown for loans on footnote *13* for comparative purposes will *no* longer be comparable.

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

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Other Accounting Standards

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

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

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

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

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

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

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

4. Acquisition

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

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

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

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

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

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5. Earnings per Share

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

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

6. Stock-Based Compensation

Under the Company's equity incentive plans, directors and eligible employees *may* be granted incentive or non-statutory stock options and/or restricted stock units or awarded non-vested stock. As of *March 31, 2018,* there were *no* stock options outstanding.

There were *35,880* and *18,040* stock option shares exercised in the *first* quarter ended *March 31, 2018* and *2017,* respectively. The Company received *$838,000* from the exercise of stock options for *35,880* shares at *$23.37* per share which had an aggregate intrinsic value of *$718,000* during the *first* quarter ended *March 31, 2018* compared to *$422,000* from the exercise of stock options which had an aggregate intrinsic value of *$262,000* during the *first* quarter ended *March 31, 2017.*

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

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In *December 2013,* the Company granted performance share unit awards in which the number of units earned is calculated based on the relative total shareholder return ("TSR") of the Company's common stock as compared to the TSR of the KBW Regional Banking Index. In addition, the Company granted performance share unit awards in which the number of units earned is determined by comparison to the targeted EPS as defined in the award for the *2014* to *2016* period. In *December 2016,* in addition to TSR and EPS awards, the Company granted performance share unit awards in which the number of units earned is determined by comparison to the targeted return of assets ROA as defined in the award for *December 2016.* In *December 2014,* the Company granted additional performance TSR restricted stock units for *60,456* shares and performance EPS restricted stock units for *57,642* shares to *seven* executive officers. In *December 2015,* the Company granted additional performance TSR restricted stock units for *61,209* shares and performance EPS restricted stock units for *57,409* shares to *seven* executive officers. In *December 2016,* the Company granted additional performance TSR restricted stock units for *30,319* shares, performance EPS restricted stock units for *58,241* shares, and performance ROA restricted stock units for *29,119* shares to *seven* executive officers. In *December 2017,* the Company granted additional performance TSR restricted stock units for *23,556* shares and performance ROA restricted stock units for *22,377* shares to *six* executive officers. In *March 2018,* the Company granted performance EPS restricted stock units for *55,455* shares to *six* executive officers. Performance TSR, performance EPS, and performance ROA share awarded are scheduled to vest *three* years from grant date.

The following table presents restricted stock unit activity during the *three* months ended *March 31, 2018:*

	Units
Balance at December 31, 2017	*561,610*
Granted	*178,129*
Distributed	*(109,454*)
Forfeited	*(4,010*)
Balance at March 31, 2018	*626,275*

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

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

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

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7. Investment Securities

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

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

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

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

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

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

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

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

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

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

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

	December 31, 2017 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	$*199,823*	$ *62*	$*49,697*	$ *295*	$*249,520*	$ *357*
U.S. government agency entities	*5,711*	*70*	-	-	*5,711*	*70*
U.S. government sponsored entities	-	-	*390,336*	*9,664*	*390,336*	*9,664*
State and municipal securities	*1,914*	*30*	-	-	*1,914*	*30*
Mortgage-backed securities	*342,436*	*3,147*	*178,617*	*3,112*	*521,053*	*6,259*
Collateralized mortgage obligations	*1,516*	*17*	-	-	*1,516*	*17*

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

As of *March 31, 2018,* the Company had unrealized losses on available-for-sale securities of *$31.7* million. The unrealized losses on these securities were primarily attributed to yield curve movement, together with widened liquidity spreads and credit spreads. The issuers have *not,* to the Company's knowledge, established any cause for default on these securities. Management believes the impairment was temporary and, accordingly, *no* impairment loss on these securities has been recognized in our condensed consolidated statements of operations. The Company expects to recover the amortized cost basis of its securities and has *no* intent to sell, and will *not* be required to sell, available-for-sale securities that have declined below their cost before their anticipated recovery.

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

8. Loans

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

The types of loans in the Company's condensed consolidated balance sheets as of *March 31, 2018,* and *December 31, 2017,* were as follows:

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

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

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

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

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

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

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

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

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

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

The determination of the amount of the allowance for loan losses for impaired loans is based on management’s current judgment about the credit quality of the loan portfolio and takes into consideration known relevant internal and external factors that affect collectability when determining the appropriate level for the allowance for loan losses. The nature of the process by which the Bank determines the appropriate allowance for loan losses requires the exercise of considerable judgment. This allowance evaluation process is also applied to troubled debt restructurings since they are considered to be impaired loans. The allowance for loan losses and the reserve for off-balance sheet credit commitments are significant estimates that can and do change based on management’s process in analyzing the loan portfolio and on management's assumptions about specific borrowers, underlying collateral, and applicable economic and environmental conditions, among other factors.

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

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

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

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

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

Modifications of the loan terms during the *first* quarter of *2018* were in the form of extensions of maturity dates. The length of time for which modifications involving extensions of maturity dates ranged from *three* to *twelve* months from the modification date.

We expect that the TDRs on accruing status as of *March 31, 2018,* which were all performing in accordance with their restructured terms, will continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. A summary of TDRs by type of concession and by type of loan, as of *March 31, 2018,* and *December 31, 2017,* is shown below:

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Accruing TDRs	March 31, 2018 Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
	(In thousands)			
Commercial loans	$*28,995*	$ -	$ -	$*28,995*
Commercial mortgage loans	*19,609*	*7,499*	*19,859*	*46,967*
Residential mortgage loans	*3,744*	*333*	*2,746*	*6,823*
Total accruing TDRs	$*52,348*	$ *7,832*	$ *22,605*	$*82,785*

Non-accrual TDRs	March 31, 2018 Payment Deferral	Rate Reduction and Payment Deferral	Total
	(In thousands)		
Commercial loans	$*14,568*	$ -	$*14,568*
Commercial mortgage loans	*4,011*	*10,871*	*14,882*
Residential mortgage loans	*1,594*	*151*	*1,745*
Total non-accrual TDRs	$*20,173*	$ *11,022*	$*31,195*

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Accruing TDRs	December 31, 2017 Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
	(In thousands)			
Commercial loans	$29,199	$ -	$ -	$29,199
Commercial mortgage loans	11,504	5,871	15,468	32,843
Residential mortgage loans	3,416	335	2,772	6,523
Total accruing TDRs	$44,119	$ 6,206	$ 18,240	$68,565

Non-accrual TDRs	December 31, 2017 Payment Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
	(In thousands)			
Commercial loans	$12,944	$ -	$ -	$12,944
Commercial mortgage loans	6,231	1,677	11,113	19,021
Residential mortgage loans	1,297	-	154	1,451
Total non-accrual TDRs	$20,472	$ 1,677	$ 11,267	$33,416

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

Accruing TDRs	Three months ended March 31, 2018	2017
	(In thousands)	
Beginning balance	$68,566	$65,393
New restructurings	17,320	27,683
Restructured loans restored to accrual status	2,318	-
Payments	(3,891)	(4,595)
Restructured loans placed on non-accrual status	(1,528)	(5,822)

Expiration of loan concession upon renewal	-	*(2,240*)
Ending balance	$*82,785*	$*80,419*

Non-accrual TDRs	**Three months ended March 31, 2018**	**2017**
	(In thousands)	
Beginning balance	$*33,415*	$*29,722*
New restructurings	*231*	-
Restructured loans placed on non-accrual status	*1,528*	*5,822*
Charge-offs	-	*(1,049*)
Payments	*(1,661*)	*(990*)
Foreclosures	-	*(726*)
Restructured loans restored to accrual status	*(2,318*)	-
Ending balance	$*31,195*	$*32,779*

The Company considers a loan 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 had subsequently defaulted as of *March 31, 2018.*

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.

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As of *March 31, 2018,* 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 *March 31, 2018,* and as of *December 31, 2017:*

March 31, 2018

	Pass/Watch	**Special Mention**	**Substandard**	**Doubtful**	**Total**
	(In thousands)				
Commercial loans	$*2,224,463*	$*139,985*	$ *71,973*	$ -	$*2,436,421*
Real estate construction loans	*522,983*	*55,911*	*9,033*	-	*587,927*
Commercial mortgage loans	*6,202,696*	*292,647*	*114,911*	-	*6,610,254*
Residential mortgage loans and equity lines	*3,365,642*	-	*9,822*	-	*3,375,464*
Installment and other loans	*4,378*	-	*95*	-	*4,473*
Total gross loans	$*12,320,162*	$*488,543*	$ *205,834*	$ -	$*13,014,539*

Loans held for sale	$-	$-	$ -	$ -	$-

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	December 31, 2017				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
	(In thousands)				
Commercial loans	$*2,281,698*	$*118,056*	$ *61,503*	$ *9*	$*2,461,266*
Real estate construction loans	*616,411*	*54,209*	*8,185*	-	*678,805*
Commercial mortgage loans	*6,004,258*	*308,924*	*169,513*	-	*6,482,695*
Residential mortgage loans and equity lines	*3,232,606*	-	*9,748*	-	*3,242,354*
Installment and other loans	*5,170*	-	-	-	*5,170*
Total gross loans	$*12,140,143*	$*481,189*	$ *248,949*	$ *9*	$*12,870,290*
Loans held for sale	$-	$-	$ *8,000*	$ -	$*8,000*

The following table presents the balance in the allowance for loan losses by portfolio segment and based on impairment method as of *March 31, 2018,* and as of *December 31, 2017:*

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
March 31, 2018						
Loans individually evaluated for impairment						
Allowance	$*11*	$ -	$*1,145*	$*346*	$ -	$*1,502*
Balance	$*44,911*	$ *8,113*	$*64,747*	$*14,342*	$ -	$*132,113*
Loans collectively evaluated for impairment						
Allowance	$*54,586*	$ *21,864*	$*33,085*	$*11,026*	$ *21*	$*120,582*
Balance	$*2,391,510*	$ *579,814*	$*6,545,507*	$*3,361,122*	$ *4,473*	$*12,882,426*
Total allowance	$*54,597*	$ *21,864*	$*34,230*	$*11,372*	$ *21*	$*122,084*
Total balance	$*2,436,421*	$ *587,927*	$*6,610,254*	$*3,375,464*	$ *4,473*	$*13,014,539*
December 31, 2017						
Loans individually evaluated for impairment						
Allowance	$*43*	$ -	$*1,738*	$*353*	$ -	$*2,134*
Balance	$*43,495*	$ *8,185*	$*52,664*	$*13,009*	$ -	$*117,353*

Loans collectively evaluated for impairment						
Allowance	$*49,753*	$ *24,838*	$*35,872*	$*10,660*	$ *22*	$*121,145*
Balance	$*2,417,771*	$ *670,620*	$*6,430,031*	$*3,229,345*	$ *5,170*	$*12,752,937*
Total allowance	$*49,796*	$ *24,838*	$*37,610*	$*11,013*	$ *22*	$*123,279*
Total balance	$*2,461,266*	$ *678,805*	$*6,482,695*	$*3,242,354*	$ *5,170*	$*12,870,290*

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The following tables detail activity in the allowance for loan losses by portfolio segment for the *three* months ended *March 31, 2018,* and *March 31, 2017.* Allocation of a portion of the allowance to *one* category of loans does *not* preclude its availability to absorb losses in other categories.

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
2018 Beginning Balance	$ *49,796*	$ *24,838*	$ *37,610*	$ *11,013*	$ *22*	$ *123,279*
Provision/(credit) for possible credit losses	3,907	*(3,018)*	*(4,163)*	*275*	*(1)*	*(3,000)*
Charge-offs	*(19)*	-	-	-	-	*(19)*
Recoveries	*913*	*44*	*783*	*84*	-	*1,824*
Net recoveries	*894*	*44*	*783*	*84*	-	*1,805*
March 31, 2018 Ending Balance	$ *54,597*	$ *21,864*	$ *34,230*	$ *11,372*	$ *21*	$ *122,084*
Reserve for impaired loans	$ *11*	$ -	$ *1,145*	$ *346*	$ -	$ *1,502*
Reserve for non-impaired loans	$ *54,586*	$ *21,864*	$ *33,085*	$ *11,026*	$ *21*	$ *120,582*
Reserve for off-balance sheet credit commitments	$ *2,747*	$ *1,515*	$ *138*	$ *182*	$ *6*	$ *4,588*
2017 Beginning Balance	$ *49,203*	$ *23,268*	$ *34,864*	$ *11,620*	$ *11*	$ *118,966*
(Credit)/provision for possible credit losses	*(1,214)*	*(3,549)*	*1,362*	*898*	*3*	*(2,500)*
Charge-offs	*(1,204)*	-	*(555)*	-	-	*(1,759)*
Recoveries	*491*	*49*	*289*	*8*	-	*837*
Net (charge-offs)/recoveries	*(713)*	*49*	*(266)*	*8*	-	*(922)*
March 31, 2017 Ending Balance	$ *47,276*	$ *19,768*	$ *35,960*	$ *12,526*	$ *14*	$ *115,544*
Reserve for impaired loans	$ *1,062*	$ -	$ *818*	$ *395*	$ -	$ *2,275*
Reserve for non-impaired loans	$ *46,214*	$ *19,768*	$ *35,142*	$ *12,131*	$ *14*	$ *113,269*
Reserve for off-balance sheet credit commitments	$ *2,243*	$ *909*	$ *120*	$ *146*	$ *6*	$ *3,424*

9. 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.

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10. Borrowed Funds

Securities Sold Under Agreements to Repurchase. Securities sold under agreements to repurchase were *$100* million with a weighted average rate of *2.86%* as of *March 31, 2018,* compared to *$100* million with a weighted average rate of *2.86%* as of *December 31, 2017.* Final maturity for the *two* fixed rate non-callable securities sold under agreements to repurchase was *$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 *$107.6* million as of *March 31, 2018,* and *$108.4* million as of *December 31, 2017.*

Borrowing from the Federal Home Loan Bank ("FHLB"). As of *March 31, 2018,* over-night borrowings from the FHLB were *$250* million at a rate of *1.87%* compared to *$325* million at a rate of *1.41%* as of *December 31, 2017.* As of *March 31, 2018,* the advances from the FHLB were *$75* million at a rate of *1.53%* compared to *$105* million at a rate of *1.41%* as of *December 31, 2017.* As of *March 31, 2018,* FHLB advances of *$15* million will mature in *April 2018, $5* million in *July 2018, $5* million in *October 2018,* and *$50* million in *December 2019.*

Other Borrowing. Pursuant to the Stock Purchase Agreement with Bank SinoPac Co. Ltd, the Company paid *$100* million of the purchase price on *November 14, 2017, 30* days after receipt of regulatory approval for the merger of FENB into Cathay Bank. The residual payable balance of *$35.2* million has a floating rate of *three*-month LIBOR rate plus *150* basis points. Outstanding payable balance is accruing interest at a rate of *2.8%* of which *50%, 30%,* and *20%* will be disbursed annually over *three* years on the anniversary dates, respectively. As of *March 31, 2018,* outstanding payable balance was *$35.7* million compared to *$35.2* million at *December 31, 2017.*

Long-term Debt. On *October 12, 2017,* the Bank entered into a term loan agreement of *$75.0* million with U.S. Bank. The loan has a floating rate of *one*-month LIBOR plus *175* basis points. As of *March 31, 2018,* the term loan has an interest rate of *3.438%* compared to *3.125%* at *December 31, 2017.* The principal amount of the long-term debt from U.S. Bank is due and payable in consecutive quarterly installments in the amount of *$4.7* million each on the last day of each calendar quarter commencing *December 31, 2018,* with the final installment due and payable on *October 12, 2020.* The U.S. Bank loan proceeds were used to fund a portion of our acquisition of SinoPac Bancorp.

11. Income Taxes

The effective tax rate for the *first* quarter of *2018* was *22.8%* compared to *29.5%* for the *first* quarter of *2017.* The reduction in effective tax rate was primarily due to the Tax Cuts and Jobs Act that was enacted into law on *December 22, 2017,* which reduced the Federal corporate tax rate from *35%* to *21%* effective *January 1, 2018.*

As of *December 31, 2017,* the Company had income tax refunds receivable of *$7.2* 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 *2014* and by the California Franchise Tax Board back to *2013.*

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.

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12. 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 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.

Assets measured at estimated fair value on a non-recurring basis:

Certain assets or liabilities are required to be measured at estimated fair value on a nonrecurring basis subsequent to initial recognition. Generally, these adjustments are the result of lower-of-cost-or-fair value or other impairment write-downs of individual assets. In determining the estimated fair values during the period, the Company determined that substantially all the changes in estimated fair value were due to declines in market conditions versus instrument specific credit risk. For the three months ended March 31, 2018 and December 31, 2017, there were no material adjustments to fair value for the Company's assets and liabilities measured at fair value on a nonrecurring basis in accordance with GAAP.

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The following tables present the Company’s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of *March 31, 2018,* and *December 31, 2017:*

March 31, 2018	Fair Value Measurements Using			Total at
	Level 1	Level 2	Level 3	Fair Value
	(In thousands)			
Assets				
Debt securities available-for-sale				
U.S. Treasury securities	$*124,595*	$-	$-	$*124,595*
U.S. government agencies	-	*8,695*	-	*8,695*
U.S. government sponsored entities	-	*385,920*	-	*385,920*
State and municipal securities	-	*904*	-	*904*
Mortgage-backed securities	-	*638,359*	-	*638,359*
Collateralized mortgage obligations	-	*1,371*	-	*1,371*
Corporate debt securities	-	*81,261*	-	*81,261*
Total debt securities available-for-sale	*124,595*	*1,116,510*	-	*1,241,105*
Equity securities				
Preferred stock of government sponsored entities	*6,691*	-	-	*6,691*
Mutual funds	*6,129*	-	-	*6,129*
Other equity securities	*11,334*	-	-	*11,334*
Total equity securities	*24,154*	-	-	*24,154*
Warrants	-	-	*195*	*195*
Foreign exchange contracts	-	*1,539*	-	*1,539*
Interest rate swaps	-	*11,674*	-	*11,674*
Total assets	$*148,749*	$*1,129,723*	$*195*	$*1,278,667*
Liabilities				
Option contracts	$-	$*3*	$-	$*3*
Foreign exchange contracts	-	*924*	-	*924*
Total liabilities	$-	$*927*	$-	$*927*

December 31, 2017	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	$*249,520*	$-	$ -	$*249,520*
U.S. government agency entities	-	*8,988*	-	*8,988*
U.S. government sponsored entities	-	*390,336*	-	*390,336*
State and municipal securities	-	*1,914*	-	*1,914*
Mortgage-backed securities	-	*571,969*	-	*571,969*
Collateralized mortgage obligations	-	*1,516*	-	*1,516*
Corporate debt securities	-	*81,281*	-	*81,281*
Mutual funds	*6,230*	-	-	*6,230*
Preferred stock of government sponsored entities				