CATHAY GENERAL BANCORP
Form 10-Q
May 08, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
[X]QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OFTHE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013
OR
[ ]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OFTHE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission file number 0-18630

CATHAY GENERAL BANCORP
(Exact name of registrant as specified in its charter)

Delaware	95-4274680
(State of other jurisdiction of 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 þ No o

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 þ No o

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

Large accelerated filer þ	Accelerated filer o

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

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

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

Common stock, $.01 par value, 78,864,841 shares outstanding as of April 30, 2013.

1

CATHAY GENERAL BANCORP AND SUBSIDIARIES
1ST QUARTER 2013 REPORT ON FORM 10-Q
TABLE OF CONTENTS

Forward-Looking Statements

In this Quarterly Report on Form 10-Q, the term “Bancorp” refers to Cathay General Bancorp and the term “Bank” refers to Cathay Bank. The terms “Company,” “we,” “us,” and “our” refer to Bancorp and the Bank collectively. The statements in this report include forward-looking statements within the meaning of the applicable provisions of the Private Securities Litigation Reform Act of 1995 regarding management’s beliefs, projections, and assumptions concerning future results and events. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements in these provisions. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, growth plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, financial expectations, regulatory and competitive outlook, investment and expenditure plans, financing needs and availability, and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as “aims,” “anticipates,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “hopes,” “i “optimistic,” “plans,” “potential,” “possible,” “predicts,” “projects,” “seeks,” “shall,” “should,” “will,” and variations of these v 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;
- credit risks of lending activities and deterioration in asset or credit quality;
- current and potential future supervisory action by bank supervisory authorities;
- increased costs of compliance and other risks associated with changes in regulation and the current regulatory environment, including the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), and the potential for substantial changes in the legal, regulatory, and enforcement framework and oversight applicable to financial institutions in reaction to recent adverse financial market events, including changes pursuant to the Dodd-Frank Act;
- potential goodwill impairment;
- liquidity risk;
- fluctuations in interest rates;
- inflation and deflation;
- risks associated with acquisitions and the expansion of our business into new markets;
- real estate market conditions and the value of real estate collateral;
- environmental liabilities;

- our ability to compete with larger competitors;
- the possibility of higher capital requirements, including implementation of the Basel III capital standards of the Basel Committee;

- our ability to retain key personnel;
- successful management of reputational risk;
- natural disasters and geopolitical events;
- general economic or business conditions in California, Asia, and other regions where the Bank has operations;
- restrictions on compensation paid to our executives as a result of our participation in the TARP Capital Purchase Program;
- failures, interruptions, or security breaches of our information systems;
- our ability to adapt our systems to technological changes, including successfully implementing our core system conversion;
- adverse results in legal proceedings;
- changes in accounting standards or tax laws and regulations;
- market disruption and volatility;
- restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;
- 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, 2012 (Item 1A in particular), other reports and registration statements filed with the Securities and Exchange Commission ("SEC"), and other filings it makes with the SEC from time to time. Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which speak to the date of this report. We have no intention and undertake no obligation to update any forward-looking statement or to publicly announce any revision of any forward-looking statement to reflect future developments or events, except as required by law.

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

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (Unaudited)

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2013	December 31, 2012
	(In thousands, except share and per share data)	
Assets		
Cash and due from banks	$ 155,525	$ 144,909
Short-term investments and interest bearing deposits	215,794	411,983
Securities held-to-maturity (market value of $823,906 in 2012)	-	773,768
Securities available-for-sale (amortized cost of $2,149,786 in 2013 and $1,290,676 in 2012)	2,190,296	1,291,480
Trading securities	4,758	4,703
Loans	7,364,340	7,429,147
Less: Allowance for loan losses	(178,692)	(183,322)
Unamortized deferred loan fees, net	(10,186)	(10,238)
Loans, net	7,175,462	7,235,587
Federal Home Loan Bank stock	37,130	41,272
Other real estate owned, net	45,316	46,384
Affordable housing investments, net	83,868	85,037
Premises and equipment, net	102,067	102,613
Customers' liability on acceptances	22,334	41,271
Accrued interest receivable	26,992	26,015
Goodwill	316,340	316,340
Other intangible assets, net	4,883	6,132
Other assets	139,950	166,595
Total assets	$ 10,520,715	$ 10,694,089
Liabilities and Stockholders' Equity		
Deposits		
Non-interest-bearing demand deposits	$ 1,279,986	$ 1,269,455
Interest-bearing deposits:		
NOW deposits	622,454	593,133
Money market deposits	1,124,240	1,186,771
Savings deposits	472,122	473,805
Time deposits under $100,000	685,758	644,191
Time deposits of $100,000 or more	3,241,114	3,215,870
Total deposits	7,425,674	7,383,225
Securities sold under agreements to repurchase	1,150,000	1,250,000
Advances from the Federal Home Loan Bank	126,200	146,200
Other borrowings for affordable housing investments	19,232	18,713

Long-term debt	171,136	171,136
Acceptances outstanding	22,334	41,271
Other liabilities	56,574	54,040
Total liabilities	8,971,150	9,064,585
Commitments and contingencies	-	-
Stockholders' equity		
Preferred stock, 10,000,000 shares authorized, 129,000 issued and outstanding at March 31, 2013, and 258,000 issued and outstanding at December 31, 2012	127,724	254,580
Common stock, $0.01 par value, 100,000,000 shares authorized, 83,066,773 issued and 78,859,208 outstanding at March 31, 2013, and 82,985,853 issued and 78,778,288 outstanding at December 31, 2012	831	830
Additional paid-in-capital	769,955	768,925
Accumulated other comprehensive income, net	23,477	465
Retained earnings	744,867	721,993
Treasury stock, at cost (4,207,565 shares at March 31, 2013, and at December 31, 2012)	(125,736)	(125,736)
Total Cathay General Bancorp stockholders' equity	1,541,118	1,621,057
Noncontrolling interest	8,447	8,447
Total equity	1,549,565	1,629,504
Total liabilities and equity	$ 10,520,715	$ 10,694,089

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three months ended March 31, 2013	2012
	(In thousands, except share and per share data)	
Interest and Dividend Income		
Loans receivable, including loan fees	$88,840	$90,701
Investment securities- taxable	11,786	17,723
Investment securities- nontaxable	967	1,052
Federal Home Loan Bank stock	250	66
Federal funds sold and securities purchased under agreements to resell	-	5
Deposits with banks	208	588
Total interest and dividend income	102,051	110,135
Interest Expense		
Time deposits of $100,000 or more	6,757	9,540
Other deposits	2,766	3,916
Securities sold under agreements to repurchase	11,392	14,655
Advances from Federal Home Loan Bank	80	53
Long-term debt	924	1,320
Short-term borrowings	-	-
Total interest expense	21,919	29,484
Net interest income before provision for credit losses	80,132	80,651
Provision/(credit) for loan losses	-	(4,000)
Net interest income after provision for loan losses	80,132	84,651
Non-Interest Income		
Securities gains, net	6,292	2,215
Letters of credit commissions	1,461	1,526
Depository service fees	1,474	1,389
Other operating income	5,654	3,701
Total non-interest income	14,881	8,831
Non-interest Expense		
Salaries and employee benefits	22,853	19,878
Occupancy expense	3,644	3,584
Computer and equipment expense	2,676	2,463
Professional services expense	5,817	4,742
FDIC and State assessments	1,738	2,489
Marketing expense	437	1,406
Other real estate owned expense	623	4,693
Operations of affordable housing investments, net	1,695	1,960
Amortization of core deposit intangibles	1,396	1,457
Costs associated with debt redemption	5,645	2,750
Other operating expense	2,604	2,449
Total non-interest expense	49,128	47,871
Income before income tax expense	45,885	45,611

Income tax expense	16,887	16,547
Net income	28,998	29,064
Less: net income attributable to noncontrolling interest	151	151
Net income attributable to Cathay General Bancorp	28,847	28,913
Dividends on preferred stock and noncash charge from repayment	(5,184)	(4,117)
Net income attributable to common stockholders	23,663	24,796
Other comprehensive income, net of tax		
Unrealized holding gain arising during the period	26,659	5,479
Less: reclassification adjustments included in net income	3,647	1,284
Total other comprehensive gain, net of tax	23,012	4,195
Total comprehensive income	$51,859	$33,108
Net income per common share:		
Basic	$0.30	$0.32
Diluted	$0.30	$0.32
Cash dividends paid per common share	$0.01	$0.01
Average common shares outstanding		
Basic	78,795,564	78,678,645
Diluted	78,815,141	78,690,132

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31	
	2013	2012
	(In thousands)	
Cash Flows from Operating Activities		
Net income	$28,998	$29,064
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Credit for loan losses	-	(4,000)
Provision/(credit) for losses on other real estate owned	(37)	2,740
Deferred tax liability	6,227	2,356
Depreciation	1,527	1,471
Net losses on sale and transfer of other real estate owned	44	712
Net gains on sale of loans	(567)	(278)
Proceeds from sales of loans	23,672	25,140
Originations of loans held-for-sale	(23,105)	(24,836)
Net change in trading securities	(55)	(99,930)
Write-downs on venture capital investments	92	137
Gain on sales and calls of securities	(6,292)	(2,215)
Amortization/accretion of security premiums/discounts, net	1,114	1,314
Amortization of other intangible assets	1,428	1,491
Excess tax short-fall from share-based payment arrangements	69	565
Stock based compensation and stock issued to officers as compensation	1,037	546
Net change in accrued interest receivable and other assets	4,081	38,156
Net change in other liabilities	1,612	1,527
Net cash provided by/(used in) operating activities	39,845	(26,040)
Cash Flows from Investing Activities		
Decrease in short-term investments	196,189	19,900
Increase in securities purchased under agreements to resell	-	(50,000)
Purchase of investment securities available-for-sale	(508,865)	(424,637)
Proceeds from sale of investment securities available-for-sale	320,234	148,134
Proceeds from repayments, maturities and calls of investment securities available-for-sale	57,495	226,173
Proceeds from repayments, maturities and calls of investment securities held-to-maturity	50,973	67,979
Redemptions of Federal Home Loan Bank stock	4,142	2,533
Net decrease in loans	61,833	131,822
Purchase of premises and equipment	(1,014)	(905)
Proceeds from sale of other real estate owned	1,351	10,186
Net increase in investment in affordable housing	(1,614)	(4,902)
Net cash provided by investing activities	180,724	126,283
Cash Flows from Financing Activities		
Net increase in deposits	42,362	130,717

Net decrease in federal funds purchased and securities sold under agreements to repurchase	(100,000)	-
Advances from Federal Home Loan Bank	298,020	260,000
Repayment of Federal Home Loan Bank borrowings	(317,500)	(485,000)
Cash dividends paid	(3,828)	(4,012)
Redemption of series B preferred stock	(129,000)	-
Repayment of other borrowings	-	(879)
Proceeds from shares issued under Dividend Reinvestment Plan	62	67
Proceeds from exercise of stock options	-	647
Excess tax short-fall from share-based payment arrangements	(69)	(565)
Net cash used in financing activities	(209,953)	(99,025)
Increase in cash and cash equivalents	10,616	1,218
Cash and cash equivalents, beginning of the period	144,909	117,888
Cash and cash equivalents, end of the period	$155,525	$119,106
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	$22,827	$30,699
Income taxes paid/(refund)	$8,562	$(20,424)
Non-cash investing and financing activities:		
Net change in unrealized holding gain on securities available-for-sale, net of tax	$23,012	$4,195
Transfers investment securities to available-for-sale from held-to-maturity	$722,466	$-
Transfers to other real estate owned from loans held for investment	$366	$8,338
Loans transferred from held for investment to held for sale, net	$-	$15,986
Loans to facilitate the sale of other real estate owned	$75	$-

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. The Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of March 31, 2013, the Bank operated twenty branches in Southern California, eleven branches in Northern California, eight branches in New York State, three branches in Illinois, three branches in Washington State, two branches in Texas, one branch in Massachusetts, one branch in New Jersey, one branch in Hong Kong, and a representative office in Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the "FDIC").

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. 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, 2012.

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

3. Recent Accounting Pronouncements

In January 2013, the Financial Accounting Standard Board ("FASB") issued ASU 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." ASU No. 2013-01 clarifies that the scope of Update 2011-11 applies to derivatives, repurchase agreements, and securities lending transactions to the extent that they are either offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement. ASU 2013-01 became effective for interim and annual periods beginning on or after January 1, 2013. Adoption of ASU 2013-01 did not have a significant impact on the Company's consolidated financial statements. See Note 15 to the Company's consolidated financial statements for the disclosure of adoption of ASU 2013-01.

In February 2013, the FASB issued ASU 2013-02 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU 2013-02 amends Topic 220, "Comprehensive Income," to improve the reporting of reclassification out of accumulated other comprehensive income. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified and to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. ASU 2013-02 became effective prospectively for reporting periods beginning after December 15, 2012. Adoption of ASU 2013-02 did not have a significant impact on the Company's consolidated financial statements. See Note 15 to the Company's consolidated financial statements for the disclosure of adoption of ASU 2013-02.

4. Earnings per Share

Basic earnings per share exclude dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and resulted in the issuance of common stock that then shared in earnings. Potential dilution is excluded from computation of diluted per-share amounts when a net loss from operations exists.

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:

(Dollars in thousands, except share and per share data)	Three months ended March 31, 2013	2012
Net income attributable to Cathay General Bancorp	$ 28,847	$ 28,913
Dividends on preferred stock and noncash charge from repayment	(5,184)	(4,117)
Net income available to common stockholders	$ 23,663	$ 24,796
Weighted-average shares:		
Basic weighted-average number of common shares outstanding	78,795,564	78,678,645
Dilutive effect of weighted-average outstanding common share equivalents		
Stock options	19,577	11,487
Diluted weighted-average number of common shares outstanding	78,815,141	78,690,132
Average stock options and warrants with anti-dilutive effect	5,630,813	6,227,224
Earnings per common share:		
Basic	$ 0.30	$ 0.32
Diluted	$ 0.30	$ 0.32

5. Stock-Based Compensation

Under the Company's equity incentive plans, directors and eligible employees may be granted incentive or non-statutory stock options and/or restricted stock units, or awarded non-vested stock. As of March 31, 2013, the only options granted by the Company were non-statutory stock options to selected Bank officers and non-employee directors at exercise prices equal to the fair market value of a share of the Company's common stock on the date of grant. Such options have a maximum ten-year term and vest in 20% annual increments (subject to early termination in certain events) except certain options granted to the Chief Executive Officer of the Company in 2005 and 2008. If such options expire or terminate without having been exercised, any shares not purchased will again be available for future grants or awards. There were no options granted during the first quarter of 2013 or during 2012.

Option compensation expense totaled $129,000 for the three months ended March 31, 2013, and $194,000 for the three months ended March 31, 2012. Stock-based compensation is recognized ratably over the requisite service period for all awards. All unrecognized stock-based compensation expense was fully recognized as of March 31, 2013.

No stock options were exercised in the first quarter of 2013 compared to 39,784 shares issued on the exercise of stock options in the first quarter of 2012. Cash received totaled $647,000 and the aggregate intrinsic value totaled $34,000 from the exercise of stock options during the three months ended March 31, 2012. 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, 2012	3,996,630	$ 29.45	2.2	$ -
Exercised	-	-		
Forfeited	(339,340)	20.45		
Balance, March 31, 2013	3,657,290	$ 30.28	2.2	$ -
Exercisable, March 31, 2013	3,657,290	$ 30.28	2.2	$ -

At March 31, 2013, 2,674,892 shares were available under the Company's 2005 Incentive Plan for future grants.

The Company granted restricted stock units for 125,133 shares at an average closing price of $18.24 per share in 2012 and for 147,661 shares at an average closing price of $14.78 in 2011. The Company granted restricted stock units for 14,416 shares on March 14, 2013, at the closing price of $20.57. The restricted stock units granted in 2011, 2012, and 2013 are scheduled to vest two years from grant date.

The following table presents information relating to the restricted stock units as of March 31, 2013:

	Units
Balance at December 31, 2012	256,616
Granted	14,416
Forfeited	-
Vested	(62,657)
Balance at March 31, 2013	208,375

The compensation expense related to the restricted stock units was $609,000 for the three months ended March 31, 2013, compared to $353,000 for the three months ended March 31, 2012. Unrecognized stock-based compensation expense related to restricted stock units was $2.4 million at March 31, 2013, and is expected to be recognized over the next 1.5 years.

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

(Dollars in thousands)	Three months ended March 31, 2013	2012
Short-fall of tax deductions in excess of grant-date fair value	$ (69)	$ (565)
Benefit of tax deductions on grant-date fair value	596	663
Total benefit of tax deductions	$ 527	$ 98

6. Investment Securities

Investment securities were $2.2 billion at March 31, 2013, compared to $2.1 billion at December 31, 2012. During the first quarter of 2013, due to the ongoing discussions regarding corporate income tax rates which could have a negative impact on the after-tax yields and fair values of the Company's portfolio of municipal securities, the Company determined it may sell such securities in response to market conditions. As a result, the Company reclassified its municipal securities from securities held-to-maturity to securities available-for-sale. Concurrent with this reclassification, the Company also reclassified all other securities held-to-maturity, which together with the municipal securities had an amortized cost on the date of transfer of $722.5 million, to securities available-for-sale. At the reclassification date, a net unrealized gain was recorded in other comprehensive income for these securities totaling $40.5 million.

The following table reflects the amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment securities as of March 31, 2013, and December 31, 2012:

	March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	$ 359,880	$ 234	$ -	$ 360,114
State and municipal securities	59,805	3,653	-	63,458
Mortgage-backed securities	1,449,816	42,335	1,553	1,490,598
Collateralized mortgage obligations	8,631	369	54	8,946
Asset-backed securities	136	-	4	132
Corporate debt securities	264,949	657	9,149	256,457
Mutual funds	6,000	48	13	6,035
Preferred stock of government sponsored entities	569	3,987	-	4,556
Total securities available-for-sale	$ 2,149,786	$ 51,283	$ 10,773	$ 2,190,296
Total investment securities	$ 2,149,786	$ 51,283	$ 10,773	$ 2,190,296

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Held-to-Maturity				
State and municipal securities	$ 129,037	$ 9,268	$ -	$ 138,305
Mortgage-backed securities	634,757	40,801	-	675,558
Corporate debt securities	9,974	69	-	10,043
Total securities held-to-maturity	$ 773,768	$ 50,138	$ -	$ 823,906
Securities Available-for-Sale				
U.S. treasury securities	$ 509,748	$ 228	$ 5	$ 509,971
Mortgage-backed securities	404,505	12,194	5	416,694
Collateralized mortgage obligations	9,772	430	34	10,168
Asset-backed securities	145	-	4	141
Corporate debt securities	349,973	106	14,102	335,977
Mutual funds	6,000	79	-	6,079
Preferred stock of government sponsored entities	569	1,766	-	2,335
Trust preferred securities	9,964	151	-	10,115
Total securities available-for-sale	$ 1,290,676	$ 14,954	$ 14,150	$ 1,291,480
Total investment securities	$ 2,064,444	$ 65,092	$ 14,150	$ 2,115,386

The amortized cost and fair value of investment securities at March 31, 2013, 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	$ 299,974	$ 300,139
Due after one year through five years	186,517	184,546
Due after five years through ten years	222,033	221,132
Due after ten years (1)	1,441,262	1,484,479
Total	$ 2,149,786	$ 2,190,296

(1) Equity securities are reported in this category

Proceeds from sales of mortgage-backed securities were zero and repayments, maturities and calls of mortgage-backed securities were $98.4 million during the first quarter of 2013 compared to proceeds from sales of $117.6 million and repayments, maturities, and calls of $94.2 million during the same quarter a year ago. Proceeds from sales of other investment securities were $320.2 million during the first quarter of 2013 compared to $30.6 million during the same quarter a year ago. Proceeds from maturity and calls of investment securities were $10.1 million during the first quarter of 2013 compared to $200.0 million during the same quarter a year ago. Gains of $6.3 million and no losses of were realized on sales and calls of investment securities during the first quarter of 2013 compared to gains of $2.8 million and losses of $595,000 realized for the same quarter a year ago.

The Company's unrealized loss on investments in corporate bonds relates to 27 issues of investments in bonds of financial institutions, all of which were investment grade at the date of acquisition and as of March 31, 2013. The unrealized losses were primarily caused by the widening of credit spreads since the dates of acquisition. The contractual terms of those investments do not permit the issuers to settle the security at a price less than the amortized cost of the investment. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that these bonds would not be settled at a price less than the amortized cost of the investment. Because the Company does not intend to sell and would not be required to sell these investments until a recovery of fair value, which may be at maturity, it does not consider its investments in these corporate bonds to be other-than-temporarily impaired at March 31, 2013.

The temporarily impaired securities represent 24.2% of the fair value of investment securities as of March 31, 2013. Unrealized losses for securities with unrealized losses for less than twelve months represent 0.5%, and securities with unrealized losses for twelve months or more represent 4.4%, of the historical cost of these securities. Unrealized losses on these securities generally resulted from increases in interest rate spreads subsequent to the date that these securities were purchased.

At March 31, 2013, management believed the impairment was temporary and, accordingly, no impairment loss 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.

The table below shows the fair value and unrealized losses of the temporarily impaired securities in our investment securities portfolio as of March 31, 2013, and December 31, 2012:

	March 31, 2013 Temporarily impaired securities					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Securities Available-for-Sale						
Mortgage-backed securities	$ 321,604	$ 1,551	$ 163	$ 1	$ 321,767	$ 1,552
Mortgage-backed securities-Non-agency	-	-	96	1	96	1
Collateralized mortgage obligations	-	-	417	54	417	54
Asset-backed securities	-	-	132	4	132	4
Corporate debt securities	9,855	145	195,996	9,004	205,851	9,149
Mutual funds	1,987	13	-	-	1,987	13
Total securities available-for-sale	$ 333,446	$ 1,709	$ 196,804	$ 9,064	$ 530,250	$ 10,773
Total investment securities	$ 333,446	$ 1,709	$ 196,804	$ 9,064	$ 530,250	$ 10,773

	December 31, 2012 Temporarily Impaired Securities					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Securities Held-to-Maturity						
Total securities held-to-maturity	$ -	$ -	$ -	$ -	$ -	$ -
Securities Available-for-Sale						
U.S. treasury securities	$ 49,969	$ 5	$ -	$ -	$ 49,969	$ 5
Mortgage-backed securities	231	1	170	1	401	2
Mortgage-backed securities-Non-agency	-	-	96	2	96	2
Collateralized mortgage obligations	-	-	439	35	439	35
Asset-backed securities	-	-	141	4	141	4
Corporate debt securities	52,468	2,532	253,430	11,570	305,898	14,102
	$ 102,668	$ 2,538	$ 254,276	$ 11,612	$ 356,944	$ 14,150

Total securities available-for-sale						
Total investment securities	$ 102,668	$ 2,538	$ 254,276	$ 11,612	$ 356,944	$ 14,150

Investment securities having a carrying value of $1.36 billion at March 31, 2013, and $1.45 billion at December 31, 2012, were pledged to secure public deposits, other borrowings, treasury tax and loan, Federal Home Loan Bank advances, securities sold under agreements to repurchase, interest rate swaps, and foreign exchange transactions.

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; 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 secured collateral.

The components of loans in the condensed consolidated balance sheets as of March 31, 2013, and December 31, 2012, were as follows:

	March 31, 2013	December 31, 2012
	(In thousands)	
Type of Loans:		
Commercial loans	$ 2,031,789	$ 2,127,107
Residential mortgage loans	1,183,460	1,146,230
Commercial mortgage loans	3,759,580	3,768,452
Equity lines	191,462	193,852
Real estate construction loans	184,067	180,950
Installment and other loans	13,982	12,556
Gross loans	7,364,340	7,429,147
Less:		
Allowance for loan losses	(178,692)	(183,322)
Unamortized deferred loan fees	(10,186)	(10,238)
Total loans, net	$ 7,175,462	$ 7,235,587

At March 31, 2013, recorded investment in impaired loans totaled $230.5 million and was comprised of non-accrual loans of $100.3 million, and accruing troubled debt restructured ("TDR") loans of $130.2 million. At December 31, 2012, recorded investment in impaired loans totaled $248.6 million and was comprised of non-accrual loans of $103.9 million and accruing TDR's of $144.7 million. For impaired loans, the amounts previously charged off represent 22.1% at March 31, 2013, and 23.2% at December 31, 2012, 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 Three months ended March 31,		Interest Income Recognized Three months ended March 31,	
	2013	2012	2013	2012
	(In thousands)			
Commercial loans	$ 22,126	$ 45,142	$ 183	$ 257
Real estate construction loans	42,068	66,455	66	176
Commercial mortgage loans	162,257	184,867	1,562	1,088
Residential mortgage and equity lines	17,797	17,715	84	40
Total	$ 244,248	$ 314,179	$ 1,895	$ 1,561

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

	Impaired Loans					
	March 31, 2013			December 31, 2012		
	Unpaid Principal Balance	Recorded Investment	Allowance	Unpaid Principal Balance	Recorded Investment	Allowance
	(In thousands)					
With no allocated allowance						
Commercial loans	$ 14,437	$ 12,294	$ -	$ 29,359	$ 18,963	$ -
Real estate construction loans	9,304	7,277	-	9,304	7,277	-
Commercial mortgage loans	153,872	120,563	-	189,871	152,957	-
Residential mortgage and equity lines	3,643	3,633	-	4,303	4,229	-
Subtotal	$ 181,256	$ 143,767	$ -	$ 232,837	$ 183,426	$ -
With allocated allowance						
Commercial loans	$ 11,854	$ 7,180	$ 1,717	$ 7,804	$ 4,959	$ 1,467
Real estate construction loans	54,657	34,795	8,080	54,718	34,856	8,158
Commercial mortgage loans	31,407	30,187	6,242	14,163	12,928	1,336
Residential mortgage and equity lines	16,704	14,615	1,318	14,264	12,428	1,222
Subtotal	$ 114,622	$ 86,777	$ 17,357	$ 90,949	$ 65,171	$ 12,183
Total impaired loans	$ 295,878	$ 230,544	$ 17,357	$ 323,786	$ 248,597	$ 12,183

The following table presents the aging of the loan portfolio by type as of March 31, 2013, and as of December 31, 2012:

	March 31, 2013						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
Type of Loans:	(In thousands)						
Commercial loans	$ 15,766	$ -	$ 333	$ 13,192	$ 29,291	$ 2,002,498	$ 2,031,789
Real estate construction loans	634	-	-	36,237	36,871	147,196	184,067
Commercial mortgage loans	56,343	4,133	467	39,221	100,164	3,659,416	3,759,580
Residential mortgage loans	11,189	1,134	-	11,679	24,002	1,350,920	1,374,922

Installment and other loans	-	-	-	-	-	13,982	13,982
Total loans	$ 83,932	$ 5,267	$ 800	$ 100,329	$ 190,328	$ 7,174,012	$ 7,364,340

	December 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
Type of Loans:				(In thousands)			
Commercial loans	$ 16,832	$ 1,610	$ 630	$ 19,958	$ 39,030	$ 2,088,077	$ 2,127,107
Real estate construction loans	-	1,471	-	36,299	37,770	143,180	180,950
Commercial mortgage loans	21,570	3,627	-	35,704	60,901	3,707,551	3,768,452
Residential mortgage loans	5,324	1,972	-	11,941	19,237	1,320,845	1,340,082
Installment and other loans	-	-	-	-	-	12,556	12,556
Total loans	$ 43,726	$ 8,680	$ 630	$ 103,902	$ 156,938	$ 7,272,209	$ 7,429,147

The determination of the amount of the allowance for credit 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 collectibility 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. This allowance evaluation process is also applied to troubled debt restructurings since they are considered to be impaired loans.

A troubled debt restructuring ("TDR") 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.

At March 31, 2013, accruing TDRs were $130.2 million and non-accrual TDRs were $49.9 million compared to accruing TDRs of $144.7 million and non-accrual TDRs of $47.7 million at December 31, 2012. The Company allocated specific reserves of $4.7 million to accruing TDRs and $7.6 million to non-accrual TDRs at March 31, 2013, and $1.1 million to accruing TDRs and $7.8 million to non-accrual TDRs at December 31, 2012. The following table presents TDRs that were modified during the first quarter of 2013 and 2012, their specific reserve at March 31, 2013, and charge-offs during the first quarters of 2013 and 2012:
`

	Three months ended March 31, 2013				March 31, 2013
	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Charge-offs	Specific Reserve
			(Dollars in thousands)		
Commercial loans	4	4,007	4,007	$-	$61
Commercial mortgage loans	2	1,175	1,175	-	10
Residential mortgage and equity lines	6	1,696	1,696	-	265
Total	12	$ 6,878	$ 6,878	$-	$336

	Three months ended March 31, 2012				March 31, 2012
	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Charge-offs	Specific Reserve
			(Dollars in thousands)		
Commercial loans	5	$ 1,988	$ 1,988	$-	$68
Commercial mortgage loans	9	26,693	23,375	3,318	268
Residential mortgage and equity lines	2	1,587	1,587	-	-
Total	16	$ 30,268	$ 26,950	$3,318	$336

Modifications of the loan terms during the first quarter of 2013 were in the form of changes in the stated interest rate, and in payment terms to interest only from principal and interest, multiple note structure, and shortening of the maturity date. The length of time for which modifications involving a reduction of the stated interest rate were documented ranged from six months to twelve months from the modification date. Modifications involving a shortening of the maturity date were for periods up to three years from the modification date, adjusted from longer term original maturity dates of over 25 years.

We expect that the TDR loans on accruing status as of March 31, 2013, 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, 2013, and December 31, 2012, is shown below:

	March 31, 2013			
Accruing TDRs	Principal Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total
		(In thousands)		
Commercial loans	$ 491	$ 2,994	$ 2,797	$ 6,282
Real estate construction loans	-	-	5,834	5,834
Commercial mortgage loans	27,565	16,153	67,812	111,530
Residential mortgage loans	1,455	1,604	3,510	6,569
Total accruing TDRs	$ 29,511	$ 20,751	$ 79,953	$ 130,215

	March 31, 2013					
Non-accrual TDRs	Interest Deferral	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
			(In thousands)			
Commercial loans	$ -	$ 2,425	$ -	$ 1,475	$ -	$ 3,900
Real estate construction loans	-	16,577	9,449	-	-	26,026
Commercial mortgage loans	1,606	2,777	5,067	-	7,088	16,538
Residential mortgage loans	267	2,146	295	-	706	3,414
Total non-accrual TDRs	$ 1,873	$ 23,925	$ 14,811	$ 1,475	$ 7,794	$ 49,878

	December 31, 2012				
Accruing TDRs	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
		(In thousands)			
Commercial loans	$ 531	$ 3,020	$ -	$ 413	$ 3,964
Real estate construction loans	-	-	-	5,834	5,834
Commercial mortgage loans	27,003	16,656	739	85,783	130,181
Residential mortgage loans	1,461	1,024	-	2,231	4,716
Total accruing TDRs	$ 28,995	$ 20,700	$ 739	$ 94,261	$ 144,695

	December 31, 2012					
Non-accrual TDRs	Interest Deferral	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
	(In thousands)					
Commercial loans	$ -	$ 912	$ -	$ 1,518	$ -	$ 2,430
Real estate construction loans	-	16,767	9,579	-	-	26,346
Commercial mortgage loans	1,685	2,817	5,746	-	5,076	15,324
Residential mortgage loans	275	2,010	586	-	760	3,631
Total non-accrual TDRs	$ 1,960	$ 22,506	$ 15,911	$ 1,518	$ 5,836	$ 47,731

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

	Three months ended March 31,	
Accruing TDRs	2013	2012
	(In thousands)	
Beginning balance	$ 144,695	$ 120,016
New restructurings	4,816	21,712
Restructured loans restored to accrual status	630	2,853
Payments	(17,892)	(1,348)
Restructured loans placed on nonaccrual	(2,034)	-
Ending balance	$ 130,215	$ 143,233

	Three months ended March 31,	
Non-accrual TDRs	2013	2012
	(In thousands)	
Beginning balance	$ 47,731	$ 50,870
New restructurings	2,062	5,238
Restructured loans placed on nonaccrual	2,034	-
Charge-offs	(679)	(4,018)
Payments	(640)	(27,694)
Restructured loans restored to accrual status	(630)	(2,853)
Ending balance	$ 49,878	$ 21,543

A loan is considered to be in payment default once it is 60 to 90 days contractually past due under the modified terms. One land loan of $2.0 million and two commercial loans of $111,000 were modified as TDRs within the previous twelve months and subsequently defaulted as of March 31, 2013, for the three months ended March 31, 2013. Collectively, these three TDRs did not incur any charge-offs within the twelve months ended March 31, 2013.

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

As of March 31, 2013, there were no commitments to lend additional funds to those borrowers whose loans have 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 pledged 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 table presents loan portfolio by risk rating as of March 31, 2013, and as of December 31, 2012:

	March 31, 2013				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
	(In thousands)				
Commercial loans	$ 1,870,832	$ 72,872	$ 82,957	$ 5,128	$ 2,031,789
Real estate construction loans	120,395	17,692	37,212	8,768	184,067
Commercial mortgage loans	3,360,744	148,987	249,608	241	3,759,580
Residential mortgage and equity lines	1,358,500	1,915	14,106	401	1,374,922
Installment and other loans	13,982	-	-	-	13,982
Total gross loans	$ 6,724,453	$ 241,466	$ 383,883	$ 14,538	$ 7,364,340

	December 31, 2012				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
	(In thousands)				
Commercial loans	$ 1,944,989	$ 76,776	$ 94,077	$ 11,265	$ 2,127,107
Real estate construction loans	109,269	18,000	45,171	8,510	180,950
Commercial mortgage loans	3,344,783	162,455	261,214	-	3,768,452
Residential mortgage and equity lines	1,322,768	816	16,084	414	1,340,082
	12,556	-	-	-	12,556

Installment and other loans					
Total gross loans	$ 6,734,365	$ 258,047	$ 416,546	$ 20,189	$ 7,429,147

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

The following table presents the balance in the allowance for loan losses by portfolio segment and based on impairment method as of March 31, 2013, and as of December 31, 2012.

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
			(In thousands)			
March 31, 2013						
Loans individually evaluated for impairment						
Allowance	$ 1,717	$ 8,080	$ 6,242	$ 1,318	$ -	$ 17,357
Balance	$ 19,474	$ 42,071	$ 150,750	$ 18,249	$ -	$ 230,544
Loans collectively evaluated for impairment						
Allowance	$ 59,339	$ 12,617	$ 78,574	$ 10,773	$ 32	$ 161,335
Balance	$ 2,012,315	$ 141,996	$ 3,608,830	$ 1,356,673	$ 13,982	$ 7,133,796
Total allowance	$ 61,056	$ 20,697	$ 84,816	$ 12,091	$ 32	$ 178,692
Total balance	$ 2,031,789	$ 184,067	$ 3,759,580	$ 1,374,922	$ 13,982	$ 7,364,340
December 31, 2012						
Loans individually evaluated for impairment						
Allowance	$ 1,467	$ 8,158	$ 1,336	$ 1,222	$ -	$ 12,183
Balance	$ 23,922	$ 42,133	$ 165,885	$ 16,657	$ -	$ 248,597
Loans collectively evaluated for impairment						
Allowance	$ 64,634	$ 14,859	$ 81,137	$ 10,481	$ 28	$ 171,139
Balance	$ 2,103,185	$ 138,817	$ 3,602,567	$ 1,323,425	$ 12,556	$ 7,180,550
Total allowance	$ 66,101	$ 23,017	$ 82,473	$ 11,703	$ 28	$ 183,322
Total balance	$ 2,127,107	$ 180,950	$ 3,768,452	$ 1,340,082	$ 12,556	$ 7,429,147

The following table details activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2013, and March 31, 2012. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

21

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage and Equity Lines	Installment and Other Loans	Total
			(In thousands)			
2013 Beginning Balance	$ 66,101	$ 23,017	$ 82,473	$ 11,703	$ 28	$ 183,322
Provision/(credit) for possible credit losses	(3,310)	(2,399)	2,968	795	4	(1,942)
Charge-offs	(2,690)	-	(990)	(410)	-	(4,090)
Recoveries	955	79	365	3	-	1,402
Net (charge-offs)/recoveries	(1,735)	79	(625)	(407)	-	(2,688)
March 31, 2013 Ending Balance	$ 61,056	$ 20,697	$ 84,816	$ 12,091	$ 32	$ 178,692
Reserve for impaired loans	$ 1,717	$ 8,080	$ 6,242	$ 1,318	$ -	$ 17,357
Reserve for non-impaired loans	$ 59,339	$ 12,617	$ 78,574	$ 10,773	$ 32	$ 161,335
Reserve for off-balance sheet credit commitments	$ 837	$ 311	$ 2,122	$ 33	$ 2	$ 3,305
2012 Beginning Balance	$ 65,658	$ 21,749	$ 108,021	$ 10,795	$ 57	$ 206,280
Provision/(credit) for possible credit losses	(1,041)	(6,439)	4,318	(260)	15	(3,407)
Charge-offs	(4,959)	(875)	(8,222)	(779)	(25)	(14,860)
Recoveries	746	3,557	2,058	366	3	6,730
Net (charge-offs)/recoveries	(4,213)	2,682	(6,164)	(413)	(22)	(8,130)
March 31, 2012 Ending Balance	$ 60,404	$ 17,992	$ 106,175	$ 10,122	$ 50	$ 194,743
Reserve for impaired loans	$ 1,272	$ -	$ 2,529	$ 1,806	$ -	$ 5,607
Reserve for non-impaired loans	$ 59,119	$ 17,993	$ 103,657	$ 8,317	$ 50	$ 189,136
Reserve for off-balance sheet credit commitments	$ 720	$ 635	$ 84	$ 34	$ 2	$ 1,475

8. Commitments and Contingencies

The Company is involved in various litigation concerning transactions entered into during 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. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase were $1.15 billion with a weighted average rate of 3.78% at March 31, 2013, compared to $1.3 billion with a weighted average rate of 3.84% at December 31, 2012. In 2012, the Company modified $200.0 million of securities sold under agreements to repurchase by extending the term by an additional four years on average, reducing the rate by an average of 168 basis points and removing the callable feature. In 2012, the Company prepaid securities sold under agreements to repurchase totaling $150 million with a weighted average rate of 4.43% and incurred prepayment penalties of $9.4 million. In the first quarter of 2013, the Company prepaid securities sold under agreements to repurchase totaling $100 million with a weighted average rate of 4.61% and incurred prepayment penalties of $5.6 million. Five floating-to-fixed rate agreements totaling $300.0 million have initial floating rates for a period of time ranging from six months to one year, with floating rates ranging from the three-month LIBOR minus 200 basis points to three-month LIBOR minus 340 basis points. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.78% to 5.07%. After the initial floating rate term, the counter parties have the right to terminate the transaction at par at the fixed rate reset date and quarterly thereafter. Thirteen fixed-to-floating rate agreements totaling $650.0 million have initial fixed rates ranging from 1.00% to 3.50% with initial fixed rate terms ranging from six months to 18 months. For the remaining term, the rates float at 8% minus the three-month LIBOR rate with a maximum rate ranging from 3.25% to 3.79% and minimum rate of 0.0%. After the initial fixed rate term, the counter parties have the right to terminate the transaction at par at the floating rate reset date and quarterly thereafter. The table below provides summary data for the $950 million of callable securities sold under agreements to repurchase as of March 31, 2013:

(Dollars in millions)	Fixed-to-floating						Floating-to-fixed		Total
Rate type	Float Rate						Fixed Rate		
Rate index	8% minus 3 month LIBOR								
Maximum rate	3.79 %	3.53 %	3.50 %	3.50 %	3.53 %	3.25 %			
Minimum rate	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %			
No. of agreements	3	1	4	3	1	1	1	4	18
Amount	$ 150.0	$ 50.0	$ 200.0	$ 150.0	$ 50.0	$ 50.0	$ 100.0	$ 200.0	$ 950.0
Weighted average rate	3.78 %	3.53 %	3.50 %	3.50 %	3.53 %	3.25 %	4.78 %	5.00 %	3.98 %
Final maturity	2014	2014	2014	2015	2015	2015	2014	2017	

The table below provides summary data for non-callable fixed rate securities sold under agreements to repurchase as of March 31, 2013:

Maturity	No. of Agreements	Amount (In thousands)	Weighted Average Interest Rate
3 years to 5 years	2	$ 100,000	2.71 %
Over 5 years	2	100,000	2.86 %
Total	4	$ 200,000	2.78 %

These transactions are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The Company may have to provide additional collateral for the repurchase agreements, as necessary. The underlying collateral pledged for the repurchase agreements consists of U.S. Treasury securities, U.S. government agency security debt, and mortgage-backed securities with a fair value of $1.3 billion as of March 31, 2013, and $1.4 billion as of December 31, 2012.

10. Income Taxes

Income tax expense totaled $16.9 million, or an effective tax rate of 36.9%, for the first quarter of 2013, compared to an income tax expense of $16.5 million, or an effective tax rate of 36.4%, for the same period a year ago. The effective tax rate includes the impact of the utilization of low income housing tax credits and recognition of other tax credits for both years.

As of December 31, 2012, the Company had income tax refunds receivable of $12.4 million. These income tax receivables are included in other assets in the accompanying consolidated balance sheets.

The Company's tax returns are open for audits by the Internal Revenue Service back to 2010 and by the California Franchise Tax Board back to 2003. The Company is under audit by the California Franchise Tax Board for the years 2003 to 2007. 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 judgments about the assumptions that a market participant would use.

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

Securities Available for Sale. For certain actively traded agency preferred stocks, 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.

Trading Securities. The Company measures the fair value of trading securities based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement. The Company also measures the fair value for other trading securities based on quoted market prices for similar securities or dealer quotes, a Level 2 measurement.

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

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

Interest Rate Swaps. Fair value of interest rate swaps is derived from observable market prices for similar assets on a recurring basis, a Level 2 measurement.

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

Impaired Loans. The Company does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on either the current appraised value of the collateral, a Level 2 measurement, or management's judgment and estimation of value reported on 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 our three reporting units— Commercial Lending, Retail Banking, and East Coast Operations. The Company then completes "step one" of the impairment test by comparing the fair value of each reporting unit (as determined based on the discussion below) with the recorded book value (or "carrying amount") of its net assets, with goodwill included in the computation of the carrying amount. If the fair value of a reporting unit exceeds its carrying amount, goodwill of that reporting unit is not considered impaired, and "step two" of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, step two of the impairment test is performed to determine the amount of impairment. Step two of the impairment test compares the carrying amount of the reporting unit's goodwill to the "implied fair value" of that goodwill. The implied fair value of goodwill is computed by assuming 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 table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of March 31, 2013, and December 31, 2012:

March 31, 2013	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	$ 360,114	$ -	$ -	$ 360,114
State and municipal securities	-	63,458	-	63,458
Mortgage-backed securities	-	1,490,598	-	1,490,598
Collateralized mortgage obligations	-	8,946	-	8,946
Asset-backed securities	-	132	-	132
Corporate debt securities	-	256,457	-	256,457
Mutual funds	6,035	-	-	6,035
Preferred stock of government sponsored entities	-	4,556	-	4,556
Total securities available-for-sale	366,149	1,824,147	-	2,190,296
Trading securities	-	4,758	-	4,758
Warrants	-	-	98	98
Option contracts	-	8	-	8
Foreign exchange contracts	-	2,987	-	2,987
Total assets	$ 366,149	$ 1,831,900	$ 98	$ 2,198,147
Liabilities				

Option contracts	$	-	$	2	$	-	$	2
Foreign exchange contracts		-		1,850		-		1,850
Total liabilities	$	-	$	1,852	$	-	$	1,852

26

December 31, 2012	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	$ 509,971	$ -	$ -	$ 509,971
Mortgage-backed securities	-	416,694	-	416,694
Collateralized mortgage obligations	-	10,168	-	10,168
Asset-backed securities	-	141	-	141
Corporate debt securities	-	335,977	-	335,977
Mutual funds	6,079	-	-	6,079
Preferred stock of government sponsored entities	-	2,335	-	2,335
Trust preferred securities	10,115	-	-	10,115
Other equity securities	-	-	-	-
Total securities available-for-sale	526,165	765,315	-	1,291,480
Trading securities	-	4,703	-	4,703
Warrants	-	-	104	104
Option contracts	-	-	-	-
Foreign exchange contracts	-	2,924	-	2,924
Total assets	$ 526,165	$ 772,942	$ 104	$ 1,299,211
Liabilities				
Option contracts	$ -	$ 2	$ -	$ 2
Foreign exchange contracts	-	1,586	-	1,586
Total liabilities	$ -	$ 1,588	$ -	$ 1,588

The Company measured the fair value of its warrants on a recurring basis using significant unobservable inputs. The fair value of warrants was $98,000 at March 31, 2013, compared to $104,000 at December 31, 2012. The fair value adjustment of warrants was included in other operating income in the first quarter of 2013.

For financial assets measured at fair value on a nonrecurring basis that were still reflected in the balance sheet at March 31, 2013, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets as of March 31, 2013, and December 31, 2012, and the total losses/(gains) for the periods indicated:

	March 31, 2013 Fair Value Measurements Using			Total at	Total Losses/(gains) Three months ended	
	Level 1	Level 2	Level 3	Fair Value	March 31, 2013	March 31, 2012
	(In thousands)					
Assets						
Impaired loans by type:						
Commercial loans	$ -	$ -	$ 5,463	$ 5,463	$ 463	$ 859
Commercial mortgage loans	-	-	23,736	23,736	41	-
Construction- residential	-	-	500	500	-	-
Construction- other	-	-	46,162	46,162	-	-
Real estate loans	-	-	-	-	-	1,357
Residential mortgage and equity lines	-	-	13,299	13,299	189	526
Land loans	-	-	208	208	48	-
Total impaired loans	-	-	89,368	89,368	741	2,742
Other real estate owned (1)	-	24,892	4,515	29,407	(66)	2,824
Investments in venture capital	-	-	9,026	9,026	92	137
Equity investments	142	-	-	142	-	-
Total assets	$ 142	$ 24,892	$ 102,909	$ 127,943	$ 767	$ 5,703

(1) Other real estate owned balance of $45.3 million in the consolidated balance sheet is net of estimated disposal costs.

	December 31, 2012 Fair Value Measurements Using			Total at	Total Losses Twelve months ended	
	Level 1	Level 2	Level 3	Fair Value	December 31, 2012	December 31, 2011
	(In thousands)					
Assets						
Impaired loans by type:						
Commercial loans	$ -	$ -	$ 3,492	$ 3,492	$ -	$ 877
Commercial mortgage loans	-	-	11,295	11,295	440	-
Construction- residential	-	-	500	500	-	-
Construction- other	-	-	46,153	46,153	65	-
Residential mortgage and equity lines	-	-	11,206	11,206	605	820

Land loans	-	-	297	297	162	46
Total impaired loans	-	-	72,943	72,943	1,272	1,743
Other real estate owned (1)	-	27,149	4,841	31,990	10,904	7,003
Investments in venture capital	-	-	9,001	9,001	309	379
Equity investments	142	-	-	142	181	200
Total assets	$ 142	$ 27,149	$ 86,785	$ 114,076	$ 12,666	$ 9,325

(1) Other real estate owned balance of $46.4 million in the 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 six 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 45% 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 commission 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 O