CATHAY GENERAL BANCORP
Form 10-Q
November 07, 2016
UNITED STATES

securities and exchange commission

Washington, D.C. 20549

form 10-q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from ___ to ___

Commission file number 001-31830

Cathay General Bancorp

(Exact name of registrant as specified in its charter)

Delaware	95-4274680
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
777 North Broadway, Los Angeles, California	90012
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(213) 625-4700

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

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

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

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

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

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

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

Common stock, $.01 par value, 78,890,065 shares outstanding as of October 31, 2016.

CATHAY GENERAL BANCORP AND SUBSIDIARies

3RD quarter 2016 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, investment and expenditure plans, financing needs and availability, and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as “aims,” “anticipates,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “hopes,” “i
“optimistic,” “plans,” “potential,” “possible,” “predicts,” “projects,” “seeks,” “shall,” “should,” “will,” and variations of these
similar expressions are intended to identify these forward-looking statements. Forward-looking statements by us are based on estimates, beliefs, projections, and assumptions of management and are not guarantees of future performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Such risks and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

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

fluctuations in interest rates;

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

inflation and deflation;

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

environmental liabilities;

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

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

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

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (Unaudited)

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)	September 30, 2016	December 31, 2015
Assets		
Cash and due from banks	$203,877	$180,130
Short-term investments and interest bearing deposits	791,757	536,880
Securities available-for-sale (amortized cost of $1,283,808 in 2016 and $1,595,723 in 2015)	1,298,469	1,586,352
Loans held for sale	4,750	6,676
Loans	11,010,457	10,163,452
Less: Allowance for loan losses	(117,942)	(138,963)
Unamortized deferred loan fees, net	(5,519)	(8,262)
Loans, net	10,886,996	10,016,227
Federal Home Loan Bank stock	18,900	17,250
Other real estate owned, net	20,986	24,701
Affordable housing investments and alternative energy partnerships, net	225,535	182,943
Premises and equipment, net	106,885	108,924
Customers' liability on acceptances	13,339	40,335
Accrued interest receivable	31,868	30,558
Goodwill	372,189	372,189
Other intangible assets, net	3,158	3,677
Other assets	120,080	147,284
Total assets	$14,098,789	$13,254,126
Liabilities and Stockholders' Equity		
Deposits		
Non-interest-bearing demand deposits	$2,246,661	$2,033,048
Interest-bearing deposits:		
Demand deposits	1,073,436	966,404
Money market deposits	2,131,190	1,905,719
Savings deposits	633,345	618,164
Time deposits	4,854,064	4,985,752

Total deposits	10,938,696	10,509,087
Securities sold under agreements to repurchase	350,000	400,000
Advances from the Federal Home Loan Bank	700,000	275,000
Other borrowings for affordable housing investments	17,705	18,593
Long-term debt	119,136	119,136
Acceptances outstanding	13,339	40,335
Other liabilities	166,474	144,197
Total liabilities	12,305,350	11,506,348
Commitments and contingencies	-	-
Stockholders’ Equity		
Common stock, $0.01 par value, 100,000,000 shares authorized, 87,090,319 issued and 78,879,676 outstanding at September 30, 2016, and 87,002,931 issued and 80,806,116 outstanding at December 31, 2015	871	870
Additional paid-in-capital	886,081	880,822
Accumulated other comprehensive income/(loss), net	1,903	(8,426)
Retained earnings	1,144,173	1,059,660
Treasury stock, at cost (8,210,643 shares at September 30, 2016, and 6,196,815 shares at December 31, 2015)	(239,589)	(185,148)
Total equity	1,793,439	1,747,778
Total liabilities and equity	$14,098,789	$13,254,126

See accompanying notes to unaudited condensed consolidated financial statements

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CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME

(Unaudited)

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

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

See accompanying notes to unaudited condensed consolidated financial statements

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business

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

2. Basis of Presentation

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

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

3. Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

4. Earnings per Share

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

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

5. Stock-Based Compensation

Under the Company’s equity incentive plans, directors and eligible employees may be granted incentive or non-statutory stock options and/or restricted stock units, or awarded non-vested stock. As of September 30, 2016, the only options granted by the Company were non-statutory stock options to selected Bank officers and non-employee directors at exercise prices equal to the fair market value of a share of the Company's common stock on the date of grant. Such options have a maximum ten-year term and vest in 20% annual increments (subject to early termination in certain events) except certain options granted to the Chief Executive Officer of the Company in 2005 and 2008. There were no options granted during the first nine months of 2016 or 2015.

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

	Shares	**Weighted-average Exercise Price**	**Weighted-average Remaining Contractual Life (in years)**	**Aggregate Intrinsic Value (in thousands)**
Balance, December 31, 2015	1,031,170	$ 31.27	0.9	$ 3,268
Exercised	(2,110)	23.37		
Forfeited	(608,670)	36.46		
Balance, March 31, 2016	420,390	$ 23.80	1.8	$ 2,026
Forfeited	(12,000)	38.26		
Balance, June 30, 2016	408,390	$ 23.37	1.6	$ 1,973
Exercised	-	-		
Forfeited	-	-		
Balance, September 30, 2016	408,390	$ 23.37	1.4	$ 3,026
Exercisable, September 30, 2016	408,390	$ 23.37	1.4	$ 3,026

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

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

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

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

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

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

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

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

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

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

6. Investment Securities

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

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

	December 31, 2015			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	$284,678	$ 5	$ 395	$284,288
U.S. government sponsored entities	150,000	-	1,840	148,160
Mortgage-backed securities	1,073,108	560	11,399	1,062,269
Collateralized mortgage obligations	63	-	27	36
Corporate debt securities	74,955	425	1,525	73,855
Mutual funds	6,000	-	167	5,833

Preferred stock of government sponsored entities	2,811	633	228	3,216
Other equity securities	4,108	4,929	342	8,695
Total	$1,595,723	$ 6,552	$ 15,923	$1,586,352

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

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

[1] Equity securities are reported in this category

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

The tables below show the fair value and unrealized losses of the temporarily impaired securities in our investment securities portfolio as of September 30, 2016, and December 31, 2015:

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

	December 31, 2015 Temporarily impaired securities					
	Less than 12 months		**12 months or longer**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
	(in thousands)					
Securities Available-for-Sale						
U.S. treasury securities	$224,289	$ 395	$-	$ -	$224,289	$ 395
U.S. government sponsored entities	148,160	1,840	-	-	148,160	1,840
Mortgage-backed securities	1,025,342	11,398	6	1	1,025,348	11,399
Collateralized mortgage obligations	-	-	36	27	36	27
Corporate debt securities	9,950	50	43,525	1,475	53,475	1,525
Mutual funds	-	-	5,833	167	5,833	167
	2,488	228	-	-	2,488	228

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

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

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

7. Loans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-accrual TDRs	September 30, 2016 Payment Deferral	Rate Reduction and Payment Deferral	Total
	(In thousands)		
Commercial loans	$3,477	$ 90	$3,567
Commercial mortgage loans	1,508	15,260	16,768
Residential mortgage loans	364	171	535
Total non-accrual TDRs	$5,349	$ 15,521	$20,870

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

Non-accrual TDRs	December 31, 2015 Payment Deferral	Rate Reduction and	Total

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	December 31, 2015				
	Pass/Watch	**Special Mention**	**Substandard**	**Doubtful**	**Total**
	(In thousands)				
Commercial loans	$2,143,270	$110,338	$ 61,297	$ 1,958	$2,316,863
Real estate construction loans	413,765	5,776	21,502	500	441,543
Commercial mortgage loans	5,018,199	155,553	118,196	9,270	5,301,218
Residential mortgage loans and equity lines	2,091,434	399	9,502	-	2,101,335
Installment and other loans	2,493				