

CATHAY GENERAL BANCORP
Form 10-Q
August 06, 2015

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 June 30, 2015

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

(State of other jurisdiction of incorporation

95-4274680

(I.R.S. Employer

or organization)

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
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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).

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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, 82,606,382 shares outstanding as of August 3, 2015.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

2ND quarter 2015 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,” “intends,” “may,” “might,” “plans,” “potential,” “possible,” “predicts,” “projects,” “seeks,” “shall,” “should,” “will,” and variations of these words and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by us are based on estimates, beliefs, projections, and assumptions of management and are not guarantees of future performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Such risks and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

U.S. and international business and economic conditions;

possible additional provisions for loan losses and charge-offs;

credit risks of lending activities and deterioration in asset or credit quality;

extensive laws and regulations and supervision that we are subject to, including potential supervisory action by bank supervisory authorities;

increased costs of compliance and other risks associated with changes in regulation, including the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”);

higher capital requirements from the implementation of the Basel III capital standards;

compliance with the Bank Secrecy Act and other money laundering statutes and regulations;

potential goodwill impairment;

liquidity risk;

fluctuations in interest rates;

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

inflation and deflation;

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

environmental liabilities;

our ability to compete 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, 2014 (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)	June 30, 2015	December 31, 2014
Assets		
Cash and due from banks	\$ 166,933	\$ 176,830
Short-term investments and interest bearing deposits	48,711	489,614
Securities available-for-sale (amortized cost of \$1,547,642 in 2015 and \$1,324,408 in 2014)	1,545,699	1,318,935
Loans held for sale	-	973
Loans	9,502,008	8,914,080
Less: Allowance for loan losses	(153,437)	(161,420)
Unamortized deferred loan fees, net	(10,207)	(12,392)
Loans, net	9,338,364	8,740,268
Federal Home Loan Bank stock	17,250	30,785
Other real estate owned, net	23,839	31,477
Affordable housing investments and alternative energy partnerships, net	160,419	104,579
Premises and equipment, net	97,616	99,682
Customers' liability on acceptances	26,378	35,656
Accrued interest receivable	27,747	25,364
Goodwill	316,340	316,340
Other intangible assets, net	2,948	3,237
Other assets	146,072	143,106
Total assets	\$ 11,918,316	\$ 11,516,846
Liabilities and Stockholders' Equity		
Deposits		
Non-interest-bearing demand deposits	\$ 1,671,970	\$ 1,664,914
Interest-bearing deposits:		
NOW deposits	871,126	778,691
Money market deposits	1,682,999	1,538,187
Savings deposits	562,602	533,940

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Time deposits	4,550,166	4,267,728
Total deposits	9,338,863	8,783,460
Securities sold under agreements to repurchase	400,000	450,000
Advances from the Federal Home Loan Bank	210,000	425,000
Other borrowings for affordable housing investments	20,261	19,934
Long-term debt	119,136	119,136
Acceptances outstanding	26,378	35,656
Other liabilities	134,613	80,772
Total liabilities	10,249,251	9,913,958
Commitments and contingencies	-	-
Stockholders' Equity		
Common stock, \$0.01 par value, 100,000,000 shares authorized, 84,232,727 issued and 80,025,162 outstanding at June 30, 2015, and 84,022,118 issued and 79,814,553 outstanding at December 31, 2014	842	840
Additional paid-in-capital	790,897	789,519
Accumulated other comprehensive loss, net	(2,782)	(5,569)
Retained earnings	1,005,844	943,834
Treasury stock, at cost (4,207,565 shares at June 30, 2015, and at December 31, 2014)	(125,736)	(125,736)
Total equity	1,669,065	1,602,888
Total liabilities and equity	\$11,918,316	\$11,516,846

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 June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands, except share and per share data)			
Interest and Dividend Income				
Loans receivable, including loan fees	\$ 104,995	\$ 97,454	\$ 205,095	\$ 190,186
Investment securities	5,346	6,708	9,120	14,284
Federal Home Loan Bank stock	1,677	421	2,258	871
Deposits with banks	368	479	847	928
Total interest and dividend income	112,386	105,062	217,320	206,269
Interest Expense				
Time deposits	9,122	8,637	17,914	17,038
Other deposits	3,019	2,540	5,793	4,831
Securities sold under agreements to repurchase	3,934	6,943	7,859	13,873
Advances from Federal Home Loan Bank	117	497	210	696
Long-term debt	1,440	828	2,864	1,556
Total interest expense	17,632	19,445	34,640	37,994
Net interest income before reversal for credit losses	94,754	85,617	182,680	168,275
Reversal for loan losses	(2,150)	(3,700)	(7,150)	(3,700)
Net interest income after reversal for credit losses	96,904	89,317	189,830	171,975
Non-Interest Income				
Securities (losses)/gains, net	(3,332)	506	(3,353)	6,466
Letters of credit commissions	1,391	1,520	2,659	2,988
Depository service fees	1,293	1,306	2,594	2,669
Other operating income	6,267	5,689	12,268	11,457
Total non-interest income	5,619	9,021	14,168	23,580
Non-Interest Expense				
Salaries and employee benefits	24,463	23,391	47,079	46,842
Occupancy expense	3,986	3,896	8,007	7,758
Computer and equipment expense	2,292	2,534	4,794	4,836
Professional services expense	6,287	5,263	11,639	10,419
FDIC and State assessments	2,244	2,277	4,504	4,431
Marketing expense	1,321	1,519	2,141	2,083
Other real estate owned (income)/expense	(1,786)	(377)	(1,303)	382
Amortization of investments in low income housing and alternative energy partnerships	5,467	1,018	7,850	3,454

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Amortization of core deposit intangibles	147	124	324	296
Costs associated with debt redemption	-	(555)) -	2,821
Other operating expense	3,164	3,423	6,681	7,259
Total non-interest expense	47,585	42,513	91,716	90,581
Income before income tax expense	54,938	55,825	112,282	104,974
Income tax expense	9,738	20,741	31,102	38,631
Net income	\$45,200	35,084	81,180	66,343
Other comprehensive income, net of tax				
Unrealized holding (loss)/gain on securities available-for-sale	(6,395)	) 13,750	104	24,844
Less: reclassification adjustments included in net income	(1,931)	) 293	(1,943)	) 3,748
Unrealized holding gain/(loss) on cash flow hedge derivatives	2,328	(263)	) 740	(263)
Total other comprehensive (loss)/gain, net of tax	(2,136)	) 13,194	2,787	20,833
Total comprehensive income	\$43,064	\$48,278	\$83,967	\$87,176
Net income per common share:				
Basic	\$0.57	\$0.44	\$1.02	\$0.83
Diluted	\$0.56	\$0.44	\$1.01	\$0.83
Cash dividends paid per common share	\$0.14	\$0.07	\$0.24	\$0.12
Average common shares outstanding				
Basic	79,939,197	79,642,993	79,887,699	79,619,506
Diluted	80,698,994	80,046,471	80,505,265	80,042,946

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six months ended June 30	
	2015	2014
	(In thousands)	
Cash Flows from Operating Activities		
Net income	\$81,180	\$66,343
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Credit for loan losses	(7,150)	(3,700)
Provision for losses on other real estate owned	368	1,616
Deferred tax liability	8,797	10,483
Depreciation and amortization	6,864	3,896
Net gains on sale and transfer of other real estate owned	(2,003)	(2,373)
Net gains on sale of loans	(763)	(216)
Proceeds from sales of loans	19,170	9,914
Originations of loans held-for-sale	(17,433)	(9,699)
Net change in trading securities	-	4,936
Write-downs on venture capital investments	327	268
Write-downs on impaired securities	3,875	-
Net gains on sales and calls of securities	(522)	(6,466)
Amortization/accretion of security premiums/discounts, net	1,770	1,723
Excess tax short-fall from share-based payment arrangements	5,619	1,177
Stock based compensation and stock issued to officers as compensation	2,738	1,997
Net change in accrued interest receivable and other assets	(15,041)	(6,644)
Net change in other liabilities	(1,423)	(6,529)
Net cash provided by operating activities	86,373	66,726
Cash Flows from Investing Activities		
Decrease/(increase) in short-term investments	440,903	(286,638)
Purchase of investment securities available-for-sale	(1,223,504)	(350,834)
Proceeds from sale of investment securities available-for-sale	958,656	466,867
Proceeds from repayments, maturities and calls of investment securities available-for-sale	36,512	175,398
Purchase of Federal Home Loan Bank stock	-	(6,043)
Redemptions of Federal Home Loan Bank stock	13,535	5,371
Net increase in loans	(581,379)	(476,774)
Purchase of premises and equipment	(1,383)	(3,317)
Proceeds from sales of other real estate owned	10,139	17,931
Investment in affordable housing & alternative energy partnerships	(19,590)	(3,588)
Net cash used in investing activities	(366,111)	(461,627)
Cash Flows from Financing Activities		
Net increase in deposits	555,369	599,146

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Net decrease in federal funds purchased and securities sold under agreements to repurchase	(50,000)	(100,000)
Advances from Federal Home Loan Bank	4,632,000	6,452,400
Repayment of Federal Home Loan Bank borrowings	(4,847,000)	(6,452,400)
Cash dividends paid	(19,170)	(9,556)
Repayment of other borrowings	-	(2,000)
Proceeds from shares issued under Dividend Reinvestment Plan	2,752	875
Proceeds from exercise of stock options	1,713	-
Taxes paid related to net share settlement of RSUs	(204)	(274)
Excess tax short-fall from share-based payment arrangements	(5,619)	(1,177)
Net cash provided by financing activities	269,841	487,014
Increase in cash and cash equivalents	(9,897)	92,113
Cash and cash equivalents, beginning of the period	176,830	153,747
Cash and cash equivalents, end of the period	\$166,933	\$245,860
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	\$34,505	\$38,910
Income taxes paid	\$43,534	\$40,864
Non-cash investing and financing activities:		
Net change in unrealized holding gain on securities available-for-sale, net of tax	\$2,046	\$21,096
Net change in unrealized holding gain/(loss) on cash flow hedge derivatives	\$740	\$(263)
Transfers to other real estate owned from loans held for investment	\$866	\$975

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”), seven 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 June 30, 2015, the Bank operated 21 branches in Southern California, 12 branches in Northern California, nine 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 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, 2015. 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, 2014.

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 June 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-12, “*Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*.” ASU No. 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. An entity should recognize compensation cost in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. ASU 2014-12 becomes effective for interim and annual periods beginning on or after December 15, 2015. Adoption of ASU 2014-12 is not expected to have a significant impact on the Company’s consolidated financial statements.

ASU 2014-15, “*Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*”, issued by the FASB in August 2014, requires an entity’s management to evaluate and disclose conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. In addition, an entity’s management is to disclose management’s plans that alleviated or that are intended to mitigate the conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern. ASU 2014-15 becomes effective for interim and annual periods beginning on or after December 15, 2016. Adoption of ASU 2014-15 is not expected to have a significant impact on the Company’s consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, “*Consolidation (Topic 810): Amendments to the Consolidation Analysis*” to improve targeted areas of the consolidation guidance and reduce the number of consolidation models. The Company may either apply the amendments retrospectively or use a modified retrospective approach. ASU 2015-02 is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, “*Interest- Imputation of Interest (Subtopic 835-30)*.” This update simplifies the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 becomes effective for interim and annual periods beginning on or after December 15, 2015. Adoption of ASU 2015-03 is not expected to have a significant 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:

(Dollars in thousands, except share and per share data)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income	\$45,200	\$35,084	\$81,180	\$66,343
Weighted-average shares:				
Basic weighted-average number of common shares outstanding	79,939,197	79,642,993	79,887,699	79,619,506
Dilutive effect of weighted-average outstanding common share equivalents				
Warrants	566,405	273,759	456,274	286,079
Options	139,867	97,476	124,249	99,575
Restricted stock units	53,525	32,243	37,043	37,786
Diluted weighted-average number of common shares outstanding	80,698,994	80,046,471	80,505,265	80,042,946
Average stock options and warrants with anti-dilutive effect	939,615	2,003,896	1,246,123	1,994,922
Earnings per common share:				
Basic	\$0.57	\$0.44	\$1.02	\$0.83
Diluted	\$0.56	\$0.44	\$1.01	\$0.83

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 June 30, 2015, 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 six months of 2015 or during 2014.

Option compensation expense was zero for the three months and for the six months ended June 30, 2015, and June 30, 2014. Stock-based compensation was fully recognized over the requisite service period for all awards. Stock options covering 73,350 shares were exercised in the six months ended June 30, 2015, compared to zero in the six months ended June 30, 2014. Cash received totaled \$1.7 million and the aggregate intrinsic value totaled \$556,000 from the exercise of stock options during the first six months ended June 30, 2015. The table below summarizes stock option activity for the periods indicated:

		Weighted-average	Weighted-average	Aggregate
	Shares	Exercise Price	Remaining Contractual Life (in years)	Intrinsic Value (in thousands)
Balance, December 31, 2014	2,332,904	\$ 32.34	1.2	\$ 1,388
Exercised	(3,750)	23.37		
Forfeited	(808,670)	35.63		
Balance, March 31, 2015	1,520,484	\$ 30.62	1.6	\$ 3,156
Exercised	(69,600)	23.37		
Forfeited	(267,884)	33.99		
Balance, June 30, 2015	1,183,000	\$ 30.37	1.5	\$ 5,010
Exercisable, June 30, 2015	1,183,000	\$ 30.37	1.5	\$ 5,010

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

The Company granted restricted stock units for 72,900 shares at an average closing price of \$28.11 per share in the first six months of 2015 compared to 17,601 shares at an average closing price of \$24.66 per share in 2014. The restricted stock units granted are scheduled to vest two years from grant date for 2014 grants and to vest three years from grant date for 2015 grants.

The Company granted performance share unit awards in which the number of units earned is calculated based on the relative total shareholder return (“TSR”) of the Company’s common stock as compared to the TSR of the KBW Regional Banking Index. In addition, the Company granted performance share unit awards in which the number of units earned is determined by comparison to the targeted EPS as defined in the award for the next three years. In December 2014, the Company granted performance TSR restricted stock units for 60,456 shares and performance EPS restricted stock units for 57,642 shares to six executive officers. Both the performance TSR and performance EPS units awarded in 2014 are scheduled to vest at December 31, 2017.

The following table presents restricted stock unit activity from December 31, 2014, to June 30, 2015:

	Units
Balance at December 31, 2014	386,465
Granted	72,900
Vested	(24,892)
Forfeited	(7,265)
Balance at June 30, 2015	427,208

The compensation expense recorded for restricted stock units was \$1.2 million for the three months ended June 30, 2015, compared to \$1.0 million in the same period a year ago. For the six months ended June 30, compensation expense recorded related to the restricted stock units was \$2.2 million in 2015 and \$2.0 million in 2014. Unrecognized stock-based compensation expense related to restricted stock units was \$6.3 million at June 30, 2015, and is expected to be recognized over the next 2.2 years.

At June 30, 2015, 3,562,168 shares were available under the Company's 2005 Incentive Plan (as Amended and Restated) for future grants.

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

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2015	2014	2015	2014
Short-fall of tax deductions in excess of grant-date fair value	\$(1,224)	\$50	\$(5,619)	\$(1,177)
Benefit of tax deductions on grant-date fair value	1,554	(50)	6,146	1,177
Total benefit of tax deductions	\$330	\$-	\$527	\$-

6. Investment Securities

Investment securities were \$1.55 billion at June 30, 2015, compared to \$1.32 billion at December 31, 2014. The following tables reflect the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of investment securities as of June 30, 2015, and December 31, 2014:

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Securities Available-for-Sale				
U.S. treasury securities	\$299,911	\$ 199	\$ -	\$300,110
U.S. government sponsored entities	49,975	152	-	50,127
Mortgage-backed securities	1,110,298	759	9,654	1,101,403
Collateralized mortgage obligations	70	-	30	40
Corporate debt securities	74,949	528	1,078	74,399
Mutual funds	6,000	-	156	5,844
Preferred stock of government sponsored entities	2,811	733	-	3,544
Other equity securities	3,628	6,606	2	10,232
Total	\$1,547,642	\$ 8,977	\$ 10,920	\$1,545,699

December 31, 2014			
	Amortized	Gross Unrealized	Gross Unrealized

	Cost	Gains	Losses	Fair Value
	(In thousands)			
Securities Available-for-Sale				
U.S. treasury securities	\$664,206	\$ 63	\$ 265	\$664,004
Mortgage-backed securities	549,296	1,393	6,386	544,303
Collateralized mortgage obligations	79	-	34	45
Corporate debt securities	94,943	776	1,247	94,472
Mutual funds	6,000	-	134	5,866
Preferred stock of government sponsored entities	6,276	681	3,733	3,224
Other equity securities	3,608	3,413	-	7,021
Total	\$1,324,408	\$ 6,326	\$ 11,799	\$1,318,935

The amortized cost and fair value of investment securities at June 30, 2015, 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	\$299,913	\$300,112
Due after one year through five years	88,156	89,227
Due after five years through ten years	45,607	44,609
Due after ten years (1)	1,113,966	1,111,751
Total	\$1,547,642	\$1,545,699

(1) Equity securities are reported in this category

Proceeds from sales of mortgage-backed securities were \$573.5 million during the first six months of 2015 compared to \$386.5 million during the same period a year ago. Proceeds from repayments, maturities and calls of mortgage-backed securities were \$36.5 million during the first six months of 2015 compared to \$39.6 million during the same period a year ago. Proceeds from sales of other investment securities were \$385.2 million during the first six months of 2015 compared to \$80.4 million during the same period a year ago. Proceeds from maturities and calls of other investment securities were zero during the first six months of 2015 compared to \$135.8 million during the same period a year ago. Gains of \$2.3 million and losses of \$1.8 million were realized on sales of investment securities during the first six months of 2015 compared to gains of \$12.8 million and losses of \$6.3 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 June 30, 2015, and December 31, 2014:

June 30, 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
	(Dollars in thousands)					
Securities Available-for-Sale						
Mortgage-backed securities	\$1,087,436	\$ 9,653	\$6	\$ 1	\$1,087,442	\$ 9,654
Collateralized mortgage obligations	-	-	40	30	40	30
Corporate debt securities	-	-	43,922	1,078	43,922	1,078
Mutual funds	-	-	5,844	156	5,844	156
Other equity securities	18	2	-	-	18	2
Total	\$1,087,454	\$ 9,655	\$49,812	\$ 1,265	\$1,137,266	\$ 10,920

	December 31, 2014					
	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						
U.S. treasury securities	\$374,153	\$ 265	\$-	\$ -	\$374,153	\$ 265
Mortgage-backed securities	-	-	425,090	6,386	425,090	6,386
Collateralized mortgage obligations	-	-	45	34	45	34
Corporate debt securities	-	-	63,753	1,247	63,753	1,247
Mutual funds	-	-	5,866	134	5,866	134
Preferred stock of government sponsored entities	2,448	3,733	-	-	2,448	3,733
Total	\$376,601	\$ 3,998	\$494,754	\$ 7,801	\$871,355	\$ 11,799

Total unrealized losses of \$10.9 million at June 30, 2015, were primarily caused by increases in interest rates subsequent to the date that these securities were purchased or caused by the widening of credit and liquidity 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.

At June 30, 2015, management believed the impairment was temporary and, accordingly, no impairment loss on debt 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 \$519.2 million at June 30, 2015, and \$591.3 million at December 31, 2014, 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; 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 components of loans in the condensed consolidated balance sheets as of June 30, 2015, and December 31, 2014, were as follows:

	June 30, 2015	December 31, 2014
	(In thousands)	
Type of Loans:		
Commercial loans	\$2,387,450	\$2,382,493
Residential mortgage loans	1,713,312	1,570,059
Commercial mortgage loans	4,849,381	4,486,443
Equity lines	176,067	172,879
Real estate construction loans	370,828	298,654
Installment and other loans	4,970	3,552
Gross loans	\$9,502,008	\$8,914,080
Less:		
Allowance for loan losses	(153,437)	(161,420)
Unamortized deferred loan fees	(10,207)	(12,392)
Total loans, net	\$9,338,364	\$8,740,268
Loans held for sale	\$-	\$973

At June 30, 2015, recorded investment in impaired loans totaled \$166.1 million and was comprised of non-accrual loans of \$66.1 million and accruing troubled debt restructured loans ("TDRs") of \$100.0 million. At December 31, 2014, recorded investment in impaired loans totaled \$174.5 million and was comprised of non-accrual loans of \$70.2 million and accruing TDRs of \$104.3 million. For impaired loans, the amounts previously charged off represent 18.6% at June 30, 2015, and 17.1% at December 31, 2014, 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		Six months ended		Three months ended		Six months ended	
	June 30,		June 30,		June 30,		June 30,	
	2015	2014	2015	2014	2015	2014	2015	2014
	(In thousands)							
Commercial loans	\$25,620	\$27,773	\$25,523	\$29,300	\$201	\$194	\$412	\$420
Real estate construction loans	20,790	33,049	21,884	33,552	65	66	130	132
Commercial mortgage loans	105,815	112,982	108,042	112,148	793	995	1,574	2,014
Residential mortgage loans and equity lines	17,025	18,392	17,152	18,772	120	93	240	192
Total impaired loans	\$169,250	\$192,196	\$172,601	\$193,772	\$1,179	\$1,348	\$2,356	\$2,758

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

	Impaired Loans			December 31, 2014		
	June 30, 2015			Unpaid		
	Unpaid			Unpaid		
	Principal	Recorded Investment	Allowance	Principal	Recorded Investment	Allowance
	Balance			Balance		
	(In thousands)					
With no allocated allowance						
Commercial loans	\$17,657	\$ 14,055	\$ -	\$19,479	\$ 18,452	\$ -
Real estate construction loans	48,790	22,586	-	32,924	17,025	-
Commercial mortgage loans	81,845	76,053	-	77,474	75,172	-
Residential mortgage loans and equity lines	2,473	2,473	-	2,518	2,518	-
Subtotal	\$150,765	\$ 115,167	\$ -	\$132,395	\$ 113,167	\$ -
With allocated allowance						
Commercial loans	\$9,910	\$ 9,661	\$ 966	\$7,003	\$ 5,037	\$ 1,263
Real estate construction loans	-	-	-	19,006	8,703	1,077
Commercial mortgage loans	28,332	26,822	6,554	38,197	34,022	8,993
Residential mortgage loans and equity lines	14,958	14,414	464	14,019	13,590	465
Subtotal	\$53,200	\$ 50,897	\$ 7,984	\$78,225	\$ 61,352	\$ 11,798
Total impaired loans	\$203,965	\$ 166,064	\$ 7,984	\$210,620	\$ 174,519	\$ 11,798

The following tables present the aging of the loan portfolio by type as of June 30, 2015, and as of December 31, 2014:

	June 30, 2015						
	30-59 Days	60-89 Days	90 Days or More Past Due	Non-accrual Loans	Total Past Due	Loans Not Past Due	Total
	Past Due	Past Due	More Past Due				
	(In thousands)						
Type of Loans:							
Commercial loans	\$17,641	\$2,138	\$ -	\$ 7,878	\$27,657	\$2,359,793	\$2,387,450
Real estate construction loans	-	-	-	16,856	16,856	353,972	370,828
Commercial mortgage loans	4,132	3,151	-	33,271	40,554	4,808,827	4,849,381

Residential mortgage loans and equity lines	-	234	-	8,047	8,281	1,881,098	1,889,379
Installment and other loans	-	-	-	-	-	4,970	4,970
Total loans	\$21,773	\$5,523	\$ -	\$ 66,052	\$93,348	\$9,408,660	\$9,502,008

December 31, 2014

90

30-59 60-89 Days

Days Days or

Past Past More

Due Due Past

Due Due Due

(In thousands)

Non-accrual

Loans

Total

Past Due

Loans Not

Past Due

Total

Type of Loans:

Commercial loans	\$11,595	\$1,238	\$ -	\$ 6,983	\$19,816	\$2,362,677	2,382,493
Real estate construction loans	1,416	-	-	19,963	21,379	277,275	298,654
Commercial mortgage loans	17,654	3,909	-	35,606	57,169	4,429,274	4,486,443
Residential mortgage loans and equity lines	5,634	732	-	7,611	13,977	1,728,961	1,742,938
Installment and other loans	60	-	-	-	60	3,492	3,552
Total loans	\$36,359	\$5,879	\$ -	\$ 70,163	\$112,401	\$8,801,679	\$8,914,080

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 collectability when determining the appropriate level for the allowance for credit losses. The nature of the process by which the Bank determines the appropriate allowance for credit losses requires the exercise of considerable judgment. 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. 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 June 30, 2015, accruing TDRs were \$100.0 million and non-accrual TDRs were \$42.6 million compared to accruing TDRs of \$104.3 million and non-accrual TDRs of \$41.6 million at December 31, 2014. The Company allocated specific reserves of \$1.4 million to accruing TDRs and \$5.8 million to non-accrual TDRs at June 30, 2015, and \$6.5 million to accruing TDRs and \$4.9 million to non-accrual TDRs at December 31, 2014. The following tables present TDRs that were modified during the first six months of 2015 and of 2014, their specific reserves at June 30, 2015, and 2014, and charge-offs during the first six months of 2015 and of 2014:

	Six months ended June 30, 2015				June 30, 2015
	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Charge-offs	Specific Reserve
	(Dollars in thousands)				
Commercial loans	1	\$ 850	\$ 850	\$ -	\$ -
Commercial mortgage loans	4	14,411	14,411	-	40
Residential mortgage loans and equity lines	4	1,522	1,374	148	43
Total	9	\$ 16,783	\$ 16,635	\$ 148	\$ 83

	Six months ended June 30, 2014				June 30, 2014
	No. of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Charge-offs	Specific Reserve
	(Dollars in thousands)				
Commercial loans	3	8,490	8,490	\$ -	\$ 20
Residential mortgage loans and equity lines	3	1,393	1,393	-	32

Total	6	\$ 9,883	\$ 9,883	\$ -	\$ 52
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Modifications of the loan terms during the first six months of 2015 were in the form of changes in the stated interest rate, and/or extension of maturity dates, and/or reduction in monthly payment amount. 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 six months to three years from the modification date.

We expect that the TDRs on accruing status as of June 30, 2015, 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 June 30, 2015, and December 31, 2014, is shown below:

June 30, 2015

Accruing TDRs	Payment Rate Deferral Reduction	Rate Reduction and Payment Deferral	Total	
	(In thousands)			
Commercial loans	\$12,386	\$ 1,496	\$ 1,957	\$15,839
Real estate construction loans	-	-	5,730	5,730
Commercial mortgage loans	29,465	6,082	34,055	69,602
Residential mortgage loans	5,088	1,005	2,747	8,840
Total accruing TDRs	\$46,939	\$ 8,583	\$ 44,489	\$100,011

June 30, 2015

Non-accrual TDRs	Payment Rate Deferral Reduction	Rate Reduction and Payment Deferral	Total
	(In thousands)		
Commercial loans	\$2,272	\$ -	\$2,272
Real estate construction loans	10,366	5,990	16,356
Commercial mortgage loans	1,566	20,540	22,106
Residential mortgage loans	611	1,250	1,861
Total non-accrual TDRs	\$14,815	\$ 27,780	\$42,595

December 31, 2014

Accruing TDRs	Payment Rate Deferral Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total
Commercial loans	\$11,572 \$ -	\$ -	\$ 4,934	\$16,506
Real estate construction loans	5,765 -	-	-	5,765
Commercial mortgage loans	20,543 26,694	-	26,351	73,588
Residential mortgage loans	3,316 -	410	4,771	8,497
Total accruing TDRs	\$41,196 \$ 26,694	\$ 410	\$ 36,056	\$104,356

	December 31, 2014			
Non-accrual TDRs	Payment Rate Deferral Reduction		Rate Reduction and Payment Deferral	Total
	(In thousands)			
Commercial loans	\$ 1,423	\$ 860	\$ 1,269	\$3,552
Real estate construction loans	-	-	19,462	19,462
Commercial mortgage loans	15,917	-	973	16,890
Residential mortgage loans	1,026	-	688	1,714
Total non-accrual TDRs	\$18,366	\$ 860	\$ 22,392	\$41,618

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

Accruing TDRs	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Beginning balance	\$100,393	\$118,922	\$104,356	\$117,597
New restructurings	5,798	722	16,426	8,097
Restructured loans restored to accrual status	-	-	-	962
Charge-offs	-	-	(148)	-
Payments	(6,180)	(1,278)	(10,434)	(8,290)
Restructured loans placed on nonaccrual	-	(7,230)	(10,189)	(7,230)
Ending balance	\$100,011	\$111,136	\$100,011	\$111,136

Non-accrual TDRs	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Beginning balance	\$44,541	\$37,797	\$41,618	\$38,769
New restructurings	-	247	209	1,786
Restructured loans placed on nonaccrual	-	7,230	10,189	7,230
Charge-offs	(489)	(595)	(3,243)	(599)
Payments	(1,457)	(1,074)	(6,178)	(2,619)
Restructured loans restored to accrual status	-	-	-	(962)
Ending balance	\$42,595	\$43,605	\$42,595	\$43,605

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 had one commercial mortgage loan in the amount of \$9.6 million that was modified as a TDR during the previous twelve months and which subsequently defaulted as of June 30, 2015. The Company had previously taken a charge off in the amount of \$598,000 on this same commercial mortgage loan during the previous twelve months.

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 June 30, 2015, 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 Company had no loans held for sale as of June 30, 2015. The following tables present the loan portfolio by risk rating as of June 30, 2015, and as of December 31, 2014:

	June 30, 2015				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
	(In thousands)				
Commercial loans	\$2,251,083	\$64,655	\$ 70,240	\$ 1,472	\$2,387,450
Real estate construction loans	348,242	-	22,086	500	370,828
Commercial mortgage loans	4,580,231	114,663	144,897	9,590	4,849,381
Residential mortgage loans and equity lines	1,879,108	-	10,271	-	1,889,379
Installment and other loans	4,970	-	-	-	4,970
Total gross loans	\$9,063,634	\$ 179,318	\$ 247,494	\$ 11,562	\$9,502,008

	December 31, 2014				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
	(In thousands)				
Commercial loans	\$2,260,474	\$47,619	\$ 72,561	\$ 1,839	\$2,382,493
Real estate construction loans	272,927	-	25,227	500	298,654

