CATHAY GENERAL BANCORP
Form 10-Q
November 04, 2011

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, 2011

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 0-18630

CATHAY GENERAL BANCORP

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code: (213) 625-4700

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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	x	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 x

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, 78,646,712 shares outstanding as of October 31, 2011.

Table of Contents

CATHAY GENERAL BANCORP AND SUBSIDIARIES

3RD QUARTER 2011 REPORT ON FORM 10-Q

TABLE OF CONTENTS

Table of Contents

Forward-Looking Statements

In this quarterly report on Form 10-Q, the term Bancorp refers to Cathay General Bancorp and the term Bank refers to Cathay Bank. The terms Company, we, us, and our refer to Bancorp and the Bank collectively. The statements in this report include forward-looking statements within the meaning of the applicable provisions of the Private Securities Litigation Reform Act of 1995 regarding management s beliefs, projections, and assumptions concerning future results and events. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements in these provisions. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, growth plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, financial expectations, regulatory and competitive outlook, investment and expenditure plans, financing needs and availability and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as aims, anticipates, believes, could, estimates, expects, hopes, intends, may, plans, projects, seek predicts, potential, continue, 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 economic and market conditions;
- market disruption and volatility;
- current and potential future by bank supervisory authorities and changes in laws and regulations, or their interpretations;
- restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;
- credit losses and deterioration in asset or credit quality;
- availability of capital;
- potential goodwill impairment;
- liquidity risk;
- fluctuations in interest rates;
- past and future acquisitions;
- inflation and deflation;

success of expansion, if any, of our business in new markets;

Table of Contents

- the soundness of other financial institutions;
- real estate market conditions;
- our ability to compete with competitors;
- increased costs of compliance and other risks associated with changes in regulation and the current regulatory environment, including the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), and the potential for substantial changes in the legal, regulatory, and enforcement framework and oversight applicable to financial institutions in reaction to recent adverse financial market events, including changes pursuant to the Dodd-Frank Act;
- the short term and long term impact of the Basel II and the proposed Basel III capital standards of the Basel Committee;
- our ability to retain key personnel;
- successful management of reputational risk;
- natural disasters and geopolitical events;
- general economic or business conditions in California, Asia, and other regions where the Bank has operations;
- restrictions on compensation paid to our executives as a result of our participation in the TARP Capital Purchase Program;
- our ability to adapt our information technology systems; and
- changes in accounting standards or tax laws and regulations.

These and other factors are further described in Cathay General Bancorp s Annual Report on Form 10-K for the year ended December 31, 2010 (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. Cathay General Bancorp has no intention and undertakes 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.

Cathay General 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.

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2011	December 31, 2010
	(In thousands, except share and per share data)	
ASSETS		
Cash and due from banks	$ 208,873	$ 87,347
Short-term investments and interest bearing deposits	33,693	206,321
Securities purchased under agreements to resell	80,000	110,000
Securities held-to-maturity (market value of $1,285,926 in 2011 and $837,359 in 2010)	1,235,736	840,102
Securities available-for-sale (amortized cost of $1,066,845 in 2011 and $2,005,330 in 2010)	1,057,371	2,003,567
Trading securities	156,977	3,818
Loans held for sale	1,276	2,873
Loans	7,017,142	6,868,621
Less: Allowance for loan losses	(209,116)	(245,231)
Unamortized deferred loan fees	(8,360)	(7,621)
Loans, net	6,799,666	6,615,769
Federal Home Loan Bank stock	56,175	63,873
Other real estate owned, net	94,308	77,740
Investments in affordable housing partnerships, net	80,592	88,472
Premises and equipment, net	106,613	109,456
Customers liability on acceptances	24,638	14,014
Accrued interest receivable	29,919	35,382
Goodwill	316,340	316,340
Other intangible assets	12,834	17,044
Other assets	204,100	209,868
Total assets	$ 10,499,111	$ 10,801,986
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Non-interest-bearing demand deposits	$ 1,027,178	$ 930,300
Interest-bearing accounts:		
NOW accounts	435,860	418,703
Money market accounts	936,449	982,617
Savings accounts	426,000	385,245
Time deposits under $100,000	891,390	1,081,266
Time deposits of $100,000 or more	3,408,247	3,193,715
Total deposits	7,125,124	6,991,846
Securities sold under agreements to repurchase	1,407,500	1,561,000
Advances from the Federal Home Loan Bank	205,000	550,000
Other borrowings from financial institutions	2,770	8,465
Other borrowings for affordable housing investments	18,955	19,111

Long-term debt	171,136	171,136
Acceptances outstanding	24,638	14,014
Other liabilities	49,423	50,309
Total liabilities	9,004,546	9,365,881
Commitments and contingencies		
Stockholders equity		
Preferred stock, 10,000,000 shares authorized, 258,000 issued and outstanding at September 30, 2011, and at December 31, 2010	250,103	247,455
Common stock, $0.01 par value; 100,000,000 shares authorized, 82,853,701 issued and 78,646,136 outstanding at September 30, 2011, and 82,739,348 issued and 78,531,783 outstanding at December 31, 2010	829	827
Additional paid-in-capital	765,021	762,509
Accumulated other comprehensive loss, net	(5,490)	(1,022)
Retained earnings	601,391	543,625
Treasury stock, at cost (4,207,565 shares at September 30, 2011, and at December 31, 2010)	(125,736)	(125,736)
Total Cathay General Bancorp stockholders equity	1,486,118	1,427,658
Noncontrolling interest	8,447	8,447
Total equity	1,494,565	1,436,105
Total liabilities and equity	$ 10,499,111	$ 10,801,986

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
	(In thousands, except share and per share data)			
INTEREST AND DIVIDEND INCOME				
Loans receivable, including loan fees	$ 92,590	$ 95,255	$ 272,940	$ 286,077
Investment securities- taxable	20,304	24,749	65,274	83,788
Investment securities- nontaxable	1,054	19	3,165	195
Federal Home Loan Bank stock	38	77	134	171
Federal funds sold and securities purchased under agreements to resell	33		81	
Deposits with banks	360	406	901	1,031
Total interest and dividend income	114,379	120,506	342,495	371,262
INTEREST EXPENSE				
Time deposits of $100,000 or more	10,496	12,754	32,115	42,418
Other deposits	4,777	6,603	15,871	23,689
Securities sold under agreements to repurchase	14,840	16,667	45,903	49,469
Advances from Federal Home Loan Bank	2,101	10,090	10,592	30,110
Long-term debt	1,208	1,046	3,630	2,902
Short-term borrowings	4	5	11	5
Total interest expense	33,426	47,165	108,122	148,593
Net interest income before provision for credit losses	80,953	73,341	234,373	222,669
Provision for credit losses	9,000	17,900	25,000	146,900
Net interest income after provision for credit losses	71,953	55,441	209,373	75,769
NON-INTEREST INCOME				
Securities gains, net	8,833	484	20,243	9,112
Letters of credit commissions	1,440	1,253	4,113	3,280
Depository service fees	1,341	1,277	4,101	3,870
Other operating income/(loss)	5,213	872	13,449	(180)
Total non-interest income	16,827	3,886	41,906	16,082
NON-INTEREST EXPENSE				
Salaries and employee benefits	17,481	14,436	53,411	44,445
Occupancy expense	3,714	2,801	10,709	10,432
Computer and equipment expense	2,139	2,011	6,437	6,132
Professional services expense	4,846	4,460	13,534	14,099
FDIC and State assessments	2,642	4,599	9,864	15,527
Marketing expense	908	749	2,420	2,469
Other real estate owned expense	6,120	453	8,603	5,346

Operations of affordable housing investments, net		2,102		1,166		6,055		5,391
Amortization of core deposit intangibles		1,461		1,484		4,402		4,476
Cost associated with debt redemption		4,540				18,527		909
Other operating expense		2,430		2,722		7,614		10,137
Total non-interest expense		48,383		34,881		141,576		119,363
Income/(loss) before income tax benefit		40,397		24,446		109,703		(27,512)
Income tax expense/(benefit)		14,162		7,023		36,802		(21,418)
Net income/(loss)		26,235		17,423		72,901		(6,094)
Less: net income attributable to noncontrolling interest		151		151		452		452
Net income/(loss) attributable to Cathay General Bancorp		26,084		17,272		72,449		(6,546)
Dividends on preferred stock		(4,111)		(4,098)		(12,323)		(12,286)
Net income/(loss) attributable to common stockholders		21,973		13,174		60,126		(18,832)
Other comprehensive (loss)/income, net of tax								
Unrealized holding (loss)/gain arising during the period		(4,753)		290		7,264		29,024
Less: reclassification adjustments included in net income		5,120		203		11,733		3,831
Total other comprehensive (loss)/gain, net of tax		(9,873)		87		(4,469)		25,193
Total comprehensive income	$	16,211	$	17,359	$	67,980	$	18,647
Net income/(loss) per common share:								
Basic	$	0.28	$	0.17	$	0.76	$	(0.25)
Diluted	$	0.28	$	0.17	$	0.76	$	(0.25)
Cash dividends paid per common share	$	0.01	$	0.01	$	0.03	$	0.03
Average common shares outstanding								
Basic		78,640,308		78,520,612		78,628,477		76,584,138
Diluted		78,641,142		78,520,612		78,637,977		76,584,138

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30 2011	2010
	(In thousands)	
Cash Flows from Operating Activities		
Net income/(loss)	$ 72,901	$ (6,094)
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Provision for loan losses	25,000	146,900
Provision for losses on other real estate owned	9,088	8,062
Deferred tax liability/(benefit)	4,380	(14,713)
Depreciation	4,577	4,753
Net gains on sale and transfer of other real estate owned	(4,842)	(7,049)
Net gains on sale of loans	(2,851)	(149)
Proceeds from sale of loans	20,699	12,681
Originations of loans held-for-sale	(10,992)	(7,332)
Write-downs on loans held-for-sale		3,160
Increase in trading securities, net	(153,440)	
Mark-to-market of trading securities	281	
Write-downs on venture capital investments	57	392
Write-downs on impaired securities		492
Gain on sales and calls of securities	(20,243)	(9,603)
Increase in fair value of warrants	(12)	(17)
(Decrease)/increase in unrealized loss from interest rate swaps mark-to-market	(2,580)	7,146
Other non-cash interest	(399)	(562)
Amortization/accretion of security premiums/discounts, net	2,903	4,073
Amortization of intangibles	4,475	4,534
Excess tax short-fall from share-based payment arrangements	276	362
Stock based compensation expense	1,278	2,690
Increase/(decrease) in deferred loan fees, net	739	(599)
Decrease in accrued interest receivable	5,463	2,309
Decrease in other assets, net	7,427	15,559
Increase/(decrease) in other liabilities	4,214	(12,377)
Net cash provided by operating activities	(31,601)	154,618
Cash Flows from Investing Activities		
Decrease in short-term investments	172,629	6,171
Decrease in securities purchased under agreements to resell	30,000	
Purchase of investment securities available-for-sale	(371,116)	(3,047,136)
Proceeds from maturity and calls of investment securities available-for-sale	385,000	2,272,239
Proceeds from sale of investment securities available-for-sale	503,561	65,073
Purchase of mortgage-backed securities available-for-sale	(403,123)	
Proceeds from repayment and sale of mortgage-backed securities available-for-sale	843,248	913,226
Purchase of investment securities held-to-maturity		(30,541)
Purchase of mortgage-backed securities held-to-maturity	(480,083)	
Proceeds from maturity and call of investment securities held-to-maturity	82,703	60,660
Redemption of Federal Home Loan Bank stock	7,698	5,284
Net increase in loans	(283,232)	(147,884)
Purchase of premises and equipment	(1,995)	(4,484)
Proceeds from sale of other real estate owned	50,115	68,791

Net increase in investment in affordable housing	(968)	(2,767)
Net cash provided by investing activities	534,437	158,632
Cash Flows from Financing Activities		
Net increase in demand deposits, NOW accounts, money market and savings deposits	108,622	195,548
Net increase/(decrease) in time deposits	25,062	(592,296)
Net (decrease)/increase in federal funds purchased and securities sold under agreements to repurchase	(153,500)	9,000
Advances from Federal Home Loan Bank	3,473	
Repayment of Federal Home Loan Bank borrowings	(348,473)	(65,000)
Dividends paid on common stock	(2,359)	(2,355)
Dividends paid on preferred stock	(9,675)	(9,675)
Issuance of common stock		124,922
Proceeds from other borrowings		1,139
Repayment of other borrowings	(5,695)	
Proceeds from shares issued under Dividend Reinvestment Plan	205	229
Proceeds from exercise of stock options	1,306	
Excess tax short-fall from share-based payment arrangements	(276)	(362)
Net cash used in financing activities	(381,310)	(338,850)
Increase/(decrease) in cash and cash equivalents	121,526	(25,600)
Cash and cash equivalents, beginning of the period	87,347	100,124
Cash and cash equivalents, end of the period	$ 208,873	$ 74,524
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	$ 111,300	$ 154,195
Income taxes paid/(refunded)	$ 39,750	$ (3,942)
Non-cash investing and financing activities:		
Net change in unrealized holding (loss)/gain on securities available-for-sale, net of tax	$ (4,469)	$ 25,193
Loans to facilitate sale of loans	$ 6,094	$ 22,700
Transfers to other real estate owned from loans held for investment	$ 73,161	$ 69,727
Transfers to other real estate owned from loans held-for-sale	$ 2,873	$ 20,922
Loans transferred from investment to held for sale	$ 4,139	$ 1,329
Loans to facilitate the sale of other real estate owned	$ 7,703	$ 11,775

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business

Cathay General Bancorp (Bancorp) is the holding company for Cathay Bank (the Bank and, together, the Company), six limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc. The Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of September 30, 2011, the Bank operated twenty branches in Southern California, eleven branches in Northern California, eight branches in New York State, three branches in Illinois, three branches in Washington State, two branches in Texas, one branch in Massachusetts, one branch in New Jersey, one branch in Hong Kong, and a representative office in Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the FDIC).

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. For further information, refer to the audited consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

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

The FASB issued ASU 2010-06 *Improving Disclosures about Fair Value Measurements* in January 2010 to improve disclosure requirements related to ASC Topic 820. ASU 2010-06 requires an entity to report separately significant transfers in and out of Level 1 and Level 2 fair value measurements and to explain the transfers. It also requires an entity to present separately information about purchases, sales, issuances, and settlements for Level 3 fair value measurements. ASU 2010-06 is effective for fiscal years beginning after December 15, 2010. Adoption of ASU 2010-06 did not have a significant impact on the Company s consolidated financial statements.

The FASB issued ASU 2010-20 *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* in July 2010 to provide disclosures that facilitate financial statement

Table of Contents

users evaluation of (i) the nature of credit risk inherent in the entity s portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and (iii) the changes and reasons for those changes in the allowance for credit losses. An entity should provide disclosures on two levels of disaggregation portfolio segment and class of financing receivable. The disclosure requirements include, among other things, a roll-forward schedule of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 was effective for the entity s financial statements as of December 31, 2010, as related to end of a reporting period disclosure requirement. Disclosures that relate to activity during a reporting period are required for the entity s financial statements that include periods beginning on or after January 1, 2011. See Note 7 to these condensed consolidated financial statements for the required disclosures at September 30, 2011.

The FASB issued ASU 2010-28 *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* in December 2010. ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 was effective for interim and annual periods beginning on or after December 15, 2010. Adoption of ASU 2010-28 did not have a significant impact on the Company s consolidated financial statements.

In April 2011, the FASB issued ASU 2011-02 *A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.* ASU 2011-02 clarifies the guidance on a creditor s evaluation of whether a restructuring constitutes a troubled debt restructuring. A restructuring constitutes a troubled debt restructuring if it meets both of the following criteria: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 was effective for interim and annual periods beginning on or after June 15, 2011, and was applied retrospectively to restructurings occurring on or after January 1, 2011. Adoption of ASU 2011-02 did not have a significant impact on the Company s consolidated financial statements.

In April 2011, the FASB issued ASU 2011-03 *Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreements.* ASU 2011-03 improves the accounting for repurchase agreements and other similar transactions by removing following: the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms even in the event of default by the transferee, and the collateral maintenance implementation guidance related to that criterion. ASU 2011-03 will be effective for interim and annual periods beginning on or after December 15, 2011, and will be applied prospectively. Adoption of ASU 2011-03 is not expected to have a significant impact on the Company s consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05 *Presentation of Comprehensive Income.* ASU 2011-05 requires that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. ASU 2011-

Table of Contents

05 will be effective for interim and annual periods beginning on or after December 15, 2011, and will be applied retrospectively. Adoption of ASU 2011-05 is not expected to have a significant impact on the Company s consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08 *Intangible- Goodwill and other.* ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. ASU 2011-08 will be effective for interim and annual goodwill impairment tests performed after December 15, 2011. Adoption of ASU 2011-08 is not expected to have a significant impact on the Company s consolidated financial statements.

4. Earnings/Loss per Share

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

Outstanding stock options with anti-dilutive effect were not included in the computation of diluted earnings per share. The following table sets forth earnings or loss per common stock share calculations:

	For the three months ended September 30,		For the nine months ended September 30,	
(Dollars in thousands, except share and per share data)	**2011**	**2010**	**2011**	**2010**
Net income/(loss) attributable to Cathay General Bancorp	$ 26,084	$ 17,272	$ 72,449	($ 6,546)
Dividends on preferred stock	(4,111)	(4,098)	(12,323)	(12,286)
Net income/(loss) available to common stockholders	$ 21,973	$ 13,174	$ 60,126	($ 18,832)
Weighted-average shares:				
Basic weighted-average number of common shares outstanding	78,640,308	78,520,612	78,628,477	76,584,138
Dilutive effect of weighted-average outstanding common share equivalents stock options	834		9,500	
Diluted weighted-average number of common shares outstanding	78,641,142	78,520,612	78,637,977	76,584,138
Average stock options and warrants with anti-dilutive effect	6,294,961	6,911,096	6,265,913	6,946,976
Earnings/(loss) per common stock share:				
Basic	$ 0.28	$ 0.17	$ 0.76	($ 0.25)
Diluted	$ 0.28	$ 0.17	$ 0.76	($ 0.25)

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, 2011, the only options granted by the Company were non-statutory stock options to

Table of Contents

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 2010 or during the first nine months of 2011.

Option compensation expense totaled $194,000 for the three months ended September 30, 2011, and $694,000 for the three months ended September 30, 2010. For the nine months ended September 30, option compensation expense totaled $756,000 for 2011 and $2.4 million for 2010. Stock-based compensation is recognized ratably over the requisite service period for all awards. Unrecognized stock-based compensation expense related to stock options totaled $1.1 million at September 30, 2011, and is expected to be recognized over the next 1.4 years.

Stock options covering 86,860 shares were exercised during the first quarter of 2011 compared to none in the second quarter or the third quarter of 2011 and none in the year 2010. Cash received totaled $1.3 million and the aggregate intrinsic value totaled $172,000 from the exercise of stock options during the nine months ended September 30, 2011. There were no stock options vested during the third quarter of 2011 or during the third quarter of 2010. 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, 2010	4,947,348	27.93	3.7	$ 334
Exercised	(86,860)	15.05		
Forfeited	(481,588)	21.82		
Balance, March 31, 2011	4,378,900	$ 28.86	3.9	$ 178
Forfeited	(8,992)	32.30		
Balance, June 30, 2011	4,369,908	$ 28.85	3.6	$ 69
Forfeited	(1,143)	26.92		
Balance, September 30, 2011	4,368,765	$ 28.86	3.4	$ 0
Exercisable, September 30, 2011	4,144,071	$ 29.15	3.2	$ 0

At September 30, 2011, 2,267,713 shares were available under the Company s 2005 Incentive Plan for future grants.

In addition to stock options, the Company also grants restricted stock units to eligible employees. On February 21, 2008, restricted stock units for 82,291 shares were granted. Upon vesting of restricted stock units, the Company issued 15,006 shares of common stock at the closing price of $9.64 per share on February 21, 2010, and 12,633 shares of common stock at the closing price of $18.79 per share on February 21, 2011. Restricted stock units granted in 2008 have a maximum term of five years and vest in approximately 20% annual increments subject to continued employment with the Company.

In March 2011, the Company again granted restricted stock units for 65,243 shares. The closing price of the Company s common stock on the date of the grant was $16.14 for the 15,069 restricted stock units granted on March 15, 2011 and $16.15 for the 50,174 restricted stock

Table of Contents

units granted on March 23, 2011. These restricted stock units granted in March 2011 are scheduled to vest in March 2013.

The following table presents information relating to the restricted stock units as of September 30, 2011:

	Units
Balance at December 31, 2010	38,960
Granted	65,243
Forfeited	(2,080)
Vested	(12,633)
Balance at September 30, 2011	89,490

The compensation expense recorded related to the restricted stock units was $213,000 for the three months ended September 30, 2011, and $82,000 for the three months ended September 30, 2010. For the nine months ended September 30, compensation expense recorded was $523,000 in 2011 and $245,000 in 2010. Unrecognized stock-based compensation expense related to restricted stock units was $1.2 million at September 30, 2011, and is expected to be recognized over the next 1.4 years.

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

	For the three months ended September 30,		For the nine months ended September 30,	
(Dollars in thousands)	**2011**	**2010**	**2011**	**2010**
Short-fall of tax deductions in excess of grant-date fair value	$ (5)	$ (263)	$ (276)	$ (362)
Benefit of tax deductions on grant-date fair value	5	263	348	362
Total benefit of tax deductions	$	$	$ 72	$

6. Investment Securities

The following table reflects the amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment securities as of September 30, 2011, and December 31, 2010:

Table of Contents

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Held-to-Maturity				
U.S. government sponsored entities	$ 99,955	$ 1,818	$	$ 101,773
State and municipal securities	129,710	3,904	216	133,398
Mortgage-backed securities	996,101	45,221		1,041,322
Corporate debt securities	9,970		537	9,433
Total securities held-to-maturity	$ 1,235,736	$ 50,943	$ 753	$ 1,285,926
Securities Available-for-Sale				
U.S. treasury securities	$	$	$	$
U.S. government sponsored entities	350,015	1,516	83	351,448
State and municipal securities	1,870	25	8	1,887
Mortgage-backed securities	210,469	11,057	508	221,018
Collateralized mortgage obligations	18,194	611	120	18,685
Asset-backed securities	177		6	171
Corporate debt securities	432,582	534	25,687	407,429
Mutual funds	6,000	79		6,079
Preferred stock of government sponsored entities	569	1,783		2,352
Trust preferred securities	45,501	598	25	46,074
Other equity securities	1,468	760		2,228
Total securities available-for-sale	$ 1,066,845	$ 16,963	$ 26,437	$ 1,057,371
Total investment securities	$ 2,302,581	$ 67,906	$ 27,190	$ 2,343,297

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Held-to-Maturity				
U.S. government sponsored entities	$ 99,921	$ 2,639	$	$ 102,560
State and municipal securities	130,107		8,946	121,161
Mortgage-backed securities	600,107	5,230	1,653	603,684
Corporate debt securities	9,967		13	9,954
Total securities held-to-maturity	$ 840,102	$ 7,869	$ 10,612	$ 837,359
Securities Available-for-Sale				
U.S. treasury securities	$ 125,573	$	$ 6,745	$ 118,828
U.S. government sponsored entities	830,269	1,653	6,840	825,082
State and municipal securities	1,875		157	1,718
Mortgage-backed securities	627,574	14,854	123	642,305
Collateralized mortgage obligations	24,719	590	115	25,194
Asset-backed securities	245		5	240
Corporate debt securities	374,489	1,374	6,438	369,425
Mutual funds	4,000		73	3,927
Preferred stock of government sponsored entities	569	150		719
Trust preferred securities	14,549	58	170	14,437
Other equity securities	1,468	224		1,692

Total securities available-for-sale	$ 2,005,330	$ 18,903	$ 20,666	$ 2,003,567
Total investment securities	$ 2,845,432	$ 26,772	$ 31,278	$ 2,840,926

The amortized cost and fair value of investment securities at September 30, 2011, 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.

Table of Contents

	Securities Available-for-Sale		Securities Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$ 10,081	$ 10,104	$ 99,955	$ 101,773.00
Due after one year through five years	183,381	181,749		
Due after five years through ten years	687,624	671,599	24,827	24,940
Due after ten years (1)	185,759	193,919	1,110,954	1,159,213
Total	$ 1,066,845	$ 1,057,371	$ 1,235,736	$ 1,285,926

(1) Equity securities are reported in this category

Proceeds from sales of mortgage-backed securities were $759.7 million and repayments of mortgage-backed securities were $83.6 million during the first nine months of 2011 compared to proceeds from sales of 726.1 million and repayment of $187.1 million during the same period a year ago. Proceeds from sales and repayments of other investment securities were $503.6 million during the first nine months of 2011 compared to $65.1 million during the same period a year ago. Proceeds from maturity and calls of investment securities were $467.7 million during the first nine months of 2011 compared to $2.3 billion during the same period a year ago. Gains of $20.2 million and no losses were realized on sales and calls of investment securities during the first nine months of 2011 compared to gains of $9.7 million and losses of $67,000 realized for the same period a year ago.

At September 30, 2011, all of the Company s mortgage-backed securities were rated as investment grade except for three non-agency issues. Two issues not rated investment grade had a par amount of $433,000 and an unrealized loss of $63,000. The other issue was rated below investment grade by one rating agency and investment grade by another rating agency had a par amount of $7,255,000 and an unrealized loss of $499,000. The unrealized losses resulted from increases in credit spreads subsequent to the date that these securities were purchased. Based on the Company s analysis at September 30, 2011, there was no other-than-temporary impairment in these securities due to the low loan to value ratio for the loans underlying these securities and the credit support provided by junior tranches of these securitizations. The Company has the ability and intent to hold the securities for a period of time sufficient for a recovery of cost for those three non-agency mortgage-backed securities issues.

The Company s unrealized loss on investments in corporate bonds relates to a number of investments in bonds of financial institutions, all of which were investment grade at the date of acquisition and as of September 30, 2011, except for one issue, of which the Company owns $5 million of par value, by a regional bank which was downgraded to below investment grade during the fourth quarter of 2010. The unrealized losses were primarily caused by the widening of credit spreads since the dates of acquisition. The contractual terms of those investments do not permit the issuers to settle the security at a price less than the amortized cost of the investment. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investment. Therefore, it is expected that these debentures would not be settled at a price less than the amortized cost of the investment. Because the Company has the ability and intent to hold this investment until a recovery of fair value, which may be maturity, it does not consider its investments in corporate bonds to be other-than-temporarily impaired at September 30, 2011.

The temporarily impaired securities represent 21.2% of the fair value of investment securities as of September 30, 2011. Unrealized losses for securities with unrealized losses for less than twelve months represent 4.0%, and securities with unrealized losses for twelve months or more represent 8.7%, of the historical cost of these securities. Unrealized losses on these securities generally resulted from increases in interest rate spreads subsequent to the date that these securities were purchased. At September 30, 2011, 31 issues of securities had unrealized losses for 12 months or longer and 34 issues of securities had unrealized losses of less than 12 months.

At September 30, 2011, management believed the impairment was temporary and, accordingly, no impairment loss has been recognized in our condensed consolidated statements of operations. The Company expects to recover the amortized cost basis of its debt securities, and has no intent to sell and will not be required to sell available-for-sale debt securities that have declined below their cost before their anticipated recovery.

The table below shows the fair value, unrealized losses, and number of issuances of the temporarily impaired securities in our investment securities portfolio as of September 30, 2011, and December 31, 2010:

14

Table of Contents

	As of September 30, 2011 Temporarily Impaired Securities								
	Less than 12 months			12 months or longer			Total		
	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances
	(Dollars in thousands)								
Securities Held-to-Maturity									
State and municipal securities	$ 8,469	$ 19	2	$ 8,354	$ 197	6	$ 16,823	$ 216	8
Corporate debt securities	9,433	537	1				9,433	537	1
Total securities held-to-maturity	$ 17,902	$ 556	3	$ 8,354	$ 197	6	$ 26,256	$ 753	9
Securities Available-for-Sale									
U.S. government sponsored entities	$ 99,932	$ 83	1	$	$		$ 99,932	$ 83	1
State and municipal securities				1,358	8	1	1,358	8	1
Mortgage-backed securities	784	5	7	149	2	3	933	7	10
Mortgage-backed securities-Non-agency				6,856	501	2	6,856	501	2
Collateralized mortgage obligations				712	120	4	712	120	4
Asset-backed securities				171	6	1	171	6	1
Corporate debt securities	204,736	13,191	19	122,902	12,496	14	327,638	25,687	33
Trust preferred securities	8,312	25	4				8,312	25	4
Total securities available-for-sale	$ 313,764	$ 13,304	31	$ 132,148	$ 13,133	25	$ 445,912	$ 26,437	56
Total investment securities	$ 331,666	$ 13,860	34	$ 140,502	$ 13,330	31	$ 472,168	$ 27,190	65

	As of December 31, 2010 Temporarily Impaired Securities								
	Less than 12 months			12 months or longer			Total		
	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances
	(Dollars in thousands)								
Securities Held-to-Maturity									
State and municipal securities	$ 121,161	$ 8,946	122				$ 121,161	$ 8,946	122
Mortgage-backed securities	89,439	1,653	2				89,439	1,653	2
Corporate debt securities	9,954	13	1				9,954	13	1
Total securities held-to-maturity	$ 220,554	$ 10,612	125	$	$		$ 220,554	$ 10,612	125
Securities Available-for-Sale									
U.S. Treasury securities	$ 118,828	$ 6,745	5	$	$		$ 118,828	$ 6,745	5
U.S. government sponsored entities	578,118	6,840	12				578,118	6,840	12
State and municipal securities	1,718	157	2				1,718	157	2
Mortgage-backed securities	354	4	7	32	1	1	386	5	8
Mortgage-backed securities-Non-agency				10,127	118	3	10,127	118	3
Collateralized mortgage obligations				887	115	4	887	115	4
Asset-backed securities				240	5	1	240	5	1
Corporate debt securities	310,630	6,438	30				310,630	6,438	30
Mutual funds	3,927	73	1				3,927	73	1
Trust preferred securities	10,384	170	2				10,384	170	2
Total securities available-for-sale	$ 1,023,959	$ 20,427	59	$ 11,286	$ 239	9	$ 1,035,245	$ 20,666	68
Total investment securities	$ 1,244,513	$ 31,039	184	$ 11,286	$ 239	9	$ 1,255,799	$ 31,278	193

Table of Contents

Investment securities having a carrying value of $1.60 billion at September 30, 2011, and $1.80 billion at December 31, 2010, were pledged to secure public deposits, other borrowings, treasury tax and loan, Federal Home Loan Bank advances, securities sold under agreements to repurchase, interest rate swaps, and foreign exchange transactions.

At September 30, 2011, securities purchased under agreements to resell were $80.0 million at a rate of 0.07% and matured in October, 2011.

7. Loans

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

The components of loans in the condensed consolidated balance sheets as of September 30, 2011, and December 31, 2010, were as follows:

	September 30, 2011	December 31, 2010
	(In thousands)	
Type of Loans:		
Commercial loans	$ 1,821,059	$ 1,441,167
Real estate construction loans	249,003	409,986
Commercial mortgage loans	3,748,524	3,940,061
Residential mortgage loans	967,396	852,454
Equity lines	215,315	208,876
Installment and other loans	15,845	16,077
Gross loans	7,017,142	6,868,621
Less:		
Allowance for loan losses	(209,116)	(245,231)
Unamortized deferred loan fees	(8,360)	(7,621)
Total loans, net	$ 6,799,666	$ 6,615,769
Loans held for sale	$ 1,276	$ 2,873

The Company transferred the only held for sale loan of $2.9 million at December 31, 2010, to other real estate owned (OREO) in January 2011 and sold two held for sale loans of $2.4 million with a net gains of $109,000 in the second quarter of 2011. During the third quarter of 2011, the Company sold a held for sale loan at its carrying value. As of September 30, 2011, held for sale loans were comprised of one commercial mortgage loan of $776,000 and one construction loan of $500,000.

The Company identified impaired loans with a recorded investment of $320.3 million at September 30, 2011, compared to $382.0 million at December 31, 2010. We considered all non-accrual loans to be impaired. For impaired loans, the amounts previously charged off represent 23.6% at September 30, 2011, and 23.3% at December 31, 2010, of the contractual balances for impaired loans. The following table presents the average balance and interest income recognized related to impaired loans for the period indicated:

Table of Contents

	Impaired Loans							
	Average Recorded Investment				Interest Income Recognized			
	For the three months ended September 30,		For the nine months ended September 30,		For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010	2011	2010	2011	2010
	(In thousands)							
Commercial loans	$ 55,599	$ 31,574	$ 49,370	$ 35,669	$ 264	$ 36	$ 789	$ 122
Real estate construction loans	78,307	88,496	83,011	95,010	488	243	1,461	729
Commercial mortgage loans	180,554	238,708	225,195	234,045	895	940	3,100	2,120
Residential mortgage and equity lines	17,798	11,558	17,252	10,813	9	15	28	37
Subtotal	$ 332,258	$ 370,336	$ 374,828	$ 375,537	$ 1,656	$ 1,234	$ 5,378	$ 3,008

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

	Impaired Loans					
	September 30, 2011			December 31, 2010		
	Unpaid Principal Balance	Recorded Investment	Allowance	Unpaid Principal Balance	Recorded Investment	Allowance
	(In thousands)					
With no allocated allowance						
Commercial loans	$ 36,594	$ 26,111	$	$ 41,233	$ 27,775	$
Real estate construction loans	125,478	82,818		102,186	64,274	
Commercial mortgage loans	169,495	131,342		211,717	156,305	
Residential mortgage and equity lines	8,073	7,468		7,823	7,436	
Subtotal	$ 339,640	$ 247,739	$	$ 362,959	$ 255,790	$
With allocated allowance						
Commercial loans	$ 22,902	$ 18,879	$ 2,270	$ 13,930	$ 7,748	$ 2,925
Real estate construction loans				15,429	13,416	7,470
Commercial mortgage loans	44,036	42,220	3,930	98,593	96,449	3,812
Residential mortgage and equity lines	12,475	11,422	1,203	9,811	8,589	978
Subtotal	$ 79,413	$ 72,521	$ 7,403	$ 137,763	$ 126,202	$ 15,185
Total impaired loans	$ 419,053	$ 320,260	$ 7,403	$ 500,722	$ 381,992	$ 15,185

The following table presents the aging of the loan portfolio by type as of September 30, 2011 and as of December 31, 2010:

Table of Contents

	As of September 30, 2011						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Non-accrual Loans (In thousands)	Total Past Due	Loans Not Past Due	Total
Type of Loans:							
Commercial loans	$ 337	$ 1,022	$	$ 29,723	$ 31,082	$ 1,789,977	$ 1,821,059
Real estate construction loans				49,997	49,997	199,006	249,003
Commercial mortgage loans	10,366	12,715	13,053	97,338	133,472	3,615,052	3,748,524
Residential mortgage and equity lines	948	3,596		15,656	20,200	1,162,511	1,182,711
Installment and other loans	300				300	15,545	15,845
Total loans	$ 11,951	$ 17,333	$ 13,053	$ 192,714	$ 235,051	$ 6,782,091	$ 7,017,142

	As of December 31, 2010						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Non-accrual Loans (In thousands)	Total Past Due	Loans Not Past Due	Total
Type of Loans:							
Commercial loans	$ 7,037	$ 2,990	$	$ 31,498	$ 41,525	$ 1,399,642	$ 1,441,167
Real estate construction loans	14,634	15,425	4,175	53,937	88,171	321,815	409,986
Commercial mortgage loans	12,569	9,430	831	144,596	167,426	3,772,635	3,940,061
Residential mortgage and equity lines	9,934	2,581		12,288	24,803	1,036,527	1,061,330
Installment and other loans						16,077	16,077
Total loans	$ 44,174	$ 30,426	$ 5,006	$ 242,319	$ 321,925	$ 6,546,696	$ 6,868,621

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

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

At September 30, 2011, accruing TDRs were $126.3 million and non-accrual TDRs were $44.1 million compared to accruing TDRs of $136.8 million and non-accrual TDRs of $28.1 million at December 31, 2010. The Company has allocated specific reserves of $2.1 million to accruing TDRs and $1.2 million to non-accrual TDRs at September 30, 2011, and $3.6 million to accruing TDRs and $1.3 million to non-accrual TDRs at December 31, 2010. The following table presents TDRs that were modified during the first nine months ended September 31, 2011, and during the third quarter of 2011.

	TDRs Modified During the First Nine Months of 2011					
	Accruing TDRs			Non-Accruing TDRs		
	No. of Loans	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment	No. of Loans	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment

Commercial loans	3	$	13,026	$	13,025	4	$	8,161	$	2,161
Real estate construction loans	2		36,848		26,544	1		7,382		7,382
Commercial mortgage loans	4		27,482		16,062	2		1,248		1,248
Residential mortgage and equity lines	2		1,125		1,125	1		451		451
Total	11	$	78,481	$	56,756	8	$	17,242	$	11,242

Table of Contents

	TDRs Modified During the Third quarter of 2011					
	Accruing TDRs			Non-Accrual TDRs		
	No. of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	No. of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)			(In thousands)	
Commercial loans	1	$ 14	$ 14	1	$ 363	$ 363
Real estate construction loans	2	36,848	26,545			
Commercial mortgage loans	3	23,708	14,270			
Residential mortgage and equity lines	1	624	624	1	451	451
Total	7	$ 61,194	$ 41,453	2	$ 814	$ 814

Accruing TDRs at September 30, 2011, were comprised of loans collateralized by ten retail shopping and commercial use buildings of $71.6 million, eight office and commercial use buildings of $27.6 million, two hotels of $13.2 million, eight single family residences of $13.1 million, one land of $724,000, and two commercial loans of $45,000. We expect that the troubled debt restructuring loans on accruing status as of September 30, 2011, which are 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.

Modifications of the loan terms during the first nine months of 2011 were in form of changes in the stated interest rate, reduction in the loan balance or accrued interest, or extension of the maturity date. Modifications involving a reduction of the stated interest rate were for the periods ranging from six months to five years. Modification involving an extension of the maturity date were for period ranging from nine months to four years. For the first nine months, charge-offs for accruing TDRs were $13.4 million for 2011 and $333,000 for 2010. A summary of TDRs by type of concession, by type of loan, and related allowance for credit losses as of September 30, 2011, and as of December 31, 2010, is shown below:

	As of September 30, 2011					
Accruing TDRs	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total	Allowance
			(In thousands)			
Commercial loans	$ 13,056	$ 1,774	$	$ 436	$ 15,266	$ 7
Real estate construction loans	16,820	9,725		5,776	32,321	
Commercial mortgage loans	4,292	37,997	2,050	31,111	75,450	1,976
Residential mortgage loans	1,661	593		979	3,233	145
Total accruing TDRs	$ 35,829	$ 50,089	$ 2,050	$ 38,302	$ 126,270	$ 2,128

	As of September 30, 2011						
Non-accrual TDRs	Interest Deferral	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total	Allowance
				(In thousands)			
Commercial loans	$	$ 629	$ 1,959	$ 1,536	$	$ 4,124	$ 1,088
Real estate construction loans		14,426	13,664			28,090	
Commercial mortgage loans	2,690	5,781				8,471	1
Residential mortgage loans	321	2,300	452		317	3,390	97
Total non-accrual TDRs	$ 3,011	$ 23,136	$ 16,075	$ 1,536	$ 317	$ 44,075	$ 1,186

Accruing TDRs	Principal Deferral	Rate Reduction	Rate Reduction and Forgiveness of Principal	Rate Reduction and Payment Deferral	Total	Allowance
	As of December 31, 2010 (In thousands)					
Commercial loans	$ 1,131	$ 1,780	$	$ 1,114	$ 4,025	$ 59
Real estate construction loans	752	17,226		5,776	23,754	117
Commercial mortgage loans	16,586	70,185	3,459	15,055	105,285	3,363
Residential mortgage loans	2,658	599		479	3,736	49
Total accruing TDRs	$ 21,127	$ 89,790	$ 3,459	$ 22,424	$ 136,800	$ 3,588

Table of Contents

	As of December 31, 2010					
Non-accrual TDRs	Interest Deferral	Principal Deferral	Rate Reduction	Rate Reduction and Payment Deferral	Total	Allowance
			(In thousands)			
Commercial loans	$	$	$ 2,310	$	$ 2,310	$ 1,159
Real estate construction loans		7,044			7,044	
Commercial mortgage loans	1,239	14,112		1,113	16,464	75
Residential mortgage loans	340	1,037		951	2,328	69
Total non-accrual TDRs	$ 1,579	$ 22,193	$ 2,310	$ 2,064	$ 28,146	$ 1,303

A loan is considered to be in payment default once it is 60 to 90 days contractually past due under the modified terms. Two commercial TDRs of $932,000, two commercial real estate TDRs of $1.3 million, and one residential mortgage TDR of $2.9 million had payments defaults within the previous twelve months ended September 30, 2011. The TDRs that subsequently defaulted incurred $361,000 charge-off during the first nine months ended September 30, 2011.

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, 2011, there were no commitments to lend additional funds to those borrowers whose loans have been restructured, were considered impaired, or were on non-accrual status.

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

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

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

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

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

Table of Contents

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

The following table presents loan portfolio by risk rating as of September 30, 2011, and as of December 31, 2010:

	As of September 30, 2011				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
Commercial loans	$ 1,681,005	$ 43,125	$ 91,094	$ 5,835	$ 1,821,059
Real estate construction loans	118,932	24,932	96,951	8,188	249,003
Commercial mortgage loans	3,310,957	77,153	360,414		3,748,524
Residential mortgage and equity lines	1,158,638	1,172	22,901		1,182,711
Installment and other loans	15,783	62			15,845
Total gross loans	$ 6,285,315	$ 146,444	$ 571,360	$ 14,023	$ 7,017,142
Loans held for sale	$	$	$ 776	$ 500	$ 1,276

	As of December 31, 2010				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
Commercial loans	$ 1,258,537	$ 58,189	$ 118,670	$ 5,771	$ 1,441,167
Real estate construction loans	191,455	53,172	153,857	11,502	409,986
Commercial mortgage loans	3,365,040	143,974	431,047		3,940,061
Residential mortgage and equity lines	1,026,216	6,109	28,846	159	1,061,330
Installment and other loans	15,535	542			16,077
Total gross loans	$ 5,856,783	$ 261,986	$ 732,420	$ 17,432	$ 6,868,621
Loans held for sale	$	$	$ 2,873	$	$ 2,873

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

The following table presents the balance in the allowance for loan losses by portfolio segment and based on impairment method as of September 30, 2011, and as of December 31, 2010.

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Consumer and Other Loans	Total
			(In thousands)			
September 30, 2011						
Loans individually evaluated for impairment						
Allowance	$ 2,270	$	$ 3,930	$ 1,203	$	$ 7,403
Balance	$ 44,989	$ 82,818	$ 173,563	$ 18,890	$	$ 320,260
Loans collectively evaluated for impairment						
Allowance	$ 61,518	$ 23,876	$ 109,144	$ 7,140	$ 35	$ 201,713
Balance	$ 1,776,070	$ 166,185	$ 3,574,961	$ 1,163,821	$ 15,845	$ 6,696,882
Total allowance	$ 63,788	$ 23,876	$ 113,074	$ 8,343	$ 35	$ 209,116
Total balance	$ 1,821,059	$ 249,003	$ 3,748,524	$ 1,182,711	$ 15,845	$ 7,017,142
December 31, 2010						
Loans individually evaluated for impairment						
Allowance	$ 2,540	$ 7,470	$ 3,106	$	$	$ 13,116
Balance	$ 33,555	$ 77,691	$ 248,059	$ 7,435	$	$ 366,740
Loans collectively evaluated for impairment						
Allowance	$ 61,379	$ 35,791	$ 125,241	$ 9,668	$ 36	$ 232,115
Balance	$ 1,407,612	$ 332,295	$ 3,692,002	$ 1,053,895	$ 16,077	$ 6,501,881
Total allowance	$ 63,919	$ 43,261	$ 128,347	$ 9,668	$ 36	$ 245,231
Total balance	$ 1,441,167	$ 409,986	$ 3,940,061	$ 1,061,330	$ 16,077	$ 6,868,621

The following table details activity in the allowance for loan losses by portfolio segment for the three months ended and for the nine months ended September 30, 2011, and September 30, 2010. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Table of Contents

For the Three Months Ended September 30, 2010 and 2011

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage and Equity Line	Installment and Other Loans	Total
			(In thousands)			
June 30, 2010 Ending Balance	$ 60,738	$ 42,442	$ 144,000	$ 8,430	$ 40	$ 255,650
Provision for possible credit losses	7,266	14,255	(1,920)	464	1	20,066
Charge-offs	(5,588)	(9,014)	(6,605)	(140)		(21,347)
Recoveries	963	1,945	428	1		3,337
Net charge-offs	(4,625)	(7,069)	(6,177)	(139)		(18,010)
September 30, 2010 Ending Balance						