CATHAY GENERAL BANCORP
Form 10-Q
November 08, 2006

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, 2006

OR

o **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.

YesNo
x o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes	No
o	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, 51,820,921 shares outstanding as of October 31, 2006.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
3RD QUARTER 2006 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. These forward-looking statements may include, but are not limited to, such words as believes, expects, anticipates, intends, plans, estimates, may, will, should, could, predicts, potential, continue, or the other comparable terminology or similar expressions. Forward-looking statements are not guarantees. They involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of the Bancorp to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties and other factors include, but are not limited to adverse developments or conditions related to or arising from:

- expansion into new market areas;
- acquisitions of other banks, if any;
- fluctuations in interest rates;
- demographic changes;
- earthquake or other natural disasters;
- competitive pressures;
- deterioration in asset or credit quality;
- changes in the availability of capital;
- legislative and regulatory developments;
- changes in business strategy, including the formation of a real estate investment trust;
- general economic or business conditions in California and other regions where the Bank has operations.

These and other factors are further described in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 (at Item 1A in particular), its reports and registration statements filed with the Securities and Exchange Commission (SEC), and other filings it makes in the future 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, we caution readers not to place undue reliance on any forward-looking statements, which speak as of the date of this report. The Company has no intention and undertakes no obligation to update any forward-looking statement or to publicly announce the results of any revision of any forward-looking statement to reflect future developments or events.

The Company s filings with the SEC are available to the public from commercial document retrieval services and at the website maintained by the SEC at *http://www.sec.gov*, or by requests directed to Cathay General Bancorp, 777 North Broadway, Los Angeles, California 90012, Attn: Investor Relations (213) 625-4749.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	September 30, 2006	December 31, 2005	% change
	(In thousands, except share and per share data)		
Assets			
Cash and due from banks	$ 108,649	$ 109,275	(1)
Securities available-for sale, at fair value (amortized cost of $1,465,688 at September 30, 2006 and $1,240,308 at December 31, 2005)	1,444,425	1,217,438	19
Loans	5,521,085	4,647,815	19
Less: Allowance for loan losses	(64,380)	(60,251)	7
Unamortized deferred loan fees, net	(14,018)	(12,733)	10
Loans, net	5,442,687	4,574,831	19
Federal Home Loan Bank stock	35,140	29,698	18
Other real estate owned, net	4,347		100
Affordable housing investments, net	75,899	80,211	(5)
Premises and equipment, net	65,148	30,290	115
Customers liability on acceptances	26,923	16,153	67
Accrued interest receivable	34,351	24,767	39
Goodwill	305,991	239,527	28
Other intangible assets, net	43,258	41,508	4
Other assets	47,248	33,805	40
Total assets	$ 7,634,066	$ 6,397,503	19
Liabilities and Stockholders Equity			
Deposits			
Non-interest-bearing demand deposits	$ 783,902	$ 726,722	8
Interest-bearing deposits:			
NOW deposits	223,776	240,885	(7)
Money market deposits	609,072	523,076	16
Savings deposits	352,799	364,793	(3)
Time deposits under $100,000	957,625	641,411	49
Time deposits of $100,000 or more	2,540,414	2,419,463	5
Total deposits	5,467,588	4,916,350	11
Federal funds purchased	10,000	119,000	(92)
Securities sold under agreement to repurchase	400,000	200,000	100
Advances from the Federal Home Loan Bank	595,180	215,000	177
Other borrowings from financial institutions	35,000	20,000	75
Other borrowings for affordable housing investments	20,011	20,507	(2)
Long-term debt	104,125	53,976	93
Acceptances outstanding	26,923	16,153	67
Minority interest in consolidated subsidiary	8,500	8,500	
Other liabilities	63,929	54,400	18
Total liabilities	6,731,256	5,623,886	20
Commitments and contingencies			

Stockholders Equity			
Preferred stock, $0.01 par value; 10,000,000 shares authorized, none issued			
Common stock, $0.01 par value, 100,000,000 shares authorized, 52,927,191 issued and 51,548,829 outstanding at September 30, 2006 and 51,569,451 issued and 50,191,089 outstanding at December 31, 2005	529	516	3
Additional paid-in-capital	453,110	416,685	9
Unearned compensation		(18,564)	(100)
Accumulated other comprehensive loss, net	(12,323)	(13,254)	(7)
Retained earnings	494,805	421,545	17
Treasury stock, at cost (1,378,362 shares at September 30, 2006 and at December 31, 2005)	(33,311)	(33,311)	
Total stockholders equity	902,810	773,617	17
Total liabilities and stockholders equity	$ 7,634,066	$ 6,397,503	19

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
	(In thousands, except share and per share data)			
INTEREST AND DIVIDEND INCOME				
Loan receivable	$ 110,321	$ 74,468	$ 304,566	$ 202,989
Securities available-for-sale - taxable	17,779	13,464	46,305	46,998
Securities available-for-sale - nontaxable	687	884	2,116	2,828
Federal Home Loan Bank stock	383		1,100	626
Agency preferred stock	295	201	799	504
Federal funds sold and securities purchased under agreements to resell	30	9	160	220
Deposits with banks	105	101	259	281
Total interest and dividend income	129,600	89,127	355,305	254,446
INTEREST EXPENSE				
Time deposits of $100,000 or more	27,983	17,349	73,810	40,203
Other deposits	15,376	8,033	37,983	23,489
Securities sold under agreements to repurchase	4,658		11,183	14
Advances from Federal Home Loan Bank	8,621	2,073	19,315	8,978
Long-term debt	1,207	917	3,359	2,544
Short-term borrowings	1,072	697	2,780	1,208
Total interest expense	58,917	29,069	148,430	76,436
Net interest income before provision for loan losses	70,683	60,058	206,875	178,010
(Reversal)/provision for loan losses	(1,000)	(1,000)	2,000	(500)
Net interest income after (reversal)/provision for loan losses	71,683	61,058	204,875	178,510
NON-INTEREST INCOME				
Securities (losses) gains, net	206	169	236	1,291
Letters of credit commissions	1,441	1,057	4,046	3,090
Depository service fees	1,138	1,450	3,630	4,348
Gain on sale of premises and equipment				958
Other operating income	2,619	3,177	8,317	7,618
Total non-interest income	5,404	5,853	16,229	17,305
NON-INTEREST EXPENSE				
Salaries and employee benefits	15,949	13,393	46,060	38,834
Occupancy expense	2,637	2,433	7,444	6,610
Computer and equipment expense	1,876	1,672	5,544	5,247
Professional services expense	2,176	2,200	5,396	5,586
FDIC and State assessments	259	249	761	745
Marketing expense	723	483	2,328	1,638
Other real estate owned expense (income)	16	92	513	(10)
Operations of affordable housing investments	1,429	1,025	4,027	2,990
Amortization of core deposit intangibles	1,801	1,404	4,778	4,550
Other operating expense	2,517	2,038	6,928	5,606
Total non-interest expense	29,383	24,989	83,779	71,796
Income before income tax expense	47,704	41,922	137,325	124,019
Income tax expense	17,046	15,237	50,279	46,640

Net income	30,658	26,685	87,046	77,379
Other comprehensive gain (loss), net of tax				
Unrealized holding gains (losses) arising during the period	12,181	(8,488)	1,040	(12,813)
Unrealized losses on cash flow hedge derivatives				(120)
Less: reclassification adjustments included in net income	133	360	109	733
Total other comprehensive gain (loss), net of tax	12,048	(8,848)	931	(13,666)
Total comprehensive income	$ 42,706	$ 17,837	$ 87,977	$ 63,713
Net income per common share:				
Basic	$ 0.60	$ 0.53	$ 1.71	$ 1.53
Diluted	$ 0.59	$ 0.53	$ 1.69	$ 1.52
Cash dividends paid per common share	$ 0.09	$ 0.09	$ 0.27	$ 0.27
Basic average common shares outstanding	51,507,434	50,128,113	51,046,270	50,441,988
Diluted average common shares outstanding	52,111,032	50,540,463	51,637,975	50,870,362

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30	
	2006	2005
	(In thousands)	
Cash Flows from Operating Activities		
Net income	$ 87,046	$ 77,379
Adjustments to reconcile net income to net cash provided by operting activities:		
Provision/(reversal) for loan losses	2,000	(500)
Provision for losses on other real estate owned	283	
Deferred tax (benefit)/liability	(1,938)	(658)
Depreciation	2,698	2,270
Net gains on sale of other real estate owned		(155)
Net gains on sale of loans	(213)	(362)
Proceeds from sale of loans	4,232	5,401
Originations of loans held for sale	(3,934)	
Write-down on venture capital investments	876	1,041
Gain on sales and calls of securities available-for-sale	(236)	(2,332)
Increase in fair value of warrants	(909)	
Other non-cash interest	860	943
Amortization of security premiums, net	2,806	4,658
Amortization of other intangibles assets	4,865	4,640
Excess tax benefit from stock options	(411)	795
Stock based compensation expense	6,016	4,991
Gain on sale of premises and equipment		(958)
Increase in deferred loan fees, net	1,221	816
Increase in accrued interest receivable	(8,074)	(42)
Decrease in other assets, net	3,618	11,238
Increase/(decrease) in other liabilities	7,504	(13,298)
Net cash provided by operating activities	108,310	95,867
Cash Flows from Investing Activities		
Purchase of investment securities available-for-sale	(388,101)	(8,786)
Proceeds from maturity and call of investment securities available-for-sale	78,175	13,313
Proceeds from sale of investment securities available-for-sale	5,408	40,332
Proceeds from repayment and sale of mortgage-backed securities available-for-sale	124,167	430,002
Exercise of warrants to acquire common stock	(2,209)	
Proceeds from sale of common stock investments	3,679	
Purchase of Federal Home Loan Bank stock	(5,312)	(2,456)
Redemption of Federal Home Loan Bank stock	1,295	
Net increase in loans	(661,223)	(546,281)
Purchase of premises and equipment	(17,208)	(4,882)
Proceeds from sales of premises and equipment		2,841
Proceeds from sale of other real estate owned		1,124
Partnership contributions made for investments in affordable housing partnerships	(5,668)	(9,228)
Cash and cash equivalents paid in acquisitions, net of cash acquired	(25,810)	(87)
Net cash used in investing activities	(892,807)	(84,108)
Cash Flows from Financing Activities		
Net decrease in demand deposits, NOW accounts, money market and saving deposits	(64,210)	(127,827)
Net increase in time deposits	321,401	390,706
Net increase/(decrease) in federal funds purchased and securities sold under agreement to repurchase	91,000	(3,000)
Advances from Federal Home Loan Bank	2,097,230	795,000
Repayment of Federal Home Loan Bank borrowings	(1,717,050)	(1,040,000)
Cash dividends	(13,786)	(13,640)
Repurchase of preferred stock of subsidiary		(119)
Proceeds from other borrowings	15,000	20,000
Issuance of subordinated note	50,000	

Proceeds from shares issued to Dividend Reinvestment Plan	2,002	2,308
Excess tax benefits from share-based payment arrangements	411	
Proceeds from exercise of stock options	1,873	1,781
Purchase of treasury stock		(24,501)
Net cash provided by financing activities	783,871	708
Increase in cash and cash equivalents	(626)	12,467
Cash and cash equivalents, beginning of the period	109,275	86,133
Cash and cash equivalents, end of the period	$ 108,649	$ 98,600
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	$ 138,921	$ 74,177
Income taxes	$ 53,134	$ 67,507
Non-cash investing and financing activities:		
Net change in unrealized holding gain on securities available-for-sale, net of tax	$ 931	$ (13,547)
Net change in unrealized gains on cash flow hedge derivatives, net of tax	$	$ (120)
Transfers to other real estate owned	$ 3,087	$ 969

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 (the Bancorp) is the holding company for Cathay Bank (the Bank), five limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc., (together the Company or we , us, or our). The Bancorp also owns 100% of the common stock of three 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, 2006, the Bank operates twenty branches in Southern California, ten branches in Northern California, two branches in Washington State, nine branches in New York State, one branch in Massachusetts, one branch in Houston, Texas, one loan production office in Dallas, Texas and representative offices in Taipei, Hong Kong, and Shanghai. As of October 18, 2006, the Bank also has three branches in Chicago, Illinois.

2. Acquisitions and Investments

On October 18, 2006 the Company completed the acquisition of Chicago-based New Asia Bancorp (NAB) for cash of $12.9 million and 291,210 shares of Cathay General Bancorp common stock valued at $10.5 million. As of September 30, 2006, New Asia Bancorp had $142.2 million in assets and $11.9 million in stockholders equity. Chicago is the third largest city in the country and an important component in the Company s national expansion strategy. This acquisition will present a new market opportunity for the Company.

On April 7, 2006, the acquisition date, the Company purchased through a tender offer 84.1% of the common stock of Great Eastern Bank (GEB) for cash of $40.2 million and 1,181,164 shares of Cathay General Bancorp common stock valued at $44.7 million. The measurement date for the value of the shares of Cathay General Bancorp common stock issued was March 31, 2006, the earliest date on which the number of shares to be issued became fixed. Following regulatory approval and a special shareholders meeting of GEB, the merger of GEB into Cathay Bank was completed on May 15, 2006 and the remaining 15.9% of GEB s common shares was purchased for cash of $16.1 million. The Company made this acquisition to expand its presence in New York City. The acquisition was accounted for using the purchase method of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. The assets acquired and liabilities assumed were recorded by the Company at their fair values at April 7, 2006 when 84.1% of GEB s stock was acquired. Because the second step of the acquisition was completed on May 15, 2006, shortly after the acquisition of 84.1% of GEB, the fair values as of April 7, 2006 were used to record both steps of the acquisition. The results of GEB s operations have been included in the consolidated financial statements since the date of the acquisition of April 7, 2006:

	Great Eastern Bank
Assets acquired:	
Cash and cash equivalents	$ 30,475
Securities available-for-sale	61,772
Loans, net	213,841
Premises and equipment, net	20,348
Goodwill	66,464
Core deposit intangible	6,566
Acceptance outstanding	1,593
Other assets	6,077
Total assets acquired	407,136
Liabilities assumed:	
Deposits	294,047
Acceptance outstanding	1,593
Accrued interest payable	185
Other liabilities	10,326
Total liabilities assumed	306,151
Net assets acquired	$ 100,985
Cash paid for 84.1% of common stock of GEB through tender offer on April 07, 2006	$ 40,177
Cash paid for 15.9% of common stock of GEB on May 15, 2006	16,108
Fair value of common stock issued	44,700
Total consideration paid	$ 100,985

Four loans acquired as part of the acquisition of GEB were determined to be impaired and therefore within the scope of Statement of Position (SOP) 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer . These four loans were recorded at their net realizable value of $495,000 without any allocation of the allowance for loan losses. The remainder of the loan portfolio was comprised of loans not considered to be impaired and therefore excluded from the scope of SOP 03-3. In addition, the estimated other costs related to the acquisition were recorded as a liability at closing when allocating the related purchase price. Total consideration paid, including direct transaction costs, exceeds the fair value of the new assets acquired by $73.1 million. This amount was recognized as intangible assets, consisting of goodwill of $66.5 million and a core deposit intangible of $6.6 million. The core deposit intangible represents a component of the customer relationship intangible asset measured as the present value of the future cash flows derived from the difference between the risk free rate applied to the customer deposits and the rate paid on deposits as well as the cost to service these deposits. The purchase price allocation is still preliminary and subject to final determination and valuation of the fair value of assets acquired and liabilities assumed. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill will not be amortized to expense over a fixed period of time, but will be tested for impairment on a regular basis. None of the goodwill is expected to be deductible for tax purposes. The core deposit intangible is amortized over its estimated economic life from 4 years to 9 years for various deposit categories. Amortization expense for the core deposit premium was $400,000 for the third quarter and $575,000 for the nine months of 2006.

Goodwill related to GEB was decreased by $0.6 million during the third quarter of 2006 as a result of a $1.6 million increase in the fair value of bank premises based on an updated appraisal, a $101,000 increase in the core deposit premium upon the finalization of the appraisal, a $536,000 lease reserve to adjust GEB s above market leases to fair market value, and $568,000 in related income tax adjustments.

For each acquisition, we developed an integration plan for the consolidated company that addressed, among other things, requirements for staffing, systems platforms, branch locations and other facilities. The established plans are evaluated regularly during the integration process and modified as required. Merger and integration expenses are summarized in the following primary categories: (i) severance and employee-related charges; (ii) system conversion and integration costs, including contract termination charges; (iii) asset write-downs, lease termination costs for abandoned space and other facilities-related costs; and (iv) other charges. Other charges include investment banking fees, legal fees, other professional fees relating to due diligence activities and expenses associated with preparation of securities filings, as appropriate. These costs were included in the allocation of the purchase price at the acquisition date based on our formal integration plans.

The following table presents the activity in the merger-related liability account that was allocated to the purchase price related to the GEB merger for the nine months ended September 30, 2006:

(Dollar in thousands)	Severance and Employee-related	Asset Write-downs	Legal and Professional Fees	Lease Liability	Total
Balance at December 31, 2005	$	$	$	$	$
Great Eastern Bank Merger	1,172	130	1,078	536	2,916
Non-cash write-downs and other		(130)			(130)
Cash outlays	(1,136)		(1,060)	(12)	(2,208)
Balance at September 30, 2006	$ 36	$	$ 18	$ 524	$ 578

On March 31, 2006, Cathay Bank announced an agreement to buy a 20% stake in First Sino Bank, a Shanghai-based joint venture bank, for an estimated purchase price of $52.2 million. This investment by Cathay Bank is subject to regulatory approval from the China Bank Regulatory Commission in China and Cathay Bank s regulators in the United States and other customary closing conditions. The Bank has received from the seller of the 20% stake in First Sino Bank an extension to the expiration date of the agreement from September 30, 2006 to November 15, 2006.

In May 2006, the Company purchased an additional 145,000 shares of the stock of Broadway Financial Corporation (the BFC), which is headquartered in Los Angeles, California for $1.7 million increasing its total ownership of Broadway Financial Corporation to 13.1%. These shares have not been registered under the Securities Act of 1933 and may not be sold, offered for sale, pledged or hypothecated in the absence of an effective registration or an applicable exemption to registration. The Company accounts for the BFC investment on the cost method due to the restricted nature of the shares and the less than 20% ownership. As of September 30, 2006, the investment in BFC totaled $2.6 million, which is included in other assets.

3. 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, 2006. Certain reclassifications have been made to the prior year s financial statements to conform to the current year s presentation. 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, 2005.

The preparation of the 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 estimate subject to change relates to the allowance for loan losses.

4. Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) revised Statement No. 123, Accounting for Stock-Based Compensation (SFAS 123R). SFAS 123R establishes accounting requirements for share-based compensation to employees and carries forward prior guidance on accounting for awards to non-employees. The provisions of this Statement became effective for the Company beginning January 1, 2006. SFAS 123R requires companies adopting SFAS 123R to select either the modified prospective or modified retrospective transition method. On January 1, 2006, the Company adopted the modified prospective method under SFAS 123R and recognized compensation expense ratably in the income statement for unvested awards granted before January 1, 2003, when the Company adopted SFAS 123, based on the estimated fair value of all awards granted to employees before January 1, 2003. In addition, SFAS 123R requires an entity to recognize compensation expense based on an estimate of the number of awards expected to actually vest, exclusive of awards expected to be forfeited. The cumulative effect of the change in accounting principal as of January 1, 2006 was $138,000 which was recorded in the Company s consolidated statement of income as a reduction of compensation expense.

SFAS No. 154, Accounting Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). SFAS 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to a newly adopted accounting principle. Previously, most changes in accounting principle were recognized by including the cumulative effect of changing to the new accounting principle in net income of the period of the change. Under SFAS 154, retrospective application requires (i) the cumulative effect of the change to the new accounting principle on periods prior to those presented to be reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented, (ii) an offsetting adjustment, if any, to be made to the opening balance of retained earnings (or other appropriate components of equity) for that period, and (iii) financial statements for each individual prior period presented to be adjusted to reflect the direct period-specific effects of applying the new accounting principle. Special retroactive application rules apply in situations where it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Indirect effects of a change in accounting principle are required to be reported in the period in which the accounting change is made. SFAS 154 carries forward the guidance in APB Opinion 20 Accounting Changes, requiring justification of a change in accounting principle on the basis of preferability. SFAS 154 also carries forward without change the guidance contained in APB Opinion 20, for reporting the correction of an error in previously issued financial statements and for a change in an accounting estimate. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

SFAS No. 155, Accounting for Certain Hybrid Financial Instrument - an amendment of FASB Statements No. 133 and 140. (SFAS 155). SFAS 155 amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities and SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 155 (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133, (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (v) amends SFAS 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for the Company on January 1, 2007, and is not expected to have a significant impact on the Company s financial statements.

SFAS No. 156, Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140 (SFAF 156). SFAS 156 amends *SFAS 140.* Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB Statement No. 125, by requiring, in certain situations, an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. All separately recognized servicing assets and servicing liabilities are required to be initially measured at fair value. Subsequent measurement methods include the amortization method, whereby servicing assets or servicing liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss or the fair value method, whereby servicing assets or servicing liabilities are measured at fair value at each reporting date and changes in fair value are reported in earnings in the period in which they occur. If the amortization method is used, an entity must assess servicing assets or servicing liabilities for impairment or increased obligation based on the fair value at each reporting date. SFAS 156 is effective for the Company on January 1, 2007 and is not expected to have a significant impact on the Company s financial statements.

FASB Staff Position (FSP) No. 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP 115-1). FSP 115-1 provides guidance for determining when an investment is considered impaired, whether impairment is other-than-temporary, and measurement of an impairment loss. An investment is considered impaired if the fair value of the investment is less than its cost. If, after consideration of all available evidence to evaluate the realizable value of its investment, impairment is determined to be other-than-temporary, then an impairment loss should be recognized equal to the difference between the investment s cost and its fair value. FSP 115-1 nullifies certain provisions of Emerging Issues Task Force (EITF) Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, while retaining the disclosure requirements of EITF 03-1 which were adopted in 2003. FSP 115-1 is effective for reporting periods beginning after December 15, 2005. There was no material impact on the Company s consolidated financial statements from adoption of this standard.

In June, 2005, the FASB approved EITF 04-5, Investor s Accounting for an Investment in a Limited Partnership When the Investor is the Sole General Partner and the Limited Partners Have Certain Rights (EITF 04-5). EITF 04-5 presumes that a sole general partner in a limited partnership controls the limited partnership and, therefore, should include the limited partnership in its consolidated financial statements. The presumption of control is overcome if the limited partners have (a) the substantive ability to remove the sole general partner or otherwise dissolve the limited partnership or (b) substantive participating rights. EITF 04-5 is effective for general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified subsequent to June 29, 2005. The guidance in EITF 04-5 is effective for general partners in all other limited partnerships no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The Company has completed its analysis and concluded that it has substantive participating rights over the five limited partnerships which it had consolidated in previous years. There was no material impact on the Company s consolidated financial statements from adoption of this standard.

In June 2006, the FASB issued Interpretation No. 48 that defines the accounting threshold for uncertain tax positions in accordance with FASB Statement No. 109, Accounting for Income Taxes . The Interpretation requires that companies make the best estimate of recognized tax benefits at each reporting period based on management s best estimate given the information available at the reporting date, even though the outcome of the tax position is not absolute or final and that subsequent recognition, derecognition, and measurement for each reporting period should be based on new information. The Interpretation also requires that the measurement attribute for the amount of recognized tax benefit should be the maximum amount which is more-likely-than-not to be realized. The Interpretation is effective as of the beginning of the first annual period beginning after December 15, 2006. The Company has not completed its analysis to determine the impact on the Company s consolidated financial statements from adoption of this Interpretation.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 requires registrants to quantify misstatements by using both the balance-sheet and income-statement approaches and to determine whether financial statement restatement is necessary. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company has not completed its analysis to determine the impact on the Company s consolidated financial statements from adoption of SAB 108.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (SFAS 157). SFAS 157 clarifies the definition of fair value, together with a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement and requires a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. Market participant assumptions include assumptions about the risk, the effect of a restriction on the sale or use of an asset, and the effect of a nonperformance risk for a liability. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has not completed its analysis to determine the impact on the Company s consolidated financial statements from adoption of SFAS 157.

In September 2006, the FASB issued Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans- an Amendment of FASB Statement No. 87, 88, 106 and 132(R) (SFAS 158). SFAS 158 requires a business entity that sponsors employer defined benefit plan measure plan assets and obligations as of the date of the employer s fiscal year-end statement of financial position and recognize funded status as a component of other comprehensive income. SFAS 158 is effective for fiscal years ending after December 15, 2006. There will be no impact on the Company s consolidated financial statements from adoption of this standard since the Company does not provide defined benefit plan to its employees.

5. Derivative Financial Instruments

The Company enters into financial derivatives in order to mitigate exposure to interest rate risks related to its interest-earning assets and interest-bearing liabilities. The Company has received rights to acquire stock in the form of warrants as an adjunct to its high technology lending relationships. All warrants with cashless exercise provision qualify as derivatives under SFAS No. 133. Those warrants that qualify as derivatives are carried at fair value and are included in other assets on the consolidated balance sheets with the change in fair value included in current earnings. The Company recognizes all derivatives on the balance sheet at fair value. Fair value is based on dealer quotes or quoted prices from instruments with similar characteristics except warrant valuation which is based on Black-Scholes value model. For derivatives designated as cash flow hedges, changes in fair value are recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. For derivatives designated as fair value hedges, changes in the fair value of the derivatives are reflected in current earnings, together with changes in the fair value of the related hedged item, if there is a highly effective correlation between changes in the fair value of the derivatives and changes in the fair value of the hedged item. If there is not a highly effective correlation, then only the changes in the fair value of the derivatives are reflected in the Company s financial statements.

To mitigate risks associated with changes to the fair value of $85.6 million of Five Year CDs, on January 18, 2005, the Bank entered into swaptions that would terminate in 2009 and that could also be terminated after two years from the initial issuance of the Five Year CD s at the election of the counterparty in exchange for a cash payment of $425,000. For the initial term of the swaptions, the Bank would receive interest at a weighted average fixed rate of 3.03% and would pay interest at a rate of LIBOR less 12.5 basis points. All of these swaptions were initially designated as fair value hedges and the Bank expected a highly effective correlation between changes in the fair values of the swaptions and changes in the fair value of the Five Year CDs. As of September 30, 2005, all of these swaptions were highly effective. The net increase in the unrealized loss on the swaptions of $216,000 and the net change in the unrealized gain on the Five Year CDs of $215,000 have been recorded in income for the third quarter of 2005. The net increase in the unrealized loss on the swaptions of $427,000 and the net change in the unrealized gain on the Five Year CDs of $422,000 have been recorded in income for the nine months of 2005. These swaptions were terminated in December 2005.

To mitigate risks associated with changes to the fair value of $25.8 million of Three Year CDs, on January 18, 2005, the Bank entered into swaptions that would terminate in 2007 and that could also be terminated after one year from the initial issuance of the Three Year CDs at the election of the counterparty in exchange for a cash payment of $163,000. For the initial term of the swaptions, the Bank would receive interest at a weighted average fixed rate of 2.39% and would pay interest at a rate of LIBOR less 12.5 basis points. All of these swaptions were initially designated as fair value hedges. There was a highly effective correlation between changes in the fair values of the swaptions and changes in the fair value of the Three Year CDs. On May 9, 2005, the Company terminated the $25.8 million swaptions related to the Three Year CDs by making a cash payment of $163,000. The changes in fair values of the Three Year CD s and the $25.8 million swaptions were recorded in income through the date the swaptions were terminated. This included a net realized gain on the swaptions of $137,000 and the net realized loss on the Three Year CDs of $135,000 have been recorded in income for the second quarter of 2005. The net realized gain or loss was zero on the swaptions and zero for the Three Year CDs for the first nine months of 2005.

The periodic net settlement of swaptions is recorded as an adjustment to net interest income. These swaptions decreased net interest income by $83,000 for the quarter and increased net interest income by $11,000 for the nine months ended September 30, 2005.

In April 2005, the Bank took in a total of $8.9 million in one year certificates of deposit that pay a minimum interest of 0.5% plus additional interest tied to 60% of the appreciation of four foreign currencies against the US dollar. Under SFAS No. 133, a certificate of deposit that pays interest based on changes in exchange rates is a hybrid instrument with an embedded derivative that must be accounted for separately from the host contract (i.e. the certificate of deposit). These foreign currency linked certificates of deposits matured in April 2006. The related embedded derivative also expired at the same time. The net impact on the consolidated statement of income related to these currency linked certificates of deposit was a decrease to income of $82,000 for the nine months and zero for the three months ended September 30, 2006. The net impact on the consolidated statement of income related to these currency linked certificates of deposit was an increase to income of $7,000 for the nine months and $20,000 for the three months ended September 30, 2005.

In April 2006, the Bank took in a total of $4.1 million in six month certificates of deposit that pay a minimum interest of 0.5% plus additional interest tied to 60% of the appreciation of a foreign currency against the US dollar. Under SFAS No. 133, a certificate of deposit that pays interest based on changes in exchange rates is a hybrid instrument with an embedded derivative that must be accounted for separately from the host contract (i.e. the certificate of deposit). The fair value of the embedded derivative at September 30, 2006 was $37,000 and is included in interest-bearing deposits in the consolidated balance sheet. The Bank purchased currency options with a fair value at September 30, 2006, of $34,000 to manage its exposure to the appreciation of this foreign currency. The net impact on the consolidated statement of income related to these currency linked certificates of deposit was an expense of $31,000 for the quarter ended September 30, 2006 and an expense of $119,000 for the nine months ended September 30, 2006.

6. 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 basic and diluted earnings per share calculations and the average shares of stock options with anti-dilutive effect:

(Dollars in thousands, except share and per share data)	For the three months ended September 30, 2006	For the three months ended September 30, 2005	For the nine months ended September 30, 2006	For the nine months ended September 30, 2005
Net income	$ 30,658	$ 26,685	$ 87,046	$ 77,379
Weighted-average shares:				
Basic weighted-average number of common shares outstanding	51,507,434	50,128,113	51,046,270	50,441,988
Dilutive effect of weighted-average outstanding common shares equivalents				
Stock Options	597,959	412,350	586,044	428,374
Restricted Stock	5,639		5,661	
Diluted weighted-average number of common shares outstanding	52,111,032	50,540,463	51,637,975	50,870,362
Average shares of stock options with anti-dilutive effect	1,481,394	1,939,185	1,526,181	1,618,080
Earnings per share:				
Basic	$ 0.60	$ 0.53	$ 1.71	$ 1.53
Diluted	$ 0.59	$ 0.53	$ 1.69	$ 1.52

7. Stock-Based Compensation

Prior to 2003, the Company used the intrinsic-value method to account for stock-based compensation. Accordingly, no expense was recorded in periods prior to 2003 because the exercise prices did not exceed the market prices on the grant dates. In 2003, the Company adopted prospectively the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, as amended by FASB Statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FASB Statement No. 123, and began recognizing the expense associated with stock options granted beginning in 2003 using the fair value method.

On January 1, 2006, the Company adopted revised SFAS No. 123R on a modified prospective basis and recorded in the first quarter of 2006 additional compensation expense of $36,000 for unvested stock options granted before January 1, 2003, based on the estimated fair value of all awards granted to employees before January 1, 2003. In addition, SFAS No. 123R requires an entity to recognize compensation expense based on an estimate of the number of awards expected to actually vest, exclusive of awards expected to be forfeited. The Company estimated forfeitures to be 8% when it adopted SFAS 123R in the first quarter of 2006. During 2003 through 2005, the Company recognized forfeitures as they occurred in accordance with SFAS 123. The $138,000 cumulative effect of the change in accounting principle as of January 1, 2006 was recorded as a reduction of compensation expense in the Company s consolidated statement of income.

In 1998, the Board adopted the Cathay Bancorp, Inc. Equity Incentive Plan. Under the Equity Incentive Plan, as amended in September, 2003, directors and eligible employees may be granted incentive or non-statutory stock options, or awarded non-vested stock, for up to 7,000,000 shares of the Company s common stock on a split adjusted basis. In May 2005, the stockholders of the Company approved the 2005 Incentive Plan which provides that 3,131,854 shares of the Company s common stock may be granted as incentive or non-statutory stock options, or as non-vested stock. In conjunction with the approval of the 2005 Incentive Plan, the Bancorp agreed to cease granting awards under the Equity Incentive Plan.

As of September 30, 2006, the only options granted by the Company under the 2005 Incentive Plan 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 for 245,060 shares granted on March 22, 2005 of which 30% vested immediately, 10% vested on November 20, 2005 and an additional 20% would vest on November 20, 2006, 2007 and 2008, respectively, and 264,694 shares granted on May 22, 2005 of which 40% vested on November 20, 2005 and an additional 20% would vest on November 20, 2006, 2007, and 2008, respectively. If such options expire or terminate without having been exercised, any shares not purchased will again be available for future grants or awards. Stock options are typically granted in the first quarter of the year. The Company expects to issue new shares to satisfy stock option exercises.

Stock-based compensation expense for stock options is calculated based on the fair value of the award at the grant date for those options expected to vest, and is recognized as an expense over the vesting period of the grant. The Company uses the Black-Scholes option pricing model to estimate the value of granted options. This model takes into account the option exercise price, the expected life, the current price of the underlying stock, the expected volatility of the Company s stock, expected dividends on the stock and a risk-free interest rate. The Company estimates the expected volatility based on the Company s historical stock prices for the period corresponding to the expected life of the stock options. Option compensation expense totaled $5.8 million for the nine months ended September 30, 2006 and $5.0 million for the nine months ended September 30, 2005. For the three months ended September 30, option compensation expense totaled $2.0 million for 2006 and $2.2 million for 2005. Stock-based compensation is recognized ratably over the requisite service period for all awards. Unrecognized stock-based compensation expense related to stock options totaled $22.5 million at September 30, 2006 and is expected to be recognized over the next 3.5 years.

The weighted average per share fair value on the date of grant of the options granted was $13.46 during the first nine months of 2006 and $12.83 for the first nine months of 2005. There were no options granted during the third quarter of 2006 and the third quarter of 2005. For options granted after 2004, the Company estimated the expected life of the options based on the average of the contractual period and the vesting period. For options granted prior to 2005, the Company estimated the expected life of the options to be four years. The fair value of stock options during 2005 and 2006 has been determined using the Black-Scholes option pricing model with the following assumptions:

	Nine months ended September 30,	
	2006	**2005**
Expected life- number of years	6.50	6.23
Risk-free interest rate	4.39%	4.00%
Volatility	33.17%	34.40%
Dividend yield	1.20%	1.20%

If the compensation cost for the Company s stock option plan had been determined with the fair value at the grant dates for all awards under the plan consistent with the method of SFAS No. 123R, Share-Based Payment , prior to January 1, 2006, the Company s net income and earnings per share for the three months ended and for the nine months ended September 30, 2005 would have been reduced to the pro forma amounts indicated in the table below:

	For the Three Months Ended September 30, 2005	For the Nine Months Ended September 30, 2005
Net income, as reported	$ 26,685	$ 77,379
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1,255	2,892
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,317)	(3,078)
Pro forma net income	$ 26,623	$ 77,193
Earnings per share:		
Basic as reported	$ 0.53	$ 1.53
Basic pro forma	0.53	1.53
Diluted as reported	0.53	1.52
Diluted pro forma	0.53	1.52

Cash received from exercises of stock options totaled $1.9 million from 89,776 exercised shares during the nine months ended September 30, 2006 and $1.8 million from 125,768 exercised shares during the nine months ended September 30, 2005. Cash received from exercises of stock options totaled $377,000 from 18,694 exercised shares for the three months ended September 30, 2006 and $153,000 from 10,228 exercised shares for the three months ended September 30, 2005. The fair value of stock options vested during the first quarter of 2006 was $4.4 million compared to $3.4 million for the first quarter of 2005. The fair value of stock options vested during the second quarter of 2006 was $73,000 compared to $75,000 for the second quarter of 2005. There were no stock options vested during the third quarter of 2006 and during the third quarter of 2005. Aggregate intrinsic value for option exercised were $1.4 million during the nine months ended September 30, 2006 and $2.4 million during the nine months ended September 30, 2005. The aggregate intrinsic value for option exercised were $315,000 during the third quarter of 2006 and $192,000 during the third quarter of 2005. The table below summarizes stock option activity for the quarters ended March 31, June 30, and September 30, 2006:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Balance, December 31, 2005	4,316,112	$ 26.33		
Granted	795,630	36.56		
Forfeited	(60,007)	30.72		
Exercised	(39,916)	18.73		
Balance, March 31, 2006	5,011,819	$ 27.96	7.6	$ 48,513
Granted	12,000	38.26		
Forfeited	(49,848)	30.48		
Exercised	(31,166)	24.07		
Balance, June 30, 2006	4,942,805	$ 27.99	7.4	$ 42,153
Granted				
Forfeited	(45,250)	30.85		
Exercised	(18,694)	20.06		
Balance, September 30, 2006	4,878,861	$ 27.99	7.2	$ 40,576
Exercisable, September 30, 2006	2,113,303	$ 23.20	5.9	$ 27,946

At September 30, 2006, 2,205,983 shares were available under the Company s 2005 Incentive Plan for future grants. The following table shows stock options outstanding and exercisable as of September 30, 2006, the corresponding exercise prices, and the weighted-average contractual life remaining:

	Outstanding		
Exercise Price	Shares	Weighted-Average Remaining Contractual Life (in Years)	Exercisable Shares
$ 8.25	43,900	2.0	43,900
10.63	123,560	3.3	123,560
11.06	10,240	3.3	10,240
11.34	10,240	6.3	10,240
15.05	140,372	4.3	140,372
16.28	175,328	5.4	137,400
17.23	25,938	1.3	25,938
17.29	10,240	5.3	10,240
19.93	346,824	6.3	201,680
21.09	10,240	4.3	10,240
22.02	445,298	4.1	445,298
24.80	928,066	7.1	355,120
28.70	583,000	7.4	236,800
32.18	3,000	7.5	1,200
32.26	40,000	7.7	16,000
32.47	245,060	8.5	98,024
33.54	264,694	8.6	105,877
33.81	3,000	8.7	600
36.90	348,745	9.3	
36.24	414,230	9.3	
37.00	676,886	8.4	136,974
38.26	12,000	9.6	
38.38	18,000	8.1	3,600
	4,878,861	7.2	2,113,303

On January 25, 2006, the Company granted 30,000 shares of non-vested stock valued at the price of $36.24 per share to its Chairman of the Board, President and Chief Executive Officer. The shares vest ratably over three years if certain annual performance criteria are met. The stock compensation expense recorded was $91,000 for the three months and $242,000 for the nine months ended September 30, 2006. Unrecognized stock-based compensation expense related to non-vested stock awards was $846,000 at September 30, 2006 and is expected to be recognized over the next 2.2 years.

Prior to 2006, the Company presented the entire amount of the tax benefit on options exercised as operating activities in the consolidated statements of cash flows. After adoption of SFAS No. 123R in January 2006, the Company reports only the benefits of tax deductions in excess of grant-date fair value as cash flows from financing activity. The following table summarizes the tax benefit from option exercised:

	For the three months ended September 30,		For the nine months ended September 30,	
(Dollars in thousands)	2006	2005	2006	2005
Benefit of tax deductions in excess of grant-date fair value	$ 48	$ 77	$ 411	$ 734
Benefit of tax deductions on grant-date fair value	84	4	195	61
Total benefit of tax deductions	$ 132	$ 81	$ 606	$ 795

8. Commitments and Contingencies

In the normal course of business, the Company becomes a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans, or through commercial or standby letters of credit, and financial guarantees. Those instruments represent varying degrees of exposure to risk in excess of the amounts included in the accompanying condensed consolidated balance sheets. The contractual or notional amount of these instruments indicates a level of activity associated with a particular class of financial instrument and is not a reflection of the level of expected losses, if any.

The Company s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The following table summarizes the outstanding commitments as of the dates indicated:

(In thousands)	September 30, 2006	December 31, 2005
Commitments to extend credit	$ 1,790,491	$ 1,776,844
Standby letters of credit	63,576	56,555
Other letters of credit	74,039	79,900
Bill of lading guarantee	482	513
Total	$ 1,928,588	$ 1,913,812

As of September 30, 2006, $13.1 million unfunded commitments for affordable housing limited partnerships were recorded under other liabilities.

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the commitment agreement. These commitments generally have fixed expiration dates and the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management s credit evaluation of the borrowers. Letters of credit, including standby letters of credit and bill of lading guarantees, are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing these types of instrument is essentially the same as that involved in making loans to customers.

9. Line of Credit and Subordinated Note

On May 31, 2005, Cathay General Bancorp entered into a $30.0 million 364-day unsecured revolving loan agreement with a commercial bank bearing an interest rate of LIBOR plus 90 basis points and a commitment fee of 12.5 basis points on unused commitments. On May 31, 2006, this loan was renewed for 364 days and the amount increased to $50.0 million. On September 29, 2006, in conjunction with the purchase of subordinated debt discussed below, this loan was further amended to reduce the commitment to $35.0 million until October 31, 2006 and to $10.0 million thereafter. At September 30, 2006, $35.0 million was outstanding with a weighted average rate of 6.25% under this loan.

On September 29, 2006, the Bank issued $50.0 million in subordinated debt in a private placement transaction. This instrument matures on September 29, 2016 and bears interest at a per annum rate based on the three month LIBOR plus 110 basis points, payable on a quarterly basis. At September 30, 2006, the per annum interest rate on the subordinated debt was 6.47%. The subordinated debt was issued through the Bank and qualifies as Tier 2 capital for regulatory reporting purposes and is included in long-term debt in the accompanying condensed consolidated statement of financial condition.

10. Regulated Investment Company

As previously disclosed, on December 31, 2003, the California Franchise Tax Board (FTB) announced its intent to list certain transactions that in its view constitute potentially abusive tax shelters. Included in the transactions subject to this listing were transactions utilizing regulated investment companies (RICs) and real estate investment trusts (REITs). As part of the notification indicating the listed transactions, the FTB also indicated its position that it intends to disallow tax benefits associated with these transactions. While the Company continues to believe that the tax benefits recorded in three prior years with respect to its RIC were appropriate and fully defensible under California law, the Company has deemed it prudent to participate in Voluntary Compliance Initiative Option 2, requiring payment of all California taxes and interest on these disputed 2000 through 2002 tax benefits, and permitting the Company to claim a refund for these years while avoiding certain potential penalties. The Company retains potential exposure for assertion of an accuracy-related penalty should the FTB prevail in its position in addition to the risk of not being successful in its refund claims. As of September 30, 2006, the Company reflected a $12.1 million net state tax receivable for the years 2000, 2001, and 2002 after giving effect to reserves for loss contingencies on the refund claims, or an equivalent of $7.9 million after giving effect to Federal tax benefits. The FTB is currently in the process of reviewing and assessing our refund claims for taxes and interest for tax years 2000 through 2002. Although the Company believes its tax deductions related to the regulated investment company were appropriate and fully defensible, there can be no assurance of the outcome of its refund claims, and an adverse outcome on the refund claims could result in a loss of all or a portion of the $7.9 million net state tax receivable after giving effect to Federal tax benefits.

11. Stock Repurchase Program

On March 18, 2005, the Company announced that its Board of Directors had approved a new stock repurchase program to buyback up to an aggregate of one million shares of the Company s common stock following the completion of the Company s current stock buyback authorization. During 2005, the Company repurchased 548,297 shares for $18.3 million at an average price of $33.40. No shares were repurchased during the nine months ended September 30, 2006. At September 30, 2006, 451,703 shares remain under the Company s March 2005 stock buyback authorization.

12. Premises and Equipment

In 2005, $3.6 million was transferred from premises and equipment to other assets when management decided to sell a bank owned building, land, and related improvements. The $3.6 million is the lower of carrying amount or fair value less estimated selling costs.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion is given based on the assumption that the reader has access to and has read the Annual Report on Form 10-K for the year ended December 31, 2005, of Cathay General Bancorp (Bancorp) and its wholly-owned subsidiary Cathay Bank (the Bank and, together, the Company or we , us, or our).

Critical Accounting Policies

The discussion and analysis of the Company s unaudited condensed consolidated balance sheets and results of operations are based upon its unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Accounting for the allowance for loan losses involves significant judgments and assumptions by management, which have a material impact on the carrying value of net loans; management considers this accounting policy to be a critical accounting policy. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances as described under the heading Accounting for the allowance for loan losses in the Company s annual report on Form 10-K for the year ended December 31, 2005.

Accounting for investment securities involves significant judgments and assumptions by management, which have a material impact on the carrying value of securities and the recognition of any other-than-temporary impairment to our investment securities. The judgments and assumptions used by management are described under the heading Investment Securities in the Company s annual report on Form 10-K for the year ended December 31, 2005.

Accounting for income taxes involves significant judgments and assumptions by management, which have a material impact on the amount of taxes currently payable and the income tax expense recorded in the financial statements. The judgments and assumptions used by management are described under the heading Income Taxes in the Company s annual report on Form 10-K for the year ended December 31, 2005.

HIGHLIGHTS

- Third quarter earnings increased $4.0 million, or 14.9%, compared to the same quarter a year ago.
- Third quarter diluted earnings per share reached $0.59, increasing 11.3%, compared to the same quarter a year ago.
- Return on average assets was 1.60% for the quarter ended September 30, 2006, compared to 1.59% for the quarter ended June 30, 2006, and compared to 1.74% for the same quarter a year ago.
- Return on average stockholders equity was 13.76% for the quarter ended September 30, 2006, compared to 13.70% for the quarter ended June 30, 2006, and compared to 14.22% for the same quarter a year ago.
- Gross loans increased by $118.1 million, or 2.2%, from $5.4 billion at June 30, 2006 to $5.5 billion at September 30, 2006.
- The Company completed the acquisition of New Asia Bancorp on October 18, 2006.

Income Statement Review

Net Income

Net income for the third quarter of 2006 was $30.7 million, or $0.59 per diluted share, a $4.0 million, or 14.9%, increase compared with net income of $26.7 million or $0.53 per diluted share for the same quarter a year ago. Return on average assets was 1.60% and return on average stockholders equity was 13.76% for the third quarter of 2006 compared with a return on average assets of 1.74% and a return on average stockholders equity of 14.22% for the three months ended September 30, 2005.

Financial Performance

	Third Quarter 2006	Third Quarter 2005
Net income	$ 30.7 million	$ 26.7 million
Basic earnings per share	$ 0.60	$ 0.53
Diluted earnings per share	$ 0.59	$ 0.53
Return on average assets	1.60%	1.74%
Return on average stockholders equity	13.76%	14.22%
Efficiency ratio	38.62%	37.91%

Net Interest Income Before Provision for Loan Losses

The comparability of financial information is affected by our acquisitions. Operating results include the operations of acquired entities from the date of acquisition.

Net interest income before provision for loan losses increased $10.6 million, or 17.7%, to $70.7 million during the third quarter of 2006 from $60.1 million during the same quarter a year ago. The increase was due primarily to the strong growth in loans as well as the acquisition of Great Eastern Bank (GEB) on April 7, 2006.

The net interest margin, on a fully taxable-equivalent basis, was 4.06% for the third quarter of 2006. The net interest margin decreased twenty-one basis points from 4.27% for the second quarter of 2006 and decreased twenty-two basis points from 4.28% in the third quarter of 2005. The decrease for the net interest margin was primarily due to the decline in core deposits and increased reliance on more expensive wholesale borrowings.

For the third quarter of 2006, the yield on average interest-earning assets was 7.42% on a fully taxable-equivalent basis, and the cost of funds on average interest-bearing liabilities equaled 4.01%. In comparison, for the third quarter of 2005, the yield on average interest-earning assets was 6.33% and cost of funds on average interest-bearing liabilities equaled 2.54%. The interest spread decreased primarily for the reasons discussed above.

Average daily balances, together with the total dollar amounts, on a taxable-equivalent basis, of interest income and interest expense, and the weighted-average interest rate and net interest margin are as follows:

Interest-Earning Assets and Interest-Bearing Liabilities

Three months ended September 30,	2006			2005		
Taxable-equivalent basis (Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Yield/Rate (1)(2)	Average Balance	Interest Income/Expense	Average Yield/Rate (1)(2)
Interest Earning Assets						
Commercial loans	$ 1,126,348	$ 23,755	8.37%	$ 1,028,291	$ 17,739	6.84%
Residential mortgage	499,690	7,454	5.97	386,953	5,538	5.72
Commercial mortgage	3,165,728	62,608	7.85	2,315,968	41,243	7.07
Real estate construction loans	656,995	16,242	9.81	460,884	9,779	8.42
Other loans and leases	30,195	262	3.44	25,463	168	2.62
Total loans and leases (1)	5,478,956	110,321	7.99	4,217,559	74,467	7.00
Taxable securities	1,345,854	17,779	5.24	1,264,303	13,465	4.23
Tax-exempt securities (3)	83,368	1,463	6.96	101,784	1,638	6.38
FHLB and FRB stocks	34,974	383	4.34	29,353		
Interest bearing deposits	10,837	105	3.84	8,918	101	4.49
Federal funds sold & securities purchased under agreements to resell	2,293	30	5.19	1,084	9	3.29
Total interest-earning assets	6,956,282	130,081	7.42	5,623,001	89,680	6.33
Non-interest earning assets						
Cash and due from banks	100,869			85,529		
Other non-earning assets	601,042			436,128		
Total non-interest earning assets	701,911			521,657		
Less: Allowance for loan losses	(65,743)			(61,723)		
Deferred loan fees	(13,385)			(11,416)		
Total assets	$ 7,579,065			$ 6,071,519		
Interest bearing liabilities:						
Interest bearing demand accounts	$ 228,854	$ 726	1.26	$ 248,526	$ 402	0.64
Money market accounts	606,914	4,352	2.84	508,296	1,789	1.40
Savings accounts	375,043	904	0.96	384,064	534	0.55
Time deposits	3,409,894	37,377	4.35	3,022,360	22,657	2.97
Total interest-bearing deposits	4,620,705	43,359	3.72	4,163,246	25,382	2.42
Federal funds purchased	39,359	531	5.35	54,212	484	3.54
Securities sold under agreement to repurchase	415,652	4,658	4.45			
Other borrowings	695,321	9,162	5.23	277,550	2,286	3.27
Long-term debt	55,101	1,207	8.69	53,952	917	6.74
Total interest-bearing liabilities	5,826,138	58,917	4.01	4,548,960	29,069	2.54
Non-interest bearing liabilities						
Demand deposits	767,217			704,934		
Other liabilities	101,888			73,257		
Stockholders equity	883,822			744,368		
Total liabilities and stockholders equity	$ 7,579,065			$ 6,071,519		
Net interest spread (4)			3.41%			3.79%

Net interest income (4)	$ 71,164	$ 60,611
Net interest margin (4)	**4.06%**	**4.28%**

(1) Yields and amounts of interest earned include loan fees. Non-accrual loans are included in the average balance.

(2) Calculated by dividing net interest income by average outstanding interest-earning assets.

(3) The average yield has been adjusted to a fully taxable-equivalent basis for certain securities of states and political subdivisions and other securities held using a statutory Federal income tax rate of 35%.

(4) Net interest income, net interest spread, and net interest margin on interest-earning assets have been adjusted to a fully taxable-equivalent basis using a statutory Federal income tax rate of 35%.

Following table summarizes the changes in interest income and interest expense attributable to changes in volume and changes in interest rates:

Taxable-Equivalent Net Interest Income Changes Due to Rate and Volume(1)

	Three months ended September 30, 2006-2005 Increase (Decrease) in Net Interest Income Due to:		
(Dollars in thousands)	**Changes in Volume**	**Changes in Rate**	**Total Change**
Interest-Earning Assets:			
Loans and leases	24,400	11,454	35,854
Taxable securities	913	3,401	4,314
Tax-exempt securities (2)	(313)	138	(175)
FHLB and FRB stocks		383	383
Deposits with other banks	20	(16)	4
Federal funds sold and securities purchased under agreements to resell	14	7	21
Total increase in interest income	25,034	15,367	40,401
Interest-Bearing Liabilities:			
Interest bearing demand accounts	(34)	358	324
Money market accounts	404	2,159	2,563
Savings accounts	(13)	383	370
Time deposits	3,197	11,523	14,720
Federal funds purchased	(155)	202	47
Securities sold under agreement to repurchase	4,658		4,658
Other borrowed funds	4,917	1,959	6,876
Long-term debt	20	270	290
Total increase in interest expense	12,994	16,854	29,848
Changes in net interest income	$ 12,040	$ (1,487)	$ 10,553

(1) Changes in interest income and interest expense attributable to changes in both volume and rate have been allocated proportionately to changes due to volume and changes due to rate.

(2) The amount of interest earned on certain securities of states and political subdivisions and other securities held has been adjusted to a fully taxable-equivalent basis, using a statutory federal income tax rate of 35%.

Provision for Loan Losses

The provision for loan losses was a negative $1.0 million for the third quarter of 2006 compared to a negative $1.0 million provision for loan losses for the third quarter of 2005 and a $1.5 million provision for loan losses for the second quarter of 2006. The provision for loan losses was based on the review of the adequacy of the allowance for loan losses at September 30, 2006. The provision for loan losses represents the charge or credit against current earnings that is determined by management, through a credit review process, as the amount needed to establish an allowance that management believes to be sufficient to absorb loan losses inherent in the Company s loan portfolio. The following table summarizes the charge-offs and recoveries for the quarters shown:

	For the three months ended,		
(Dollars in thousands)	**September 30, 2006**	**June 30, 2006**	**September 30, 2005**
Charge-offs	$ 36	$ 544	$
Recoveries	310	422	881

Net charge-offs (recoveries)	$ (274)	$ 122	$ (881)

Non-Interest Income

Non-interest income, which includes revenues from depository service fees, letters of credit commissions, securities gains (losses), gains (losses) on loan sales, wire transfer fees, and other sources of fee income, was $5.4 million for the third quarter of 2006, a decrease of $449,000, or 7.7%, compared to the non-interest income of $5.9 million for the third quarter of 2005.

Depository service fees decreased $312,000, or 21.5%, from $1.4 million in the third quarter of 2005 to $1.1 million in the third quarter of 2006 due primarily to the reclassification of certain wire transfer fees from depository service fees to other operating income in 2006.

Other operating income decreased $558,000, or 17.6%, from $3.2 million in the third quarter of 2005 to $2.6 million in the third quarter of 2006 primarily due to the decrease in warrant mark-to-market income of $485,000, the decrease in wealth management commissions of $292,000, and venture capital investment write-downs of $257,000. Offsetting the decreases were a $204,000 increase in wire transfer fees due to the acquisition of GEB, a $105,000 increase in safe deposit box commission and a $130,000 increase in other loan fees.

The above decreases were partially offset by the increase in letters of credit commissions. Letters of credit commissions increased $384,000, or 36.3%, to $1.4 million in the third quarter of 2006 from $1.1 million in the third quarter of 2005 primarily due to a $136,000 increase in standby letter of credit commissions and a $104,000 increase in export letter of credit commissions.

Non-Interest Expense

Non-interest expense increased $4.4 million, or 17.6%, to $29.4 million for the third quarter of 2006 compared to the same quarter a year ago. The efficiency ratio was 38.62% for the third quarter of 2006 compared to 37.91% in the year ago quarter and 37.85% for the second quarter of 2006.

The increase of non-interest expense from the third quarter a year ago to the third quarter of 2006 was primarily due to the following:

Salaries and employee benefits increased $2.5 million, or 19.1%, from $13.4 million in the third quarter of 2005 to $15.9 million in the third quarter of 2006 due primarily to the merger with GEB and a $497,000 decrease in the amount of loan origination related salaries expense capitalized during the current quarter.

Occupancy expenses increased $204,000, or 8.4%, primarily due to the increases in depreciation expenses and utility expenses.

Computer and equipment expenses increased $204,000, or 12.2%, primarily due to a $111,000 increase in depreciation expenses.

Marketing expenses increased $240,000, or 49.7%, in the third quarter of 2006 compared to the same quarter a year ago mainly due to increased media and promotion expenses.

Expenses from operation of affordable housing investments increased $404,000, or 39.4%, to $1.4 million compared to $1.0 million in the same quarter a year ago as a result of additional investments in affordable housing in 2004 and 2005.

Amortization of core deposit premium increased $397,000, or 28.3%, due to the merger with GEB.

Other operating expenses increased $479,000, or 23.5%, due to increases in contract termination charges of $102,000, higher travel expenses related to GEB, and settlement of litigation.

Income Taxes

The effective tax rate was 35.7% for the third quarter of 2006, compared to 36.3% for the same quarter a year ago and 37.5% for the full year 2005. The decrease in the effective tax rate was primarily due to the higher enterprise zone net interest deductions for California income tax and a lower projected income for the full year.

As previously disclosed, on December 31, 2003, the California Franchise Tax Board (FTB) announced its intent to list certain transactions that in its view constitute potentially abusive tax shelters. Included in the transactions subject to this listing were transactions utilizing regulated investment companies (RICs) and real estate investment trusts (REITs). As part of the notification indicating the listed transactions, the FTB also indicated its position that it intends to disallow tax benefits associated with these transactions. While the Company continues to believe that the tax benefits recorded in three prior years with respect to its RIC were appropriate and fully defensible under California law, the Company has deemed it prudent to participate in Voluntary Compliance Initiative Option 2, requiring payment of all California taxes and interest on these disputed 2000 through 2002 tax benefits, and permitting the Company to claim a refund for these years while avoiding certain potential penalties. The Company retains potential exposure for assertion of an accuracy-related penalty should the FTB prevail in its position in addition to the risk of not being successful in its refund claims. As of September 30, 2006, the Company reflected a $12.1 million net state tax receivable for the years 2000, 2001, and 2002 after giving effect to reserves for loss contingencies on the refund claims, or an equivalent of $7.9 million after giving effect to Federal tax benefits. The FTB is currently in the process of reviewing and assessing our refund claims for taxes and interest for tax years 2000 through 2002. Although the Company believes its tax deductions related to the regulated investment company were appropriate and fully defensible, there can be no assurance of the outcome of its refund claims, and an adverse outcome on the refund claims could result in a loss of all or a portion of the $7.9 million net state tax receivable after giving effect to Federal tax benefits.

Year-to-Date Income Statement Review

Net income was $87.0 million, or $1.69 per diluted share for the nine months ended September 30, 2006, an increase of $9.6 million, or 12.5%, in net income over the $77.4 million, or $1.52 per diluted share for the same period a year ago due primarily to the strong growth in loans as well as the acquisition of Great Eastern Bank (GEB) on April 7, 2006. The net interest margin for the nine months ended September 30, 2006, decreased 2 basis points to 4.22% compared to 4.24% in the same period a year ago.

Return on average stockholders equity was 13.83% and return on average assets was 1.62% for the nine months of 2006, compared to a return on average stockholders equity of 14.09% and a return on average assets of 1.69% for the nine months of 2005. The efficiency ratio for the nine months ended September 30, 2006 was 37.55% compared to 36.76% during the same period a year ago.

The average daily balances, together with the total dollar amounts, on a taxable-equivalent basis, of interest income and interest expense, and the weighted-average interest rates, the net interest spread and the net interest margins are as follows:

Interest-Earning Assets and Interest-Bearing Liabilities

Nine months ended September 30,	**2006**			**2005**		
Taxable-equivalent basis (Dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Average Yield/ Rate (1)(2)**	**Average Balance**	**Interest Income/ Expense**	**Average Yield/ Rate (1)(2)**
Interest Earning Assets						
Commercial loans	$ 1,094,120	$ 65,421	7.99%	$ 1,007,822	$ 47,849	6.35%
Residential mortgage	462,411	20,627	5.95	364,360	15,271	5.59
Commercial mortgage	3,007,743	173,997	7.73	2,226,362	113,207	6.80
Real estate construction loans	608,320	43,789	9.62	442,445	26,196	7.92
Other loans and leases	30,699	732	3.19	25,125	466	2.48
Total loans and leases (1)	5,203,293	304,566	7.83	4,066,114	202,989	6.67
Taxable securities	1,257,303	46,305	4.92	1,449,956	47,018	4.34
Tax-exempt securities (3)	85,160	4,356	6.84	104,856	5,014	6.39
FHLB and FRB stocks	31,653	1,100	4.64	29,140	627	2.88
Interest bearing deposits	15,773	259	2.20	8,702	281	4.32
Federal funds sold & securities purchased under agreements to resell	4,878	160	4.39	10,125	220	2.91
Total interest-earning assets	6,598,060	356,746	7.23	5,668,893	256,149	6.04
Non-interest earning assets						
Cash and due from banks	100,107			87,330		
Other non-earning assets	555,039			438,296		
Total non-interest earning assets	655,146			525,626		
Less: Allowance for loan losses	(63,469)			(62,387)		
Deferred loan fees	(12,948)			(11,349)		
Total assets	$ 7,176,789			$ 6,120,783		
Interest bearing liabilities:						
Interest bearing demand accounts	$ 239,033	$ 2,057	1.15	$ 247,383	$ 970	0.52
Money market accounts	586,764	11,430	2.60	542,092	4,966	1.22
Savings accounts	379,516	2,517	0.89	396,852	1,309	0.44
Time deposits	3,255,741	95,789	3.93	2,886,329	56,447	2.61
Total interest-bearing deposits	4,461,054	111,793	3.35	4,072,656	63,692	2.09
Federal funds purchased	43,227	1,597	4.94	41,636	962	3.09
Securities sold under agreement to repurchase	365,714	11,183	4.09	857	14	2.18
Other borrowings	558,969	20,498	4.90	441,332	9,224	2.79
Long-term debt	54,364	3,359	8.26	53,937	2,544	6.31
Total interest-bearing liabilities	5,483,328	148,430	3.62	4,610,418	76,436	2.22
Non-interest bearing liabilities						
Demand deposits	753,855			695,378		
Other liabilities	98,181			80,693		
Stockholders equity	841,425			734,294		
Total liabilities and stockholders equity	$ 7,176,789			$ 6,120,783		

Net interest spread (4)		3.61%		3.82%
Net interest income (4)	$ 208,316		$ 179,713	
Net interest margin (4)		**4.22%**		**4.24%**

(1) Yields and amounts of interest earned include loan fees. Non-accrual loans are included in the average balance.

(2) Calculated by dividing net interest income by average outstanding interest-earning assets.

(3) The average yield has been adjusted to a fully taxable-equivalent basis for certain securities of states and political subdivisions and other securities held using a statutory Federal income tax rate of 35%.

(4) Net interest income, net interest spread, and net interest margin on interest-earning assets have been adjusted to a fully taxable-equivalent basis using a statutory Federal income tax rate of 35%.

Taxable-Equivalent Net Interest Income Changes Due to Rate and Volume(1)

(Dollars in thousands)	Nine months ended September 30, 2006-2005 Increase (Decrease) in Net Interest Income Due to:		
	Changes in Volume	Changes in Rate	Total Change
Interest-Earning Assets:			
Loans and leases	62,827	38,750	101,577
Taxable securities	(6,684)	5,971	(713)
Tax-exempt securities (2)	(991)	333	(658)
FHLB and FRB stocks	58	415	473
Deposits with other banks	159	(181)	(22)
Federal funds sold and securities purchased under agreements to resell	(144)	84	(60)
Total increase in interest income	55,225	45,372	100,597
Interest-Bearing Liabilities:			
Interest bearing demand accounts	(34)	1,121	1,087
Money market accounts	441	6,023	6,464
Savings accounts	(60)	1,268	1,208
Time deposits	7,962	31,380	39,342
Federal funds purchased	38	597	635
Securities sold under agreement to repurchase	11,146	23	11,169
Other borrowed funds	2,943	8,331	11,274
Long-term debt	20	795	815
Total increase in interest expense	22,456	49,538	71,994
Changes in net interest income	$ 32,769	$ (4,166)	$ 28,603

(1) Changes in interest income and interest expense attributable to changes in both volume and rate have been allocated proportionately to changes due to volume and changes due to rate.

(2) The amount of interest earned on certain securities of states and political subdivisions and other securities held has been adjusted to a fully taxable-equivalent basis, using a statutory federal income tax rate of 35%.

Balance Sheet Review

Assets

Total assets increased by $1.2 billion, or 19.3%, to $7.6 billion at September 30, 2006 from year-end 2005 of $6.4 billion. The increase in total assets was represented primarily by loan growth and investment securities increase funded by growth of deposits and borrowings. At April 6, 2006, the closing date of the tender offer for GEB, the total fair value of GEB s assets was approximately $334.1 million excluding intangible assets. On June 20, 2006, the Bank completed the purchase of a seven story building located in South El Monte for approximately $14.8 million which it intends to remodel for its new headquarters building.

Securities

Total securities were $1.4 billion, or 18.9%, of total assets at September 30, 2006, compared with $1.2 billion, or 19.0%, of total assets at December 31, 2005. The increase of $227.0 million, or 18.6%, was primarily due to purchases of $450.2 million of securities offset primarily by the pay-downs, matured and called securities totaling $207.5 million. A total of $61.8 million of securities were acquired as part of the acquisition of GEB on April 7, 2006.

The net unrealized loss on securities available-for-sale, which represented the difference between fair value and amortized cost, totaled $21.3 million at September 30, 2006, compared to a net unrealized loss of $22.9 million at year-end 2005. The decrease in unrealized loss on securities available-for-sale was caused by changes in market interest rates. Net unrealized gains/losses in the securities available-for-sale are included in accumulated other comprehensive income or loss, net of tax.

The average taxable-equivalent yield on securities available-for-sale increased 97 basis points to 5.40% for the three months ended September 30, 2006, compared with 4.43% for the same period a year ago, as securities matured, prepaid, or were called and proceeds were reinvested at the higher prevailing interest rates or to pay down other borrowings.

The following tables summarize the composition, amortized cost, gross unrealized gains, gross unrealized losses, and fair value of securities available-for-sale, as of September 30, 2006, and December 31, 2005:

	September 30, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. treasury entities	$ 1,984	$	$ 1	$ 1,983
U.S. government sponsored entities	336,306	16	3,587	332,735
State and municipal securities	55,822	1,044	54	56,812
Mortgage-backed securities	536,861	500	15,744	521,617
Commercial mortgage-backed securities	21,267		569	20,698
Collateralized mortgage obligations	262,188	45	6,012	256,221
Asset-backed securities	859		3	856
Corporate bonds	156,016	776	114	156,678
Preferred stock of government sponsored entities	19,385	2,425	110	21,700
Other securities	75,000	125		75,125
Total	$ 1,465,688	$ 4,931	$ 26,194	$ 1,444,425

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. government sponsored entities	$ 187,241	$	$ 4,365	$ 182,876
State and municipal securities	65,207	1,359	122	66,444
Mortgage-backed securities	621,070	842	15,009	606,903
Commercial mortgage-backed securities	29,526	8	766	28,768
Collateralized mortgage obligations	293,478	34	6,443	287,069
Asset-backed securities	1,195		3	1,192
Corporate bonds	7,033	18	143	6,908
Preferred stock of government sponsored entities	19,385	1,705		21,090
Equity securities	14,173			14,173
Other securities	2,000	15		2,015
Total	$ 1,240,308	$ 3,981	$ 26,851	$ 1,217,438

The table below shows the fair value and unrealized losses as of September 30, 2006, of the temporarily impaired securities in the Company s available-for-sale securities portfolio. The Company has the ability and intent to hold the securities for a period of time sufficient for a recovery of cost for those issues with unrealized losses. The temporarily impaired securities represent 76.4% of the fair value of the Company s securities as of September 30, 2006. Unrealized losses on securities for 12 months or longer represents 2.7% of the historical amortized cost of these securities and unrealized losses on securities less than twelve months represent 0.1% of the historical amortized cost of these securities and generally resulted from increases in market interest rates from the date that these securities were purchased. At September 30, 2006, 139 issues of securities had unrealized losses for 12 months or longer and 48 issues of securities had unrealized losses of less than 12 months. All of these securities are investment grade, as of September 30, 2006. At September 30, 2006, management believes the impairment detailed in the table below is temporary and, accordingly, no impairment loss has been recognized in the Company s consolidated statement of income.

Temporarily Impaired Securities at September 30, 2006

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Description of securities						
U.S. treasury	$ 1,983	$ 1	$	$	$ 1,983	$ 1
U.S. government sponsored entities	170,650	91	153,138	3,496	323,788	3,587
State and municipal securities	972	4	3,464	50	4,436	54
Mortgage-backed securities	3,720	11	485,514	15,733	489,234	15,744
Commercial mortgage-backed securities			20,698	569	20,698	569
Collateralized mortgage obligations	29	1	253,332	6,011	253,361	6,012
Asset-backed securities			856	3	856	3
Corporate bonds			4,898	114	4,898	114
Preferred stock of government sponsored entities	4,200	110			4,200	110
Total	$ 181,554	$ 218	$ 921,900	$ 25,976	$ 1,103,454	$ 26,194

The following table summarizes the number of issuances of the temporarily impaired available-for-sale securities as of September 30, 2006:

Temporarily Impaired Securities at September 30, 2006

Description of securities	Less than 12 months Number of Issuances	12 months or longer Number of Issuances	Total Number of Issuances
U.S. treasury	2		2
U.S. government sponsored entities	32	11	43
State and municipal securities	2	8	10
Mortgage-backed securities	10	75	85
Commercial mortgage-backed securities		3	3
Collateralized mortgage obligations	1	39	40
Asset-backed securities			