

CATHAY GENERAL BANCORP

Form 10-Q

November 07, 2014

UNITED STATES

securities and exchange commission

Washington, D.C. 20549

form 10-q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period
from

to

Commission file number 001-31830

CATHAY GENERAL BANCORP

(Exact name of registrant as specified in its charter)

Delaware 95-4274680
(State of other jurisdiction of incorporation (I.R.S. Employer

or organization) Identification No.)

777 North Broadway, Los Angeles, California 90012
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

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

Common stock, \$.01 par value, 79,704,258 shares outstanding as of October 31, 2014.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

3RD quarter 2014 REPORT ON FORM 10-Q

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Forward-Looking Statements

In this Quarterly Report on Form 10-Q, the term “Bancorp” refers to Cathay General Bancorp and the term “Bank” refers to Cathay Bank. The terms “Company,” “we,” “us,” and “our” refer to Bancorp and the Bank collectively.

The statements in this report include forward-looking statements within the meaning of the applicable provisions of the Private Securities Litigation Reform Act of 1995 regarding management’s beliefs, projections, and assumptions concerning future results and events. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements in these provisions. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, growth plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, financial expectations, regulatory and competitive outlook, investment and expenditure plans, financing needs and availability, and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as “aims,” “anticipates,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “hopes,” “is,” “is confident,” “intends,” “may,” “might,” “plans,” “potential,” “possible,” “predicts,” “projects,” “seeks,” “shall,” “should,” “will,” and variations of these and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by us are based on estimates, beliefs, projections, and assumptions of management and are not guarantees of future performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Such risks and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

U.S. and international business and economic conditions;

possible additional provisions for loan losses and charge-offs;

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

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

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

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

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

potential goodwill impairment;

liquidity risk;

fluctuations in interest rates;

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

inflation and deflation;

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

environmental liabilities;

our ability to compete with larger competitors;

our ability to retain key personnel;

successful management of reputational risk;

natural disasters and geopolitical events;

general economic or business conditions in Asia, and other regions where the Bank has operations;

failures, interruptions, or security breaches of our information systems;

our ability to adapt our systems to technological changes;

risk management processes and strategies;

adverse results in legal proceedings;

certain provisions in our charter and bylaws that may affect acquisition of the Company;

changes in accounting standards or tax laws and regulations;

market disruption and volatility;

restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;

issuance of preferred stock;

successfully raising additional capital, if needed, and the resulting dilution of interests of holders of our common stock; and

the soundness of other financial institutions.

These and other factors are further described in Bancorp's Annual Report on Form 10-K for the year ended December 31, 2013 (Item 1A in particular), other reports and registration statements filed with the Securities and Exchange Commission ("SEC"), and other filings it makes with the SEC from time to time. Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which speak to the date of this report. We have no intention and undertake no obligation to update any forward-looking statement or to publicly announce any revision of any forward-looking statement to reflect future developments or events, except as required by law.

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

PART I – FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS (UNAUDITED)****CATHAY GENERAL BANCORP AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In thousands, except share and per share data)	September 30, 2014	December 31, 2013
Assets		
Cash and due from banks	\$200,302	\$153,747
Short-term investments and interest bearing deposits	597,747	516,938
Securities available-for-sale (amortized cost of \$1,355,056 in 2014 and \$1,637,965 in 2013)	1,340,092	1,586,668
Trading securities	-	4,936
Loans	8,858,254	8,084,563
Less: Allowance for loan losses	(169,198)	(173,889)
Unamortized deferred loan fees, net	(12,903)	(13,487)
Loans, net	8,676,153	7,897,187
Federal Home Loan Bank stock	34,090	25,000
Other real estate owned, net	29,025	52,985
Affordable housing investments, net	96,504	84,108
Premises and equipment, net	100,673	102,045
Customers' liability on acceptances	21,820	32,194
Accrued interest receivable	24,986	24,274
Goodwill	316,340	316,340
Other intangible assets, net	3,459	2,230
Other assets	158,275	190,634
Total assets	\$11,599,466	\$10,989,286
Liabilities and Stockholders' Equity		
Deposits		
Non-interest-bearing demand deposits	\$1,593,003	\$1,441,858
Interest-bearing deposits:		
NOW deposits	766,622	683,873
Money market deposits	1,514,496	1,286,338
Savings deposits	542,454	499,520
Time deposits under \$100,000	1,103,634	931,204

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Time deposits of \$100,000 or more	3,174,460	3,138,512
Total deposits	8,694,669	7,981,305
Securities sold under agreements to repurchase	550,000	800,000
Advances from the Federal Home Loan Bank	555,000	521,200
Other borrowings for affordable housing investments	18,882	19,062
Long-term debt	119,136	121,136
Acceptances outstanding	21,820	32,194
Other liabilities	69,575	55,418
Total liabilities	10,029,082	9,530,315
Commitments and contingencies	-	-
Stockholders' Equity		
Common stock, \$0.01 par value, 100,000,000 shares authorized, 83,905,576 issued and 79,698,011 outstanding at September 30, 2014, and 83,797,434 issued and 79,589,869 outstanding at December 31, 2013	839	838
Additional paid-in-capital	787,889	784,489
Accumulated other comprehensive loss, net	(8,835)	(29,729)
Retained earnings	916,227	829,109
Treasury stock, at cost (4,207,565 shares at September 30, 2014, and at December 31, 2013)	(125,736)	(125,736)
Total equity	1,570,384	1,458,971
Total liabilities and equity	\$11,599,466	\$10,989,286

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(In thousands, except share and per share data)			
Interest and Dividend Income				
Loans receivable, including loan fees	\$ 100,151	\$ 90,838	\$ 290,337	\$ 267,557
Investment securities- taxable	5,105	10,868	19,389	34,986
Investment securities- nontaxable	-	-	-	995
Federal Home Loan Bank stock	508	449	1,379	1,041
Deposits with banks	571	307	1,499	796
Total interest and dividend income	106,335	102,462	312,604	305,375
Interest Expense				
Time deposits of \$100,000 or more	7,107	6,887	20,519	20,466
Other deposits	5,005	3,485	13,462	9,244
Securities sold under agreements to repurchase	5,858	8,402	19,731	29,778
Advances from Federal Home Loan Bank	153	150	849	375
Long-term debt	1,456	930	3,012	2,778
Short-term borrowings	1	-	1	
Total interest expense	19,580	19,854	57,574	62,641
Net interest income before provision for credit losses	86,755	82,608	255,030	242,734
Credit for loan losses	(5,100)	(3,000)	(8,800)	(3,000)
Net interest income after credit for loan losses	91,855	85,608	263,830	245,734
Non-Interest Income				
Securities gains, net	361	8,688	6,827	27,157
Letters of credit commissions	1,559	1,698	4,547	4,608
Depository service fees	1,330	1,371	3,999	4,330
Other operating income	5,724	4,963	17,181	15,867
Total non-interest income	8,974	16,720	32,554	51,962
Non-Interest Expense				
Salaries and employee benefits	22,630	22,751	69,472	67,192
Occupancy expense	3,934	3,812	11,692	10,966
Computer and equipment expense	2,471	2,446	7,307	7,488
Professional services expense	5,991	5,813	16,410	18,484

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FDIC and State assessments	2,261	1,712	6,692	5,431
Marketing expense	639	1,097	2,722	2,703
Other real estate owned (income)/expense	(1,011)	527	(629)	886
Operations of affordable housing investments, net	1,672	1,234	5,126	4,952
Amortization of core deposit intangibles	214	1,363	510	4,097
Costs associated with debt redemption	527	6,861	3,348	22,557
Other operating expense	3,279	3,054	10,538	8,758
Total non-interest expense	42,607	50,670	133,188	153,514
Income before income tax expense	58,222	51,658	163,196	144,182
Income tax expense	22,313	19,029	60,944	52,489
Net income	35,909	32,629	102,252	91,693
Less: net income attributable to noncontrolling interest	-	151	-	452
Net income attributable to Cathay General Bancorp	35,909	32,478	102,252	91,241
Dividends on preferred stock and noncash charge from repayment	-	(2,434)	-	(9,685)
Net income attributable to common stockholders	35,909	30,044	102,252	81,556
Other comprehensive income/(loss), net of tax				
Unrealized holding gain/(loss) on securities available-for-sale	170	(1,074)	25,014	(5,908)
Less: reclassification adjustments included in net income	209	5,036	3,957	15,740
Unrealized holding gain/(loss) on cash flow hedge derivatives	100	-	(163)	-
Less: reclassification adjustments included in net income	-	-	-	-
Total other comprehensive gain/(loss), net of tax	61	(6,110)	20,894	(21,648)
Total comprehensive income	\$35,970	\$26,368	\$123,146	\$69,593
Net income per common share:				
Basic	\$0.45	\$0.38	\$1.28	\$1.03
Diluted	\$0.45	\$0.38	\$1.28	\$1.03
Cash dividends paid per common share	\$0.07	\$0.01	\$0.19	\$0.03
Average common shares outstanding				
Basic	79,677,952	78,894,262	79,639,202	78,853,333
Diluted	80,176,100	79,114,122	80,087,819	78,944,152

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	
	2014	2013
	(In thousands)	
Cash Flows from Operating Activities		
Net income	\$ 102,252	\$ 91,693
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Credit for loan losses	(8,800)	(3,000)
Provision/(credit) for losses on other real estate owned	1,693	(675)
Deferred tax (asset)/liability	13,846	(12,325)
Depreciation	5,336	4,899
Net gains on sale and transfer of other real estate owned	(3,467)	(843)
Net gains on sale of loans	(300)	(864)
Proceeds from sales of loans	15,791	41,219
Originations of loans held-for-sale	(15,491)	(40,356)
Net change in trading securities	-	(152)
Income associated with debt redemption	(550)	-
Write-downs on venture capital investments	317	295
Write-downs on impaired securities	820	-
Net gains on sales and calls of securities	(7,647)	(27,157)
Amortization/accretion of security premiums/discounts, net	2,266	3,439
Amortization of other intangible assets	575	4,192
Excess tax short-fall from share-based payment arrangements	1,177	143
Stock based compensation and stock issued to officers as compensation	2,948	2,775
Net change in accrued interest receivable and other assets	1,691	24,875
Net change in other liabilities	(8,377)	4,195
Net cash provided by operating activities	104,080	92,353
Cash Flows from Investing Activities		
(Increase)/decrease in short-term investments	(75,873)	22,959
Purchase of investment securities available-for-sale	(892,706)	(1,026,659)
Proceeds from sale of investment securities available-for-sale	543,305	903,915
Proceeds from repayments, maturities and calls of investment securities available-for-sale	640,478	367,026
Proceeds from repayments, maturities and calls of investment securities held-to-maturity	-	50,973
Purchase of Federal Home Loan Bank stock	(17,736)	-
Redemptions of Federal Home Loan Bank stock	8,646	12,589
Net increase in loans	(763,211)	(413,405)
Purchase of premises and equipment	(4,036)	(4,734)
Proceeds from sale of other real estate owned	28,543	9,926

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Net increase in investment in affordable housing	(5,617)	(6,167)
Net cash used in investing activities	(538,207)	(83,577)

Cash Flows from Financing Activities

Net increase in deposits	713,362	534,306
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(250,000)	(450,000)
Advances from Federal Home Loan Bank	8,252,400	1,742,396
Repayment of Federal Home Loan Bank borrowings	(8,218,600)	(1,512,000)
Cash dividends paid	(15,133)	(8,631)
Redemption of series B preferred stock	-	(258,000)
Repurchase of trust preferred securities	(1,450)	-
Proceeds from shares issued under Dividend Reinvestment Plan	1,554	202
Taxes paid related to net share settlement of RSUs	(274)	-
Excess tax short-fall from share-based payment arrangements	(1,177)	(143)
Net cash provided by financing activities	480,682	48,130
Increase in cash and cash equivalents	46,555	56,906
Cash and cash equivalents, beginning of the period	153,747	144,909
Cash and cash equivalents, end of the period	\$200,302	\$201,815

Supplemental disclosure of cash flow information

Cash paid during the period:

Interest	\$59,478	\$65,372
Income taxes paid	\$52,864	\$55,537
Non-cash investing and financing activities:		
Net change in unrealized holding (loss)/gain on securities available-for-sale, net of tax	\$21,057	\$(21,648)
Net change in unrealized holding loss on cash flow hedge derivatives	\$(163)	\$-
Transfers of investment securities to available-for-sale from held-to-maturity	\$-	\$722,466
Transfers of trading securities to short-term investments	\$4,936	\$-
Transfers to other real estate owned from loans held for investment	\$(2,810)	\$11,877
Loans to facilitate the sale of other real estate owned	\$-	\$75
Transfer of securities sold but not yet settled to other assets	\$-	\$12,469

See accompanying notes to unaudited condensed consolidated financial statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business

Cathay General Bancorp (“Bancorp”) is the holding company for Cathay Bank (the “Bank” and, together, the “Company”), six limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc. The Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of September 30, 2014, the Bank operated 21 branches in Southern California, 12 branches in Northern California, nine branches in New York State, three branches in Illinois, three branches in Washington State, two branches in Texas, one branch in Massachusetts, one branch in New Jersey, one branch in Nevada, one branch in Hong Kong, and a representative office in Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the “FDIC”).

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. For further information, refer to the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

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

3. Recent Accounting Pronouncements

In January 2014, the FASB issued ASU 2014-01, “*Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects.*” ASU No. 2014-01 permits a reporting entity to make an accounting policy election to account for its investments in affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the amount of tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. ASU 2014-01 becomes effective for interim and annual periods beginning on or after December 15, 2014. The Company is evaluating whether to adopt ASU 2014-01 or to continue to apply the equity method of accounting for investments in affordable housing projects.

In January 2014, the FASB issued ASU 2014-04, “*Receivables—Trouble Debt Restructurings by Creditors.*” ASU No. 2014-04 clarifies that upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement, a creditor is considered to have physical possession of residential real estate property collateralizing a consumer mortgage loan. A reporting entity is required to have interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in process of foreclosure. ASU 2014-04 becomes effective for interim and annual periods beginning on or after December 15, 2014. Adoption of ASU 2014-04 is not expected to have a significant impact on the Company’s consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, “*Presentation of Financial Statements and Property, Plant, and Equipment.*” ASU No. 2014-08 defines a discontinued operation as disposal of components of an entity that represent a strategic shift that has or will have a major effect on an entity’s operations. ASU No. 2014-08 also requires a reporting entity to present the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position for each comparative period. ASU 2014-08 becomes effective for interim and annual periods beginning on or after December 15, 2014. Adoption of ASU 2014-08 is not expected to have a significant impact on the Company’s consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, “*Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.*” ASU No. 2014-11 expands secured borrowing accounting for certain repurchase agreements. It requires the repurchase agreement be separate from the initial transfer of the financial asset in a repurchase financing arrangement. An entity is required to disclose additional information about certain transactions accounted for as a sale in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets through an agreement with the same counterparty. An entity is also required to disclose information about repurchase agreements, securities lending transactions and repurchase-to-maturity transactions that are accounted for as secured borrowings. ASU 2014-11 becomes effective for interim and annual periods beginning on or after December 15, 2014. Adoption of ASU 2014-11 is not expected to have a significant impact on the Company’s consolidated financial statements.

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

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

4. Earnings per Share

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and resulted in the issuance of common stock that then shared in earnings.

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

(Dollars in thousands, except share and per share data)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income attributable to Cathay General Bancorp	\$35,909	\$32,478	\$102,252	\$91,241
Dividends on preferred stock and noncash charge from repayment	-	(2,434)	-	(9,685)
Net income available to common stockholders	\$35,909	\$30,044	\$102,252	\$81,556
Weighted-average shares:				
Basic weighted-average number of common shares outstanding	79,677,952	78,894,262	79,639,202	78,853,333
Dilutive effect of weighted-average outstanding common share equivalents				
Warrants	346,101	171,426	306,306	57,771
Options	109,803	-	103,022	-
Restricted stock units	42,244	48,434	39,289	33,048
Diluted weighted-average number of common shares outstanding	80,176,100	79,114,122	80,087,819	78,944,152
Average stock options and warrants with anti-dilutive effect	1,990,358	3,668,285	1,993,384	4,958,218
Earnings per common share:				
Basic	\$0.45	\$0.38	\$1.28	\$1.03
Diluted	\$0.45	\$0.38	\$1.28	\$1.03

5. Stock-Based Compensation

Under the Company's equity incentive plans, directors and eligible employees may be granted incentive or non-statutory stock options and/or restricted stock units, or awarded non-vested stock. As of September 30, 2014, the only options granted by the Company were non-statutory stock options to selected Bank officers and non-employee directors at exercise prices equal to the fair market value of a share of the Company's common stock on the date of grant. Such options have a maximum ten-year term and vest in 20% annual increments (subject to early termination in certain events) except certain options granted to the Chief Executive Officer of the Company in 2005 and 2008. If such options expire or terminate without having been exercised, any shares not purchased will again be available for future grants or awards. There were no options granted during the first nine months of 2014 or the year ended December 31, 2013.

Option compensation expense was zero for the three months ended September 30, 2014, and for the three months ended September 30, 2013. For the nine months ended September 30, option compensation expense totaled zero for 2014 and \$129,000 for 2013. Stock-based compensation is recognized ratably over the requisite service period for all awards.

No stock options were exercised in the first nine months of 2014 or in the first nine months of 2013. The table below summarizes stock option activity for the periods indicated:

		Weighted-average	Weighted-average	Aggregate
	Shares	exercise price	Remaining Contractual Life	Intrinsic Value
			(in years)	(in thousands)
Balance, December 31, 2013	2,812,874	\$ 31.81	1.9	\$ 2,119
Forfeited	(438,000)	28.70		
Balance, March 31, 2014	2,374,874	\$ 32.38	2.0	\$ 1,148
Forfeited	(10,000)	32.26		
Balance, June 30, 2014	2,364,874	\$ 32.38	1.7	\$ 4,083
Forfeited	-	-		
Balance, September 30, 2014	2,364,874	\$ 32.38	1.5	\$ 3,487
Exercisable, September 30, 2014	2,364,874	\$ 32.38	1.5	\$ 3,487

At September 30, 2014, 3,070,663 shares were available under the Company's 2005 Incentive Plan for future grants.

The Company granted restricted stock units for 17,601 shares at an average closing price of \$24.66 per share in the first nine months of 2014 and 25,037 shares at an average closing price of \$20.68 per share in the year ended December 31, 2013. The restricted stock units granted in 2014 and 2013 are scheduled to vest two years from grant date.

The following table presents information relating to the restricted stock units as of September 30, 2014:

	Units
Balance at December 31, 2013	143,433
Granted	17,601
Forfeited	-
Vested	(42,520)
Balance at September 30, 2014	118,514

The compensation expense related to the restricted stock units was \$1.0 million for the three months ended September 30, 2014, compared to \$476,000 for the three months ended September 30, 2013. For the nine months ended

September 30, compensation expense recorded related to the restricted stock units was \$2.9 million in 2014 and \$1.6 million in 2013. Unrecognized stock-based compensation expense related to restricted stock units was \$4.7 million at September 30, 2014, and is expected to be recognized over the next 2.0 years.

In December 2013, the Company granted performance-based restricted stock units in which the number of units earned is calculated based on the relative total stockholder return (“TSR”) of the Company’s common stock as compared to the TSR of the KBW Regional Banking Index. In addition, the Company granted performance stock units in which the number of units earned is determined by comparison to the targeted earnings per share (“EPS”) for the three years ending December 31, 2016. Performance TSR restricted stock units for 119,840 shares and performance EPS restricted stock units for 116,186 shares were granted to eight executive officers. Both the performance TSR and EPS stock units are scheduled to vest on December 31, 2016. In the first nine months of 2014, the Company did not grant any performance stock units.

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
(Dollars in thousands)				
Short-fall of tax deductions in excess of grant-date fair value	\$ -	\$ (63)	\$(1,177)	\$(143)
Benefit of tax deductions on grant-date fair value	-	95	1,177	702
Total benefit of tax deductions	\$ -	\$ 32	\$-	\$559

6. Investment Securities

Investment securities were \$1.34 billion at September 30, 2014, compared to \$1.59 billion at December 31, 2013. During the first quarter of 2013, due to the ongoing discussions regarding corporate income tax rates which could have a negative impact on the after-tax yields and fair values of the Company's portfolio of municipal securities, the Company determined it may sell such securities in response to market conditions. As a result, the Company reclassified its municipal securities from securities held-to-maturity to securities available-for-sale. Concurrent with this reclassification, the Company also reclassified all other securities held-to-maturity, which together with the municipal securities had an amortized cost on the date of transfer of \$722.5 million, to securities available-for-sale. At the reclassification date, a net unrealized gain was recorded in other comprehensive income for these securities totaling \$40.5 million.

The following tables reflect the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of investment securities as of September 30, 2014, and December 31, 2013:

	September 30, 2014			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities Available-for-Sale				
U.S. treasury securities	\$539,919	\$ 198	\$ 29	\$540,088
Mortgage-backed securities	703,312	1,085	21,073	683,324
Collateralized mortgage obligations	80	-	34	46
Corporate debt securities	94,941	751	1,355	94,337
Mutual funds	6,000	-	183	5,817
Preferred stock of government sponsored entities	7,196	2,056	-	9,252

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Other equity securities	3,608	3,620	-	7,228
Total	\$1,355,056	\$ 7,710	\$ 22,674	\$1,340,092

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	December 31, 2013			Fair Value
	Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	
Securities Available-for-Sale				
U.S. treasury securities	\$460,095	\$ 99	\$ 1	\$460,193
Mortgage-backed securities	1,010,294	7,049	64,529	952,814
Collateralized mortgage obligations	5,929	231	54	6,106
Asset-backed securities	123	-	-	123
Corporate debt securities	154,955	298	4,949	150,304
Mutual funds	6,000	-	275	5,725
Preferred stock of government sponsored entities	569	10,834	-	11,403
Total	\$1,637,965	\$ 18,511	\$ 69,808	\$1,586,668

The amortized cost and fair value of investment securities at September 30, 2014, by contractual maturities, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties.

	Securities Available-For-Sale	
	Amortized cost (In thousands)	Fair value
Due in one year or less	\$115,047	\$115,156
Due after one year through five years	446,739	447,662
Due after five years through ten years	85,693	84,983
Due after ten years (1)	707,577	692,291
Total	\$1,355,056	\$1,340,092

(1) Equity securities are reported in this category

Proceeds from sales of mortgage-backed securities were \$458.4 million and from repayments, maturities and calls of mortgage-backed securities were \$54.7 million during the first nine months of 2014 compared to proceeds from sales of \$348.7 million and proceeds of \$237.9 million from repayments, maturities, and calls during the same period a year ago. Proceeds from sales of other investment securities were \$84.9 million during the first nine months of 2014 compared to \$555.2 million during the same period a year ago. Proceeds from maturities and calls of other investment securities were \$585.8 million during the first nine months of 2014 compared to \$180.1 million during the same period a year ago. Gains of \$17.1 million and losses of \$9.5 million were realized on sales and calls of investment securities during the first nine months of 2014 compared to gains of \$27.2 million and no losses realized during the same period a year ago.

At September 30, 2014, all of the Company's mortgage-backed securities were rated as investment grade except for one non-agency issue. Total unrealized losses of \$21.1 million from all mortgage-backed securities resulted from increases in interest rates subsequent to the date that these securities were purchased. Total unrealized losses of \$1.4 million on corporate bonds relates to four issues of investments in bonds of financial institutions, all of which were investment grade at the date of acquisition and as of September 30, 2014. The unrealized losses were primarily caused by the widening of credit and liquidity spreads since the dates of acquisition. The contractual terms of those investments do not permit the issuers to settle the security at a price less than the amortized cost of the investment. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that these mortgage-backed securities and corporate bonds would not be settled at a price less than the amortized cost of the investment. Because the Company does not intend to sell and would not be required to sell these investments until a recovery of fair value, which may be maturity, it does not consider its investments in these mortgaged-backed securities and corporate bonds to be other-than-temporarily impaired at September 30, 2014.

The temporarily impaired securities represent 66.3% of the fair value of investment securities as of September 30, 2014. Unrealized losses for securities with unrealized losses for less than twelve months represent 0.07%, and securities with unrealized losses for twelve months or more represent 3.5%, of the historical cost of these securities. Unrealized losses on these securities generally resulted from increases in interest rates or spreads subsequent to the date that these securities were purchased. During the third quarter of 2014, the Company wrote down the carrying value of its portfolio of agency preferred stock by \$820,000..

At September 30, 2014, management believed the impairment was temporary and, accordingly, no impairment loss on debt securities has been recognized in our condensed consolidated statements of operations. The Company expects to recover the amortized cost basis of its debt securities, and has no intent to sell and will not be required to sell available-for-sale debt securities that have declined below their cost before their anticipated recovery.

The tables below show the fair value and unrealized losses of the temporarily impaired securities in our investment securities portfolio as of September 30, 2014, and December 31, 2013:

	September 30, 2014					
	Temporarily impaired securities					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
Securities Available-for-Sale						
U.S. treasury securities	\$174,959	\$ 29	\$-	\$ -	\$174,959	\$ 29
Mortgage-backed securities	92,436	151	551,854	20,922	644,290	21,073
Collateralized mortgage obligations	-	-	46	34	46	34

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Corporate debt securities	-	-	63,645	1,355	63,645	1,355
Mutual funds	-	-	5,817	183	5,817	183
Total	\$267,395	\$ 180	\$621,362	\$ 22,494	\$888,757	\$ 22,674

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December 31, 2013**Temporarily impaired securities**

	Less than 12 months		12 months or longer		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses

(Dollars in thousands)**Securities Available-for-Sale**

U.S. treasury securities	\$75,064	\$ 1	\$-	\$ -	\$75,064	\$ 1
Mortgage-backed securities	792,012	64,526	272	2	792,284	64,528
Mortgage-backed securities-Non-agency	94	1	-	-	94	1
Collateralized mortgage obligations	68	4	301	50	369	54
Corporate debt securities	9,970	30	100,081	4,919	110,051	4,949
Mutual funds	-	-	5,724	275	5,724	275
Total securities available-for-sale	\$877,208	\$ 64,562	\$106,378	\$ 5,246	\$983,586	\$ 69,808
Total investment securities	\$877,208	\$ 64,562	\$106,378	\$ 5,246	\$983,586	\$ 69,808

Investment securities having a carrying value of \$703.6 million at September 30, 2014, and \$926.5 million at December 31, 2013, were pledged to secure public deposits, other borrowings, treasury tax and loan, and securities sold under agreements to repurchase.

7. Loans

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

The components of loans in the condensed consolidated balance sheets as of September 30, 2014, and December 31, 2013, were as follows:

	September	December
	30, 2014	31, 2013
	(In thousands)	
Type of Loans:		
Commercial loans	\$2,450,118	\$2,298,724
Residential mortgage loans	1,516,711	1,355,255

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Commercial mortgage loans	4,414,067	4,023,051
Equity lines	172,223	171,277
Real estate construction loans	301,459	221,701
Installment and other loans	3,676	14,555
Gross loans	8,858,254	8,084,563
Less:		
Allowance for loan losses	(169,198)	(173,889)
Unamortized deferred loan fees	(12,903)	(13,487)
Total loans, net	\$8,676,153	\$7,897,187

At September 30, 2014, recorded investment in impaired loans totaled \$188.3 million and was comprised of non-accrual loans of \$65.2 million and accruing troubled debt restructured loans (“TDRs”) of \$123.1 million. At December 31, 2013, recorded investment in impaired loans totaled \$200.8 million and was comprised of non-accrual loans of \$83.2 million and accruing TDRs of \$117.6 million. For impaired loans, the amounts previously charged off represent 12.6% at September 30, 2014, and 23.9% at December 31, 2013, of the contractual balances for impaired loans. The following table presents the average balance and interest income recognized related to impaired loans for the periods indicated:

	Impaired Loans				Interest Income Recognized			
	Average Recorded Investment							
	Three months ended		Nine months ended		Three months ended		Nine months ended	
	September 30, 2014	2013	September 30, 2014	2013	September 30, 2014	2013	September 30, 2014	2013
				(In thousands)				
Commercial loans	\$21,706	\$32,187	\$26,741	\$24,873	\$205	\$166	\$636	\$395
Real estate construction loans	33,276	34,946	33,459	39,014	66	67	198	199
Commercial mortgage loans	119,611	132,921	114,663	145,380	1,153	730	3,310	3,289
Residential mortgage and equity lines	16,151	16,884	17,889	17,574	128	106	363	227
Total impaired loans	\$190,744	\$216,938	\$192,752	\$226,841	\$1,552	\$1,069	\$4,507	\$4,110

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

	Impaired Loans			December 31, 2013		
	September 30, 2014			Unpaid		
	Unpaid			Unpaid		
	Principal Balance	Recorded Investment	Allowance	Principal Balance	Recorded Investment	Allowance
With no allocated allowance						
Commercial loans	\$19,792	\$18,764	\$-	\$20,992	\$18,905	\$-
Real estate construction loans	37,403	16,133	-	25,401	15,097	-
Commercial mortgage loans	84,274	82,586	-	105,593	78,930	-
Residential mortgage loans and equity lines	2,541	2,541	-	4,892	4,892	-
Subtotal	\$144,010	\$120,024	\$-	\$156,878	\$117,824	\$-

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With allocated allowance

Commercial loans	\$8,951	\$ 6,985	\$ 2,730	\$22,737	\$ 13,063	\$ 2,519
Real estate construction loans	15,377	15,377	2,604	28,475	19,323	3,460
Commercial mortgage loans	33,749	32,973	7,999	39,223	35,613	6,584
Residential mortgage loans and equity lines	13,422	12,988	481	16,535	14,957	721
Subtotal	\$71,499	\$ 68,323	\$ 13,814	\$106,970	\$ 82,956	\$ 13,284
Total impaired loans	\$215,509	\$ 188,347	\$ 13,814	\$263,848	\$ 200,780	\$ 13,284

The following tables present the aging of the loan portfolio by type as of September 30, 2014, and as of December 31, 2013:

Type of Loans:	September 30, 2014						
	30-59	60-89	90	Non-accrual	Total	Loans Not	Total
	Days	Days	Days				
	Past	Past	More	Loans	Past	Past Due	
Due	Due	Past		Due			
	Due						
	(In thousands)						
Commercial loans	\$8,307	\$3,920	\$662	\$8,851	\$21,740	\$2,428,378	\$2,450,118
Real estate construction loans	-	-	-	25,728	25,728	275,731	301,459
Commercial mortgage loans	171	1,676	-	23,830	25,677	4,388,390	4,414,067
Residential mortgage loans and equity lines	408	807	-	6,849	8,064	1,680,870	1,688,934
Installment and other loans	168	-	-	-	168	3,508	3,676
Total loans	\$9,054	\$6,403	\$662	\$65,258	\$81,377	\$8,776,877	\$8,858,254

Type of Loans:	December 31, 2013						
	30-59	60-89	90	Non-accrual	Total	Loans Not	Total
	Days	Days	Days				
	Past	Past	More	Loans	Past Due	Past Due	
Due	Due	Past					
	Due						
	(In thousands)						
Commercial loans	\$7,170	\$16,562	\$-	\$21,232	\$44,964	\$2,253,760	\$2,298,724
Real estate construction loans	-	-	-	28,586	28,586	193,115	221,701
Commercial mortgage loans	20,043	7,862	982	19,621	48,508	3,974,543	4,023,051
Residential mortgage loans and equity lines	3,508	832	-	13,744	18,084	1,508,448	1,526,532
Installment and other loans	100	-	-	-	100	14,455	14,555
Total loans	\$30,821	\$25,256	\$982	\$83,183	\$140,242	\$7,944,321	\$8,084,563

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

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

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

At September 30, 2014, accruing TDRs were \$123.1 million and non-accrual TDRs were \$34.2 million compared to accruing TDRs of \$117.6 million and non-accrual TDRs of \$38.8 million at December 31, 2013. The Company allocated specific reserves of \$8.0 million to accruing TDRs and \$3.9 million to non-accrual TDRs at September 30, 2014, and \$6.9 million to accruing TDRs and \$2.2 million to non-accrual TDRs at December 31, 2013. The following tables present TDRs that were modified during the first nine months of 2014 and 2013, their specific reserves at September 30, 2014 and 2013, and charge-offs during the first nine months of 2014 and 2013:

	Nine months ended September 30, 2014				September 30, 2014
	No. of Contracts	Pre-Modification	Post-Modification	Charge-offs	Specific Reserve
		Outstanding Recorded	Outstanding Recorded		
	Investment	Investment	(Dollars in thousands)		
Commercial loans	6	\$ 10,773	\$ 10,773	\$ -	\$ 26
Commercial mortgage loans	3	11,818	11,818	-	564
Residential mortgage loans and equity lines	5	2,226	2,226	-	16
Total	14	\$ 24,817	\$ 24,817	\$ -	\$ 606

	Nine months ended September 30, 2013				September 30, 2013
	No. of Contracts	Pre-Modification	Post-Modification	Charge-offs	Specific Reserve
		Outstanding Recorded	Outstanding Recorded		
	Investment	Investment	(Dollars in thousands)		
Commercial loans	9	11,705	10,516	\$ 1,189	\$ 71
Commercial mortgage loans	3	7,474	7,474	-	191
Residential mortgage loans and equity lines	11	3,736	3,658	78	125
Total	23	\$ 22,915	\$ 21,648	\$ 1,267	\$ 387

Modifications of the loan terms during the first nine months of 2014 were in the form of changes in the stated interest rate, and/or extension of maturity dates, and/or reduction in monthly payment amount. The length of time for which modifications involving a reduction of the stated interest rate or changes in payment terms that were documented

ranged from seven months to two years from the modification date.

We expect that the TDRs on accruing status as of September 30, 2014, which were all performing in accordance with their restructured terms, will continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. A summary of TDRs by type of concession and by type of loan, as of September 30, 2014, and December 31, 2013, is shown below:

Accruing TDRs	September 30, 2014				
	Principal Rate Deferral Reduction	Rate Reduction	Rate Reduction	Rate Reduction	Total
			of Principal	Deferral	
(In thousands)					
Commercial loans	\$13,006	\$ 1,558	\$ -	\$ 2,333	\$16,897
Real estate construction loans	-	-	-	5,782	5,782
Commercial mortgage loans	19,116	8,317	-	64,296	91,729
Residential mortgage loans	3,557	1,013	216	3,895	8,681
Total accruing TDRs	\$35,679	\$ 10,888	\$ 216	\$ 76,306	\$123,089

Non-accrual TDRs	September 30, 2014				
	Interest Deferral	Principal Deferral	Rate Reduction	Rate Reduction	Total
			of Principal	Deferral	
(In thousands)					
Commercial loans	\$-	\$ 2,186	\$ 1,225	\$ 243	\$3,654
Real estate construction loans	-	15,377	-	8,851	24,228
Commercial mortgage loans	226	3,159	-	1,369	4,754
Residential mortgage loans	213	-	-	1,313	1,526
Total non-accrual TDRs	\$439	\$ 20,722	\$ 1,225	\$ 11,776	\$34,162

Accruing TDRs	December 31, 2013		
	Principal Rate Deferral Reduction	Rate Reduction	Total

			and Payment	
			Deferral	
	(In thousands)			
Commercial loans	\$9,112	\$ 2,916	\$ 2,708	\$14,736
Real estate construction loans	-	-	5,834	5,834
Commercial mortgage loans	11,333	9,389	70,200	90,922
Residential mortgage loans	1,564	1,024	3,517	6,105
Total accruing TDRs	\$22,009	\$ 13,329	\$ 82,259	\$117,597

	December 31, 2013				
			Rate Reduction	Rate Reduction	
	Interest Principal				
Non-accrual TDRs	Deferral	Deferral	and Forgiveness	and Payment	Total
	(In thousands)		of Principal	Deferral	
Commercial loans	\$-	\$ 2,866	\$ 1,352	\$ -	\$4,218
Real estate construction loans	-	16,009	-	9,263	25,272
Commercial mortgage loans	1,443	2,168	-	1,843	5,454
Residential mortgage loans	241	2,206	-	1,378	3,825
Total non-accrual TDRs	\$1,684	\$ 23,249	\$ 1,352	\$ 12,484	\$38,769

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

Accruing TDRs	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Beginning balance	\$111,136	\$115,464	\$117,597	\$144,695
New restructurings	14,900	10,669	22,997	15,485
Restructured loans restored to accrual status	660	5,397	1,622	6,851
Charge-offs	-	-	-	(78)
Payments	(3,607)	(15,274)	(11,897)	(48,663)
Restructured loans placed on nonaccrual	-	(316)	(7,230)	(2,350)
Ending balance	\$123,089	\$115,940	\$123,089	\$115,940

Non-accrual TDRs	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Beginning balance	\$43,605	\$48,524	\$38,769	\$47,731
New restructurings	34	2,415	1,820	6,163
Restructured loans placed on nonaccrual	-	316	7,230	2,350
Charge-offs	(234)	(1,188)	(833)	(2,121)
Payments	(8,583)	(1,062)	(11,202)	(3,664)
Restructured loans restored to accrual status	(660)	(5,397)	(1,622)	(6,851)
Ending balance	\$34,162	\$43,608	\$34,162	\$43,608

A loan is considered to be in payment default once it is 60 to 90 days contractually past due under the modified terms. The Company had one commercial mortgage loan in the amount of \$62,000 that was modified as a TDR during the previous twelve months and which subsequently defaulted as of September 30, 2014.

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

As of September 30, 2014, there were no commitments to lend additional funds to those borrowers whose loans have been restructured, were considered impaired, or were on non-accrual status.

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

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

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

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

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

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

The following tables present loan portfolio by risk rating as of September 30, 2014, and as of December 31, 2013:

	September 30, 2014				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
	(In thousands)				
Commercial loans	\$2,283,837	\$82,731	\$ 80,180	\$ 3,370	\$2,450,118
Real estate construction loans	267,760	-	32,199	1,500	301,459
Commercial mortgage loans	4,124,943	112,825	176,299	-	4,414,067
Residential mortgage loans and equity lines	1,679,920	-	9,014	-	1,688,934
Installment and other loans	3,676	-	-	-	3,676
Total gross loans	\$8,360,136	\$195,556	\$ 297,692	\$ 4,870	\$8,858,254

	December 31, 2013				
	Pass/Watch	Special Mention	Substandard	Doubtful	Total
	(In thousands)				
Commercial loans	\$2,108,191	\$84,786	\$ 102,088	\$ 3,659	\$2,298,724
Real estate construction loans	184,449	-	33,939	3,313	221,701
Commercial mortgage loans	3,686,788	127,436	208,827	-	4,023,051
Residential mortgage loans and equity lines	1,510,647	-	15,885	-	1,526,532
Installment and other loans	14,555	-	-	-	14,555
Total gross loans	\$7,504,630	\$212,222	\$ 360,739	\$ 6,972	\$8,084,563

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

The following table presents the balance in the allowance for loan losses by portfolio segment and based on impairment method as of September 30, 2014, and as of December 31, 2013:

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
September 30, 2014						
Loans individually evaluated for impairment						
Allowance	\$2,730	\$ 2,604	\$ 7,999	\$ 481	\$ -	\$ 13,814
Balance	\$25,749	\$ 31,510	\$ 115,559	\$ 15,529	\$ -	\$ 188,347
Loans collectively evaluated for impairment						
Allowance	\$53,566	\$ 32,099	\$ 58,740	\$ 10,962	\$ 17	\$ 155,384
Balance	\$2,424,369	\$ 269,949	\$ 4,298,508	\$ 1,673,405	\$ 3,676	\$ 8,669,907
Total allowance	\$56,296	\$ 34,703	\$ 66,739	\$ 11,443	\$ 17	\$ 169,198
Total balance	\$2,450,118	\$ 301,459	\$ 4,414,067	\$ 1,688,934	\$ 3,676	\$ 8,858,254
December 31, 2013						
Loans individually evaluated for impairment						
Allowance	\$2,519	\$ 3,460	\$ 6,584	\$ 721	\$ -	\$ 13,284
Balance	\$31,968	\$ 34,420	\$ 114,544	\$ 19,848	\$ -	\$ 200,780
Loans collectively evaluated for impairment						
Allowance	\$62,584	\$ 8,539	\$ 78,169	\$ 11,284	\$ 29	\$ 160,605
Balance	\$2,266,756	\$ 187,281	\$ 3,908,507	\$ 1,506,684	\$ 14,555	\$ 7,883,783
Total allowance	\$65,103	\$ 11,999	\$ 84,753	\$ 12,005	\$ 29	\$ 173,889
Total balance	\$2,298,724	\$ 221,701	\$ 4,023,051	\$ 1,526,532	\$ 14,555	\$ 8,084,563

The following table details activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2014, and September 30, 2013. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Three months ended September 30, 2014 and 2013

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
June 30, 2014 Ending Balance	\$63,239	\$ 9,555	\$ 83,395	\$ 12,870	\$ 18	169,077
Provision/(credit) for possible credit losses	(10,839)	25,116	(17,950)	(1,427)	(1)	(5,101)
Charge-offs	(252)	-	(903)	-	-	(1,155)
Recoveries	4,148	32	2,197	-	-	6,377
Net (charge-offs)/recoveries	3,896	32	1,294	-	-	5,222
September 30, 2014 Ending Balance	\$56,296	\$ 34,703	\$ 66,739	\$ 11,443	\$ 17	\$169,198
June 30, 2013 Ending Balance	\$64,379	\$ 13,755	\$ 89,678	\$ 11,892	\$ 29	\$179,733
Provision/(credit) for possible credit losses	2,121	1,660	(5,710)	52	6	(1,871)
Charge-offs	(200)	-	(394)	(160)	-	(754)
Recoveries	436	1,236	2,514	158	-	4,344
Net (charge-offs)/recoveries	236	1,236	2,120	(2)	-	3,590
September 30, 2013 Ending Balance	\$66,736	\$ 16,651	\$ 86,088	\$ 11,942	\$ 35	\$181,452

Nine months ended September 30, 2014 and 2013

	Commercial Loans	Real Estate Construction Loans	Commercial Mortgage Loans	Residential Mortgage Loans and Equity Lines	Installment and Other Loans	Total
	(In thousands)					
2014 Beginning Balance	\$65,103	\$ 11,999	\$ 84,753	\$ 12,005	\$ 29	\$173,889
Provision/(credit) for possible credit losses	(12,067)	24,460	(20,991)	(562)	(12)	(9,172)

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Charge-offs	(7,592)	(1,813)	(3,327)	-	-	(12,732)
Recoveries	10,852	57	6,304	-	-	17,213
Net (charge-offs)/recoveries	3,260	(1,756)	2,977	-	-	4,481
September 30, 2014 Ending Balance	\$56,296	\$ 34,703	\$ 66,739	\$ 11,443	\$ 17	\$169,198
Reserve for impaired loans	\$2,730	\$ 2,604	\$ 7,999	\$ 481	\$ -	\$13,814
Reserve for non-impaired loans	\$53,566	\$ 32,099	\$ 58,740	\$ 10,962	\$ 17	\$155,384
Reserve for off-balance sheet credit commitments	\$901	\$ 668	\$ 410	\$ 39	\$ -	\$2,018
2013 Beginning Balance	\$66,101	\$ 23,017	\$ 82,473	\$ 11,703	\$ 28	\$183,322
Provision/(credit) for possible credit losses	3,200	(8,622)	935	780	(4)	(3,711)
Charge-offs	(4,580)	-	(3,425)	(766)	-	(8,771)
Recoveries	2,015	2,256	6,105	225	11	10,612
Net (charge-offs)/recoveries	(2,565)	2,256	2,680	(541)	11	1,841
September 30, 2013 Ending Balance	\$66,736	\$ 16,651	\$ 86,088	\$ 11,942	\$ 35	\$181,452
Reserve for impaired loans	\$10,849	\$ 5,691	\$ 6,129	\$ 693	\$ -	\$23,362
Reserve for non-impaired loans	\$55,887	\$ 10,960	\$ 79,959	\$ 11,249	\$ 35	\$158,090
Reserve for off-balance sheet credit commitments	\$953	\$ 287	\$ 799	\$ 34	\$ 1	\$2,074

8. Commitments and Contingencies

The Company is involved in various litigation concerning transactions entered into in the normal course of business. Management, after consultation with legal counsel, does not believe that the resolution of such litigation will have a material effect upon its consolidated financial condition, results of operations, or liquidity taken as a whole. Although the Company establishes accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, the Company does not have accruals for all legal proceedings where there is a risk of loss. In addition, amounts accrued may not represent the ultimate loss to the Company from the legal proceedings in question. Thus, ultimate losses may be higher or lower, and possibly significantly so, than the amounts accrued for legal loss contingencies.

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

9. Borrowed Funds

Securities Sold Under Agreements to Repurchase. Securities sold under agreements to repurchase were \$550.0 million with a weighted average rate of 3.78% at September 30, 2014, compared to \$800.0 million with a weighted average rate of 3.87% at December 31, 2013. In the first nine months of 2014, the Company prepaid securities sold under agreements to repurchase totaling \$100 million with a weighted average rate of 3.5% and incurred prepayment penalties of \$3.4 million. In the first nine months of 2013, the Company prepaid securities sold under agreements to repurchase totaling \$300.0 million with a weighted average rate of 3.97% and incurred prepayment penalties of \$15.7 million. Four floating-to-fixed rate agreements totaling \$200.0 million have initial floating rates for a period of time ranging from six months to one year, with floating rates of three-month LIBOR rate minus 340 basis points. Thereafter, the rates are fixed for the remainder of the term, with interest rates ranging from 4.89% to 5.07%. After the initial floating rate term, the counterparties have the right to terminate the transaction at par at the fixed rate reset date and quarterly thereafter. Three fixed-to-floating rate agreements totaling \$150.0 million have initial fixed rates ranging from 1.00% to 3.50% with initial fixed rate terms ranging from six months to 18 months. For the remaining term, the rates float at 8% minus the three-month LIBOR rate with a maximum rate of 3.50% and a minimum rate of 0.0%. After the initial fixed rate term, the counterparties have the right to terminate the transaction at par at the floating rate reset date and quarterly thereafter. The table below provides summary data for the \$350.0 million of callable securities sold under agreements to repurchase as of September 30, 2014:

(Dollars in millions)	Fixed-to-floating		Floating-to-fixed		Total
Rate type	Float Rate		Fixed Rate		
Rate index	8% minus 3 month LIBOR				
Maximum rate	3.50 %	3.50 %			
Minimum rate	0.0 %	0.0 %			
No. of agreements	2	1	4		7
Amount	\$ 100.0	\$ 50.0	\$ 200.0		\$ 350.0
Weighted average rate	3.50 %	3.50 %	5.00	%	4.36 %
Final maturity	2014	2015	2017		

The table below provides summary data for non-callable fixed rate securities sold under agreements to repurchase as of September 30, 2014:

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

These transactions are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were sold. The Company may have to provide additional collateral for the repurchase agreements, as necessary. The underlying collateral pledged for the repurchase agreements consists of U.S. Treasury securities, U.S. government agency securities, and mortgage-backed securities with a fair value of \$629.3 million as of September 30, 2014, and \$906.1 million as of December 31, 2013.

Advances from the FHLB. Advances from the FHLB were \$555.0 million with weighted average rate of 0.12% at September 30, 2014, compared to \$521.2 million with weighted average rate of 0.17% at December 31, 2013. The following relates to the outstanding advances at September 30, 2014, and December 31, 2013:

Maturity	September 30, 2014		December 31, 2013		
	Amount (In thousands)	Weighted Average Interest Rate	Amount (In thousands)	Weighted Average Interest Rate	
Within 90 days	\$530,000	0.07	% \$475,000	0.06	%
4 - 5 years	25,000	1.13	% 46,200	1.24	%
	\$555,000	0.12	% \$521,200	0.17	%

10. Income Taxes

Income tax expense totaled \$60.9 million, or an effective tax rate of 37.3%, for the first nine months of 2014, compared to an income tax expense of \$52.5 million, or an effective tax rate of 36.5%, for the same period a year ago. The effective tax rate includes the impact of the utilization of low income housing tax credits and recognition of other tax credits for both years.

As of December 31, 2013, the Company had income tax refunds receivable of \$8.6 million. These income tax receivables are included in other assets in the accompanying condensed consolidated balance sheets.

The Company's tax returns are open for audits by the Internal Revenue Service back to 2011 and by the California Franchise Tax Board back to 2003. The Company is under audit by the California Franchise Tax Board for the years 2003 to 2007. As the Company is presently under audit by a number of tax authorities, it is reasonably possible that unrecognized tax benefits could change significantly over the next twelve months. The Company does not expect that any such changes would have a material impact on its annual effective tax rate.

11. Fair Value Measurements

The Company adopted ASC Topic 820 on January 1, 2008, and determined the fair values of our financial instruments based on the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable prices in active markets for similar assets or liabilities; prices for identical or similar assets or liabilities in markets that are not active; directly observable market inputs for substantially the full term of the asset and liability; market inputs that are not directly observable but are derived from or corroborated by observable market data.

Level 3 – Unobservable inputs based on the Company’s own judgment about the assumptions that a market participant would use.

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

Securities Available for Sale. For certain actively traded agency preferred stocks, mutual funds, and U.S. Treasury securities, the Company measures the fair value based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement. The Company also measures securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement. This category generally includes U.S. Government agency securities, state and municipal securities, mortgage-backed securities (“MBS”), commercial MBS, collateralized mortgage obligations, asset-backed securities, corporate bonds and trust preferred securities.

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

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

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

Interest Rate Swaps. Fair value of interest rate swaps is derived from third party models with observable market data, a Level 2 measurement.

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

Impaired Loans. The Company does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on either the current appraised value of the collateral, a Level 2 measurement, or management's judgment and estimation of value reported on older appraisals that are then adjusted based on recent market trends, a Level 3 measurement.

Goodwill. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The two-step impairment testing process, if needed, begins by assigning net assets and goodwill to the two reporting units—Commercial Lending and Retail Banking. The Company then completes “step one” of the impairment test by comparing the fair value of each reporting unit (as determined based on the discussion below) with the recorded book value (or “carrying amount”) of its net assets, with goodwill included in the computation of the carrying amount. If the fair value of a reporting unit exceeds its carrying amount, goodwill of that reporting unit is not considered impaired, and “step two” of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, step two of the impairment test is performed to determine the amount of impairment. Step two of the impairment test compares the carrying amount of the reporting unit’s goodwill to the “implied fair value” of that goodwill. The implied fair value of goodwill is computed by assuming that all assets and liabilities of the reporting unit would be adjusted to the current fair value, with the offset as an adjustment to goodwill. This adjusted goodwill balance is the implied fair value used in step two. An impairment charge is recognized for the amount by which the carrying amount of goodwill exceeds its implied fair value. In connection with the determination of fair value, certain data and information is utilized, including earnings forecasts at the reporting unit level for the next four years. Other key assumptions include terminal values based on future growth rates and discount rates for valuing the cash flows, which have inputs for the risk-free rate, market risk premium, and adjustments to reflect inherent risk and required market returns. Because of the significance of unobservable inputs in the valuation of goodwill impairment, goodwill subject to nonrecurring fair value adjustments is classified as a Level 3 measurement.

Core Deposit Intangibles. Core deposit intangibles is initially recorded at fair value based on a valuation of the core deposits acquired and is amortized over its estimated useful life to its residual value in proportion to the economic benefits consumed. The Company assesses the recoverability of this intangible asset on a nonrecurring basis using the core deposits remaining at the assessment date and the fair value of cash flows expected to be generated from the core deposits, a Level 3 measurement.

Other Real Estate Owned. Real estate acquired in the settlement of loans is initially recorded at fair value based on the appraised value of the property on the date of transfer, less estimated costs to sell, a Level 2 measurement. From time to time, nonrecurring fair value adjustments are made to other real estate owned based on the current updated appraised value of the property, also a Level 2 measurement, or management’s judgment and estimation of value reported on older appraisals that are then adjusted based on recent market trends, a Level 3 measurement.

Investments in Venture Capital. The Company periodically reviews its investments in venture capital for other-than-temporary impairment on a nonrecurring basis. Investments in venture capital were written down to their fair value based on available financial reports from venture capital partnerships and management’s judgment and estimation, a Level 3 measurement.

Equity Investments. The Company records equity investments at fair value on a nonrecurring basis based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement.

The following tables present the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of September 30, 2014, and December 31, 2013:

September 30, 2014	Fair Value Measurements			Total at Fair Value
	Using Level 1	Level 2	Level 3	
Assets	(In thousands)			
Securities available-for-sale				
U.S. Treasury securities	\$540,088	\$-	\$ -	\$540,088
Mortgage-backed securities	-	683,324	-	683,324
Collateralized mortgage obligations	-	46	-	46
Corporate debt securities	-	94,337	-	94,337
Mutual funds	5,817	-	-	5,817
Preferred stock of government sponsored entities	-	9,252	-	9,252
Other equity securities	7,228	-	-	7,228
Total securities available-for-sale	553,133	786,959	-	1,340,092
Warrants	-	-	12	12
Interest rate swaps	-	442	-	442
Foreign exchange contracts	-	1,936	-	1,936
Total assets	\$553,133	\$789,337	\$ 12	\$1,342,482
Liabilities				
Interest rate swaps	\$-	\$280	\$ -	\$280
Foreign exchange contracts	-	4,437	-	4,437
Total liabilities	\$-	\$4,717	\$ -	\$4,717

December 31, 2013	Fair Value Measurements			Total at Fair Value
	Using Level 1	Level 2	Level 3	
Assets	(In thousands)			
Securities available-for-sale				
U.S. Treasury securities	\$460,193	\$-	\$ -	\$460,193
Mortgage-backed securities	-	952,815	-	952,815
Collateralized mortgage obligations	-	6,106	-	6,106
Asset-backed securities	-	123	-	123
Corporate debt securities	-	150,304	-	150,304
Mutual funds	5,724	-	-	5,724
Preferred stock of government sponsored entities	-	11,403	-	11,403

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Total securities available-for-sale	465,917	1,120,751	-	1,586,668
Trading securities	-	4,936	-	4,936
Warrants	-	-	30	30
Foreign exchange contracts	-	6,182	-	6,182
Total assets	\$465,917	\$1,131,869	\$ 30	\$1,597,816

Liabilities

Foreign exchange contracts	\$-	\$6,140	\$ -	\$6,140
Total liabilities	\$-	\$6,140	\$ -	\$6,140

The Company measured the fair value of its warrants on a recurring basis using significant unobservable inputs. The fair value of warrants was \$12,000 at September 30, 2014, compared to \$30,000 at December 31, 2013. The fair value adjustment of warrants was included in other operating income in the third quarter of 2014. The significant unobservable inputs in the Black-Scholes option pricing model for the fair value of warrants are their expected life ranging from 1 to 4 years, risk-free interest rate from 0.59% to 1.43%, and stock volatility from 9.4% to 13.0%.

For financial assets measured at fair value on a nonrecurring basis that were still reflected in the condensed consolidated balance sheet at September 30, 2014, the following tables provide the level of valuation assumptions used to determine each adjustment, the carrying value of the related individual assets as of September 30, 2014, and December 31, 2013, and the total losses/(gains) for the periods indicated:

	September 30, 2014			Total at Fair Value	Total Losses / (Gains)			
	Fair Value Measurements Using				Three Months Ended		Nine Months Ended	
	Level 1	Level 2	Level 3		September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
(In thousands)								
Assets								
Impaired loans by type:								
Commercial loans	\$-	\$-	\$4,255	\$4,255	\$-	\$ -	\$17	\$ 536
Commercial mortgage loans	-	-	24,974	24,974	515	394	515	459
Construction loans	-	-	12,773	12,773	-	-	-	-
Residential mortgage loans and equity lines	-	-	12,507	12,507	32	160	32	191
Total impaired loans	-	-	54,509	54,509	547	554	564	1,186
Other real estate owned (1)	-	14,340	4,110	18,450	(48)	111	277	(1,267)
Investments in venture capital	-	-	5,698	5,698	49	84	317	295
Total assets	\$-	\$14,340	\$64,317	\$78,657	\$548	\$ 749	\$1,158	\$ 214

(1) Other real estate owned balance of \$29.0 million in the condensed consolidated balance sheet is net of estimated disposal costs.

	December 31, 2013			Total at Fair Value	Total Losses / (Gains)	
	Fair Value Measurements Using				Twelve Months Ended	
	Level 1	Level 2	Level 3		December 31, 2013	December 31, 2012
(In thousands)						
Assets						
Impaired loans by type:						
Commercial loans	\$-	\$-	\$7,584	\$7,584	\$5,731	\$ -
Commercial mortgage loans	-	-	29,001	29,001	125	440
Construction- residential	-	-	500	500	-	-
Construction- other	-	-	15,363	15,363	-	65

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Residential mortgage loans and equity lines	-	-	14,236	14,236	213	605
Land loans	-	-	29	29	-	162
Total impaired loans	-	-	66,713	66,713	6,069	1,272
Other real estate owned (1)	-	13,248	26,498	39,746	(3,134)	10,904
Investments in venture capital	-	-	8,900	8,900	409	309
Equity investments	642	-	-	642	-	181
Total assets	\$642	\$13,248	\$102,111	\$116,001	\$3,344	\$12,666

(1) Other real estate owned balance of \$53.0 million in the consolidated balance sheet is net of estimated disposal costs.

The significant unobservable (Level 3) inputs used in the fair value measurement of collateral for collateral-dependent impaired loans was primarily based on the appraised value of collateral adjusted by estimated sales cost and commissions. The Company generally obtains new appraisal reports every nine months. As the Company's primary objective in the event of default would be to monetize the collateral to settle the outstanding balance of the loan, less marketable collateral would receive a larger discount. During the reported periods, collateral discounts ranged from 55% in the case of accounts receivable collateral to 65% in the case of inventory collateral.

The significant unobservable inputs used in the fair value measurement of loans held for sale was primarily based on the quoted price or sale price adjusted by estimated sales cost and commissions. The significant unobservable inputs used in the fair value measurement of other real estate owned (“OREO”) was primarily based on the appraised value of OREO adjusted by estimated sales cost and commissions.

The Company applies estimated sales cost and commissions ranging from 3% to 6% to collateral value of impaired loans, quoted price, or loan sale price of loans held for sale, and appraised value of OREO.

12. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents. For cash and cash equivalents, the carrying amount was assumed to be a reasonable estimate of fair value, a Level 1 measurement.

Short-term Investments. For short-term investments, the carrying amount was assumed to be a reasonable estimate of fair value, a Level 1 measurement.

Securities Purchased under Agreements to Resell. The fair value of securities purchased under agreements to resell is based on dealer quotes, a Level 2 measurement.

Securities. For securities, including securities held-to-maturity, available-for-sale, and for trading, fair values were based on quoted market prices at the reporting date. If a quoted market price was not available, fair value was estimated using quoted market prices for similar securities or dealer quotes. For certain actively traded agency preferred stocks and U.S. Treasury securities, the Company measures the fair value based on quoted market prices in active exchange markets at the reporting date, a Level 1 measurement. The Company also measures securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement. This category generally includes U.S. Government agency securities, state and municipal securities, mortgage-backed securities (“MBS”), commercial MBS, collateralized mortgage obligations, asset-backed securities, and corporate bonds.

Loans. Fair values were estimated for portfolios of loans with similar financial characteristics. Each loan category was further segmented into fixed and adjustable rate interest terms and by performing and non-performing categories.

The fair value of performing loans was calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan, a Level 3 measurement.

The fair value of impaired loans was calculated based on the net realizable fair value of the collateral or the observable market price of the most recent sale or quoted price from loans held for sale. The Company does not record loans at fair value on a recurring basis. Nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on the current appraised value of the collateral, a Level 2 measurement.

Deposit Liabilities. The fair value of demand deposits, savings accounts, and certain money market deposits was assumed to be the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit was estimated using the rates currently offered for deposits with similar remaining maturities, a Level 3 measurement.

Securities Sold under Agreements to Repurchase. The fair value of securities sold under agreements to repurchase is based on dealer quotes, a Level 2 measurement.

Advances from Federal Home Loan Bank (“FHLB”). The fair value of the advances is based on quotes from the FHLB to settle the advances, a Level 2 measurement.

Other Borrowings. This category includes borrowings from other financial institutions. The fair value of other borrowings is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk, a Level 3 measurement.

Long-term Debt. The fair value of long-term debt is estimated based on the quoted market prices or dealer quotes, a Level 2 measurement.

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

Interest Rate Swaps. Fair value of interest rate swaps is derived from third party models with observable market data, a Level 2 measurement.

Off-Balance-Sheet Financial Instruments. The fair value of commitments to extend credit, standby letters of credit, and financial guarantees written were estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The fair value of guarantees and letters of credit was based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. The fair value of off-balance-sheet financial instruments was based on the assumptions that a market participant would use, a Level 3 measurement.

Fair value was estimated in accordance with ASC Topic 825. Fair value estimates were made at specific points in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates were based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates were subjective in nature and involved uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following table presents the estimated fair value of financial instruments as of September 30, 2014, and as of December 31, 2013:

	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and due from banks	\$200,302	\$200,302	\$153,747	\$153,747
Short-term investments	597,747	597,747	516,938	516,938
Securities available-for-sale	1,340,092	1,340,092	1,586,668	1,586,668
Trading securities	-	-	4,936	4,936
Loans, net	8,676,153	8,576,545	7,897,187	7,760,490
Investment in Federal Home Loan Bank stock	34,090	34,090	25,000	25,000
Warrants	12	12	30	30

	Notional		Notional	
	Amount	Fair Value	Amount	Fair Value
Option contracts	\$-	\$-	\$200	\$0
Foreign exchange contracts	183,753	1,936	267,644	6,182
Interest rate swaps	147,358	442	-	-

Financial Liabilities	Carrying		Carrying	
	Amount	Fair Value	Amount	Fair Value
Deposits	\$8,694,669	\$8,692,118	\$7,981,305	\$7,977,639
Securities sold under agreements to repurchase	550,000	576,670	800,000	852,835
Advances from Federal Home Loan Bank	555,000	555,000	521,200	521,560
Other borrowings	18,882	15,853	19,062	16,107
Long-term debt	119,136	59,425	121,136	58,970

	Notional		Notional	
	Amount	Fair Value	Amount	Fair Value
Foreign exchange contracts	\$201,240	\$4,437	\$236,350	\$6,140
Interest rate swaps	119,136	280	-	-

Notional Amount	Notional Amount
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		Fair Value		Fair Value
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	\$ 1,839,039	\$(3,160)	\$ 1,858,669	\$(2,187)
Standby letters of credit	54,304	(331)	45,058	(205)
Other letters of credit	49,623	(29)	54,098	(34)
Bill of lading guarantees	51	-	80	-

The following tables present the level in the fair value hierarchy for the estimated fair values of only financial instruments that are not already included on the condensed consolidated balance sheets at fair value as of September 30, 2014, and December 31, 2013.

September 30, 2014

Estimated

Fair

Value

Level Level Level
Measurements 1 2 3

(In thousands)

Financial Assets