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 June 30, 2020

**OR**

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

For the transition period from ______ to ______

Commission file number 001-31830

CATHAY GENERAL BANCORP
(Exact name of registrant as specified in its charter)

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|---|---|
| Common Stock | CATY | Nasdaq Global Select Market |

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 every Interactive Data File required to be submitted 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 such files). Yes ☑ No ☐

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

Large accelerated filer ☑ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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, 79,620,001 shares outstanding as of July 31, 2020.

# CATHAY GENERAL BANCORP AND SUBSIDIARIES
# 2ND QUARTER 2020 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, loan and deposit growth, investment and expenditure plans, financing needs and availability, level of nonperforming assets, and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as "aims," "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "hopes," "intends," "may," "optimistic," "plans," "potential," "possible," "predicts," "projects," "seeks," "shall," "should," "will," and variations of these words and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by us are based on estimates, beliefs, projections, and assumptions of management and are not guarantees of future performance. These forward-looking statements are subject to certain risks, uncertainties and other factors that could cause actual results to differ materially from our historical experience and our present expectations or projections. Such risks, uncertainties and other factors include, but are not limited to:

- local, regional, national and international economic and market conditions and events and the impact they may have on us, our customers and our operations, assets and liabilities;
- the impact on our business, operations, financial condition, liquidity, results of operations, prospects and trading prices of our shares arising out of the COVID-19 pandemic;
- 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 generate anticipated returns from our investments and/or financings in certain tax advantaged-projects;

- our ability to compete with larger competitors;
- our ability to retain key personnel;
- successful management of reputational risk;
- natural disasters, public health crises (including the occurrence of a contagious disease or illness, such as the COVID-19 pandemic) and geopolitical events;
- failures, interruptions, or security breaches of our information systems;
- our ability to adapt our systems to the expanding use of technology in banking;
- risk management processes and strategies;
- adverse results in legal proceedings;
- the impact of regulatory enforcement actions, if any;
- 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;
- fluctuations in the Bancorp's stock price;
- restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;
- issuances of preferred stock;
- capital level requirements and 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, 2019 (Item 1A in particular), other reports and registration statements filed with the Securities and Exchange Commission ("SEC"), and other filings Bancorp 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. We have no intention and undertake no obligation to update any forward-looking statement or to announce publicly any revision of any forward-looking statement to reflect developments, events, occurrences or circumstances after the date of such statement, 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) 279-3296.

## PART I – FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| | (In thousands, except share and per share data) | |
| **Assets** | | |
| Cash and due from banks | $ 148,700 | $ 177,240 |
| Short-term investments and interest-bearing deposits | 1,425,001 | 416,538 |
| Securities available-for-sale (amortized cost of $1,122,994 at June 30, 2020 and $1,443,730 at December 31, 2019) | 1,146,102 | 1,451,842 |
| Loans | 15,608,283 | 15,075,481 |
| Less: Allowance for loan losses | (169,680) | (123,224) |
| Unamortized deferred loan fees, net | (4,507) | (626) |
| Loans, net | 15,434,096 | 14,951,631 |
| Equity securities | 24,570 | 28,005 |
| Federal Home Loan Bank stock | 17,250 | 18,090 |
| Other real estate owned, net | 7,318 | 10,244 |
| Affordable housing investments and alternative energy partnerships, net | 320,047 | 308,681 |
| Premises and equipment, net | 104,165 | 104,239 |
| Customers' liability on acceptances | 10,665 | 10,694 |
| Accrued interest receivable | 54,326 | 53,541 |
| Goodwill | 372,189 | 372,189 |
| Other intangible assets, net | 6,030 | 6,296 |
| Right-of-use assets - operating leases | 34,217 | 33,990 |
| Other assets | 162,361 | 150,924 |
| **Total assets** | **$ 19,267,037** | **$ 18,094,144** |
| | | |
| **Liabilities** | | |
| Deposits: | | |
| Non-interest-bearing demand deposits | $ 3,298,415 | $ 2,871,444 |
| Interest-bearing deposits: | | |
| NOW deposits | 1,671,290 | 1,358,152 |
| Money market deposits | 2,982,385 | 2,260,764 |
| Savings deposits | 743,982 | 758,903 |
| Time deposits | 7,585,832 | 7,443,045 |
| Total deposits | 16,281,904 | 14,692,308 |
| Short-term borrowings | — | 25,683 |
| Advances from the Federal Home Loan Bank | 230,000 | 670,000 |
| Other borrowings of affordable housing investments | 32,399 | 29,022 |
| Long-term debt | 119,136 | 119,136 |
| Deferred payments from acquisition | 7,753 | 7,644 |
| Acceptances outstanding | 10,665 | 10,694 |
| Lease liabilities - operating leases | 36,408 | 35,873 |
| Other liabilities | 206,324 | 209,501 |
| **Total liabilities** | 16,924,589 | 15,799,861 |
| Commitments and contingencies | — | — |
| **Stockholders' Equity** | | |
| Common stock, $0.01 par value, 100,000,000 shares authorized; 90,354,947 issued and 79,619,984 outstanding at June 30, 2020, and 90,064,382 issued and 79,729,419 outstanding at December 31, 2019 | 903 | 900 |
| Additional paid-in-capital | 953,616 | 950,466 |
| Accumulated other comprehensive income, net | 8,353 | 2,302 |
| Retained earnings | 1,710,994 | 1,659,153 |
| Treasury stock, at cost (10,734,963 shares at June 30, 2020, and 10,334,963 shares at December 31, 2019) | (331,418) | (318,538) |
| **Total equity** | 2,342,448 | 2,294,283 |
| **Total liabilities and equity** | **$ 19,267,037** | **$ 18,094,144** |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (In thousands, except share and per share data) | | | |
| **Interest and Dividend Income** | | | | |
| Loans receivable, including loan fees | $ 168,149 | $ 182,291 | $ 346,019 | $ 360,568 |
| Investment securities | 5,405 | 8,477 | 13,015 | 15,767 |
| Federal Home Loan Bank stock | 214 | 298 | 519 | 602 |
| Deposits with banks | 240 | 1,383 | 1,191 | 3,273 |
| Total interest and dividend income | 174,008 | 192,449 | 360,744 | 380,210 |
| **Interest Expense** | | | | |
| Time deposits | 30,811 | 39,491 | 65,966 | 73,614 |
| Other deposits | 5,919 | 5,588 | 13,910 | 10,965 |
| Advances from Federal Home Loan Bank | 1,316 | 1,725 | 2,868 | 4,315 |
| Long-term debt | 1,440 | 2,007 | 2,880 | 4,139 |
| Deferred payments from acquisition | 42 | 192 | 100 | 409 |
| Short-term borrowings | 5 | 67 | 234 | 73 |
| Total interest expense | 39,533 | 49,070 | 85,958 | 93,515 |
| Net interest income before provision for credit losses | 134,475 | 143,379 | 274,786 | 286,695 |
| Provision for credit losses | 25,000 | — | 50,000 | — |
| Net interest income after provision for credit losses | 109,475 | 143,379 | 224,786 | 286,695 |
| **Non-Interest Income** | | | | |
| Net gains/(losses) from equity securities | 5,779 | 3,237 | (323) | 7,400 |
| Securities gains, net | 1,147 | 13 | 1,153 | 13 |
| Letters of credit commissions | 1,560 | 1,577 | 3,200 | 3,131 |
| Depository service fees | 1,117 | 1,243 | 2,415 | 2,498 |
| Other operating income | 6,003 | 6,724 | 14,947 | 12,673 |
| Total non-interest income | 15,606 | 12,794 | 21,392 | 25,715 |
| **Non-Interest Expense** | | | | |
| Salaries and employee benefits | 28,197 | 33,153 | 59,136 | 65,285 |
| Occupancy expense | 4,963 | 5,489 | 10,140 | 11,038 |
| Computer and equipment expense | 2,581 | 2,833 | 5,174 | 5,712 |
| Professional services expense | 5,200 | 6,000 | 10,345 | 11,257 |
| Data processing service expense | 3,566 | 3,081 | 7,232 | 6,491 |
| FDIC and regulatory assessments | 2,446 | 2,132 | 4,861 | 4,608 |
| Marketing expense | 915 | 979 | 2,801 | 3,120 |
| Other real estate owned expense/(income) | 452 | 369 | (3,652) | 649 |
| Amortization of investments in low income housing and alternative energy partnerships | 12,934 | 9,102 | 26,824 | 19,912 |
| Amortization of core deposit intangibles | 171 | 171 | 343 | 343 |
| Other operating expense | 5,843 | 6,237 | 9,218 | 12,101 |
| Total non-interest expense | 67,268 | 69,546 | 132,422 | 140,516 |
| **Income before income tax expense** | 57,813 | 86,627 | 113,756 | 171,894 |
| Income tax expense | 3,492 | 14,383 | 12,583 | 32,971 |
| **Net income** | **$ 54,321** | **$ 72,244** | **$ 101,173** | **$ 138,923** |
| **Other Comprehensive (Loss)/Income, net of tax** | | | | |
| Unrealized holding (losses)/gains on securities available-for-sale | (481) | 11,175 | 11,376 | 19,974 |
| Unrealized holding losses on cash flow hedge derivatives | (235) | (2,102) | (4,513) | (3,326) |
| Less: reclassification adjustments for gains included in net income | 808 | — | 812 | — |
| Total other comprehensive (loss)/income, net of tax | (1,524) | 9,073 | 6,051 | 16,648 |
| **Total comprehensive income** | **$ 52,797** | **$ 81,317** | **$ 107,224** | **$ 155,571** |
| **Net Income Per Common Share:** | | | | |
| Basic | $ 0.68 | $ 0.90 | $ 1.27 | $ 1.73 |
| Diluted | $ 0.68 | $ 0.90 | $ 1.27 | $ 1.73 |
| Cash dividends paid per common share | $ 0.31 | $ 0.31 | $ 0.62 | $ 0.62 |
| **Average Common Shares Outstanding:** | | | | |
| Basic | 79,581,097 | 80,106,329 | 79,584,587 | 80,279,859 |
| Diluted | 79,682,426 | 80,302,679 | 79,756,226 | 80,501,800 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**CATHAY GENERAL BANCORP AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
(Unaudited)

| Three months ended | Common Stock Number of Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Income/(Loss) | Retained Earnings | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| | | (In thousands, except share data) | | | | | |
| **Balance at March 31, 2020** | 79,420,267 | $ 902 | $ 952,331 | $ 9,877 | $ 1,681,345 | $ (331,418) | $ 2,313,037 |
| Dividend Reinvestment Plan | 32,903 | — | 860 | — | — | — | 860 |
| Restricted stock units vested | 135,704 | 1 | — | — | — | — | 1 |
| Shares withheld related to net share settlement of RSUs | — | — | (1,376) | — | — | — | (1,376) |
| Stock issued to directors | 31,110 | — | 800 | — | — | — | 800 |
| Stock -based compensation | — | — | 1,001 | — | — | — | 1,001 |
| Cash dividends of $0.31 per share | — | — | — | — | (24,672) | — | (24,672) |
| Other comprehensive loss | — | — | — | (1,524) | — | — | (1,524) |
| Net income | — | — | — | — | 54,321 | — | 54,321 |
| **Balance at June 30, 2020** | **79,619,984** | **$ 903** | **$ 953,616** | **$ 8,353** | **$ 1,710,994** | **$ (331,418)** | **$ 2,342,448** |

| | Common Stock Number of Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensive (Loss)/Income | Retained Earnings | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| | | (In thousands, except share data) | | | | | |
| **Balance at March 31, 2019** | 80,362,840 | $ 899 | $ 942,838 | $ (10,431) | $ 1,520,861 | $ (290,838) | $ 2,163,329 |
| Dividend Reinvestment Plan | 24,345 | 1 | 845 | — | — | — | 846 |
| Restricted stock units vested | 51,552 | — | — | — | — | — | — |
| Shares withheld related to net share settlement of RSUs | — | — | (707) | — | — | — | (707) |
| Stock issued to directors | 21,160 | — | 749 | — | — | — | 749 |
| Purchases of treasury stock | (641,894) | — | — | — | — | (23,008) | (23,008) |
| Stock -based compensation | — | — | 1,525 | — | — | — | 1,525 |
| Cash dividends of $0.31 per share | — | — | — | — | (24,754) | — | (24,754) |
| Other comprehensive income | — | — | — | 9,073 | — | — | 9,073 |
| Net income | — | — | — | — | 72,244 | — | 72,244 |
| **Balance at June 30, 2019** | **79,818,003** | **$ 900** | **$ 945,250** | **$ (1,358)** | **$ 1,568,351** | **$ (313,846)** | **$ 2,199,297** |

See accompanying Notes to Condensed Consolidated Financial Statements.

**CATHAY GENERAL BANCORP AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
(Unaudited)

| Six months ended | Common Stock Number of Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Retained Earnings | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| | (In thousands, except share data) | | | | | | |
| **Balance at December 31, 2019** | 79,729,419 | $ 900 | $ 950,466 | $ 2,302 | $ 1,659,153 | $ (318,538) | $ 2,294,283 |
| Dividend Reinvestment Plan | 72,568 | 1 | 1,705 | — | — | — | 1,706 |
| Restricted stock units vested | 186,887 | 2 | — | — | — | — | 2 |
| Shares withheld related to net share settlement of RSUs | — | — | (1,899) | — | — | — | (1,899) |
| Stock issued to directors | 31,110 | — | 800 | — | — | — | 800 |
| Purchases of treasury stock | (400,000) | — | — | — | — | (12,880) | (12,880) |
| Stock-based compensation | — | — | 2,544 | — | — | — | 2,544 |
| Cash dividends of $0.62 per share | — | — | — | — | (49,332) | — | (49,332) |
| Other comprehensive income | — | — | — | 6,051 | — | — | 6,051 |
| Net income | — | — | — | — | 101,173 | — | 101,173 |
| **Balance at June 30, 2020** | **79,619,984** | **$ 903** | **$ 953,616** | **$ 8,353** | **$ 1,710,994** | **$ (331,418)** | **$ 2,342,448** |

| | Common Stock Number of Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensive (Loss)/Income | Retained Earnings | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| | (In thousands, except share data) | | | | | | |
| **Balance at December 31, 2018** | 80,501,948 | $ 898 | $ 942,062 | $ (18,006) | $ 1,479,149 | $ (282,237) | $ 2,121,866 |
| Dividend Reinvestment Plan | 47,290 | 1 | 1,680 | — | — | — | 1,681 |
| Restricted stock units vested | 123,199 | 1 | — | — | — | — | 1 |
| Shares withheld related to net share settlement of RSUs | — | — | (2,300) | — | — | — | (2,300) |
| Stock issued to directors | 21,160 | — | 749 | — | — | — | 749 |
| Purchases of treasury stock | (875,594) | — | — | — | — | (31,609) | (31,609) |
| Stock-based compensation | — | — | 3,059 | — | — | — | 3,059 |
| Cash dividends of $0.62 per share | — | — | — | — | (49,721) | — | (49,721) |
| Other comprehensive income | — | — | — | 16,648 | — | — | 16,648 |
| Net income | — | — | — | — | 138,923 | — | 138,923 |
| **Balance at June 30, 2019** | **79,818,003** | **$ 900** | **$ 945,250** | **$ (1,358)** | **$ 1,568,351** | **$ (313,846)** | **$ 2,199,297** |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
|---|---|---|
| | (In thousands) | |
| **Cash Flows from Operating Activities** | | |
| Net income | $ 101,173 | $ 138,923 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | 50,000 | — |
| Provision for losses on other real estate owned | 717 | 494 |
| Deferred tax provision | (4,896) | 8,592 |
| Depreciation and amortization | 3,688 | 3,308 |
| Amortization of right-of-use asset | 4,249 | 4,146 |
| Change in operating lease liabilities | 535 | (3,477) |
| Net gains on sale and transfer of other real estate owned | (4,554) | (193) |
| Net gains on sale of loans | (85) | — |
| Proceeds from sales of loans | 2,850 | — |
| Originations of loans held for sale | (2,764) | — |
| Amortization on alternative energy partnerships, venture capital and other investments | 26,728 | 19,929 |
| Net gain on sales and calls of securities | (1,153) | (13) |
| Amortization/accretion of security premiums/discounts, net | 3,953 | 1,165 |
| Loss on sales or disposal of fixed assets | 45 | — |
| Unrealized loss/(gain) on equity securities | 323 | (7,400) |
| Stock based compensation and stock issued to officers as compensation | 3,344 | 3,808 |
| Net change in accrued interest receivable and other assets | (10,592) | (46,292) |
| Net change in other liabilities | (1,330) | 50,533 |
| **Net cash provided by operating activities** | **172,231** | **173,523** |
| | | |
| **Cash Flows from Investing Activities** | | |
| Purchase of investment securities available-for-sale | (216,745) | (425,661) |
| Proceeds from sale of investment securities available-for-sale | 107,539 | 50,225 |
| Proceeds from sale of equity securities | 3,112 | — |
| Proceeds from repayments, maturities and calls of investment securities available-for-sale | 427,139 | 183,563 |
| Purchase of Federal Home Loan Bank stock | (840) | (975) |
| Redemptions of Federal Home Loan Bank stock | 1,680 | 975 |
| Net increase in loans | (536,212) | (597,827) |
| Purchase of premises and equipment | (3,316) | (2,695) |
| Proceeds from sales of other real estate owned | 2,246 | 1,905 |
| Net increase in investment in affordable housing and alternative energy partnerships | (38,331) | (23,540) |
| **Net cash used for investing activities** | **(253,728)** | **(814,030)** |
| | | |
| **Cash Flows from Financing Activities** | | |
| Net increase in deposits | 1,589,416 | 660,368 |
| Advances from Federal Home Loan Bank | 1,450,000 | 3,200,000 |
| Repayment of Federal Home Loan Bank borrowings | (1,890,000) | (3,180,000) |
| Cash dividends paid | (49,332) | (49,721) |
| Repayment of other borrowings | — | (19,687) |
| Proceeds from other borrowings | 91 | 19,211 |
| Purchases of treasury stock | (12,880) | (31,609) |
| Repayment of short-term borrowings | (25,683) | — |
| Proceeds from shares issued under Dividend Reinvestment Plan | 1,707 | 1,681 |
| Taxes paid related to net share settlement of RSUs | (1,899) | (2,300) |
| **Net cash provided by financing activities** | **1,061,420** | **597,943** |
| | | |
| Increase/(Decrease) in cash, cash equivalents, and restricted cash | 979,923 | (42,564) |
| Cash, cash equivalents, and restricted cash, beginning of the period | 593,778 | 600,290 |
| **Cash, cash equivalents, and restricted cash, end of the period** | **$ 1,573,701** | **$ 557,726** |
| | | |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the period: | | |
| Interest | $ 94,251 | $ 87,636 |
| Income taxes paid | $ 32,104 | $ 33,807 |
| Non-cash investing and financing activities: | | |
| Net change in unrealized holding loss on securities available-for-sale, net of tax | $ 10,564 | $ 19,974 |
| Net change in unrealized holding loss on cash flow hedge derivatives | $ (4,513) | $ (3,326) |
| Transfers to other real estate owned from loans held for investment | $ — | $ 860 |

See accompanying Notes to 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, with Bancorp, the "Company"), ten limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, Asia Realty Corp. and GBC Venture Capital, Inc. Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of June 30, 2020, the Bank operates 25 branches in Southern California, 13 branches in Northern California, 10 branches in New York State, four in Washington State, three in Illinois, two in Texas, one in Maryland, Massachusetts, Nevada, and New Jersey, one in Hong Kong, and a representative office in Taipei, Beijing, and Shanghai. 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 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, 2020. 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, 2019.

The preparation of the Condensed Consolidated Financial Statements in accordance with GAAP requires management of the Company 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 the Condensed Consolidated Financial Statements. Actual results could differ from those estimates. The Company expects that the most significant estimates subject to change are the allowance for loan losses.

## *3. Recent Accounting Pronouncements*

### *Accounting Standards Adopted in 2020*

In January 2017, the FASB issued ASU 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This update simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Adoption of this update is on a prospective basis and the amendments in this update are to be applied to annual periods beginning after December 15, 2019. Adoption of ASU 2017-04 did not have a material impact on the Company's Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, "Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement." This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. As ASU No. 2018-13 only revises disclosure requirements, there was no material impact on the Company's Consolidated Financial Statements.

***Other Accounting Standards Pending Adoption***

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This update requires an entity to use a broader range of reasonable and supportable ("R&S") forecasts, in addition to historical experience and current conditions, to develop an expected credit loss estimate, referred to as the Current Expected Credit Loss ("CECL") model, for financial assets and net investments that are not accounted for at fair value through net income. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses to the amount by which fair value is below amortized cost.

The FASB issued additional ASUs containing clarifying guidance, transition relief provisions and minor updates to the original ASU. These include ASU 2018-19 (issued November 2018), ASU 2019-04 (issued April 2019), ASU 2019-05 (issued May 2019), ASU 2019-10 (issued November 2019), ASU 2019-11 (issued November 2019), ASU 2020-02 (issued February 2020) and ASU 2020-03 (issued March 2020). ASU 2016-13 and subsequent ASUs are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. This amendment is required to be adopted using a modified retrospective approach with a cumulative-effect adjustment to beginning retained earnings, as of the beginning of the first reporting period in which the guidance is effective.

As previously disclosed, the Company formed a multidisciplinary project team and implementation plan, developed a conceptual framework, and engaged an outside firm to develop econometric regression models for net losses during the R&S forecast period. Our approach for estimating expected life-time credit losses includes, among other things, the following key components for all loan portfolio segments: a. The use of a probability of default/loss given default methodology; b. A number of scenarios based on forecasts from an outside economic forecasting company to develop economic forecasts for the R&S period; c. An initial R&S forecast period of eight quarters for all loan portfolio segments, which reflects management's expectation of losses based on forward-looking economic scenarios over that time; and d. A post-R&S reversion period of four quarters using a linear transition to the historical loss rates for each loan pool. Model back testing, third party model validation and management review of model results are substantially underway, and are nearing completion.

As previously disclosed, the Company has elected to delay its adoption of ASU 2016-13, as provided by the Coronavirus Aid, Relief, and Economic Security (the "CARES Act"), until the date on which the national emergency related to the COVID-19 outbreak is terminated or December 31, 2020, whichever occurs first. Upon adoption of ASU 2016-13, the Company expects to recognize, as of January 1, 2020, a one-time cumulative effect adjustment through retained earnings of between $10 million to $12 million and expects to increase its allowance for credit losses ("ACL") by $15 to $17 million. As of June 30, 2020, the Company's process for estimation of the ACL under the CECL model is in progress as to the March 31, 2020 ACL and the June 30, 2020 ACL. Based on its preliminary analysis as of June 30, 2020, the Company preliminarily estimates an addition to its provision for credit losses of between $10 to $15 million for the first quarter of 2020 and between $5 million and $10 million for the second quarter of 2020, above the $25 million reported under the incurred loss method for the quarter ended March 31, 2020 and the quarter ended June 30, 2020.

In July 2017, the FASB issued ASU 2017-11, "Earnings per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815)." There are two parts to this update. Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments that result in the strike price being reduced on the basis of the pricing of future equity offerings. Part II of this update addresses the difficulty in navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in this update are effective for fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in part I of this update should be applied in either of the following ways: (i) Retrospectively to outstanding financial instruments with a down round feature by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first fiscal year and interim periods in which the pending content that links to this paragraph is effective; or (ii) Retrospectively to outstanding financial instruments with a down round feature for each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10. The amendments to Part II of this update do not require any transition guidance because those amendments do not have an accounting effect. The Company does not expect ASU 2017-11 to have a material impact on its Consolidated Financial Statements.

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740); Simplifying the Accounting for Income Taxes." This ASU removes specific exceptions to the general principles in Topic 740 in Generally Accepted Accounting Principles. It eliminates the need for an organization to analyze whether the following apply in a given period: exception to the incremental approach for intra-period tax allocation; exception to accounting for basis differences when there are ownership changes in foreign investments; and exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. The ASU also improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for: Franchise taxes that are partially based on income; transactions with a government that result in a step up in the tax basis of goodwill; separate financial statements of legal entities that are not subject to tax; and enacted changes in tax laws in interim periods. This ASU is effective for public business entities, for fiscal years beginning after December 15, 2020 with early adoption permitted for public business entities for periods for which financial statements have not yet been issued. The Company does not expect the adoption of ASU 2019-12 to have a material impact on the Company's Consolidated Financial Statements.

In January 2020, the FASB issued ASU No. 2020-01, "'Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint-Ventures (Topic 323), and Derivatives and Hedging (Topic 815). Clarifying the Interactions between Topic 321, Topic 323, and Topic 815." This ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application is permitted, including early adoption in an interim period for public business entities for periods for which financial statements have not yet been issued. An entity should apply ASU No. 2020-01 prospectively at the beginning of the interim period that includes the adoption date. This ASU, among other things, clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments—Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The new ASU clarifies that, when determining the accounting for certain forward contracts and purchased options, a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option. The Company does not expect the adoption of ASU 2020-01 to have a material impact on the Company's Consolidated Financial Statements.

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." ASU No. 2020-04 is effective for all entities as of March 12, 2020 through December 31, 2022. This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. Therefore, it will be in effect for a limited time through December 31, 2022. The Company is evaluating the impact of adopting ASU 2020-02 on the Company's Consolidated Financial Statements.

## ***4. Cash, Cash Equivalents and Restricted Cash***

The Company manages its cash and cash equivalents, which consist of cash on hand, amounts due from banks, and short-term investments with original maturity of three months or less, based upon the Company's operating, investment, and financing activities. For the purpose of reporting cash flows, these same accounts are included in cash and cash equivalents.

The Company is required to maintain reserves with the Federal Reserve Bank. Reserve requirements are based on a percentage of deposit liabilities. The average reserve balances required were $119 thousand and $110 thousand for the six months ended June 30, 2020 and for the year ended December 31, 2019, respectively. As of June 30, 2020 and December 31, 2019, the Bancorp had $13.7 million and $7.1 million, respectively, on deposit in a cash margin account that serves as collateral for the Bancorp's interest rate swaps. As of June 30, 2020 and December 31, 2019, the Company held $33.5 million and $18.9 million, respectively, in a restricted escrow account with a major bank for its alternative energy investments.

## ***5. 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. Restricted stock units ("RSUs") with anti-dilutive effect were not included in the computation of diluted earnings per share. The following table sets forth earnings per common share calculations:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| | (In thousands, except share and per share data) | | | |
| Net income | $ 54,321 | $ 72,244 | $ 101,173 | $ 138,923 |
| Weighted-average shares: | | | | |
| Basic weighted-average number of common shares outstanding | 79,581,097 | 80,106,329 | 79,584,587 | 80,279,859 |
| Dilutive effect of weighted-average outstanding common share equivalents RSUs | 101,329 | 196,350 | 171,639 | 221,941 |
| **Diluted weighted-average number of common shares outstanding** | **79,682,426** | **80,302,679** | **79,756,226** | **80,501,800** |
| Average restricted stock units with anti-dilutive effect | 126,084 | 66,339 | 86,741 | 55,502 |
| Earnings per common share: | | | | |
| Basic | $ 0.68 | $ 0.90 | $ 1.27 | $ 1.73 |
| Diluted | $ 0.68 | $ 0.90 | $ 1.27 | $ 1.73 |

***6. Stock-Based Compensation***

Pursuant to the Company's 2005 Incentive Plan, as amended and restated, the Company may grant incentive stock options (employees only), non-statutory stock options, common stock awards, restricted stock, RSUs, stock appreciation rights and cash awards to non-employee directors and eligible employees.

RSUs are generally granted at no cost to the recipient. RSUs generally vest ratably over three years or cliff vest after one or three years of continued employment from the date of the grant. While a portion of RSUs may be time-vesting awards, others may vest subject to the attainment of specified performance goals and are referred to as "performance-based RSUs." All RSUs are subject to forfeiture until vested.

Performance-based RSUs are granted at the target amount of awards. Based on the Company's attainment of specified performance goals and consideration of market conditions, the number of shares that vest can be adjusted to a minimum of zero and to a maximum of 150% of the target. The amount of performance-based RSUs that are eligible to vest is determined at the end of each performance period and is then added together to determine the total number of performance shares that are eligible to vest. Performance-based RSUs generally cliff vest three years from the date of grant.

Compensation costs for the time-based awards are based on the quoted market price of the Company's stock at the grant date. Compensation costs associated with performance-based RSUs are based on grant date fair value, which considers both market and performance conditions. Compensation costs of both time-based and performance-based awards are recognized on a straight-line basis from the grant date until the vesting date of each grant.

The following table presents RSU activity during the six months ended June 30, 2020:

| | Time-Based RSUs | | Performance-Based RSUs | |
|---|---|---|---|---|
| | Shares | Weighted-Average Grant Date Fair Value | Shares | Weighted-Average Grant Date Fair Value |
| Balance at December 31, 2019 | 273,200 | $ 35.90 | 297,744 | $ 32.65 |
| Granted | — | — | 75,561 | 21.68 |
| Vested | (77,464) | 25.48 | (193,240) | 21.68 |
| Forfeited | (3,412) | 39.30 | (14,071) | 39.08 |
| **Balance at June 30, 2020** | **192,324** | **$ 40.04** | **165,994** | **$ 39.88** |

The compensation expense recorded for RSUs was $1.0 million and $1.5 million for the three months ended June 30, 2020 and 2019, respectively. For the six months ended June 30, 2020 and 2019, the compensation expense recorded for RSUs was $2.5 million and $3.1 million, respectively. Unrecognized stock-based compensation expense related to RSUs was $6.1 million and $6.8 million as of June 30, 2020 and 2019, respectively. As of June 30, 2020, these costs are expected to be recognized over the next 1.5 years for time-based and performance-based RSUs.

As of June 30, 2020, 2,354,199 shares were available for future grants under the Company's 2005 Incentive Plan, as amended and restated.

Tax deficiency from share-based payment arrangements increased income tax expense by $0.4 million and a tax benefit from share-based payment arrangements reduced income tax expense by $0.6 million in the six months ended June 30, 2020 and 2019, respectively.

***7. Investment Securities***

The following tables set forth the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of securities available-for-sale as of June 30, 2020, and December 31, 2019:

| | June 30, 2020 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In thousands) | | | |
| **Securities Available-for-Sale** | | | | |
| U.S. treasury securities | $ 99,935 | $ 1 | $ 9 | $ 99,927 |
| U.S. government agency entities | 107,558 | 499 | 664 | 107,393 |
| Mortgage-backed securities | 779,492 | 23,428 | 508 | 802,412 |
| Collateralized mortgage obligations | 314 | — | 13 | 301 |
| Corporate debt securities | 135,695 | 385 | 11 | 136,069 |
| **Total** | **$ 1,122,994** | **$ 24,313** | **$ 1,205** | **$ 1,146,102** |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In thousands) | | | |
| **Securities Available-for-Sale** | | | | |
| U.S. treasury securities | $ 74,926 | $ 10 | $ — | $ 74,936 |
| U.S. government agency entities | 90,452 | 663 | 319 | 90,796 |
| U.S. government sponsored entities | 225,000 | — | 557 | 224,443 |
| Mortgage-backed securities | 880,040 | 8,574 | 824 | 887,790 |
| Collateralized mortgage obligations | 569 | — | 17 | 552 |
| Corporate debt securities | 172,743 | 605 | 23 | 173,325 |
| **Total** | **$ 1,443,730** | **$ 9,852** | **$ 1,740** | **$ 1,451,842** |

The amortized cost and fair value of securities available-for-sale as of June 30, 2020, by contractual maturities, are set forth in the tables 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.

| | June 30, 2020 | |
|---|---|---|
| | Securities Available-For-Sale | |
| | Amortized Cost | Fair Value |
| | (In thousands) | |
| Due in one year or less | $ 181,868 | $ 182,062 |
| Due after one year through five years | 54,118 | 54,320 |
| Due after five years through ten years | 155,525 | 157,920 |
| Due after ten years | 731,483 | 751,800 |
| **Total** | **$ 1,122,994** | **$ 1,146,102** |

***Equity Securities*** - The Company recognized a net gain of $5.8 million for the three months ended June 30, 2020, due to the increase in fair value of equity investments with readily determinable fair values compared to a net gain of $3.2 million for the three months ended June 30, 2019. The Company recognized a net loss of $323 thousand for the six months ended June 30, 2020, due to the decrease in fair value of equity investments with readily determinable fair values compared to a net gain of $7.4 million for the six months ended June 30, 2019. Equity securities were $24.6 million and $28.0 million as of June 30, 2020 and December 31, 2019, respectively.

The following tables set forth the gross unrealized losses and related fair value of the Company's investment portfolio, aggregated by investment category and the length of time that individual security has been in a continuous unrealized loss position, as of June 30, 2020 and December 31, 2019:

| | June 30, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| | (In thousands) | | | | | |
| **Securities Available-for-Sale** | | | | | | |
| U.S. treasury securities | $ 59,969 | $ 9 | $ — | $ — | $ 59,969 | $ 9 |
| U.S. government agency entities | 48,739 | 419 | 15,476 | 245 | 64,215 | 664 |
| Mortgage-backed securities | 1,440 | 10 | 9,921 | 498 | 11,361 | 508 |
| Collateralized mortgage obligations | — | — | 301 | 13 | 301 | 13 |
| Corporate debt securities | 38,537 | 11 | — | — | 38,537 | 11 |
| **Total** | **$ 148,685** | **$ 449** | **$ 25,698** | **$ 756** | **$ 174,383** | **$ 1,205** |

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| | (In thousands) | | | | | |
| **Securities Available-for-Sale** | | | | | | |
| U.S. government agency entities | $ 48,829 | $ 172 | $ 3,570 | $ 147 | $ 52,399 | $ 319 |
| U.S. government sponsored entities | — | — | 224,443 | 557 | 224,443 | 557 |
| Mortgage-backed securities | 43,719 | 36 | 120,801 | 788 | 164,520 | 824 |
| Collateralized mortgage obligations | — | — | 552 | 17 | 552 | 17 |
| Corporate debt securities | 51,791 | 23 | — | — | 51,791 | 23 |
| **Total** | **$ 144,339** | **$ 231** | **$ 349,366** | **$ 1,509** | **$ 493,705** | **$ 1,740** |

To the Company's knowledge, the unrealized losses were primarily attributed to yield curve movement, together with widened liquidity spreads and credit spreads. The issuers have not, to the Company's knowledge, established any cause for default on these securities. Management believes the gross unrealized losses detailed in the table above are temporary. The Company expects to recover the amortized cost basis of its securities and has no present intent to sell and will not be required to sell available-for-sale securities that have declined below their cost before their anticipated recovery. Accordingly, no other than temporary impairment write-downs were recorded on the Company's Condensed Consolidated Statement of Operations and Comprehensive Income in the six months ended June 30, 2020 and 2019.

Securities available-for-sale having a carrying value of $97.0 million and $20.1 million as of June 30, 2020 and December 31, 2019, respectively, were pledged to secure public deposits, other borrowings and treasury tax and loan.

***8. Loans***

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

The types of loans in the Company's Condensed Consolidated Balance Sheets as of June 30, 2020, and December 31, 2019, were as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| | (In thousands) | |
| Commercial loans | $ 3,007,966 | $ 2,778,744 |
| Residential mortgage loans | 4,184,721 | 4,088,586 |
| Commercial mortgage loans | 7,391,502 | 7,275,262 |
| Real estate construction loans | 624,199 | 579,864 |
| Equity lines | 399,207 | 347,975 |
| Installment and other loans | 688 | 5,050 |
| Gross loans | $ 15,608,283 | $ 15,075,481 |
| Allowance for loan losses | (169,680) | (123,224) |
| Unamortized deferred loan fees, net | (4,507) | (626) |
| **Total loans, net** | **$ 15,434,096** | **$ 14,951,631** |

As of June 30, 2020, recorded investment in impaired loans totaled $88.1 million and was comprised of non-accrual loans of $56.4 million and accruing troubled debt restructured loans ("TDRs") of $31.7 million. As of December 31, 2019, recorded investment in impaired loans totaled $75.9 million and was comprised of non-accrual loans of $40.5 million and accruing TDRs of $35.4 million. For impaired loans, the amounts previously charged off represent 0.3% and 2.1% of the contractual balances for impaired loans as of June 30, 2020 and December 31, 2019, respectively.

The following table presents the average recorded investment and interest income recognized on impaired loans for the periods indicated:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | 2019 | | 2020 | | 2019 | |
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| | (In thousands) | | | | | | | |
| Commercial loans | $ 33,695 | $ 71 | $ 46,792 | $ 587 | $ 30,913 | $ 95 | $ 42,388 | $ 820 |
| Real estate construction loans | 4,458 | 49 | 4,726 | — | 4,482 | 147 | 4,771 | — |
| Commercial mortgage loans | 36,225 | 375 | 54,404 | 448 | 36,225 | 824 | 56,724 | 942 |
| Residential mortgage loans and equity lines | 17,724 | 78 | 12,983 | 81 | 14,547 | 149 | 13,123 | 165 |
| **Total impaired loans** | **$ 92,102** | **$ 573** | **$ 118,905** | **$ 1,116** | **$ 86,167** | **$ 1,215** | **$ 117,006** | **$ 1,927** |

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

| | June 30, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Unpaid Principal Balance | Recorded Investment | Allowance | Unpaid Principal Balance | Recorded Investment | Allowance |
| | (In thousands) | | | | | |
| **With no allocated allowance** | | | | | | |
| Commercial loans | $ 16,181 | $ 13,391 | $ — | $ 20,134 | $ 15,857 | $ — |
| Real estate construction loans | 5,776 | 4,433 | — | 5,776 | 4,580 | — |
| Commercial mortgage loans | 16,274 | 15,867 | — | 9,234 | 9,030 | — |
| Residential mortgage loans and equity lines | 9,586 | 9,532 | — | 6,171 | 6,073 | — |
| Subtotal | $ 47,817 | $ 43,223 | $ — | $ 41,315 | $ 35,540 | $ — |
| **With allocated allowance** | | | | | | |
| Commercial loans | $ 15,919 | $ 15,863 | $ 6,895 | $ 8,769 | $ 8,739 | $ 2,543 |
| Commercial mortgage loans | 19,806 | 19,762 | 323 | 26,117 | 26,040 | 473 |
| Residential mortgage loans and equity lines | 10,280 | 9,281 | 307 | 6,740 | 5,540 | 220 |
| Subtotal | $ 46,005 | $ 44,906 | $ 7,525 | $ 41,626 | $ 40,319 | $ 3,236 |
| **Total impaired loans** | **$ 93,822** | **$ 88,129** | **$ 7,525** | **$ 82,941** | **$ 75,859** | **$ 3,236** |

The following tables present the aging of the loan portfolio by type as of June 30, 2020, and as of December 31, 2019:

| | June 30, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Non-accrual Loans | Total Past Due | Loans Not Past Due | Total |
| | (In thousands) | | | | | | |
| Commercial loans | $ 18,968 | $ 1,706 | $ 18,718 | $ 27,125 | $ 66,517 | $ 2,941,449 | $ 3,007,966 |
| Real estate construction loans | — | — | — | 4,433 | 4,433 | 619,766 | 624,199 |
| Commercial mortgage loans | 15,556 | 3,003 | 2,228 | 10,896 | 31,683 | 7,359,819 | 7,391,502 |
| Residential mortgage loans and equity lines | 1,715 | 7,816 | 428 | 14,004 | 23,963 | 4,559,965 | 4,583,928 |
| Installment and other loans | — | 4 | — | — | 4 | 684 | 688 |
| **Total loans** | **$ 36,239** | **$ 12,529** | **$ 21,374** | **$ 56,458** | **$ 126,600** | **$ 15,481,683** | **$15,608,283** |

| | December 31, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Non-accrual Loans | Total Past Due | Loans Not Past Due | Total |
| | (In thousands) | | | | | | |
| Commercial loans | $ 24,681 | $ 9,954 | $ 6,409 | $ 19,381 | $ 60,425 | $ 2,718,319 | $ 2,778,744 |
| Real estate construction loans | 5,846 | 6,753 | — | 4,580 | 17,179 | 562,685 | 579,864 |
| Commercial mortgage loans | 7,694 | 2,609 | — | 9,928 | 20,231 | 7,255,031 | 7,275,262 |
| Residential mortgage loans and equity lines | 26,028 | 965 | — | 6,634 | 33,627 | 4,402,934 | 4,436,561 |
| Installment and other loans | — | — | — | — | — | 5,050 | 5,050 |
| **Total loans** | **$ 64,249** | **$ 20,281** | **$ 6,409** | **$ 40,523** | **$ 131,462** | **$ 14,944,019** | **$15,075,481** |

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The determination of the amount of the allowance for loan losses for impaired loans is based on management's current judgment about the credit quality of the loan portfolio and takes into consideration known relevant internal and external factors that affect collectability when determining the appropriate level for the allowance for loan losses. The nature of the process by which the Bank determines the appropriate allowance for loan losses requires the exercise of considerable judgment. This allowance evaluation process is also applied to TDRs since they are considered to be impaired loans. 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, market and environmental conditions, among other factors. Although the Company took steps to incorporate the impact of the COVID-19 pandemic on the economic forecast and other factors (such as the severity and length of the COVID-19 pandemic and its impacts) utilized to determine the allowance for loan losses, if the economic forecast or other factors worsen relative to the assumptions the Company utilized, the allowance for loan losses will increase accordingly in future periods.

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

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

As of June 30, 2020, accruing TDRs were $31.7 million and non-accrual TDRs were $12.7 million compared to accruing TDRs of $35.3 million and non-accrual TDRs of $18.0 million as of December 31, 2019. The Company allocated specific reserves of $432 thousand to accruing TDRs and $53 thousand to non-accrual TDRs as of June 30, 2020, and $822 thousand to accruing TDRs and $2.2 million to non-accrual TDRs as of December 31, 2019. The following tables set forth TDRs that were modified during the three and six months ended June 30, 2020 and 2019, their specific reserves as of June 30, 2020 and 2019, and charge-offs for the three and six months ended June 30, 2020 and 2019:

| | Three Months Ended June 30, 2020 | | | | June 30, 2020 |
|---|---|---|---|---|---|
| | No. of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Charge-offs | Specific Reserve |
| | | | (In thousands) | | |
| Commercial loans | 1 | $ 1,900 | $ 1,900 | $ — | $ 86 |
| **Total** | **1** | **$ 1,900** | **$ 1,900** | **$ —** | **$ 86** |

| | Three Months Ended June 30, 2019 | | | | June 30, 2019 |
|---|---|---|---|---|---|
| | No. of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Charge-offs | Specific Reserve |
| | | | (In thousands) | | |
| Commercial loans | 19 | $ 16,405 | $ 15,551 | $ 811 | $ 37 |
| **Total** | **19** | **$ 16,405** | **$ 15,551** | **$ 811** | **$ 37** |

| | Six Months Ended June 30, 2020 | | | | June 30, 2020 |
|---|---|---|---|---|---|
| | No. of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Charge-offs | Specific Reserve |
| | | | (In thousands) | | |
| Commercial loans | 3 | $ 2,434 | $ 2,434 | $ — | $ 86 |
| **Total** | **3** | **$ 2,434** | **$ 2,434** | **$ —** | **$ 86** |

| | Six Months Ended June 30, 2019 | | | | June 30, 2019 |
|---|---|---|---|---|---|
| | No. of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Charge-offs | Specific Reserve |
| | | | (In thousands) | | |
| Commercial loans | 20 | $ 18,352 | $ 16,381 | $ 811 | $ 37 |
| **Total** | **20** | **$ 18,352** | **$ 16,381** | **$ 811** | **$ 37** |

Modifications of the loan terms in the six months ended June 30, 2020 were in the form of extensions of maturity dates, which ranged generally from three to twelve months from the modification date.

We expect that the TDRs on accruing status as of June 30, 2020, which were all performing in accordance with their restructured terms, will continue to comply with the restructured terms because of the reduced principal or interest payments on these loans. A summary of TDRs by type of concession and by type of loan, as of June 30, 2020, and December 31, 2019, is set forth in the table below:

| | June 30, 2020 | | | |
|---|---|---|---|---|
| | Payment Deferral | Rate Reduction | Rate Reduction and Payment Deferral | Total |
| | | (In thousands) | | |
| **Accruing TDRs** | | | | |
| Commercial loans | $ 2,129 | $ — | $ — | $ 2,129 |
| Commercial mortgage loans | 585 | 5,689 | 18,459 | 24,733 |
| Residential mortgage loans | 2,413 | 299 | 2,097 | 4,809 |
| **Total accruing TDRs** | **$ 5,127** | **$ 5,988** | **$ 20,556** | **$ 31,671** |

| | June 30, 2020 | | | |
|---|---|---|---|---|
| | Payment Deferral | Rate Reduction | Rate Reduction and Payment Deferral | Total |
| | | (In thousands) | | |
| **Non-accrual TDRs** | | | | |
| Commercial loans | $ 11,371 | $ — | $ — | $ 11,371 |
| Residential mortgage loans | 1,177 | — | 122 | 1,299 |
| **Total non-accrual TDRs** | **$ 12,548** | **$ —** | **$ 122** | **$ 12,670** |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Payment Deferral | Rate Reduction | Rate Reduction and Payment Deferral | Total |
| | (In thousands) | | | |
| **Accruing TDRs** | | | | |
| Commercial loans | $ 5,215 | $ — | $ — | $ 5,215 |
| Commercial mortgage loans | 615 | 5,748 | 18,779 | 25,142 |
| Residential mortgage loans | 2,525 | 311 | 2,143 | 4,979 |
| **Total accruing TDRs** | **$ 8,355** | **$ 6,059** | **$ 20,922** | **$ 35,336** |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Payment Deferral | Rate Reduction | Rate Reduction and Payment Deferral | Total |
| | (In thousands) | | | |
| **Non-accrual TDRs** | | | | |
| Commercial loans | $ 16,692 | $ — | $ — | $ 16,692 |
| Commercial mortgage loans | 1,220 | — | 136 | 1,356 |
| **Total non-accrual TDRs** | **$ 17,912** | **$ —** | **$ 136** | **$ 18,048** |

The activity within TDRs for the periods indicated is set forth below:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (In thousands) | | | |
| **Accruing TDRs** | | | | |
| Beginning balance | $ 34,364 | $ 62,948 | $ 35,336 | $ 65,071 |
| New restructurings | 1,900 | 13,244 | 2,434 | 15,192 |
| Payments | (4,593) | (9,998) | (6,099) | (14,069) |
| Restructured loans placed on non-accrual status | — | (1,296) | — | (1,296) |
| **Ending balance** | **$ 31,671** | **$ 64,898** | **$ 31,671** | **$ 64,898** |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (In thousands) | | | |
| **Non-accrual TDRs** | | | | |
| Beginning balance | $ 17,889 | $ 23,301 | $ 18,048 | $ 24,189 |
| New restructurings | — | 3,160 | — | 3,160 |
| Restructured loans placed on non-accrual status | — | 1,296 | — | 1,296 |
| Charge-offs | (4,970) | (811) | (4,970) | (1,218) |
| Payments | (249) | (4,489) | (408) | (4,970) |
| **Ending balance** | **$ 12,670** | **$ 22,457** | **$ 12,670** | **$ 22,457** |

The Company considers a loan to be in payment default once it is 60 to 90 days contractually past due under the modified terms. The Company did not have any loans that were modified as a TDR during the previous twelve months and which had subsequently defaulted as of June 30, 2020.

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

As of June 30, 2020, there were no commitments to lend additional funds to those borrowers whose loans had been restructured, were considered impaired, or were on non-accrual status.

The CARES Act, signed into law on March 27, 2020, permits financial institutions to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 that would otherwise be characterized as TDRs and suspend any determination related thereto if (i) the loan modification is made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the coronavirus emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. In addition, federal bank regulatory authorities have issued guidance to encourage financial institutions to make loan modifications for borrowers affected by COVID-19 and have assured financial institutions that they will neither receive supervisory criticism for such prudent loan modifications, nor be required by examiners to automatically categorize COVID-19-related loan modifications as TDRs. The Company is applying this guidance to qualifying loan modifications.

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 set forth the loan portfolio by risk rating as of June 30, 2020 and December 31, 2019:

| | June 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Total |
| | (In thousands) | | | | |
| Commercial loans | $ 2,760,857 | $ 138,410 | $ 108,699 | $ — | $ 3,007,966 |
| Real estate construction loans | 490,388 | 129,378 | 4,433 | — | 624,199 |
| Commercial mortgage loans | 7,155,796 | 144,903 | 90,803 | — | 7,391,502 |
| Residential mortgage loans and equity lines | 4,558,199 | 889 | 24,840 | — | 4,583,928 |
| Installment and other loans | 684 | — | 4 | — | 688 |
| **Total gross loans** | **$ 14,965,924** | **$ 413,580** | **$ 228,779** | **$ —** | **$ 15,608,283** |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Total |
| | (In thousands) | | | | |
| Commercial loans | $ 2,528,944 | $ 166,016 | $ 83,784 | $ — | $ 2,778,744 |
| Real estate construction loans | 461,597 | 113,687 | 4,580 | — | 579,864 |
| Commercial mortgage loans | 6,992,933 | 196,454 | 85,875 | — | 7,275,262 |
| Residential mortgage loans and equity lines | 4,427,205 | 914 | 8,442 | — | 4,436,561 |
| Installment and other loans | 5,050 | — | — | — | 5,050 |
| **Total gross loans** | **$ 14,415,729** | **$ 477,071** | **$ 182,681** | **$ —** | **$ 15,075,481** |

The following tables set forth the balance in the allowance for loan losses by portfolio segment and based on impairment method as of June 30, 2020 and December 31, 2019:

| June 30, 2020 | Commercial Loans | Real Estate Construction Loans | Commercial Mortgage Loans | Residential Mortgage Loans and Equity Lines | Installment and Other Loans | Total |
|---|---|---|---|---|---|---|
| | (In thousands) | | | | | |
| **Loans individually evaluated for impairment** | | | | | | |
| Allowance | $ 6,895 | $ — | $ 323 | $ 307 | $ — | $ 7,525 |
| Balance | $ 29,254 | $ 4,433 | $ 35,629 | $ 18,813 | $ — | $ 88,129 |
| **Loans collectively evaluated for impairment** | | | | | | |
| Allowance | $ 75,361 | $ 26,700 | $ 40,809 | $ 19,285 | $ — | $ 162,155 |
| Balance | $ 2,978,712 | $ 619,766 | $ 7,355,873 | $ 4,565,115 | $ 688 | $ 15,520,154 |
| **Total allowance** | **$ 82,256** | **$ 26,700** | **$ 41,132** | **$ 19,592** | **$ —** | **$ 169,680** |
| **Total balance** | **$ 3,007,966** | **$ 624,199** | **$ 7,391,502** | **$ 4,583,928** | **$ 688** | **$ 15,608,283** |

| December 31, 2019 | Commercial Loans | Real Estate Construction Loans | Commercial Mortgage Loans | Residential Mortgage Loans and Equity Lines | Installment and Other Loans | Total |
|---|---|---|---|---|---|---|
| | (In thousands) | | | | | |
| **Loans individually evaluated for impairment** | | | | | | |
| Allowance | $ 2,543 | $ — | $ 473 | $ 220 | $ — | $ 3,236 |
| Balance | $ 24,596 | $ 4,580 | $ 35,070 | $ 11,613 | $ — | $ 75,859 |
| **Loans collectively evaluated for impairment** | | | | | | |
| Allowance | $ 54,478 | $ 19,474 | $ 33,129 | $ 12,888 | $ 19 | $ 119,988 |
| Balance | $ 2,754,148 | $ 575,284 | $ 7,240,192 | $ 4,424,948 | $ 5,050 | $ 14,999,622 |
| **Total allowance** | **$ 57,021** | **$ 19,474** | **$ 33,602** | **$ 13,108** | **$ 19** | **$ 123,224** |
| **Total balance** | **$ 2,778,744** | **$ 579,864** | **$ 7,275,262** | **$ 4,436,561** | **$ 5,050** | **$ 15,075,481** |

The following tables set forth activity in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2020, and June 30, 2019. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

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**Three months ended June 30, 2020 and 2019**

| | Commercial Loans | Real Estate Construction Loans | Commercial Mortgage Loans | Residential Mortgage Loans and Equity Lines | Installment and Other Loans | Total |
|---|---|---|---|---|---|---|
| | (In thousands) | | | | | |
| **March 31, 2020 Ending Balance** | $ 67,799 | $ 23,222 | $ 39,886 | $ 17,366 | $ — | $ 148,273 |
| Provision for possible credit losses | 18,213 | 3,478 | 1,151 | 2,158 | — | 25,000 |
| Charge-offs | (5,106) | — | — | — | — | (5,106) |
| Recoveries | 1,350 | — | 95 | 68 | — | 1,513 |
| Net (charge-offs)/recoveries | (3,756) | — | 95 | 68 | — | (3,593) |
| **June 30, 2020 Ending Balance** | **$ 82,256** | **$ 26,700** | **$ 41,132** | **$ 19,592** | **$ —** | **$ 169,680** |

| | Commercial Loans | Real Estate Construction Loans | Commercial Mortgage Loans | Residential Mortgage Loans and Equity Lines | Installment and Other Loans | Total |
|---|---|---|---|---|---|---|
| | (In thousands) | | | | | |
| **March 31, 2019 Ending Balance** | $ 54,750 | $ 20,723 | $ 33,073 | $ 13,975 | $ 34 | $ 122,555 |
| (Reversal)/provision for possible credit losses | (100) | 257 | (180) | 27 | (4) | — |
| Charge-offs | (1,713) | — | — | — | — | (1,713) |
| Recoveries | 1,356 | 30 | 261 | 162 | — | 1,809 |
| Net (charge-offs)/recoveries | (357) | 30 | 261 | 162 | — | 96 |
| **June 30, 2019 Ending Balance** | **$ 54,293** | **$ 21,010** | **$ 33,154** | **$ 14,164** | **$ 30** | **$ 122,651** |

**Six months ended June 30, 2020 and 2019**

| | Commercial Loans | Real Estate Construction Loans | Commercial Mortgage Loans | Residential Mortgage Loans and Equity Lines | Installment and Other Loans | Total |
|---|---|---|---|---|---|---|
| | (In thousands) | | | | | |
| **2020 Beginning Balance** | $ 57,021 | $ 19,474 | $ 33,602 | $ 13,108 | $ 19 | $ 123,224 |
| Provision/(reversal) for possible credit losses | 29,104 | 7,226 | 7,280 | 6,409 | (19) | 50,000 |
| Charge-offs | (6,427) | — | — | — | — | (6,427) |
| Recoveries | 2,558 | — | 250 | 75 | — | 2,883 |
| Net (charge-offs)/recoveries | (3,869) | — | 250 | 75 | — | (3,544) |
| **June 30, 2020 Ending Balance** | **$ 82,256** | **$ 26,700** | **$ 41,132** | **$ 19,592** | **$ —** | **$ 169,680** |
| Reserve for impaired loans | $ 6,895 | $ — | $ 323 | $ 307 | $ — | $ 7,525 |
| Reserve for non-impaired loans | $ 75,361 | $ 26,700 | $ 40,809 | $ 19,285 | $ — | $ 162,155 |
| Reserve for off-balance sheet credit commitments | $ 3,581 | $ 666 | $ 117 | $ 297 | $ 2 | $ 4,663 |

| | Commercial Loans | Real Estate Construction Loans | Commercial Mortgage Loans | Residential Mortgage Loans and Equity Lines | Installment and Other Loans | Total |
|---|---|---|---|---|---|---|
| | (In thousands) | | | | | |
| **2019 Beginning Balance** | $ 54,978 | $ 19,626 | $ 33,487 | $ 14,282 | $ 18 | $ 122,391 |
| Provision/(reversal) for possible credit losses | 862 | 310 | (746) | (438) | 12 | — |
| Charge-offs | (2,944) | — | — | — | — | (2,944) |
| Recoveries | 1,397 | 1,074 | 413 | 320 | — | 3,204 |
| Net (charge-offs)/recoveries | (1,547) | 1,074 | 413 | 320 | — | 260 |
| **June 30, 2019 Ending Balance** | **$ 54,293** | **$ 21,010** | **$ 33,154** | **$ 14,164** | **$ 30** | **$ 122,651** |
| Reserve for impaired loans | $ 832 | $ — | $ 620 | $ 234 | $ — | $ 1,686 |
| Reserve for non-impaired loans | $ 53,461 | $ 21,010 | $ 32,534 | $ 13,930 | $ 30 | $ 120,965 |
| Reserve for off-balance sheet credit commitments | $ 2,090 | $ 2,029 | $ 137 | $ 290 | $ 4 | $ 4,550 |

The ongoing COVID-19 global and national health emergency has caused significant disruption in the United States and international economies and financial markets. Although banks have generally been permitted to continue operating, the COVID-19 pandemic has caused disruptions to our business and could cause material disruptions to our business and operations in the future. The Company has continued its efforts to support its customers affected by the pandemic and to maintain asset quality and balance sheet strength, including the following:

- Providing loans through the SBA's Paycheck Protection Program, or “PPP”. As of June 30, 2020, 1,381 loans totaling $261.7 million have been approved by the Small Business Administration.
- The Company has implemented modifications on approximately 723 commercial real estate loans totaling $1.5 billion as of June 30, 2020, which represents 21.0% of the Bank’s commercial real estate loans and 81 commercial loans, totaling $141.6 million, that represented 4.7% of the total commercial loans.
- Approved forbearance requests on approximately 1,198 residential mortgage loans totaling $518.1 million as of June 30, 2020, which represent 12.4% of total residential mortgages.

***9. Commitments and Contingencies***

From time to time, Bancorp and its subsidiaries are parties to litigation that arise in the ordinary course of business or otherwise are incidental to various aspects of its operations. Based upon information available to the Company and its review of any such litigation with counsel, management presently believes that the liability relating to such litigation, if any, would not be expected to have a material adverse impact on the Company’s consolidated financial condition, results of operations or liquidity taken as a whole. The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal matters currently pending or threatened against the Company could have a material adverse effect on the Company's 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 from time to time 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.

The Company's unfunded commitments related to investments in qualified affordable housing and alternative energy partnerships were $114.3 million and $114.5 million as of June 30, 2020 and December 31, 2019, respectively.

***10. Leases***

The Company determines if a contract arrangement is a lease at inception and primarily enters into operating lease contracts for its branch locations, office space and certain equipment. As part of its property lease agreements, the Company may seek to include options to extend or terminate at lease when it is reasonably certain that the Company will exercise those options. The Right-of-Use ("ROU") lease asset also includes any lease payments made and lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company does not possess any leases that have variable lease payments or residual value guarantees as of June 30, 2020.

*Accounting Policy Elections* - The Company has elected the package of practical expedients that permits the Company to not reassess its prior conclusions about lease identification, lease classification and initial direct costs. The Company also elected all of the new standard's available transition practical expedients, including the short-term lease recognition exemption that includes not recognizing ROU assets or lease liabilities for existing short-term leases, and the practical expedient to not separate lease and non-lease components for all of the Company's leases.

The ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The Company uses its incremental borrowing rate to determine the present value of its lease liabilities.

The following table presents the operating lease related assets and liabilities recorded on the Condensed Consolidated Balance Sheet, and the weighted-average remaining lease terms and discount rates as of June 30, 2020 and December 31, 2019:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| | ($ In millions) | |
| **Operating Leases:** | | |
| ROU assets | $ 34.2 | $ 34.0 |
| Lease liabilities | $ 36.4 | $ 35.9 |
| Weighted-average remaining lease term (in years) | 5.0 | 5.4 |
| Weighted-average discount rate | 2.85% | 3.10% |

Operating lease expense was $2.9 million and $3.4 million for the three months ended June 30, 2020 and June 30, 2019, respectively, and includes short-term leases that were immaterial. Operating lease expense was $5.8 million and $6.8 million for the six months ended June 30, 2020 and June 30, 2019, respectively, and includes short-term leases that were immaterial. Operating cash flows from operating leases were $2.4 million and $2.0 million for the three months ended June 30, 2020 and 2019, respectively. Operating cash flows from operating leases were $4.6 million and $4.1 million for the six months ended June 30, 2020 and 2019, respectively.

The following table presents a maturity analysis of the Company's operating lease liabilities as of June 30, 2020 and December 31, 2019, respectively.

| | As of June 30, 2020 |
|---|---|
| | Operating Leases |
| | (In thousands) |
| Remaining 2020 | $ 4,671 |
| 2021 | 9,120 |
| 2022 | 7,983 |
| 2023 | 6,587 |
| 2024 | 4,464 |
| Thereafter | 6,485 |
| Total lease payments | 39,310 |
| Less amount of payment representing interest | (2,902) |
| **Total present value of lease payments** | **$ 36,408** |

| | As of December 31, 2019 |
|---|---|
| | Operating Leases |
| | (In thousands) |
| 2020 | $ 8,764 |
| 2021 | 7,923 |
| 2022 | 6,771 |
| 2023 | 5,714 |
| 2024 | 3,852 |
| Thereafter | 6,199 |
| Total lease payments | 39,223 |
| Less amount of payment representing interest | (3,350) |
| **Total present value of lease payments** | **$ 35,873** |

***11. Borrowed Funds***

*Borrowings from the Federal Home Loan Bank ("FHLB")* – There were no over-night borrowings from the FHLB as of June 30, 2020, compared to $450 million at an average rate of 1.66% as of December 31, 2019. Advances from the FHLB were $230 million at an average rate of 2.16% as of June 30, 2020 and $220 million at an average rate of 2.26% as of December 31, 2019. As of June 30, 2020, FHLB advances of $5 million will mature in November 2020, $80 million in May 2021, $50 million in June 2021, $75 million in July 2021, and $20 million in May 2023.

*Other Borrowings* - The Company owes a residual payable balance of $7.8 million to Bank SinoPac Co. related to the Company's acquisition of SinoPac Bancorp, the parent of Far East National Bank, completed in October 2017. The remaining balance of $7.0 million, due in July 2020, has an interest rate of 1.80% (three-month LIBOR rate plus 150 basis points) as of June 30, 2020.

The Company established three special purpose trusts in 2003 and two in 2007 for the purpose of issuing Guaranteed Preferred Beneficial Interests in their Subordinated Debentures to outside investors ("Capital Securities"). The proceeds from the issuance of the Capital Securities as well as our purchase of the common stock of the special purpose trusts were invested in Junior Subordinated Notes of the Company ("Junior Subordinated Notes"). The trusts exist for the purpose of issuing the Capital Securities and investing in Junior Subordinated Notes. Subject to some limitations, payment of distributions out of the monies held by the trusts and payments on liquidation of the trusts, or the redemption of the Capital Securities, are guaranteed by the Company to the extent the trusts have funds on hand at such time. The obligations of the Company under the guarantees and the Junior Subordinated Notes are subordinate and junior in right of payment to all indebtedness of the Company and are structurally subordinated to all liabilities and obligations of the Company's subsidiaries. The Company has the right to defer payments of interest on the Junior Subordinated Notes at any time or from time to time for a period of up to twenty consecutive quarterly periods with respect to each deferral period. Under the terms of the Junior Subordinated Notes, the Company may not, with certain exceptions, declare or pay any dividends or distributions on its capital stock or purchase or acquire any of its capital stock if it has deferred payment of interest on any Junior Subordinated Notes.

At June 30, 2020, Junior Subordinated Notes totaled $119.1 million with a weighted average interest rate of 2.48%, compared to $119.1 million with a weighted average rate of 4.09% at December 31, 2019. The Junior Subordinated Notes have a stated maturity term of 30 years.

***12. Income Taxes***

The effective tax rate for the first six months of 2020 was 11.1% compared to 19.2% for the first six months of 2019. The effective tax rate includes the impact of low-income housing and alternative energy investment tax credits. Income tax expense for the first six months of 2020 was increased by $0.4 million related to a tax deficiency from the distribution of restricted stock units.

The Company's tax returns are open for audit by the Internal Revenue Service back to 2016 and by the California Franchise Tax Board back to 2015. The audit by the Internal Revenue Service for 2017 is substantially complete and is not expected to have an impact on income tax expense.

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.

***13. Fair Value Measurements***

The Company 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 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, U.S. Government sponsored entities, state and municipal securities, mortgage-backed securities ("MBS"), collateralized mortgage obligations and corporate bonds.

*Equity Securities* – The Company measures the fair value based on quoted market prices in active exchange markets at the reporting date, a level 1 measurement. Equity securities are comprised of mutual funds, preferred stock of government-sponsored entities and other equity securities.

*Foreign Exchange Contracts* - The Company measures the fair value of foreign exchange contracts based on dealer quotes, a Level 2 measurement.

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

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

Assets measured at estimated fair value on a non-recurring basis:

Certain assets or liabilities are required to be measured at estimated fair value on a nonrecurring basis subsequent to initial recognition. Generally, these adjustments are the result of lower-of-cost-or-fair value or other impairment write-downs of individual assets. In determining the estimated fair values during the period, the Company determined that substantially all the changes in estimated fair value were due to declines in market conditions versus instrument specific credit risk. For the periods ended June 30, 2020 and December 31, 2019, there were no material adjustments to fair value for the Company's assets and liabilities measured at fair value on a nonrecurring basis in accordance with GAAP.

The following tables present the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of June 30, 2020, and December 31, 2019:

| | June 30, 2020 | | | |
|---|---|---|---|---|
| | Fair Value Measurements Using | | | Total Fair Value Measurements |
| | Level 1 | Level 2 | Level 3 | |
| | (In thousands) | | | |
| **Assets** | | | | |
| **Securities available-for-sale** | | | | |
| U.S. Treasury securities | $ 99,927 | $ — | $ — | $ 99,927 |
| U.S. government agency entities | — | 107,393 | — | 107,393 |
| Mortgage-backed securities | — | 802,412 | — | 802,412 |
| Collateralized mortgage obligations | — | 301 | — | 301 |
| Corporate debt securities | — | 136,069 | — | 136,069 |
| **Total securities available-for-sale** | **$ 99,927** | **$ 1,046,175** | **$ —** | **$ 1,146,102** |
| | | | | |
| **Equity securities** | | | | |
| Mutual funds | $ 6,431 | $ — | $ — | $ 6,431 |
| Preferred stock of government sponsored entities | 4,868 | — | — | 4,868 |
| Other equity securities | 13,271 | — | — | 13,271 |
| **Total equity securities** | **$ 24,570** | **$ —** | **$ —** | **$ 24,570** |
| | | | | |
| Warrants | $ — | $ — | $ 13 | $ 13 |
| Interest rate swaps | — | 3,842 | — | 3,842 |
| Foreign exchange contracts | — | 1,529 | — | 1,529 |
| **Total assets** | **$ 124,497** | **$ 1,051,546** | **$ 13** | **$ 1,176,056** |
| | | | | |
| **Liabilities** | | | | |
| Option contracts | $ — | $ 6 | $ — | $ 6 |
| Interest rate swaps | — | 33,760 | — | 33,760 |
| Foreign exchange contracts | — | 531 | — | 531 |
| **Total liabilities** | **$ —** | **$ 34,297** | **$ —** | **$ 34,297** |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Fair Value Measurements Using | | | Total Fair Value Measurements |
| | Level 1 | Level 2 | Level 3 | |
| | (In thousands) | | | |
| **Assets** | | | | |
| **Securities available-for-sale** | | | | |
| U.S. Treasury securities | $ 74,936 | $ — | $ — | $ 74,936 |
| U.S. government agency entities | — | 90,796 | — | 90,796 |
| U.S. government sponsored entities | — | 224,443 | — | 224,443 |
| Mortgage-backed securities | — | 887,790 | — | 887,790 |
| Collateralized mortgage obligations | — | 552 | — | 552 |
| Corporate debt securities | — | 173,325 | — | 173,325 |
| **Total securities available-for-sale** | **$ 74,936** | **$ 1,376,906** | **$ —** | **$ 1,451,842** |
| | | | | |
| **Equity securities** | | | | |
| Mutual funds | $ 6,277 | $ — | $ — | $ 6,277 |
| Preferred stock of government sponsored entities | 10,529 | — | — | 10,529 |
| Other equity securities | 11,199 | — | — | 11,199 |
| **Total equity securities** | **$ 28,005** | **$ —** | **$ —** | **$ 28,005** |
| | | | | |
| Warrants | $ — | $ — | $ 39 | $ 39 |
| Interest rate swaps | — | 2,181 | — | 2,181 |
| Foreign exchange contracts | — | 2,411 | — | 2,411 |
| **Total assets** | **$ 102,941** | **$ 1,381,498** | **$ 39** | **$ 1,484,478** |
| | | | | |
| **Liabilities** | | | | |
| Option contracts | $ — | $ 7 | $ — | $ 7 |
| Interest rate swaps | — | 14,229 | — | 14,229 |
| Foreign exchange contracts | — | 1,415 | — | 1,415 |
| **Total liabilities** | **$ —** | **$ 15,651** | **$ —** | **$ 15,651** |

The Company measured the fair value of its warrants on a recurring basis using significant unobservable inputs. The fair value adjustment of warrants was included in other operating income in the first six months of 2020. 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 5 years, risk-free interest rate from 0.29% to 0.60%, and stock volatility from 16.61% to 23.26%.

For financial assets measured at fair value on a nonrecurring basis that were still reflected in the Condensed Consolidated Balance Sheets as of June 30, 2020, the following tables set forth the level of valuation assumptions used to determine each adjustment, the carrying value of the related individual assets as of June 30, 2020, and December 31, 2019, and the total losses for the periods indicated:

| | As of June 30, 2020 | | | | Total Losses | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value Measurements Using | | | Total Fair Value Measurements | For the Three Months Ended | | For the Six Months Ended | |
| | Level 1 | Level 2 | Level 3 | | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2019 |
| | (In thousands) | | | | | | | |
| **Assets** | | | | | | | | |
| **Impaired loans by type:** | | | | | | | | |
| Commercial loans | $ — | $ — | $ 8,968 | $ 8,968 | $ — | $ — | $ — | $ — |
| Commercial mortgage loans | — | — | 19,439 | 19,439 | — | — | — | — |
| Residential mortgage loans and equity lines | — | — | 8,974 | 8,974 | — | — | — | — |
| **Total impaired loans** | — | — | 37,381 | 37,381 | — | — | — | — |
| Other real estate owned (1) | — | 3,405 | 4,238 | 7,643 | 381 | 422 | 717 | 494 |
| Investments in venture capital and private company stock | — | — | 1,384 | 1,384 | 71 | 16 | 104 | 18 |
| **Total assets** | **$ —** | **$ 3,405** | **$ 43,003** | **$ 46,408** | **$ 452** | **$ 438** | **$ 821** | **$ 512** |

(1) Other real estate owned balance of $7.3 million in the condensed consolidated balance sheet is net of estimated disposal costs.

| | As of December 31, 2019 | | | | Total Losses/(Gains) | |
|---|---|---|---|---|---|---|
| | Fair Value Measurements Using | | | Total Fair Value Measurements | For the Twelve Months Ended | |
| | Level 1 | Level 2 | Level 3 | | December 31, 2019 | December 31, 2018 |
| | (In thousands) | | | | | |
| **Assets** | | | | | | |
| **Impaired loans by type:** | | | | | | |
| Commercial loans | $ — | $ — | $ 6,196 | $ 6,196 | $ — | $ — |
| Commercial mortgage loans | — | — | 25,566 | 25,566 | — | — |
| Residential mortgage loans and equity lines | — | — | 5,320 | 5,320 | — | — |
| **Total impaired loans** | — | — | 37,082 | 37,082 | — | — |
| Other real estate owned (1) | — | 6,490 | 4,343 | 10,833 | 681 | (619) |
| Investments in venture capital and private company stock | — | — | 1,604 | 1,604 | 167 | 330 |
| **Total assets** | **$ —** | **$ 6,490** | **$ 43,029** | **$ 49,519** | **$ 848** | **$ (289)** |

(1) Other real estate owned balance of $10.2 million in the Consolidated Balance Sheets 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 are primarily based on the appraised value of collateral adjusted by estimated sales cost and commissions. The Company generally obtains new appraisal reports every twelve months as appropriate. 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. In the current year, the Company used borrower specific collateral discounts with various discount levels.

The significant unobservable inputs used in the fair value measurement of other real estate owned ("OREO") are 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% of the collateral value of impaired loans, quoted price, or loan sale price of loans held for sale, and appraised value of OREO.

***14. Fair Value of Financial Instruments***

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

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

*Short-term Investments and interest-bearing deposits* - For short-term investments and interest-bearing deposits, the carrying amount is assumed to be a reasonable estimate of fair value, a Level 1 measurement.

*Securities Available for Sale* - For certain 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, U.S. Government sponsored entities, state and municipal securities, mortgage-backed securities ("MBS"), collateralized mortgage obligations and corporate bonds.

*Equity Securities* – The Company measures the fair value based on quoted market prices in active exchange markets at the reporting date, a level 1 measurement. Equity securities are comprised of mutual funds, preferred stock of government-sponsored entities and other equity securities.

*Loans* - Fair values are estimated for portfolios of loans with similar financial characteristics. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and non-performing categories. The fair values are based primarily on third-party vendor pricing to determine fair values based on the exit price notion.

The fair value of performing loans is 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 is 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 or adjusted appraised value of the collateral, a Level 2 or Level 3 measurement.

*Loans Held-for-Sale* – The Company records loans held for sale at fair value based on quoted prices from third party sale analysis, existing sale agreements, or appraisal reports adjusted by sales commission assumption, a Level 3 measurement.

*FHLB Stock* - These securities can only be redeemed or sold at their par value and only to the respective issuing government-supported institution or to another member institution. Management considers these non-marketable equity securities to be long-term investments. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than recognizing temporary declines in value.

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

*Advances from FHLB* - The fair value of the advances is based on quotes from the FHLB to settle the advances, a Level 2 measurement.

*Short-term and 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 is 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 is 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 is based on the assumptions that a market participant would use, a Level 3 measurement.

Fair value is estimated in accordance with ASC Topic 825. Fair value estimates are 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 are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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The following table sets forth the carrying and notional amounts and estimated fair value of financial instruments as of June 30, 2020 and December 31, 2019:

| | June 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (In thousands) | | | |
| **Financial Assets** | | | | |
| Cash and due from banks | $ 148,700 | $ 148,700 | $ 177,240 | $ 177,240 |
| Short-term investments | 1,425,001 | 1,425,001 | 416,538 | 416,538 |
| Securities available-for-sale | 1,146,102 | 1,146,102 | 1,451,842 | 1,451,842 |
| Loans, net | 15,434,096 | 15,954,278 | 14,951,631 | 15,444,752 |
| Equity securities | 24,570 | 24,570 | 28,005 | 28,005 |
| Investment in Federal Home Loan Bank stock | 17,250 | 17,250 | 18,090 | 18,090 |
| Warrants | 13 | 13 | 39 | 39 |
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| Foreign exchange contracts | $ 101,020 | $ 1,529 | $ 146,397 | $ 2,411 |
| Interest rate swaps | 50,599 | 3,842 | 130,401 | 2,181 |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Financial Liabilities** | | | | |
| Deposits | $ 16,281,904 | $ 16,334,769 | $ 14,692,308 | $ 14,719,452 |
| Short-term borrowings | — | — | 25,683 | 25,683 |
| Advances from Federal Home Loan Bank | 230,000 | 241,047 | 670,000 | 674,530 |
| Other borrowings | 40,152 | 33,040 | 36,666 | 30,764 |
| Long-term debt | 119,136 | 61,913 | 119,136 | 76,058 |
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| Option contracts | $ 530 | $ 6 | $ 908 | $ 7 |
| Foreign exchange contracts | 179,211 | 531 | 127,003 | 1,415 |
| Interest rate swaps | 697,212 | 33,760 | 602,291 | 14,229 |
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| **Off-Balance Sheet Financial Instruments** | | | | |
| Commitments to extend credit | $ 3,073,581 | $ (9,464) | $ 3,077,081 | $ (9,826) |
| Standby letters of credit | 262,028 | (1,981) | 282,352 | (2,431) |
| Other letters of credit | 28,199 | (30) | 22,209 | (20) |
| Bill of lading guarantees | 124 | — | 319 | (1) |

The following tables set forth the level in the fair value hierarchy for the estimated fair values of financial instruments as of June 30, 2020 and December 31, 2019.

| | As of June 30, 2020 | | | |
|---|---|---|---|---|
| | Estimated Fair Value Measurements | Level 1 | Level 2 | Level 3 |
| | (In thousands) | | | |
| **Financial Assets** | | | | |
| Cash and due from banks | $ 148,700 | $ 148,700 | $ — | $ — |
| Short-term investments | 1,425,001 | 1,425,001 | — | — |
| Securities available-for-sale | 1,146,102 | 99,927 | 1,046,175 | — |
| Loans, net | 15,954,278 | — | — | 15,954,278 |
| Equity securities | 24,570 | 24,570 | — | — |
| Investment in Federal Home Loan Bank stock | 17,250 | — | 17,250 | — |
| Warrants | 13 | — | — | 13 |
| **Financial Liabilities** | | | | |
| Deposits | 16,334,769 | — | — | 16,334,769 |
| Advances from Federal Home Loan Bank | 241,047 | — | 241,047 | — |
| Other borrowings | 33,040 | — | — | 33,040 |
| Long-term debt | 61,913 | — | 61,913 | — |

| | As of December 31, 2019 | | | |
|---|---|---|---|---|
| | Estimated Fair Value Measurements | Level 1 | Level 2 | Level 3 |
| | (In thousands) | | | |
| **Financial Assets** | | | | |
| Cash and due from banks | $ 177,240 | $ 177,240 | $ — | $ — |
| Short-term investments | 416,538 | 416,538 | — | — |
| Securities available-for-sale | 1,451,842 | 74,936 | 1,376,906 | — |
| Loans, net | 15,444,752 | — | — | 15,444,752 |
| Equity securities | 28,005 | 28,005 | — | — |
| Investment in Federal Home Loan Bank stock | 18,090 | — | 18,090 | — |
| Warrants | 39 | — | — | 39 |
| **Financial Liabilities** | | | | |
| Deposits | 14,719,452 | — | — | 14,719,452 |
| Short-term borrowings | 25,683 | — | — | 25,683 |
| Advances from Federal Home Loan Bank | 674,530 | — | 674,530 | — |
| Other borrowings | 30,764 | — | — | 30,764 |
| Long-term debt | 76,058 | — | 76,058 | — |

***15. Goodwill and Goodwill Impairment***

The Company's policy is to assess goodwill for impairment at the reporting unit level on an annual basis or between annual assessments if a triggering event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value.

During the second quarter of 2020, the Company assessed its goodwill for impairment. The Company performed an assessment of the criteria included in ASC 350 and, based on such assessment, the Company concluded that the goodwill of the Company's two reporting units is not impaired.

***16. Financial Derivatives***

It is our policy not to speculate on the future direction of interest rates. However, from time to time, we may enter into financial derivatives in order to seek mitigation of exposure to interest rate risks related to our interest-earning assets and interest-bearing liabilities. We believe that these transactions, when properly structured and managed, may provide a hedge against inherent interest rate risk in our assets or liabilities and against risk in specific transactions. In such instances, we may enter into interest rate swap contracts or other types of financial derivatives. Prior to considering any hedging activities, we seek to analyze the costs and benefits of the hedge in comparison to other viable alternative strategies. All hedges must be approved by the Bank's Investment Committee.

The Company follows ASC Topic 815 that establishes accounting and reporting standards for financial derivatives, including certain financial derivatives embedded in other contracts, and hedging activities. It requires the recognition of all financial derivatives as assets or liabilities in the Company's Condensed Consolidated Balance Sheets and measurement of those financial derivatives at fair value. The accounting treatment of changes in fair value is dependent upon whether or not a financial derivative is designated as a hedge and, if so, the type of hedge. Fair value is determined using third-party models with observable market data. For derivatives designated as cash flow hedges, changes in fair value are recognized in other comprehensive income and are reclassified to earnings when the hedged transaction is reflected 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 interest rate swaps and changes in the fair value of the underlying asset or liability that is intended to be hedged. If there is not a highly effective correlation between changes in the fair value of the interest rate swap and changes in the fair value of the underlying asset or liability that is intended to be hedged, then only the changes in the fair value of the interest rate swaps are reflected in the Company's Consolidated Financial Statements.

The Company offers various interest rate derivative contracts to its customers. When derivative transactions are executed with its customers, the derivative contracts are offset by paired trades with third-party financial institutions including with central counterparties ("CCP"). Certain derivative contracts entered with CCPs are settled-to-market daily to the extent the CCP's rulebooks legally characterize the variation margin as settlement. Derivative contracts are intended to allow borrowers to lock in attractive intermediate and long-term fixed rate financing while not increasing the interest rate risk to the Company. These transactions are generally not linked to specific Company assets or liabilities on the Condensed Consolidated Balance Sheets or to forecasted transactions in a hedging relationship and, therefore, are economic hedges. The contracts are marked to market at each reporting period. The changes in fair values of the derivative contracts traded with third-party financial institutions are expected to be largely comparable to the changes in fair values of the derivative transactions executed with customers throughout the terms of these contracts, except for the credit valuation adjustment component. The Company records credit valuation adjustments on derivatives to properly reflect the variances of credit worthiness between the Company and the counterparties, considering the effects of enforceable master netting agreements and collateral arrangements.

In May 2014, the Bancorp entered into interest rate swap contracts in the notional amount of $119.1 million for a period of ten years. The objective of these interest rate swap contracts, which were designated as hedging instruments in cash flow hedges, was to hedge the quarterly interest payments on the Bancorp's $119.1 million of Junior Subordinated Debentures that had been issued to five trusts, throughout the ten-year period beginning in June 2014 and ending in June 2024, from the risk of variability of these payments resulting from changes in the three-month LIBOR interest rate. As of June 30, 2020, and 2019, the ineffective portion of these interest rate swaps was not significant. The notional amount and net unrealized loss of the Company's cash flow derivative financial instruments as of June 30, 2020, and December 31, 2019, were as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| **Cash flow swap hedges:** | ($ in thousands) | |
| Notional | $ 119,136 | $ 119,136 |
| Weighted average fixed rate-pay | 2.61% | 2.61% |
| Weighted average variable rate-receive | 0.64% | 2.26% |
| | | |
| Unrealized loss, net of taxes (1) | $ (7,925) | $ (3,412) |

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2019 |
| Periodic net settlement of swaps (2) | $ 514 | $ 8 | $ 769 | $ (37) |

(1)-Included in other comprehensive income.
(2)-the amount of periodic net settlement of interest rate swaps was included in interest expense.

As of June 30, 2020, the Bank's outstanding interest rate swap contracts had a notional amount of $527.5 million for various terms from three to ten years. The Bank entered into these interest rate swap contracts that are matched to individual fixed-rate commercial real estate loans in the Bank's loan portfolio. These contracts have been designated as hedging instruments to hedge the risk of changes in the fair value of the underlying commercial real estate loans due to changes in interest rates. The swap contracts are structured so that the notional amounts reduce over time to match the contractual amortization of the underlying loan and allow prepayments with the same pre-payment penalty amounts as the related loan. As of June 30, 2020, and 2019, the ineffective portion of these interest rate swaps was not significant. The notional amount and net unrealized loss of the Company's fair value derivative financial instruments as of June 30, 2020, and December 31, 2019, were as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| **Fair value swap hedges:** | ($ in thousands) | |
| Notional | $ 527,477 | $ 579,584 |
| Weighted average fixed rate-pay | 4.59% | 4.71% |
| Weighted average variable rate spread | 2.53% | 2.62% |
| Weighted average variable rate-receive | 3.57% | 4.87% |
| | | |
| Net unrealized loss (1) | $ (18,667) | $ (7,205) |

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2019 |
| Periodic net settlement of SWAPs (2) | $ (2,154) | $ 534 | $ (2,797) | $ 1,147 |

(1)-the amount is included in other non-interest income.
(2)-the amount of periodic net settlement of interest rate swaps was included in interest income.

The Company has designated as a partial-term hedging election $25.0 million of a pool of loans with a notational value of $45.0 million as of June 30, 2020. The loans are not expected to be affected by prepayment, defaults, or other factors affecting the timing and amount of cash flows under the last-of-layer method. The Company has entered into a pay-fixed and receive 1-Month LIBOR interest rate swap to convert the last-of-layer $25.0 million portion of a $45.0 million fixed rate loan tranche in order to reduce the Company's exposure to higher interest rates for the last-of-layer tranche. As of June 30, 2020, the last-of-layer loan tranche had a fair value basis adjustment of $427 thousand. The interest rate swap converts this last-of-layer tranche into a floating rate instrument. The Company's risk management objective with respect to this last-of-layer interest rate swap is to reduce interest rate exposure as to the last-of-layer tranche.

Interest rate swap contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have a strong credit profile and be approved by the Company's Board of Directors. The Company's credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. The Bancorp's interest rate swaps have been assigned by the counterparties to a derivative clearing organization and daily margin is indirectly maintained with the derivative clearing organization. Cash posted as collateral by the Bancorp related to derivative contracts totaled $13.7 million as of June 30, 2020 and $7.1 million as of December 31, 2019.

The Company from time to time enters into foreign exchange forward contracts with various counterparties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit or foreign exchange contracts entered into with our clients. These contracts are not designated as hedging instruments and are recorded at fair value in our Condensed Consolidated Balance Sheets. Changes in the fair value of these contracts as well as the related foreign exchange certificates of deposit and foreign exchange contracts are recognized immediately in net income as a component of non-interest income. Period end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities. The notional amount and fair value of the Company's derivative financial instruments not designated as hedging instruments as of June 30, 2020, and December 31, 2019, were as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| | ($ in thousands) | |
| **Derivative financial instruments not designated as hedging instruments:** | | |
| **Notional amounts:** | | |
| Option contracts | $ 530 | $ 908 |
| Spot, forward, and swap contracts with positive fair value | $ 101,020 | $ 146,397 |
| Spot, forward, and swap contracts with negative fair value | $ 179,211 | $ 127,003 |
| **Fair value:** | | |
| Option contracts | $ (6) | $ (7) |
| Spot, forward, and swap contracts with positive fair value | $ 1,529 | $ 2,411 |
| Spot, forward, and swap contracts with negative fair value | $ (531) | $ (1,415) |

***17. Balance Sheet Offsetting***

Certain financial instruments, including resell and repurchase agreements, securities lending arrangements and derivatives, may be eligible for offset in the Condensed Consolidated Balance Sheets and/or subject to master netting arrangements or similar agreements. The Company's securities sold with agreements to repurchase and derivative transactions with upstream financial institution counterparties are generally executed under International Swaps and Derivative Association master agreements that include "right of set-off" provisions. In such cases, there is generally a legally enforceable right to offset recognized amounts and there may be an intention to settle such amounts on a net basis. Nonetheless, the Company does not generally offset such financial instruments for financial reporting purposes.

Financial instruments that are eligible for offset in the Condensed Consolidated Balance Sheets, as of June 30, 2020, and December 31, 2019, are set forth in the following table:

| | | | | Gross Amounts Not Offset in the Balance Sheet | | |
|---|---|---|---|---|---|---|
| | Gross Amounts Recognized | Gross Amounts Offset in the Balance Sheet | Net Amounts Presented in the Balance Sheet | Financial Instruments | Collateral Posted | Net Amount |
| | | | (In thousands) | | | |
| **June 30, 2020** | | | | | | |
| **Assets:** | | | | | | |
| Derivatives | $ 3,842 | $ — | $ 3,842 | $ — | $ — | $ 3,842 |
| **Liabilities:** | | | | | | |
| Derivatives | $ 33,760 | $ — | $ 33,760 | $ — | $ (33,760) | $ — |
| **December 31, 2019** | | | | | | |
| **Assets:** | | | | | | |
| Derivatives | $ 2,181 | $ — | $ 2,181 | $ — | $ — | $ 2,181 |
| **Liabilities:** | | | | | | |
| Derivatives | $ 14,229 | $ — | $ 14,229 | $ — | $ (14,229) | $ — |

***18. Revenue from Contracts with Customers***

The following is a summary of revenue from contracts with customers that are in-scope and not in-scope under ASC 606, Revenue from Contracts with Customers:

| | Three months Ended June 30, | | Six months Ended June 30, | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| | (In thousands) | | (In thousands) | |
| **Non-interest income, in-scope:** | | | | |
| Fees and service charges on deposit accounts | $ 1,873 | $ 2,020 | $ 3,928 | $ 4,047 |
| Wealth management fees | 2,209 | 2,513 | 5,346 | 4,209 |
| Other service fees(1) | 2,990 | 3,559 | 6,362 | 6,948 |
| **Total non-interest income** | 7,072 | 8,092 | 15,636 | 15,204 |
| | | | | |
| Non-interest income, not in-scope(2) | 8,534 | 4,702 | 5,756 | 10,511 |
| **Total non-interest income** | **$ 15,606** | **$ 12,794** | **$ 21,392** | **$ 25,715** |

(1) Other service fees comprise of fees related to letters of credit, wire fees, fees on foreign exchange transactions and other immaterial individual revenue streams.
(2) These amounts primarily represent revenue from contracts with customers that are out of the scope of ASC 606.

The major revenue streams by fee type that are within the scope of ASC 606 presented in the above tables are described in additional detail below:

Fees and Services Charges on Deposit Accounts

Fees and service charges on deposit accounts include charges for analysis, overdraft, cash checking, ATM, and safe deposit activities executed by our deposit clients, as well as interchange income earned through card payment networks for the acceptance of card based transactions. Fees earned from our deposit clients are governed by contracts that provide for overall custody and access to deposited funds and other related services and can be terminated at will by either party. Fees received from deposit clients for the various deposit activities are recognized as revenue by the Company once the performance obligations are met.

Wealth Management Fees

The Company employs financial consultants to provide investment planning services for customers including wealth management services, asset allocation strategies, portfolio analysis and monitoring, investment strategies, and risk management strategies. The fees the Company earns are variable and are generally received monthly by the Company. The Company recognizes revenue for the services performed at quarter end based on actual transaction details received from the broker dealer the Company engages.

Practical Expedients and Exemptions

The Company applies the practical expedient in ASC 606-10-50-14 and does not disclose the value of unsatisfied performance obligations as the Company’s contracts with customers generally have a term that is less than one year, are open-ended with a cancellation period that is less than one year, or allow the Company to recognize revenue in the amount to which the Company has the right to invoice.

In addition, given the short term nature of the contracts, the Company also applies the practical expedient in ASC 606-10-32-18 and does not adjust the consideration from customers for the effects of a significant financing component, if at contract inception the period between when the entity transfers the goods or services and when the customer pays for that good or service is one year or less.

***19. Stockholders' Equity***

Total equity was $2.34 billion as of June 30, 2020, an increase of $48.2 million, from $2.29 billion as of December 31, 2019, primarily due to net income of $101.2 million, increases in other comprehensive income of $6.1 million, and proceeds from dividend reinvestment of $1.7 million, and partially offset by common stock cash dividends of $49.3 million and repurchases of the Company's common stock of $12.9 million.

Activity in accumulated other comprehensive income, net of tax, and reclassification out of accumulated other comprehensive income for the three months and six months ended June 30, 2020, and June 30, 2019, was as follows:

| | Three months ended June 30, 2020 | | | Three months ended June 30, 2019 | | |
|---|---|---|---|---|---|---|
| | Pre-tax | Tax expense/ (benefit) | Net-of-tax | Pre-tax | Tax expense/ (benefit) | Net-of-tax |
| | | | (In thousands) | | | |
| **Beginning balance, gain/(loss), net of tax** | | | | | | |
| Securities available-for-sale | | | $ 17,567 | | | $ (8,966) |
| Cash flow hedge derivatives | | | (7,690) | | | (1,465) |
| **Total** | | | **$ 9,877** | | | **$ (10,431)** |
| | | | | | | |
| **Net unrealized (losses)/gains arising during the period** | | | | | | |
| Securities available-for-sale | $ (683) | $ (202) | $ (481) | $ 15,865 | $ 4,690 | $ 11,175 |
| Cash flow hedge derivatives | (334) | (99) | (235) | (2,984) | (882) | (2,102) |
| **Total** | **$ (1,017)** | **$ (301)** | **$ (716)** | **$ 12,881** | **$ 3,808** | **$ 9,073** |
| | | | | | | |
| **Reclassification adjustment for net gains in net income** | | | | | | |
| Securities available-for-sale | (1,147) | (339) | (808) | — | — | — |
| Cash flow hedge derivatives | — | — | — | — | — | — |
| Total | **(1,147)** | **(339)** | **(808)** | — | — | — |
| | | | | | | |
| **Total other comprehensive (loss)/income** | | | | | | |
| Securities available-for-sale | $ (1,830) | $ (541) | $ (1,289) | $ 15,865 | $ 4,690 | $ 11,175 |
| Cash flow hedge derivatives | (334) | (99) | (235) | (2,984) | (882) | (2,102) |
| **Total** | **$ (2,164)** | **$ (640)** | **$ (1,524)** | **$ 12,881** | **$ 3,808** | **$ 9,073** |
| | | | | | | |
| **Ending balance, gain/(loss), net of tax** | | | | | | |
| Securities available-for-sale | | | $ 16,278 | | | $ 2,209 |
| Cash flow hedge derivatives | | | (7,925) | | | (3,567) |
| **Total** | | | **$ 8,353** | | | **$ (1,358)** |

| | Six months ended June 30, 2020 | | | Six months ended June 30, 2019 | | |
|---|---|---|---|---|---|---|
| | Pre-tax | Tax expense/ (benefit) | Net-of-tax | Pre-tax | Tax expense/ (benefit) | Net-of-tax |
| | (In thousands) | | | | | |
| **Beginning balance, gain/(loss), net of tax** | | | | | | |
| Securities available-for-sale | | | $ 5,714 | | | $ (17,765) |
| Cash flow hedge derivatives | | | (3,412) | | | (241) |
| **Total** | | | **$ 2,302** | | | **$ (18,006)** |
| **Net unrealized gains/(losses) arising during the period** | | | | | | |
| Securities available-for-sale | $ 16,150 | $ 4,774 | $ 11,376 | $ 28,356 | $ 8,382 | $ 19,974 |
| Cash flow hedge derivatives | (6,407) | (1,894) | (4,513) | (4,722) | (1,396) | (3,326) |
| **Total** | **$ 9,743** | **$ 2,880** | **$ 6,863** | **$ 23,634** | **$ 6,986** | **$ 16,648** |
| **Reclassification adjustment for net gains in net income** | | | | | | |
| Securities available-for-sale | (1,153) | (341) | (812) | — | — | — |
| Cash flow hedge derivatives | — | — | — | — | — | — |
| Total | **(1,153)** | **(341)** | **(812)** | — | — | — |
| **Total other comprehensive income/(loss)** | | | | | | |
| Securities available-for-sale | $ 14,997 | $ 4,433 | $ 10,564 | $ 28,356 | $ 8,382 | $ 19,974 |
| Cash flow hedge derivatives | (6,407) | (1,894) | (4,513) | (4,722) | (1,396) | (3,326) |
| **Total** | **$ 8,590** | **$ 2,539** | **$ 6,051** | **$ 23,634** | **$ 6,986** | **$ 16,648** |
| **Ending balance, gain/(loss), net of tax** | | | | | | |
| Securities available-for-sale | | | $ 16,278 | | | $ 2,209 |
| Cash flow hedge derivatives | | | (7,925) | | | (3,567) |
| **Total** | | | **$ 8,353** | | | **$ (1,358)** |

***20. Stock Repurchase Program***

On May 7, 2019, the Board of Directors approved a new stock repurchase program to buy back up to $50.0 million of the Company's common stock. In 2019, the Company repurchased 741,934 shares for $26.4 million, at an average cost of $35.59 per share under the May 2019 repurchase program. The Company repurchased 400,000 shares for $12.9 million, at an average cost of $32.20 per share under the May 2019 repurchase program in the three months ended March 31, 2020. As of June 30, 2020, the Company repurchased 1,141,934 shares for $39.3 million, at an average cost of $34.40 per share. The Company has temporarily suspended the stock repurchase program and does not plan to buy back additional stock until further notice. If the Company resumes stock repurchases, it may repurchase up to an additional $10.7 million of its common stock under the May 2019 stock repurchase program.

***21. Subsequent Events***

The Company has evaluated the effect of events that have occurred subsequent to June 30, 2020, through the date of issuance of the Condensed Consolidated Financial Statements, and, based on such evaluation, the Company believes that there have been no material events during such period that would require recognition in the Condensed Consolidated Financial Statements or disclosure in the Notes to the Condensed Consolidated Financial Statements.

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following discussion is based on the assumption that the reader has access to and has read the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

***Critical Accounting Policies***

The discussion and analysis of the Company's financial condition 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 Condensed 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 the Condensed Consolidated Financial Statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies involve significant judgments, assumptions and uncertainties and are essential to understanding the Company's results of operations and financial condition. Management of the Company considers the following to be critical accounting policies:

Accounting for the allowance for loan losses involves significant judgments and assumptions by management, which have a material impact on, among other things, the carrying value of net loans. 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 in "*Allowance for Credit Losses*" under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

***Recent Developments: Impact of and Response to COVID-19 Pandemic***

The ongoing COVID-19 pandemic has caused significant disruption in the United States and international economies and financial markets. The spread of COVID-19 in the United States has caused illness, quarantines, cancellation of events and travel, business and school shutdowns, reduction in commercial activity and financial transactions, supply chain interruptions, increased unemployment, and overall economic and financial market instability. Many states, including California, New York, Washington, Illinois, Texas, Massachusetts, Nevada and other states in which we have significant operations, have imposed restrictions on leisure, business, commercial and other activities and gatherings to seek to slow the spread of COVID-19.

The onset of the COVID-19 pandemic has significantly heightened the level of challenges, risks and uncertainties facing our Company and its operations, including the following:

- Market interest rates have declined significantly and these reductions, especially if prolonged, could adversely affect our net interest income, net interest margin and earnings.

- We anticipate a potential slowdown in demand for our products and services, including the demand for traditional loans, although we believe the decline may be partially offset due to the new volume of PPP loans under the CARES Act and other governmental programs established in response to the pandemic.

- The inability of our customers to meet their loan commitments due to job and other losses resulting from the pandemic could result in increased risk of delinquencies, defaults, foreclosures, and declining collateral values, resulting in losses to our Company.

- The COVID-19 pandemic restrictions have created significant volatility and disruption in the financial markets, and these conditions may require us to recognize an elevated level of other than temporary impairments on investment securities in our portfolio as issues of these securities are negatively impacted by the economic slowdown. Declines in fair value of investment securities in our portfolio could also reduce the unrealized gains reported as part of our consolidated comprehensive income (loss).

Additional potential impacts arising from, and our anticipated responses to, the COVID-19 pandemic are set forth below. See also Item 1A Risk Factors.

*Financial position and results of operations*

Our financial position and results of operations as of and for the six months ended June 30, 2020 have been significantly impacted by the COVID-19 pandemic. The economic environment and uncertainty related to the pandemic, higher specific reserves for impaired loans and net charge-offs of $3.6 million during the second quarter contributed to a $50.0 million provision for credit losses recognized during the six months ended June 30, 2020. While we have not yet experienced significant write-offs related to the COVID-19 pandemic as of June 30, 2020, the continued uncertainty regarding the severity and duration of the pandemic and related economic effects will continue to affect our estimate of our allowance for credit losses and resulting provision for credit losses. To the extent the impact of the pandemic is prolonged and economic conditions worsen or persist longer than forecast, such estimates may be insufficient and change significantly in the future. Our interest income may also be negatively impacted in future periods as we continue to work with our affected borrowers to defer payments, interest, and fees. Additionally, net interest margin may be reduced generally as a result of the low rate environment. These uncertainties and the economic environment will continue to affect earnings, slow growth, and may result in deterioration of asset quality in our loan and investment portfolios.

The below table details our exposure to borrowers in industries generally considered to be the most impacted by the COVID-19 pandemic:

| June 30, 2020 | | |
|---|---|---|
| **Industry (1)** | **Loan Balance** | **Percent of Total Loan Portfolio** |
| | *($ in millions)* | |
| Restaurants | $ 169.1 | 1% |
| Hotels/motels | 295.6 | 2 |
| Retail businesses/properties | 1,746.2 | 11 |
| | $ 2,210.9 | 14% |

(1)- Balances capture credit exposures in the business segments that manage the significant majority of industry relationships. Balances consist of commercial real estate secured loans where the collateral consist of restaurants, hotels/motels or have a retail dependency.

While we have not experienced disproportionate impacts among our business segments as of June 30, 2020, borrowers in the industries detailed in the table above (and potentially other industries) could have greater sensitivity to the economic downturn resulting from COVID-19 with potentially longer recovery periods than other business lines.

*Loan and lease modifications*

We began receiving requests from our borrowers for loan and lease deferrals in March following the onset of the pandemic. Modifications include the deferral of principal payments or the deferral of principal and interest payments for terms generally 90 - 180 days. Requests are evaluated individually, and approved modifications are based on the unique circumstances of each borrower. We are committed to working with our clients to allow time to work through the challenges of this pandemic. At this time, it is uncertain what future impact loan and lease modifications related to COVID-19 difficulties will have on our financial condition, results of operations and reserve for loan and lease losses. As of June 30, 2020, COVID-19 modification applications approved include 1,198, or $518.1 million, in residential mortgage loans, with a weighted average loan to value of 54.0% that represented 12.4% of the total mortgage portfolio and 81, or $141.6 million, in commercial loan balances that represented 4.7% of total commercial loans.

The CARES Act permits financial institutions to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 and is intended to provide interpretive guidance as to conditions that would constitute a short-term modification that would not meet the definition of a TDR. This includes the following (i) the loan modification is made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the coronavirus emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. The Company is applying this guidance to qualifying loan modifications and anticipates that it will continue to experience an increase in short-term modifications.

The following table shows COVID-19 CRE loan and lease modifications by property type approved as of June 30, 2020.

| Property Type | # of Loans Deferrals Approved | Balance as of June 30, 2020 | Total Category Balance | Weighted Avg LTV |
|---|---|---|---|---|
| | | ($ in millions) | | |
| Hotel/Motel | 26 | $ 197.1 | $ 295.6 | 47.7% |
| Retail | 158 | 554.5 | 1,746.2 | 52.1% |
| Residential | 283 | 221.1 | 1,958.1 | 54.6% |
| Warehouse | 36 | 99.8 | 896.7 | 47.6% |
| Office & Comm'l Condo | 143 | 276.1 | 1,393.1 | 51.3% |
| Theater | 3 | 24.8 | 24.8 | 74.4% |
| Special Use & HK Portfolio | 31 | 73.9 | 399.2 | 49.5% |
| Industrial and Multi-Use | 22 | 60.3 | 399.6 | 47.7% |
| Restaurant | 21 | 24.2 | 169.1 | 52.3% |
| Other | — | — | 109.1 | — |
| **Total CRE** | **723** | **$ 1,531.8** | **$ 7,391.5** | **51.6%** |

*Paycheck Protection Program (PPP)*

As part of the CARES Act, the Small Business Administration (SBA) has been authorized to guarantee loans under the PPP through June 30, 2020 for small businesses who meet the necessary eligibility requirements in order to keep their workers on the payroll. One of the notable features of the PPP is that borrowers are eligible for loan forgiveness if borrowers, among other conditions, maintain their staff and payroll and if loan amounts are used to cover payroll, mortgage interest, rents and utilities payments. These loans have a two to five year term and earn interest at a rate of 1%. We began accepting applications on April 3, 2020. As of June 30, 2020, we had processed 1,381 PPP loans totaling $261.7 million. PPP loans are guaranteed by the SBA and therefore we believe PPP loans generally do not represent a material credit risk.

*Capital and liquidity*

While we believe we have sufficient capital and do not anticipate any need for additional liquidity as of June 30, 2020, in response to the uncertainty regarding the severity and duration of the COVID-19 pandemic, we have taken additional actions to ensure the strength of our liquidity position. These actions include suspending our share repurchase program at this time to moderate the impact of COVID-19 by maintaining strong capital levels and liquidity to support customers and other stakeholders. In addition, we are also in a position to pledge additional collateral to increase our borrowing capacity with the FRB, if necessary. Our Board of Directors also will continue to evaluate the impacts of the COVID-19 pandemic and the appropriateness of declaring future dividends and the rate of any future dividends, in light of our capital and liquidity needs.

*Asset impairment*

At this time, as of June 30, 2020, we do not believe there exists any impairment to our goodwill and intangible assets, long-lived assets, right of use assets, or available-for-sale investment securities due to the COVID-19 pandemic. It is uncertain whether prolonged effects of the COVID-19 pandemic will result in future impairment charges related to any of the aforementioned assets. Continued and sustained declines in Bancorp's stock price and/or other credit related impacts could give rise to triggering events in the future that could result in a write-down in the value of our goodwill, which could have a material adverse impact on our results of operations.

*Our processes, controls and business continuity plan*

As a financial institution, we are considered an essential business and therefore continue to operate on a modified basis to comply with governmental restrictions and public health authority guidelines. Our bank lobbies are closed to the general public, although business is still being transacted through drive-up facilities, online, telephone or by appointment. While we believe these arrangements will remain in effect until the restrictions are lifted by governmental authorities, we continue to operate and maintain our customer relationships. The health and safety of our employees and customers is a major concern to our management and every effort is being made to have employees work from home or, if working from one of our locations is required, to maintain appropriate social distancing and observe other health precautions.

Through this time of disruption, we have remained open for business supporting our customers while implementing our business continuity plan to mitigate the risks of the spread of COVID-19 to our employees and customers. We have also taken such other actions as social distancing, restrictions on in-person meetings and conferences, Company travel restrictions and increased sanitary protocols. We believe these actions offer the best protection for our employees and customers, an enhance our ability to continue providing our banking services. We believe that we are positioned to continue these business continuity measures for the foreseeable future, however, no assurances can be provided as these circumstances may change depending on the duration and severity of the pandemic.

**Highlights**

- Total deposits increased for the quarter by $1.2 billion, or 7.9%, to $16.3 billion.

***Quarterly Statement of Operations Review***

**Net Income**

Net income for the quarter ended June 30, 2020, was $54.3 million, a decrease of $17.9 million, or 24.8%, compared to net income of $72.2 million for the same quarter a year ago. Diluted earnings per share for the quarter ended June 30, 2020 was $0.68 compared to $0.90 for the same quarter a year ago.

Return on average stockholders' equity was 9.31% and return on average assets was 1.15% for the quarter ended June 30, 2020, compared to a return on average stockholders' equity of 13.27% and a return on average assets of 1.69% for the same quarter a year ago.

**Financial Performance**

| | Three months ended | |
|---|---|---|
| | **June 30, 2020** | **June 30, 2019** |
| Net income (in millions) | $ 54.3 | $ 72.2 |
| Basic earnings per common share | $ 0.68 | $ 0.90 |
| Diluted earnings per common share | $ 0.68 | $ 0.90 |
| Return on average assets | 1.15% | 1.69% |
| Return on average total stockholders' equity | 9.31% | 13.27% |
| Efficiency ratio | 44.82% | 44.53% |

**Net Interest Income Before Provision for Credit Losses**

Net interest income before provision for credit losses decreased $8.9 million, or 6.2%, to $134.5 million during the second quarter of 2020, compared to $143.4 million during the same quarter a year ago. The decrease was due primarily to a decrease in interest income from loans and securities.

The net interest margin was 3.02% for the second quarter of 2020 compared to 3.58% for the second quarter of 2019 and 3.34% for the first quarter of 2020.

For the second quarter of 2020, the yield on average interest-earning assets was 3.91%, the cost of funds on average interest-bearing liabilities was 1.20%, and the cost of interest-bearing deposits was 1.16%. In comparison, for the second quarter of 2019, the yield on average interest-earning assets was 4.81%, the cost of funds on average interest-bearing liabilities was 1.65%, and the cost of interest-bearing deposits was 1.58%. The decrease in the yield on average interest-earning assets resulted mainly from lower rates on loans. The net interest spread, defined as the difference between the yield on average interest-earning assets and the cost of funds on average interest-bearing liabilities, was 2.71% for the quarter ended June 30, 2020, compared to 3.16% for the same quarter a year ago.

The following table sets forth information concerning average interest-earning assets, average interest-bearing liabilities, and the average yields and rates paid on those assets and liabilities for the three months ended June 30, 2020, and 2019. Average outstanding amounts included in the table are daily averages.

| | Interest-Earning Assets and Interest-Bearing Liabilities | | | | | |
|---|---|---|---|---|---|---|
| | Three months ended June 30, | | | | | |
| | 2020 | | | 2019 | | |
| | Average Balance | Interest Income/ Expense | Average Yield/ Rate (1)(2) | Average Balance | Interest Income/ Expense | Average Yield/ Rate (1)(2) |
| | (Dollars in thousands) | | | | | |
| **Interest-earning assets:** | | | | | | |
| Total loans and leases (1) | $ 15,626,412 | $ 168,149 | 4.33% | $ 14,365,544 | $ 182,291 | 5.09% |
| Investment securities | 1,268,661 | 5,405 | 1.71 | 1,441,005 | 8,477 | 2.36 |
| Federal Home Loan Bank stock | 17,434 | 214 | 4.95 | 17,250 | 298 | 6.93 |
| Interest-bearing deposits | 980,949 | 240 | 0.10 | 235,019 | 1,383 | 2.36 |
| Total interest-earning assets | 17,893,456 | 174,008 | 3.91 | 16,058,818 | 192,449 | 4.81 |
| **Non-interest earning assets:** | | | | | | |
| Cash and due from banks | 136,976 | | | 182,518 | | |
| Other non-earning assets | 1,048,839 | | | 1,040,853 | | |
| Total non-interest earning assets | 1,185,815 | | | 1,223,371 | | |
| Less: Allowance for loan losses | (148,937) | | | (123,227) | | |
| Deferred loan fees | 317 | | | (1,384) | | |
| **Total assets** | **$ 18,930,651** | | | **$ 17,157,578** | | |
| **Interest-bearing liabilities:** | | | | | | |
| Interest-bearing demand accounts | $ 1,586,112 | $ 742 | 0.19% | $ 1,265,105 | $ 574 | 0.18% |
| Money market accounts | 2,756,493 | 4,920 | 0.72 | 1,857,384 | 4,643 | 1.00 |
| Savings accounts | 740,500 | 257 | 0.14 | 731,512 | 371 | 0.20 |
| Time deposits | 7,616,446 | 30,811 | 1.63 | 7,570,131 | 39,491 | 2.09 |
| Total interest-bearing deposits | 12,699,551 | 36,730 | 1.16 | 11,424,132 | 45,079 | 1.58 |
| Other borrowings | 412,953 | 1,363 | 1.33 | 353,799 | 1,984 | 2.25 |
| Long-term debt | 119,136 | 1,440 | 4.86 | 169,761 | 2,007 | 4.74 |
| Total interest-bearing liabilities | 13,231,640 | 39,533 | 1.20 | 11,947,692 | 49,070 | 1.65 |
| **Non-interest bearing liabilities:** | | | | | | |
| Demand deposits | 3,101,265 | | | 2,789,644 | | |
| Other liabilities | 250,971 | | | 235,991 | | |
| Total equity | 2,346,775 | | | 2,184,251 | | |
| **Total liabilities and equity** | **$ 18,930,651** | | | **$ 17,157,578** | | |
| Net interest spread | | | 2.71% | | | 3.16% |
| Net interest income | | $ 134,475 | | | $ 143,379 | |
| Net interest margin | | | 3.02% | | | 3.58% |

(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.

The following table summarizes the changes in interest income and interest expense attributable to changes in volume and changes in interest rates for the three months ended June 30, 2020 and 2019:

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

| | Three months ended June 30, 2020-2019 Increase/(Decrease) in Net Interest Income Due to: | | |
|---|---|---|---|
| | **Changes in Volume** | **Changes in Rate** | **Total Change** |
| | | (In thousands) | |
| Interest-earning assets: | | | |
| Loans and leases | $ 15,000 | $ (29,142) | $ (14,142) |
| Investment securities | (934) | (2,139) | (3,073) |
| Federal Home Loan Bank stock | 3 | (86) | (83) |
| Deposits with other banks | 1,163 | (2,306) | (1,143) |
| Total changes in interest income | 15,232 | (33,673) | (18,441) |
| | | | |
| Interest-bearing liabilities: | | | |
| Interest-bearing demand accounts | 148 | 20 | 168 |
| Money market accounts | 1,841 | (1,564) | 277 |
| Savings accounts | 4 | (119) | (115) |
| Time deposits | 239 | (8,919) | (8,680) |
| Other borrowed funds | 293 | (914) | (621) |
| Long-term debt | (616) | 49 | (567) |
| Total changes in interest expense | 1,909 | (11,447) | (9,538) |
| Changes in net interest income | $ 13,323 | $ (22,226) | $ (8,903) |

(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.

**Provision for credit losses**

Based on a review of the appropriateness of the allowance for loan losses at June 30, 2020, the Company recorded a provision for credit losses of $25.0 million in second quarter of 2020 compared to no provision for credit losses in the second quarter of 2019. The provision for credit losses is primarily a result of the economic deterioration of the global economy resulting from the COVID-19 pandemic. While we took steps to incorporate the impact of the COVID-19 pandemic on the economic forecast and other factors utilized to determine our allowance for credit losses, if the economic forecast or other factors worsen relative to the assumptions we utilized, our allowance for credit losses will increase accordingly in future periods. The following table summarizes the charge-offs and recoveries for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (In thousands) | | | |
| **Charge-offs:** | | | | |
| Commercial loans | $ 5,106 | $ 1,713 | $ 6,427 | $ 2,944 |
| **Total charge-offs** | 5,106 | 1,713 | 6,427 | 2,944 |
| Recoveries: | | | | |
| Commercial loans | 1,350 | 1,356 | 2,558 | 1,397 |
| Construction loans | — | 30 | — | 1,074 |
| Real estate loans (1) | 163 | 423 | 325 | 733 |
| **Total recoveries** | 1,513 | 1,809 | 2,883 | 3,204 |
| **Net charge-offs/(recoveries)** | **$ 3,593** | **$ (96)** | **$ 3,544** | **$ (260)** |

(1) Real estate loans include commercial mortgage loans, residential mortgage loans, and equity lines.

**Non-Interest Income**

Non-interest income, which includes revenues from depository service fees, letters of credit commissions, equity securities gains (losses), wire transfer fees, and other sources of fee income, was $15.6 million for the second quarter of 2020, an increase of $2.8 million, or 21.9%, compared to $12.8 million for the second quarter of 2019. The increase was primarily due to a $2.5 million increase in net gains from equity securities, and an increase of $1.1 million from the gain on sale of mortgage backed securities, offset in part by a $682.1 thousand decrease in the valuation of interest rate swap contracts, when compared to the same quarter a year ago.

**Non-Interest Expense**

Non-interest expense decreased $2.2 million, or 3.2%, to $67.3 million in the second quarter of 2020, compared to $69.5 million in the same quarter a year ago. The decrease was primarily due to a $5.0 million decrease in salaries and employee benefits resulting from lower bonus accruals and an increase in salaries capitalized for loan originations offset in part by an increase of $3.8 million in amortization expense of investments in low-income housing and alternative energy partnerships, when compared to the same quarter a year ago. The efficiency ratio was 44.8% in the second quarter of 2020 compared to 44.5% for the same quarter a year ago.

**Income Taxes**

The effective tax rate for the second quarter of 2020 was 6.0% compared to 16.6% for the second quarter of 2019. The effective tax rate was lower in 2020 due to the impact of higher tax credits from low-income housing and alternative energy investment tax credits.

***Year-to-Date Statement of Operations Review***

Net income for the six months ended June 30, 2020, was $101.2 million, a decrease of $37.7 million, or 27.1%, compared to net income of $138.9 million for the same period a year ago. Diluted earnings per share was $1.27 compared to $1.73 per share for the same period a year ago. The net interest margin for the six months ended June 30, 2020, was 3.17% compared to 3.64% for the same period a year ago.

Return on average stockholders' equity was 8.72% and return on average assets was 1.10% for the six months ended June 30, 2020, compared to a return on average stockholders' equity of 12.92% and a return on average assets of 1.65% for the same period a year ago. The efficiency ratio for the six months ended June 30, 2020, was 44.71% compared to 44.98% for the same period a year ago.

The following table sets forth information concerning average interest-earning assets, average interest-bearing liabilities, and the average yields and rates paid on those assets and liabilities for the six months ended June 30, 2020, and 2019. Average outstanding amounts included in the table are daily averages.

| | Interest-Earning Assets and Interest-Bearing Liabilities | | | | | |
|---|---|---|---|---|---|---|
| | Six months ended June 30, | | | | | |
| | 2020 | | | 2019 | | |
| | Average Balance | Interest Income/ Expense | Average Yield/ Rate (1)(2) | Average Balance | Interest Income/ Expense | Average Yield/ Rate (1)(2) |
| | (Dollars in thousands) | | | | | |
| **Interest-earning assets:** | | | | | | |
| Total loans and leases (1) | $ 15,419,926 | $ 346,019 | 4.51% | $ 14,227,782 | $ 360,568 | 5.11% |
| Investment securities | 1,324,013 | 13,015 | 1.98 | 1,356,001 | 15,767 | 2.34 |
| Federal Home Loan Bank stock | 17,352 | 519 | 6.02 | 17,277 | 602 | 7.03 |
| Interest-bearing deposits | 645,986 | 1,191 | 0.37 | 275,044 | 3,273 | 2.40 |
| Total interest-earning assets | 17,407,277 | 360,744 | 4.17 | 15,876,104 | 380,210 | 4.83 |
| **Non-interest earning assets:** | | | | | | |
| Cash and due from banks | 156,402 | | | 195,715 | | |
| Other non-earning assets | 1,039,736 | | | 1,038,045 | | |
| Total non-interest earning assets | 1,196,138 | | | 1,233,760 | | |
| Less: Allowance for loan losses | (136,412) | | | (123,068) | | |
| Deferred loan fees | (157) | | | (1,426) | | |
| **Total assets** | **$ 18,466,846** | | | **$ 16,985,370** | | |
| **Interest-bearing liabilities:** | | | | | | |
| Interest-bearing demand accounts | $ 1,487,354 | $ 1,452 | 0.20% | $ 1,286,985 | $ 1,184 | 0.19% |
| Money market accounts | 2,597,245 | 11,879 | 0.92 | 1,886,048 | 9,070 | 0.97 |
| Savings accounts | 736,936 | 579 | 0.16 | 724,492 | 711 | 0.20 |
| Time deposits | 7,556,033 | 65,966 | 1.76 | 7,318,590 | 73,614 | 2.03 |
| Total interest-bearing deposits | 12,377,568 | 79,876 | 1.30 | 11,216,115 | 84,579 | 1.52 |
| Other borrowings | 402,491 | 3,202 | 1.60 | 407,622 | 4,797 | 2.37 |
| Long-term debt | 119,136 | 2,880 | 4.86 | 176,401 | 4,139 | 4.73 |
| Total interest-bearing liabilities | 12,899,195 | 85,958 | 1.34 | 11,800,138 | 93,515 | 1.60 |
| **Non-interest bearing liabilities:** | | | | | | |
| Demand deposits | 2,982,577 | | | 2,782,633 | | |
| Other liabilities | 251,545 | | | 234,787 | | |
| Total equity | 2,333,529 | | | 2,167,812 | | |
| **Total liabilities and equity** | **$ 18,466,846** | | | **$ 16,985,370** | | |
| Net interest spread | | | 2.83% | | | 3.23% |
| Net interest income | | $ 274,786 | | | $ 286,695 | |
| Net interest margin | | | 3.17% | | | 3.64% |

(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.

The 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 Volume and Rate(1)**

| | Six months ended June 30, 2020-2019 Increase/(Decrease) in Net Interest Income Due to: | | |
|---|---|---|---|
| | Changes in Volume | Changes in Rate | Total Change |
| | (In thousands) | | |
| Interest-earning assets: | | | |
| Loans and leases | $ 29,429 | $ (43,977) | $ (14,548) |
| Investment securities | (360) | (2,393) | (2,753) |
| Federal Home Loan Bank stock | 3 | (86) | (83) |
| Deposits with other banks | 2,150 | (4,231) | (2,081) |
| Total changes in interest income | 31,222 | (50,687) | (19,465) |
| | | | |
| Interest-bearing liabilities: | | | |
| Interest-bearing demand accounts | 195 | 73 | 268 |
| Money market accounts | 3,301 | (492) | 2,809 |
| Savings accounts | 12 | (144) | (132) |
| Time deposits | 2,393 | (10,041) | (7,648) |
| Other borrowed funds | (59) | (1,536) | (1,595) |
| Long-term debt | (1,372) | 113 | (1,259) |
| Total changes in interest expense | 4,470 | (12,027) | (7,557) |
| Changes in net interest income | $ 26,752 | $ (38,660) | $ (11,908) |

(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.

**Non-Interest Income**

Non-interest income, which includes revenues from depository service fees, letters of credit commissions, equity securities gains (losses), wire transfer fees, and other sources of fee income, was $21.4 million for the six months ended June 30, 2020, a decrease of $4.3 million, or 16.7%, compared to $25.7 million for the six months ended June 30, 2019. The decrease was primarily due to a $7.7 million decrease in net gains from equity securities, offset in part by an increase of $1.1 million from the gain on sale of mortgage backed securities and an increase of $1.1 million from wealth management fees, when compared to the same period a year ago.

**Non-Interest Expense**

Non-interest expense decreased $8.1 million, or 5.8%, to $132.4 million for the six months ended June 30, 2020, compared to $140.5 million for the same period a year ago. The decrease was primarily due to a $6.1 million decrease in salaries and employee benefits resulting from lower bonus accruals and an increase in salaries capitalized for loan originations, a decrease of $4.3 million in other real estate owned expense and a decrease of $1.5 million in provision for unfunded commitments, offset in part by an increase of $6.9 million in amortization expense of investments in low-income housing and alternative energy partnerships, when compared to the same period a year ago.

**Income Taxes**

The effective tax rate for the six months ended June 30, 2020 was 11.1% compared to 19.2% for the six months ended June 30, 2019. The effective tax rate was lower in 2020 due to the impact of higher tax credits from low-income housing and alternative energy investment tax credits.

***Balance Sheet Review***

**Assets**

Total assets were $19.3 billion as of June 30, 2020, an increase of $1.2 billion, or 6.6%, from $18.1 billion as of December 31, 2019, primarily due to an increase in short-term investments and loan growth offset in part by a decrease in investment securities.

**Securities Available for Sale**

Securities available-for-sale represented 5.9% of total assets as of June 30, 2020, compared to 8.0% of total assets as of December 31, 2019. Securities available-for-sale were $1.1 billion as of June 30, 2020, compared to $1.5 billion as of December 31, 2019.

The following tables set forth the amortized cost, gross unrealized gains, gross unrealized losses, and fair value of securities available-for-sale as of June 30, 2020, and December 31, 2019:

| | June 30, 2020 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In thousands) | | | |
| **Securities Available-for-Sale** | | | | |
| U.S. treasury securities | $ 99,935 | $ 1 | $ 9 | $ 99,927 |
| U.S. government agency entities | 107,558 | 499 | 664 | 107,393 |
| Mortgage-backed securities | 779,492 | 23,428 | 508 | 802,412 |
| Collateralized mortgage obligations | 314 | — | 13 | 301 |
| Corporate debt securities | 135,695 | 385 | 11 | 136,069 |
| **Total** | **$ 1,122,994** | **$ 24,313** | **$ 1,205** | **$ 1,146,102** |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In thousands) | | | |
| **Securities Available-for-Sale** | | | | |
| U.S. treasury securities | $ 74,926 | $ 10 | $ — | $ 74,936 |
| U.S. government agency entities | 90,452 | 663 | 319 | 90,796 |
| U.S. government sponsored entities | 225,000 | — | 557 | 224,443 |
| Mortgage-backed securities . | 880,040 | 8,574 | 824 | 887,790 |
| Collateralized mortgage obligations | 569 | — | 17 | 552 |
| Corporate debt securities | 172,743 | 605 | 23 | 173,325 |
| **Total** | **$ 1,443,730** | **$ 9,852** | **$ 1,740** | **$ 1,451,842** |

For additional information, see Note 7 to the Company's unaudited Condensed Consolidated Financial Statements.

Securities available-for-sale having a carrying value of $97.0 million as of June 30, 2020, and $20.1 million as of December 31, 2019, were pledged to secure public deposits, other borrowings and treasury tax and loan.

**Equity Securities**

The Company recognized a net gain of $5.8 million for the three months ended June 30, 2020, due to the increase in fair value of equity investments with readily determinable fair values compared to a net gain of $3.2 million for the three months ended June 30, 2019. The Company recognized a net loss of $323 thousand for the six months ended June 30, 2020, due to the decrease in fair value of equity investments with readily determinable fair values compared to a net gain of $7.4 million for the six months ended June 30, 2019. Equity securities were $24.6 million and $28.0 million as of June 30, 2020 and December 31, 2019, respectively.

**Loans**

Gross loans were $15.6 billion at June 30, 2020, an increase of $532.8 million, or 3.5%, from $15.1 billion at December 31, 2019. The increase was primarily due to $261.7 million in Paycheck Protection Program Loans and increases of $116.2 million, or 1.6%, in commercial mortgage loans, $96.1 million, or 2.4%, in residential mortgage loans, $51.2 million, or 14.7%, in equity lines, and $44.3 million, or 7.6%, in real estate construction loans. The loan balances and composition at June 30, 2020, compared to December 31, 2019 are set forth below:

| | June 30, 2020 | % of Gross Loans | December 31, 2019 | % of Gross Loans | % Change |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| Commercial loans | $ 2,746,316 | 17.6% | $ 2,778,744 | 18.4% | (1.2%) |
| Paycheck protection program loans | 261,650 | 1.7 | — | — | 100.0 |
| Residential mortgage loans | 4,184,721 | 26.8 | 4,088,586 | 27.1 | 2.4 |
| Commercial mortgage loans | 7,391,502 | 47.4 | 7,275,262 | 48.3 | 1.6 |
| Real estate construction loans | 624,199 | 4.0 | 579,864 | 3.9 | 7.6 |
| Equity lines | 399,207 | 2.5 | 347,975 | 2.3 | 14.7 |
| Installment and other loans | 688 | 0.0 | 5,050 | 0.0 | (86.4) |
| Gross loans | $ 15,608,283 | 100% | $ 15,075,481 | 100% | 3.5% |
| Allowance for loan losses | (169,680) | | (123,224) | | 37.7 |
| Unamortized deferred loan fees | (4,507) | | (626) | | 620.0 |
| **Total loans, net** | **$ 15,434,096** | | **$ 14,951,631** | | **3.2%** |

**Non-performing Assets**

Non-performing assets include loans past due 90 days or more and still accruing interest, non-accrual loans, and other real estate owned ("OREO"). The Company's policy is to place loans on non-accrual status if interest and/or principal is past due 90 days or more, or in cases where management deems the full collection of principal and interest unlikely. After a loan is placed on non-accrual status, any previously accrued but unpaid interest is reversed and charged against current income and subsequent payments received are generally first applied towards the outstanding principal balance of the loan. Depending on the circumstances, management may elect to continue the accrual of interest on certain past due loans if partial payment is received and/or the loan is well collateralized and in the process of collection. The loan is generally returned to accrual status when the borrower has brought the past due principal and interest payments current and, in the opinion of management, the borrower has demonstrated the ability to make future payments of principal and interest as scheduled.

Management reviews the loan portfolio regularly to seek to identify problem loans. From time to time during the ordinary course of business, management may become aware of borrowers that may not be able to meet the contractual requirements of their loan agreements. Such loans generally are placed under closer supervision with consideration given to placing the loans on non-accrual status, the need for an additional allowance for loan losses, and (if appropriate) partial or full charge-off.

The ratio of non-performing assets to total assets was 0.4% at June 30, 2020, compared to 0.3% at December 31, 2019. Total non-performing assets increased $28.0 million, or 49.0%, to $85.2 million at June 30, 2020, compared to $57.2 million at December 31, 2019, primarily due to an increase of $15.0 million, or 233.5%, in loans 90 days or more past due and still accruing and an increase of $15.9 million, or 39.3%, in nonaccrual loans, offset in part by a decrease of $2.9 million, or 28.6%, in other real estate owned.

As a percentage of gross loans plus OREO, our non-performing assets was 0.55% as of June 30, 2020, compared to 0.38% as of December 31, 2019. The non-performing loan portfolio coverage ratio, defined as the allowance for credit losses to non-performing loans, decreased to 224.0% as of June 30, 2020, from 270.8% as of December 31, 2019.

The following table sets forth the changes in non-performing assets and troubled debt restructurings ("TDRs") as of June 30, 2020, compared to December 31, 2019, and to June 30, 2019:

| | June 30, 2020 | December 31, 2019 | % Change | June 30, 2019 | % Change |
|---|---|---|---|---|---|
| | | (Dollars in thousands) | | | |
| **Non-performing assets** | | | | | |
| Accruing loans past due 90 days or more | $ 21,374 | $ 6,409 | 233 | $ 14,469 | 48 |
| Non-accrual loans: | | | | | |
| Construction loans | 4,433 | 4,580 | (3) | 4,702 | (6) |
| Commercial mortgage loans | 10,896 | 9,928 | 10 | 14,515 | (25) |
| Commercial loans | 27,125 | 19,381 | 40 | 28,070 | (3) |
| Residential mortgage loans | 14,004 | 6,634 | 111 | 7,461 | 88 |
| Total non-accrual loans | $ 56,458 | $ 40,523 | 39 | $ 54,748 | 3 |
| Total non-performing loans | 77,832 | 46,932 | 66 | 69,217 | 12 |
| Other real estate owned | 7,318 | 10,244 | (29) | 11,329 | (35) |
| Total non-performing assets | $ 85,150 | $ 57,176 | 49 | $ 80,546 | 6 |
| Accruing troubled debt restructurings | $ 31,671 | $ 35,336 | (10) | $ 64,898 | (51) |
| Allowance for loan losses | $ 169,680 | $ 123,224 | 38 | $ 122,651 | 38 |
| Total gross loans outstanding, at period-end | $ 15,608,283 | $ 15,075,481 | 4 | $ 14,593,510 | 7 |
| Allowance for loan losses to non-performing loans, at period-end | 218.01% | 262.56% | | 177.20% | |
| Allowance for loan losses to gross loans, at period-end | 1.09% | 0.82% | | 0.84% | |

**Non-accrual Loans**

At June 30, 2020, total non-accrual loans were $56.4 million, an increase of $15.9 million, or 39.3%, from $40.5 million at December 31, 2019, and an increase of $1.7 million, or 3.1%, from $54.7 million at June 30, 2019. The allowance for the collateral-dependent loans is calculated based on the difference between the outstanding loan balance and the value of the collateral as determined by recent appraisals, sales contracts, or other available market price information, less cost to sell. The allowance for collateral-dependent loans varies from loan to loan based on the collateral coverage of the loan at the time of designation as non-performing. We continue to monitor the collateral coverage of these loans, based on recent appraisals, on a quarterly basis and adjust the allowance accordingly. Non-accrual loans also include those TDRs that do not qualify for accrual status.

The following tables set forth the type of properties securing the non-accrual portfolio loans and the type of businesses the borrowers engaged in as of the dates indicated:

| | June 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Real Estate (1) | Commercial | Real Estate (1) | Commercial |
| | (In thousands) | | | |
| **Type of Collateral** | | | | |
| Single/multi-family residence | $ 16,391 | $ 10,802 | $ 6,874 | $ 9,475 |
| Commercial real estate | 12,942 | 1,714 | 14,268 | 1,603 |
| Personal property (UCC) | — | 14,609 | — | 8,303 |
| **Total** | **$ 29,333** | **$ 27,125** | **$ 21,142** | **$ 19,381** |

(1) Real estate includes commercial mortgage loans, real estate construction loans, residential mortgage loans and equity lines.

| | June 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Real Estate (1) | Commercial | Real Estate (1) | Commercial |
| | (In thousands) | | | |
| **Type of Business** | | | | |
| Real estate development | $ 15,421 | $ — | $ 14,305 | $ — |
| Wholesale/Retail | 319 | 10,746 | 637 | 9,684 |
| Food/Restaurant | — | 5 | — | — |
| Import/Export | — | 16,374 | — | 4,697 |
| Other | 13,593 | — | 6,200 | 5,000 |
| **Total** | **$ 29,333** | **$ 27,125** | **$ 21,142** | **$ 19,381** |

(1) Real estate includes commercial mortgage loans, real estate construction loans, residential mortgage loans and equity lines.

**Impaired Loans**

We consider a loan to be impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement based on current circumstances and events. The assessment for impairment occurs when and while such loans are on non-accrual as a result of delinquency status of over 90 days or our receipt of information otherwise indicating that full collection of principal is doubtful, or when the loan has been restructured in a TDRs. Those loans with a balance less than our defined selection criteria, generally a loan amount less than $500 thousand, are treated as a homogeneous portfolio. If loans meeting the defined criteria are not collateral dependent, we measure the impairment based on the present value of the expected future cash flows discounted at the loan's effective interest rate. If loans meeting the defined criteria are collateral dependent, we measure the impairment by using the loan's observable market price or the fair value of the collateral. We generally obtain an appraisal to determine the amount of impairment at the date that the loan becomes impaired. The appraisals are generally based on "as is" or bulk sale valuations. To ensure that appraised values remain current, we generally obtain an updated appraisal every twelve months from qualified independent appraisers. If the fair value of the collateral, less cost to sell, is less than the recorded amount of the loan, we then recognize impairment by creating or adjusting an existing valuation allowance with a corresponding charge to the provision for loan losses. If an impaired loan is expected to be collected through liquidation of the collateral, the amount of impairment, excluding disposal costs (which generally range between 3% to 6% of the fair value, depending on the size of the impaired loan), is charged off against the allowance for loan losses. Non-accrual impaired loans, including TDRs, are not returned to accrual status unless the unpaid interest has been brought current and full repayment of the recorded balance is expected or if the borrower has made six consecutive monthly payments of the scheduled amounts due, and TDRs are reviewed for continued impairment until they are no longer reported as TDRs.

As of June 30, 2020, recorded investment in impaired loans totaled $88.1 million and was comprised of non-accrual loans of $56.4 million and accruing TDRs of $31.7 million. As of December 31, 2019, recorded investment in impaired loans totaled $75.9 million and was comprised of non-accrual loans of $40.5 million and accruing TDRs of $35.4 million. For impaired loans, the amounts previously charged off represent 0.3% as of June 30, 2020, and 2.1% as of December 31, 2019, of the contractual balances for impaired loans. As of June 30, 2020, $29.3 million, or 52.0%, of the $56.4 million of non-accrual loans were secured by real estate compared to $21.1 million, or 52.2%, of the $40.5 million of non-accrual loans that were secured by real estate as of December 31, 2019. The Bank generally seeks to obtain current appraisals, sales contracts, or other available market price information intended to provide updated factors in evaluating potential loss.

As of June 30, 2020, $7.5 million of the $169.7 million allowance for loan losses was allocated for impaired loans and $162.2 million was allocated to the general allowance. As of December 31, 2019, $3.2 million of the $123.2 million allowance for loan losses was allocated for impaired loans and $120.0 million was allocated to the general allowance.

The allowance for loan losses to non-performing loans was 218.0% as of June 30, 2020, compared to 262.6% as of December 31, 2019, primarily due to an increase in the non-accrual loans. Non-accrual loans also include those TDRs that do not qualify for accrual status.

The following table sets forth impaired loans and the related allowance as of the dates indicated:

| | June 30, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Unpaid Principal Balance | Recorded Investment | Allowance | Unpaid Principal Balance | Recorded Investment | Allowance |
| | (In thousands) | | | | | |
| **With no allocated allowance** | | | | | | |
| Commercial loans | $ 16,181 | $ 13,391 | $ — | $ 20,134 | $ 15,857 | $ — |
| Real estate construction loans | 5,776 | 4,433 | — | 5,776 | 4,580 | — |
| Commercial mortgage loans | 16,274 | 15,867 | — | 9,234 | 9,030 | — |
| Residential mortgage loans and equity lines | 9,586 | 9,532 | — | 6,171 | 6,073 | — |
| Subtotal | $ 47,817 | $ 43,223 | $ — | $ 41,315 | $ 35,540 | $ — |
| | | | | | | |
| **With allocated allowance** | | | | | | |
| Commercial loans | $ 15,919 | $ 15,863 | $ 6,895 | $ 8,769 | $ 8,739 | $ 2,543 |
| Commercial mortgage loans | 19,806 | 19,762 | 323 | 26,117 | 26,040 | 473 |
| Residential mortgage loans and equity lines | 10,280 | 9,281 | 307 | 6,740 | 5,540 | 220 |
| Subtotal | $ 46,005 | $ 44,906 | $ 7,525 | $ 41,626 | $ 40,319 | $ 3,236 |
| **Total impaired loans** | **$ 93,822** | **$ 88,129** | **$ 7,525** | **$ 82,941** | **$ 75,859** | **$ 3,236** |

**Loan Interest Reserves**

In accordance with customary banking practice, we originate construction loans and land development loans where interest on the loan is disbursed from pre-established interest reserves included in the total original loan commitment. Our construction loans and land development loans generally include optional renewal terms after the maturity of the initial loan term. New appraisals are obtained prior to extension or renewal of these loans in part to determine the appropriate interest reserve to be established for the new loan term. Loans with interest reserves are generally underwritten to the same criteria, including loan to value and, if applicable, pro forma debt service coverage ratios, as loans without interest reserves. Construction loans with interest reserves are monitored on a periodic basis to gauge progress towards completion. Interest reserves are frozen if it is determined that additional draws would result in a loan to value ratio that exceeds policy maximums based on collateral property type. Our policy limits in this regard are consistent with supervisory limits and range from 50% in the case of land to 85% in the case of one to four family residential construction projects.

As of June 30, 2020, construction loans of $599.0 million were disbursed with pre-established interest reserves of $74.3 million, compared to $550.0 million with pre-established interest reserves of $73.4 million at December 31, 2019. The balance for construction loans with interest reserves that have been extended was $129.1 million with pre-established interest reserves of $4.5 million at June 30, 2020, compared to $129.2 million with pre-established interest reserves of $4.7 million at December 31, 2019. Land loans of $56.6 million were disbursed with pre-established interest reserves of $799 thousand at June 30, 2020, compared to $45.5 million of land loans disbursed with pre-established interest reserves of $1.9 million at December 31, 2019. The balance for land loans with interest reserves that have been extended was $15.4 million at June 30, 2020 with pre-established interest reserves of $202 thousand, compared to $1.7 million in land loans with pre-established interest reserves of $2 thousand at December 31, 2019.

At June 30, 2020 and December 31, 2019, the Bank had no loans on non-accrual status with available interest reserves. At June 30, 2020 and December 31, 2019, $4.4 million and $4.6 million of non-accrual non-residential construction loans had been originated with pre-established interest reserves, respectively. While we typically expect loans with interest reserves to be repaid in full according to the original contractual terms, some loans may require one or more extensions beyond the original maturity before full repayment. Typically, these extensions are required due to construction delays, delays in the sale or lease of the property, or some combination of these two factors.

**Loan Concentration**

Most of the Company's business activities are with customers located in the high-density Asian-populated areas of Southern and Northern California; New York City, New York; Dallas and Houston, Texas; Seattle, Washington; Boston, Massachusetts; Chicago, Illinois; Edison, New Jersey; Rockville, Maryland; and Las Vegas, Nevada. The Company also has loan customers in Hong Kong. The Company has no specific industry concentration, and generally its loans are collateralized with real property or other pledged collateral of the borrowers. The Company generally expects loans to be paid off from the operating profits of the borrowers, refinancing by another lender, or through sale by the borrowers of the collateral. There were no loan concentrations to multiple borrowers in similar activities that exceeded 10% of total loans as of June 30, 2020, or as of December 31, 2019.

The federal banking regulatory agencies issued final guidance on December 6, 2006, regarding risk management practices for financial institutions with high or increasing concentrations of commercial real estate (“CRE”) loans on their balance sheets. The regulatory guidance reiterates the need for sound internal risk management practices for those institutions that have experienced rapid growth in CRE lending, have notable exposure to specific types of CRE, or are approaching or exceeding the supervisory criteria used to evaluate the CRE concentration risk, but the guidance is not to be construed as a limit for CRE exposure. The supervisory criteria are: (1) total reported loans for construction, land development, and other land represent 100% of the institution’s total risk-based capital, and (2) total CRE loans represent 300% or more of the institution’s total risk-based capital and the institution’s CRE loan portfolio has increased 50% or more within the last thirty-six months. Total loans for construction, land development, and other land represented 33% of the Bank’s total risk-based capital as of June 30, 2020, and 34% as of December 31, 2019. Total CRE loans represented 273% of total risk-based capital as of June 30, 2020, and 277% as of December 31, 2019 and were below the Bank’s internal limit for CRE loans of 400% of total capital at both dates.

**Allowance for Credit Losses**

The Bank maintains the allowance for credit losses at a level that the Bank considers appropriate to absorb the estimated and known risks in the loan portfolio and off-balance sheet unfunded credit commitments. Allowance for credit losses is comprised of the allowance for loan losses and the reserve for off-balance sheet unfunded credit commitments. With this risk management objective, the Bank’s management has an established monitoring system that it believes is designed to identify impaired and potential problem loans, and to permit periodic evaluation of impairment and the appropriate level of the allowance for credit losses in a timely manner.

In addition, the Bank’s Board of Directors has established a written credit policy that includes a credit review and control system that the Board of Directors believes should be effective in ensuring that the Bank maintains an appropriate allowance for credit losses. The Board of Directors provides oversight for the allowance evaluation process, including quarterly evaluations, and determines whether the allowance is appropriate to absorb losses in the credit portfolio. The determination of the amount of the allowance for credit losses and the provision for credit losses are based on management’s current judgment about the credit quality of the loan portfolio and take 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. Additions to the allowance for credit losses are made by charges to the provision for credit losses. While management utilizes its business judgment based on the information available, the ultimate appropriateness of the allowance is dependent upon a variety of factors, many of which are beyond the Bank’s control, including but not limited to the performance of the Bank’s loan portfolio, the economy and market conditions, changes in interest rates, and the view of the regulatory authorities toward loan classifications. Identified credit exposures that are determined to be uncollectible are charged against the allowance for credit losses. Recoveries of previously charged off amounts, if any, are credited to the allowance for credit losses. A weakening of the economy or other factors that adversely affect asset quality could result in an increase in the number of delinquencies, bankruptcies, or defaults, and a higher level of non-performing assets, net charge-offs, and provision for credit losses in future periods.

The allowance for loan losses was $169.7 million and the allowance for off-balance sheet unfunded credit commitments was $4.7 million at June 30, 2020, which represented the amount believed by management to be appropriate to absorb credit losses inherent in the loan portfolio, including unfunded credit commitments. The $169.7 million allowance for loan losses at June 30, 2020, increased $46.5 million, or 37.7%, from $123.2 million at December 31, 2019. This increase includes additional provisions for credit losses and reflects the deterioration in economic conditions related to COVID-19 and an increase in specific reserves of $4.3 million. This deterioration is reflected in unprecedented increases in new unemployment claims in the United States and deterioration in global economic measures during this period. While we took steps to incorporate the impact of the COVID-19 pandemic on the economic forecast and other factors utilized to determine our allowance for loan losses, if the economic forecast or other factors (such as the severity and length of the COVID-19 pandemic and its impacts) worsen relative to the assumptions we utilized, our allowance for loan losses will increase accordingly in future periods. The allowance for loan losses represented 1.09% of period-end gross loans and 218.0% of non-performing loans at June 30, 2020. The comparable ratios were 0.82% of period-end gross loans and 262.6% of non-performing loans at December 31, 2019.

The following table sets forth information relating to the allowance for loan losses, charge-offs, recoveries, and the reserve for off-balance sheet credit commitments for the periods indicated:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (In thousands) | | | |
| **Allowance for loan losses** | | | | |
| Balance at beginning of period | $ 148,273 | $ 122,555 | $ 123,224 | $ 122,391 |
| Provision for credit losses | 25,000 | — | 50,000 | — |
| Charge-offs: | | | | |
| Commercial loans | (5,106) | (1,713) | (6,427) | (2,944) |
| Total charge-offs | (5,106) | (1,713) | (6,427) | (2,944) |
| Recoveries: | | | | |
| Commercial loans | 1,350 | 1,356 | 2,558 | 1,397 |
| Construction loans | — | 30 | — | 1,074 |
| Real estate loans | 163 | 423 | 325 | 733 |
| Total recoveries | 1,513 | 1,809 | 2,883 | 3,204 |
| **Balance at end of period** | **$ 169,680** | **$ 122,651** | **$ 169,680** | **$ 122,651** |
| | | | | |
| **Reserve for off-balance sheet credit commitments** | | | | |
| Balance at beginning of period | $ 3,013 | $ 3,850 | $ 3,855 | $ 2,250 |
| Provision for credit losses | 1,650 | 700 | 808 | 2,300 |
| **Balance at end of period** | **$ 4,663** | **$ 4,550** | **$ 4,663** | **$ 4,550** |
| | | | | |
| Average loans outstanding during the period | $ 15,626,412 | $ 14,365,544 | $ 15,419,926 | $ 14,227,782 |
| Total gross loans outstanding, at period-end | $ 15,608,283 | $ 14,593,510 | $ 15,608,283 | $ 14,593,510 |
| Total non-performing loans, at period-end | $ 77,832 | $ 69,217 | $ 77,832 | $ 69,217 |
| Ratio of net (charge-offs)/recoveries to average loans outstanding during the period | (0.09%) | 0.00% | (0.05%) | 0.00% |
| Provision for credit losses to average loans outstanding during the period | 0.69% | 0.02% | 0.66% | 0.03% |
| Allowance for credit losses to non-performing loans, at period-end | 224.00% | 183.77% | 224.00% | 183.77% |
| Allowance for credit losses to gross loans, at period-end | 1.12% | 0.87% | 1.12% | 0.87% |

Our allowance for loan losses consists of the following:

- Specific allowance: For impaired loans, we provide specific allowances for loans that are not collateral dependent based on an evaluation of the present value of the expected future cash flows discounted at the loan's effective interest rate and for loans that are collateral dependent based on the fair value of the underlying collateral determined by the most recent valuation information received, which may be adjusted based on factors such as changes in market conditions from the time of valuation. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses or, alternatively, a specific allocation will be established.

- General allowance: The unclassified portfolio is segmented on a group basis. Segmentation is determined by loan type and common risk characteristics. The non-impaired loans are grouped into 19 segments: two commercial segments, ten commercial real estate segments, one residential construction segment, one non-residential construction segment, one SBA segment, one installment loans segment, one residential mortgage segment, one equity lines of credit segment, and one overdrafts segment. The allowance is provided for each segmented group based on the group's historical loan loss experience aggregated based on loan risk classifications which take into account, among other things, the current financial condition of the borrowers and guarantors, the prevailing value of the underlying collateral if collateral dependent, charge-off history, management's knowledge of the portfolio, general economic conditions, environmental factors, trends in delinquency and non-accrual, and other significant factors, such as the national and local economy, volume and composition of the portfolio, strength of management and loan staff, underwriting standards, and concentration of credit. In addition, management reviews reports on past-due loans to check for appropriate classification.

The table set forth below reflects management's allocation of the allowance for loan losses by loan category and the ratio of each loan category to the average gross loans as of the dates indicated:

| | June 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Amount | Percentage of Loans in Each Category to Average Gross Loans | Amount | Percentage of Loans in Each Category to Average Gross Loans |
| | (In thousands) | | | |
| **Type of Loan:** | | | | |
| Commercial loans | $ 82,256 | 19.1% | $ 57,021 | 18.9% |
| Real estate construction loans | 26,700 | 3.8 | 19,474 | 4.0 |
| Commercial mortgage loans | 41,132 | 47.7 | 33,602 | 48.0 |
| Residential mortgage loans and equity lines | 19,592 | 29.4 | 13,108 | 29.1 |
| Installment and other loans | — | — | 19 | — |
| **Total loans** | **$ 169,680** | **100%** | **$ 123,224** | **100%** |

The allowance allocated to commercial loans increased $25.3 million, or 44.4%, to $82.3 million at June 30, 2020, from $57.0 million at December 31, 2019. The increase is due primarily to an increase in the allowance due to the continued deterioration in economic conditions related to COVID-19, chargeoffs of commercial loans and increases in specific reserves on impaired loans in the second quarter.

The allowance allocated to real estate construction loans increased $7.2 million, or 36.9%, to $26.7 million at June 30, 2020 from $19.5 million at December 31, 2019. The increase is due primarily to an increase in the allowance due to continued deterioration in economic conditions in the second quarter related to COVID-19 and increases in real estate construction loans.

The allowance allocated to commercial mortgage loans increased $7.5 million, or 22.3%, to $41.1 million at June 30, 2020, from $33.6 million at December 31, 2019. The increase is due primarily to an increase in the allowance due to continued deterioration in economic conditions in the second quarter related to COVID-19.

The allowance allocated for residential mortgage loans increased by $6.5 million, or 49.6%, to $19.6 million as of June 30, 2020, from $13.1 million at December 31, 2019. The increase is due primarily to an increase in the allowance due to continued deterioration in economic conditions in the second quarter related to COVID-19.

**Deposits**

Total deposits were $16.3 billion at June 30, 2020, an increase of $1.6 billion, or 10.9%, from $14.7 billion at December 31, 2019. The increases in non-interest bearing demand deposits and money market deposits resulted from higher liquidity maintained by our depositors during these uncertain times, unused funds still in demand deposit accounts from Paycheck Protection Program loans and improved money market deposit generation from corporate accounts. The following table sets forth the deposit mix as of the dates indicated:

| | June 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| | (Dollars in thousands) | | | |
| **Deposits** | | | | |
| Non-interest-bearing demand deposits | $ 3,298,415 | 20.2% | $ 2,871,444 | 19.5% |
| Interest bearing demand deposits | 1,671,290 | 10.3 | 1,358,152 | 9.2 |
| Money market deposits | 2,982,385 | 18.3 | 2,260,764 | 15.4 |
| Savings deposits | 743,982 | 4.6 | 758,903 | 5.2 |
| Time deposits | 7,585,832 | 46.6 | 7,443,045 | 50.7 |
| **Total deposits** | **$ 16,281,904** | **100.0%** | **$ 14,692,308** | **100.0%** |

The following table sets forth the maturity distribution of time deposits at June 30, 2020:

| | At June 30, 2020 | | |
|---|---|---|---|
| | Time Deposits - under $100,000 | Time Deposits - $100,000 and over | Total Time Deposits |
| | (Dollars in thousands) | | |
| Less than three months | $ 454,688 | $ 1,598,188 | $ 2,052,876 |
| Three to six months | 338,570 | 1,204,997 | 1,543,567 |
| Six to twelve months | 1,013,875 | 2,398,112 | 3,411,987 |
| Over one year | 194,829 | 382,573 | 577,402 |
| **Total** | **$ 2,001,962** | **$ 5,583,870** | **$ 7,585,832** |
| Percent of total deposits | 12.3% | 34.3% | 46.6% |

**Borrowings**

Borrowings include federal funds purchased, funds obtained as advances from the Federal Home Loan Bank ("FHLB") of San Francisco, and borrowings from other financial institutions.

*Borrowings from the FHLB* – There were no over-night borrowings from the FHLB as of June 30, 2020, compared to $450 million at an average rate of 1.66% as of December 31, 2019. Advances from the FHLB were $230 million at an average rate of 2.16% as of June 30, 2020 and $220 million at an average rate of 2.26% as of December 31, 2019. As of June 30, 2020, FHLB advances of $5 million will mature in November 2020, $80 million in May 2021, $50 million in June 2021, $75 million in July 2021, and $20 million in May 2023.

*Other Borrowings* - The Company owes a residual payable balance of $7.8 million to Bank SinoPac Co. related to the Company's acquisition of SinoPac Bancorp, the parent of Far East National Bank, completed in October 2017. The remaining balance of $7.0 million, due in July 2020, has an interest rate of 1.80% (three-month LIBOR rate plus 150 basis points) as of June 30, 2020.

At June 30, 2020, Junior Subordinated Notes totaled $119.1 million with a weighted average interest rate of 2.48%, compared to $119.1 million with a weighted average rate of 4.09% at December 31, 2019. The Junior Subordinated Notes have a stated maturity term of 30 years. The trusts are not consolidated with the Company in accordance with an accounting pronouncement that took effect in December 2003.

For additional information, see Note 11 to the Company's unaudited Condensed Consolidated Financial Statements.

**Off-Balance-Sheet Arrangements and Contractual Obligations**

The following table summarizes the Company's contractual obligations to make future payments as of June 30, 2020. Payments for deposits and borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts.

| | Payment Due by Period | | | | |
|---|---|---|---|---|---|
| | 1 year or less | More than 1 year but less than 3 years | 3 years or more but less than 5 years | 5 years or more | Total |
| | (In thousands) | | | | |
| Contractual obligations: | | | | | |
| Deposits with stated maturity dates | $ 7,008,430 | $ 577,087 | $ 303 | $ 12 | $ 7,585,832 |
| Advances from the Federal Home Loan Bank | 135,000 | 95,000 | — | — | 230,000 |
| Other borrowings | 7,031 | — | — | 32,399 | 39,430 |
| Long-term debt | — | — | — | 119,136 | 119,136 |
| Operating leases | 9,424 | 15,946 | 8,795 | 5,190 | 39,355 |
| **Total contractual obligations and other commitments** | **$ 7,159,885** | **$ 688,033** | **$ 9,098** | **$ 156,737** | **$ 8,013,753** |

In the normal course of business, we enter into various transactions, which, in accordance with U.S. generally accepted accounting principles, are not included in our Condensed Consolidated Balance Sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the Condensed Consolidated Balance Sheets.

*Loan Commitments* - We enter into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of our commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. We seek to minimize our exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for credit losses.

*Standby Letters of Credit* - Standby letters of credit are written conditional commitments issued by us to secure the obligations of a customer to a third party. In the event the customer does not perform in accordance with the terms of an agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek reimbursement from the customer. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

***Capital Resources***

Total equity was $2.34 billion as of June 30, 2020, an increase of $48.2 million, from $2.29 billion as of December 31, 2019, primarily due to net income of $101.2 million, increases in other comprehensive income of $6.1 million, and amortization of share-based compensation of $2.5 million, which were partially offset by common stock cash dividends of $49.3 million and repurchases of the Company's common stock of $12.9 million.

The following table summarizes changes in total equity for the six months ended June 30, 2020:

| | Six months ended June 30, 2020 |
|---|---|
| | (In thousands) |
| Net income | $ 101,173 |
| Proceeds from shares issued through the Dividend Reinvestment Plan | 1,706 |
| RSUs distributed | 2 |
| Shares withheld related to net share settlement of RSUs | (1,899) |
| Stock issued to directors | 800 |
| Purchase of treasury stock | (12,880) |
| Share-based compensation | 2,544 |
| Cash dividends paid to common stockholders | (49,332) |
| Other comprehensive income | 6,051 |
| **Net increase in total equity** | **$ 48,165** |

***Capital Adequacy Review***

Management seeks to maintain the Company's capital at a level sufficient to support future growth, protect depositors and stockholders, and comply with various regulatory requirements.

The following tables set forth actual and required capital ratios as of June 30, 2020 and December 31, 2019 for Bancorp and the Bank under the Basel III Capital Rules. The Basel III Capital Rules became fully phased-in on January 1, 2019. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules. See the 2019 Form 10-K for a more detailed discussion of the Basel III Capital Rules.

| | Actual | | Minimum Capital Required - Basel III | | Required to be Considered Well Capitalized | |
|---|---|---|---|---|---|---|
| | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio |
| | | | (Dollars in thousands) | | | |
| **June 30, 2020** | | | | | | |
| Common Equity Tier 1 to Risk-Weighted Assets | | | | | | |
| Cathay General Bancorp | $ 1,936,317 | 12.88 | $ 1,051,939 | 7.00 | $ 976,800 | 6.50 |
| Cathay Bank | $ 2,008,039 | 13.38 | $ 1,050,639 | 7.00 | $ 975,594 | 6.50 |
| Tier 1 Capital to Risk-Weighted Assets | | | | | | |
| Cathay General Bancorp | $ 1,936,317 | 12.88 | $ 1,277,354 | 8.50 | $ 1,202,216 | 8.00 |
| Cathay Bank | $ 2,008,039 | 13.38 | $ 1,275,776 | 8.50 | $ 1,200,730 | 8.00 |
| Total Capital to Risk-Weighted Assets | | | | | | |
| Cathay General Bancorp | $ 2,226,160 | 14.81 | $ 1,577,908 | 10.50 | $ 1,502,770 | 10.00 |
| Cathay Bank | $ 2,182,382 | 14.54 | $ 1,575,959 | 10.50 | $ 1,500,913 | 10.00 |
| Leverage Ratio | | | | | | |
| Cathay General Bancorp | $ 1,936,317 | 10.46 | $ 740,557 | 4.00 | $ 925,697 | 5.00 |
| Cathay Bank | $ 2,008,039 | 10.86 | $ 739,353 | 4.00 | $ 924,192 | 5.00 |

| | Actual | | Minimum Capital Required - Basel III | | Required to be Considered Well Capitalized | |
|---|---|---|---|---|---|---|
| | Capital Amount | Ratio | Capital Amount | Ratio | Capital Amount | Ratio |
| | | | (Dollars in thousands) | | | |
| **December 31, 2019** | | | | | | |
| Common Equity Tier 1 to Risk-Weighted Assets | | | | | | |
| Cathay General Bancorp | $ 1,892,321 | 12.51 | $ 1,059,259 | 7.00 | $ 983,597 | 6.50 |
| Cathay Bank | $ 1,959,832 | 12.97 | $ 1,057,880 | 7.00 | $ 982,318 | 6.50 |
| Tier 1 Capital to Risk-Weighted Assets | | | | | | |
| Cathay General Bancorp | $ 1,892,321 | 12.51 | $ 1,286,243 | 8.50 | $ 1,210,581 | 8.00 |
| Cathay Bank | $ 1,959,832 | 12.97 | $ 1,284,569 | 8.50 | $ 1,209,006 | 8.00 |
| Total Capital to Risk-Weighted Assets | | | | | | |
| Cathay General Bancorp | $ 2,134,900 | 14.11 | $ 1,588,888 | 10.50 | $ 1,513,227 | 10.00 |
| Cathay Bank | $ 2,086,911 | 13.81 | $ 1,586,821 | 10.50 | $ 1,511,258 | 10.00 |
| Leverage Ratio | | | | | | |
| Cathay General Bancorp | $ 1,892,321 | 10.83 | $ 699,173 | 4.00 | $ 873,966 | 5.00 |
| Cathay Bank | $ 1,959,832 | 11.23 | $ 697,976 | 4.00 | $ 872,470 | 5.00 |

As of June 30, 2020, capital levels at Bancorp and the Bank exceed all capital adequacy requirements under the fully phased-in Basel III Capital Rules. Based on the ratios presented above, capital levels as of June 30, 2020 at Bancorp and the Bank exceed the minimum levels necessary to be considered “well capitalized.”

***Dividend Policy***

Holders of common stock are entitled to dividends as and when declared by our Board of Directors out of funds legally available for the payment of dividends. Although we have historically paid cash dividends on our common stock, we are not required to do so. The amount of future dividends, if any, will depend on our earnings, financial condition, capital requirements and other factors, and will be determined by our Board of Directors. The terms of our Junior Subordinated Notes also limit our ability to pay dividends. We increased the common stock dividend from $0.21 per share in the fourth quarter of 2016, to $0.24 per share in the fourth quarter of 2017, and to $0.31 per share in the fourth quarter of 2018.

The Company declared a cash dividend of $0.31 per share on 79,587,596 shares outstanding on June 2, 2020, for distribution to holders of our common stock on June 12, 2020, and $0.31 per share on 79,546,735 shares outstanding on March 2, 2020, for distribution to holders of our common stock on March 12, 2020. The Company paid total cash dividends of $49.3 million in the first six months of 2020.

***Financial Derivatives***

It is our policy not to speculate on the future direction of interest rates. However, from time to time, we may enter into financial derivatives in order to seek mitigation of exposure to interest rate risks related to our interest-earning assets and interest-bearing liabilities. We believe that these transactions, when properly structured and managed, may provide a hedge against inherent interest rate risk in our assets or liabilities and against risk in specific transactions. In such instances, we may enter into interest rate swap contracts or other types of financial derivatives. Prior to considering any hedging activities, we seek to analyze the costs and benefits of the hedge in comparison to other viable alternative strategies. All hedges must be approved by the Bank's Investment Committee.

The Company follows ASC Topic 815 that establishes accounting and reporting standards for financial derivatives, including certain financial derivatives embedded in other contracts, and hedging activities. It requires the recognition of all financial derivatives as assets or liabilities in the Company's Condensed Consolidated Balance Sheets and measurement of those financial derivatives at fair value. The accounting treatment of changes in fair value is dependent upon whether or not a financial derivative is designated as a hedge and, if so, the type of hedge. Fair value is determined using third-party models with observable market data. For derivatives designated as cash flow hedges, changes in fair value are recognized in other comprehensive income and are reclassified to earnings when the hedged transaction is reflected 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 interest rate swaps and changes in the fair value of the underlying asset or liability that is intended to be hedged. If there is not a highly effective correlation between changes in the fair value of the interest rate swap and changes in the fair value of the underlying asset or liability that is intended to be hedged, then only the changes in the fair value of the interest rate swaps are reflected in the Company's Consolidated Financial Statements.

The Company offers various interest rate derivative contracts to its customers. When derivative transactions are executed with its customers, the derivative contracts are offset by paired trades with third-party financial institutions including with central counterparties ("CCP"). Certain derivative contracts entered with CCPs are settled-to-market daily to the extent the CCP's rulebooks legally characterize the variation margin as settlement. Derivative contracts are intended to allow borrowers to lock in attractive intermediate and long-term fixed rate financing while not increasing the interest rate risk to the Company. These transactions are generally not linked to specific Company assets or liabilities on the Condensed Consolidated Balance Sheets or to forecasted transactions in a hedging relationship and, therefore, are economic hedges. The contracts are marked to market at each reporting period. The changes in fair values of the derivative contracts traded with third-party financial institutions are expected to be largely comparable to the changes in fair values of the derivative transactions executed with customers throughout the terms of these contracts, except for the credit valuation adjustment component. The Company records credit valuation adjustments on derivatives to properly reflect the variances of credit worthiness between the Company and the counterparties, considering the effects of enforceable master netting agreements and collateral arrangements.

In May 2014, the Bancorp entered into interest rate swap contracts in the notional amount of $119.1 million for a period of ten years. The objective of these interest rate swap contracts, which were designated as hedging instruments in cash flow hedges, was to hedge the quarterly interest payments on the Bancorp's $119.1 million of Junior Subordinated Debentures that had been issued to five trusts, throughout the ten-year period beginning in June 2014 and ending in June 2024, from the risk of variability of these payments resulting from changes in the three-month LIBOR interest rate. As of June 30, 2020, and 2019, the ineffective portion of these interest rate swaps was not significant. The notional amount and net unrealized loss of the Company's cash flow derivative financial instruments as of June 30, 2020, and December 31, 2019, were as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| | ($ in thousands) | |
| **Cash flow swap hedges:** | | |
| Notional | $ 119,136 | $ 119,136 |
| Weighted average fixed rate-pay | 2.61% | 2.61% |
| Weighted average variable rate-receive | 0.64% | 2.26% |
| | | |
| Unrealized loss, net of taxes (1) | $ (7,925) | $ (3,412) |

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2019 |
| Periodic net settlement of swaps (2) | $ 514 | $ 8 | $ 769 | $ (37) |

(1)-Included in other comprehensive income.
(2)-the amount of periodic net settlement of interest rate swaps was included in interest expense.

As of June 30, 2020, the Bank's outstanding interest rate swap contracts had a notional amount of $527.5 million for various terms from three to ten years. The Bank entered into these interest rate swap contracts that are matched to individual fixed-rate commercial real estate loans in the Bank's loan portfolio. These contracts have been designated as hedging instruments to hedge the risk of changes in the fair value of the underlying commercial real estate loans due to changes in interest rates. The swap contracts are structured so that the notional amounts reduce over time to match the contractual amortization of the underlying loan and allow prepayments with the same pre-payment penalty amounts as the related loan. As of June 30, 2020, and 2019, the ineffective portion of these interest rate swaps was not significant. The notional amount and net unrealized loss of the Company's fair value derivative financial instruments as of June 30, 2020, and December 31, 2019, were as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| **Fair value swap hedges:** | ($ in thousands) | |
| Notional | $ 527,477 | $ 579,584 |
| Weighted average fixed rate-pay | 4.59% | 4.71% |
| Weighted average variable rate spread | 2.53% | 2.62% |
| Weighted average variable rate-receive | 3.57% | 4.87% |
| | | |
| Net unrealized loss (1) | $ (18,667) | $ (7,205) |

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2019 |
| Periodic net settlement of SWAPs (2) | $ (2,154) | $ 534 | $ (2,797) | $ 1,147 |

(1)-the amount is included in other non-interest income.
(2)-the amount of periodic net settlement of interest rate swaps was included in interest income.

The Company has designated as a partial-term hedging election $25.0 million of a pool of loans with a notational value of $45.0 million as of June 30, 2020. The loans are not expected to be affected by prepayment, defaults, or other factors affecting the timing and amount of cash flows under the last-of-layer method. The Company has entered into a pay-fixed and receive 1-Month LIBOR interest rate swap to convert the last-of-layer $25.0 million portion of a $45.0 million fixed rate loan tranche in order to reduce the Company's exposure to higher interest rates for the last-of-layer tranche. As of June 30, 2020, the last-of-layer loan tranche had a fair value basis adjustment of $427 thousand. The interest rate swap converts this last-of-layer tranche into a floating rate instrument. The Company's risk management objective with respect to this last-of-layer interest rate swap is to reduce interest rate exposure as to the last-of-layer tranche.

Interest rate swap contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have a strong credit profile and be approved by the Company's Board of Directors. The Company's credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. The Bancorp's interest rate swaps have been assigned by the counterparties to a derivative clearing organization and daily margin is indirectly maintained with the derivative clearing organization. Cash posted as collateral by the Bancorp related to derivative contracts totaled $13.7 million as of June 30, 2020 and $7.1 million as of December 31, 2019.

The Company from time to time enters into foreign exchange forward contracts with various counterparties to mitigate the risk of fluctuations in foreign currency exchange rates for foreign exchange certificates of deposit or foreign exchange contracts entered into with our clients. These contracts are not designated as hedging instruments and are recorded at fair value in our Condensed Consolidated Balance Sheets. Changes in the fair value of these contracts as well as the related foreign exchange certificates of deposit and foreign exchange contracts are recognized immediately in net income as a component of non-interest income. Period end gross positive fair values are recorded in other assets and gross negative fair values are recorded in other liabilities. The notional amount and fair value of the Company's derivative financial instruments not designated as hedging instruments as of June 30, 2020, and December 31, 2019, were as follows:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| | ($ in thousands) | |
| **Derivative financial instruments not designated as hedging instruments:** | | |
| **Notional amounts:** | | |
| Option contracts | $ 530 | $ 908 |
| Spot, forward, and swap contracts with positive fair value | $ 101,020 | $ 146,397 |
| Spot, forward, and swap contracts with negative fair value | $ 179,211 | $ 127,003 |
| **Fair value:** | | |
| Option contracts | $ (6) | $ (7) |
| Spot, forward, and swap contracts with positive fair value | $ 1,529 | $ 2,411 |
| Spot, forward, and swap contracts with negative fair value | $ (531) | $ (1,415) |

***Liquidity***

Liquidity is our ability to maintain sufficient cash flow to meet maturing financial obligations and customer credit needs, and to take advantage of investment opportunities as they are presented in the marketplace. Our principal sources of liquidity are growth in deposits, proceeds from the maturity or sale of securities and other financial instruments, repayments from securities and loans, federal funds purchased, securities sold under agreements to repurchase, and advances from the FHLB. As of June 30, 2020, our average monthly liquidity ratio (defined as net cash plus short-term and marketable securities to net deposits and short-term liabilities) was 15.2% compared to 12.9% as of December 31, 2019.

The Bank is a shareholder of the FHLB, which enables the Bank to have access to lower-cost FHLB financing when necessary. At June 30, 2020, the Bank had an approved credit line with the FHLB of San Francisco totaling $4.6 billion. Total advances from the FHLB of San Francisco were $230.0 million and standby letter of credits issued by the FHLB on the Company's behalf were $494.1 million as of June 30, 2020. These borrowings bear fixed rates and are secured by the Bank's loans. See Note 11 to the Condensed Consolidated Financial Statements. At June 30, 2020, the Bank pledged $7.5 million of its commercial loans to the Federal Reserve Bank's Discount Window under the Borrower-in-Custody program. The Bank had borrowing capacity of $7.8 million from the Federal Reserve Bank Discount Window at June 30, 2020.

Liquidity can also be provided through the sale of liquid assets, which consist of federal funds sold, securities purchased under agreements to resell, and securities available-for-sale. At June 30, 2020, investment securities totaled $1.1 billion, with $97.0 million pledged as collateral for borrowings and other commitments. The remaining $1.0 billion was available as additional liquidity or to be pledged as collateral for additional borrowings.

Approximately 92% of our time deposits mature within one year or less as of June 30, 2020. Management anticipates that there may be some outflow of these deposits upon maturity due to the keen competition in the Bank's marketplace. However, based on our historical runoff experience, we expect the outflow will not be significant and can be replenished through our normal growth in deposits. As of June 30, 2020, management believes all the above-mentioned sources will provide adequate liquidity during the next twelve months for the Bank to meet its operating needs. Deposits and other sources of liquidity, however, may be adversely impacted by the COVID-19 pandemic.

The business activities of Bancorp consist primarily of the operation of the Bank and limited activities in other investments. The Bank paid dividends to Bancorp totaling $61.0 million and $121.0 million during the first six months of 2020 and 2019, respectively.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We use a net interest income simulation model to measure the extent of the differences in the behavior of the lending and funding rates to changing interest rates, so as to project future earnings or market values under alternative interest rate scenarios. Interest rate risk arises primarily through the Company's traditional business activities of extending loans and accepting deposits. Many factors, including but not limited to economic, market and financial conditions, movements in interest rates, and consumer preferences, affect the spread between interest earned on assets and interest paid on liabilities. The net interest income simulation model is designed to measure the volatility of net interest income and net portfolio value, defined as net present value of assets and liabilities, under immediate rising or falling interest rate scenarios in 100 basis point increments.

Although the modeling can be helpful in managing interest rate risk, it does require significant assumptions for the projection of loan prepayment rates on mortgage related assets, loan volumes and pricing, and deposit and borrowing volume and pricing, that might prove inaccurate. Because these assumptions are inherently uncertain, the model cannot precisely estimate net interest income, or precisely predict the effect of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to the timing, magnitude, and frequency of interest rate changes, the differences between actual experience and the assumed volume, changes in market conditions, and management strategies, among other factors. The Company monitors its interest rate sensitivity and seeks to reduce the risk of a significant decrease in net interest income caused by a change in interest rates.

We have established a tolerance level in our policy to define and limit net interest income volatility to a change of plus or minus 5% when the hypothetical rate change is plus or minus 200 basis points. When the net interest rate simulation projects that our tolerance level will be met, or exceeded, we seek corrective action after considering, among other things, market conditions, customer reaction, and the estimated impact on profitability. The Company's simulation model also projects the net economic value of our portfolio of assets and liabilities. We have established a tolerance level in our policy to limit the loss in the net economic value of our portfolio of assets and liabilities to zero when the hypothetical rate change is plus or minus 200 basis points.

The table below shows the estimated impact of changes in interest rates on net interest income and market value of equity as of June 30, 2020:

| Change in Interest Rate (Basis Points) | Net Interest Income Volatility (1) | Market Value of Equity Volatility (2) |
|---|---|---|
| +200 | 11.3 | 6.8 |
| +100 | 5.3 | 3.8 |
| -100 | -0.3 | -0.9 |
| -200 | -0.1 | -0.8 |

(1) The percentage change in this column represents net interest income of the Company for 12 months in a stable interest rate environment versus the net interest income in the various rate scenarios.

(2) The percentage change in this column represents the net portfolio value of the Company in a stable interest rate environment versus the net portfolio value in the various rate scenarios.

## ITEM 4. CONTROLS AND PROCEDURES.

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this quarterly report. Based upon their evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There has not been any change in our internal control over financial reporting that occurred during the second quarter of 2020 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

# PART II – OTHER INFORMATION

## Item 1. LEGAL PROCEEDINGS.

From time to time, Bancorp and its subsidiaries are parties to litigation that arise in the ordinary course of business or otherwise are incidental to various aspects of its operations. Based upon information available to the Company and its review of any such litigation with counsel, management presently believes that the liability relating to such litigation, if any, would not be expected to have a material adverse impact on the Company's consolidated financial condition, results of operations or liquidity taken as a whole. The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal matters currently pending or threatened against the Company could have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity taken as a whole.

## ITEM 1A. RISK FACTORS.

Other than the supplemental risk factor set forth below, the Company is not aware of any material change to the risk factors as previously disclosed in Part I, Item 1A, of the Company's Annual Report on Form 10-K for the year ended December 31, 2019. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors disclosed in Part I, Item 1A, of the Company's Annual Report on Form 10-K for the year ended December 31, 2019, which could materially and adversely affect the Company's business, financial condition, results of operations and stock price. The risk factors disclosed in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties, including those not presently known to the Company or that the Company presently believes not to be material, could also materially and adversely affect the Company's business, financial condition, and results of operations and stock price.

***The outbreak of the COVID-19 pandemic has caused a significant global economic downturn, which has adversely affected, and is expected to continue to adversely affect, our business and results of operations, and the future impacts of the COVID-19 pandemic on the global economy and our business, results of operations and financial condition remain uncertain.***

Global health and economic concerns relating to the COVID-19 outbreak and government actions taken to reduce the spread of the virus have had a material adverse impact on the macroeconomic environment, and the outbreak has significantly increased economic uncertainty. The pandemic has resulted in federal, state and local authorities, including those who govern the markets in which we operate, implementing numerous measures to try to contain the virus. Such measures have included travel bans and restrictions, curfews, quarantines, shelter in place or total lock-down orders and business limitations and shutdowns. Such measures have significantly contributed to rising unemployment and negatively impacted consumer and business spending. The United States government has taken steps to attempt to mitigate some of the more severe anticipated economic effects of the virus, including the passage of the CARES Act, but there can be no assurance that such steps will be effective or achieve their desired results in the near future.

The outbreak has adversely impacted and is likely to continue to adversely impact our workforce and operations and the operations of our customers and business partners. In particular, we may experience financial losses due to a number of operational factors impacting us or our customers or business partners, including but not limited to the following:

- Our business is dependent upon the willingness and ability of our customers to conduct banking and other financial transactions. The spread of COVID-19 could disrupt the business, activities, and operations of our customers, cause a decline in demand for our products and services, including loans and deposits which may result in a significant decrease in business and would negatively impact our liquidity position, and our growth strategy.

- Our financial results could also be impacted due to an inability of our customers to meet their loan commitments due to job losses or other losses associated with impacts of the disease, and could also result in increased risk of delinquencies, defaults, foreclosures, declining collateral values and the ability of our borrowers to repay their loans resulting in losses to our Bank.

- Based on a review of the appropriateness of the allowance for loan losses at June 30, 2020, we recorded a provision for credit losses of $25.0 million in second quarter of 2020, primarily a result of the economic deterioration of the global economy resulting from the COVID-19 pandemic. While we took steps to incorporate the impact of the COVID-19 pandemic on the economic forecast and other factors utilized to determine our allowance for loan losses, if the economic forecast or other factors worsen relative to the assumptions we utilized, our allowance for loan losses will increase accordingly in future periods.

- Market interest rates have declined significantly. We expect that these reductions in interest rates, especially if prolonged, could adversely affect our net interest income, margins and our profitability. Our assets and liabilities may be significantly impacted by changes in interest rates.

- The COVID-19 pandemic restrictions have created significant volatility and disruption in the financial markets, and these conditions may require us to recognize an elevated level of other than temporary impairments on investment securities in our portfolio as issues of these securities are negatively impacted by the economic slowdown. Declines in fair value of investment securities in our portfolio could also reduce the unrealized gains reported as part of our consolidated comprehensive income (loss).

- We are required to comply with minimum capital and leverage requirements. Our capital strategy is primarily to maintain capital levels through the COVID-19 pandemic, and our Board of Directors could determine, as appropriate, to reduce or forego dividends in order to maintain and/or strengthen our capital and liquidity position.

- Current and future governmental action may temporarily require us to conduct business related to foreclosures, repossessions, payments, deferrals and other customer-related transactions differently.

- The pandemic creates heightened risks of cyber and payment fraud, as cyber criminals try to take advantage of the disruption and increased online activity brought about by the pandemic.

- Although we have established a pandemic response plan and procedures, our workforce has been, is, and may continue to be impacted by COVID-19. We are taking precautions to protect the safety and well-being of our employees and customers, including temporary branch and office closures, but no assurance can be given that our actions will be adequate or appropriate, nor can we predict the level of disruption which will occur to our employees' ability to provide customer support and service. The spread could also negatively impact availability of key personnel and employee productivity, as well as the business and operations of third-party service providers who perform critical services for us, which could adversely impact our ability to deliver products and services to our customers.

These and other factors may exist for an extended period of time and may continue to adversely affect our business, financial condition and operations even after the COVID-19 outbreak has subsided. The extent to which the pandemic impacts our business, financial condition and operations will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the pandemic's duration and severity, the actions to contain it or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the pandemic has subsided, we may continue to experience materially adverse impacts to our business as a result of its economic impact, including the availability of credit, adverse impacts on our liquidity and any recession that has occurred or may occur in the future. Additionally, future outbreaks of COVID-19, or other viruses, may occur.

There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the pandemic is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. Therefore, the risk factors discussed in our Annual Report on Form 10-K and in this Form 10-Q could be heightened, changed or be added to in the future.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

| Issuer Purchases of Equity Securities | | | | |
|---|---|---|---|---|
| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
| (April 1, 2020 - April 30, 2020) | 0 | $ 0.00 | 0 | $ 10,713,881 |
| (May 1, 2020 - May 31, 2020) | 0 | $ 0.00 | 0 | $ 10,713,881 |
| (June 1, 2020 - June 30, 2020) | 0 | $ 0.00 | 0 | $ 10,713,881 |
| Total | 0 | $ 0.00 | 0 | $ 10,713,881 |

For additional information, see Note 20 to the Company's unaudited Condensed Consolidated Financial Statements.

For a discussion of limitations on the payment of dividends, see "*Dividend Policy*" and "*Liquidity"* under Part I—Item 2— "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS.**

| | |
|---|---|
| Exhibit 10.1 | Change of Control Employment Agreement to be entered into with Executive Officers on or after July 16, 2020.+** |
| Exhibit 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+ |
| Exhibit 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+ |
| Exhibit 32.1 | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++ |
| Exhibit 32.2 | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++ |
| Exhibit 101.INS | XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document* |
| Exhibit 101.SCH | Inline XBRL Taxonomy Extension Schema Document* |
| Exhibit 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document* |
| Exhibit 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document* |
| Exhibit 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document* |
| Exhibit 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document* |
| Exhibit 104 | Cover Page Interactive Data File – the cover page XBRL tags are embedded within the Inline XBRL document* |

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+ Filed herewith.

++ Furnished herewith.

* Filed electronically herewith.

** Indicates a management contract or compensation plan.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cathay General Bancorp
(Registrant)

Date: August 7, 2020

/s/ Pin Tai
Pin Tai
Chief Executive Officer

Date: August 7, 2020

/s/ Heng W. Chen
Heng W. Chen
Executive Vice President and
Chief Financial Officer

**Exhibit 10.1**

**CHANGE OF CONTROL**
**EMPLOYMENT AGREEMENT**

This Change of Control Employment Agreement is made as of the [DATE] (this "Agreement"), by and between Cathay General Bancorp, a Delaware corporation (the "Company"), Cathay Bank, a California state chartered commercial bank and a wholly owned subsidiary of the Company (the "Bank"), and [EXECUTIVE] (the "Executive").

WHEREAS, the Board of Directors of the Company (the "Board") and the Board of Directors of the Bank (the "Bank Board"), have determined that it is in the best interests of the Bank and the Company and its stockholders to assure that the Company and/or the Bank (as applicable) will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined herein). The Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive's full attention and dedication to the Company in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control that ensure that the compensation and benefits expectations of the Executive will be satisfied and that provide the Executive with compensation and benefits arrangements that are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

Section 1. Certain Definitions. (a) "Effective Date" means the first date during the Change of Control Period (as defined herein) on which a Change of Control occurs. Notwithstanding anything in this Agreement to the contrary, if (i) the Executive's employment with the Company is terminated by the Company, (ii) the Date of Termination is prior to the date on which a Change of Control occurs, and (iii) it is reasonably demonstrated by the Executive that such termination of employment (A) was at the request of a third party that has taken steps reasonably calculated to effect a Change of Control or (B) otherwise arose in connection with or anticipation of a Change of Control, then for all purposes of this Agreement the "Effective Date" means the date immediately prior to such Date of Termination.

(b) "Change of Control Period" means the period commencing on the date hereof and ending on the third anniversary of the date hereof; provided, however, that, commencing on the date one year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof, the "Renewal Date"), unless previously terminated, the Change of Control Period shall be automatically extended so as to terminate three years from such Renewal Date, unless, at least 60 days prior to the Renewal Date, the Company shall give notice to the Executive that the Change of Control Period shall not be so extended.

(c) "Affiliated Company" means any company controlled by, controlling or under common control with the Company.

(d) "Change of Control" means:

(1) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that, for purposes of this Section 1(d), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliated Company or (iv) any acquisition pursuant to a transaction that complies with Sections 1(d)(3)(A), 1(d)(3)(B) and 1(d)(3)(C);

(2) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(3) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or securities of another entity by the Company or any of its subsidiaries (each, a "Business Combination"), in each case unless, following such Business Combination, (A) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent governing body), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any entity resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors (or, for a non-corporate entity, equivalent governing body) of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(4) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

Section 2. Employment Period. The Company and/or the Bank (as applicable) hereby agrees to continue the Executive in its employ, subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on the third anniversary of the Effective Date (the "Employment Period"). The Employment Period shall terminate upon the Executive's termination of employment for any reason.

Section 3. Terms of Employment. (a) Position and Duties. (1) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Effective Date and (B) the Executive's services shall be performed at the office where the Executive is employed immediately preceding the Effective Date or at any other location less than 35 miles from such office.

(2) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period, it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that, to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) Compensation. (1) Base Salary. During the Employment Period, the Executive shall receive an annual base salary (the "Annual Base Salary") at an annual rate at least equal to 12 times the highest monthly base salary paid or payable, including any base salary that has been earned but deferred, to the Executive by the Company and the Affiliated Companies in respect of the 12-month period immediately preceding the month in which the Effective Date occurs. The Annual Base Salary shall be paid at such intervals as the Company or the Bank (as applicable) pays executive salaries generally. During the Employment Period, the Annual Base Salary shall be reviewed at least annually, beginning on the one year anniversary of the Effective Date, provided that if the Executive's base salary has been reviewed within the twelve months prior to the Effective Date , it shall be reviewed beginning on the one year anniversary of such prior review, or if the Executive's base salary has not been reviewed during such 12-month period, it shall be reviewed beginning within 30 days following the Effective Date. Any increase in the Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. The Annual Base Salary shall not be reduced during the Employment Period after any such increase or otherwise and the term "Annual Base Salary" shall refer to the Annual Base Salary as so increased.

(2) Annual Bonus. In addition to the Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash at least equal to (A) the average of the bonuses earned by Executive under the Company's or the Bank's (as applicable) annual incentive plan or program, or any comparable bonus under any predecessor or successor plan, for the last three full fiscal years prior to the Effective Date (or for such lesser number of full fiscal years prior to the Effective Date for which the Executive was eligible to earn such a bonus, and annualized in the case of any pro rata bonus earned for a partial fiscal year) (the "Average Annual Bonus"), or (B) if the Executive has not been eligible to earn such a bonus for any period prior to the Effective Date, the Executive's target annual bonus for the year in which the Effective Date occurs (the "Target Annual Bonus"). Each such Annual Bonus shall be paid no later than two and a half months after the end of the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus pursuant to an arrangement that meets the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code").

(3) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be entitled to participate in all cash incentive, equity incentive, savings and retirement plans, practices, policies, and programs applicable generally to other peer executives of the Company and the Affiliated Companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Company and the Affiliated Companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and the Affiliated Companies.

(4) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and the Affiliated Companies (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and the Affiliated Companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and the Affiliated Companies.

(5) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and the Affiliated Companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and the Affiliated Companies.

(6) Fringe Benefits. During the Employment Period, the Executive shall be entitled to fringe benefits, including, without limitation, tax and financial planning services, payment of club dues, and, if applicable, use of an automobile and payment of related expenses, in accordance with the most favorable plans, practices, programs and policies of the Company and the Affiliated Companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and the Affiliated Companies.

(7) Office and Support Staff. During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and the Affiliated Companies at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and the Affiliated Companies.

(8) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and the Affiliated Companies as in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and the Affiliated Companies.

Section 4. Termination of Employment. (a) Death or Disability. The Executive's employment shall terminate automatically if the Executive dies during the Employment Period. If the Company determines in good faith that the Disability (as defined herein) of the Executive has occurred during the Employment Period (pursuant to the definition of "Disability"), it may give to the Executive written notice in accordance with Section 11(b) of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. "Disability" means the absence of the Executive from the Executive's duties with the Company or the Bank (as applicable) on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness that is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative.

(b) Cause. The Company may terminate the Executive's employment during the Employment Period with or without Cause. "Cause" means:

(1) the willful and continued failure of the Executive to perform substantially the Executive's duties (as contemplated by Section 3(a)(1)(A)) with the Company or any Affiliated Company (other than any such failure resulting from incapacity due to physical or mental illness or following the Executive's delivery of a Notice of Termination for Good Reason), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company that specifically identifies the manner in which the Board or the Chief Executive Officer of the Company believes that the Executive has not substantially performed the Executive's duties, or

(2) the willful engaging by the Executive in illegal conduct or gross misconduct that is materially injurious to the Company.

For purposes of this Section 4(b), no act, or failure to act, on the part of the Executive shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act (A) based upon authority given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the Affiliated Companies and is not publicly-traded, the board of directors of the ultimate parent of the Company (the "Applicable Board"), (B) based upon authority given by the Chief Executive Officer of the Company or an executive officer of the Company that is senior to Executive or (C) based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding the Executive, if the Executive is a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel for the Executive, to be heard before the Applicable Board), finding that, in the good faith opinion of the Applicable Board, the Executive is guilty of the conduct described in Section 4(b)(1) or 4(b)(2), and specifying the particulars thereof in detail.

(c) Good Reason. The Executive's employment may be terminated during the Employment Period by the Executive for Good Reason or by the Executive voluntarily without Good Reason. "Good Reason" means:

(1) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 3(a) unless the totality of the new duties is at least as significant as the prior duties, or any other diminution in such position, authority, duties or responsibilities (whether or not occurring solely as a result of the Company's ceasing to be a publicly traded entity), excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(2) any failure by the Company to comply with any of the provisions of Section 3(b), other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(3) the Company's requiring the Executive (i) to be based at any office or location other than as provided in Section 3(a)(1)(B) of this Agreement, (ii) to be based at a location other than the principal executive offices of the Company if the Executive was employed at such location immediately preceding the Effective Date, or (iii) to travel on Company business to a substantially greater extent than required immediately prior to the Effective Date;

(4) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(5) any action or inaction that constitutes a material breach by the Company or the Bank (as applicable) of this Agreement, including any failure by the Company to comply with and satisfy Section 10(c).

For purposes of this Section 4(c), any good faith determination of Good Reason made by the Executive shall be conclusive. The Executive's mental or physical incapacity following the occurrence of an event described above in clauses (1) through (5) shall not affect the Executive's ability to terminate employment for Good Reason and the Executive's death following delivery of a Notice of Termination for Good Reason shall not affect the Executive's estate's entitlement to severance payments or benefits provided hereunder upon a termination of employment for Good Reason.

(d) Notice of Termination. Any termination of employment by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 11(b). "Notice of Termination" means a written notice that (1) indicates the specific termination provision in this Agreement relied upon, (2) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (3) if the Date of Termination (as defined herein) is other than the date of receipt of such notice, specifies the Date of Termination (which Date of Termination shall be not more than 30 days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's respective rights hereunder.

(e) Date of Termination. "Date of Termination" means (1) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified in the Notice of Termination, as the case may be, (2) if the Executive's employment is terminated by the Company other than for Cause or Disability, the date on which the Company notifies the Executive of such termination, (3) if the Executive resigns without Good Reason, the date on which the Executive notifies the Company of such termination, and (4) if the Executive's employment is terminated by reason of death or Disability, the date of death of the Executive or the Disability Effective Date, as the case may be. Notwithstanding the foregoing, in no event shall the Date of Termination occur until the Executive experiences a "separation from service" within the meaning of Section 409A of the Code, and the date on which such separation from service takes place shall be the "Date of Termination."

Section 5. Obligations of the Company upon Termination. (a) By the Executive for Good Reason; By the Company Other Than for Cause, Death or Disability. If, during the Employment Period, the Company terminates the Executive's employment other than for Cause, Death or Disability or the Executive terminates employment for Good Reason:

(1) the Company or the Bank (as applicable) shall pay to the Executive, in a lump sum in cash on the 30th day following the Date of Termination, the aggregate of the following amounts:

(A) the sum of (i) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (ii) the Executive's business expenses that are reimbursable pursuant to Section 3(b)(5) but have not been reimbursed by the Company or the Bank (as applicable) as of the Date of Termination; (iii) the Executive's Annual Bonus for the fiscal year immediately preceding the fiscal year in which the Date of Termination occurs, if such bonus has been determined but not paid as of the Date of Termination; (iv) any accrued vacation pay to the extent not theretofore paid (the sum of the amounts described in subclauses (i), (ii), (iii) and (iv), the "Accrued Obligations") and (v) an amount equal to the product of (x) the higher of (I) the Average Annual Bonus and (II) the Target Annual Bonus (such higher amount, the "Applicable Annual Bonus") and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination and the denominator of which is 365 (the "Pro Rata Bonus"); provided, that notwithstanding the foregoing, if the Executive has made an irrevocable election under any deferred compensation arrangement subject to Section 409A of the Code to defer any portion of the Annual Base Salary or Annual Bonus described in clause (i) or clause (iii) above, then for all purposes of this Section 5 (including, without limitation, Sections 5(b) through 5(d)), such deferral election, and the terms of the applicable arrangement shall apply to the same portion of the amount described in such clause (i) or clause (iii), and such portion shall not be considered as part of the "Accrued Obligations" but shall instead be an "Other Benefit" (as defined below);

(B) the amount equal to the product of (i) one and one half and (ii) the sum of (x) the Executive's Annual Base Salary and (y) the Applicable Annual Bonus; and

(C) an amount equal to the sum of the Company or the Bank (as applicable) matching or other employer contributions under the Company's or the Bank's qualified defined contribution plans and any excess or supplemental defined contribution plans in which the Executive participates that the Company or the Bank (as applicable) would have made on behalf of the Executive during the eighteen months after the Date of Termination if the Executive's employment continued for eighteen months after the Date of Termination (and without regard to any vesting requirement), assuming for this purpose that (i) the Executive's compensation during the eighteen-month period is that required by Sections 3(b)(1) and 3(b)(2) and (ii) to the extent that the employer contributions are determined based on the contributions or deferrals of the Executive, that the Executive's contribution or deferral elections, as appropriate, are those in effect immediately prior to the Date of Termination; and

(2) for eighteen months following the Date of Termination or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy (the applicable period hereinafter referred to as the "Benefit Continuation Period"), the Company or the Affiliated Companies shall provide health care and life insurance benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies providing health care and life insurance benefits and at the benefit level described in Section 3(b)(4) of this Agreement if the Executive's employment had not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and the Affiliated Companies and their families; provided, however, that, the health care benefits provided during the Benefit Continuation Period shall be provided in such a manner that such benefits (and the costs and premiums thereof) are excluded from the Executive's income for federal income tax purposes and, if the Company reasonably determines that providing continued coverage under one or more of its health care benefit plans contemplated herein could be taxable to the Executive, the Company shall provide such benefits at the level required hereby through the purchase of individual insurance coverage; provided, further, however, that if the Executive becomes reemployed with another employer and is eligible to receive health care and life insurance benefits under another employer provided plan, the health care and life insurance benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility;

(3) the Company or the Bank (as applicable) shall, at its sole expense as incurred, provide the Executive with outplacement services the scope and provider of which shall be selected by the Executive in the Executive's sole discretion, provided that the cost of such outplacement shall not exceed $50,000; and provided, further, that, such outplacement benefits shall end not later than the last day of the second calendar year that begins after the Date of Termination; and

(4) except as otherwise set forth in the last sentence of Section 6, to the extent not theretofore paid or provided, the Company or the Bank (as applicable) shall timely pay or provide to the Executive any Other Benefits (as defined in Section 6) in accordance with the terms of the underlying plans or agreements.

Notwithstanding the foregoing provisions of Sections 5(a)(1) and 5(a)(2), in the event that the Executive is a "specified employee" within the meaning of Section 409A of the Code (as determined in accordance with the methodology established by the Company as in effect on the Date of Termination) (a "Specified Employee"), amounts that constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code that would otherwise be payable and benefits that would otherwise be provided under Section 5(a)(1) and 5(a)(2) during the six-month period immediately following the Date of Termination (other than the Accrued Obligations) shall instead be paid, with interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code ("Interest") determined as of the Date of Termination, or provided on the first business day after the date that is six months following the Date of Termination (the "Delayed Payment Date").

(b) Death. If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, the Company or the Bank (as applicable) shall provide the Executive's estate or beneficiaries with the Accrued Obligations and the Pro Rata Bonus and the timely payment or delivery of the Other Benefits, and shall have no other severance obligations under this Agreement. The Accrued Obligations (subject to the proviso set forth in Section 5(a)(1)(A) to the extent applicable) and the Pro Rata Bonus shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of the Other Benefits, the term "Other Benefits" as utilized in this Section 5(b) shall include, without limitation, and the Executive's estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and the Affiliated Companies to the estates and beneficiaries of peer executives of the Company and the Affiliated Companies under such plans, programs, practices and policies relating to death benefits, if any, as in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive's estate and/or the Executive's beneficiaries, as in effect on the date of the Executive's death with respect to other peer executives of the Company and the Affiliated Companies and their beneficiaries.

(c) Disability. If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, the Company or the Bank (as applicable) shall provide the Executive with the Accrued Obligations and Pro Rata Bonus and the timely payment or delivery of the Other Benefits in accordance with the terms of the underlying plans or agreements, and shall have no other severance obligations under this Agreement. The Accrued Obligations (subject to the proviso set forth in Section 5(a)(1)(A) to the extent applicable) and the Pro Rata Bonus shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination, *provided*, that in the event that the Executive is a Specified Employee, the Pro Rata Bonus shall be paid, with Interest, to the Executive on the Delayed Payment Date. With respect to the provision of the Other Benefits, the term "Other Benefits" as utilized in this Section 5(c) shall include, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Company and the Affiliated Companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive and/or the Executive's family, as in effect at any time thereafter generally with respect to other peer executives of the Company and the Affiliated Companies and their families.

(d) Cause; Other Than for Good Reason. If, during the Employment Period, the Executive's employment is terminated by the Company for Cause or the Executive voluntarily terminates employment (excluding a termination for Good Reason), the Company or the Bank (as applicable) shall provide the Executive with the Accrued Obligations, and the timely payment or delivery of the Other Benefits and shall have no other severance obligations under this Agreement. In such case, the Accrued Obligations (subject to the proviso set forth in Section 5(a)(1)(A) to the extent applicable) shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

Section 6. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or the Affiliated Companies and for which the Executive may qualify, nor, subject to Section 11(f), shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement with the Company or the Affiliated Companies. Amounts that are vested benefits or that the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any other contract or agreement with the Company or the Affiliated Companies at or subsequent to the Date of Termination ("Other Benefits") shall be payable in accordance with such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Agreement. Without limiting the generality of the foregoing, the Executive's resignation under this Agreement with or without Good Reason, shall in no way affect the Executive's ability to terminate employment by reason of the Executive's "retirement" under, or to be eligible to receive benefits under, any compensation and benefits plans, programs or arrangements of the Company or the Affiliated Companies, including without limitation any retirement or pension plans or arrangements or substitute plans adopted by the Company, the Affiliated Companies or their respective successors, and any termination which otherwise qualifies as Good Reason shall be treated as such even if it is also a "retirement" for purposes of any such plan. Notwithstanding the foregoing, if the Executive receives payments and benefits pursuant to Section 5(a) of this Agreement, the Executive shall not be entitled to any severance pay or benefits under any severance plan, program or policy of the Company and the Affiliated Companies, unless otherwise specifically provided therein in a specific reference to this Agreement.

Section 7. Full Settlement; Legal Fees. (a) The Company's and/or the Bank's obligation to make the payments provided for in this Agreement and otherwise to perform their obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense, or other claim, right or action that the Company or the Bank may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, and, except as specifically provided in Section 5(a)(2), such amounts shall not be reduced whether or not the Executive obtains other employment.

(b) This Section 7(b) shall only apply following a Change of Control. The Company or the Bank (as applicable) agrees to pay as incurred (within 10 days following the Company's or the Bank's receipt of an invoice from the Executive), at any time from the date of the Change of Control through the Executive's remaining lifetime (or, if longer, through the 20th anniversary of the date of the Change of Control) to the full extent permitted by law, all legal fees and expenses that the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company or the Bank, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus, in each case, Interest determined as of the date such legal fees and expenses were incurred. In order to comply with Section 409A of the Code, in no event shall the payments by the Company or the Bank under this Section 7(b) be made later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred; *provided*, that the Executive shall have submitted an invoice for such fees and expenses at least 10 days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company or the Bank is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Company or the Bank is obligated to pay in any other calendar year, and the Executive's right to have the Company or the Bank pay such legal fees and expenses may not be liquidated or exchanged for any other benefit.

Section 8. Certain Reduction of Payments by the Company or the Bank. (a) Anything in this Agreement or any other agreement between the Executive and the Company or the Bank (as applicable) to the contrary notwithstanding, in the event that a nationally-recognized accounting firm selected in the discretion of the Compensation Committee of the Board as in effect immediately prior to the Change of Control (the "Accounting Firm") shall determine that receipt of all payments or distributions by the Company or its Affiliated Companies in the nature of compensation to or for the Executive's benefit, whether paid or payable pursuant to this Agreement or otherwise (a "Payment") would subject the Executive to the excise tax under Section 4999 of the Code, the Accounting Firm shall determine whether to reduce any of the Payments paid or payable pursuant to this Agreement (the "Agreement Payments") to the Reduced Amount (as defined below). The Agreement Payments shall be reduced to the Reduced Amount only if the Accounting Firm determines that the Executive would have a greater Net After-Tax Receipt (as defined below) of aggregate Payments if the Executive's Agreement Payments were reduced to the Reduced Amount. If such a determination is not made by the Accounting Firm, the Executive shall receive all Agreement Payments to which the Executive is entitled under this Agreement. All determinations made by the Accounting Firm under this Section shall be binding upon the Company, the Bank and Executive and shall be made within 15 days following a termination of employment of the Executive. The reduction of the amounts payable hereunder, if applicable, shall be made by reducing the payments and benefits under the following sections in the following order: (1) Section 5(a)(1)(B), (2) Section 5(a)(1)(C), (3) Section 5(a)(1)(A)(v) and (4) Section 5(a)(2).

(b) As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that amounts will have been paid or distributed by the Company or the Bank (as applicable) to or for the benefit of the Executive pursuant to this Agreement which should not have been so paid or distributed ("Overpayment") or that additional amounts which will have not been paid or distributed by the Company or the Bank (as applicable) to or for the benefit of the Executive pursuant to this Agreement could have been so paid or distributed ("Underpayment"), in each case, consistent with the calculation of the Reduced Amount hereunder. In the event that the Accounting Firm, based upon the assertion of a deficiency by the Internal Revenue Service against either the Company or the Bank (as applicable) or the Executive which the Accounting Firm believes has a high probability of success determines that an Overpayment has been made, any such Overpayment paid or distributed by the Company or the Bank (as applicable) to or for the benefit of the Executive shall be repaid to the Company or the Bank (as applicable) together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that no such amount shall be payable by the Executive to the Company or the Bank (as applicable) if and to the extent such payment would not either reduce the amount on which the Executive is subject to tax under Section 1 and Section 4999 of the Code or generate a refund of such taxes. In the event that the Accounting Firm, based upon controlling precedent or substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company or the Bank (as applicable) to or for the benefit of the Executive together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code.

(c) All fees and expenses of the Accounting Firm in implementing the provisions of this Section 8 shall be borne by the Company or the Bank (as applicable).

(d) For purposes of this Section 8, the following terms have the meanings set forth below:

(i) "Net After-Tax Receipt" shall mean the present value (as determined in accordance with Sections 280G(b)(2)(A)(ii) and 280G(d)(4) of the Code) of a Payment net of all taxes imposed on the Executive with respect thereto under Sections 1 and 4999 of the Code and under applicable state and local laws, determined by applying the highest marginal rate under Section 1 of the Code and under state and local laws which applied to the Executive's taxable income for the immediately preceding taxable year, or such other rate(s) as the Executive certifies, in the Executive's sole discretion, as likely to apply to him in the relevant tax year(s).

(ii) "Reduced Amount" shall mean the greatest amount of Agreement Payments that can be paid that would not result in the imposition of the excise tax under Section 4999 of the Code if the Accounting Firm determines to reduce Agreement Payments pursuant to Section 8(a).

Section 9. Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of the Company and the Bank all secret or confidential information, knowledge or data relating to the Company or the Affiliated Companies, and their respective businesses, which information, knowledge or data shall have been obtained by the Executive during the Executive's employment by the Company or the Affiliated Companies and which information, knowledge or data shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company and/or the Bank, the Executive shall not, without the prior written consent of the Company or the Bank or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company or the Bank and those persons designated by the Company or the Bank. In no event shall an asserted violation of the provisions of this Section 9 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

Section 10. Successors. (a) This Agreement is personal to the Executive, and, without the prior written consent of the Company and the Bank, shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and the Bank and their respective successors and assigns. Except as provided in Section 10(c), without the prior written consent of the Executive, this Agreement shall not be assignable by the Company or the Bank.

(c) The Company and the Bank will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company or the Bank to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company and the Bank would be required to perform it if no such succession had taken place. "Company" and "Bank" mean the Company and the Bank as hereinbefore defined and any successor to their business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.

Section 11. Miscellaneous. (a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. Subject to the last sentence of Section 11(g), this Agreement may not be amended or modified other than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

if to the Executive:

At the most recent address on file at the Company.

if to the Company or the Bank:

9650 Flair Drive, 8th Floor
El Monte, CA 91731
Attention: Chief Executive Officer

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company or the Bank (as applicable) may withhold from any amounts payable under this Agreement such United States federal, state or local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's, the Company's or the Bank's (as applicable) failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive, the Company or the Bank (as applicable) may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Sections 4(c)(1) through 4(c)(5), shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive, the Company and the Bank acknowledge that, except as may otherwise be provided under any other written agreement between the Executive, the Company and/or the Bank, the employment of the Executive by the Company or the Bank (as applicable) is "at will" and, subject to Section 1(a), the Executive's employment may be terminated by the Executive, the Company or the Bank (as applicable) at any time prior to the Effective Date, in which case the Executive shall have no further rights under this Agreement. From and after the Effective Date, except as specifically provided herein, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

(g) The Agreement is intended to comply with the requirements of Section 409A of the Code or an exemption or exclusion therefrom and, with respect to amounts that are subject to Section 409A of the Code, shall in all respects be administered in accordance with Section 409A of the Code. Each payment under this Agreement shall be treated as a separate payment for purposes of Section 409A of the Code. In no event may the Executive, directly or indirectly, designate the calendar year of any payment to be made under this Agreement. If the Executive dies following the Date of Termination and prior to the payment of the any amounts delayed on account of Section 409A of the Code, such amounts shall be paid to the personal representative of the Executive's estate within 30 days after the date of the Executive's death. All reimbursements and in-kind benefits provided under this Agreement that constitute deferred compensation within the meaning of Section 409A of the Code shall be made or provided in accordance with the requirements of Section 409A of the Code, including, without limitation, that (i) in no event shall reimbursements by the Company or the Bank under this Agreement be made later than the end of the calendar year next following the calendar year in which the applicable fees and expenses were incurred, provided, that the Executive shall have submitted an invoice for such fees and expenses at least 10 days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred; (ii) the amount of in-kind benefits that the Company or the Bank is obligated to pay or provide in any given calendar year shall not affect the in-kind benefits that the Company or the Bank is obligated to pay or provide in any other calendar year; (iii) the Executive's right to have the Company or the Bank pay or provide such reimbursements and in-kind benefits may not be liquidated or exchanged for any other benefit; and (iv) in no event shall the Company's or the Bank's obligations to make such reimbursements or to provide such in-kind benefits apply later than the Executive's remaining lifetime (or if longer, through the 20th anniversary of the Effective Date). Prior to the Effective Date but within the time period permitted by the applicable Treasury Regulations, the Company may, in consultation with the Executive, modify the Agreement, in the least restrictive manner necessary and without any diminution in the value of the payments to the Executive, in order to cause the provisions of the Agreement to comply with the requirements of Section 409A of the Code, so as to avoid the imposition of taxes and penalties on the Executive pursuant to Section 409A of the Code.

(h) This Agreement comprises the entire agreement among the Executive, the Company and the Bank with respect to the subject matter hereof and shall supersede all prior agreements and undertakings by or among them with respect to such subject matter.

Section 12. Survivorship. Upon the expiration or other termination of this Agreement or the Executive's employment, the respective rights and obligations of the parties hereto shall survive to the extent necessary to carry out the intentions of the parties under this Agreement.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorizations from the Board and the Bank Board, the Company and the Bank have each caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

| CATHAY GENERAL BANCORP | [EXECUTIVE] |
| --- | --- |
| By: ______________________________ | ______________________________ |
| Name: | |
| Title: | |

**Exhibit 31.1**

I, Pin Tai, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cathay General Bancorp;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Pin Tai
Pin Tai
Chief Executive Officer

Date: August 7, 2020

**Exhibit 31.2**

I, Heng W. Chen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cathay General Bancorp;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s Board of Directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Heng W. Chen
Heng W. Chen
Executive Vice President and
Chief Financial Officer

Date: August 7, 2020

**Exhibit 32.1**

**CEO CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Cathay General Bancorp (the “Company”) on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Pin Tai, chief executive officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Pin Tai
Pin Tai
Chief Executive Officer

Date: August 7, 2020

**Exhibit 32.2**

**CFO CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Cathay General Bancorp (the “Company”) on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Heng W. Chen, chief financial officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Heng W. Chen
Heng W. Chen
Executive Vice President and
Chief Financial Officer

Date: August 7, 2020